# GLOSSARY OF FINANCIAL TERMS

**Allowances for Loan Losses** represent an amount deemed adequate by the Bank to absorb credit-related losses on loans, acceptances and undrawn amounts under approved credit facilities. Total allowances for loan losses consists of specific and general 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 such as deposits, 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 regulatory 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, which was developed in response to the deficiencies in financial regulation revealed by the global financial crisis. Basel III introduces new regulatory requirements on bank liquidity and bank leverage.

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

**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 honour 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.

**General Allowances** are maintained to cover impairment in the existing loan portfolio that cannot yet be associated with specific credit assets. The Bank employs a general 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.

**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.

**Liquidity and Funding Risk** is the possibility that the Bank may not be able to gather sufficient cash resources, when required and on reasonable conditions, to meet its financial obligations.

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

**Market Risk** is the financial losses that the Bank could incur following unfavourable fluctuations in the value of financial instruments subsequent to changes in the underlying factor used to measure them, such as interest rates, exchange rates or equity prices.

**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 as well as assets and liabilities arising from the utilization of special purpose entities set up for financing purposes.

**Office of the Superintendant 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.

**Operating Leverage** is the difference between total revenue and non-interest expenses growth rates.

**Operational Risk** is the potential for loss resulting from inadequacy or failure attributable to processes, persons or internal systems or from external events.

**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 loan losses in its portfolio, given the composition of the portfolios, the probability of default and the economic environment.

**Regulatory Risk** is the risk of non-compliance by the Bank with applicable laws, regulations, regulatory authority guidelines and voluntary codes.

**Reputation Risk** is the risk that a decision, an event or a series of events affect, either directly or indirectly the Bank's image with shareholders, clients, employees, the general public or any other stakeholders, and may negatively impact the Bank's revenues, operations and, ultimately, its value.

**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 as stipulated by OSFI, based on the guidelines developed by the Bank for International Settlement (BIS). The risk-weight factors for the Bank conform to OSFI requirements and enable banks to convert on and off-balance sheet exposures on a comparable risk level.

**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.

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

**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.
- *Cross-currency interest rate swaps* – fixed and floating rate interest payments and principal amounts are exchanged in different currencies.
- *Foreign exchange swaps* – fixed rate interest payments and principal amounts are exchanged in different currencies.

**Tangible Common Equity** is defined as common shareholders' equity, excluding accumulated other comprehensive income, less goodwill and contractual and customer relationship intangible assets.

**Tangible Common Equity Ratio** is defined as the tangible common equity as a percentage of risk-weighted assets.

**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, insurance operations and certain other required deductions.

**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 and the eligible portion of the general allowance for loan losses. Deductions from Tier 2 capital are primarily related to insurance operations and other items 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%.

**Variable Interest Entities (VIEs)** include entities with equity that is considered insufficient to finance the entity's activities or in which the equity holders do not have a controlling financial interest. The Bank is required to consolidate VIEs if the investments it holds in these entities and/or the relationships it has with them result in the Bank being exposed to the majority of their expected losses and/or being able to benefit from a majority of their expected residual returns, based on a calculation determined by standard setters.