

Future Change in Accounting Policy

The Canadian Institute of Chartered Accountants has approved new accounting requirements for derivatives. Under these new requirements, all derivatives are marked to market unless they meet criteria for hedging. We will be adopting the new requirements in fiscal 2003 and do not expect these new requirements to impact our results as our accounting policies already substantially comply with these new requirements.

Foreign Currency Risk

We manage foreign currency risk through cross-currency swaps.

We also periodically hedge contractual U.S. dollar revenues to minimize fluctuations in U.S. dollar earnings through forward foreign exchange contracts.

These contracts are marked to market and mature monthly as related revenues are recorded and the realized gains and losses on these contracts are then recorded in non-interest revenue.

Interest Rate Risk

We manage interest rate risk primarily through interest rate swaps and options, which are linked to and adjust the interest rate sensitivity of a specific asset, liability, firm commitment or a specific pool of transactions with similar risk characteristics. These include fair value hedges which modify exposure to interest rate risk by converting fixed rate assets and liabilities to floating rate, and cash flow hedges which hedge exposure to variability in cash flows for variable rate interest bearing instruments. Our fair value hedges are primarily hedges of fixed rate deposits and mortgages. Our cash flow hedges, which have a maximum term of 12 years, are primarily hedges of floating rate deposits and commercial and personal loans.

Types of Derivatives

Derivative transactions, both customer trading and ALM, which are conducted directly between two counterparties in the over-the-counter market or on regulated exchange markets, include:

Swaps

Swaps are contractual agreements between two parties to exchange a series of cash flows.

For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. The main risks associated with these instruments are the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of assets and liabilities.

For cross-currency swaps, fixed interest payments and notional amounts are exchanged in different currencies.

For cross-currency interest rate swaps, principal amounts and fixed and floating interest payments are exchanged in different currencies.

For commodity swaps, counterparties generally exchange fixed and floating rate payments based on a notional value in a single commodity.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity, equity or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining. Risks arise from the possible inability of over-the-counter counterparties to meet the terms of their contracts and from movements in securities values, interest rates and foreign exchange rates.

Options

Options are contractual agreements that convey the right but not the obligation to either buy or sell a specific amount of a currency, commodity, equity or financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period.

For options written by us, we receive a premium from the purchaser for accepting market risk. For options purchased by us, a premium is paid for the right to exercise the option, but we sustain credit risk due to the uncertainty as to the writer's ability to fulfill the conditions of the contract. Also included in options are caps, collars and floors, which are contractual agreements where the writer agrees to pay the purchaser, based on a specified notional amount, the agreed upon difference between the market rate and the prescribed rate of the cap, collar or floor. The writer receives a premium for selling this instrument.

The effect of asset/liability management derivatives on net interest income and the net amount of deferred realized losses, included in other liabilities in our Consolidated Balance Sheet, was:

	2002	2001	2000
Increase (decrease) in net interest income	\$ 236	\$ 8	\$ 94
Deferred realized (losses)	\$ (10)	\$ (10)	\$ (15)

One technique that we use to reduce credit exposure on derivatives is to enter into master netting agreements with customers. These allow us to offset amounts due to/from a customer to limit our losses should the customer default on a derivative contract.

Losses incurred on defaults of counterparties charged to the allowance for credit losses in the years ended October 31, 2002, 2001 and 2000 were not significant.

The following terms are used in the derivatives table on page 88, which summarizes our derivative portfolio and related credit exposure.

Notional amount: represents the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract.

Replacement cost: represents the cost of replacing all contracts which have a positive fair value using current market rates. This figure represents in effect the unrealized gains on our derivative instruments.

Credit risk equivalent: represents the total replacement cost and thereby the potential future credit exposure, if the counterparty defaults.

Risk-weighted balance: represents the credit risk equivalent, weighted based on the creditworthiness of the counterparty, as prescribed by the Superintendent of Financial Institutions Canada.

Exchange traded derivatives have no potential for credit exposure as they can be settled net with the exchange.