



The Scotia Capital Commercial Mortgage Backed Securities (CMBS) Index is designed to be a broad measure of the Canadian investment grade CMBS market. Returns are calculated daily, and are weighted by market capitalization, so that the return on a bond influences the return on the index in proportion to the bond's market value.

The Scotia Capital CMBS Index has been published since 2000.

As of March 29, 2005, the CMBS Index includes 52 securities with a total market value of \$7.81 billion. There are no sector nor term sub-indices in the CMBS Index.

Eligibility Criteria

- The CMBS Index consists of fixed rate commercial mortgage backed securities.
- It is restricted to domestic and global (though no global securities have been issued at this time) securities denominated in Canadian dollars, with a remaining effective term to maturity of at least one year.
- It is an investment grade index restricted to securities rated BBB(low) or higher.
- Securities must meet minimum issue size requirements to help ensure that securities in the index are sufficiently liquid, and that it is possible for a fund manager to replicate the performance of the Index.

Effective July 15th, 2003, the following minimum sizes apply for index inclusion:

\$100 million original face value

Prior to July 15, 2003, the minimum issue size was \$40 million original face value.

Weighting

The securities in the Scotia Capital CMBS Bond Index are weighted by relative market capitalization. Thus, the return on an issue influences the return on the index in proportion to its market value. Market value of a CMBS equals the remaining principal balance, multiplied by the gross price (market price plus accrued interest), with the gross price expressed as a percentage.

Effective Term

The effective term of a CMBS is based on the security's expected final payment date, rather than its legal maturity date.

Re-Balancing: Handling New Issues, Coupon Payments, and Roll-Outs

The CMBS Index is re-balanced monthly in order to account for routine events like coupon payments and new issues.

A new issue that meets all the eligibility criteria enters the index on its first payment date, generally the 12th or 15th of the month after issue. The cutoff time for inclusion on the day of issue is 3:00 pm EST.

A bond is removed from the index on the day its remaining effective term to maturity declines to one calendar year, whether that year has 365 or 366 days.

Coupons are reinvested across all securities in the index in proportion to their market value.

Valuation

The securities that make up the CMBS Index are priced each day by the Scotia Capital trading desk at 4:00 pm EST, using normal settlement rules. The 4:00 pm mid-market trader prices are automatically supplied to the index calculation system.

Index Settlement Conventions

Accrued interest on CMBS in the index is calculated assuming same day settlement. Most CMBS in Canada accrue interest using a 30/360 day count convention. When the last calendar day in a month is not a business day, accrued interest is calculated to the last business day of the month. Same day settlement is used for calculating all index risk measures.

Credit Rating Categories

Scotia Capital CMBS Index inclusion is restricted to securities rated BBB (low) and higher. Inclusion is based on credit ratings information from Dominion Bond Rating Service, Moody's Investor Service, and Standard and Poor's.

Split credit ratings:

- If two agencies rate a security differently, the index will take the lower of the two credit ratings.
- If three agencies rate a security the index uses the most common rating, or, if all three agencies rate the security differently, the index uses the middle rating.

The Scotia Capital CMBS Index does not distinguish between minor ratings notches; only the broad letter-rating categories are used. Thus, ratings of A (high), A (mid), and A (low) are viewed as equivalent for index classification purposes (A). As well, the CMBS

Index does not take into account a rating agency's outlook for a credit rating, or whether a particular rating may be under review by an agency.

Unsolicited ratings will not be used when determining index-rating categories.

Handling Defaults, Downgrades and Upgrades

Since the CMBS Index is not categorized by rating, rating changes have no impact on the index with the exception of downgrades resulting in defaults. When a bond defaults or is downgraded below BBB, it is removed from the index 90 days from the date of the initial default or downgrade.

If a CMBS is upgraded from non-investment grade status and meets other eligibility criteria, the security will enter the CMBS Index.

Index Risk Measures

- Several risk measures are calculated for the Scotia Capital Indices each day.
- Modified duration and convexity are calculated as market value weighted averages of the respective measures for constituent bonds.
- Val01, which measures the dollar price sensitivity to a change in yield (in contrast to modified duration, which measures percentage price sensitivity), is calculated by weighting the individual CMBS by their adjusted par values.
- All risk measures are calculated based on same-day settlement.

Other Index Statistics

- The Price Index measures the return from capital gains, excluding coupon income and the reinvestment of coupons.
- The Yield Index measures the average yield of the constituent bonds, weighted by market value.
- A variety of other statistics are also calculated, including average coupon and term.

Revision of Index Rules Over Time

The rules and practices for constructing the CMBS Index and other fixed income indices necessarily change over time in order to reflect market developments. We will endeavor to provide reasonable advance notice of any such changes, as well as an assessment of any expected impact on the index.

Information Sources and Publications

The Scotia Capital Bond Indices can be monitored on a daily basis through a variety of electronic information channels.

The PC-Bond* internet site, www.canadianbondindices.com, also provides daily index returns and statistics for the domestic Short, Mid, Long and Universe Bond Indices and for the Money Market Indices. In addition, this site provides methodologies and general descriptions of the

many different indices.

Daily index performance is also available through electronic information sources like Bloomberg, Reuters, as well as major newspapers.

Bloomberg	SMFR		
Reuters	Pages SM2A to SM2N SM2E: month to date returns SM2F: quarter to date returns SM2G: year to date returns	In print	Globe and Mail, National Post, Bank of Canada Weekly, Monthly Financial Review
Index Email	pcbond@scotiacapital.com Index Inquiries	Internet	www.canadianbondindices.com

Beginning in March 2005, CMBS Index holdings are disclosed on a monthly basis and are available in PC-Bond's BondMan application. Historical time series information is also available in the PC-Bond BondData charting software.

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Disclaimer

PC-Bond* calculates and publishes the Scotia Capital 20+ Bond Index and other Scotia Capital fixed income indices at its own expense as an information service to financial market participants. The indices are published on a best-efforts basis, and do not constitute a recommendation to trade any particular security.

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