BLACKROCK MUNIHOLDINGS QUALITY FUND, INC.
Form 4
July 11, 2011

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
BANK OF AMERICA CORP /DE/

(Last) (First) (Middle)

BANK OF AMERICA CORPORATE CENTER, 100 N. TRYON STREET

(Street)

CHARLOTTE, NC 28255

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
BLACKROCK MUNIHOLDINGS QUALITY FUND, INC. [MUS]

3. Date of Earliest Transaction (Month/Day/Year)
05/18/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director __X__ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
___ Form filed by One Reporting Person
_X_ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	05/18/2011		P		474	A	$ 12.65	474	I	By Subsidiary
Common Stock	05/18/2011		S		474	D	$ 12.59	0	I	By Subsidiary

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BANK OF AMERICA CORP /DE/ BANK OF AMERICA CORPORATE CENTER 100 N. TRYON STREET CHARLOTTE, NC 28255		X		
MERRILL LYNCH, PIERCE, FENNER & SMITH INC. 4 WORLD FINANCIAL CENTER NORTH TOWER NEW YORK, NY 10080		X		

Signatures

Bank of America Corporation, By: /s/ Gary Whitman, Authorized Signatory	07/11/2011
**Signature of Reporting Person	Date
Merrill Lynch, Pierce, Fenner & Smith Incorporated, By: Lawrence Emerson, Title: Attorney-In-Fact	07/11/2011
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Remarks:
The transactions reported on this Form 4 were effected by Merrill Lynch, Pierce, Fenner & Smith Incorporated, an indirect, wh

Disgorgement of profits, if applicable, based on transactions reported above is being made by the Reporting Persons to the Issu

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

TABLE OF CONTENTS

Prospectus Supplement

Prospectus dated February 1, 2017

You should rely only on the information incorporated by reference or provided in this Prospectus Supplement, any applicable Product Prospectus Supplement or the applicable Pricing Supplement (collectively, the applicable Supplements), and the accompanying Prospectus. We have not authorized anyone to provide you with different information. The aforementioned documents do not constitute an offer to sell or a solicitation of an offer to buy any securities other than the notes described in the applicable Supplements nor do they constitute an offer to sell or a solicitation of an offer to buy such notes in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The delivery of the accompanying Prospectus and any applicable Supplements at any time does not imply that the information they contain is correct as of any time subsequent to their respective dates.

Table of Contents

About This Prospectus Supplement

This Prospectus Supplement and the accompanying Prospectus provide you with a general description of the notes we may offer. The applicable Pricing Supplement will provide specific information about the terms of the notes being offered. The applicable Pricing Supplement may include a discussion of any risk factors or other special considerations that apply to those notes and may also add, update or change the information in the accompanying Prospectus and the other applicable Supplements. If there is any inconsistency between the terms of the notes described in the accompanying Prospectus, this Prospectus Supplement, the applicable Product Prospectus Supplement and the applicable Pricing Supplement, the following hierarchy will govern: first, the applicable Pricing Supplement; second, the applicable Product Prospectus Supplement; third, this Prospectus Supplement; and last, the accompanying Prospectus.

Unless otherwise specified in the applicable Supplement:

- all dollar amounts are expressed in U.S. dollars;
- the Bank , we , us and our mean The Bank of Nova Scotia together, where the context requires, with its subsidiaries; and
- you , your and holder means a prospective purchaser or a purchaser of notes, or a beneficial or registered holder of notes, provided that a reference to registered holder means a registered holder of notes (see Legal Ownership and Book-Entry Issuance and Description of the Debt Securities We May Offer in the Prospectus and Global Notes under the heading Description of the Notes in this Prospectus Supplement).

Table of Contents

Risk Factors

Investing in the notes involves risks. You should understand the risks of investing in the notes and should reach an investment decision only after careful consideration with your advisors of the suitability of the notes in light of your particular financial circumstances, the following risk factors and the other information included or incorporated by reference in the accompanying Prospectus and the applicable Supplements. We have no control over a number of matters, including economic, financial, regulatory, geographic, judicial and political events, that are important in determining the existence, magnitude and longevity of these risks and their influence on the value of, or the payments made on or settlement of obligations with respect to, the notes. You should not purchase the notes unless you understand and can bear these investment risks.

An Investment in the Notes Is Subject to Our Credit Risk

An investment in any of the notes issued under our Senior Note Program is subject to our credit risk. Any payment to be made on the notes, including any repayment of principal, depends on the ability of the Bank to satisfy its obligations as they come due. Further, the existence of a trading market for, and the market value of, any of the notes may be impacted by market perception of our creditworthiness. If market perception of our creditworthiness were to decline for any reason, the market value of your notes and the availability of a trading market for the notes may be adversely affected.

Investors in Indexed Notes Could Lose Their Entire Investment

Indexed notes may present a high level of risk, and those who invest in indexed notes may lose their entire investment. We use the term indexed notes to mean notes with an amount of principal and/or interest payable that will be determined by reference to the price, value or level of one or more equity securities, exchange traded funds, indices, currencies, commodities, financial or economic measures, or indices or baskets of the aforementioned items or pursuant to a formula. We refer to each of these as an index. The direction and magnitude of the change in the price, value or level of the relevant index will determine the amount of principal and/or any interest payable on the indexed note. The terms of a particular indexed note may or may not include a return of a percentage of the face amount at maturity or a minimum interest rate. Thus, if you purchase an indexed note, you may lose all or a portion of the principal or other amount you invest and may receive no interest on your investment.

Significant Aspects of the Tax Treatment of an Investment in Indexed Notes Are Uncertain

We do not plan to request a ruling from the Internal Revenue Service or from any Canadian authorities regarding the tax treatment of an investment in indexed notes, and the Internal Revenue Service, the Canada Revenue Agency or a court may not agree with the tax treatment described in the applicable Product Prospectus Supplement or Pricing Supplement.

Further, the treatment of indexed notes for U.S. federal income tax purposes is often unclear due to the absence of any authority specifically addressing the issues presented by any particular indexed note.

Thus, in addition to reading the applicable discussions herein under Certain Income Tax Consequences and the tax treatment described in the applicable Product Prospectus Supplement and Pricing Supplement, you should independently evaluate the federal income tax consequences of purchasing an indexed note that apply in your particular circumstances.

The Issuer of a Security or Currency That Serves as an Index Could Take Actions That May Adversely Affect an Indexed Note

The issuer of a security that serves as an index or part of an index for an indexed note will have no involvement in the offer and sale of the indexed note and no obligations to the holder of the indexed note. The issuer may take actions, such as a merger or sale of assets, without regard to the interests of the holder. Any of these actions could adversely affect the value of a note indexed to that security or to an index of which that security is a constituent.

Table of Contents

If the index for an indexed note includes a non-U.S. dollar currency or other asset denominated in a non-U.S. dollar currency, the government that issues that currency will also have no involvement in the offer and sale of the indexed note and no obligations to the holder of the indexed note. That government may take actions that could adversely affect the value of the note. See Risks Relating to Notes Denominated or Payable in or Linked to a Non-U.S. Dollar Currency below for more information about these kinds of government actions.

An Indexed Note May Be Linked to a Volatile Index, Which Could Hurt the Value of Your Investment

Some indices are highly volatile, which means that their value may change significantly, up or down, over a short period of time. The amount of any principal and/or interest that can be expected to become payable on an indexed note may vary substantially from time to time. Because the amounts payable with respect to an indexed note are generally calculated based on the value or level of the relevant index on a specified date or over a limited period of time, volatility in the index increases the risk that the return on the indexed note may be adversely affected by a fluctuation in the level of the relevant index. The volatility of an index may be affected by political or economic events, including governmental actions, and/or by the activities of participants in the relevant markets. Any of these events or activities could adversely affect the value of an indexed note.

An Index to Which a Note Is Linked Could Be Changed or Become Unavailable

Some indices compiled by us, our affiliates or third parties may consist of or refer to several or many different index constituents. The sponsor of such an index typically reserves the right to alter the composition of the index and the manner in which the value or level of the index is calculated. An alteration may result in a decrease in the value of or return on an indexed note that is linked to the index. The indices for our indexed notes may include published indices of this kind or customized indices developed by us, our affiliates or third parties in connection with particular issues of indexed notes.

A published index may become unavailable, or a customized index may become impossible to calculate in the normal manner, due to events such as war, natural disasters, cessation of publication of the index or a suspension or disruption of trading in one or more index constituents on which the index is based. If an index becomes unavailable or impossible to calculate in the normal manner, the terms of a particular indexed note may allow us to delay determining the amount payable as principal or interest on an indexed note, or we may use an alternative method to determine the value of the unavailable index. Alternative methods of valuation are generally intended to produce a value similar to the value resulting from reference to the relevant index. However, it is unlikely that any alternative method of valuation we use will produce a value identical to the value that the actual index would have produced. If we use an alternative method of valuation for a note linked to an index of this kind, the value of the note and/or its rate of return may be lower than it otherwise would be.

Some indexed notes are linked to indices that are not commonly used or that have been developed only recently. The lack of a trading history may make it difficult to anticipate the volatility or other risks associated with an indexed note of this kind. In addition, trading in these indices or their index constituents, or options or futures contracts on these indices or index constituents, may be limited, which could increase their volatility and decrease the value of the related indexed notes and/or their rates of return.

Notes Linked to the CPI Are Subject to Additional Risks.

If the interest rate on your notes is linked to the CPI, as described further under Description of the Notes Interest Rates Consumer Price Index , the level of the CPI may decrease during periods of little or no inflation (and will decrease during periods of deflation). In such a case, depending on the terms of your notes specified in the applicable Pricing Supplement, the interest rate on your notes during any interest period may be small, and may even be equal to or less than 0.00%.

The CPI Itself and the Method by which the Bureau of Labor Statistics of the U.S. Bureau of Labor Statistics (BLS) Calculates the CPI May Change In the Future. If the interest rate on your notes is linked to the CPI, the BLS may change the method by which it calculates the CPI, which could affect the level of the CPI used to calculate the interest rate (or, if applicable, determine whether the CPI is within the reference rate range) applicable to your notes. In particular, changes in the way the CPI is calculated could reduce the level of the CPI, which, if the interest

Table of Contents

rate on your notes is a floating rate of interest linked to the CPI, will result in lower interest payments during the applicable interest period(s), and in turn reduce the market value of the notes.

Consumer Prices May Change Unpredictably, Affecting the Level of the CPI and the Market Value of the Notes in Unforeseeable Ways. Market prices of the consumer items underlying the CPI may fluctuate based on numerous factors, including: changes in supply and demand relationships; weather; agriculture; trade; fiscal, monetary, and exchange control programs; domestic and foreign political and economic events and policies; disease; technological developments; and changes in interest rates. These factors may affect the level of the CPI and the market value of the notes in varying ways, and different factors may cause the level of the CPI to move in inconsistent directions at inconsistent rates.

Current Pricing Information About the Applicable Index and/or Index Constituents May Not Be Available Due to Time Zone Differences

Special risks may also be presented because of differences in time zones between the United States and the market for the applicable index and/or index constituents, such that the applicable index and/or index constituents are traded on a foreign exchange that is not open when the trading market for the notes in the United States, if any, is open or where trading occurs in the applicable index and/or index constituents during times when the trading market for the notes in the United States, if any, is closed. In such cases, holders of the notes may have to make investment decisions at a time when current pricing information regarding the applicable index and/or index constituents is not available.

We May Engage in Hedging Activities that Could Adversely Affect an Indexed Note

In order to hedge an exposure on a particular indexed note, we may, directly or through our affiliates or other agents, enter into transactions involving the applicable index and/or index constituents for the note, or involving derivative instruments, such as swaps, options or futures, on the applicable index and/or index constituents. To the extent that we enter into hedging arrangements with a non-affiliate, including a non-affiliated agent, such non-affiliate may enter into similar transactions. Engaging in transactions of this kind could adversely affect the value of an indexed note. It is possible that we or the hedging counterparty could achieve substantial returns from our hedging transactions while the value of the indexed note may decline.

We are under no obligation to hedge our exposure under a particular indexed note. There can be no assurance that any hedging transactions we may choose to undertake will be maintained over the term of the note or will be successful. Regardless of whether we engage in hedging transactions, you have no claim to or in respect of any particular asset which we hold and depend upon our creditworthiness for payment of any amounts due under a note.

Historical Information About Indices May Not Be Indicative of Future Performance

If we issue an indexed note, we may include historical information about the relevant index in the applicable Pricing Supplement. Any historical information about indices that we may provide will be furnished as a matter of information only, and you should not regard such information as indicative of future performance of the relevant index.

We May Have Conflicts of Interest Regarding an Indexed Note

SCUSA and our other affiliates and unaffiliated agents may have conflicts of interest with respect to some indexed notes. SCUSA and our other affiliates and unaffiliated agents may engage in trading, including trading for hedging purposes, for their proprietary accounts or for other accounts under their management, in indexed notes and in the applicable index and/or index constituents or in other derivative instruments related to the applicable index and/or index constituents. These trading activities could adversely affect the value of indexed notes. We and our affiliates and unaffiliated agents may also issue or underwrite securities or derivative instruments that are linked to the same index as one or more indexed notes. Introducing competing products into the marketplace in this manner could adversely affect the value of a particular indexed note.

We or our affiliates or an unaffiliated entity that provides us a hedge in respect of indexed notes may serve as calculation agent and/or exchange rate agent for the indexed notes and may have considerable discretion in

Table of Contents

calculating the amounts payable in respect of the notes. To the extent that we or another of our affiliates or such an unaffiliated entity calculates or compiles a particular index, it may also have considerable discretion in performing the calculation or compilation of the index. Exercising discretion in this manner could adversely affect the value of an indexed note based on the index or the rate of return on the security.

Floating Rates of Interest are Uncertain and Could be Equal to or Less Than 0.0%

If your notes are floating rate notes or otherwise directly linked to a floating rate for some portion of the notes term, no interest will accrue on the notes with respect to any interest period for which the applicable floating rate specified in the applicable Pricing Supplement is zero on the related interest rate reset date. Floating interest rates, by their very nature, fluctuate, and may be equal to or less than 0.0%. Also, in certain economic environments, floating rates of interest may be less than fixed rates of interest for instruments with a similar credit quality and term. As a result, the return you receive on your notes may be less than that of a fixed rate security issued for a similar term by a comparable issuer.

Reform of LIBOR and EURIBOR and Proposed Regulation of These and Other Benchmarks

The London Interbank Offered Rate (LIBOR), the Euro Interbank Offered Rate (EURIBOR), and other indices which are deemed benchmarks are the subject of recent national, international, and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, or have other consequences which cannot be predicted.

In September 2012, the U.K. government published the results of its review of LIBOR (commonly referred to as the Wheatley Review). The Wheatley Review made a number of recommendations for changes with respect to LIBOR including the introduction of statutory regulation of LIBOR, the transfer of responsibility for LIBOR from the British Bankers Association to an independent administrator, changes to the method of compilation of lending rates and new regulatory oversight and enforcement mechanisms for rate-setting and the corroboration of LIBOR, as far as possible, by transactional data. Based on the Wheatley Review, on March 25, 2013, final rules for the regulation and supervision of LIBOR by the U.K. Financial Conduct Authority (the FCA) were published and came into effect on April 2, 2013 (the FCA Rules). In particular, the FCA Rules include requirements that (1) an independent LIBOR administrator monitor and survey LIBOR submissions to identify breaches of practice standards and/or potentially manipulative behavior, and (2) firms submitting data to LIBOR establish and maintain a clear conflicts of interest policy and appropriate systems and controls. In addition, in response to the Wheatley Review recommendations, ICE Benchmark Administration Limited (the ICE Administration) has been appointed as the independent LIBOR administrator, effective February 1, 2014.

It is not possible to predict the further effect of the FCA Rules, any changes in the methods pursuant to which LIBOR rates are determined or any other reforms to LIBOR that may be enacted in the U.K., the European Union (the EU) and elsewhere, each of which may adversely affect the trading market for LIBOR-based securities. In addition, any changes announced by the FCA, the ICE Administration, or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which the LIBOR rates are determined may result in a sudden or prolonged decrease (or increase) in the reported LIBOR rates. If that were to occur, the level of interest payments on and the trading value of LIBOR-based notes may be adversely affected. Further, uncertainty as to the extent and manner in which the Wheatley Review recommendations and other proposed reforms will continue to be adopted and the timing of such changes may adversely affect the current trading market for LIBOR-based notes.

At an international level, efforts to reform of benchmarks include (i) International Organization of Securities Commissions Principles for Financial Market Benchmarks (July 2013), (ii) European Securities and Markets Authority-European Banking Authority s Principles for the benchmark-setting process (June 2013), and (iii) the European Commission s regulation on indices used as benchmarks in certain financial instruments and financial contracts, or to measure the performance of investment funds (June 2016) (the Benchmark Regulation).

The Benchmark Regulation applies to the use of benchmarks in the European Union, and would, among other things, (i) require benchmark administrators to be authorized (or, if non-European Union-based, to be qualified for use) and to comply with extensive requirements in relation to the administration of benchmarks and (ii) ban the

Table of Contents

use of benchmarks of unauthorized administrators. The scope of the Benchmark Regulation is wide and, in addition to so-called critical benchmark indices such as LIBOR and EURIBOR, also applies to many interest rate and foreign exchange rate indices, equity indices, and other indices (including proprietary indices or strategies) where referenced in financial instruments, financial contracts, and investment funds.

The full impact of the Benchmark Regulation is presently unclear. However, it could potentially have a material impact on any securities based on or linked to a benchmark index in a range of circumstances including, without limitation, where:

- the administrator of an index which is a benchmark relating to a series of securities does not have or obtain or ceases to have the appropriate European Union authorizations in order to operate such a benchmark or is based in a non-European Union jurisdiction and does not qualify the benchmark for use in the European Union. In such an event, depending on the particular benchmark and the applicable terms of the securities, the securities may be adversely affected; and

- the methodology or other terms of the benchmark relating to a series of securities is changed in order to comply with the terms of the Benchmark Regulation, and such changes have the effect of reducing or increasing the published rate or level of the benchmark or of affecting the volatility of such published rate or level, or otherwise result in an adverse effect on the trading market for, return on or the value of the relevant securities.

More broadly, the FCA Rules, the Benchmark Regulation, and any of the other international, national, or other proposals for reform or general increased regulatory scrutiny of benchmarks could have a material adverse effect on the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or participate in certain benchmarks, trigger changes in the rules or methodologies used in the determination of certain benchmarks, or may even lead to the disappearance of certain benchmarks. The disappearance of, or uncertainty relating to the continued existence of, a benchmark or changes in the manner of determination of or administration of a benchmark may adversely affect the trading market for, return on, or value of benchmark-based securities.

In addition to the international proposals for the reform of benchmarks described above, there are numerous other proposals, initiatives, and investigations which may impact the use and regulation of benchmarks. For example, there are ongoing global investigations into the setting of foreign exchange rate benchmarks, which may result in further regulation around the setting of foreign exchange rates.

Any of the above changes or any other consequential changes to LIBOR, EURIBOR, or any other benchmark as a result of U.K., European Union, or other international, national, or other proposals for reform or other initiatives or investigations, or any further uncertainty in relation to the timing and manner of implementation of such changes could have a material adverse effect on the value of and return on any securities based on or linked to a benchmark.

Risks Relating to Notes Denominated or Payable in or Linked to a Non-U.S. Dollar Currency

If you intend to invest in a non-U.S. dollar note e.g., a note whose principal and/or interest is payable in a currency other than U.S. dollars or that may be settled by delivery of or reference to a non-U.S. dollar currency or index denominated in or otherwise linked to a non-U.S. dollar currency you should consult your own financial and legal advisors as to the currency risks entailed by your investment. Notes of this kind may not be an appropriate investment for investors who are unsophisticated with respect to non-U.S. dollar currency transactions.

An Investment in a Non-U.S. Dollar Note Involves Currency-Related Risks

An investment in a non-U.S. dollar note entails significant risks that are not associated with a similar investment in a note that is payable solely in U.S. dollars and where settlement value is not otherwise based on a non-U.S. dollar currency. These risks include the possibility of significant changes in rates of exchange between the U.S. dollar and the various non-U.S. dollar currencies or composite currencies and the possibility of the imposition or modification of foreign exchange controls or other conditions by either the United States or non-U.S. governments. These risks

Table of Contents

generally depend on factors over which we have no control, such as economic and political events and the supply of and demand for the relevant currencies in the global markets.

Changes in Currency Exchange Rates Can Be Volatile and Unpredictable

Rates of exchange between the U.S. dollar and many other currencies have been highly volatile, and this volatility may continue and perhaps spread to other currencies in the future. Fluctuations in currency exchange rates could adversely affect an investment in a note denominated in, or where value is otherwise linked to, a specified currency other than U.S. dollars. Depreciation of the specified currency against the U.S. dollar could result in a decrease in the U.S. dollar-equivalent value of payments on the note, including the principal payable at maturity. That in turn could cause the market value of the note to fall. Depreciation of the specified currency against the U.S. dollar could result in a loss to the investor on a U.S. dollar basis.

Government Policy Can Adversely Affect Foreign Currency Exchange Rates and an Investment in a Non-U.S. Dollar Note

Foreign currency exchange rates can either float or be fixed by sovereign governments. From time to time, governments use a variety of techniques, such as intervention by a country s central bank or imposition of regulatory controls or taxes, to affect the exchange rate of their currencies. Governments may also issue a new currency to replace an existing currency or alter the exchange rate or exchange characteristics by devaluation or revaluation of a currency. Thus, a special risk in purchasing non-U.S. dollar notes is that their yields or payouts could be significantly and unpredictably affected by governmental actions. Even in the absence of governmental action directly affecting currency exchange rates, political or economic developments in the country issuing the specified currency for a non-U.S. dollar note or elsewhere could lead to significant and sudden changes in the exchange rate between the U.S. dollar and the specified currency. These changes could affect the value of the note as participants in the global currency markets move to buy or sell the specified currency or U.S. dollars in reaction to these developments.

Governments have imposed from time to time and may in the future impose exchange controls or other conditions, including taxes, with respect to the exchange or transfer of a specified currency that could affect exchange rates as well as the availability of a specified currency for a note at its maturity or on any other payment date. In addition, the ability of a holder to move currency freely out of the country in which payment in the currency is received or to convert the currency at a freely determined market rate could be limited by governmental actions.

Historical Information About Exchange Rates May Not Be Indicative of Future Performance

If we issue a non-U.S. dollar note, we may include in the applicable Pricing Supplement a currency supplement that provides information about historical exchange rates for the relevant non-U.S. dollar currency or currencies. Any historical information about exchange rates that we may provide will be furnished as a matter of information only, and you should not regard such information as indicative of future performance in currency exchange rates. That rate will likely differ from the exchange rate used under the terms that apply to a particular note.

Non-U.S. Investors May Be Subject to Certain Additional Risks

If we issue a U.S. dollar note and you are a non-U.S. investor who purchased such notes with a currency other than U.S. dollars, changes in rates of exchange may have an adverse effect on the value, price or income of your investment.

The applicable Product Prospectus Supplement contains a general description of certain U.S. and Canadian tax consequences. If you are a non-U.S. investor, you should consult your tax advisors as to the consequences, under the tax laws of the country where you are resident for tax purposes, of acquiring, holding and disposing of notes and receiving payments of principal or other amounts under the notes.

Table of Contents

Use of Proceeds

Unless otherwise specified in the applicable Pricing Supplement, the net proceeds to the Bank from the sale of the notes will be added to the general funds of the Bank and utilized for general banking purposes.

Description of the Notes

You should carefully read the description of the terms and provisions of our senior debt securities and our senior debt securities indenture under Description of the Debt Securities We May Offer in the accompanying Prospectus. That section, together with the applicable Supplements, summarizes all the material terms of our senior debt securities indenture and your note. They do not, however, describe every aspect of our senior debt securities indenture and your note. For example, in this section entitled Description of the Notes, we use terms that have been given special meanings in our senior debt securities indenture, but we describe the meanings of only the more important of those terms. The specific terms of any series of notes will be described in the applicable Supplement. As you read this section and the applicable Supplement, please remember that the specific terms of your note as described in the applicable Supplement will supplement and, if applicable, may modify or replace the general terms described in this section and/or the applicable Product Prospectus Supplement. If there is any inconsistency between the terms of the notes described in the accompanying Prospectus, this Prospectus Supplement, the applicable Product Prospectus Supplement and the applicable Pricing Supplement, the following hierarchy will govern: first, the applicable Pricing Supplement; second, the product prospectus supplement (if any); third, this Prospectus Supplement; and last, the accompanying Prospectus.

General

The notes will be limited to an aggregate offering price of notes specified in the accompanying Prospectus, at the Bank s option if so specified in the applicable Pricing Supplement, the equivalent of this amount in any currency or currency unit other than U.S. dollars. The Bank may issue notes pursuant to one or more other prospectus supplements under the Prospectus and the aggregate amount of the notes that may be offered under this Prospectus Supplement may be subject to reduction as a result of the sale by the Bank of other securities (including notes and unsecured subordinated notes of the Bank) pursuant to one or more other prospectus supplements under the Prospectus.

Notes may be issued at various times and in different series, any series of which may be comprised of one or more tranches of notes. The Bank may issue as many distinct series of notes as it wishes.

The notes will constitute the Bank s unsecured and unsubordinated obligations and will constitute deposit liabilities of the Bank for purposes of the Bank Act and will rank on a parity with all of the Bank s other senior unsecured debt including deposit liabilities, other than certain governmental claims in accordance with applicable law, and prior to all of the Bank s subordinated debt. The notes will not constitute deposits that are insured under the Canada Deposit Insurance Corporation Act (Canada) or by the United States Federal Deposit Insurance Corporation or any other Canadian or U.S. government agency or instrumentality.

The notes will be issued under a senior debt securities indenture among the Bank, Computershare Trust Company, National Association, as United States trustee, and Computershare Trust Company of Canada, as Canadian trustee, which is more fully described in the Prospectus under the heading Description of the Debt Securities We May Offer . The indenture is subject to, and governed by, the Trust Indenture Act of 1939, as amended. Whenever we refer to specific provisions or defined terms in the indenture, those provisions or defined terms are incorporated in this prospectus supplement by reference. Section references used in this discussion are references to the indenture. Capitalized terms which are not otherwise defined shall have the meanings given to them in the indenture.

Subject to regulatory capital requirements applicable to the Bank, there is no limit on the amount of indebtedness that the Bank may issue. The Bank has other unsubordinated debt outstanding and may issue additional unsubordinated debt at any time and without notifying you.

Table of Contents

The Bank will offer notes under the Senior Note Program on a continuous basis through one or more agents. See Supplemental Plan of Distribution (Conflicts of Interest) .

The indenture does not limit the aggregate principal amount of senior notes that we may issue. We may, from time to time, without the consent of the holders of the notes, provide for the issuance of notes or other debt securities under the indenture in addition to the aggregate securities. Each note issued under this Prospectus Supplement will have a stated maturity that will be specified in the applicable Pricing Supplement and may be subject to redemption or repayment before its stated maturity. Notes may be issued at significant discounts from their principal amount due on the stated maturity (or on any prior date on which the principal or an installment of principal of a note becomes due and payable, whether by the declaration of acceleration, call for redemption at our option, repayment at the option of the holder or otherwise), and some notes may not bear interest. We may from time to time, without the consent of the existing holders of the relevant notes, create and issue further notes having the same terms and conditions as such notes in all respects, except for the issue date, issue price and, if applicable, the first payment of interest thereon.

Unless we specify otherwise in the other applicable Supplements, currency amounts in this Prospectus Supplement are expressed in U.S. dollars, the notes will be denominated in U.S. dollars and payments of any principal, premium or interest on the notes will be made in U.S. dollars. If any note is to be denominated other than exclusively in U.S. dollars, or if any principal, premium or interest on the note is to be paid in one or more currencies (or currency units or in amounts determined by reference to an index or indices) other than that in which that note is denominated, additional information (including authorized denominations and related exchange rate information) will be provided in the applicable Supplement. Unless we specify otherwise in the applicable Supplement, notes denominated in U.S. dollars will be issued in minimum denominations of US$1,000 and integral multiples of US$1,000 in excess thereof (except that non-U.S. investors may be subject to higher minimums).

Interest rates that we offer on the notes may differ depending upon, among other factors, the aggregate principal amount of notes purchased in any single transaction. Notes with different variable terms other than interest rates may also be offered concurrently to different investors. We may change interest rates or formulas and other terms of notes from time to time, but no change of terms will affect any note we have previously issued or as to which we have accepted an offer to purchase.

Global Notes

Unless otherwise specified in the applicable Pricing Supplement, each note issued under the Senior Note Program will be issued as a book-entry note in fully registered form and will be represented by a global note that the Bank deposits with and registers in the name of a financial institution or its nominee called a depository. Unless otherwise specified in the applicable Pricing Supplement, The Depository Trust Company, New York, New York, will be the depository for all notes in global form. See Legal Ownership and Book-Entry Issuance in the Prospectus.

Types of Notes

We may issue the following three types of notes:

- **Fixed Rate Notes.** A note of this type will bear interest at a fixed rate described in the applicable Pricing Supplement. This type includes zero-coupon notes, which bear no interest and are instead issued at a price lower than the principal amount.

- **Floating Rate Notes.** A note of this type will bear interest at rates that are determined by reference to an interest rate formula. In some cases, the rates may also be adjusted by adding or subtracting a spread or multiplying by a spread multiplier and may be subject to a minimum rate or a maximum rate. The various interest rate formulas and these other features are described below in Interest Rates Floating Rate Notes. If your note is a floating rate note, the formula and any adjustments that apply to the interest rate will be specified in the applicable Pricing Supplement.

Table of Contents

- **Indexed Notes.** A note of this type provides that the principal amount payable at its maturity, and/or the amount of interest payable on an interest payment date, will be determined:

- by reference to one or more equity securities, exchange traded funds, indices, currencies, commodities, financial or economic measures;

- by reference to indices or baskets of the aforementioned items; or

- pursuant to a formula.

If you are a holder of an indexed note, you may receive a principal amount at maturity that is greater than, less than or equal to the face amount of your note depending upon the value of the applicable index at maturity. That value may fluctuate over time. If you purchase an indexed note, the applicable Product Prospectus Supplement and applicable Pricing Supplement will include information about the relevant index and how amounts that are to become payable will be determined by reference to that index. Before you purchase any indexed note, you should read carefully the section entitled Risk Factors Risks Relating to Indexed Notes below.

Original Issue Discount Notes

A fixed rate note, a floating rate note or an indexed note may be an original issue discount note. A note of this type is issued at a price lower than its principal amount and provides that, upon redemption or acceleration of its maturity, an amount less than its principal amount will be payable. An original issue discount note may be a zero-coupon note. A note issued at a discount to its principal may be considered an original issue discount note for U.S. federal income tax purposes, regardless of the amount payable upon redemption or acceleration of maturity. Please see the tax discussion in the applicable Product Prospectus Supplement and applicable Pricing Supplement for U.S. federal income tax consequences of owning original discount notes.

Information in the Pricing Supplement

The applicable Pricing Supplement will describe one or more of the following terms of your note:

- the stated maturity;

- the specified currency or currencies for principal and interest, if not U.S. dollars;

- the price at which we originally issue your note, expressed as a percentage of the principal amount, and the original issue date;

- whether your note is a fixed rate note, a floating rate note or an indexed note;

- if your note is a fixed rate note, the per annum rate at which your note will bear interest, if any, and the interest payment dates;

- if your note is a floating rate note, the interest rate basis, which may be one of the interest rate bases described in Interest Rates Floating Rate Notes below; any applicable index currency or maturity, spread or spread multiplier or initial, maximum or minimum rate; and the interest reset, determination, calculation and payment dates, all of which we describe under Interest Rates Floating Rate Notes below;

- if your note is an indexed note, the principal amount, if any, we will pay you at maturity, the amount of interest, if any, we will pay you on an interest payment date or the formula we will use to calculate these amounts, if any;

- if your note is an original issue discount note, the yield to maturity;

- if applicable, the circumstances under which your note may be redeemed at our option before the stated maturity, including any redemption commencement date, redemption price(s) and redemption period(s);

Table of Contents

- if applicable, the circumstances under which you may demand repayment of your note before the stated maturity, including any repayment commencement date, repayment price(s) and repayment period(s);

- any special Canadian or United States federal income tax consequences of the purchase, ownership or disposition of a particular issuance of notes;

- the use of proceeds, if materially different than those discussed in this Prospectus Supplement; and

- any other terms of your note, which could be different from those described in this Prospectus Supplement.

Market-Making Transactions

If you purchase your note in a market-making transaction, you will receive information about the price you pay and your trade and settlement dates in a separate confirmation of sale. A market-making transaction is one in which an agent or other person resells a note that it has previously acquired from another holder. A market-making transaction in a particular note occurs after the original sale of the note.

Redemption at the Option of the Bank; No Sinking Fund

If an initial redemption date is specified in the applicable Pricing Supplement, we may redeem the particular notes prior to their stated maturity date at our option on any date on or after that initial redemption date in whole or from time to time in part in increments of US$1,000 or any other integral multiple of an authorized denomination specified in the applicable Pricing Supplement (provided that any remaining principal amount thereof shall be at least US$1,000 or other minimum authorized denomination applicable thereto), at the redemption price or prices specified in that Pricing Supplement, together with unpaid interest accrued thereon to the date of redemption. Unless otherwise specified in the applicable Pricing Supplement, we must give written notice to registered holders of the particular notes to be redeemed at our option not more than 45 nor less than 30 calendar days prior to the date of redemption.

The notes will not be subject to, or entitled to the benefit of, any sinking fund.

Repayment at the Option of the Holder

If one or more optional repayment dates are specified in the applicable Pricing Supplement, registered holders of the particular notes may require us to repay those notes prior to their stated maturity date on any optional repayment date in whole or from time to time in part in increments of US$1,000 or any other integral multiple of an authorized denomination specified in the applicable Pricing Supplement (provided that any remaining principal amount thereof shall be at least US$1,000 or other minimum authorized denomination applicable thereto), at the repayment price or prices specified in that Pricing Supplement, together with unpaid interest accrued thereon to the date of repayment. A registered holder s exercise of the repayment option will be irrevocable.

For any note to be repaid, the applicable trustee must receive, at its corporate trust office in the Borough of Manhattan, The City of New York, not more than 45 nor less than 30 calendar days prior to the date of repayment, the particular notes to be repaid and, in the case of a book-entry note, repayment instructions from the applicable beneficial owner to the depositary and forwarded by the depositary. Only the depositary may exercise the repayment option in respect of global notes representing book-entry notes. Accordingly, beneficial owners of global notes that desire to have all or any portion of the book-entry notes represented thereby repaid must instruct the participant through which they own their interest to direct the depositary to exercise the repayment option on their behalf by forwarding the repayment instructions to the applicable trustee as aforesaid. In order to ensure that these instructions are received by the applicable trustee on a particular day, the applicable beneficial owner must so instruct the participant through which it owns its interest before that participant s deadline for accepting instructions for that day. Different firms may have different deadlines for accepting instructions from their customers. Accordingly, beneficial owners should consult their participants for the respective deadlines. In addition, at the time repayment instructions are given, each beneficial owner shall cause the participant through which it owns its interest to transfer the beneficial owner s interest in the global note representing the related book-entry notes, on the depositary s records, to the applicable trustee.

Table of Contents

We will comply with the applicable requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders thereof.

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us may, at our discretion, be held, resold or surrendered to the applicable trustee for cancellation.

Interest

Each interest-bearing note will bear interest from its date of issue at the rate per annum, in the case of a fixed rate note, or pursuant to the interest rate formula, in the case of a floating rate note, in each case as specified in the applicable Pricing Supplement, until the principal thereof is paid. We will make interest payments in respect of fixed rate notes and floating rate notes in an amount equal to the interest accrued from and including the immediately preceding interest payment date in respect of which interest has been paid or from and including the date of issue, if no interest has been paid, to but excluding the applicable interest payment date or the maturity date, as the case may be (each, an interest period).

Interest on fixed rate notes and floating rate notes will be payable in arrears on each interest payment date and on the maturity date. The first payment of interest on any note originally issued between a regular record date and the related interest payment date will be made on the interest payment date immediately following the next succeeding record date to the registered holder on the next succeeding record date. Unless otherwise specified in the applicable Pricing Supplement, the regular record date shall be the fifteenth calendar day, whether or not a business day , immediately preceding the related interest payment date. Business day is defined below in Schedule 1 to this Prospectus Supplement. For the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 P.M. Eastern Standard Time, on that day.

Interest Rates

This subsection describes the different kinds of interest rates that may apply to your note, if it bears interest.

Fixed Rate Notes

The applicable Pricing Supplement will specify the interest payment dates for a fixed rate note as well as the maturity date. Interest on fixed rate notes will be computed on the basis of a 360-day year consisting of twelve 30-day months or such other day count fraction set forth in the applicable Pricing Supplement.

If any interest payment date, redemption date, repayment date or maturity date of a fixed rate note falls on a day that is not a business day, we will make the required payment of principal, premium, if any, and/or interest on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

Floating Rate Notes

In this subsection, we use several specialized terms relating to the manner in which floating interest rates are calculated. These terms are defined in Schedule 1 to this Prospectus Supplement.

Unless otherwise specified in the applicable Pricing Supplement, the following will apply to floating rate notes:

Interest Rate Basis. We currently expect to issue floating rate notes that bear interest at rates based on one or more of the following interest rate bases:

- Commercial paper rate;
- U.S. prime rate;
- LIBOR;

Table of Contents

- EURIBOR;
- Treasury rate;
- CMT rate;
- CD rate;
- CMS rate;
- Federal funds rate; and/or
- CPI.

We describe each of the interest rate bases in further detail below in this subsection. If you purchase a floating rate note, the applicable Pricing Supplement will specify the interest rate basis that applies to your note.

Calculation of Interest. Calculations relating to floating rate notes will be made by the calculation agent, an institution that we appoint as our agent for this purpose. That institution may include us or any affiliate of ours, such as Scotia Capital Inc. The applicable Pricing Supplement for a particular floating rate note will name the institution that we have appointed to act as the calculation agent for that note as of its original issue date. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of the note without your consent and without notifying you of the change.

For each floating rate note, the calculation agent will determine, on the corresponding interest calculation date or on the interest determination date, as described below, the interest rate that takes effect on each interest reset date. In addition, the calculation agent will calculate the amount of interest that has accrued during each interest period that is, the period from and including the original issue date, or the last date to which interest has been paid or made available for payment, to but excluding the payment date. For each interest period, the calculation agent will calculate the amount of accrued interest by multiplying the face or other specified amount of the floating rate note by an accrued interest factor for the interest period. This factor will equal the sum of the interest factors calculated for each day during the interest period. The interest factor for each day will be expressed as a decimal and will be calculated by dividing the interest rate, also expressed as a decimal, applicable to that day by 360 or by the actual number of days in the year, as specified in the applicable Pricing Supplement.

Upon the request of the holder of any floating rate note, the calculation agent will provide for that note the interest rate then in effect and, if determined, the interest rate that will become effective on the next interest reset date. The calculation agent s determination of any interest rate, and its calculation of the amount of interest for any interest period, will be final and binding in the absence of manifest error.

All percentages resulting from any calculation relating to a note will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point (e.g., 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655)). All amounts used in or resulting from any calculation relating to a floating rate note will be rounded upward or downward, as appropriate, to the nearest cent, in the case of U.S. dollars, or to the nearest corresponding hundredth of a unit, in the case of a currency other than U.S. dollars, with one-half cent or one-half of a corresponding hundredth of a unit or more being rounded upward.

In determining the interest rate basis that applies to a floating rate note during a particular interest period, the calculation agent may obtain rate quotes from various banks or dealers active in the relevant market, as discussed below. Those reference banks and dealers may include the calculation agent itself and its affiliates, as well as any agent participating in the distribution of the relevant floating rate notes and its affiliates, and they may include our affiliates.

Initial Interest Rate. For any floating rate note, the interest rate in effect from the original issue date to the first interest reset date will be the initial interest rate. We will specify the initial interest rate or the manner in which it is determined in the applicable Pricing Supplement.

Table of Contents

Spread or Spread Multiplier. In some cases, the interest rate basis for a floating rate note may be adjusted:

- by adding or subtracting a specified number of basis points, called the spread, with one basis point being 0.01%; or

- by multiplying the interest rate basis by a specified percentage, called the spread multiplier.

If you purchase a floating rate note, the applicable Pricing Supplement will indicate whether a spread or spread multiplier will apply to your note and, if so, the amount of the spread or spread multiplier.

Maximum and Minimum Rates. The actual interest rate, after being adjusted by the spread or spread multiplier, may also be subject to either or both of the following limits:

- a maximum rate i.e., a specified upper limit that the actual interest rate in effect at any time may not exceed; and/or

- a minimum rate i.e., a specified lower limit that the actual interest rate in effect at any time may not fall below.

If you purchase a floating rate note, the applicable Pricing Supplement will indicate whether a maximum rate and/or minimum rate will apply to your note and, if so, what those rates are.

Whether or not a maximum rate applies, the interest rate on a floating rate note will in no event be higher than the maximum rate permitted by New York law, as it may be modified by U.S. law of general application and the Criminal Code (Canada). Under current New York law, the maximum rate of interest, with some exceptions, for any loan made to a corporate borrower in an amount less than US$250,000 is 16% and for any loan in the amount of US$250,000 or more but less than US$2,500,000 is 25% per year on a simple interest basis. These limits do not apply to loans of US$2,500,000 or more, except for the Criminal Code (Canada), which limits the rate to 60%.

The rest of this subsection describes how the interest rate and the interest payment dates will be determined, and how interest will be calculated, on a floating rate note.

Interest Reset Dates. The rate of interest on a floating rate note will be reset, by the calculation agent described below, daily, weekly, monthly, quarterly, semi-annually, annually or as otherwise specified in the applicable Pricing Supplement. The date on which the interest rate resets and the reset rate becomes effective is called the interest reset date. Except as otherwise specified in the applicable Pricing Supplement, the interest reset date will be as follows:

- for floating rate notes that reset daily, each business day;

- for floating rate notes that reset weekly and are not treasury rate notes, the Wednesday of each week;

- for treasury rate notes that reset weekly, the Tuesday of each week;

- for floating rate notes that reset monthly, the third Wednesday of each month;

- for floating rate notes that reset quarterly, the third Wednesday of each of four months of each year as indicated in the applicable Pricing Supplement;

- for floating rate notes that reset semi-annually, the third Wednesday of each of two months of each year as indicated in the applicable Pricing Supplement;

- for floating rate notes that reset annually, the third Wednesday of one month of each year as indicated in the applicable Pricing Supplement; and

- for a floating rate note, the interest rate in effect on any particular day will be the interest rate determined with respect to the latest interest reset date that occurs on or before that day. There are several exceptions, however, to the reset provisions described above.

Table of Contents

If any interest reset date for a floating rate note would otherwise be a day that is not a business day, the interest reset date will be postponed to the next day that is a business day. For a LIBOR or EURIBOR note, however, if that business day is in the next succeeding calendar month, the interest reset date will be the immediately preceding business day.

Interest Determination Dates. The interest rate that takes effect on an interest reset date will be determined by the calculation agent by reference to a particular date called an interest determination date. Unless otherwise specified in the applicable Pricing Supplement:

- for commercial paper rate, federal funds rate and U.S. prime rate notes, the interest determination date relating to a particular interest reset date will be the business day preceding the interest reset date;

- for LIBOR notes, the interest determination date relating to a particular interest reset date will be the second London business day preceding the interest reset date, unless the index currency is pounds sterling, in which case the interest determination date will be the interest reset date. We refer to an interest determination date for a LIBOR note as a LIBOR interest determination date;

- for EURIBOR notes, the interest determination date relating to a particular interest reset date will be the second euro business day preceding the interest reset date. We refer to an interest determination date for a EURIBOR note as a EURIBOR interest determination date;

- for treasury rate notes, the interest determination date relating to a particular interest reset date, which we refer to as a treasury interest determination date, will be the day of the week in which the interest reset date falls on which treasury bills i.e., direct obligations of the U.S. government would normally be auctioned. Treasury bills are usually sold at auction on the Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, except that the auction may be held on the preceding Friday. If as the result of a legal holiday an auction is held on the preceding Friday, that Friday will be the treasury interest determination date relating to the interest reset date occurring in the next succeeding week; and

- for CD rate, CMT rate, CPI rate and CMS rate notes, the interest determination date relating to a particular interest reset date will be the second business day preceding the interest reset date.

The interest determination date pertaining to a floating rate note the interest rate of which is determined with reference to two or more interest rate bases will be the latest business day which is at least two business days before the related interest reset date for the applicable floating rate note on which each interest rate basis is determinable.

Interest Calculation Dates. As described above, the interest rate that takes effect on a particular interest reset date will be determined by reference to the corresponding interest determination date. Except for LIBOR notes and EURIBOR notes, however, the determination of the rate will actually be made on a day no later than the corresponding interest calculation date. Unless otherwise specified in the applicable Pricing Supplement, the interest calculation date will be the earlier of the following:

- the tenth calendar day after the interest determination date or, if that tenth calendar day is not a business day, the next succeeding business day; and

- the business day immediately preceding the interest payment date or the maturity, whichever is the day on which the next payment of interest will be due.

The calculation agent need not wait until the relevant interest calculation date to determine the interest rate if the rate information it needs to make the determination is available from the relevant sources sooner.

Interest Payment Dates. The interest payment dates for a floating rate note will depend on when the interest rate is reset and, unless we specify otherwise in the applicable Pricing Supplement, will be as follows:

- for floating rate notes that reset daily, weekly or monthly, the third Wednesday of each month;

Table of Contents

- for floating rate notes that reset quarterly, the third Wednesday of the four months of each year specified in the applicable Pricing Supplement;

- for floating rate notes that reset semi-annually, the third Wednesday of the two months of each year specified in the applicable Pricing Supplement; or

- for floating rate notes that reset annually, the third Wednesday of the month specified in the applicable Pricing Supplement.

Regardless of these rules, if a note is originally issued after the regular record date and before the date that would otherwise be the first interest payment date, the first interest payment date will be the date that would otherwise be the second interest payment date.

In addition, unless otherwise specified in the applicable Pricing Supplement, the following special provision will apply to a floating rate note with regard to any interest payment date other than one that falls on the maturity. If the interest payment date would otherwise fall on a day that is not a business day, then the interest payment date will be the next day that is a business day. However, if the floating rate note is a LIBOR note or a EURIBOR note and the next business day falls in the next calendar month, then the interest payment date will be advanced to the next preceding day that is a business day. If the maturity date of a floating rate note falls on a day that is not a business day, we will make the required payment of principal, premium, if any, and interest on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

Commercial Paper Rate Notes

If you purchase a commercial paper rate note, your note will bear interest at an interest rate equal to the commercial paper rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable Pricing Supplement.

The commercial paper rate will be the money market yield of the rate, for the relevant interest determination date, for commercial paper having the index maturity indicated in the applicable Pricing Supplement, as published in H.15(519) by 3:00 p.m., New York City time, on the interest calculation date corresponding to the relevant interest determination date, under the heading Commercial Paper Nonfinancial. If the commercial paper rate cannot be determined as described above, the following procedures will apply.

- If the rate described above does not appear in H.15(519) by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the commercial paper rate will be the rate, for the relevant interest determination date, for commercial paper having the index maturity specified in the applicable Pricing Supplement, as published in H.15 daily update or any other recognized electronic source used for displaying that rate, under the heading Commercial Paper Nonfinancial.

- If the rate described above does not appear in H.15(519), H.15 daily update or another recognized electronic source by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the commercial paper rate will be the money market yield of the arithmetic mean of the following offered rates for U.S. dollar commercial paper that has the relevant index maturity and is placed for a non-financial issuer whose bond rating is AA , or the equivalent, from a nationally recognized rating agency: the rates offered as of 11:00 A.M., New York City time, on the relevant interest determination date, by three leading U.S. dollar commercial paper dealers in New York City selected by the calculation agent.

- If fewer than three dealers selected by the calculation agent are quoting as described above, the commercial paper rate for the new interest period will be the commercial paper rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

Table of Contents

U.S. Prime Rate Notes

If you purchase a U.S. prime rate note, your note will bear interest at an interest rate equal to the U.S. prime rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable Pricing Supplement.

The U.S. prime rate will be the rate, for the relevant interest determination date, published in H.15(519) by 3:00 p.m., New York City time, on the interest calculation date corresponding to the relevant interest determination date, opposite the heading Bank Prime Loan. If the U.S. prime rate cannot be determined as described above, the following procedures will apply.

- If the rate described above does not appear in H.15(519) by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the U.S. prime rate will be the rate, for the relevant interest determination date, as published in H.15 daily update or another recognized electronic source used for the purpose of displaying that rate, under the heading Bank Prime Loan.

- If the rate described above does not appear in H.15(519), H.15 daily update or another recognized electronic source by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the U.S. prime rate will be the arithmetic mean of the following rates as they appear on the Reuters screen US PRIME 1 page: the rate of interest publicly announced by each bank appearing on that page as that bank s prime rate or base lending rate, as of 11:00 A.M., New York City time, on the relevant interest determination date.

- If fewer than four of these rates appear on the Reuters screen US PRIME 1 page, the U.S. prime rate will be the arithmetic mean of the prime rates or base lending rates, as of the close of business on the relevant interest determination date, of three major banks in New York City selected by the calculation agent. For this purpose, the calculation agent will use rates quoted on the basis of the actual number of days in the year divided by a 360-day year.

- If fewer than three banks selected by the calculation agent are quoting as described above, the U.S. prime rate for the new interest period will be the U.S. prime rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

LIBOR Notes

If you purchase a LIBOR note, your note will bear interest at an interest rate equal to LIBOR, which will be the London interbank offered rate for deposits in U.S. dollars or any other index currency, as noted in the applicable Pricing Supplement. In addition, when LIBOR is the interest rate basis the applicable LIBOR rate will be adjusted by the spread or spread multiplier, if any, indicated in the applicable Pricing Supplement. LIBOR will be determined in the following manner:

- LIBOR will be the offered rate appearing on the Reuters Page LIBOR01 as of 11:00 A.M., London time, on the relevant LIBOR interest determination date, for deposits of the relevant index currency having the relevant index maturity beginning on the relevant interest reset date. The applicable Pricing Supplement will indicate the index currency, the index maturity and the reference page that apply to your LIBOR note. If no reference page is mentioned in the applicable Pricing Supplement, Reuters Page LIBOR01 will apply to your LIBOR note.

- If Reuters Page LIBOR01 applies and the rate described above does not appear on that page, then LIBOR will be determined on the basis of the rates, at approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date, at which deposits of the following kind are offered to prime banks in the London interbank market by four major banks in that market selected by the calculation agent: deposits of the index currency having the relevant index maturity, beginning on the relevant interest reset date, and in a representative amount. The calculation agent will request the principal London office of each of these banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant LIBOR interest determination date will be the arithmetic mean of the quotations.

Table of Contents

• If fewer than two quotations are provided as described above, LIBOR for the relevant LIBOR interest determination date will be the arithmetic mean of the rates for loans of the following kind to leading European banks quoted, at approximately 11:00 A.M., in the applicable principal financial center, on that LIBOR interest determination date, by three major banks in that financial center selected by the calculation agent: loans of the index currency having the relevant index maturity, beginning on the relevant interest reset date and in a representative amount.

• If fewer than three banks selected by the calculation agent are quoting as described above, LIBOR for the new interest period will be LIBOR in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

EURIBOR Notes

If you purchase a Euro interbank offered rate-linked note, your note will bear interest at an interest rate based on estimated euro interbank term deposit rates, designated as EURIBOR that is calculated and published by a designated distributor and administered by the European Money Markets Institute, or any entity that may assume responsibility for the administration of the rate. In addition, when EURIBOR is the interest rate basis the EURIBOR base rate will be adjusted by the spread or spread multiplier, if any, specified in the applicable Pricing Supplement. EURIBOR will be determined in the following manner:

• EURIBOR will be the offered rate for deposits in euros having the index maturity specified in the applicable Pricing Supplement, beginning on the second euro business day after the relevant EURIBOR interest determination date, as that rate appears on Reuters page EURIBOR01 as of 11:00 A.M., Brussels time, on the relevant EURIBOR interest determination date.

• If the rate described above does not appear on Reuters page EURIBOR01, EURIBOR will be determined on the basis of the rates, at approximately 11:00 A.M., Brussels time, on the relevant EURIBOR interest determination date, at which deposits of the following kind are offered to prime banks in the euro-zone interbank market by the principal euro-zone office of each of four major banks in that market selected by the calculation agent: euro deposits having the relevant index maturity, beginning on the relevant interest reset date, and in a representative amount. The calculation agent will request the principal euro-zone office of each of these banks to provide a quotation of its rate. If at least two quotations are provided, EURIBOR for the relevant EURIBOR interest determination date will be the arithmetic mean of the quotations.

• If fewer than two quotations are provided as described above, EURIBOR for the relevant EURIBOR interest determination date will be the arithmetic mean of the rates for loans of the following kind to leading euro-zone banks quoted, at approximately 11:00 A.M., Brussels time on that EURIBOR interest determination date, by three major banks in the euro-zone selected by the calculation agent: loans of euros having the relevant index maturity, beginning on the relevant interest reset date, and in a representative amount.

• If fewer than three banks selected by the calculation agent are quoting as described above, EURIBOR for the new interest period will be EURIBOR in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

Treasury Rate Notes

If you purchase a treasury rate note, your note will bear interest at an interest rate equal to the treasury rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable Pricing Supplement.

The treasury rate will be the rate for the auction, on the relevant treasury interest determination date, of treasury bills having the index maturity specified in the applicable Pricing Supplement, as that rate appears on Reuters page USAUCTION 10/11 by 3:00 p.m., New York City time, on the interest calculation date corresponding to the relevant interest determination date. If the treasury rate cannot be determined in this manner, the following procedures will apply.

• If the rate described above does not appear on either page by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that

Table of Contents

time, the treasury rate will be the bond equivalent yield of the rate, for the relevant interest determination date, for the type of treasury bill described above, as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading U.S. Government Securities/Treasury Bills (secondary market).

- If the rate described in the prior paragraph does not appear in H.15 daily update or another recognized electronic source by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the treasury rate will be the bond equivalent yield of the auction rate, for the relevant treasury interest determination date and for treasury bills of the kind described above, as announced by the U.S. Department of the Treasury.

- If the auction rate described in the prior paragraph is not so announced by 3:00 P.M., New York City time, on the relevant interest calculation date, or if no such auction is held for the relevant week, then the treasury rate will be the bond equivalent yield of the rate, for the relevant treasury interest determination date and for treasury bills having a remaining maturity closest to the specified index maturity, as published in H.15(519) under the heading U.S. Government Securities/Treasury Bills (secondary market).

- If the rate described in the prior paragraph does not appear in H.15(519) by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the treasury rate will be the rate, for the relevant treasury interest determination date and for treasury bills having a remaining maturity closest to the specified index maturity, as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading U.S. Government Securities/Treasury Bills (secondary market).

- If the rate described in the prior paragraph does not appear in H.15 daily update or another recognized electronic source by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the treasury rate will be the bond equivalent yield of the arithmetic mean of the following secondary market bid rates for the issue of treasury bills with a remaining maturity closest to the specified index maturity: the rates bid as of approximately 3:30 P.M., New York City time, on the relevant treasury interest determination date, by three primary U.S. government securities dealers in New York City selected by the calculation agent.

- If fewer than three dealers selected by the calculation agent are quoting as described in the prior paragraph, the treasury rate in effect for the new interest period will be the treasury rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

CD Rate Notes

If you purchase a CD rate note, your note will bear interest at an interest rate equal to the CD rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable Pricing Supplement.

The CD rate will be the rate, on the relevant interest determination date, for negotiable U.S. dollar certificates of deposit having the index maturity specified in the applicable Pricing Supplement, as published in H.15(519) by 3:00 p.m., New York City time, on the interest calculation date corresponding to the relevant interest determination date, under the heading CDs (Secondary Market). If the CD rate cannot be determined in this manner, the following procedures will apply.

- If the rate described above does not appear in H.15(519) by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the CD rate will be the rate, for the relevant interest determination date, described above as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading CDs (Secondary Market).

- If the rate described above does not appear in H.15(519), H.15 daily update or another recognized electronic source by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the CD rate will be the arithmetic

Table of Contents

mean of the following secondary market offered rates for negotiable U.S. dollar certificates of deposit of major U.S. money market banks with a remaining maturity closest to the specified index maturity, and in a representative amount: the rates offered as of 10:00 A.M., New York City time, on the relevant interest determination date, by three leading non-bank dealers in negotiable U.S. dollar certificates of deposit in New York City, as selected by the calculation agent.

- If fewer than three dealers selected by the calculation agent are quoting as described above, the CD rate in effect for the new interest period will be the CD rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

CMT Rate Notes

If you purchase a CMT rate note, your note will bear interest at an interest rate equal to the CMT rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable Pricing Supplement.

The CMT rate will be the following rate displayed on the designated CMT Reuters page by 3:00 p.m., New York City time, on the interest calculation date corresponding to the relevant interest determination date, under the heading . . . Treasury Constant Maturities , under the column for the designated CMT index maturity:

- if the designated CMT Reuters page is FRBCMT, the rate for the relevant interest determination date; or

- if the designated CMT Reuters page is FEDCMT, the weekly or monthly average, as specified in the applicable Pricing Supplement, for the week that ends immediately before the week in which the relevant interest determination date falls, or for the month that ends immediately before the month in which the relevant interest determination date falls, as applicable.

If the CMT rate cannot be determined in this manner, the following procedures will apply.

- If the applicable rate described above is not displayed on the relevant designated CMT Reuters page at 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the CMT rate will be the applicable treasury constant maturity rate described above i.e., for the designated CMT index maturity and for either the relevant interest determination date or the weekly or monthly average, as applicable as published in H.15(519).

- If the applicable rate described above does not appear in H.15(519) by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the CMT rate will be the treasury constant maturity rate, or other U.S. treasury rate, for the designated CMT index maturity and with reference to the relevant interest determination date, that:

- is published by the Board of Governors of the Federal Reserve System, or the U.S. Department of the Treasury; or

- as is otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which such CMT rate interest determination date falls; and

- in either case, is determined by the calculation agent to be comparable to the applicable rate formerly displayed on the designated CMT Reuters page and published in H.15(519).

- If the rate described in the prior paragraph does not appear by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, then the CMT rate will be the yield to maturity of the arithmetic mean of the following secondary market bid rates for the most recently issued treasury notes having an original maturity equal to the designated CMT index maturity and a remaining term to maturity of not less than the designated CMT index maturity minus one year, and in a representative amount: the bid rates, as of approximately 3:30 P.M., New York City time, on the relevant interest determination date, of three primary U.S. government securities dealers in New York City selected by the calculation agent. In selecting these bid rates, the calculation agent will

Table of Contents

request quotations from five of these primary dealers and will disregard the highest quotation or, if there is equality, one of the highest and the lowest quotation or, if there is equality, one of the lowest. Treasury notes are direct, non-callable, fixed rate obligations of the U.S. government.

- If the calculation agent is unable to obtain three quotations of the kind described in the prior paragraph, the CMT rate will be the yield to maturity of the arithmetic mean of the following secondary market bid rates for treasury notes with an original maturity longer than the designated CMT index maturity, with a remaining term to maturity closest to the designated CMT index maturity and in a representative amount: the bid rates, as of approximately 3:30 P.M., New York City time, on the relevant interest determination date, of three primary U.S. government securities dealers in New York City selected by the calculation agent. In selecting these bid rates, the calculation agent will request quotations from five of these primary dealers and will disregard the highest quotation (or, if there is equality, one of the highest) and the lowest quotation (or, if there is equality, one of the lowest). If two treasury notes with an original maturity longer than the designated CMT index maturity have remaining terms to maturity that are equally close to the designated CMT index maturity, the calculation agent will obtain quotations for the treasury note with the shorter remaining term to maturity.

- If fewer than five but more than two of these primary dealers are quoting as described in the prior paragraph, then the CMT rate for the relevant interest determination date will be based on the arithmetic mean of the bid rates so obtained, and neither the highest nor the lowest of those quotations will be disregarded.

- If two or fewer primary dealers selected by the calculation agent are quoting as described above, the CMT rate in effect for the new interest period will be the CMT rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

CMS Rate Notes

If you purchase a CMS rate note, your note will bear interest at an interest rate equal to the CMS rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable Pricing Supplement.

The CMS rate will be the rate for U.S. dollar swaps with a maturity for a specified number of years, expressed as a percentage in the applicable Pricing Supplement, which appears on the Reuters page ICESWAP1 as of 11:00 A.M., New York City time, on the interest rate determination date.

If the CMS rate cannot be determined as described above, the following procedures will be used:

- If the applicable rate described above is not displayed on the relevant designated CMS Reuters page by 11:00 A.M., New York City time, on the interest rate determination date, then the CMS rate will be a percentage determined on the basis of the mid-market, semi-annual swap rate quotations provided by five leading swap dealers in the New York City interbank market at approximately 11:00 A.M., New York City time, on the interest rate determination date. For this purpose, the semi-annual swap rate means the mean of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with a term equal to the maturity designated in the applicable Pricing Supplement commencing on that interest rate determination date with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an Actual/360 day count basis, as such rate is determined according to the provisions under *LIBOR Notes* with a maturity of three months. The calculation agent will select the five swap dealers after consultation with us and will request the principal New York City office of each of those dealers to provide a quotation of its rate. If at least three quotations are provided, the CMS rate for that interest rate determination date will be the arithmetic mean of the quotations, eliminating the highest and lowest quotations or, in the event of equality, one of the highest and one of the lowest quotations.

- If fewer than three leading swap dealers selected by the calculation agent are quoting as described above, the CMS rate will remain the CMS rate in effect on that interest rate determination date or, if that interest rate determination date is the first reference rate determination date, the initial interest rate.

Table of Contents

Federal Funds Rate Notes

If you purchase a federal funds rate note, your note will bear interest at an interest rate equal to the federal funds rate and adjusted by the spread or spread multiplier, if any, indicated in the applicable Pricing Supplement.

The federal funds rate will be the rate for U.S. dollar federal funds as of the relevant interest determination date, as published in H.15(519) by 3:00 p.m., New York City time, on the interest calculation date corresponding to the relevant interest determination date, under the heading Federal Funds (Effective) , as that rate is displayed on Reuters page FEDFUNDS1. If the federal funds rate cannot be determined in this manner, the following procedures will apply:

- If the rate described above is not displayed on Reuters page FEDFUNDS1 by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from that source at that time, then the federal funds rate, as of the relevant interest determination date, will be the rate described above as published in H.15 daily update, or another recognized electronic source used for displaying that rate, under the heading Federal Funds (Effective).

- If the rate described above is not displayed on Reuters page FEDFUNDS1 and does not appear in H.15(519), H.15 daily update or another recognized electronic source by 3:00 P.M., New York City time, on the relevant interest calculation date, unless the calculation is made earlier and the rate is available from one of those sources at that time, the federal funds rate will be the arithmetic mean of the rates for the last transaction in overnight, U.S. dollar federal funds arranged, before 9:00 A.M., New York City time, on the relevant interest determination date, by three leading brokers of U.S. dollar federal funds transactions in New York City selected by the calculation agent.

- If fewer than three brokers selected by the calculation agent are quoting as described above, the federal funds rate in effect for the new interest period will be the federal funds rate in effect for the prior interest period. If the initial interest rate has been in effect for the prior interest period, however, it will remain in effect for the new interest period.

Consumer Price Index

CPI is the non-revised index adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers, published monthly by the U.S. Bureau of Labor Statistics and published on Bloomberg CPURNSA or any successor service. The CPI for a particular month is published during the following month.

The CPI is a measure of the average change in consumer prices over time for a fixed market basket of goods and services, including food, clothing, shelter, fuels, transportation, charges for doctors and dentists services and drugs. In calculating the CPI, the prices of the various items included in the fixed market basket are averaged together with weights that represent their importance in the spending of urban households in the United States. The BLS periodically updates the contents of the market basket of goods and services and the weights assigned to the various items to take into account changes in consumer expenditure patterns. The CPI is expressed in relative terms in relation to a time base reference period for which the level was set to 100.0.

Other Provisions; Addenda

Any provisions relating to the notes, including the determination of the interest rate basis, calculation of the interest rate applicable to a floating rate note, its interest payment dates, any redemption or repayment provisions, or any other term relating thereto, may be modified and/or supplemented by the terms as specified under Other Provisions on the face of the applicable notes or in an addendum relating to the applicable notes, if so specified on the face of the applicable notes, and, in each case, in the applicable Pricing Supplement.

Interest Act (Canada)

For the purpose only of disclosure pursuant to the Interest Act (Canada) and not for any other purpose, each interest rate, which is calculated on any basis other than the actual number of days in a calendar year (the deemed interest period), is equivalent to a per annum rate calculated by *dividing* such interest rate by the number of days in

Table of Contents

the deemed interest period, then *multiplying* such result by the actual number of days in the calendar year (365 or 366).

Certain Income Tax Consequences

Certain Canadian Income Tax Considerations

An investor should read carefully the description of principal Canadian federal income tax considerations under Canadian Taxation in the accompanying Prospectus relevant to a Holder (as defined) owning debt securities. The description of the Canadian federal income tax considerations under Canadian Taxation in the Prospectus as it relates to such notes will be superseded by the applicable Product Prospectus Supplement and, to the extent indicated therein, in the applicable Pricing Supplement.

Certain United States Income Tax Considerations

If a product prospectus supplement is applicable to your notes, please see the discussion therein under Supplemental Discussion of U.S. Federal Income Tax Consequences for a general overview of the tax consequences of owning such notes.

The tax consequences of any particular note depend on its terms, and the tax treatment of each note will be described in the applicable Pricing Supplement. Consequently, except to the extent the Pricing Supplement indicates otherwise, you should not rely on the general overview of tax consequences in the applicable Product Prospectus Supplement in deciding whether to invest in any note. Moreover, in all cases, you should consult with your own tax advisor concerning the consequences of investing in and holding any particular note.

Supplemental Plan of Distribution (Conflicts of Interest)

We and SCUSA, as agent, have entered into a distribution agreement with respect to the notes. The agent or agents through whom the notes will be offered will be identified in the applicable Pricing Supplement. Subject to certain conditions, the agents have agreed to use their reasonable efforts to solicit purchases of the notes. We have the right to accept offers to purchase notes and may reject any proposed purchase of the notes. The agents may also reject any offer to purchase notes. We will pay the agents a commission on any notes sold through the agents. The commission will be in such amount as may be agreed between the agents and the Bank and will be specified in the applicable Pricing Supplement.

We may also sell notes to the agents, who will purchase the notes as principal for their own accounts. In that case, the agents will purchase the notes at a price equal to the issue price, less a discount to be agreed with us at the time of the offering, as specified in the applicable Pricing Supplement.

The agents may resell any notes they purchase as principal to other brokers or dealers at a discount, which may include all or part of the discount the agents received from us. If all the notes are not sold at the initial offering price, the agents may change the offering price and the other selling terms.

We may also sell notes directly to investors. We will not pay commissions on notes we sell directly.

We have reserved the right to withdraw, cancel or modify the offer made by this Prospectus Supplement without notice and may reject orders in whole or in part whether placed directly with us or with an agent. No termination date has been established for the offering of the notes.

The agents, whether acting as agent or principal, may be deemed to be underwriters within the meaning of the Securities Act of 1933. We have agreed to indemnify the agents against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments made in respect of those liabilities.

If the agents sell notes to dealers who resell to investors and the agents pay the dealers all or part of the discount or commission they receive from us, those dealers may also be deemed to be underwriters within the meaning of the Securities Act of 1933.

Table of Contents

Unless otherwise indicated in any Pricing Supplement, payment of the purchase price of notes, other than notes denominated in a non-U.S. dollar currency, will be required to be made in funds immediately available in The City of New York. The notes will be in the Same Day Funds Settlement System at DTC and, to the extent the secondary market trading in the notes is effected through the facilities of such depositary, such trades will be settled in immediately available funds.

We may appoint additional agents with respect to the notes. Any other agents will be named in the applicable Pricing Supplements and those agents will enter into the distribution agreement referred to above. The agents referred to above and any additional agents may engage in commercial banking and investment banking and other transactions with and perform services for the Bank and our affiliates in the ordinary course of business. SCUSA is an affiliate of the Bank and may resell notes to or through another of our affiliates, as selling agent.

The notes are a new issue of securities, and there will be no established trading market for any note before its original issue date. We do not plan to list the notes on a securities exchange or quotation system. We have been advised by each of the agents named above that they may make a market in the notes offered through them. However, neither SCUSA nor any of our other affiliates nor any other agent named in the applicable Pricing Supplement that makes a market is obligated to do so, and any of them may stop doing so at any time without notice. No assurance can be given as to the liquidity or trading market for the notes.

This Prospectus Supplement may be used by SCUSA and any other agent in connection with offers and sales of the notes in market-making transactions. In a market-making transaction, an agent or other person resells a note it acquires from other holders after the original offering and sale of the note. Resales of this kind may occur in the open market or may be privately negotiated, at prevailing market prices at the time of resale or at related or negotiated prices. In these transactions, such agent may act as principal or agent, including as agent for the counterparty in a transaction in which SCUSA or another agent acts as principal, or as agent for both counterparties in a transaction in which SCUSA does not act as principal. The agents may receive compensation in the form of discounts and commissions, including from both counterparties in some cases. Other affiliates of the Bank (in addition to SCUSA) may also engage in transactions of this kind and may use this Prospectus Supplement for this purpose.

The aggregate initial offering price specified in the accompanying Prospectus relates to the initial offering of new notes we may issue on and after the date thereof. This amount does not include notes that may be resold in market-making transactions. The latter includes notes that we may issue going forward as well as notes we have previously issued.

The Bank does not expect to receive any proceeds from market-making transactions other than those it undertakes on its own. The Bank does not expect that any agent that engages in these transactions will pay any proceeds from its market-making resales to the Bank.

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

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

In this Prospectus Supplement, the term this offering means the initial offering of the notes made in connection with their original issuance. This term does not refer to any subsequent resales of notes in market-making transactions.

The agents may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Syndicate covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit reclaiming a selling concession from a syndicate member when the notes originally sold by such syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. Such stabilizing transactions, syndicate covering transactions and penalty bids may

Table of Contents

stabilize, maintain or otherwise affect the market price of the notes, which may be higher than it would otherwise be in the absence of such transactions. The agents are not required to engage in these activities, and may end any of these activities at any time.

In addition to offering notes through the agents as discussed above, other senior notes that have terms substantially similar to the terms of the notes offered by this Prospectus Supplement may in the future be offered, concurrently with the offering of the notes, on a continuing basis by the Bank. Any of these notes sold pursuant to the distribution agreement or sold by the Bank directly to investors will reduce the aggregate amount of notes which may be offered by this Prospectus Supplement.

Conflict of Interest

Because SCUSA is an affiliate of the Bank, SCUSA has a conflict of interest as defined in FINRA Rule 5121. In addition, the Bank will receive the net proceeds from an initial public offering of the notes, thus creating an additional conflict of interest within the meaning of Rule 5121. Consequently, any such offering is being conducted in compliance with the provisions of Rule 5121. Neither SCUSA nor any other agent is permitted to sell notes in any such offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

Selling Restrictions

Canada

This Prospectus Supplement does not constitute an offer of the notes, directly or indirectly, in Canada or to residents of Canada. The agents have represented and agreed that they will not, directly or indirectly, offer, sell or deliver, any of the notes in or from Canada or to any resident of Canada. The agents have also agreed that they will include a comparable provision in any sub-underwriting, banking group or selling group agreement or similar arrangement with respect to the notes that may be entered into by the agents. The notes will not be qualified for sale under the securities laws of any province or territory of Canada.

Documents to be Filed as Part of the Registration Statement

In addition to the documents specified in the Prospectus under Incorporation of Certain Information by Reference, the following documents were filed with the Securities and Exchange Commission and incorporated by reference as part of the registration statement to which this Prospectus Supplement relates (the Registration Statement): the Third Amended and Restated Distribution Agreement dated as of February 1, 2017 between the Bank and the agents and the Third Amended and Restated Calculation Agency Agreement dated as of February 13, 2017 between the Bank and Scotia Capital Inc. Such documents will not be incorporated by reference into this Prospectus Supplement or the Prospectus. Additional exhibits to the Registration Statement to which this Prospectus Supplement relates may be subsequently filed in reports on Form 40-F or on Form 6-K that specifically state that such materials are incorporated by reference as exhibits in Part II of the Registration Statement.

S-25

Table of Contents

Schedule 1 Special Rate Calculation Terms

In the subsection entitled Interest Rates, Floating Rate Notes , we use several terms that have special meanings relevant to calculating floating interest rates. We define these terms as follows:

The term bond equivalent yield means a yield expressed as a percentage and calculated in accordance with the following formula:

$$\text{bond equivalent yield} = \frac{D \times N}{360 \quad (D \times M)} \times 100$$

where:

D means the annual rate for treasury bills quoted on a bank discount basis and expressed as a decimal;

N means 365 or 366, as the case may be; and

M means the actual number of days in the applicable interest reset period.

- The term business day means, for any note, a day that meets all the following applicable requirements:

- for all notes, is a Monday, Tuesday, Wednesday, Thursday or Friday that is neither a legal holiday nor a day on which banking institutions are authorized or required by law to close in New York City or Toronto, and, in the case of a floating rate note, London;

- if the note has a specified currency other than U.S. dollars or euros, is also a day on which banking institutions are not authorized or obligated by law, regulation or executive order to close in the applicable principal financial center; and

- if the note is a EURIBOR note or has a specified currency of euros, or is a LIBOR note for which the index currency is euros, is also a euro business day.

- The term designated CMT index maturity means the index maturity for a CMT rate note and will be the original period to maturity of a U.S. treasury security either 1, 2, 3, 5, 7, 10, 20 or 30 years specified in the applicable Pricing Supplement.

- The term designated CMT Reuters page means the Reuters page mentioned in the applicable Pricing Supplement that displays treasury constant maturities as reported in H.15(519). If no Reuters page is so specified, then the applicable page will be Reuters page FEDCMT. If Reuters page FEDCMT applies but the applicable Pricing Supplement does not specify whether the weekly or monthly average applies, the weekly average will apply.

- The term euro business day means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System, or any successor system, is open for business.

- The term euro-zone means, at any time, the region comprised of the member states of the European Economic and Monetary Union that, as of that time, have adopted a single currency in accordance with the Treaty on European Union of February 1992.

•&d to state a claim upon which relief may be granted, and the plaintiffs have opposed that motion.

It is not possible to predict the outcome of litigation and it is reasonably possible that there could be unfavorable outcomes in the *In re Avon Products, Inc. Securities Litigation, In re Avon Products, Inc. Securities Litigation* (derivative action) and *In re Avon Products, Inc. ERISA Litigation* matters. Management is unable to make a meaningful estimate of the amount or range of loss that could result from unfavorable outcomes but, under some circumstances, adverse awards could be material to our consolidated financial position, results of operations or cash flows.

Various other lawsuits and claims, arising in the ordinary course of business or related to businesses previously sold, are pending or threatened against Avon. In management s opinion, based on its review of the information available at this time, the total cost of resolving such other contingencies at June 30, 2006, should not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

14

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

7. COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	June 30		June 30	
Components of Comprehensive Income	**2006**	**2005**	**2006**	**2005**
Net income	$ 150.9	$ 328.6	$ 207.1	$ 500.6
Foreign currency translation adjustments	(7.7)	(5.0)	(10.6)	(46.8)
Minimum pension liability adjustment	260.8		260.8	
Change in unrealized gains from available-for-sale securities	(.1)	(1.2)	(.2)	(.5)
Change in derivative (losses) gains on cash flow hedges	(.7)	1.0	(1.7)	2.8
Comprehensive income	$ 403.2	$ 323.4	$ 455.4	$ 456.1

Cash flow hedges impacted comprehensive income as follows:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2006	**2005**	**2006**	**2005**
Net losses on derivative instruments	$ (2.0)	$ (8.7)	$ (9.3)	$ (16.0)
Reclassification of net losses to earnings	1.3	9.7	7.6	18.8
Net impact to comprehensive income	$ (.7)	$ 1.0	$ (1.7)	$ 2.8

During the second quarter of 2006, as a result of our restructuring initiatives, we performed remeasurements of plan assets and liabilities for certain pension plans in various countries. As a consequence of these remeasurements, we recorded minimum pension liability adjustments during the three months ended June 30, 2006.

At December 31, 2005, we recognized a minimum pension liability on our balance sheet for each pension plan if the fair value of the assets of that pension plan was less than the accumulated benefit obligation (ABO). In order to recognize this minimum pension liability, we recorded a charge in accumulated other comprehensive loss in Shareholders equity. In the second quarter of 2006, $260.8 of the previous charges recorded in accumulated other comprehensive loss, primarily related to the U.S. qualified pension plan, were no longer required. This U.S. qualified pension plan became fully funded on an ABO basis during the second quarter of 2006, primarily due to an increase in the discount rate used to determine the benefit obligation from 5.5% at December 31, 2005 to 6.4% as of the remeasurement date during the second quarter of 2006. The minimum pension liability adjustments recorded during the second quarter resulted in an approximate $230.0 increase in other assets. The adjustments had no impact on our net income, liquidity or cash flows.

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

8. SEGMENT INFORMATION

Effective January 1, 2006, we began managing Central & Eastern Europe and also China as stand-alone business units. These changes increase the number of our operating segments to six: North America; Latin America; Western Europe, Middle East & Africa; Central & Eastern Europe; Asia Pacific; and China. Also effective January 1, 2006, we began allocating certain expenses, previously classified as global expenses, to our business segments. Other costs associated with the corporate function remain unallocated as global expenses. The costs of implementing restructuring initiatives recorded within Global expenses were not included in the amounts allocated to the segments.

We have reclassified prior year segment reporting for comparison purposes. Summarized financial information concerning our reportable segments was as follows:

	Three Months Ended June 30			
	2006		2005	
	Revenue	Operating Profit (Loss)	Revenue	Operating Profit (Loss)
North America	$ 620.1	$ 60.8	$ 617.8	$ 95.5
Latin America	653.1	96.6	560.3	127.2
Western Europe, Middle East & Africa	273.5	25.8	267.5	29.2
Central & Eastern Europe	288.6	71.1	276.3	79.7
Asia Pacific	196.3	12.1	218.1	32.7
China	47.9	(4.3)	44.3	(1.4)
Total from operations	2,079.5	262.1	1,984.3	362.9
Global and other		(36.8)		(18.9)
Total	$ 2,079.5	$ 225.3	$ 1,984.3	$ 344.0

	Six Months Ended June 30			
	2006		2005	
	Revenue	Operating Profit (Loss)	Revenue	Operating Profit (Loss)
North America	$ 1,233.9	$ 98.8	$ 1,212.4	$ 159.9
Latin America	1,265.7	165.6	1,037.5	209.6
Western Europe, Middle East & Africa	506.5	(8.3)	501.2	34.1
Central & Eastern Europe	594.6	132.8	572.7	168.4
Asia Pacific	386.7	10.0	432.8	62.0
China	95.3	(4.9)	108.8	13.1
Total from operations	4,082.7	394.0	3,865.4	647.1

Global and other		(82.5)		(42.6)
Total	$ 4,082.7	$ 311.5	$ 3,865.4	$ 604.5

16

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

Our consolidated net sales by classes of principal products were as follows:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2006	2005	2006	2005
Beauty*	$ 1,448.8	$ 1,390.7	$ 2,834.1	$ 2,702.3
Beauty Plus**	416.0	369.7	814.5	712.3
Beyond Beauty***	194.1	203.5	392.7	410.2
Net sales	2,058.9	1,963.9	4,041.3	3,824.8
Other revenue****	20.6	20.4	41.4	40.6
Total revenue	$ 2,079.5	$ 1,984.3	$ 4,082.7	$ 3,865.4

* Beauty includes cosmetics, fragrances, skin care and toiletries.
** Beauty Plus includes fashion jewelry, watches, apparel and accessories.
*** Beyond Beauty includes home products and gift and decorative products.
**** Other primarily includes shipping and handling fees billed to Representatives.
Sales from Health and Wellness products and *mark.* are included among these categories based on product type.

9. SUPPLEMENTAL INCOME STATEMENT INFORMATION

	Three Months Ended		Six Months Ended	
	June 30		June 30	
Components of Other Expense, net	2006	2005	2006	2005
Foreign exchange (gains) losses, net	$ .1	$ 3.9	$ (.4)	$ 5.8
Amortization of debt issue costs and other financing	2.1	1.6	4.4	3.6
Gains on available-for-sale securities		(4.9)		(2.7)
Other	(1.4)	.2	(1.6)	(1.4)
Other expense, net	$ .8	$ .8	$ 2.4	$ 5.3

10. RESTRUCTURING INITIATIVES

In November 2005, we announced a multi-year turnaround plan as part of a major drive to fuel revenue growth and expand profit margins, while increasing consumer investments. As part of the turnaround plan, restructuring initiatives will include:

- enhancement of organizational effectiveness, including efforts to flatten the organization and bring senior management closer to consumers through a substantial organization downsizing;

- implementation of a global manufacturing strategy through facilities realignment;

- additional supply chain efficiencies in the areas of procurement and distribution; and

- streamlining of transactional and other services through outsourcing and moves to low-cost countries.

We expect to incur restructuring charges and other costs to implement these initiatives totaling in the range of $500.0 before taxes over the next several years, with a significant portion of the total costs to be incurred during 2006.

17

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

Restructuring Charges First and Second Quarters 2006

In first and second quarters of 2006, exit and disposal activities that are a part of our restructuring initiatives were approved. Specific actions for this phase of our restructuring initiatives included:

- organization realignment and downsizing in each region and global through a process called delayering, taking out layers to bring senior management closer to operations;

- the phased outsourcing of certain services in North America and the realignment of certain manufacturing processes; and

- the exit of certain unprofitable operations.

The actions described above are expected to be completed during 2006, except for the outsourcing of certain services in North America, which is expected to be completed in phases through 2008.

In connection with initiatives that have been approved to date, we recorded charges of $47.9 pretax and $156.3 pretax in the three and six months ended June 30, 2006, respectively, primarily for employee-related costs, including severance, pension and other termination benefits. These charges were included in marketing, distribution and administrative expenses. Approximately 85% of these charges are expected to result in future cash expenditures, with a majority of the cash payments expected to be made during 2006. We recorded favorable adjustments of $7.4 and $7.9 in the three and six months ended June 30, 2006, respectively, primarily relating to certain employees pursuing reassignments to other positions and higher than expected turnover (employees leaving prior to termination). Additionally, we incurred other costs to implement of $8.9 and $21.1 for professional service fees in the three and six months ended June 30, 2006, respectively, which are recorded in marketing, distribution and administrative expenses, related to the implementation of these initiatives, resulting in total costs to implement during the three and six months ended June 30, 2006 of $49.4 and $169.5, respectively.

The liability balances for the initiatives that have been approved to date are shown below.

	Employee-Related Costs	Asset Write-offs	Inventory Write-offs	Currency Translation Adjustment Write-offs	Contract Terminations/ Other	Total
Balance at Beginning of Year	$ 29.2	$	$	$	$	$ 29.2
Charges	146.1	8.6	.6	.2	.8	156.3
Adjustments	(6.6)	(.4)	(.9)			(7.9)
Cash payments	(54.5)				(.4)	(54.9)
Non-cash write-offs	(13.5)	(8.2)	.3	(.2)		(21.6)
Foreign exchange	.7				.1	.8
Ending Balance	$ 101.4	$	$	$	$ .5	$ 101.9

Charges incurred to date	$	169.9	$	9.6	$	8.1	$	11.6	$	.8	$ 200.0
Charges to be incurred on approved initiatives		4.0								12.3	16.3
Total expected charges	$	173.9	$	9.6	$	8.1	$	11.6	$	13.1	$ 216.3

Non-cash write-offs associated with employee-related costs are the result of settlement, curtailment and special termination benefit charges for pension plans and postretirement due to the initiatives implemented.

18

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

The charges, net of adjustments, of initiatives approved to date by reportable business segment were as follows:

	North America	Latin America	Western Europe, Middle East & Africa	Central & Eastern Europe	Asia Pacific	China	Corporate	Total
First quarter 2006 charges:	$ 25.3	$ 15.2	$ 30.7	$ 5.4	$ 12.9	$ 3.1	$ 15.3	$ 107.9
Second quarter 2006 charges:	8.5	19.5	(.1)	(.3)	8.8	2.0	2.1	40.5
Charges recorded to date	40.7	38.2	42.3	6.1	39.9	9.3	23.5	200.0
Charges to be incurred on approved initiatives	13.3	1.0	1.0		1.0			16.3
Total expected charges	54.0	39.2	43.3	6.1	40.9	9.3	23.5	216.3

As noted previously, we expect to incur total costs to implement in the range of $500.0 for all restructuring initiatives, including restructuring charges and other costs to implement, over the next several years. The amounts shown in the tables above as charges recorded to date relate to initiatives that have been approved and recorded in the financial statements to date as the costs are probable and estimable. The amounts shown in the tables above as total expected charges represent charges recorded to date plus charges yet to be recorded for approved initiatives as the relevant accounting criteria for recording have not yet been met. In addition to the charges included in the tables above, we will incur other costs to implement such as consulting and other professional services.

11. GOODWILL AND INTANGIBLE ASSETS

On October 18, 2005, we purchased the Avon direct-selling business of our licensee in Colombia for approximately $154.0 in cash, pursuant to a share purchase agreement that Avon International Holdings Company, a wholly-owned subsidiary of the Company, entered into with Sarastro Ltd. Ldc. on October 7, 2005. The acquired business is being operated by a new wholly-owned subsidiary under the name Avon Colombia and is included in our Latin America operating segment. We had a pre-existing license arrangement with the acquired business. The negotiated terms of the license agreement were considered to be at market rates; therefore, no settlement gain or loss was recognized upon acquisition. During the fourth quarter of 2005, we recorded a preliminary purchase price allocation, which resulted in goodwill of $94.8, licensing agreement of $32.0 (four-year useful life), customer relationships of $35.1 (seven-year weighted-average useful life), and a noncompete agreement of $3.9 (three-year useful life). During the first quarter of 2006, we gathered additional data to refine certain assumptions of the valuation. The revised purchase price allocation resulted in goodwill of $96.4, licensing agreement of $36.0 (four-year useful life), customer relationships of $28.6 (five-year weighted-average useful life), and a noncompete agreement of $3.9 (three-year useful life).

Goodwill

	Latin America	Western Europe, Middle East & Africa	Central & Eastern Europe	Asia Pacific	China	Total
Balance at December 31, 2005	$ 95.7	$ 24.6	$ 8.7	$ 10.1	$ 32.5	$ 171.6
Adjustments	1.5					1.5
Foreign exchange	.2	(2.5)	.1	.1		(2.1)
Balance at June 30, 2006	$ 97.4	$ 22.1	$ 8.8	$ 10.2	$ 32.5	$ 171.0

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

Intangible assets

	June 30, 2006		December 31, 2005	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Amortized Intangible Assets				
Customer relationships	$ 34.3	$ (9.8)	$ 40.8	$ (3.3)
Licensing agreements	36.0	(6.1)	32.0	(1.6)
Noncompete agreements	8.0	(2.9)	9.2	(3.4)
Total	$ 78.3	$ (18.8)	$ 82.0	$ (8.3)

Estimated Amortization Expense:	
2006	$ 19.4
2007	15.7
2008	15.4
2009	13.0
2010	1.3

Aggregate amortization expense during the three and six months ended June 30, 2006 was $4.4 and $11.8, respectively, compared to $.1 for the same periods of 2005.

12. DEBT

In January 2006, we issued in a public offering $500.0 principal amount of notes payable that mature on January 15, 2011, and bear interest, payable semi-annually, at a per annum rate equal to 5.125%. The net proceeds from the offering were used for general corporate purposes, including the repayment of short-term debt.

20

Table of Contents

AVON PRODUCTS, INC.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in millions, except per share data)

OVERVIEW

We are a global manufacturer and marketer of beauty and related products. Our business is conducted worldwide, primarily in the direct selling channel. We presently have sales operations in approximately 60 countries and territories, including the United States, and distribute products in approximately 50 more. Effective January 1, 2006, we began managing operations in Central & Eastern Europe and also China as stand-alone operating segments. These changes increase the number of operating segments to six. Effective January 1, 2006, we also established global Brand Marketing and Supply Chain organizations. Product categories include Beauty, which consists of cosmetics, fragrances, skin care and toiletries; Beauty Plus, which consists of fashion jewelry, watches, apparel and accessories; and Beyond Beauty, which consists of home products and gift and decorative products. Sales from Health and Wellness and *mark.* are included among these categories based on product type. Sales are made to the ultimate consumer principally through approximately 5.1 million independent Representatives, who are independent contractors and not employees of Avon. The success of our business is highly dependent on recruiting, motivating and retaining Representatives.

We view the geographic diversity of our businesses as a strategic advantage. In developed markets, such as the United States, we seek to achieve steady, profitable growth, while in developing and emerging markets we have higher growth targets.

Continued growth in our Latin America segment drove revenue growth during the second quarter of 2006, with Central & Eastern Europe, Western Europe, Middle East & Africa and China also contributing to the growth. Revenue for our North America segment was flat, while revenue declined in our Asia Pacific segment. For the first time in four quarters, China experienced a slight revenue increase in the second quarter of 2006 primarily due to the commencement of direct selling. During the six months ended June 30, 2006, our Latin America segment also drove revenue growth, with Central & Eastern Europe, Western Europe, Middle East & Africa, and North America also contributing to the growth, while revenue declined in our Asia Pacific and China segments.

Operating profit in the three and six month periods ended June 30, 2006, was negatively impacted by costs associated with our turnaround plan, including restructuring charges, spending on advertising, and other strategic initiatives, as well as expenses associated with the January 1, 2006, adoption of SFAS 123 (revised 2004), *Share-Based Payment* (SFAS 123R).

Strategic Initiatives

In November 2005 we announced a four-point turnaround plan to restore sustainable growth to our business. This plan includes:

- Committing to brand competitiveness by focusing research and development resources on product innovation and by increasing our advertising.
- Winning with commercial edge by more effectively utilizing pricing and promotion, expanding our Sales Leadership program and improving the attractiveness of our Representative earnings opportunity as needed.
- Elevating organization effectiveness by redesigning our structure to eliminate layers of management to take full advantage of our global scale and size.
- Transforming the cost structure so that our costs are aligned to our revenue growth and remain so.

Restructuring Initiatives

In connection with our four-point turnaround plan, in November 2005, we announced a multi-year restructuring plan. In the three and six months ended June 30, 2006, we incurred costs to implement net of adjustments of $49.4 and $169.5, respectively, for actions associated with our restructuring initiatives under the plan, primarily for employee related costs, including severance, pension and other termination benefits and professional service fees related to these initiatives. These actions include:

21

Table of Contents

AVON PRODUCTS, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in millions, except per share data)

- organization realignment and downsizing in each region and global through a process called delayering, taking out layers to bring senior management closer to operations;

- the phased outsourcing of certain services in North America and the realignment of certain manufacturing processes; and

- the exit of certain unprofitable operations.

We expect to incur total costs in the range of $500.0 to implement all restructuring initiatives, including restructuring charges and other costs to implement, over the next several years. We also expect to announce additional initiatives as they are approved.

See Note 10, Restructuring Initiatives, for further information.

New Accounting Pronouncements

Effective January 1, 2006, we adopted SFAS 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which requires all share-based payments to employees to be recognized in the financial statements based on their fair values using an option-pricing model at the date of grant. As a result of the adoption of SFAS 123R, including restricted stock units granted in connection with changes to share-based compensation plan design related to the adoption, we recorded expense of $14.7 and $26.8 within marketing, distribution and administrative expenses during the three and six months ended June 30, 2006. The adoption of FAS 123R during the three and six months ended June 30, 2006 decreased net income by $9.7 and $17.8, basic and diluted earnings per share by $.02 and $.04, and net cash provided by operating activities by $1.9, while it increased net cash provided by financing activities by $1.9.

In July 2006, the FASB issued an interpretation of SFAS No. 109, *Accounting for Income Taxes,* (FIN 48). The interpretation prescribes a consistent recognition threshold and measurement attribute, as well as clear criteria for subsequently recognizing, derecognizing and measuring such tax positions for financial statement purposes. The interpretation also requires expanded disclosure with respect to the uncertainty in income taxes. The interpretation is effective January 1, 2007 for Avon. We are currently evaluating the impact of this interpretation on our Consolidated Financial Statements.

22

Table of Contents

AVON PRODUCTS, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in millions, except per share data)

RESULTS OF OPERATIONS THREE AND SIX MONTHS ENDED JUNE 30, 2006 AS COMPARED TO 2005

Consolidated

	Three Months Ended June 30			Six Months Ended June 30		
	2006	2005	Favorable (Unfavorable) %/Point Change	2006	2005	Favorable (Unfavorable) %/Point Change
Total revenue	$ 2,079.5	$ 1,984.3	5%	$ 4,082.7	$ 3,865.4	6%
Cost of sales	776.5	730.4	(6)%	1,556.2	1,428.6	(9)%
Marketing, distribution and administrative expenses	1,077.7	909.9	(18)%	2,215.0	1,832.3	(21)%
Advertising expenses*	53.5	30.1	(78)%	93.2	55.3	(68)%
Operating profit	225.3	344.0	(35)%	311.5	604.5	(48)%
Interest expense	23.9	10.5	(128)%	50.4	20.6	145%
Interest income	(16.7)	(8.1)	106%	(29.9)	(15.9)	88%
Other expense, net	.8	.8	0%	2.4	5.3	55%
Net income	150.9	328.6	(54)%	207.1	500.6	(59)%
Diluted earnings per share	.33	.69	(52)%	.46	1.05	(56)%
Gross margin	62.6%	63.2%	(.6)	61.9%	63.0%	(1.1)
Marketing, distribution and administrative expenses as a % of total revenue	51.8%	45.9%	(5.9)	54.3%	47.4%	(6.9)
Operating margin	10.8%	17.3%	(6.5)	7.6%	15.6%	(8.0)
Effective tax rate	30.7%	3.0%	(27.7)	28.1%	15.2%	(12.9)
Units sold			(1)%			1%
Active Representatives			4%			4%

* Advertising expenses are included within marketing, distribution and administrative expenses.

Revenue

Total revenue increased 5% in the second quarter of 2006, which benefited by 3.0 points due to the acquisition of our licensee in Colombia during the fourth quarter of 2005. Foreign exchange also contributed 1% to revenue growth. Revenue grew in Latin America, Western Europe, Middle East & Africa, Central & Eastern Europe and China. Revenue was flat in North America and declined in Asia Pacific.

On a category basis, the second quarter 2006 increase in revenue was primarily driven by an increase of 4% in Beauty sales. Beauty Plus sales increased 13%, and Beyond Beauty sales decreased 5%.

Total revenue increased 6% for the six months ended June 30, 2006, which benefited by 3.0 points due to the acquisition of our licensee in Colombia during the fourth quarter of 2005. Foreign exchange also contributed 1% to the revenue growth. Revenue grew in North America, Latin America, Western Europe, Middle East & Africa, and Central & Eastern Europe. Revenue declined in Asia Pacific and China.

On a category basis, the six-month 2006 increase in revenue was primarily driven by an increase of 5% in Beauty sales. Beauty Plus sales increased 14%, and Beyond Beauty sales decreased 4%.

Table of Contents

AVON PRODUCTS, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in millions, except per share data)

Gross Margin

Gross margin decreased .6 point and 1.1 points during the second quarter and six-month periods of 2006, respectively, primarily due to an unfavorable mix of products sold and higher inventory obsolescence provisions. Our turnaround plan includes initiatives to optimize our product line and we may incur additional obsolescence charges as a result.

Marketing, Distribution and Administrative Expenses

Marketing, distribution and administrative expenses increased $167.8 during the second quarter in 2006, primarily due to $49.2 million of costs incurred to implement our restructuring initiatives. Additionally, higher compensation-related expenses, higher advertising, and the acquisition of our business in Colombia during the fourth quarter of 2005 contributed to the increase in marketing, distribution and administrative expenses. We also recorded additional expense of $14.7 within marketing, distribution and administrative expenses due to the adoption of FAS 123R.

Marketing, distribution and administrative expenses increased $382.7 during the six-month period in 2006, primarily due to $169.8 million of costs incurred to implement our restructuring initiatives. Additionally, higher compensation-related expenses, higher advertising, and the acquisition of our business in Colombia during the fourth quarter of 2005 contributed to the increase in marketing, distribution and administrative expenses. We also recorded additional expense of $26.8 within marketing, distribution and administrative expenses due to the adoption of FAS 123R.

See the Segment Review section of Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information related to changes in operating margin by segment.

Other Expense

Interest expense increased during both the three and six months ended June 30, 2006, mainly due to higher debt levels associated with our share repurchase plan, as well as higher interest rates. At June 30, 2006, we held interest rate swap agreements that effectively converted approximately 40% of our outstanding long-term, fixed-rate borrowings to a variable interest rate based on LIBOR.

Interest income increased during both the three and six months ended June 30, 2006, primarily due to higher cash and cash equivalent balances invested offshore at higher interest rates during the first half of 2006.

Effective Tax Rate

The effective tax rate for the three and six months ended June 30, 2006, was 30.7% and 28.1%, respectively, compared to rates of 3.0% and 15.2%, respectively, for the same periods of 2005. In the three and six months ended June 30, 2006, the tax rate was favorably impacted by a tax refund, which lowered the rate by approximately 5.0 points and 4.0 points, respectively, partially offset by the tax impact from the repatriation of international earnings, which increased the rate by approximately 4.0 points and 3.0 points, respectively. In the six-month period, the rate was further impacted favorably by approximately 4.0 points due to audit settlements and the closure of tax years by expiration of statute of limitations. These benefits to the tax rate were partially offset by the unfavorable tax impact associated with our restructuring initiatives. During the remainder of 2006, other income tax returns are scheduled to close by statute and it is possible that other tax examinations may be completed.

The effective tax rates during the three and six months ended June 30, 2005, were favorably impacted by approximately 29.0 points and 17.0 points, respectively, primarily due to the effects of the completion of tax examinations as well as the closure of a tax year by expiration of the statute of limitations (which occurred during the second quarter of 2005), net of related adjustments.

24

Table of Contents

AVON PRODUCTS, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in millions, except per share data)

Segment Review

North America

	Three Months Ended June 30				Six Months Ended June 30			
			%/Point Change				%/Point Change	
	2006	2005	US$	Local Currency	2006	2005	US$	Local Currency
Revenue	$ 620.1	$ 617.8	%	%	$ 1,233.9	$ 1,212.4	2%	1%
Operating profit	60.8	95.5	(36)%	(37)%	98.8	159.9	(38)%	(39)%
Operating margin	9.8%	15.5%	(5.7)	(5.7)	8.0%	13.2%	(5.2)	(5.2)
Units sold				(5)%				(4)%
Active Representatives				(7)%				(6)%

Total revenue was flat during the second quarter. Revenue grew 2% in the six-month period, as the larger average order received from Representatives more than offset the decline in active Representatives. The primary contributor to the decline in active Representatives was a decrease in the number of orders placed. The larger average order was driven by strength in Beauty Plus.

The decrease in 2006 operating margin in North America in both periods was primarily driven by costs incurred to implement restructuring initiatives, which negatively impacted operating margin by 1.5 points and 2.8 points in the three and six months ended June 30, 2006, respectively. Other contributing elements included higher compensation-related expenses, spending on advertising, and higher allocation of global expenses. Additionally, higher inventory obsolescence contributed to the operating margin decline in the six-month period.

Latin America

	Three Months Ended June 30				Six Months Ended June 30			
			%/Point Change				%/Point Change	
	2006	2005	US$	Local Currency	2006	2005	US$	Local Currency
Revenue	$ 653.1	$ 560.3	17%	13%	$ 1,265.7	$ 1,037.5	22%	16%
Operating profit	96.6	127.2	(24)%	(27)%	165.6	209.6	(21)%	(25)%
Operating margin	14.8%	22.7%	(7.9)	(7.9)	13.1%	20.2%	(7.1)	(7.1)
Units sold				6%				8%
Active Representatives				13%				12%

Total revenue increased in both periods of 2006, reflecting growth in active Representatives and units sold, as well as favorable foreign exchange. The fourth quarter 2005 acquisition of our licensee in Colombia favorably impacted Latin America s revenue growth in both the second quarter and six-month period by 10 points. In both periods, continued strength in Brazil, due to larger average order and increased active Representatives, more than compensated for continued softness in Mexico.

The decrease in operating margin in Latin America during both periods of 2006 was most significantly impacted by costs to implement our restructuring initiatives, which negatively impacted operating margin by 3.0 points and 2.8 points in the three and six months ended June 30, 2006, respectively. Additionally, in both periods, higher allocation of global expenses, spending on advertising, and higher compensation-related expenses were partially offset by operating efficiencies due to the revenue increase. Higher inventory obsolescence expense also contributed to the operating margin decline in the six-month period.

Table of Contents

AVON PRODUCTS, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in millions, except per share data)

Currency restrictions enacted by the Venezuelan government in 2003 limit the ability of our subsidiary in Venezuela (Avon Venezuela) to obtain foreign currency at the official rate to pay for imported products. At June 30, 2006, Avon Venezuela had cash balances of approximately $100.0 primarily denominated in bolivars, of which a significant portion is awaiting government approval for remittance to the U.S. parent. We use the official rate to translate the financial statements of Avon Venezuela into U.S. dollars. In 2005, Avon Venezuela s revenue and operating profit represented approximately 3% and 6% of consolidated revenue and consolidated operating profit, respectively.

Western Europe, Middle East & Africa

	Three Months Ended June 30				Six Months Ended June 30			
			%/Point Change				%/Point Change	
				Local				Local
	2006	**2005**	**US$**	**Currency**	**2006**	**2005**	**US$**	**Currency**
Revenue	$ 273.5	$ 267.5	2%					