



April 10th,2007

PC-Bond* has been publishing indices to measure the performance of the Canadian fixed income market since 1947. Our indices are the most widely used fixed income performance benchmarks in Canada. The best known of these indices is the Universe Bond Index, which tracks the broad Canadian bond market. In addition to the Universe Bond Index, we publish a variety of sub-indices for different term and credit sectors, as well as indices for tracking other segments of the market, including inflation-indexed Real Return Bonds, T-Bills, Maple Bonds, Strip Bonds, 20+ Bonds, High Yield, Euro, and Yankee Bonds, and residential as well as commercial Mortgage-Backed Securities.

Universe + Maple Bond Index Overview

The Universe + Maple Bond Index is designed to be a broad measure of both the domestic and foreign Canadian dollar investment-grade fixed income market. As of March 30 2007, the Universe + Maple Index consisted of 1095 securities, with a total market value of approximately \$700 Billion. 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 Universe + Maple Index, released in March 2007, has been published with history to December 29, 2005. It is intended to be a transparent index, with individual security holdings disclosed electronically each day.

The Universe + Maple Bond Index contains two credit or borrower categories: (1) bonds issued by the Government entities including but not limited to: Government of Canada (including Agency issues), Provincial bonds (including provincially-guaranteed securities), Municipal Bonds, Supranational, Foreign Governments (including Agency issues) and, (2) Corporate issues.

As of March 30th, 2007, the All Government sector accounted for approximately 69% of the Universe + Maple Bond Index. The All Corporate sector was 31%

Universe + Maple Bond Index

Price Date	Mar 30,2007					
	MktVal	% Hold	Yield	Mod Dur	Coupon	# Issues
Government	483,347,319	69.06	4.24	6.92	5.41	439
Corporate	216,591,598	30.94	4.64	5.55	5.46	656
TOTAL	699,938,917	100.00	4.36	6.49	5.42	1095



Eligibility Criteria

The Universe + Maple Bond Index consists of semi-annual pay fixed rate bonds denominated in Canadian dollars, with a remaining effective term to maturity of at least one year, rated BBB or higher, and issued by any one of the following:

- Government of Canada (including both Non-Agency and Agency issues)
- Provincial, Territorial, or Municipal Governments of Canada, including those that have guarantee
- Canadian Federal, Provincial or Territorial corporations, incorporated under each respective jurisdiction
- Special Purpose Vehicle (SPV) utilized and fully and unconditionally guaranteed by Canadian Corporations that are Federally Regulated Entities (FREs) by the Office of the Superintendent of Financial Institutions Canada (OSFI), where the SPV is a financing vehicle for the Corporation in question
- Supranational entities (including those where Canada is a participating member or not)
- Foreign Governments (including both Non-Agency and Agency issues)
- Foreign Corporations

Please Note: All Maple type issuance must be eligible for settlement via CDS to qualify for inclusion and all issues are reviewed for eligibility on an individual basis.

The majority of the bonds in the index are semi-annual pay bullet securities with no call or other option features. However, the index can also include the following: callable bonds, extendible/retractable bonds, sinking funds, exchangeables, fixed-floaters, semi-annual amortizing securities, and certain asset-backed securities (ABS) that are structured as semi-annual pay bullet bonds. This latter category primarily consists of credit card ABS. Bonds with option features are assigned to index term sectors based on their effective maturity date (either the option exercise date or the final maturity date). Although most bonds in the index are public issues, private issues that meet the above criteria are also eligible for inclusion.

The index does not include floating-rate notes, convertible bonds, residential and commercial mortgage-backed securities (CMBS and MBS), other monthly-pay securities, other prepayable securities, inflation-indexed securities, or securities specifically targeted to the retail market. It also excludes securities that are not priced, which would typically be securities that are closely held and do not trade.

Securities must meet minimum size requirements to help ensure that the securities in the index are sufficiently liquid, and that it is possible for a fund manager to replicate the performance of the Index.

The following minimum sizes apply for index inclusion:

- \$50 million for Government bonds (Domestic Canadian Government issuers only)
- \$100 million for Government bonds (Foreign Government issuers - Maple issues)
- \$100 million for Corporate bonds (Both Domestic and Foreign issuers)



These dollar amounts include the original issue amount plus re-openings. Note that for the purpose of calculating returns and risk measures, index holdings are adjusted to reflect buybacks, amounts held by the Bank of Canada, amounts held by the Caisse de dépôt et placement, as well as the stripping and reconstitution of securities, but these adjustments do not affect index inclusion or exclusion.

In all cases, there must be a minimum of 10 institutional buyers.

Weighting

The securities in the Universe + Maple Bond Index are weighted by relative market capitalization. Thus, the return on a bond influences the return on the index in proportion to the bond's market value. Market value of a bond equals the adjusted amount outstanding, multiplied by the gross price (market price plus accrued interest), with the gross price expressed as a percentage.

The total amount outstanding of each issue is adjusted so that Bank of Canada and Caisse de dépôt et placement holdings and stripped securities are excluded, and reconstituted securities are included.

Capitalization weighting effectively assumes an investor "buys the market." It thus reflects passive bond portfolio management better than other weighting schemes, and is therefore the most appropriate weighting scheme for a performance benchmark.

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

A market index has to be re-balanced periodically in order to account for routine events like coupon payments and new issues. The Universe + Maple Bond Index is re-balanced on a daily basis, since daily re-balancing most closely reflects the dynamic investment environment faced by portfolio managers.

A new issue enters the index on the day it is issued or auctioned. The bond is included in the calculation of index risk statistics like duration on the day of issue, though it does not affect the return on the index until the following business day. The new security does not begin to accrue interest until the new issue settlement date. The cutoff time for inclusion on the day of issue is 3:00pm 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. For example, on December 1 2007, the index sells a bond maturing in one year, December 1 2008, at the 4:00 pm mark-to-market price. This bond therefore contributes to the return on the index from November 30 to December 1, 2007. It does not contribute to index duration and other risk statistics calculated at the close on December 1st 2007.



Coupon income, realized and unrealized, is reinvested daily across all bonds in the index in proportion to their market values¹.

A detailed example of how index returns are calculated when the index constituents change is provided in the appendix.

Valuation

The securities that make up the Universe + Maple Bond Index are currently priced each day by the Scotia Capital Inc. trading desk at 4:00 pm Eastern Time, using normal settlement rules (e.g. 2-day settlement for Canada bonds under three years to maturity, 3-day settlement for most other bonds). The 4:00 pm prices are electronically fed to the index calculation system.

The same 4:00 pm prices are electronically distributed to investors through a variety of channels, including the PC-Bond Analytics Software System, the ScotiaBond Performance Attribution System, the FastQuote service, and via third party data vendors. Thus, a portfolio valued using one of these sources can be compared on a consistent basis with the appropriate PC-Bond indices. The Universe + Maple Bond Index is constructed using mid-market prices.

Valuation at the 4:00 pm close is based on the Scotia Capital trader's judgment of where a security should be priced, taking into account such factors as where the security previously traded, liquidity, and any market-wide as well as security-specific developments that can be expected to affect the price. This policy is intended to reflect changing market conditions, even in cases where a security may not frequently trade.

For securities that trade actively, the closing price will generally be close to where the security last traded, if not the same. For securities that trade less frequently, however, there could be a larger difference between the closing price and the price where the security last traded. Consider the extreme case of a security that trades in the morning, is subsequently and unexpectedly downgraded, and does not trade for the rest of the day. When setting the 4:00 pm price, it is more accurate and conservative for the trader to reflect the expected impact of the credit rating downgrade, rather than simply rely on the latest available transaction

¹ It has occasionally been argued that the process of chain-linking returns (see Appendix) does not actually involve the reinvestment of coupons, and that therefore the return on the index does not include coupon reinvestment. The first of these statements is debatable; the second is false. The argument that coupons are not reinvested arises from the fact that the total market value of a bond in the index is not increased as a result of coupon reinvestment. This in and of itself is true: if a portfolio owns the total amount outstanding of every bond, it obviously cannot buy any more of each bond, and would have to look to other markets to invest coupon payments.

One should instead think of the index as measuring the performance of a portfolio that holds each bond in proportion to its market value. It is thus the relative market value that matters, and reinvesting coupons across all bonds in proportion to their market values has no effect on relative market values, though it of course makes a significant contribution to total return.



Settlement Conventions

Accrued interest on bonds in the index is calculated assuming same day settlement. Most bonds in Canada accrue interest using an actual/365 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

Bonds in the Universe + Maple Bond Index are not currently classified into the broad credit rating categories of AAA/AA, A, and BBB. Ratings for all issues in the index are tracked based on information from Dominion Bond Rating Service, Standard and Poor's, and Moody's Investors Service.

The ratings provided at a constituent level in the Universe + Maple Bond Index do not distinguish between minor ratings notches, such as plus or minus signs or their equivalent within a broad letter category. Thus, the ratings A+, A, and A- are viewed as equivalent for the purposes of the index. As well, the 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.

Handling Split Ratings, Defaults and Downgrades below Investment Grade

In cases where the agencies do not agree on the credit rating, the bond will be classified according to the following rules:

- If two agencies rate a security, and the ratings are not equal, use the lower of the two ratings;
- If three agencies rate a security, use the most common rating;
- In the rare event that all three agencies disagree, use the middle rating².

These rules mean that a bond rated by two or more agencies must have at least two investment grade credit ratings to be eligible for the Universe + Maple Bond Index. For example, a new issue rated BBB- by S&P and BB+ by DBRS would be assigned a rating of BB for the purposes of the index, and would not be eligible for inclusion in the index. Similarly, a bond in the index that is downgraded to BB+ by one agency would no longer be eligible for index inclusion. Additional examples are shown in the table below.

Example	DBRS	Moody's	S & P	Index Rating
1	BBB-	BBB-	BB+	BBB
2	BBB-	Not Rated	BB+	BB
3	A-	BBB+	BBB+	BBB
4	Not Rated	A+	AA-	A

² The latter case is included for completeness, but would be very unusual in practice. For the index, ratings like A+, A, and A- are all considered equivalent. Therefore, disagreement between all three agencies would mean three different letter categories, for example AA, A, and BBB.



When a bond defaults or is downgraded below BBB, it is removed from the index 90 days after the initial default or downgrade. Removal is delayed to help ensure that the full price impact of the default/ downgrade is reflected in the Index before the bond is removed. If the bond were instead removed from the index before the full price decline had happened, and a portfolio continued to hold the bond, index returns would tend to be biased upward relative to actual portfolio returns.

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

Index Risk Measures

Several risk measures are calculated for the PC-Bond indices each day. Modified Duration, Macaulay 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 bonds by their adjusted par values. All risk measures are calculated based on same-day settlement (prior to implementation of the new index system on July 15th 2003, published risk measures were based on normal settlement conventions).

Routine events like coupon payments and the addition or removal of bonds from the Index can cause significant changes in index duration. The payment of a coupon on an individual bond causes the duration of the bond to increase, holding yield constant. At the level of the index, the coupon payments on the first of June and December typically cause significant increases in index duration. As a typical example, the payment of \$5.6 billion in coupons on June 1 2001 caused the modified duration of the Index to increase approximately 0.08 years.

A large bond issue can also significantly affect index duration. Issuance of a bond that has a shorter duration than that of the index causes index duration to decline, whereas issuance of a longer duration bond causes index duration to increase. As a recent example of the typical impact, the issuance of \$3.5 billion 2-year Canada bonds on June 14 2001 caused the index Modified Duration to decline approximately 0.024 years. The \$1.9 billion re-opening of the long Canada on April 19 2001 caused the index Modified Duration to increase approximately 0.02 years.

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 is also calculated, including average coupon and term.

Data Quality

The integrity of the prices in the index begins with the trading desk, which values directly virtually every security that goes into our database. All data inputs to the index, including price, credit rating, and amount outstanding, must pass through a scrubbing process each day that



checks for data variances. The scrub results must be approved by the data analyst each day before the system will allow the index to run.

The data inputs into the index calculation are based on electronic transfer of information as much as possible, with minimal user involvement. This includes the electronic transfer of prices from the trading desk to the index system, PC-Bond, ScotiaBond Performance Attribution, and Fastquote. The electronic transfer of information speeds up the process, and minimizes the potential for data entry errors.

Revision of Index Rules Over Time

The rules and practices for constructing the Universe + Maple Bond Index and other fixed income indices necessarily change over time in order to reflect developments in the market. For example, the changes implemented effective July 15th 2003 take into account the increasing role played by Moody's Investor Service in the Canadian bond market, and the shift over time to larger issuance in the Corporate bond market. Some key historical changes have included the incorporation of MTNs, private placements, and certain types of asset-backed securities into the index.

We will endeavor to provide reasonable advance notice of any such changes, as well as an assessment of the expected impact on the index.

PC-Bond

PC-Bond is a software suite that provides daily price & yield updates for more than 15,000 fixed income securities. Users have the ability to generate daily portfolio measurement, or view specific prices, yields and yield curves as historical charts. The main module, BondMan XLC is an excel-based application. In addition to being used for portfolio measurement and analytics, it allows users to retrieve daily index holdings (and specific sub-sectors of the index), or even generate custom benchmarks using blended components of the Index. Prices in PC-Bond are the same prices used to value the Scotia Capital indices each day. The PC-Bond Index Team also provides the FastQuote service, which provides users same-day access to the 4:00pm bond prices used in the Index calculations and PC-Bond database.

ScotiaBond Performance Attribution

ScotiaBond is an interactive Windows-based performance attribution system that can be used to decompose returns on a portfolio or index into several different factors. ScotiaBond computes and analyzes daily returns, breaking them down to sources such as the passage of time, changes in the yield curve, changes in spreads, and transaction costs. Returns can be analyzed at the absolute level or relative to a benchmark such as the Universe Bond Index.

Information Sources and Publications

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

Our public internet site, www.candianbondindices.com, also provides daily index returns and statistics for our domestic Short, Mid, Long and Universe Bond Indices as well as the Universe +



Maple, and Maple Bond Indices. In addition we also provide summary information for our Money Market Indices, Real Return Indices and Strip indices. This site also provides methodologies of the different indices.

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

Bloomberg	CBXI		
Reuters	Pages CBXA to CBXZ	In print	Globe and Mail, National Post,
Index Email	pcbond@tsx.com Index Inquiries	Internet	www.canadianbondindices.com



Disclaimer

PC-Bond* calculates and publishes the Universe 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.

The indices are based on data believed to be reliable. No guarantee is made as to the accuracy, timeliness, or completeness of the data used in the indices. In the event a data input to a published index calculation is subsequently believed to be in error, we may at our sole discretion declare the data error to be immaterial to the published index value, and are under no obligation to re-calculate an already published index value. Index construction rules, guidelines, and practices may be changed at any time at our sole discretion, though we will endeavor to provide reasonable advance notice of such changes.

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Appendix: Index Return Calculation

The one day index return measures the total return on the constituent bonds, including capital gains, accrued income, and coupon payments. The one day return from time t-1 to time t is calculated as follows, where P and AI denote market price and accrued interest, respectively, Q denotes the adjusted amount outstanding, and CPN denotes the total coupon cash flow:

$$r_t = \frac{\sum_i Q_{i,t-1} \cdot (P_{i,t} + AI_{i,t}) / 100 + \sum_{i^*} CPN_{i,t}}{\sum_i Q_{i,t-1} \cdot (P_{i,t-1} + AI_{i,t-1}) / 100} - 1$$

Ignoring coupon payments, the equation says that the return on the index is calculated from the change in price and accrued from t-1 to t, holding the index constituents fixed as of t-1. The coupon cash flows are summed only for those bonds that pay coupons on day t.

Given the index value at day t-1 and the one-day return, the index value for day t is calculated as follows:

$$Index_t = Index_{t-1} \times (1 + r_t)$$

A series of one-day returns calculated as described above can be linked together geometrically to obtain the total return index over a longer time period:

$$Index_t = Index_{t-k} \times (1 + r_{t-k+1}) \times \dots \times (1 + r_{t-1}) \times (1 + r_t)$$

Given two index levels, the periodic rate of return can be calculated as follows:

$$r_{t-k,t} = \frac{Index_t}{Index_{t-k}} - 1$$

The above chain-linking procedure ensures that the measurement of market performance is not distorted by changes in index composition. Note that it is consistent with the Time-Weighted Rate of Return (with daily weighting) advocated by the Association for Investment Management and Research (AIMR) for measuring portfolio performance³.

³ AIMR Performance Presentation Standards Handbook 1997, Association for Investment Management and Research.



Calculation Example

To illustrate the index total return calculation, consider a simple 2-bond index, with prices and accrued as shown below. Assume there is initially 5 million outstanding of bond 1, and 10 million of bond 2. On day 2 an additional 5 million of bond 1 is issued, and bond 2 pays a coupon of 275,000. On day 3, the outstanding amount of bond 2 is reduced by 2.5 million to reflect amounts that have been stripped.

	Market Price		Accrued Interest	
	Bond 1	Bond 2	Bond 1	Bond 2
Day1	101.083	101.489	1.3089	2.7274
Day2	101.188	101.775	1.3233	0.0000
Day3	101.293	102.062	1.3377	0.0151
Day4	101.398	102.350	1.3521	0.0301

The total return from day 1 to day 2 is calculated as follows. Note that the coupon payment is included in the return calculation, but that the 5 million re-opening of bond A is not included.

$$r_2 = \frac{\$5M \times (101.188 + 1.3233)/100 + \$10M \times (101.775 + 0.00)/100 + \$0.275M}{\$5M \times (101.083 + 1.3089)/100 + \$10M \times (101.489 + 2.7274)/100} - 1$$

$$= 0.23698\%$$

The total return from day 2 to day 3 is calculated as follows. Note that now the 5 million re-opening of bond 1 is included in the return calculation, and the day 2 coupon payment no longer appears.

$$r_3 = \frac{\$10M \times (101.293 + 1.3377)/100 + \$10M \times (102.062 + 0.0151)/100 + 0.0}{\$10M \times (101.188 + 1.3233)/100 + \$10M \times (101.775 + 0.00)/100} - 1$$

$$= 0.20630\%$$

From day 3 to day 4, the total return is calculated as follows, using the reduced amount of 7.5 million for bond 2 to reflect the 2.5 million of this bond that has been stripped.

$$r_4 = \frac{\$10M \times (101.398 + 1.3521)/100 + \$7.5M \times (102.350 + 0.0301)/100 + 0.0}{\$10M \times (101.293 + 1.3377)/100 + \$7.5M \times (102.062 + 0.0151)/100} - 1$$

$$= 0.19348\%$$



If we assume an index value of 100 on day 1, the index value for day 2 is:

$$\begin{aligned} Index_2 &= 100 \times (1.0023698) \\ &= 100.23698 \end{aligned}$$

Similarly, the index values for days 3 and 4 are:

$$\begin{aligned} Index_3 &= 100.23698 \times (1.0020630) \\ &= 100.44377 \end{aligned}$$

$$\begin{aligned} Index_4 &= 100.44377 \times (1.0019348) \\ &= 100.63811 \end{aligned}$$