

## GLOSSARY OF FINANCIAL TERMS

**Allowances for Loan Losses** represent an amount deemed adequate by the Bank to absorb credit-related losses on loans and acceptances. Total allowances for loan losses consists of individual and collective allowances and are recorded on the balance sheet as a deduction from loans and acceptances.

**Assets under Administration and under Management** mostly refers to assets related to registered and non-registered investment accounts, clients' brokerage assets, mutual funds and mortgages administered by the Bank that are beneficially owned by clients and therefore not reported on the balance sheet of the Bank.

**Assets to Capital Multiple** is an OSFI-regulated capital ratio defined as total assets plus specified off-balance sheet items, divided by Total Capital.

**Bankers' Acceptances (BAs)** are bills of exchange or negotiable instruments drawn by a borrower for payment at maturity and accepted by a bank. BAs constitute a guarantee of payment by the Bank and can be traded in the money market. The Bank earns a "stamping fee" for providing this guarantee.

**Basel II** is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. The purpose of Basel II is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face.

**Basel III** is the third of the Basel Accords. It provides more stringent capital adequacy standards.

**Basis Point:** One one-hundredth of a percentage point.

**Book Value Per Common Share** is defined as common shareholders' equity, excluding accumulated other comprehensive income, divided by the number of common shares outstanding at the end of the period.

**Collective Allowances** are maintained to cover impairment in the existing loan portfolio that cannot yet be associated with specific loans. The Bank employs a collective allowance model based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility.

**Common Equity Tier 1 Capital** represents, under Basel III, more permanent forms of capital, and primarily consists of common shareholder's equity and accumulated other comprehensive income, less a deduction for goodwill, software and other intangibles, pension assets, cash flow hedges and certain other deductions prescribed by OSFI.

**Common Equity Tier 1 Ratio** is defined as common equity Tier 1 capital divided by risk-weighted assets.

**Credit and Counterparty Risk** is the risk of a financial loss occurring if a counterparty (including a debtor, an issuer or a guarantor) does not fully honor its contractual or financial obligations towards the Bank with regard to a balance sheet or an off-balance sheet financial instrument.

**Derivatives** are contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Derivatives allow for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

**Dividend Payout Ratio** is defined as dividends declared on common shares as a percentage of net income available to common shareholders.

**Dividend Yield** represents dividends declared per common share divided by the closing common share price.

**Earnings Per Share (EPS)** is calculated by dividing net income after deduction of preferred dividends, by the average number of shares outstanding. Diluted EPS is calculated by adjusting the number of shares outstanding for possible conversions of financial instruments into common shares.

**Effective Interest Rate** represents the discount rate applied to estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to arrive at the net carrying amount of the financial asset or liability.

**Efficiency Ratio** is a key measure of productivity and cost control. It is defined as non-interest expenses as a percentage of total revenue.

**Hedging** is a risk management technique used to neutralize or manage interest rate, foreign currency, or credit exposures arising from normal banking activities by taking positions that are expected to react to market conditions in an offsetting manner.

**Impaired Loans** are loans for which there is no longer reasonable assurance of the timely recovery of principal or interest.

**Individual Allowances** reduce the carrying value of impaired loans to the amount the Bank expects to recover when there is evidence of deterioration in credit quality.

**Mark-to-Market** is the valuation of financial instruments that are carried at fair value at market prices as of the balance sheet date.

**Net Interest Income** is comprised of earnings on assets, such as loans and securities, including interest and dividend income, less interest expense paid on liabilities, such as deposits.

**Net Interest Margin** is the ratio of net interest income to total average assets, expressed as a percentage or basis points.

**Notional Amount** refers to the principal used to calculate interest and other payments under derivative contracts.

**Off-Balance Sheet Financial Instruments** represent a variety of financial arrangements offered to clients, which include for the Bank derivatives, credit commitments and guarantees, and other indemnifications.

**Office of the Superintendent of Financial Institutions Canada (OSFI)** is the primary Canadian regulator and supervisor of federally regulated deposit-taking institutions, insurance companies and federally regulated private pension plans.

**Options** are contractual agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to either buy or sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the agreement is entered into. The writer receives a premium for selling this instrument.

**Provision for Loan Losses** is a charge to income that represents an amount deemed adequate by management considering the allowances for loan losses already established to absorb all incurred loan losses in its portfolio, given the composition of the portfolios, the probability of default and the economic environment.

**Return on Common Shareholders' Equity** is a profitability measure calculated as the net income available to common shareholders as a percentage of average common shareholders' equity, excluding accumulated other comprehensive income.

**Risk-weighted Assets** are assets calculated by applying a regulatory risk-weight factor to on and off-balance sheet exposure. The Bank uses standardized risk-weight factors as stipulated by OSFI, based on the guidelines developed by the Bank for International Settlement (BIS).

**Securities Purchased Under Reverse Repurchase Agreements and Obligations Related to Securities Sold Under Repurchase Agreements** are short-term purchases of securities under agreements to resell as well as short-term sales of securities under agreements to repurchase at predetermined prices and dates. Given the low risk transfer associated with these purchases and sales, these agreements are treated as collateralized lending.

**Swaps** are contractual agreements between two parties to exchange a series of cash flows for a specified period of time. The various swap agreements that the Bank enters into are as follows:

- *Interest rate swaps* – counterparties generally exchange fixed and floating rate interest payments based on a predetermined notional amount in a single currency.
- *Foreign exchange swaps* – fixed rate interest payments and principal amounts are exchanged in different currencies.
- *Total return swaps* – floating payments based on changes in the value of a reference asset or group of assets, including any associated return such as dividends, are exchanged for amounts based on prevailing market funding rates.

**Tier 1 BIS Capital Ratio** is defined as Tier 1 capital divided by risk-weighted assets.

**Tier 1 Capital** represents, under Basel II, more permanent forms of capital, and primarily consists of common shareholders' equity and preferred shares, less a deduction for goodwill and excess intangible assets, securitization and certain other deductions prescribed by OSFI.

**Total BIS Capital Ratio** is defined as total capital divided by risk-weighted assets.

**Total Capital** includes Tier 1 and Tier 2 capital, net of certain deductions. Tier 2 capital is primarily comprised of subordinated debt, the eligible portion of collective allowances for loan losses, less reductions for securitization and certain other deductions prescribed by OSFI.

**Value at Risk (VaR)** corresponds to the potential loss the Bank may incur for a specific portfolio or a group of portfolios over a one-day period, with a confidence level of 99%.