

BANK OF MONTREAL /CAN/
Form F-3/A
October 21, 2013
Table of Contents

As filed with the Securities and Exchange Commission on October 18, 2013

Registration No. 333-189814

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT No. 2
to
FORM F-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Bank of Montreal
BMO Covered Bond Guarantor Limited Partnership

(Exact name of Registrant as specified in its charter)

CANADA

(State or other jurisdiction of incorporation or organization)

13-4941092

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

100 King St. West

1 First Canadian Place

Toronto, Ontario

Canada M5X 1A1

(416) 867-6785

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

Colleen Hennessy

Bank of Montreal

111 West Monroe Street, P.O. Box 755

Chicago, Illinois 60690

(312) 461-7745

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

Please send copies to:

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

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

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

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

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

Table of Contents

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

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered ⁽¹⁾	Proposed maximum aggregate price per security	Proposed maximum aggregate offering price ⁽²⁾⁽³⁾	Amount of registration fee ⁽¹⁾
Covered Bonds	U.S. \$10,000,000,000	100%	U.S. \$10,000,000,000	U.S. \$1,288,000

(1) This Registration Statement also includes an indeterminate amount of securities of the classes specified above that may be reoffered and resold on an ongoing basis after their initial sale in market-making transactions by affiliates of the Registrant. These securities consist of an indeterminate amount of such securities that are initially being registered, and will initially be offered and sold, under this Registration Statement. All such market-making reoffers and resales of these securities that are made pursuant to a registration statement after the effectiveness of this registration statement are being made solely pursuant to this Registration Statement.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) under the Securities Act.

(3) Separate consideration may not be received for registered securities that are issuable on exercise, conversion or exchange of other securities.

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

Table of Contents

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

Subject to Completion, Dated October [], 2013

Bank of Montreal

unconditionally and irrevocably guaranteed by

BMO Covered Bond Guarantor Limited Partnership

Covered Bonds

up to an aggregate initial offering price of U.S.\$10,000,000,000

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

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

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

Investing in the covered bonds involves risks. See Risk Factors beginning on page 25 of this prospectus.

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

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

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

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

Arrangers for the Program

Barclays

The date of this prospectus is , 2013

BMO Capital Markets

Table of Contents

Table of Contents

	Page
<u>ABOUT THIS PROSPECTUS</u>	1
<u>SUMMARY</u>	7
<u>PROGRAM STRUCTURE DIAGRAM</u>	10
<u>SUMMARY OF THE COVERED BOND PROGRAM</u>	11
<u>RISK FACTORS</u>	20
<u>USE OF PROCEEDS</u>	49
<u>CONSOLIDATED EARNINGS RATIOS</u>	50
<u>CONSOLIDATED CAPITALIZATION OF THE BANK</u>	51
<u>BANK OF MONTREAL</u>	52
<u>BMO COVERED BOND GUARANTOR LIMITED PARTNERSHIP</u>	55
<u>DESCRIPTION OF THE COVERED BONDS</u>	58
<u>TERMS AND CONDITIONS OF THE COVERED BONDS</u>	65
<u>SUMMARY OF THE PRINCIPAL DOCUMENTS</u>	109
<u>CASHFLOWS</u>	169
<u>PORTFOLIO</u>	184
<u>LOAN ORIGINATION AND LENDING CRITERIA</u>	186
<u>THE SERVICER</u>	190
<u>DESCRIPTION OF THE CANADIAN REGISTERED COVERED BOND PROGRAMS REGIME</u>	194
<u>PLAN OF DISTRIBUTION (AND CONFLICTS OF INTEREST)</u>	197
<u>TAXATION</u>	201
<u>BENEFIT PLAN INVESTOR CONSIDERATIONS</u>	215
<u>OWNERSHIP AND BOOK-ENTRY</u>	218
<u>EXPERTS</u>	222
<u>LEGAL MATTERS</u>	223
<u>OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION</u>	224
<u>GLOSSARY</u>	225

Table of Contents

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

ABOUT THIS PROSPECTUS

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

Table of Contents

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

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

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

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

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

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

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

Bank of Montreal

Corporate Secretary's Department

100 King Street West 1

First Canadian Place

Toronto, Ontario

Canada M5X 1A1

Telephone: (416) 867-6785

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

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

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

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

FORWARD-LOOKING STATEMENTS

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

Table of Contents

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

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

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

PRESENTATION OF FINANCIAL INFORMATION

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

Table of Contents

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

The tables below set forth the high and low daily noon exchange rates, the average yearly rate and the rate at period end between Canadian Dollars and U.S. Dollars (in U.S. Dollars per Canadian Dollar) for the five-year period ended October 31, 2012 and the high and low daily noon exchange rates for the three months ended January 31, 2013, the three months ended April 30, 2013, the three months ended July 31, 2013 and for the period August 1, 2013 through October 18, 2013. On October 18, 2013, the daily noon exchange rate was U.S.\$0.9721 = \$1.00. Our reference to the **daily noon exchange rate** is the daily noon exchange rate as reported by the Bank of Canada.

Year Ended October 31,	High	Low	Average Rate⁽¹⁾	At Period End
2008	1.0905	0.7726	0.9718	0.8220
2009	0.9716	0.7692	0.8603	0.9282
2010	1.0039	0.9278	0.9605	0.9815
2011	1.0583	0.9430	1.0164	1.0065
2012	1.0299	0.9536	0.9968	1.0004
Three months ending			High	Low
January 31, 2013			1.0164	0.9923
April 30, 2013			1.0040	0.9696
July 31, 2013			0.9977	0.9455
Period of			High	Low
August 1, 2013 through October 18, 2013			0.9768	0.9476

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

LIMITATIONS ON THE ENFORCEMENT OF U.S. LAWS

AGAINST THE BANK, OUR MANAGEMENT AND OTHERS

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

Table of Contents

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

Table of Contents

SUMMARY

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

Bank of Montreal

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

BMO Covered Bond Guarantor Limited Partnership

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

The Global Registered Covered Bond Program

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

The Legislative Framework sets out certain statutory protections for holders of covered bonds under Canadian federal and provincial bankruptcy, insolvency and fraudulent conveyance laws. The CMHC Guide elaborates on the role and powers of CMHC as administrator of the Legislative Framework and sets out the conditions and restrictions applicable to registered covered bond issuers and registered covered bond programs.

The Portfolio

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

Table of Contents

Global Public Sector Covered Bond Programme

The Bank has previously issued the equivalent of approximately \$9.1 billion of covered bonds in a variety of currencies both outside and in the United States pursuant to the private placement exemptions under the Bank's Global Public Sector Covered Bond Programme utilizing residential mortgage loans insured by the CMHC. \$7.6 billion of these covered bonds remain outstanding as of the date of this prospectus, and such covered bonds are guaranteed by a different guarantor entity and are secured by a different cover pool.

The Guarantee

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

Program Structure Overview

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

Risk Factors

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

Table of Contents

Corporate Offices

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

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

Table of Contents

PROGRAM STRUCTURE DIAGRAM

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

Table of Contents

SUMMARY OF THE COVERED BOND PROGRAM

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

Bank:	Bank of Montreal (BMO). For a more detailed description of the Bank, see <i>Bank of Montreal</i> .
Guarantor:	BMO Covered Bond Guarantor Limited Partnership.
Dealers:	BMO Capital Markets Corp., Barclays Capital Inc. and any other dealer appointed from time to time by the Bank generally in respect of the Program or in relation to a particular Series or Tranche of covered bonds.
Seller:	The Bank, any New Seller or other Limited Partner, who may from time to time accede to, and sell Loans and their Related Security to the Guarantor.
Servicer:	The Bank, subject to replacement in accordance with the terms of the Servicing Agreement.
Cash Manager:	The Bank, subject to replacement in accordance with the terms of the Cash Management Agreement.
Calculation Agent:	Bank of New York Mellon, acting through its offices located at 101 Barclay Street 4E, New York, NY 10286.
Custodian:	Computershare Trust Company of Canada, acting through its offices located at 100 University Avenue, 11th Floor, Toronto, Ontario Canada M5J 2Y1.
Registrar, Principal Paying Agent, Transfer Agent and Exchange Agent:	Bank of New York Mellon, acting through its offices located at 101 Barclay Street 4E, New York, NY 10286.
Bond Trustee:	Computershare Trust Company of Canada, acting through its offices located at 100 University Avenue, 8th Floor, North Tower, Toronto, Ontario Canada M5J 2Y1.

Table of Contents

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

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

Table of Contents

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

Table of Contents

Hard Bullet Covered Bonds:	Hard Bullet Covered Bonds may be offered and will be subject to a Pre-Maturity Test. The intention of the Pre-Maturity Test is to test the liquidity of the Guarantor's assets in respect of Hard Bullet Covered Bonds maturing within 12 months from the relevant Pre-Maturity Test Date when the Bank's credit ratings have fallen below the Pre-Maturity Required Ratings.
Rating Agency Condition:	Any issuance of covered bonds will be conditional upon satisfaction of the Rating Agency Condition.
Listing:	Covered bonds will not be listed on any stock exchange unless otherwise specified in the applicable prospectus supplement.
Redemption:	<p>The applicable prospectus supplement relating to each Tranche of covered bonds will indicate either that the relevant covered bonds of such Tranche cannot be redeemed prior to their stated maturity (other than following an Issuer Event of Default or a Guarantor Event of Default or as indicated below) or that such covered bonds will be redeemable at the option of the Bank upon giving notice to the holders of the covered bonds, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Bank and the Dealers (as set out in the applicable prospectus supplement).</p> <p>Early redemption will be permitted for taxation reasons and illegality as described in Conditions 6.2 (<i>Redemption for taxation reasons</i>) and 6.5 (<i>Redemption due to illegality or invalidity</i>), but will otherwise be permitted only to the extent specified in the applicable prospectus supplement.</p>
Extendable obligations under the Covered Bond Guarantee:	<p>The applicable prospectus supplement may also provide that (if a Notice to Pay has been served on the Guarantor) the Guarantor's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the applicable Series of covered bonds on their Final Maturity Date (subject to applicable grace periods) may be deferred until the Extended Due for Payment Date.</p> <p>In such case, such deferral will occur automatically (i) if the Bank fails to pay the Final Redemption Amount of the relevant Series of covered bonds on their Final Maturity Date (subject to applicable grace periods) and (ii) if the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of covered bonds are not paid in full by the Guarantor by the Extension Determination Date (for example, because the Guarantor has insufficient funds in accordance with the Priorities of Payments to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount of the relevant</p>

Table of Contents

Series of covered bonds after payment of higher ranking amounts and taking into account amounts ranking pari passu in the Priorities of Payments). To the extent a Notice to Pay has been served on the Guarantor and the Guarantor has sufficient time and sufficient monies to pay in part the Final Redemption Amount, such partial payment will be made by the Guarantor on any Interest Payment Date up to and including the relevant Extended Due for Payment Date as described in Condition 6.1 (*Final redemption*) of the *Terms and Conditions of the Covered Bonds*. Interest will continue to accrue and be payable on the unpaid amount in accordance with Condition 4 (*Interest*) at a rate of interest determined in accordance with Condition 4 (*Interest*) (in the same manner as the rate of interest for floating rate covered bonds) of the *Terms and Conditions of the Covered Bonds*. The Guarantor will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date and any unpaid amounts in respect thereof will be due and payable on the Extended Due for Payment Date.

Taxation:

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

If (i) any portion of interest payable on a covered bond is contingent or dependent on the use of, or production from, property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any other similar criteria or by reference to dividends paid or payable to shareholders of a corporation; (ii) the recipient of interest payable on a covered bond does not deal at arm's length with the Bank or the Guarantor for purposes of the *Income Tax Act* (Canada) (*ITA*); (iii) interest is payable in respect of a covered bond owned by a person with whom the Bank or the Guarantor does not deal at arm's length for purposes of the *ITA*; or (iv) the recipient of

Table of Contents

interest payable on a covered bond is a specified shareholder of the Bank or a non-resident person that does not deal at arm's length with a specified shareholder of the Bank (in each case within the meaning of the ITA for purposes of the thin capitalization rules contained in subsection 18(4) of the ITA), such interest may be subject to Canadian nonresident withholding tax. A **specified shareholder** of the Bank is a person who owns, or is deemed to own, alone or together with persons with whom that person does not deal at arm's length, shares entitled to 25% or more of the votes that could be cast at an annual shareholders' meeting or shares having a fair market value of 25% or more of the fair market value of all the issued and outstanding shares of the Bank. Special rules, which are not discussed in this summary, may apply to a non-Canadian Holder that is an insurer that carries on an insurance business in Canada and elsewhere. Additional opinions from Canadian tax counsel may be required. See the discussion under the caption *Taxation - Canadian Taxation*.

ERISA:

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

Cross Default:

If a Guarantor Acceleration Notice is served in respect of any covered bonds, then the obligation of the Guarantor to pay Guaranteed Amounts in respect of all covered bonds outstanding will be accelerated. If an Issuer Acceleration Notice is served in respect of any series of covered bonds, all outstanding covered bonds issued under the Program will accelerate against the Bank but will be subject to, and have the benefit of, the Guaranteed Amounts under the Covered Bond Guarantee.

Status of the Covered Bonds:

The covered bonds will constitute deposit liabilities of the Bank for purposes of the Bank Act, however the covered bonds will not be insured under the *Canada Deposit Insurance Corporation Act* (Canada), and will constitute legal, valid and binding direct, unconditional, unsubordinated and unsecured obligations of the Bank and rank *pari passu* with all deposit liabilities of the Bank without any preference among themselves and at least *pari passu* with all other unsubordinated and unsecured obligations of the Bank, present and future, except as prescribed by law and in certain limited circumstances described in Conditions 9.1 (*Issuer Events of Default*) and 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*).

Governing Law and Jurisdiction:

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

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

Table of Contents

Terms and Conditions:	A prospectus supplement will be prepared in respect of each Tranche of covered bonds. The terms and conditions applicable to each Tranche will be those described under <i>Terms and Conditions of the Covered Bonds</i> as supplemented, modified or replaced by the applicable prospectus supplement.
Clearing System:	DTC and/or, in relation to any covered bonds, any other clearing system as may be specified in the applicable prospectus supplement.
Non-U.S. Selling Restrictions:	There will be specific restrictions on offers, sales and deliveries of covered bonds and on the distribution of offering material in Canada, Japan, the EEA, the United Kingdom, France, Australia and Italy, as well as such other restrictions as may be required in connection with a particular issue of covered bonds as set out in the applicable prospectus supplement.
Covered Bond Guarantee:	<p>Payment of interest and principal in respect of the covered bonds when Due for Payment will be irrevocably guaranteed by the Guarantor. The obligations of the Guarantor to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that a Covered Bond Guarantee Activation Event has occurred. The obligations of the Guarantor under the Covered Bond Guarantee will accelerate against the Guarantor upon the service of a Guarantor Acceleration Notice. The obligations of the Guarantor under the Covered Bond Guarantee constitute direct obligations of the Guarantor secured against the assets of the Guarantor, including the Portfolio.</p> <p>Payments made by the Guarantor under the Covered Bond Guarantee will be made subject to, and in accordance with, the applicable Priorities of Payments.</p>
Security:	To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the Guarantor has granted a first ranking security interest over all of its present and future acquired assets, including the Portfolio, in favor of the Bond Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the terms of the Security Agreement.
Intercompany Loan:	Under the terms of the Intercompany Loan Agreement, the Bank will make available to the Guarantor an interest-bearing Intercompany Loan, comprised of a Guarantee Loan and a revolving Demand Loan, in a combined aggregate amount equal to the Total Credit Commitment, subject to increases and decreases as described below. The Intercompany Loan will be denominated in Canadian Dollars. The interest rate on the Intercompany Loan will be a Canadian Dollar floating rate determined by the Bank from time to time, subject to a maximum of the floating rate received by the Guarantor pursuant to the Interest Rate Swap Agreement, less a minimum spread and an amount for certain expenses of the Guarantor.

Table of Contents

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

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

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

Guarantee Loan:

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

Demand Loan:

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

The Proceeds of the Intercompany Loan:

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

Table of Contents

Capital Contribution:	The Limited Partner may from time to time make Capital Contributions to the Guarantor including Capital Contributions of Loans and their Related Security. The Managing GP and the Liquidation GP respectively hold 99 percent and 1 percent of the 0.05 percent general partner interest in the Guarantor. The Limited Partner holds the substantial economic interest in the Guarantor (99.95 percent).
Consideration:	Under the terms of the Mortgage Sale Agreement, the Seller will sell Loans and their Related Security to the Guarantor for the Portfolio on a fully-serviced basis for cash consideration equal to the Fair Market Value of such Loans on their Purchase Date, or if so determined by the Limited Partner, the Limited Partner may make Capital Contributions of Loans and their Related Security on a fully-serviced basis to the Guarantor in exchange for additional interests in the capital of the Guarantor.
Interest Rate Swap Agreement:	The Guarantor has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider to provide a hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (which may, for instance, include variable rates of interest or fixed rates of interest), the amounts payable on the Intercompany Loan and (following the Covered Bond Swap Effective Date) the Covered Bond Swap Agreement.
Covered Bond Swap Agreement:	To provide a hedge against currency risks arising, following the Covered Bond Swap Effective Date, in respect of amounts received by the Guarantor under the Interest Rate Swap Agreement and amounts payable in respect of its obligations under the Covered Bond Guarantee, the Guarantor will enter into the Covered Bond Swap Agreement (which may include a new ISDA Master Agreement schedule and confirmation(s) and credit support annex, if applicable, for each Tranche and/or Series of covered bonds) with the Covered Bond Swap Provider.

Table of Contents

RISK FACTORS

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

Risks relating to the covered bonds generally

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

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

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

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

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

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

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

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

Covered bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They

Table of Contents

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

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

The covered bonds will constitute unsecured and uninsured deposit obligations of the Bank

The covered bonds will constitute deposit liabilities of the Bank for purposes of the Bank Act, however the covered bonds will not be insured under the *Canada Deposit Insurance Corporation Act* (Canada), and will constitute legal, valid and binding direct, unconditional, unsubordinated and unsecured obligations of the Bank and rank *pari passu* with all deposit liabilities of the Bank without any preference among themselves and at least *pari passu* with all other unsubordinated and unsecured obligations of the Bank, present and future, except as prescribed by law and in certain limited circumstances described in Conditions 9.1 (*Issuer Events of Default*) and 14 (*Meetings of Covered Bondholders, Modification, Waiver and Substitution*). If the Bank enters into any bankruptcy, liquidation, rehabilitation or other winding-up proceedings and there is a default in payment under any of the Bank's secured or unsecured indebtedness or if there is an acceleration of any of the Bank's indebtedness, the value of the covered bonds may decline. Further, the occurrence of an Issuer Event of Default alone does not constitute a Guarantor Event of Default and does not entitle the Bond Trustee to accelerate payment of the Guaranteed Amounts. The Guarantor has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until service on the Guarantor of (i) a Notice to Pay following service of an Issuer Acceleration Notice on the Bank following the occurrence of an Issuer Event of Default, or (ii) a Guarantor Acceleration Notice following the occurrence of a Guarantor Event of Default. However, failure by the Guarantor to pay amounts when Due for Payment under the Covered Bond Guarantee constitutes a Guarantor Event of Default (subject to any applicable grace periods) and following service of a Guarantor Acceleration Notice, the covered bonds will become immediately due and payable against the Bank and the obligations of the Guarantor under the Covered Bond Guarantee will be accelerated.

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

All payments of principal and interest in respect of the covered bonds will be made by the Bank without withholding or deduction for, or on account of, taxes imposed by any governmental or other taxing authority (subject to customary exceptions), unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed by a tax jurisdiction specified under the Terms and Conditions, the Bank will, save in certain limited circumstances provided in the Terms and Conditions, be required to pay additional amounts to

Table of Contents

cover the amounts so deducted. By contrast, under the terms of the Covered Bond Guarantee, the Guarantor will not be liable to pay any such additional amounts payable by the Bank under the Terms and Conditions, or to pay any additional amounts in respect of any amount withheld or deducted for, or on account of, taxes from a payment by the Guarantor under the Covered Bond Guarantee.

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

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

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

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

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

Although each Series of covered bonds will rank *pari passu* with all other Series of covered bonds, each Series of covered bonds may not necessarily have the same Final Maturity Date. As Portfolio assets are not segregated in relation to each Series of covered bonds and will be used to repay earlier maturing covered bonds first, there is a risk that later maturing covered bonds will not be paid in full (or at all) under the Covered Bond Guarantee. The Amortization Test may not mitigate this risk. A breach of the Amortization Test will occur if the aggregate principal amount of the covered bonds issued and outstanding under the Program is

Table of Contents

greater than the aggregate value of the Portfolio's assets. Upon the occurrence of a breach of the Amortization Test, a Guarantor Event of Default will also occur which will (subject to the Terms and Conditions) lead to the service of a Guarantor Acceleration Notice on the Guarantor and the acceleration of the obligations under the Covered Bond Guarantee in relation to all covered bonds then outstanding (hence any further timing subordination will cease to exist). There is however no guarantee that the remaining Portfolio assets will be sufficient to meet the claims of the remaining covered bondholders under the Covered Bond Guarantee in full.

Reliance on certain transaction parties

The Guarantor and the covered bondholders place significant reliance on the Bank in connection with the multiple roles of the Bank under the Transaction Documents and such reliance may give rise to conflicts of interest

The Guarantor and the covered bondholders place significant reliance on the Bank in connection with the servicing of the Loans in the Portfolio, as well as for the Guarantor's administration and funding. In particular, the Bank performs the initial roles of (a) Cash Manager, (b) Servicer, (c) GDA Provider, (d) Swap Provider, (e) Intercompany Loan Provider, and (f) Calculation Agent. The Bank holds substantially all of the interests in the Guarantor and is the sole shareholder of the initial Managing GP. Prior to the occurrence of a Managing GP Default Event, subject to the occurrence of certain events, the Bank has the ability to control the Guarantor through its control of the initial Managing GP. The Bank, under the Servicing Agreement, will be responsible for servicing and administering the Loans and their Related Security. Furthermore, the Bank, as the Seller of assets to the Portfolio, (a) has considerable discretion to substitute Portfolio assets during the course of the Program and can generate and store the data and documentation relating to the Portfolio assets underlying the transfer, retransfer and servicing of the Loans and the Related Security, which data is also provided to third parties in their respective functions under the Program, and (b) is obligated in certain circumstances to repurchase Loans and their Related Security from the Guarantor. See *Summary of the Principal Documents Mortgage Sale Agreement Repurchase of Loans*. The Bank, as Cash Manager, has, (a) prior to the earlier of (i) its credit rating falling below any of the threshold ratings of (x) P-1 (in respect of Moody's), (y) BBB+ and F2 (in respect of Fitch), and (z) BBB (low) (in respect of DBRS), as applicable, of the unsecured, unsubordinated and unguaranteed debt obligations (or in the case of Fitch, the issuer default rating) of the Cash Manager by the Rating Agencies (the **Cash Manager Required Ratings**) or (ii) the occurrence of a Cash Manager Termination Event, unrestricted access to the funds standing to the credit accounts of the Guarantor, and (b) the obligation to identify Non-Performing Loans for purposes of performing the Asset Coverage Test, the Amortization Test and the Valuation Calculation from time to time. The Guarantor is also reliant on the Swap Providers to provide it with the funds matching its obligations under advances and the Covered Bond Guarantee. In view of these multiple roles of the Bank, such reliance may give rise to a wide variety of substantial conflicts of interests. The Bank will have significant influence over important services required to maintain the Program and provided to the Guarantor, which may conflict with the interests of the Guarantor and holders of the covered bonds. This influence could adversely affect the Program and value of the covered bonds. If the Bank does not adequately perform or withdraws from performing such services for the Guarantor or if there are disputes between the Bank and the Guarantor, the Guarantor's performance of its obligations could be affected. There can be no assurance that the conflicts of interest described above will not have a material adverse effect on the Guarantor's performance of its payment and other obligations and/or on the covered bondholders.

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

Table of Contents

Reliance on Swap Providers

The Guarantor has entered into the Interest Rate Swap Agreement with the Interest Rate Swap Provider to provide a hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (which may, for instance, include variable rates of interest or fixed rates of interest), the amounts payable on the Intercompany Loan and (following the Covered Bond Swap Effective Date) the Covered Bond Swap Agreement. To provide a hedge against currency risks arising, following the Covered Bond Swap Effective Date, in respect of amounts received by the Guarantor under the Interest Rate Swap Agreement and amounts payable in respect of its obligations under the Covered Bond Guarantee, the Guarantor has entered into the Covered Bond Swap Agreement with the Covered Bond Swap Provider.

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

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

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

Table of Contents

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

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

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

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

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

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

In addition, should the applicable criteria (other than ratings requirements which, if not satisfied, will require the replacement of the Bank unless the Guarantor is Independently Controlled and Governed) cease to be satisfied, the parties to the relevant Transaction Document may agree to amend or waive certain of the terms of such document, including the applicable criteria, in order to avoid the need for a replacement entity to be appointed. Although in certain circumstances the consent of the Bond Trustee and satisfaction of the Rating Agency Condition may be required, the consent of covered bondholders may not be required in relation to such amendments and/or waivers.

Further, the Bank will act in its own interests under the Program which may be adverse to your interests as a holder of the covered bonds. See *Program related legal and regulatory risks The Bank will act in its own interest in connection with the Program, and such actions may not be in the best interests of, and may be detrimental to, the holders of covered bonds.*

Table of Contents

Bankruptcy or Insolvency Risk

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

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

Amounts that are on deposit from time to time in the Guarantor Accounts may be invested in certain permitted investments pursuant to the Transaction Documents. In the event of

Table of Contents

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

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

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

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

Table of Contents

Risks relating to the Portfolio

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

In addition, New Sellers who are affiliates of the Bank may in the future accede to the Program, become a limited partner of the Guarantor and sell Loans and their Related Security to

Table of Contents

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

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

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

Table of Contents

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

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

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

The Seller will transfer all of its right, title and interest in the Loans and their Related Security to the Guarantor pursuant to the Mortgage Sale Agreement on the relevant Purchase Date. However, the registered or recorded title to the transferred Loans and their Related Security will remain with the Seller until the occurrence of a Registered Title Event. As a result (and until such time) application will not be made to the applicable land registry offices to register or record the Guarantor's ownership interest in the Loans and their Related Security and notice of the sale of the Loans and their Related Security will not be given to any borrower. Since prior to the occurrence of a Registered Title Event, the Guarantor will not have perfected its ownership interest in the Loans and their Related Security by completing the applicable registrations at the appropriate land registry or land titles office or providing notice of the sale of the Loans to the borrowers, the following risks exist:

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

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

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

Table of Contents

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

Limitations on recourse to the Seller may adversely affect the Portfolio

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

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

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

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

Limitations on enforceability of mortgage security. Generally, a lender's right to realize on its mortgage security may be subject to or regulated by statutes, the existing practice and procedures of a court of competent jurisdiction and that court's equitable powers. Under certain circumstances, a court may exercise equitable powers to relieve a borrower from the effects of certain defaults or acceleration. Certain proceedings taken by a lender to realize upon its

Table of Contents

mortgage security, such as foreclosure and judicial sale, are subject to most of the delays and expenses of other lawsuits, particularly if defenses or counterclaims are asserted, sometimes requiring up to several years to complete. If a borrower makes a proposal or an assignment or initiates or becomes subject to any other proceedings under the BIA or other insolvency, arrangement or other legislation for the relief of debtors, the Seller or the Guarantor may not be permitted to accelerate the maturity of the related Loan, to foreclose on the Property or to exercise power of sale or other mortgage enforcement proceedings for a considerable period of time.

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

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

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

Table of Contents

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

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

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

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

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

When the Bank's prime rate increases, the amount of interest payable by a borrower under a variable rate loan increases. The borrower's installment payment, however, remains constant (except as discussed below) and, the portion of the borrower's monthly mortgage payment allocated towards the payment of principal is reduced. If the interest rate on a Loan reaches the level at which the borrower's mortgage payment is insufficient to cover the interest payable, the difference is capitalized and added to the principal balance of the Loan. For certain

Table of Contents

variable rate products this may result in the principal balance of the Loan being greater than the original principal amount of the Loan. If the principal balance of the Loan increases in excess of 105 percent of the original principal amount of the Loan, the Bank may require the borrower to pay the excess amount, increase the amount of the borrower's monthly installment, or (if the borrower has the right to do so under the Loan) convert the Loan to a Fixed Rate Loan. Accordingly, an increase in a borrower's monthly installment or principal balance may affect the borrower's timely payment of scheduled payments of principal and interest on the related Loan and, accordingly, the actual rates of delinquencies, foreclosures and losses with respect to such Loan. Further, economic and market conditions may impair borrowers' ability to make timely payment of scheduled payments of principal and interest on the Loans or to refinance or sell their residential properties, which may contribute to higher delinquency and default rates, and may in turn adversely affect the value of the covered bonds. See *Risks relating to the Canadian residential mortgage market such as a deterioration in the market for real estate, could negatively affect the value and marketability of the covered bonds.*

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

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

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

Risks relating to the Guarantor

There are limited events of default with respect to the Guarantor

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

Table of Contents

Currency risks and risks related to Swaps

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

Following the Covered Bond Swap Effective Date, the Guarantor will, on each Guarantor Payment Date, pay or provide for payment of an amount to the Covered Bond Swap Provider based on the Canadian Deposit Offering Rate for Canadian Dollar deposits (**CDOR**) having the relevant maturity for the agreed period. The Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the Guarantor until amounts are due and payable by the Guarantor under the Intercompany Loan Agreement or Due for Payment under the Covered Bond Guarantee. If the Covered Bond Swap Provider does not meet its payment obligations to the Guarantor under the Covered Bond Swap Agreement or does not make a termination payment that has become due from it to the Guarantor under the Covered Bond Swap Agreement, the Guarantor may have a larger shortfall in funds with which to make paymE="1" NOSHAE COLOR="#000000">

Performance or Other Period Until Maturity or Payment (2)

	Hurdle (#)(3)
	Target (#)(3)
	Maximum (#)(3)

Paul W. Chellgren

24,850

3 years

4,970

24,850

37,275

James J. O'Brien

10,699

3 years

2,134

10,669

16,004

David J. D'Antoni

12,100

3 years

2,420

12,100

18,150

James A. Duquin

	8,997
	3 years
	1,799
	8,997
Charles F. Potts	13,496
	10,148
	3 years
	2,030
	10,148
	15,222

-
- (1) Performance share/units awarded are based on the executive's salary level. The original amount of any award cannot exceed 400% of the executive's then base salary. One performance share/unit is equal to one share of Ashland Common Stock on the payout date.
 - (2) Each award covers a three-year period performance cycle. For further discussion of the performance objectives to be achieved before payment is made which apply for each award made to the named executive officers, see the discussion under Long-Term Incentive Program (LTIP) Performance Shares/Units in the P&C Committee Report on Executive Compensation on page 18 of this Proxy Statement.
 - (3) Payouts of performance shares/units are contingent upon achievement of the performance objectives referred to above. At the Hurdle, or minimum performance level, payout will equal 20% of the award; at the Target, payout will equal 100% of the award; and at the Maximum performance, payout will equal 150% of the award.

Retirement Plans

Pension Plans

Ashland maintains qualified pension plans under which executive officers are entitled to benefits on the same basis as other employees. Upon a change in control of Ashland (as defined in the plans), these plans will terminate and the funds in the plans, as well as any excess assets, will be distributed to the participants.

Benefits that would be payable under the qualified plans but for limits imposed by the Code are paid under a nonqualified excess benefit pension plan, provided that the executive officer is approved for participation. Participants may, at the discretion of the P&C Committee, receive their retirement benefits in a lump-sum distribution. Those approved to receive a lump-sum payment may defer all or part of the payment through the Employees' Deferral Plan.

The following table shows the total combined estimated annual benefits payable under the qualified and nonqualified plans to eligible salaried employees for years of service, assuming retirement at age 65.

Remuneration*	Pension Plan Table					
	Years of Service					
	10	15	20	25	30	35
\$25,000	\$ 3,300	\$ 4,950	\$ 6,601	\$ 8,251	\$ 9,901	\$ 11,552
50,000	7,050	10,575	14,101	17,626	21,151	24,677
100,000	14,550	21,825	29,100	36,376	43,650	50,925
200,000	29,550	44,325	59,100	73,876	88,650	103,425
300,000	44,550	66,825	89,100	111,376	133,650	155,925
400,000	59,550	89,325	119,100	148,876	178,650	208,425
500,000	74,550	111,825	149,100	186,376	223,650	260,925
600,000	89,550	134,325	179,100	223,876	268,650	313,425
800,000	119,550	179,325	239,101	298,876	358,651	418,427
1,000,000	149,550	224,325	299,101	373,876	448,651	523,427
1,200,000	179,550	269,325	359,101	448,876	538,651	628,427

* Remuneration is the average annual earnings, which includes a participant's salary during the highest consecutive 36-month period of the final 120-month period prior to the participant's retirement, but excludes other forms of compensation included in the Summary Compensation Table.

Benefits are determined on a straight-life annuity basis. There is no offset in benefits under either plan for Social Security benefits. Those amounts are, however, reduced by the actuarial value of 50% of the value of a participant's LESOP account and the actuarial value of 50% of any shares forfeited under the LESOP because of limitations imposed by the Code.

As of September 30, 2002, Messrs. Chellgren, O'Brien, D'Antoni, Duquin and Potts had credited service in the combined plans of 27, 23, 28, 26, and 16 years, respectively.

Supplemental Early Retirement Plan

The Supplemental Early Retirement Plan (the "SERP") allows eligible employees to retire prior to age 65. The maximum annual benefit payable under the SERP is an amount equal to 50% of the final average annual compensation the employee received during the highest 36 months of his or her final 60 months of employment. For retirements after December 31, 2002, the final 60-month period will be calculated on a final 84-month employment period. Annual compensation includes salary and incentive compensation awards. The SERP benefit is reduced by (1) the benefit under the Ashland Inc. and Affiliates Pension Plan assuming a transfer of 50% of the LESOP account to the said Pension; (2) the benefit under the nonqualified excess benefit pension plan; and (3) 50% of any shares of Ashland Common Stock forfeited under the LESOP because of limitations imposed by the Code.

At the discretion of the P&C Committee, an individual may receive a SERP retirement benefit in a lump-sum distribution. An employee approved under the SERP may defer payment of all or a part of the lump sum through the Employees' Deferral Plan. The retirement benefit received as a lump sum is equal to the actuarial present value of all expected future payments calculated under assumptions, including the interest rate, prescribed by the P&C Committee.

Messrs. D'Antoni and Potts are currently eligible to participate in the SERP. The lump-sum value of their respective retirement benefits under the SERP, assuming retirement at age 62, is estimated to be \$2,366,633 and \$2,777,018, respectively.

Upon a change in control of Ashland (as defined in the SERP), eligible employees may, at their election, retire at an earlier age pursuant to the SERP. The SERP provides that eligible employees who retire under the

terms of the SERP upon a change in control will have their age and service enhanced for purposes of computing their SERP benefit.

Estate Enhancement Program

In 1999, the Board of Directors adopted an Estate Enhancement Program (the Program) for the benefit of Ashland's executive officers and non-employee directors. Mr. O'Brien is the only executive officer participating in the Program. The Program was amended in 2001 (the Amended Program). No current executive officers or non-employee directors participate in the Amended Program and executive officers and non-employee directors will be prohibited from doing so pending further clarification of the loan prohibitions contained in the Sarbanes-Oxley Act of 2002. For further information about this program, see the discussion under the Estate Enhancement Program on [page 12](#) of this Proxy Statement.

Executive Employment Agreements and Other Arrangements

The executive officers named in this Proxy Statement, as well as certain other executives, have employment agreements with Ashland that provide that, in the event any such executive's employment is terminated without cause, such executive shall be entitled to receive payment of his salary for a period of two years after termination of his employment. If any such executive is terminated without cause, or if such executive resigns for good reason, within two years after a change in control of Ashland, such executive would receive a payment equal to three times the highest of such executive's annual compensation, including incentive compensation, during the prior three fiscal years preceding the change in control. In addition, certain benefits continue for periods up to three years depending on the benefit. The terms cause, good reason and change in control are defined in the agreements.

Paul W. Chellgren retired as Chairman of the Board on November 15, 2002, and as Chief Executive Officer on September 30, 2002. Mr. Chellgren is entitled to receive a lump-sum benefit under Ashland's SERP of \$7,559,407. Mr. Chellgren will also receive 100% joint and survivor annuity payments under Ashland's nonqualified excess benefit pension plan and the Ashland Inc. and Affiliates Pension Plan totaling \$299,301 per year. In addition, Ashland has entered into an agreement with Mr. Chellgren that supercedes Mr. Chellgren's Executive Employment Agreement. Under the terms of the agreement, Mr. Chellgren will receive payments of LTIP awards for fiscal years 2001-2003 and 2002-2004 when and if awards are paid to other employees. However, Mr. Chellgren's payments will be prorated to reflect his retirement on November 15, 2002. In addition, the agreement (1) accelerates the vesting of Mr. Chellgren's options on 120,000 shares of Ashland Common Stock and (2) obligates Ashland to provide Mr. Chellgren with office space and a secretary until November 15, 2003.

In connection with the retirement of Mr. Duquin on December 31, 2002, Ashland intends to enter into a severance agreement providing for payroll continuation payments in the amount of \$13,961 per two-week pay period (based on his current base salary) for a period of two years following his retirement (the Payroll Continuation Period). In the event of Mr. Duquin's death during the Payroll Continuation Period, the remaining payroll continuation payments will be paid in a lump sum to his estate. During the Payroll Continuation Period, Mr. Duquin's participation in most of Ashland's benefit plans will continue and his stock options will continue to vest. Payment of LTIP awards for fiscal years 2001-2003 and 2002-2004 (when and if awards are paid to other employees) will be prorated through December 31, 2002. At the end of the Payroll Continuation Period on December 31, 2004, Mr. Duquin will be eligible to receive benefits under Ashland's pension plan, non-qualified pension plan and SERP. The lump-sum value of the retirement benefit Mr. Duquin is eligible to receive under the SERP at the end of the Payroll Continuation Period is estimated to be \$1,598,986. This severance agreement will supersede Mr. Duquin's employment agreement with Ashland described above.

FIVE-YEAR TOTAL RETURN PERFORMANCE GRAPH

The following graph compares Ashland's five-year cumulative total shareholder return with the cumulative total return of the Standard & Poor's 500 index, the peer group used by Ashland in its 2001 Proxy Statement (the "Old Peer Group") and a newly constructed peer group (the "New Peer Group"). The cumulative total shareholder return for each of these groups assumes the reinvestment of dividends.

Note: Ashland's FY 2000 results include the March quarter dividend of Arch Coal stock to its shareholders in the amount of approximately \$1.77 per Ashland share (.246097 shares x \$7.1875 of Arch value). Ashland's five-year cumulative total return investment is 57 when the Arch Coal dividend is excluded.

The Old Peer Group was originally developed in fiscal 1998 and includes the following representative companies from the four industries in which Ashland primarily competes:

Highway Construction Portfolio: Florida Rock Industries and Granite Construction, Inc.

Specialty Chemical Production and Distribution Portfolio: Air Products & Chemicals, Inc.; Dow Chemical; E.I. DuPont de Nemours & Co., Inc.; Eastman Chemical Company; Praxair, Inc.; Rohm & Haas Company; and Union Carbide Corporation (as of February 6, 2001, merged with Dow Chemical and is not reflected as a separate entity in 2001 and 2002).

Motor Oil and Car Care Products Portfolio: Pennzoil-Quaker State Company (as of October 1, 2002, merged with Shell ND Company, a wholly-owned subsidiary of Shell Oil Company).

Petroleum Refining and Marketing Portfolio: Holly Corporation; Sun Company, Inc.; Tesoro Petroleum Corporation; Tosco Corporation (acquired by Phillips Petroleum Company on September 14, 2001 and is not included in 2002); Ultramar Diamond Shamrock (as of December 31, 2001, merged with Valero Energy Corporation and is not reflected as a separate entity in 2002); and Valero Energy Corporation.

The annual returns for the companies in each of the portfolios have been weighted by their respective beginning-of-year market capitalization. Each portfolio is then weighted to reflect Ashland's annual invested capital in each of these lines of business with the annual return for the peer group represented by the sum of these weighted portfolios.

Due to a number of the companies in the Old Peer Group being merged or acquired, a New Peer Group was constructed utilizing the following industry indexes:

Highway Construction Portfolio: Standard & Poor's 500 Construction Materials (Large-Cap) (index has been in existence for fiscal years 2000, 2001 and 2002 and currently consists only of Vulcan Materials Company; for fiscal years 1997, 1998 and 1999, the results for Vulcan Materials Company were used to give complete information), Standard & Poor's 400 Construction Materials (Mid-Cap), and Standard & Poor's 600 Construction Materials (Small-Cap).

Specialty Chemical Production, Distribution, and Motor Oil and Car Care Products Portfolio: Standard & Poor's 500 Specialty Chemicals (Large-Cap), Standard & Poor's 400 Specialty Chemicals (Mid-Cap), Standard & Poor's 600 Specialty Chemicals (Small-Cap) and Standard & Poor's 400 Diversified Chemicals (Mid-Cap).

Petroleum Refining and Marketing Portfolio: Standard & Poor's 500 Oil & Gas Refining & Marketing & Transportation (Large-Cap) (index currently consists of results only of Sun Company, Inc. and Ashland Inc.), Standard & Poor's 400 Oil & Gas Refining & Marketing & Transportation (Mid-Cap), and Standard & Poor's 600 Oil & Gas Refining & Marketing & Transportation (Small-Cap) (index has been in existence for only one quarter of fiscal 2002 and currently consists only of Frontier Oil Corp.; for the remaining periods, the results for Frontier Oil Corp. were used to give complete information).

As of the end of fiscal 2002, the aforementioned indexes consisted of 37 companies. The annual returns for the companies or indexes in each of the portfolios have been weighted by their respective beginning-of-year market capitalization. Each portfolio is then weighted to reflect Ashland's annual invested capital in each of these lines of business with the annual return for the peer group represented by the sum of these weighted portfolios.

MISCELLANEOUS

Personnel and Compensation Committee Interlocks and Insider Participation. The members of the P&C Committee for fiscal 2002 were Mannie L. Jackson (Chairman), Frank C. Carlucci, James B. Farley, W. L. Rouse, Jr. and Theodore M. Solso. There were no impermissible interlocks or inside directors on the P&C Committee.

Business Relationships. During fiscal 2002, the firm of Cravath, Swaine & Moore, of which Mr. Butler is a member, was paid for legal services rendered to Ashland and certain of its subsidiaries.

Section 16(a) Beneficial Ownership Reporting Compliance. Ashland believes that during fiscal 2002 its executive officers and directors have complied with Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act) and the rules and regulations adopted thereunder.

Certain Legal Proceedings. On August 16, 2002, Central Laborers' Pension Fund, derivatively as a shareholder of Ashland, instituted an action in the Circuit Court of Kentucky in Kenton County against Ashland's then-serving Board of Directors. On motion of Ashland and the other defendants, the case was removed to the United States District Court, Eastern District of Kentucky, Covington Division. Plaintiff has moved to remand the case to the state court. The action is purportedly filed on behalf of Ashland, and asserts the following causes of action against the Directors: breach of fiduciary duty, abuse of control, gross mismanagement, and waste of corporate assets. The suit also names Paul W. Chellgren, the then-serving Chief Executive Officer and Chairman of the Board, and James R. Boyd, former Senior Vice President and Group Operating Officer, as individual defendants, and it seeks to recover an unstated sum from them individually alleging unjust enrichment from various transactions executed during their tenure with Ashland. The suit further seeks an unspecified sum from Mr. Chellgren individually based upon alleged usurpation of corporate opportunities. The suit also names Mr. J. Marvin Quin, Ashland's Chief Financial Officer, as well as three former employees of Ashland's wholly-owned subsidiary, APAC, as individual defendants and alleges that they participated in the preparation and filing of false financial statements during fiscal years 1999-2001. The suit further names E&Y as a defendant, alleging professional

accounting malpractice and negligence in the conduct of its audit of Ashland's 1999 and 2000 financial statements, respectively, as well as alleging that E&Y aided and abetted the individual defendants in their alleged breach of duties. The complaint seeks to recover, jointly and severally, from defendants an unstated sum of compensatory and punitive damages. The complaint seeks equitable and/or injunctive relief to avoid continuing harm from alleged ongoing illegal acts, and seeks a disgorgement of defendants' alleged insider-trading gains, in addition to the reasonable cost and expenses incurred in bringing the complaint, including attorneys' and experts' fees.

Proxy Solicitation Costs. Ashland is soliciting the proxies being solicited by this Proxy Statement. All costs of soliciting proxies, including the cost of preparing and mailing this Proxy Statement and the accompanying material, will be borne by Ashland. Expenses associated with this solicitation may also include charges and expenses of banks, brokerage houses and other custodians, nominees or fiduciaries for forwarding proxies and proxy materials to beneficial owners of shares. Solicitations may be made by mail, telephone, telegraph, telex, facsimile, electronic means and personal interview, and by officers and employees of Ashland, who will not be additionally compensated for such activity. Ashland has arranged for the services of Morrow & Co., Inc. to assist in the solicitation of proxies. Morrow's fees will be paid by Ashland and are estimated at \$35,000, excluding out-of-pocket expenses.

Delivery of Proxy Materials to Shareholders Sharing an Address. As permitted by the Exchange Act, only one copy of the annual report and proxy statement is being delivered to shareholders residing at the same address, unless such shareholders have notified Ashland of their desire to receive multiple copies of these materials. Ashland will promptly deliver without charge, upon oral or written request, a separate copy of the annual report and the proxy statement to any shareholder residing at an address to which only one copy was mailed. Requests for additional copies may be made by calling 1-800-622-6757, or by writing to National City Bank, Dept. 5352, Corporate Trust Operations, P.O. Box 92301, Cleveland, OH 44193-0900.

Shareholder Proposals for the 2004 Annual Meeting. Shareholders interested in presenting a proposal for consideration at the 2004 Annual Meeting may do so by following the procedures prescribed in Rule 14a-8 of the Exchange Act and Ashland's By-laws. To be eligible for inclusion in the Proxy Statement for the 2004 Annual Meeting, shareholder proposals must be received by Ashland's Corporate Secretary no later than August 13, 2003.

Ashland's By-laws provide that a shareholder must provide Ashland with written notice of a matter he or she wishes to bring before an annual meeting at least 90 days in advance of the meeting, if the meeting is held no earlier than the last Thursday in January. If the meeting is held earlier, the shareholder must provide Ashland with written notice within 10 days after the first public disclosure of the date of the meeting. The first public disclosure of that date may be a public filing with the SEC. Such notice must set forth as to each matter the shareholder proposes to bring before the annual meeting:

a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting and, in the event that such business includes a proposal to amend either the Second Restated Articles of Incorporation or By-laws of Ashland, the language of the proposed amendment;

the name and address of the shareholder proposing such business;

a representation that the shareholder is a holder of record of Ashland Common Stock entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business;

any material interest of the shareholder in such business; and

a representation as to whether or not the shareholder will solicit proxies in support of the proposal.

The By-laws further provide that no business shall be conducted at any annual meeting except in accordance with the foregoing procedures and that the chairman of any such meeting may refuse to permit any business to be brought before an annual meeting without compliance with the foregoing procedures.

Other Matters. As of the date of this Proxy Statement, Ashland does not know of any business to be presented for consideration at the Annual Meeting, other than the items referred to in this Proxy Statement. In the event that any additional matter is properly brought before the meeting for shareholder action, properly voted proxies will be voted in accordance with the recommendation of the Board of Directors or, in the absence of such recommendation, in accordance with the judgment of the named proxies.

Please vote by telephone or over the Internet, or fill in, sign and date the proxy card and return it in the accompanying prepaid envelope. If you attend the Annual Meeting and wish to vote your shares in person, you may do so. Your cooperation in giving this matter your prompt attention will be appreciated.

RICHARD P. THOMAS
Vice President and Secretary

Covington, Kentucky
December 6, 2002

Vote by Telephone

Have your proxy card available and call **Toll-Free 1-800-542-1160** using a touch-tone phone. You will be prompted to enter your control number, which acts as your electronic signature, and then follow the simple prompts that will be presented to you to record your vote.

Vote by Internet

Have your proxy card available and access the website **www.votefast.com**. You will be prompted to enter your control number, which acts as your electronic signature, and then follow the simple prompts that will be presented to you to record your vote.

Vote by Mail

Please mark, sign and date your proxy card and return it in the postage paid envelope provided or return it to: Corporate Election Services, P.O. Box 1150, Pittsburgh, PA 15230-1150.

Vote by Telephone
Call **Toll-Free** using a
touch-tone phone
1-800-542-1160

Vote by Internet
Access the website and
cast your vote
www.votefast.com

Vote by Mail
Return your proxy
in the postage paid
envelope provided

Vote 24 hours a day, 7 days a week!

If you vote by telephone or over the Internet, do not mail in your proxy card.

Your Control Number is:

Proxy card must be signed and dated below.
↓ Please fold and detach card at perforation before mailing. ↓

Ashland Inc.

PROXY

This proxy is solicited on behalf of the Board of Directors for the Annual Meeting of Shareholders on January 30, 2003.

The undersigned hereby appoints James J. O'Brien and Richard P. Thomas, and each of them as proxies for the undersigned, with full power of substitution, to act and to vote all the shares of Ashland Inc. Common Stock held by the undersigned on November 25, 2002, at the Annual Meeting of Shareholders to be held on January 30, 2003, or any adjournment thereof.

Date: _____

(Sign here)

INSTRUCTIONS: Please sign exactly as shown hereon. When signing as a fiduciary or on behalf of a corporation, bank, trust company, or other similar entity, your title or capacity should be shown.

Please sign, date, and return your proxy promptly in the enclosed envelope to: Corporate Election Services, P.O. Box 1150, Pittsburgh, PA 15230-1150.

ELECTRONIC ACCESS TO FUTURE DOCUMENTS NOW AVAILABLE

You have the option to access future shareholder communications (e.g., annual reports, proxy statements, interim communications) from us or on our behalf over the Internet, instead of receiving those documents in print. Participation is completely voluntary. If you give your consent, in the future, when, and if, material is available over the Internet, you will receive notification which will contain the Internet location where the material is available. There is no cost to you for this service other than any charges you may incur from your Internet provider, telephone and/or cable company. Once you give your consent, it will remain in effect until you inform us otherwise.

To give your consent, follow the prompts when you vote by telephone or over the Internet or check the appropriate box located at the bottom of the attached proxy card when you vote by mail.

Proxy card must be signed and dated on the reverse side.
 ↓ **Please fold and detach card at perforation before mailing.** ↓

If you do not provide voting instructions, your proxy will be voted FOR proposals 1 and 2.

1. **Election of Directors** (01) Roger W. Hale (02) Patrick F. Noonan (03) Jane C. Pfeiffer (04) George A. Schaefer, Jr.
 Nominees: Class II:

FOR all nominees listed above. (except as listed to the contrary below) **WITHHOLD AUTHORITY** to vote for all nominees listed above.
 To withhold authority to vote for any individual nominee, write that nominee's name or number on the line below:

	FOR	AGAINST	ABSTAIN
2. Ratification of Ernst & Young as independent auditors for fiscal 2003.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

I consent to access future shareholder communications over the Internet as stated above and in the Proxy Statement.

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting.

(Continued and to be signed, on the reverse side)

Subject Line: Please Vote Your Proxy

[Insert share information here]

Your Control Number: _____

Electronic Access Notification

Ashland's Annual Meeting of Shareholders will be held on Thursday, January 30, 2003 at 10:30 a.m. Eastern Standard Time at the Metropolitan Club, 50 E. RiverCenter Boulevard, Covington, Kentucky. As previously announced, participants in Ashland's Employee Savings Plan or the LESOP can view Ashland's 2002 Proxy Statement and Annual Report online. We encourage you to take advantage of this service.

Paper copies of the Proxy Statement and your proxy card or copies of the Annual Report can be requested by replying to this e-mail.

As a participant in Ashland's Employee Savings Plan or the LESOP, you may instruct the Trustees how to vote the Ashland Common Stock credited to your account by telephone or over the Internet. Your voting instructions also apply to the shares of Ashland Common Stock allocated to participant accounts for which voting instructions are not received on a timely basis by the Trustees (Non-Directed shares). Each participant who gives the Trustees instructions acts as a named fiduciary for the plan under the Employee Retirement Income Security Act of 1974, as amended. Any participant who wishes to vote the Non-Directed shares differently from the shares credited to his or her account or who wishes not to vote the Non-Directed shares at all may do so by requesting a separate voting instruction card from National City Bank, Corporate Trust Administration, Dept. 3116, 629 Euclid Avenue, Suite 635, Cleveland, Ohio 44114-3484, Attn: Laura S. Kress.

Votes cast by telephone or over the Internet are tabulated by our proxy tabulator and are confidential. Ashland does not have access to individual votes.

Even if you do not have regular Internet access at work, you will be able to view the Proxy Statement and Annual Report and vote online. If you are a dial-up user, we encourage you to access these documents and vote from your office or a local number.

In order for your instructions to the Trustees to be counted, you must vote before midnight Eastern Standard Time on January 27, 2003.

To access the Annual Report and Proxy Statement and vote:

1. Print out this page or write down your Control Number listed above. This number acts as your electronic signature to ensure security of your vote.
2. Click on this website address (or type this URL address in your browser): www.ashland.com/proxy.
3. Click on the links to view or download the Annual Report and Proxy Statement or to vote. When voting, be sure to follow all instructions including the final Submit procedure to ensure that your instructions are received.

To vote by telephone (you will need a touch tone telephone):

1. Print out this page or write down your Control Number listed above. This number acts as your electronic signature to ensure security of your vote.
2. Dial 1-800-542-1160.
3. Be sure to follow all instructions including the final confirmation procedure to ensure that your instructions are received.

Sincerely,

Richard P. Thomas
Vice President and Secretary

Notice of Annual Meeting

The Annual Meeting of Shareholders of Ashland Inc. will be held on Thursday, January 30, 2003 at 10:30 a.m. EST at the Metropolitan Club, 50 E. RiverCenter Boulevard, Covington, Kentucky. Your proxy card for voting at the Annual Meeting is enclosed.

We encourage you to read the Annual Report and Proxy Statement and vote your shares. Per your request, the Annual Report and Proxy Statement are available over the Internet at www.ashland.com/proxy.

Your vote is important. We encourage you to vote over the Internet at www.votefast.com, by telephone at 1-800-542-1160, or by returning your proxy card in the envelope provided.

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NOTICE TO SHAREHOLDERS IN ASHLAND'S EMPLOYEE SAVINGS PLAN OR LEVERAGED EMPLOYEE STOCK OWNERSHIP PLAN (THE LESOP)

As a participant in Ashland's Employee Savings Plan or the LESOP, you may instruct the Trustees how to vote the Ashland Common Stock credited to your account over the Internet, by telephone or by returning the enclosed proxy card. Your voting instructions also apply to the shares of Ashland Common Stock allocated to participant accounts for which voting instructions are not received on a timely basis by the Trustees (Non-Directed shares). Each participant who gives the Trustees instructions acts as a named fiduciary for the plan under the Employee Retirement Income Security Act of 1974, as amended. Any participant who wishes to vote the Non-Directed shares differently from the shares credited to his or her account or who wishes not to vote the Non-Directed shares at all may do so by requesting a separate voting instruction card from National City Bank, Corporate Trust Administration, Dept. 3116, 629 Euclid Avenue, Suite 635, Cleveland, Ohio 44114-3484, Attn: Laura S. Kress.

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