

Note 22: Capital Management

Our capital management framework is designed to maintain a level of capital that: meets our target regulatory capital ratios; meets our internal assessment of required economic capital; is consistent with our targeted credit ratings; underpins our operating groups' business strategies; and builds long-term shareholder value.

Our approach includes establishing limits, goals and performance measures for the management of balance sheet positions, risk levels and minimum capital amounts, as well as issuing and redeeming capital instruments to obtain the most cost-effective capital structure possible.

Effective November 1, 2007, a new regulatory capital management framework was implemented in Canada. The new framework, Basel II, replaced Basel I, the framework utilized for the past 20 years. Basel II is an improvement over Basel I in that it establishes regulatory capital requirements that are more sensitive to a bank's risk profile.

Tier 1 capital represents more permanent forms of capital, and primarily includes common shareholders' equity, preferred shares and innovative hybrid instruments, less a deduction for goodwill and excess intangible assets and other deductions required under Basel II. Total capital includes Tier 1 and Tier 2 capital, net of certain deductions. Tier 2 capital is primarily comprised of subordinated debentures and the eligible portion of the general allowance for credit losses. Deductions from Tier 2 capital are primarily comprised of our investments in non-consolidated entities and substantial investments. Capital instruments are detailed in Notes 16, 18, 19 and 21.

The Tier 1 Capital Ratio, Total Capital Ratio and Assets-to-Capital Multiple are the primary capital measures monitored by our regulator.

- The Tier 1 Capital Ratio is defined as Tier 1 capital divided by risk-weighted assets.
- The Total Capital Ratio is defined as total capital divided by risk-weighted assets.
- The Assets-to-Capital Multiple is calculated by dividing total assets, including specified off-balance sheet items net of other specified deductions, by total capital.

Basel II Regulatory Capital and Risk-Weighted Assets

(Canadian \$ in millions, except as noted)

2008

Tier 1 Capital	\$ 18,729
Tier 2 Capital	\$ 4,592
Total Capital	\$ 23,321
Total Risk-Weighted Assets	\$ 191,608
Tier 1 Capital Ratio	9.77%
Total Capital Ratio	12.17%
Assets-to-Capital Multiple	16.42

Both our Tier 1 and Total Capital Ratios remain above OSFI's stated minimum capital ratios of 7% and 10%, respectively, for a well-capitalized financial institution. Our Assets-to-Capital Multiple was 16.42 as at October 31, 2008. The multiple remains below the maximum permitted by OSFI.

As a result of the implementation of Basel II in fiscal 2008, amounts reported for risk-weighted assets, capital and capital ratios are not comparable on a year-over-year basis.