

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 ("OSFI"). We have included certain risk disclosures on pages 73 to 80 in the Management's Discussion and Analysis section of this Annual Report, as is permitted under GAAP. These disclosures are identified in a blue-tinted font (text and tables) for clear identification and form an integral part of these consolidated financial statements.

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 31. In addition, our consolidated financial statements comply with certain disclosure requirements of United States GAAP.

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 9.

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 income (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 income (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:

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Changes in Accounting Policy

A change in accounting policy that resulted from changes by Canadian standard setters in the current year is disclosed as follows: securities – Note 3. New disclosures that resulted from changes by Canadian standard setters in the current year are disclosed as follows: financial instruments disclosures – Notes 3, 4, 15 and 29; risk management – Note 6; and capital management – Note 22.

Changes in accounting policy that resulted from changes by Canadian standard setters in 2007 are disclosed as follows: presentation of a Consolidated Statement of Comprehensive Income, which is comprised of net income, 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; securities – Note 3; effective interest method – Note 4; hedging derivatives – Note 10; and fair value option – Notes 3 and 15.

Future Changes in Accounting Policy

Effective November 1, 2008, we will adopt the new Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 "Goodwill and Intangible Assets". This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. The impact of implementation of this standard will not 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; valuation of securities at fair value – Note 3; allowance for credit losses – Note 4; accounting for securitizations – Note 8; consolidation of variable interest entities – Note 9; valuation of derivative instruments at fair value – Note 10; goodwill – Note 13; customer loyalty program – Note 16; pension and other employee future benefits – Note 24; income taxes – Note 25; and contingent liabilities – Note 29. If actual results differ from the estimates, the impact would be recorded in future periods.