Manual of Reporting Forms and Instructions for Deposit-Taking Institutions

AMENDMENT CONTROL LOG

Interest Rate Risk

Amendment Number	Effective Reporting Date	Page Number	Description
Please note that as of November 2002, all changes are highlighted:			
1	Q1 1999	8	Change: ♦ Non-Interest Bearing to Non-Rate Sensitive ♦ The reporting of the Allowance for Impairment
2	Q1 2000	1	Change: ♦ Section 523 of the Bank Act is now Section 628
3	Q1 2003	5	Delete: ♦ Reference to new return
4	Q1 2008	1, 2, 5, 13	Change: ♦ On- and off-balance sheet to recognized and unrecognzied
		2	Change: ♦ On-balance sheet to recognized
		3, 5, 9, 11, 12	Change: ♦ Off-balance sheet to unrecognized

INTEREST RATE RISK AND MATURITIES MATCHING RETURN

PURPOSE

To provide information regarding the interest sensitivity and exposure of recognized and unrecognized claims and liabilities to changes in interest rates.

STATUTORY

Section 628 of the Bank Act and Section 495 of the Trust and Loan Companies Act.

APPLICATION

This return applies to all deposit-taking institutions.

PUBLICATION

Information from this return is not published.

FREQUENCY

Institutions with fiscal year-ends of October	-	Quarterly	-	January, April, July and October
Institutions with fiscal year-ends of December	-	Quarterly	-	March, June, September and December

CONTACT PERSON

Provide name and phone number of the person to contact regarding any questions about this return.

REPORTING DATES

This return is to be completed as of the last day of each quarter and submitted within 45 days of the reporting date as follows:

Institutions with fiscal year-ends of October	-	January, April, July and October
Institutions with fiscal year-ends of December	-	March, June, September and December

CONTACT AGENCY

OSFI.

INTEREST RATE RISK AND MATURITIES MATCHING RETURN

Complete separate lines in equivalent Canadian dollars for the institution's operations in Canadian dollars and U.S. dollars (where U.S. dollars represent more than 5% of the total of recognized and unrecognized assets or liabilities).

	Floating Rate	1 day to 1 month	> 1 month <= 3 mos	> 3 mos <= 6 mos	> 6 mos <= 12 mos	> 1 year <= 2 years	> 2 years <= 3 years	> 3 years <= 4 years	> 4 years <= 5 years	> 5 years <= 7 years	> 7 years	Non-Rate Sensitive	TOTAL
	$	$	$	$	$	$	$	$	$	$	$	$	$
ASSETS													
1. Trading Account Instruments													
2. Investment Account (recognized positions)													
(a) Cash													
(b) Deposits with regulated financial institutions (c) Securities (i) Equities (ii) Other (d) Non-Mortgage Loans (i) To Governments and regulated financial institutions (ii) Lease receivables (iii) To individuals for non-business purposes (consumer) (iv) To individuals and others for business purposes (commercial) (v) Other (e) Mortgages (i) Residential (ii) Non-residential (f) Other Assets													
Less: **(g) Allowance for Impairment**													
TOTAL ASSETS													

	Floating Rate	1 day to 1 month	> 1 month <= 3 mos	> 3 mos <= 6 mos	> 6 mos <= 12 mos	> 1 year <= 2 years	> 2 years <= 3 years	> 3 years <= 4 years	> 4 years <= 5 years	> 5 years <= 7 years	> 7 years	Non-Rate Sensitive	TOTAL
	$	$	$	$	$	$	$	$	$	$	$	$	$
LIABILITIES AND EQUITY													
3. Trading Account Instruments													
4. (a) Deposits (i) Personal demand/notice (ii) Personal fixed term (iii) Non-personal demand/notice (iv) Non-personal fixed term (b) Other Liabilities (c) Debentures and Subordinated Debt (d) Equity													
TOTAL LIABILITIES AND EQUITY													
5. Excess (Deficit) of Assets over Liabilities and Equity													
UNRECOGNIZED ITEMS													
6. Hedges of Investment Account Effect of: (notional amount) (a) FRA s/Futures (i) Short (ii) Long (b) SWAP Assets (i) Receive Fixed (long) (ii) Pay Floating (short) (c) SWAP Liabilities (i) Pay Fixed (short) (ii) Receive Floating (long) (d) Other (i) Short (ii) Long													
7. **EXCESS (DEFICIT) OF ASSETS OVER LIABILITIES AND EQUITY ADJUSTED FOR NET UNRECOGNIZED HEDGES**													

	Floating Rate	1 day to 1 month	> 1 month <= 3 mos	> 3 mos <= 6 mos	> 6 mos <= 12 mos	> 1 year <= 2 years	> 2 years <= 3 years	> 3 years <= 4 years	> 4 years <= 5 years	> 5 years <= 7 years	> 7 years	Non-Rate Sensitive	TOTAL
	$	$	$	$	$	$	$	$	$	$	$	$	$
MEMO ITEMS													
8. Net effect of options													
9. Adverse impact of 100 basis point change in interest rate on the consolidated net income after tax													
10. Adverse impact of 100 basis point rise in interest rate on the consolidated economic value of net assets													

INTEREST RATE RISK

GENERAL INSTRUCTIONS

This return provides the Superintendent's Office, CDIC and the Bank of Canada with information on the sensitivity of recognized and unrecognized claims and liabilities to changes in market interest rates. The return includes only those unrecognized transactions that are put into place as hedges of items not included in the trading account. All other interest sensitive unrecognized transactions are included in the Capital Adequacy - Market Risk Return for the trading business of the consolidated institution.

The repricing/matching information will allow for analysis of potential changes in net interest income and economic value of net worth at risk from adverse movements in interest rates. The information will also provide a basis for calculating measures of interest rate risk agreed upon by the Basle Committee of Bank Supervisors.

Complete separate lines in equivalent Canadian dollars for the institution's operations in Canadian dollars and U.S. dollars (where U.S. dollars represent more than 5% of the total of recognized and unrecognized assets or liabilities).

The detailed instructions for the Consolidated Monthly Balance Sheet will provide additional information in determining the most appropriate asset or liability line used in this return.

Include in each time band the total amount of assets (gross of provisions), liabilities or unrecognized items that will become subject to repricing or maturity in that particular period (flow approach). Amounts should be slotted into time bands according to the earlier of the next interest rate reset date or final maturity except for floating rate instruments; that is, instruments that reprice immediately upon a change in interest rates (e.g. prime + x%) which are reported in the time band designated as such.

Amounts should be reported in thousands of Canadian dollars. Institutions reporting in millions of dollars should add three zeros to the figures entered in the reporting forms.

The repricing/maturity date should be determined by referring to the contractual repricing time of every financial instrument, except where specified otherwise. Contractual repricing may be adjusted according to management estimates for pre-payments or early redemptions that are independent of changes in interest rates, consistent with the estimates made by the institution’s internal systems.

Impaired Assets are to be reported in the Non-Rate Sensitive category gross of the Allowance for Impairment. The Allowance for Impairment is to be reported in the Non-Rate Sensitive category as a negative figure.

ASSETS

1. Trading Account Instruments

Report all interest sensitive assets included in the institution's trading account at market value in the floating rate column.

2. Investment Account

Amounts should be slotted into time bands according to the earliest of the next interest rate reset date, final maturity (flow approach) or floating-rate (immediate repricing) band if applicable.

(a) Cash

Report amounts in the non-rate sensitive column.

(b) Deposits with Regulated Financial Institutions

Report amounts in the appropriate time band.

(c) Securities

(i) Equities

Common shares are reported in the non-rate sensitive column. Preferred shares that pay a fixed or floating rate are reported according to the earliest of repricing date and final maturity. Investments in perpetual preferred shares paying other than a floating rate should be reported in the over 7 years column.

(ii) Other

The appropriate time band for callable bonds is determined with reference to maturity, call price and current price.

For example: a 10 year bond with a market price of 102, a call price of 101 in 3 years and 102 in 6 years would be slotted in the 5 to 7 year time band.

Instruments that are convertible, at a stated price, into common shares are included in the time band structure where the instrument trades like a debt security. Where the instrument begins to trade like an equity, it should be reported in the "non-rate sensitive" column.

(d) Non-Mortgage Loans

(i) Governments and Regulated Financial Institutions

Report all loans to governments and regulated financial institutions.

(ii) Lease Receivables

Report all lease receivables (consumer and commercial).

(iii) Individuals for Non-Business Purposes (Consumer)

Report all personal plan loans and credit card balances. Residential mortgages are not included under consumer loans but are reported separately in line 2(e)(i). Personal plan loans are to be slotted into the time bands corresponding to scheduled repayments of principal.

Credit card loans are to be allocated between the 1-3 month and the "non-rate sensitive" time bands. Amounts included in the 1-3 month time band represent the percent of the volume of credit card balances that remains outstanding from quarter to quarter. The amount slotted into the non-rate sensitive band is the percentage of credit card balances that are payed when due and therefore represent an interest-free loan to customers. The split of credit card balances is to be a fixed percentage based on historical experience in the portfolio.

(iv) Individuals and Others for Business Purposes (Commercial)

Report all other non-mortgage loans to individuals and others for business purposes.

(v) Other Non-Mortgage Loans

Report all other non-mortgage loans not included in lines 2(d)(i) and (iv).

(e) Mortgages

Mortgage loans are to be slotted into the time bands corresponding to the next interest rate reset date and scheduled repayments of principal before the next reset of the contractual interest rate.

(i) Residential

Report all mortgage loans secured by real property consisting of buildings that are used, or are to be used, to the extent of at least one-half of the floor space thereof, as one or more private dwellings.

(ii) Non-Residential

Report all mortgages not included in line 2(e)(i).

(f) Other Assets

Report all assets not included in lines 1, and 2(a) to (e).

Assets that are non-interest bearing should be reported in the non-rate sensitive column, such as non-interest bearing deposits with the Bank of Canada, acceptances, accrued interest receivable, prepaid expenses, items in transit.

(g) Allowance for Impairment

Report the Allowance for Impairment related to the assets reported in lines 2(b) to (f) in the Non-Rate Sensitive column.

Total Assets

Sum of lines 1 to 2(g).

LIABILITIES AND EQUITY

3. Trading Account Instruments

Report all interest sensitive liabilities included in the institution's trading account at market value in the floating rate column.

4(a) Deposits

(i) Personal Demand/Notice

In general, all interest bearing demand and notice deposits from individuals should be reported in the floating rate column.

Where a demand or notice deposit account or a portion thereof is non-interest bearing, report the non-interest bearing portion in the Non-Rate Sensitive column and the interest bearing portion in the floating rate column.

(ii) Personal Fixed Term

Report all personal fixed-term deposits

(iii) Non-Personal Demand/Notice

Report all non-personal demand and notice deposits such as groups, associations, banks, etc.

(iv) Non-Personal Fixed Term

Report all non-personal fixed-term deposits.

4(b) Other Liabilities

Report all other liabilities other than subordinated debentures not reported in line 4(a).

4(c)Debentures and Subordinated Debt

Report subordinated debentures and subordinated debt issued by the institution and its consolidated subsidiaries.

4(d) Equity

Report only fixed and floating rate preferred shares in the time bands from the floating rate to over 7 years. Common shares and retained earnings are reported in the non-rate sensitive column. Common equity is to be reported in Canadian dollars only and is not to be notionally allocated to foreign currency repricing ladders. Perpetual preferred shares issued by the reporting institution and paying other than a floating rate should be classified in the earlier of the time band corresponding to the call date (if applicable) and non-rate sensitive.

Total Liabilities and Equity

Sum of lines 3 to 4(d)

5. Excess (Deficit) of Assets Over Liabilities and Equity

Subtract Total Liabilities and Equity from Total Assets.

UNRECOGNIZED ITEMS

6. Hedges of Investment Account

Long positions represent all positions where the institution stands to benefit from either an increase in the price of the asset or a wider margin of interest income if interest rates fall. Conversely, short positions represent all positions where the institution stands to benefit from either a fall in the price of an asset or a wider margin of interest income if interest rates rise.

Short positions should be filled in with a negative (-) sign and long positions with no sign (i.e. left blank).

This section includes all unrecognized instruments hedging the non-trading account balance sheet items and thereby affecting the interest rate risk structure of the institution.

Institutions' involvement in unrecognized contracts should be presented in the time bands based on the nominal value of the underlying principal of the contract.

(a) FRAs/Futures

The repricing profile of positions in Forward Rate Agreements and Futures should reflect the time-period over which interest rates are fixed by the contract. Futures and FRAs will be treated as a combination of two positions, one long and one short. The positions will be taken to be (i) the period starting with delivery or exercise of the contract, plus the life of the underlying security and (ii) the date of delivery or exercise of the contract. Amounts should be placed into the maturity/repricing ladder based on the face value of the underlying instrument.

For example, for a reporting date in April, a purchase of one (1) June three-month bankers acceptance futures (BAX) will be reported as:

- a long position five months from now; and
- a short position two months from now.

($000s)	0-1 month	1-3 months	3-6 months	6-12 months
Long			1000	
Short		-1000		

(b) and (c)
SWAPS

Interest rate swaps should be segregated into assets and liabilities, reflecting the long and short position based on the next interest rate adjustment date, or for the fixed rate leg of the swap, its maturity. Therefore, both sides of the swap should be reported on the time-band ladder.

For example, an interest rate swap (liability) based on a notional principal of $1,000,000 under which a reporting institution receives a floating rate (e.g. the 30 day BA rate) and pays a 2 year fixed rate of interest will be treated as:

- a long position in a floating rate instrument of maturity equivalent to the period until the next interest rate fixing (report in the “receive floating” category);
- a short position in a fixed rate instrument of maturity equivalent to the maturity of the swap (report in the “pay fixed” category).

SWAP ASSETS:	Receive Fixed	(Long)
	Pay Floating	(Short)
SWAP LIABILITIES:	Pay Fixed	(Short)
	Receive Floating	(Long)

<u>Swap Liability</u>

($000s)	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years
Receive Floating (Long)	1000				
Pay Fixed (Short)					-1000

(d) OTHER

Include forward foreign exchange contracts hedging internal swapped deposits using two entries according to the maturity of individual contracts and the two currencies involved.
For example, a $1,250,000 one year fixed rate Canadian dollar loan funded by a swapped 6 month 1,000,000 U.S. dollar deposit hedged by a contract to sell Canadian dollars 6 months forward would be slotted as a short 3-6 month position in Canadian dollars and a long 3-6 month position in U.S. dollars.

($000s)	0-1 month	1-3 months	3-6 months	6-12 months
Canadian $				
2(d)(iv) Loans				1250
5(d) Other				
(i) Short			-1250	
(ii) Long				
US $ (in U.S.$)				
3(a)(iv) Deposits			-1000	
5(d) Other				
(i) Short				
(ii) Long			1000	

7. Excess (Deficit) of Assets over Liabilities and Equity Adjusted for the Net Effect of Unrecognized Hedges

Sum of lines 5 and 6(a) to (d).

MEMO ITEMS

8. Net Effect of Options

Options included in Items 2 or 4 should also be included in this memo section.

Options should be included in the form at their "delta" equivalent value (the product of the option's delta times the principal value of the underlying instrument), or a simplified proxy of it. The delta represents the change in the value of an option relative to the change in the value of the instrument on which the option is written. Long positions are bought options and sold puts, while short positions are bought puts and sold calls. The time classifications of options should reflect the time period during which the underlying contract will affect the interest rate position of the institution, on the assumption that the option is exercised. This requires two entries, one entry in the time band corresponding to the settlement of the contract plus the maturity of the underlying instrument and a second entry of the opposite sign corresponding to the settlement date of the contract. Report the net of long and short options positions for each relevant time band.

For example, a bought call option on the June 10 year Government of Canada Bond futures contract in April would be reported, on the basis of its "delta" equivalent value, to be a long position with a maturity of 10 years, and a short position with a maturity of two months. The same written option would be slotted as a long position with a maturity of two months and a short one with a maturity of 10 years.

Unrecognized (000s)	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years		> 7 years
Net effect of Options		-100					100

Caps, floors and collars represent a series of options with consecutive expiration dates equal to the repricing date of the underlying index. Caps are a series of calls on a short term interest rate. Floors are a series of consecutive puts on a short term rate.

For example, a cap of 15% on a 3-year floating rate loan indexed to 6-month LIBOR would be treated as a series of 5 written call options on a FRA with a basis of 15%; each single option would be entered with a negative sign at the time the underlying FRA takes effect <u>and</u> a positive sign at the time the underlying FRA contract matures.

Unrecognized (000s)	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-3 years
Caps						
Option 1			-100	100		
Option 2				-100	100	
Option 3					-100	
					100	
Option 4					-100	100
Option 5						-100
						100
Net effect of Options			-100	0	0	100

9. Adverse Impact of 100 Basis Point Change in Interest Rate on the Consolidated Net Income After Tax

This simulation subjects recognized and unrecognized items to a hypothetical interest rate shock. The amount reported, based on the institutions interest rate sensitivity position as at the reporting date, assumes an immediate and sustained parallel change in interest rates of 1% (i.e. 100 basis points) across all maturities over the next twelve months if no additional hedging were undertaken and all assets and liabilities were to reprice by this 1% amount. Institutions are to indicate whether the change in interest rate is an increase or decrease.

10. Adverse Impact of 100 Basis Point Rise in Interest Rate on the Consolidated Economic Value of Net Assets

Report the amount the interest rate shock scenario in line 9 would have on the market value of the institution's net assets, in present value terms, on an after tax basis.