
Note 31: Reconciliation of Canadian and United States Generally Accepted Accounting Principles

We prepare our consolidated financial statements in accordance with GAAP in Canada, including interpretations of GAAP by OSFI.

We have included the significant differences that would result if United States GAAP were applied in the preparation of our Consolidated

Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet and Consolidated Statement of Accumulated Other Comprehensive Loss. We have not included our Consolidated Statement of Cash Flows as the differences are immaterial.

Condensed Consolidated Statement of Income

For the Year Ended October 31 (Canadian \$ in millions, except per share amounts)

| | 2008 | 2007 | 2006 |
|---|----------|----------|----------|
| Net income, as reported under Canadian GAAP | \$ 1,978 | \$ 2,131 | \$ 2,663 |
| Adjustments to arrive at United States GAAP: | | | |
| Net Interest Income – Liabilities and equity (i) | 91 | 99 | 99 |
| Non-Interest Revenue – Merchant banking (j) | (2) | 7 | (21) |
| – Fair value option (a) | – | (8) | – |
| – Derivatives (c) | – | – | (32) |
| – Reclassification from trading securities to available-for-sale securities (n) | (183) | – | – |
| Non-Interest Expense – Stock-based compensation (d) | (5) | (17) | (31) |
| – Software development costs (e) | (1) | (42) | (42) |
| – Pension and related benefits (b) | 6 | – | 4 |
| – Goodwill and other assets (f) | 5 | 5 | 5 |
| Income taxes and net change in income taxes (g) (including adjustments due to items listed above) | 58 | 19 | 40 |
| Non-controlling interest in subsidiaries (i) | (79) | (79) | (79) |
| Net income based on United States GAAP | \$ 1,868 | \$ 2,115 | \$ 2,606 |
| Earnings per share: basic | | | |
| – Canadian GAAP net income | \$ 3.79 | \$ 4.18 | \$ 5.25 |
| – United States GAAP net income | 3.57 | 4.14 | 5.14 |
| Earnings per share: diluted | | | |
| – Canadian GAAP net income | \$ 3.76 | \$ 4.11 | \$ 5.15 |
| – United States GAAP net income | 3.54 | 4.08 | 5.04 |

Consolidated Statement of Comprehensive Income

For the Year Ended October 31 (Canadian \$ in millions)

| | 2008 | 2007 | 2006 |
|--|----------|----------|----------|
| Total Comprehensive Income, as reported under Canadian GAAP | \$ 3,260 | \$ 1,435 | \$ 2,486 |
| Adjustments to arrive at United States GAAP: | | | |
| Net income adjustments, as per Condensed Consolidated Statement of Income | (110) | (16) | (57) |
| Unrealized holding gains on available-for-sale securities, net of hedging activities (k) (1) | – | – | 151 |
| Realized gains on available-for-sale securities recognized in net income (k) (2) | – | – | (94) |
| Unrealized losses on derivatives designated as cash flow hedges (c) (3) | – | – | (71) |
| Net losses on derivatives designated as cash flow hedges recognized in net income (c) (4) | – | – | (5) |
| Unrealized gain (loss) on translation of net foreign operations, net of hedging activities (f) | (12) | 9 | 5 |
| Unrealized gain on reclassification from trading securities to available-for-sale securities (n) (5) | 123 | – | – |
| Pension and other employee future benefits (b) (6) | (254) | (486) | 6 |
| Total Comprehensive Income based on United States GAAP | \$ 3,007 | \$ 942 | \$ 2,421 |

(1) Net of income taxes of \$82 million in 2006.

(2) Net of income taxes of \$51 million in 2006.

(3) Net of income taxes of \$38 million in 2006.

(4) Net of income taxes of \$3 million in 2006.

(5) Net of income taxes of \$60 million in 2008.

(6) Net of income taxes of \$102 million in 2008, \$279 million in 2007 and \$3 million in 2006.

Condensed Consolidated Balance Sheet

As at October 31 (Canadian \$ in millions)

| | 2008 | | | 2007 | | |
|--|---------------|---------------------|--------------------|---------------|---------------------|--------------------|
| | Canadian GAAP | Increase (Decrease) | United States GAAP | Canadian GAAP | Increase (Decrease) | United States GAAP |
| Assets | | | | | | |
| Cash Resources (m) | \$ 21,105 | \$ (2,321) | \$ 18,784 | \$ 22,890 | \$ (1,994) | \$ 20,896 |
| Securities – Trading (l,n) | 66,032 | (1,856) | 64,176 | 70,773 | (505) | 70,268 |
| – Available-for-sale (h,l,n) | 32,115 | 931 | 33,046 | 26,010 | 2,225 | 28,235 |
| – Other (j,l) | 1,991 | (99) | 1,892 | 1,494 | (97) | 1,397 |
| Loans and customers' liability under acceptances, net of the allowance for credit losses (m) | 214,995 | 2,321 | 217,316 | 201,188 | 1,994 | 203,182 |
| Derivative instruments (c) | 65,586 | – | 65,586 | 32,585 | – | 32,585 |
| Premises and equipment (e,f) | 2,227 | (5) | 2,222 | 1,980 | (3) | 1,977 |
| Goodwill (f) | 1,635 | (42) | 1,593 | 1,140 | (33) | 1,107 |
| Intangible assets (f) | 204 | (5) | 199 | 124 | (8) | 116 |
| Other assets (b,d,l) | 10,160 | 7,506 | 17,666 | 8,340 | 7,629 | 15,969 |
| Total Assets | \$ 416,050 | \$ 6,430 | \$ 422,480 | \$ 366,524 | \$ 9,208 | \$ 375,732 |
| Liabilities and Shareholders' Equity | | | | | | |
| Deposits (a) | \$ 257,670 | \$ – | \$ 257,670 | \$ 232,050 | \$ 8 | \$ 232,058 |
| Derivative instruments (c) | 60,048 | – | 60,048 | 33,584 | – | 33,584 |
| Acceptances | 9,358 | – | 9,358 | 12,389 | – | 12,389 |
| Securities sold but not yet purchased | 18,792 | – | 18,792 | 25,039 | – | 25,039 |
| Securities lent or sold under repurchase agreements | 32,492 | – | 32,492 | 31,263 | – | 31,263 |
| Other liabilities (b,h,i,l,n) | 14,071 | 8,448 | 22,519 | 12,055 | 10,963 | 23,018 |
| Subordinated debt | 4,315 | – | 4,315 | 3,446 | – | 3,446 |
| Capital trust securities (i) | 1,150 | (1,150) | – | 1,150 | (1,150) | – |
| Preferred share liability (i) | 250 | (250) | – | 250 | (250) | – |
| Shareholders' equity (b,d,e,f,g,i,j,n) | 17,904 | (618) | 17,286 | 15,298 | (363) | 14,935 |
| Total Liabilities and Shareholders' Equity | \$ 416,050 | \$ 6,430 | \$ 422,480 | \$ 366,524 | \$ 9,208 | \$ 375,732 |

Consolidated Statement of Accumulated Other Comprehensive Loss

For the Year Ended October 31 (Canadian \$ in millions)

| | 2008 | 2007 |
|--|-----------------|------------|
| Total Accumulated Other Comprehensive Loss, as reported under Canadian GAAP | \$ (251) | \$ (1,533) |
| Adjustments to arrive at United States GAAP: | | |
| Unrealized gain on translation of net foreign operations, net of hedging activities (f) | 29 | 41 |
| Unrealized gain on reclassification from trading securities to available-for-sale securities (n) | 123 | – |
| Pension and other employee future benefits (b) | (772) | (518) |
| Total Accumulated Other Comprehensive Loss based on United States GAAP | \$ (871) | \$ (2,010) |

(a) Fair Value Option

Effective November 1, 2006, we adopted a new Canadian accounting standard which allows us to elect to measure financial instruments that would not otherwise be accounted for at fair value as trading instruments, with changes in fair value recorded in income provided they meet certain criteria. Financial instruments must have been designated on November 1, 2006, when the standard was adopted, or when new financial instruments were acquired, and the designation is irrevocable.

Effective November 1, 2007, we adopted the new United States accounting standard which allows us to elect to report selected financial assets and liabilities at fair value. The new standard eliminated a difference between Canadian and United States GAAP.

(b) Pension and Other Employee Future Benefits

Effective October 31, 2007, United States GAAP requires us to recognize the excess of the fair value of our plan assets compared to the corresponding benefit obligation as an asset and the shortfall of the fair value of our plan assets compared to the corresponding benefit obligation as a liability. This is done on a plan-by-plan basis. The offsetting adjustment is recorded in Accumulated Other Comprehensive Income. This new guidance replaces the United States GAAP requirement to recognize an additional minimum pension liability in cases where the obligation, calculated without taking salary increases into account, exceeds the fair value of plan assets at year end. There is no change in the calculation of the pension and other employee future benefits expense. Under Canadian GAAP, there is no similar requirement.

Under both Canadian and United States GAAP, both pension and other employee future benefits are recorded in our Consolidated Statement of Income in the period services are provided by our employees. The corresponding obligations are valued using current market rates. Under Canadian GAAP, prior to November 1, 2000, pension benefits were recorded in our Consolidated Statement of Income in the period services were provided by our employees, with the corresponding obligation valued using management's best estimate of the long-term rate of return on plan assets, while other employee future benefits were expensed as incurred. Effective November 1, 2000, we adopted a new Canadian accounting standard on pension and other employee future benefits that eliminated the difference between Canadian and United States GAAP. When we adopted this new standard, we accounted for the change in accounting as a charge to retained earnings. As a result, there will continue to be an adjustment to our Consolidated Statement of Income until amounts previously deferred under United States GAAP have been fully amortized to income.

(c) Derivatives

Under both Canadian and United States GAAP, hedging derivatives are recorded at fair value in our Consolidated Balance Sheet. Changes in the fair value of hedging derivatives are either offset in our Consolidated Statement of Income against the change in the fair value of the hedged asset, liability or firm commitment, or are recorded in Accumulated Other Comprehensive Income until the hedged item is recorded in our Consolidated Statement of Income. If the change in the fair value of the derivative is not completely offset by the change in the fair value of the item it is hedging, the difference is recorded immediately in our Consolidated Statement of Income.

Prior to November 1, 2006, hedging derivatives were accounted for on an accrual basis, with gains or losses deferred and recorded in income on the same basis as the underlying hedged item under Canadian GAAP. Canadian GAAP changed on November 1, 2006 to eliminate this difference.

(d) Stock-based Compensation

Effective November 1, 2005, under United States GAAP, stock-based compensation granted to employees who are eligible to retire was expensed at the time of grant. We adopted this new standard prospectively, beginning with grants issued in fiscal 2006. We retroactively adopted new Canadian accounting guidance on stock-based compensation during the year ended October 31, 2006, which conformed with the United States accounting standard. Due to the differences in the methods of adoption, there will continue to be an adjustment to our Consolidated Statement of Income until the stock-based compensation granted prior to November 1, 2005 has been fully amortized.

(e) Software Development Costs

Under United States GAAP, costs of internally developed software are required to be capitalized and amortized over the expected useful life of the software. Under Canadian GAAP, prior to November 1, 2003, only costs paid to third parties related to internally developed software were capitalized and amortized over the expected useful life of the software. Effective November 1, 2003, we adopted a new Canadian accounting standard that eliminated this difference for software development costs incurred after October 31, 2003. There will continue to be an adjustment to our Consolidated Statement of Income until software development costs capitalized prior to fiscal 2004 are fully amortized.

(f) Goodwill and Other Assets

Under United States GAAP, our acquisition of Suburban Bancorp, Inc. in 1994 would have been accounted for using the pooling of interests method. Under Canadian GAAP, we accounted for this acquisition using the purchase method, which resulted in the recognition and amortization of goodwill and other intangible assets associated with the acquisition. Effective November 1, 2001, goodwill is no longer amortized to income under either United States or Canadian GAAP. The remaining difference relates to the amortization of intangible assets under Canadian GAAP.

(g) Income Taxes

In addition to the tax impact of differences outlined above, under United States GAAP, tax rate changes do not impact the measurement of our future income tax balances until they are passed into law. Under Canadian GAAP, tax rate changes are recorded in income in the period the tax rate change is substantively enacted.

(h) Non-Cash Collateral

Under United States GAAP, non-cash collateral received in security lending transactions that we are permitted by contract to sell or repledge is recorded as an asset in our Consolidated Balance Sheet and a corresponding liability is recorded for the obligation to return the collateral. Under Canadian GAAP, such collateral and the related obligation are not recorded in our Consolidated Balance Sheet. As a result of this difference, available-for-sale securities and other liabilities have been increased by \$931 million and \$2,225 million for the years ended October 31, 2008 and 2007, respectively.

(i) Liabilities and Equity

Under United States GAAP, certain of our preferred shares and capital trust securities that are ultimately convertible into a variable number of our common shares at the holder's option are classified as equity and non-controlling interest, with payments recognized as dividends and minority interest, respectively. Under Canadian GAAP, preferred shares and capital trust securities with this conversion feature are classified as liabilities, with payments recognized as interest expense.

(j) Merchant Banking Investments

Under United States GAAP, our merchant banking subsidiaries account for their investments at cost or under the equity method. Under Canadian GAAP, these subsidiaries account for their investments at fair value, with changes in fair value recorded in income as they occur.

(k) Available-for-Sale Securities

Under both Canadian and United States GAAP, we have designated as available-for-sale all of our securities other than trading securities, loan substitute securities and investments in corporate equity where we exert significant influence but not control. Available-for-sale securities are carried at fair value, with any unrealized gains or losses recorded in other comprehensive income unless impaired. Other than temporary impairment and realized gains and losses are recorded in income. Prior to November 1, 2006, under Canadian GAAP, investment securities were carried at cost or amortized cost. Canadian GAAP changed on November 1, 2006 to eliminate this difference.

(l) Accounting for Securities Transactions

Under United States GAAP, securities transactions are recognized in our Consolidated Balance Sheet when we enter into the transaction. Under Canadian GAAP, securities transactions are recognized in our Consolidated Balance Sheet when the transaction is settled.

(m) Bankers' Acceptances

Under United States GAAP, bankers' acceptances purchased from other banks are classified as loans. Under Canadian GAAP, bankers' acceptances purchased from other banks are recorded as cash resources (deposits with banks) in our Consolidated Balance Sheet.

(n) Reclassification from Trading Securities to Available-for-Sale Securities

During the year ended October 31, 2008, we adopted new Canadian accounting guidance which allows, in rare circumstances, certain reclassifications of non-derivative financial assets from the trading category to either the available-for-sale or held-to-maturity categories. This new guidance is consistent with United States GAAP, except that United States GAAP requires that the reclassification be recorded on the date the transfer is completed. We elected to transfer securities from trading to available-for-sale for which we had a change in intent caused by current market circumstances to hold the securities for the foreseeable future rather than to exit or trade them in the short term. The Canadian accounting guidance was applicable on a retroactive basis to August 1, 2008 for us and the transfers took place at the fair value of the securities on August 1, 2008. We reclassified these securities under United States GAAP effective October 31, 2008. This difference will reverse as these securities are sold.

Changes in Accounting Policy

Accounting for Uncertainty in Income Taxes

Effective November 1, 2007, we adopted the new guidance issued by the Financial Accounting Standards Board ("FASB") on the accounting for uncertainty in income taxes recognized in an entity's financial statements. This interpretation clarifies that an entity's tax benefits recognized in tax returns must be more likely than not of being sustained on audit prior to recording the related tax benefit in the financial statements. The new standard did not have any impact on our consolidated financial statements as our current policy on accounting for income tax was consistent with this guidance.

Fair Value Measurement

Effective November 1, 2007, we adopted the new FASB accounting standard which clarifies the definition of fair value applicable under all United States accounting standards, with some limited exceptions. The standard establishes a single definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The objective of the standard is to increase consistency, reliability and comparability in fair value measurements, and to enhance disclosures to help users of financial statements assess the effects of the fair value measurements used in financial reporting. The framework provides a hierarchy for reliably determining fair value based on the definition in the standard. The new standard did not have any impact on our consolidated financial statements as our current policy on fair value measurement was consistent with this guidance.

Future Changes in Accounting Policy

Offsetting of Amounts Related to Certain Contracts

The FASB has issued guidance which discusses the appropriateness of offsetting certain amounts in multiple contracts with a single counterparty. This standard is effective November 1, 2008. Our current policy on offsetting is consistent with this guidance.

Convertible Debt Instruments

The FASB has issued guidance on the accounting for convertible debt instruments that may be settled in cash (or other assets) upon conversion, including partial cash settlement. Instruments classified as debt are within the scope of this new standard, which requires the liability and equity components to be accounted for separately. This accounting treatment differs from current accounting requirements, which generally treat convertible debt securities that may be cash-settled solely as debt. This standard is effective November 1, 2008. This standard will not impact the Bank as all of our convertible preferred shares and capital trust securities are classified as equity under United States GAAP.

Non-controlling Interests in Consolidated Financial Statements

The FASB has issued a new standard which clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements. In addition, the amount of consolidated net income attributed to the parent and to the non-controlling interest should be clearly presented on the consolidated statement of income. Currently, we report non-controlling interests in Other Liabilities on our Consolidated Balance Sheet. This standard is effective November 1, 2009. The CICA is expected to release a new standard that will eliminate the presentation difference between Canadian and United States GAAP. This standard is expected to be effective for the Bank on November 1, 2011 with earlier adoption permitted.

Business Combinations

The FASB has issued a new standard on business combinations. The new standard retains the purchase method of accounting for all business combinations. The new standard requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest in the acquiree at their fair values as of the acquisition date. Under Canadian GAAP, the assets acquired and liabilities assumed are adjusted only for the acquirer's share of the fair value. Non-controlling interests are recorded at their share of the carrying values recorded in the accounting records of the acquiree. This standard is effective for business combinations with an acquisition date on or after November 1, 2009. The CICA is expected to release a new standard that will eliminate any differences between Canadian and United States GAAP. This standard is expected to be effective for the Bank on November 1, 2011, with earlier adoption permitted.