

The Scotia Capital Debt Market Indices

A GENERAL DESCRIPTION

A INTRODUCTION

Scotia Capital produces Yield, Price and Total Return Indices for monitoring the Canadian bond, mortgage and money markets. The Yield Indices allow the assessment of general interest rate trends; the shape of the yield curve for a wide variety of credit classes; and the yield spread between various tiers of credits. The Price Indices measure capital gain/loss for each index and index sub component. The Total Return Indices account for capital gain/loss as well as interest income earned on each index and index sub component. All indices described below can be found in our monthly publication, "Scotia Capital Debt Market Indices." The daily and month end indices can be monitored on: Reuters pages SM2A-N, Telerate pages 9711-9717, Bloomberg page SMFR, <http://www.scotiacapital.com/Markets/GlobalFixedIncome/DebtMarketIndices>, <http://www.scmonline.com>, *The Globe & Mail* and *The Financial Post*. As well, Canadian weekly financial statistics and monthly reviews carry selected yield series for various index components.

B SUMMARY OF THE INDICES PRODUCED BY SCOTIA CAPITAL

To measure performance in the Canadian domestic bond market, Scotia Capital offers the Short, Mid, Long and Universe Bond indices on a daily basis. These indices cover yields, prices and total returns for marketable Canadian bonds with terms to maturity greater than 1 year. Bond categories for each index include Canadas, Provincials, Municipals and AA through BBB-rated corporate issuers. All four indices use the same construction methodology to ensure consistency. Bonds are weighted on a market value basis including accrued interest, and emulate "real world" bond portfolios.

The broadest measure of performance for the Canadian bond market is the Scotia Capital Universe Bond Index, as it encompasses the entire yield curve and has the largest number of bonds. The Short, Mid and Long bond indices are most useful for analysis of specific segments of the yield curve.

In the last few years, we have developed new indices to reflect the ever-changing environment of the bond market. As such, we now provide total return statistics for MBS, Yankee, Euro U.S., RRB, High Yield & RRSP Eligible markets. In addition, we now supply daily figures for the money market indices.

Universe Bond Index

The Universe index covers all marketable Canadian bonds with term to maturity of more than 1 year. History dates from December 1979. The Universe contains over 900 marketable Canadian bonds. The average term is 9 years and the average duration is 5.5 years. The purpose of this index is to reflect performance of the broad "Canadian bond market" in a manner similar to the way the TSE 300 represents the Canadian equity market.

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Short Term Bond Index

Covers bonds with term to maturity of 1 - 5 years. History dates from December 1979. Includes over 350 marketable Canadian bonds. Average term is 3 years and average duration is 2.5 years.

Mid Term Bond Index

Covers bonds with term to maturity of 5 - 10 years. History dates from December 1979. Includes approximately 300 marketable Canadian bonds. Average term is 7.5 years and average duration is 5.8 years.

Long Term Bond Index

Covers bonds with term to maturity of greater than 10 years. History dates from December 1947. Includes approximately 270 marketable Canadian bonds. Average term is 21 years and average duration is 10 years.

Money Market Indices

Yield and Total Return index data are produced for the following money market instruments:

30-Day Corporate Paper (from January 1960) (R1 Low)

90-Day Corporate Paper (from January 1956) (R1 Low)

30-Day Treasury Bills (from May 1973)

91-Day Treasury Bills (from December 1947)

182-Day Treasury Bills (from December 1994)

365-Day Treasury Bills (from December 1994)

The money market indices were calculated monthly until December 1994 and thereafter done on a daily basis.

The indices are now mark to market daily to arrive at a daily index return. On auction day, the current back dated issue is sold at bid price at auction time and the new cash issue is purchased at auction average for settlement the following Thursday.

EuroCanadian Indices

Covers the term to maturity ranges of 1 to 3, 3 to 5, 1 to 5, 5 to 10 and 1 to 10 years and are broken down into foreign and domestic issuers. Average term is 4.5 years and average duration is 3.5 years for the 1 to 10 year. The EuroCanadian indices are calculated weekly, have over 300 EuroCanadian bonds, and can be found on both Reuters and Telerate, as well as in our monthly "Debt Market Indices report."

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Markets MBS Indices

Scotia Capital MBS index measures total return performance on both open and closed pools, with monthly history back to 1990. The index has term ranges defined by WAMD and is separated into six term categories: 1-2 year, 2-5 year, 1-5 year, 5-10 year, 10+ years and Composite (1 year and over). Average term is 2.75 years and average duration is 2.25 years for the composite.

U.S. \$ Payable Canadian Yankee Bond Index

The U.S. \$ Payable Canadian Yankee index covers all marketable Canadian issued U.S. \$ government and corporate bonds. History dates from December 1992. Contains approximately 150 bonds. Average term is 16.75 years and average duration is 7.5 years.

U.S. \$ Payable Canadian Euro U.S. Bond Index

The U.S. \$ Payable Canadian Euro U.S. index covers all marketable Canadian government and corporate bonds issued in the Euro U.S. \$ market. History dates from December 1992. Contains approximately 50 bonds. Average term is 4.5 years and average duration is 3.5 years.

High Yield Bond Index

The High Yield index measures the total return performance of Canadian high yield corporate bonds. History dates from December 1994. Contains approximately 30 bonds rated BBB or lower. Average term is 6.5 years and average duration is 4.25 years.

Can-Am High Yield Bond Index

The Can-Am High Yield index measures the total return performance of Canadian & US \$ high yield corporate bonds. History dates from October 1997. Contains approximately 70 bonds rated BB or lower. Average term is 7 years and average duration is 4.4 years.

RRSP Eligible Bond Index

The RRSP Eligible Bond index measures the returns of RRSP eligible foreign currency bond issues reported in U.S. \$ and Canadian \$. History dates from August 1995. Contains approximately 100 bonds made up of Yankee, Euro U.S., German, French, Japanese, UK and Italian bonds. Average term is 7.5 years and average duration is 4.5 years.

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Real Return Bond (RRB) Index

The RRB index measures the daily performance of Canadian real return bonds. History dates from December 1991.

Currently contains the outstanding real return bonds in the market.

Conventional Residential Mortgage Indices

Yield, Capital gain/loss and Total Return Indices are quoted for four mortgage series:

1 year (data begins December 1979)

3 year (data begins December 1979)

5 year (data begins February 1951)

Mortgage Market index assumes a 5 year term prior to December 1980 and a 3 year term thereafter to account for individual preferences for shorter term mortgages during the 1980s. All mortgages are assumed to have a 25 year amortization period. Month end yields are obtained from a representative sample of major Canadian Schedule A chartered banks.

C SUMMARY

Scotia Capital has been committed to providing Debt Market Indices since 1947. Our family of indices now exceeds over 400 indices and sub-indices. In addition, we provide index related products which include the Index Macro Service, Bond Index Derivatives (BIDs) and Customized Indices. Please reach us at (416) 863-7667 for further information or send us email to melanie_moore@scotiamarkets.com.