

Note 20: Interest Rate Risk

We earn interest on interest bearing assets and we pay interest on interest bearing liabilities. We also have derivative instruments, such as interest rate swaps and interest rate options, whose values are sensitive to changes in interest rates. To the extent that we have assets, liabilities and derivative instruments maturing or repricing at different points in time, we are exposed to interest rate risk.

Interest Rate Gap Position

The determination of the interest rate sensitivity or gap position by necessity encompasses numerous assumptions. It is based on the earlier of the repricing date or maturity date of assets, liabilities and derivatives used to manage interest rate risk.

The gap position presented is as at October 31 of each year. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based on customer behaviour and the application of our asset and liability management policies.

The assumptions for the year ended October 31, 2008 were as follows:

Assets

Fixed term assets, such as residential mortgage loans and consumer loans, are reported based upon the scheduled repayments and estimated prepayments that reflect expected borrower behaviour.

Trading and underwriting (mark-to-market) assets and interest bearing assets on which the customer interest rate changes with the prime rate or other short-term market rates are reported in the zero to three months category.

Fixed rate and non-interest bearing assets with no defined maturity are reported based upon expected account balance behaviour.

Liabilities

Fixed rate liabilities, such as investment certificates, are reported at scheduled maturity with estimated redemptions that reflect expected depositor behaviour.

Interest bearing deposits on which the customer interest rate changes with the prime rate or other short-term market rates are reported in the zero to three months category.

Fixed rate and non-interest bearing liabilities with no defined maturity are reported based upon expected account balance behaviour.

Capital

Common shareholders' equity is reported as non-interest sensitive.

Yields

Yields are based upon the effective interest rates for the assets or liabilities on October 31, 2008.

Interest Rate Gap Position

(Canadian \$ in millions)

As at October 31	0 to 3 months	4 to 6 months	7 to 12 months	Total within 1 year	Effective interest rate (%)	1 to 5 years	Effective interest rate (%)	Over 5 years	Effective interest rate (%)	Non-interest sensitive	Total
Canadian Dollar											
Assets											
Cash resources	\$ (3,467)	\$ –	\$ –	\$ (3,467)	1.67	\$ 303	–	\$ –	–	\$ (1,309)	\$ (4,473)
Securities	51,434	670	689	52,793	3.93	5,640	3.60	48	4.70	158	58,639
Securities borrowed or purchased under resale agreements	15,285	47	–	15,332	2.79	–	–	–	–	–	15,332
Loans	70,530	3,533	5,997	80,060	4.28	25,329	5.23	2,649	5.83	10,599	118,637
Other assets	(417)	(365)	(306)	(1,088)	n/a	3,550	–	–	–	2,733	5,195
Total assets	133,365	3,885	6,380	143,630		34,822		2,697		12,181	193,330
Liabilities and Shareholders' Equity											
Deposits	64,879	7,058	14,827	86,764	1.79	45,971	4.09	4,558	5.31	–	137,293
Securities sold but not yet purchased	13,769	–	–	13,769	4.51	–	–	–	–	–	13,769
Securities lent or sold under repurchase agreements	18,535	–	137	18,672	2.65	–	–	–	–	–	18,672
Other liabilities	(13,777)	70	266	(13,441)	n/a	2,130	n/a	1,050	n/a	10,599	338
Subordinated debt, Capital trust securities and Preferred share liability	515	–	–	515	4.18	2,950	5.13	2,250	5.24	–	5,715
Shareholders' equity	218	–	–	218	n/a	1,100	n/a	250	n/a	15,975	17,543
Total liabilities and shareholders' equity	84,139	7,128	15,230	106,497		52,151		8,108		26,574	193,330
Asset/liability gap position	49,226	(3,243)	(8,850)	37,133		(17,329)		(5,411)		(14,393)	–
Notional amounts of derivatives	(37,973)	806	6,968	(30,199)		23,624		6,575		–	–
Total Canadian dollar interest rate gap position											
2008	\$ 11,253	\$(2,437)	\$(1,882)	\$ 6,934		\$ 6,295		\$ 1,164		\$(14,393)	\$ –
2007	(1,024)	419	4,787	4,182		7,958		251		(12,391)	–
U.S. Dollar and Other Currencies											
Assets											
Cash resources	\$ 21,619	\$ 1,821	\$ 612	\$ 24,052	0.71	\$ 1,413	–	\$ 206	–	\$ (93)	\$ 25,578
Securities	33,672	1,109	1,268	36,049	3.08	4,208	4.89	1,208	7.08	34	41,499
Securities borrowed or purchased under resale agreements	12,689	–	–	12,689	1.41	–	–	12	–	–	12,701
Loans	47,868	2,602	3,657	54,127	4.42	11,936	6.24	1,568	5.65	694	68,325
Other assets	68,108	744	1,136	69,988	n/a	2,541	n/a	–	n/a	2,088	74,617
Total assets	183,956	6,276	6,673	196,905		20,098		2,994		2,723	222,720
Liabilities and Shareholders' Equity											
Deposits	91,487	8,313	7,115	106,915	2.51	11,609	2.12	1,853	1.46	–	120,377
Securities sold but not yet purchased	5,023	–	–	5,023	2.56	–	–	–	–	–	5,023
Securities lent or sold under repurchase agreements	13,820	–	–	13,820	1.15	–	–	–	–	–	13,820
Other liabilities	81,140	66	133	81,339	n/a	1,106	n/a	–	n/a	694	83,139
Shareholders' equity	–	–	–	–	n/a	361	n/a	–	n/a	–	361
Total liabilities and shareholders' equity	191,470	8,379	7,248	207,097		13,076		1,853		694	222,720
Asset/liability gap position	(7,514)	(2,103)	(575)	(10,192)		7,022		1,141		2,029	–
Notional amounts of derivatives	5,519	–	(241)	5,278		(4,284)		(994)		–	–
Total U.S. dollar and other currencies interest rate gap position											
2008	\$ (1,995)	\$(2,103)	\$ (816)	\$ (4,914)		\$ 2,738		\$ 147		\$ 2,029	\$ –
2007	(8,343)	(2,236)	(202)	(10,781)		7,887		1,083		1,811	–

Certain comparative figures have been reclassified to conform with the current year's presentation.

n/a – not applicable