

Note 8: Asset Securitization

Periodically, we securitize loans for capital management purposes or to obtain alternate sources of funding. Securitization involves selling loans to off-balance sheet entities or trusts (securitization vehicles), which buy the loans and then issue either interest bearing or discounted investor certificates.

Contracts with the securitization vehicles provide for the payment to us over time of the excess of the sum of interest and fees collected

from customers, in connection with the loans that were sold, over the yield paid to investors in the securitization vehicle, less credit losses and other costs (the “deferred purchase price”).

We account for transfers to securitization vehicles as sales when control over the loans is given up and consideration other than notes issued by the securitization vehicle has been received. When the loans are considered sold for accounting purposes, we remove them from

our Consolidated Balance Sheet. We recognize securitization revenues at the time of the sale. Securitization revenue is determined based on our best estimate of the net present value of expected future cash flows, primarily the deferred purchase price, net of our estimate of the fair value of any servicing obligations undertaken. The deferred purchase price is recorded in our Consolidated Balance Sheet in available-for-sale securities. A servicing liability is recognized only for securitizations where we do not receive adequate compensation for servicing the transferred loans. It is initially measured at fair value and is recorded in our Consolidated Balance Sheet in other liabilities. A servicing liability is amortized to securitization revenues over the term of the transferred loans.

For some of our securitizations, we are required to purchase subordinated interests or to maintain cash amounts deposited with the securitization vehicle that are considered retained interests in the securitized assets. This provides the securitization vehicle with a source of funds in the event that the sum of interest and fees collected on the loans is not sufficient to pay the interest owed to investors. We record these retained interests at their fair value in available-for-sale securities in our Consolidated Balance Sheet. These interests, together with the deferred purchase price, represent our exposure with respect to these securitizations. Investors have no further recourse against us in the event that cash flows from the transferred loans are inadequate to service the interest related to the investor certificates.

The following table summarizes our securitization activity related to our assets and its impact on our Consolidated Statement of Income for the years ended October 31, 2008, 2007 and 2006:

(Canadian \$ in millions)	Residential mortgages			Consumer instalment and other personal loans			Credit card loans			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006
Net cash proceeds (1)	\$ 8,330	\$ 3,312	\$ 3,545	\$ –	\$ –	\$ –	\$ 3,024	\$ –	\$ 1,424	\$ 11,354	\$ 3,312	\$ 4,969
Investment in securitization vehicle (2)	–	–	–	–	–	–	190	–	73	190	–	73
Deferred purchase price	331	125	111	–	–	–	73	–	36	404	125	147
Servicing liability	(55)	(26)	(28)	–	–	–	(14)	–	(6)	(69)	(26)	(34)
	8,606	3,411	3,628	–	–	–	3,273	–	1,527	11,879	3,411	5,155
Loans sold	8,524	3,400	3,629	–	–	–	3,219	–	1,500	11,743	3,400	5,129
Gain on sale of loans from new securitizations	82	11	(1)	–	–	–	54	–	27	136	11	26
Gain on sale of loans sold to revolving securitization vehicles	72	28	22	–	–	–	212	163	21	284	191	43
Other securitization revenue	(28)	(23)	(22)	–	5	13	41	46	10	13	28	1
Amortization of servicing liability	41	36	30	–	–	–	39	30	–	80	66	30
Total	\$ 167	\$ 52	\$ 29	\$ –	\$ 5	\$ 13	\$ 346	\$ 239	\$ 58	\$ 513	\$ 296	\$ 100

(1) Net cash proceeds represent cash proceeds less issuance costs.

(2) Includes credit card securities retained on-balance sheet by the Bank.

The key weighted-average assumptions used to value the deferred purchase price for these securitizations were as follows:

	Residential mortgages		Credit card loans	
	2008	2007	2008	2007(1)
Weighted-average life (years)	4.43	4.61	0.36	–
Prepayment rate	13.74%	9.70%	40.34%	–
Interest rate	5.38%	5.24%	21.32%	–
Expected credit losses (2)	–	–	2.43%	–
Discount rate	4.04%	4.62%	10.23%	–

(1) There were no credit card securitization transactions in the year ended October 31, 2007.

(2) As the residential mortgages are fully insured, there are no expected credit losses.

Cash flows received from securitization vehicles for the years ended October 31, 2008, 2007 and 2006 were as follows:

(Canadian \$ in millions)	Residential mortgages			Consumer instalment and other personal loans			Credit card loans			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006
Proceeds from new securitizations	\$ 8,423	\$ 3,330	\$ 3,569	\$ –	\$ –	\$ –	\$ 3,025	\$ –	\$ 1,425	\$ 11,448	\$ 3,330	\$ 4,994
Proceeds from collections reinvested in existing securitization vehicles	1,853	2,187	1,770	–	–	–	9,685	8,198	1,236	11,538	10,385	3,006
Servicing fees collected	29	21	15	–	–	–	–	3	5	29	24	20
Receipt of deferred purchase price	132	104	93	–	–	–	347	240	25	479	344	118

The impact of securitizations on our Consolidated Balance Sheet as at October 31, 2008 and 2007 was as follows:

(Canadian \$ in millions)	Residential mortgages		Consumer instalment and other personal loans		Credit card loans		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Retained interests								
Investment in securitization vehicles	\$ –	\$ –	\$ –	\$ –	\$ 263	\$ 74	\$ 263	\$ 74
Deferred purchase price	495	266	–	–	112	36	607	302
Cash deposits with securitization vehicles	12	12	–	–	–	–	12	12
Servicing liability	100	70	–	–	19	6	119	76

Credit Information

Information related to principal amounts, impaired amounts and net credit losses for all loans reported and securitized is as follows:

(Canadian \$ in millions)	2008					
	Total loans	Impaired loans	Net write-offs (1)	Total loans	Impaired loans	Net write-offs (1)
Residential mortgages	\$ 77,641	\$ 235	\$ 6	\$ 74,002	\$ 133	\$ 2
Consumer instalment and other personal loans	43,737	19	120	33,189	41	37
Credit card loans	6,839	163	264	5,993	14	214
Business and government loans	84,151	1,981	519	62,650	539	83
Securities borrowed or purchased under resale agreements	28,033	—	—	37,093	—	—
Total loans	240,401	2,398	909	212,927	727	336
Less mortgage-backed securities retained and classified as available-for-sale securities	9,477	—	—	8,882	—	—
Less loans securitized:						
Residential mortgages	18,821	11	—	12,691	7	—
Credit card loans	4,719	—	53	1,500	—	36
Total loans reported in the Consolidated Balance Sheet	\$ 207,384	\$ 2,387	\$ 856	\$ 189,854	\$ 720	\$ 300

(1) Net write-offs represent write-offs in the year net of recoveries on loans previously written off.

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

Our credit exposure to securitized assets as at October 31, 2008 was limited to our deferred purchase price of \$607 million (\$302 million in 2007), certain cash deposits of \$12 million (\$12 million in 2007) and investments in securitization vehicles of \$263 million (\$74 million in 2007).

Static pool credit losses provide a measure of the credit risk in our securitized assets. They are calculated by totalling actual and projected future credit losses and dividing the result by the original balance of each pool of assets. Static pool credit losses for the years ended October 31, 2008 and 2007 were as follows:

	2008	2007
Residential mortgages	n/a	n/a
Consumer instalment and other personal loans	2.61%	2.61%
Credit card loans	1.01%	0.91%

n/a – not applicable

Sensitivity Analysis

The following table outlines the key economic assumptions used in measuring the deferred purchase price and servicing liability and the sensitivity of these retained interests as at October 31, 2008 to immediate 10% and 20% adverse changes in those assumptions. The sensitivity analysis should be used with caution as it is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key variable have been calculated independently of changes in the other

key variables. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

(Canadian \$ in millions, except as noted)	Residential mortgages	Credit card loans
Fair value of deferred purchase price	\$ 495	\$ 112
Weighted-average life (years)	3	0.37
Weighted-average prepayment rate (%)	15	n/a
Repayment term (years)	n/a	1
Impact of: 10% adverse change (\$)	7	7
20% adverse change (\$)	20	13
Interest rate (%)	1–2	12
Impact of: 10% adverse change (\$)	46	7
20% adverse change (\$)	90	14
Expected credit losses (%)	0–0.01	3
Impact of: 10% adverse change (\$)	0.09	2
20% adverse change (\$)	0.18	3
Weighted-average discount rate (%)	6	10
Impact of: 10% adverse change (\$)	8	0.30
20% adverse change (\$)	11	0.61