3.5 CANADA

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I. FRAMEWORK

There is currently no dedicated legislation for the issuance of Covered Bonds in Canada. As such, Canadian Covered Bonds are based on contractual agreements structured to comply with Canada's existing legal framework. Following the federal government budget announcement in March 2010 to introduce Canadian covered bond legislation, the Department of Finance released a Covered Bonds Consultation Paper on May 11, 2011 outlining the key elements of the proposed Canadian covered bond legislative framework which will apply to covered bonds issued by Canadian Federally Regulated Financial Institutions ("FRFIs"). For the most part, the proposed framework aims to codify the terms within the existing Canadian covered bond programs. Some of the key elements noted in the Consultation Paper are as follows:

> Structure – The framework proposes adopting an SPV model whereby asset segregation occurs via legal sale to a bankruptcy remote special purpose vehicle ("SPV"). This is in line with the existing Canadian structures

> Priority of Claim – The proposed framework will provide clarity that in the event of an Issuer insolvency, the covered bondholders have a priority claim on assets held by the SPV

> Eligibility Criteria – The proposal under the framework is to limit eligible assets to residential mortgage loans located in Canada

> Collateral Valuation and Asset Coverage Test – The proposal aims to standardise the approach to valuing the collateral within the cover pool for the purpose of the coverage tests and the frequency with which these tests are run. This will reflect the existing programs which currently all have similar tests

> Record Keeping – The proposal will require sellers to keep records on which assets have been transferred to the SPV and provide the SPV with sufficient information to perfect its claim over the cover assets

> Maximum Overcollateralisation – The proposal aims to set the maximum level of overcollateralisation at ten percent

> Registration – The proposal is to adopt the concept of a centralised Registrar who sets out the process for registration under the Covered Bond Act. The legislation will only benefit registered programs established by registered Issuers. The Registrar would certify that a particular covered bond program meets the legislative requirements and adequate public disclosure is provided. The Registrar would also have the ability to suspend/sanction Issuers. Existing covered bond programs could become registered programs upon successful registration of the Issuer and confirmation that the program meets the requirements

> Demand Loan – Under the proposal the size of the Demand Loan will be the value of the excess collateral within the Guarantor that is not required as collateral for the outstanding covered bonds (see the description of the Demand Loan in Section II). The Demand Loan should be callable at any time but must be called following a breach of certain triggers and default of the Issuer. In addition, the proposal is that the value of the Demand Loan to be repaid will be the higher of the value determined on the date the Issuer defaults and the date the Demand Loan is repaid

- Substitute Assets – The proposal aims to set minimum standards and a maximum percentage of substitute assets that can be included in the cover pool which will reflect the terms of the existing programs
- Registrar – The proposal outlines two alternative roles that can be played by the Registrar and requests feedback on the functions, expertise and characteristics of an effective Registrar
- Penalties – Under the proposal, the Registrar will have the power apply penalties including suspending an Issuer from issuing covered bonds within the framework
- Counterparties – Under the proposed framework, Issuers will be permitted to act as swap counterparty and service provider (account bank, cash manager, etc.) within their programs. Issuers will be required to put in place back-up swap counterparties and service providers if they breach certain triggers. This is in line with the existing Canadian programs where the triggers are based on credit ratings. The Consultation paper requests comments on whether alternate triggers can be considered. The proposal also suggests the Registrar have the authority to set minimum standards for the types of assets that can be used as collateral for swaps
- Reporting and Disclosure – The proposal aims to set minimum disclosure requirements based on what is currently being provided by the Canadian Issuers and to standardise the type and frequency of such disclosure
- Cover Pool Audit – The proposal aims to standardise the content and frequency of the cover pool audit performed by an independent audit firm on a sample of the cover pool

Comments were due to the Department of Finance on the proposals within the Consultation Paper on June 10, 2011.

II. STRUCTURE OF THE ISSUER

Canadian financial institutions are regulated by the Office of the Superintendent of Financial Institutions ("OSFI"). In June 2007, OSFI issued a statement permitting Canadian financial institutions to issue Covered Bonds up to a maximum of 4% of their total assets. To date, seven Covered Bond programs have been established by large Canadian financial institutions, namely Royal Bank of Canada (RBC), Bank of Montreal (BMO), Bank of Nova Scotia (BNS), Canadian Imperial Bank of Commerce (CIBC), Toronto-Dominion Bank (TD), National Bank of Canada (NBC) and Caisse centrale Desjardins (CCD). Covered Bonds have been issued under all seven programs to date.

The Canadian Covered Bond programs are all based on a similar structure that was derived from the UK structure, given the similarity between the legal systems (Canadian common law is derived from English common law). Canadian Covered Bonds are direct, unconditional obligations of the Issuer. In the event of the insolvency or default by the Issuer, investors have a claim over the pool of cover assets. The cover assets are held in a bankruptcy remote special purpose entity, the Guarantor, which provides an unconditional and irrevocable guarantee on the Issuer's obligations under the Covered Bonds. In Canadian Covered Bond programs, the Guarantor is either structured as a limited liability partnership or a trust, subject to accounting and tax considerations of the Issuer. A bond / security trustee holds security over the cover assets on behalf of the investors. Following an Issuer event of default, the Guarantor is required to meet the Covered Bond obligations using the cash flows generated from the cover assets. The Guarantor is permitted to sell the cover assets to meet these obligations, as required. The entire pool of cover assets is available as security for all the outstanding Covered Bonds issued under the program so there is no direct link between particular assets and a specific series of Covered Bonds.

The cover assets are segregated from the Issuer through a legal true sale between the Issuer and the Guarantor. Whether structured as a limited liability partnership or a trust, the Guarantor is bankruptcy remote from the Issuer. The Issuer grants the Guarantor a loan (the inter-company loan), the proceeds of which are used by the Guarantor to purchase the cover assets from the Issuer. Legal title to the mortgages typically remains with the Issuer and is only transferred to the Guarantor following the breach of a ratings trigger and subsequent replacement of the Issuer as servicer. Borrowers are notified of the sale of the mortgages to the Guarantor upon breach of the trigger and the security interest in the mortgages is perfected.

Typically, additional cover assets are sold to the Guarantor to either meet the asset coverage requirements on an ongoing basis or to issue additional Covered Bonds under the program. The structure of the Canadian Covered Bond programs incorporates a unique feature related to the inter-company loan, which enables the Guarantor to hold surplus assets in anticipation of an issuance. The loan is split into a Demand Loan and a Guarantee (or Term) Loan. The Guarantee (or Term) Loan represents the portion of the cover assets required as collateral for the outstanding Covered Bonds, as determined by the Asset Coverage Test ("ACT"). The balance of the inter-company loan constitutes the Demand Loan, which represents the surplus assets held by the Guarantor. The Issuer can call the Demand Loan at any time, which would result in the excess assets being sold back to the Issuer or a third party to repay the outstanding Demand Loan. To meet regulatory requirements, the Demand Loan ensures that Covered Bonds investors only have access to the assets that are required as collateral for the Covered Bonds. Maintaining surplus assets within the Guarantor provides Canadian Issuers the flexibility to access the market quickly as the cover pool is continuously analyzed and monitored by the rating agencies.

III. COVER ASSETS

The cover assets within the existing covered bond programs comprise amortising residential mortgages (RBC, BMO, BNS, CIBC, NBC, CCD), National Housing Association mortgage backed securities (NHA MBS) within the CIBC program and home equity lines of credit ("HELOCs") within the TD program. The residential mortgages within the RBC program are uninsured (otherwise known as prime or conventional mortgages with a maximum loan to value ("LTV") of 80% and full documentation). The other programs are backed by insured mortgages, NHA MBS or insured HELOCs. NHA MBS are backed by insured mortgages and carry a timely payment guarantee from the Canada Mortgage and Housing Corporation ("CMHC"), which is a Canadian crown corporation wholly owned by the Government of Canada, whose obligations carry the full faith and credit of the Government of Canada.

Under the Canadian Bank Act, mortgage insurance is required for any mortgage with an LTV in excess of 80% originated by a regulated financial institution. Alternatively, originators can bulk insure pools of conventional mortgages for funding or capital purposes. This insurance is provided by the CMHC and other approved third party insurers, including Genworth Financial. However, the collateral within the Canadian Covered Bond programs (except RBC) only includes mortgages insured by CMHC. On January 17, 2011 the Department of Finance announced that CMHC will no longer be providing insurance on HELOCs effective April 18, 2011. Insurance on the existing HELOCs that were insured prior to that date has been grandfathered.

The structure of Canadian mortgages differs from those in the US and the UK. The term of Canadian mortgages is typically one to five years (based on an amortisation term of up to thirty years), after which the borrower is required to renew or refinance the mortgage. In most cases, the mortgage is renewed

with the same lender if the borrower is current and has met the required payments under the mortgage. The lender does have the option not to refinance the mortgage.

HELOCs are secured loans that do not have a fixed maturity term. Borrowers are only required to pay outstanding principal on demand. Payments are required at least monthly and can be as low as the interest due on the outstanding amount.

Certain Canadian mortgage products are structured to provide the borrower with flexibility. This enables the borrower to split their mortgage into various separate amortising tranches with different terms as well as a non-amortising HELOC or a secured credit card, backed by the same property. These various facilities are subject to a maximum LTV for each borrower determined during the underwriting process. For the RBC program, only the amortising mortgage tranches have been included as collateral within the cover pool whereas with the TD program, the collateral is made up of both the amortising and non-amortising tranches. The cover assets in the large Canadian bank programs are geographically diversified across Canada, with larger concentrations in the urban centres. The mortgage pools within the NBC and CCD programs are concentrated in Quebec.

Substitute assets can be included in the cover pool provided their aggregate value at any time does not exceed 10% of the Canadian dollar equivalent of the outstanding principal balance of Covered Bonds. In all cases, substitute assets are limited to Canadian dollar denominated RMBS (subject to receipt of Rating Agency Confirmation) and exposures to institutions that qualify for a ten to twenty percent risk weighting under the Basel II Standardised Approach. These investments are subject to stipulated ratings, concentration limits, rating agency limits and consent of the interest rate swap counterparty in certain cases.

IV. HEDGING AND ASSET - LIABILITY MANAGEMENT

In the existing Canadian Covered Bond programs, interest rate risk, basis risk and exchange rate risk have been hedged.

The Guarantor enters into an interest rate swap at closing to swap interest cash flows from the collateral (including GIC Accounts and substitute assets) into a Canadian floating rate. Under all the programs except the TD, NBC and CCD programs, cash flows are exchanged under this swap from closing. The floating rate received is typically used by the Guarantor to meet the interest payments due on the inter-company loan. Under the TD, NBC and CCD programs, the interest rate swap is forward starting and cash flows under this swap are only exchanged following the activation of the Covered Bond guarantee. The notional balance of this swap is typically the outstanding balance of the entire collateral pool (performing mortgages / NHA MBS / HELOCs, GIC Accounts and substitute assets).

The Guarantor also enters into a forward starting exchange rate / basis swap at closing to swap the Canadian floating rate into the interest rate basis and currency the covered bonds are denominated in. Cash flows under this swap are only exchanged following the activation of the Covered Bond guarantee. The notional balance of this swap is typically the outstanding balance of the applicable series of Covered Bonds issued.

Given their current ratings, all the existing Canadian Issuers act as the swap counterparty with the Guarantor for both swaps. Triggers are in place to ensure that the Issuer (as swap counterparty) posts collateral against its obligations under the swap following downgrade. The Issuer will be replaced as the swap counterparty following further downgrade.

Within the Canadian Covered Bond programs, there is an inherent liquidity mismatch due to the bullet payment nature of the Covered Bonds and the cash flows generated from the cover assets. Following a default by the Issuer, the principal cash flows generated from the cover assets may not be sufficient to ensure timely repayment of the outstanding Covered Bonds. To mitigate this credit and liquidity risk, each program incorporates overcollateralisation based on the type of assets in the cover pool. In addition, a reserve fund is required to be built up for the benefit of the Guarantor if the Issuer's ratings fall below a stipulated level. This required reserve amount is sized to cover permitted third-party expenses, servicing fees, interest due on the covered bonds and, if applicable, non-termination swap payments due over a specific period of time as noted in the program documents. This amount is retained in a GIC account and following an Issuer Event of Default, the balance of the Reserve Fund will form part of available revenue receipts to be used by the Guarantor to meet its obligations under the Covered Bond guarantee.

Most of the Canadian programs permit the issuance of both soft-bullet and hard-bullet covered bonds. With the soft-bullet bonds, if the Issuer is unable to repay all the amounts due under the Covered Bonds at maturity (after any applicable grace periods), a Notice to Pay will be served on the Guarantor. If the Guarantor has insufficient funds to pay the outstanding Covered Bonds in full, the Legal Final Maturity Date will be extended to the Extended Maturity Date. Under the existing Canadian Covered Bond programs the extension period is twelve months. During the extension period, interest will continue to be paid monthly on the outstanding Covered Bonds at an equivalent floating rate. In addition, principal amounts outstanding can be repaid on the monthly payment dates to the extent funds are available. This minimises the risk of the Covered Bonds defaulting following an Issuer Event of Default and gives the Guarantor reasonable time to dispose of any collateral in an orderly manner (through whole loan sales / securitisation) to the extent required. Given the typically short remaining term of the amortising mortgages within the Canadian cover pools, large amounts of principal will be received by the Guarantor through scheduled amortisation.

Most programs do permit issuance of hard-bullet covered bonds. This structure incorporates a Pre-Maturity Test that is aimed at ensuring adequate liquidity is available to meet upcoming Covered Bond maturities. Under the test, if the Issuer's rating falls below stipulated levels, an amount at least equal to the maturing Covered Bond is required to be deposited in a Pre-maturity Liquidity Ledger either six or twelve months before the maturity date, depending on the Issuer's rating. Failure to deposit the required amount will constitute an Issuer Event of Default and service of a Notice to Pay on the Guarantor.

Similar to the other structured covered bond programs, a dynamic ACT is performed on a monthly basis. This test ensures that there are always sufficient assets available within the cover pool as collateral for the outstanding Covered Bonds. Under the test, the balance of the asset pool is determined, factoring in the required level of overcollateralisation (based on the asset percentage), LTV caps and non-performing mortgages and adjusting for potential negative carry. The asset percentage is confirmed by the rating agencies and depends on numerous factors including the credit quality and historic performance of the pool and the ability of the Guarantor to dispose of the assets in a stressed environment. The asset percentage for the Canadian Covered Bond programs currently ranges between 91.8% and 95%, depending on the type of collateral. All the Issuers have voluntarily incorporated a minimum level of overcollateralisation within their programs, by capping the asset percentage at 97.0%.

When calculating the asset balance for the ACT two calculations are run. Firstly, an LTV cap of 80% for uninsured mortgages and 90% for insured mortgages / HELOCs (subject to a stipulated CMHC ratings

level) is multiplied by the latest valuation of each mortgage. This amount is compared to the outstanding balance on the mortgage and the lower of the two amounts is noted. Secondly, the latest valuation of each mortgage / HELOC is multiplied by a factor which depends on whether the mortgage / HELOC is performing or non-performing (greater than ninety days delinquent). For performing mortgages / HELOCs, the factor is 1, while for non-performing mortgages the factor is 0.9 if insured and CMHC is rated above a stipulated level or zero if CMHC is rated below the stipulated level or the mortgage is uninsured. This amount is then compared to the outstanding balance on the mortgage and the lower of the two amounts is then multiplied by the Asset Percentage. The lower of the aggregate amount for the total pool determined under each of the two calculations above equals the Adjusted Aggregate Loan Amount. This is required to be at least equal to the aggregate outstanding balance of Covered Bonds under the program to pass the ACT.

If the ACT is breached and not cured on the next calculation date, an ACT Breach Notice is served to the Issuer. If the Issuer fails to cure the ACT breach by transferring additional cover assets or cash to the Guarantor by the calculation date following the delivery of the ACT Breach Notice, an Issuer Event of Default occurs. Other events that result in an Issuer Event of Default include:

- Default by the Issuer on Covered Bond interest or principal that has not been cured within a stipulated period
- Failure of the Issuer to perform or observe any obligations under the Covered Bond documents (excluding the Dealer Agreement or subscription agreement) except related to failures under the ACT noted above, and such failure continues for a period of 30 days
- Liquidation, insolvency, winding up, etc. of the Issuer
- Failure to rectify any breach of the Pre-maturity Test (only applicable to hard bullet covered bond issuance)

Following an Issuer Event of Default the Covered Bonds are not automatically accelerated. The trustee will serve a Notice to Pay on the Guarantor, following which the unconditional and irrevocable guarantee becomes effective and the Guarantor is responsible for the amounts due under the Covered Bonds.

Similar to the UK programs, after the activation of the guarantee an Amortisation Test ("AT") is run on a monthly basis to ensure that the Guarantor has sufficient assets to meet these obligations. Under the test, the aggregate asset amount is calculated, factoring in the mortgage balance and LTV and adjusting for potential negative carry. If the Aggregate Asset Amount is less than the outstanding balance of the Covered Bonds, the AT is failed resulting in a Guarantor Event of Default. Other events that result in a Guarantor Event of Default include:

- Default by the Guarantor on any guaranteed amounts
- Default by the Guarantor in the performance or observance of any obligation, condition or provision under the Covered Bond documents
- An order is made or an effective resolution passed for the liquidation or winding up of the Guarantor
- The Guarantor ceases or threatens to cease to carry on its business or substantially the whole of its business
- The Guarantor stops payment or is unable, or admits inability, to pay its debts generally as they fall due or is adjudicated or found bankrupt or insolvent

- Proceedings are initiated against the Guarantor related to liquidation, insolvency, winding up, etc. of the Guarantor
- The Covered Bond guarantee is not or is claimed not to be in full force and effect by the Guarantor

Following a Guarantor Event of Default, the Security Trustee serves a Guarantor Acceleration Notice on the Guarantor. At this point, the Covered Bonds are accelerated and the Guarantor disposes of the cover assets as quickly as practical to meet the Covered Bond payments.

In addition to the downgrade triggers for the swap counterparties, the ACT, the maturity extension rules and the AT all aim to ensure the Guarantor has sufficient collateral to meet the Covered Bond liabilities, when and if required. If the proceeds derived from the collateral are insufficient to meet the Covered Bond obligations in full, investors still have an unsecured claim against the Issuer for the shortfall.

Similar to the UK programs, several other safeguards have been incorporated into the Canadian Covered Bond programs. These include minimum ratings requirements for the various third parties that support the program, including the servicer, the swap counterparties, the GIC providers, the account bank and the cash manager. In addition, independent audits will be performed by the asset monitor on a regular basis to verify the accuracy of the calculation of the ACT. A cover pool audit is also typically performed by an independent audit firm on a sample of the cover pool.

V. VALUATION AND LTV CRITERIA

In Canada, every property is typically valued as part of the underwriting process. The valuation is either performed by an accredited, third party property appraiser or through an automated valuation tool based on the recent sale price of a similar property in a comparable area. As an appropriate Canadian property price index is currently not available, indexation has not been incorporated into the ACT. Properties are not typically reappraised when the mortgage is renewed, unless the borrower requests an increase to the approved LTV and additional debt or there is reason to believe the property value may have decreased.

VI. COVER POOL MONITOR AND BANKING SUPERVISION

The Issuer prepares investor reports on a monthly basis. In addition, a quarterly submission is made to the rating agencies, including an updated cover pool, which is used to confirm / recalculate the asset percentage used in the ACT. In addition, the ratings of the outstanding Covered Bonds are reaffirmed by the rating agencies prior to each new issuance under the program.

An independent audit firm (the Asset Monitor) will test the calculation of the ACT performed by the Issuer (as Cash Manager) on an annual basis. However, if the rating of the Cash Manager has been downgraded below the trigger level stipulated by the rating agencies or if an ACT Breach Notice has been served on the Issuer and not yet revoked, the Asset Monitor will test the calculation on a monthly basis, until the situation is resolved. In addition, if the test reveals an error in the ACT calculation, the Asset Monitor will test the calculation monthly for a period of six months.

VII. HOW ARE SEGREGATION OF COVER ASSETS AND BANKRUPTCY REMOTENESS OF COVERED BONDS REGULATED?

Under the Canadian Covered Bond programs, the Issuer sells the cover assets to the Guarantor pursuant to a mortgage sale agreement. The sale of the assets constitutes a legal true sale. As there is no dedicated legal framework for the issuance of Covered Bonds in Canada, all contractual agreements are structured within the general legislation.

Although there is no specific asset register, the assets are flagged on the Issuer's computer/IT systems and the cash flows are segregated in favour of the Guarantor. The Guarantor also owns other assets, including substitute assets, the GIC and benefits under the swap agreements. The Guarantor is structured as a bankruptcy remote, special purpose entity and as such, following insolvency of the Issuer, all the assets of the Guarantor are segregated from those of the bankruptcy estate of the Issuer. True sale and bankruptcy remoteness opinions provided by counsel form part of the transaction documents. The Issuer is responsible for ensuring the collateral restrictions are met.

Title to the cover assets is retained by the Issuer until breach of certain trigger events, following which the Issuer is required to notify the borrowers of the mortgage sale thereby perfecting the legal assignment of the mortgage loans and their related security to the Guarantor.

VIII. RISK-WEIGHTING & COMPLIANCE WITH EUROPEAN LEGISLATION

For capital purposes, Canadian Covered Bonds are generally treated as senior unsecured debt issued by a financial institution.

IX. THE CANADIAN ECONOMY AND MORTGAGE MARKET

The Canadian economy continues to remain strong relative to its peers, with the lowest net debt to GDP ratio among the G7 nations. Over the last decade, Canada has been highly ranked for economic strength and employment growth and has also achieved the highest real GDP growth within the G7. Prior to the crisis, Canada prospered and enjoyed fiscal surpluses for eleven consecutive years. The Canadian regulators proactively responded to the crisis through strong fiscal stimulus, targeting credit, housing and labor markets, along with implementing effective monetary policy. Canada's banking infrastructure, which was ranked #1 for soundness for the third consecutive year in September 2010 by the World Economic Forum, continues to remain stable as Canada's banks are vigilantly regulated and conservative by nature.

Canada has a diversified, export oriented economy and is rich in natural resources. This provides a sound foundation for ongoing and future economic recovery. Unemployment in Canada remains below the long term average, with job reductions focused on the automotive and manufacturing sectors. Given Canada's strong recovery compared to the US, the unemployment rate at 7.4% is now below that of the US for the first time in nearly three decades.[1] The economic environment has exceeded expectations through Q1 of 2011, with strong recovery in certain sectors and a 3.9% annualised growth in GDP.[2] In a recent publication, the IMF praised the Canadian regulatory and financial system for its stability and strong recovery, highlighting liquidity requirements and supervisory agency co-operation.[3]

The mortgage and consumer fundamentals in Canada are strongly supported to a certain extent by the current low interest rate environment. Canadian mortgage products remain conservative (typically a one to five year term with up to a thirty year amortisation period, with very limited teaser rate or hybrid products). In addition, high prepayment penalties discourage refinancing booms. Sub-prime mortgages

1 "Current Trends Update - Canada," *Royal Bank of Canada*, accessed July 5, 2011, http://www.rbc.com/economics/market/pdf/ecotrend.pdf

2 "Current Trends Update - Canada"

3 "Regional Economic Outlook: Western Hemisphere – Watching Out For Overheating," *International Monetary Fund*, accessed July 5, 2011, http://www.imf.org/external/pubs/ft/reo/2011/whd/eng/pdf/wreo0411.pdf

continue to make up a very small and declining component of the Canadian mortgage market. The market is dominated by the big five Canadian Chartered banks (over 60% of the market), who retain a majority of the mortgages on their balance sheets. This encourages strong underwriting discipline based on high credit and documentation standards. A key difference between the Canadian and US mortgage market is that mortgage interest in Canada is not deductible for tax purposes. As such, Canadian borrowers have little incentive to carry mortgage balances and in general are less leveraged than their American counterparts. Canadian households have twenty cents of debt per dollar of net worth, whilst American households have thirty five cents of debt. The Canadian ratio is close to its historical average while the American ratio is well above its average. Despite the conservative mortgage market, home ownership in Canada is comparable to that of the US at approximately 68%.

Housing affordability has remained stable in Canada and is well below recent cyclical levels reached in early 2008 and record levels reached in 1990. There has been speculation that as a result of the likely increase in interest rates, housing affordability will decrease and have a detrimental impact on the Canadian market. However, recent research conducted by the Canadian Association of Accredited Mortgage Professionals (CAAMP) showed that housing and mortgage markets continue to remain in good shape and posses the ability to withstand an estimated interest rate increase to five percent (currently the Prime rate is three percent).[4] This is the result of the continued conservative approach by both lenders and borrowers which, combined with the strong economic and consumer fundamentals, have resulted in stable mortgage delinquency rates (90+ days) compared to the US. Furthermore, there has been a recent trend by borrowers to voluntarily increase their principal payments.[5]

Housing price trends in Canada have remained steady and according to the IMF in March 2009 the Canadian home market was the least over-valued leading up to the crisis. Between 2001 and 2007 Canadian housing values increased at an average rate of 10.2% per year and continued that upward trend at a yearly rate of 4.8% from 2008 to present.[6] While some speculate that the Canadian housing market may be subject to a bubble similar to the one experienced in the US, industry participants believe the increase in value has tangible determinants, including the limited availability of developed land around the key urban centres and the recent introduction of the Harmonised Sales Tax (HST) which has raised the cost of new construction.[7] In addition, homeowners' equity in Canada is high and has remained stable relative to that in the US.

4 "Stability In The Canadian Mortgage Market," *Canadian Association of Accredited Mortgage Professionals*, accessed July 5, 2011, http://www.caamp.org/meloncms/media/Spring%20Survey%20Reportweb.pdf

5 "Stability In The Canadian Mortgage Market"

6 "Stability In The Canadian Mortgage Market"

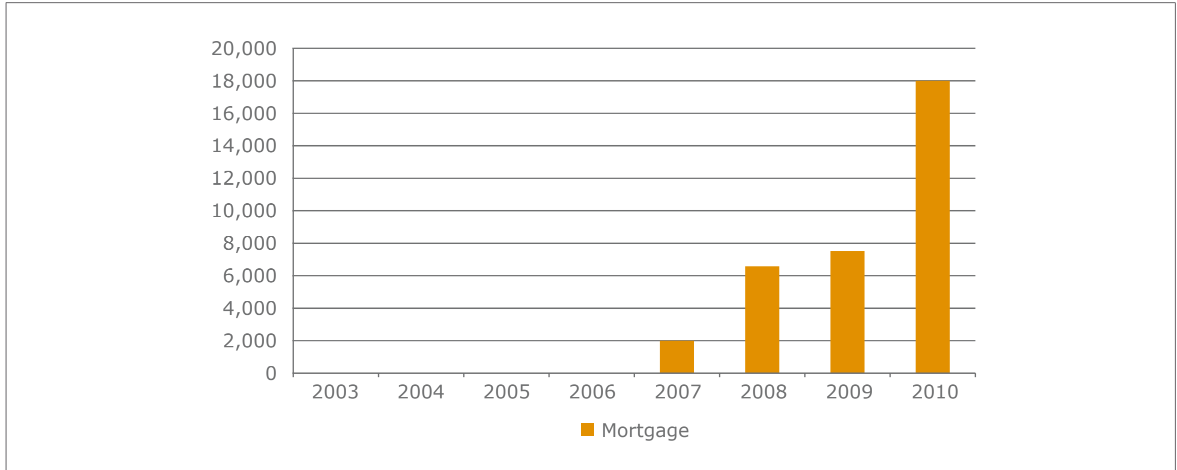
7 "Stability In The Canadian Mortgage Market"

Figure 1: Overview – Canadian Covered Bond programmes

	RBC	BMO	CIBC	BNS	TD	NBC	CCDJ
Programme Size	EUR 15 bn	EUR 7 bn	EUR 10 bn	US$ 15 bn	EUR 10 bn	US$ 5 bn	EUR 5 bn
Outstanding Covered Bonds	EUR 2.00 bn due Nov12 EUR 1.25 bn due Jan18 C$ 750 mm due Nov14 C$850 mm due Mar15 US$ 1.5 bn due Apr15 C$1.1 bn due Mar18 CHF425m due Apr21	US$ 2 bn due Jun15 EUR 1 bn due Jan13 US$ 1.5 bn due Jan16	CHF 375 m due Jan15 CHF 300 m due Dec11 CHF 500 m due Jun17 US$ 2.4 bn due Feb13 US$ 1.85 bn due Jul15 A$ 750 mm due Dec13 US$ 2 bn due Jan16 A$ 700 m due Mar16	US$ 2.5 bn due Jul13 US$ 2.5 bn due Oct15 A$ 1 bn due Jan14 US$ 2.0 bn due Aug16	US$ 2 bn due Jul15	US$ 1 bn due Jan14	US$ 1 bn due Mar16
LTV cap (performing loans)	80%	90%, subject to a CMHC rating of at least AA (low), otherwise 80%	90%, subject to a CMHC rating of at least AA (low), otherwise 80%	90%, subject to a CMHC rating of at least AA (low), otherwise 80%	90%, subject to a CMHC rating of at least AA (low), otherwise 80%	90%, subject to a CMHC rating of at least AA (low), otherwise 80%	90%, subject to a CMHC rating of at least AA (low), otherwise 80%
Asset percentage applied in ACT	91.8%	95%	93%	95%	95%	93.5%	93.5%
Overcollateralisation	107.5%	105.3%	104.2%	105.3%	105.3%	105.3%	105.3%
Non performing mortgages	No recognition for the ACT	Multiplied by a factor of 0.9, subject to a CMHC rating of at least AA (low), otherwise no recognition	Multiplied by a factor of 0.9, subject to a CMHC rating of at least AA (low), otherwise no recognition	Multiplied by a factor of 0.9, subject to a CMHC rating of at least AA (low), otherwise no recognition	Multiplied by a factor of 0.9, subject to a CMHC rating of at least AA (low), otherwise no recognition	Multiplied by a factor of 0.9, subject to a CMHC rating of at least AA (low), otherwise no recognition	Multiplied by a factor of 0.9, subject to a CMHC rating of at least AA (low), otherwise no recognition
Soft / Hard Bullet	Soft	Soft / Hard Bullet	Hard Bullet	Soft / Hard Bullet	Soft / Hard Bullet	Soft / Hard Bullet	Soft / Hard Bullet
Asset monitor	Deloitte	KPMG	Ernst & Young LLP	KPMG	Ernst & Young LLP	Samson Belair / Deloitte	PwC LLP
Asset Type	Conventional Prime Mortgages	CMHC Insured Mortgages	CMHC Insured Mortgages and NHA MBS	CMHC Insured Mortgages	CMHC Insured Home Equity Lines of Credit	CMHC Insured Mortgages	CMHC Insured Mortgages

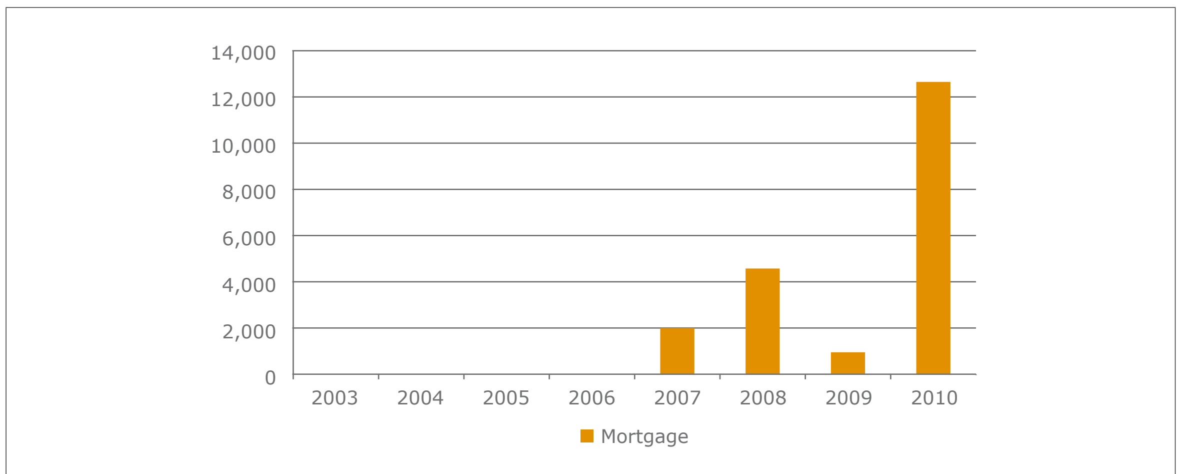
Source: RBC Capital Markets

> Figure 2: Covered Bonds Outstanding, 2003-2010, EUR m



Source: EMF/ECBC

> Figure 3: Covered Bonds Issuance, 2003-2010, EUR m



Source: EMF/ECBC

Issuers: Canadian Issuers as at July 31, 2011 were Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto Dominion Bank National Bank of Canada and Caisse centrale Desjardins.