# Notes to Consolidated Financial Statements

## Note 1: Basis of Presentation

We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"), including interpretations of GAAP by our regulator, the Superintendent of Financial Institutions Canada.

We reconcile our Canadian GAAP results to those that would be reported under United States GAAP. Significant differences in consolidated total assets, total liabilities or net income arising from applying United States GAAP are described in Note 30. In addition, our consolidated financial statements comply with applicable disclosure requirements of United States GAAP, except we do not provide disclosures related to Canadian and United States GAAP differences described in Note 30.

### Basis of Consolidation

We conduct business through a variety of corporate structures, including subsidiaries and joint ventures. Subsidiaries are those where we exercise control through our ownership of the majority of the voting shares. Joint ventures are those where we exercise joint control through an agreement with other shareholders. All of the assets, liabilities, revenues and expenses of our subsidiaries and our proportionate share of the assets, liabilities, revenues and expenses of our joint ventures are included in our consolidated financial statements. All significant inter-company transactions and balances are eliminated.

We hold investments in companies where we exert significant influence over operating, investing and financing decisions (those where we own between 20% and 50% of the voting shares). These are recorded at cost and are adjusted for our proportionate share of any net income or loss and dividends. They are recorded as other securities in our Consolidated Balance Sheet and our proportionate share of the net income or loss of these companies is recorded in interest, dividend and fee income, securities, in our Consolidated Statement of Income.

We hold interests in variable interest entities, which we consolidate where we are deemed to be the primary beneficiary; these are more fully described in Note 8.

### Translation of Foreign Currencies

We conduct business in a variety of foreign currencies and report our consolidated financial statements in Canadian dollars. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated using the average exchange rate for the year.

Unrealized gains and losses arising from translating net investments in foreign operations into Canadian dollars, net of related hedging activities and applicable income taxes, are included in shareholders' equity within accumulated other comprehensive gain (loss) on translation of net foreign operations. When we sell or liquidate an investment in a foreign operation, the associated translation gains and losses, previously included in shareholders' equity as accumulated other comprehensive gain (loss) on translation of net foreign operations, are recorded as part of the gain or loss on disposition in non-interest revenue, securities gains (losses), other than trading. All other foreign currency translation gains and losses are included in foreign exchange, other than trading, in our Consolidated Statement of Income as they arise.

From time to time, we enter into foreign exchange hedge contracts to reduce our exposure to changes in the value of foreign currencies. Realized and unrealized gains and losses on the mark-to-market of foreign exchange hedge contracts are included in foreign exchange, other than trading, in our Consolidated Statement of Income.

### Specific Accounting Policies

To facilitate a better understanding of our consolidated financial statements, we have disclosed our significant accounting policies throughout the following notes with the related financial disclosures by major caption:



### Changes in Accounting Policy

Changes in accounting policy that resulted from changes by Canadian standard setters in the current year require that we present a new Consolidated Statement of Comprehensive Income, which is comprised of net income, changes in unrealized gains or losses related to available-for-sale securities, changes in unrealized gains or losses related to cash flow hedges and the net unrealized foreign exchange gain or loss related to our net investment in foreign operations.

Other changes are disclosed as follows: securities – Note 3; effective interest method – Note 4; hedging derivatives – Note 9; and fair value option – Notes 3 and 15. Changes in accounting policy that resulted from changes by Canadian standard setters in 2006 are disclosed as follows: settlement date accounting – Note 3; variable interest entities – Note 8; and stock-based compensation – Note 22. Changes in accounting policy that resulted from changes by Canadian standard setters in 2005 are disclosed as follows: merchant banking investments – Note 3; and liabilities and equity – Notes 19 and 21. United States GAAP changes are described in Note 30.

### Future Changes in Accounting Policy

*Financial Instruments – Disclosure and Presentation*

Effective November 1, 2007, we will adopt two new Canadian standards relating to the disclosure and presentation of financial instruments, enhancing users' ability to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

*Capital Disclosures*

Effective November 1, 2007, we will adopt the new Canadian standards on capital disclosures. This section establishes standards for disclosure of both qualitative and quantitative information that enable users to evaluate an entity's objectives, policies and processes for managing capital.

Notes

*Accounting Policy Choice for Transaction Costs*
On June 1, 2007, the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA") issued Abstract 166, "Accounting for Policy Choice for Transaction Costs". Transaction costs related to the acquisition or issuance of financial instruments that are classified as other than held-for-trading may be expensed immediately or included in the carrying value. The EIC Abstract requires the same choice be made for similar financial instruments, but permits a different choice for those that are not similar. The treatment is effective November 1, 2007, and we will continue to capitalize transaction costs related to loans and expense transaction costs related to securities.

*Accounting Changes*
Effective November 1, 2007, we will adopt the new CICA Handbook section 1506 "Accounting Changes". This section aims to improve the relevance, reliability and comparability of financial statements over time and to those of other entities by establishing criteria for accounting changes and related disclosures. The impact is not expected to be material to our results of operations or financial position.

## Use of Estimates

In preparing our consolidated financial statements we must make estimates and assumptions, mainly concerning fair values, which affect reported amounts of assets, liabilities, net income and related disclosures. The most significant assets and liabilities where we must make estimates include: measurement of other than temporary impairment – Note 3; securities measured at fair value – Note 3; allowance for credit losses – Note 4; accounting for securitizations – Note 7; derivative instruments measured at fair value – Note 9; goodwill – Note 13; customer loyalty programs – Note 16; pension and other employee future benefits – Note 23; income taxes – Note 24; and contingent liabilities – Note 28. If actual results differ from the estimates, the impact would be recorded in future periods.