

# Glossary of Financial Terms

## Allowance for Credit Losses

Represents an amount deemed adequate by management to absorb credit-related losses on loans and acceptances and other credit instruments. Allowances for credit losses can be specific or general and are recorded on the balance sheet as a deduction from loans and acceptances or, as it relates to credit instruments, in other liabilities.

## Assets under Administration and under Management

Assets administered or managed by a financial institution that are beneficially owned by clients and therefore not reported on the balance sheet of the administering or managing financial institution.

## Average Earning Assets

Represents the daily or monthly average balance of deposits with other banks and loans and securities, over a one-year period.

## Bankers' Acceptances (BAs)

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.

## Basis Point

One one-hundredth of a percentage point.

## Derivatives

Contracts whose value is "derived" from 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 and can also be used for trading.

## Hedging

A risk management technique used to neutralize or manage interest rate, foreign currency, equity, commodity or credit exposures arising from normal banking activities.

## Impaired Loans

Loans for which there is no longer reasonable assurance of the timely collection of principal or interest.

## Innovative Tier 1 Capital

OSFI allows banks to issue instruments that qualify as "Innovative" Tier 1 capital. In order to qualify, these instruments have to be issued indirectly through a special-purpose entity, be permanent in nature and free of any fixed charges and accounted for as non-controlling interests. Innovative Tier 1 capital cannot comprise more than 15% of net Tier 1 capital and the sum of innovative Tier 1 capital and non-cumulative perpetual preferred shares cannot exceed 25% of net Tier 1 capital.

## Mark-to-Market

Represents valuation at market rates, as of the balance sheet date, of securities and derivatives held for trading purposes.

## Notional Amount

The principal used to calculate interest and other payments under derivative contracts. The principal amount does not change hands under the terms of a derivative contract, except in the case of cross-currency swaps.

## Provision for Credit Losses

A charge to income that represents an amount deemed adequate by management to fully provide for impairment in loans and acceptances and other credit instruments, given the composition of the portfolios, the probability of default, the economic environment and the allowance for credit losses already established.

## Regulatory Capital Ratios

The percentage of risk-weighted assets supported by capital, as defined by OSFI under the framework of risk-based capital standards developed by the Bank for International Settlements. These ratios are labeled Tier 1 and Total. Tier 1 capital is considered to be more permanent, consisting of common shares together with any qualifying non-cumulative preferred shares, less unamortized goodwill. Tier 2 capital consists of other preferred shares, subordinated debentures and the general allowance, within prescribed limits. The assets-to-capital multiple is defined as assets plus guarantees and letters of credit, net of specified deductions (or adjusted assets), divided by total capital.

## Securities Purchased under Resale Agreements

Result from transactions that involve the purchase of a security, normally a government bond, with the commitment by the buyer to resell the security to the original seller at a specified price on a specified date in the future. They represent low-cost, low-risk loans.

## Securities Sold under Repurchase Agreements

Result from transactions in which a security is sold with the commitment by the seller to repurchase the security at a specified price on specified date in the future. They provide low-cost funding.

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