

Note 19: Interest Rate Risk

We earn interest on interest bearing assets and we pay interest on interest bearing liabilities. We also hold derivative instruments, such as interest rate swaps and interest rate options, with values that are sensitive to changes in interest rates. To the extent that we hold 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 entails 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, 2017 and 2016. 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 strategies.

The assumptions for the years ended October 31, 2017 and 2016 were as follows:

Assets

Fixed rate, 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.

Goodwill and intangible and fixed assets are reported as non-interest sensitive. Other fixed rate and non-interest bearing assets with no defined maturity are reported based upon an assumed maturity profile that considers historical and forecasted trends in balances.

Liabilities

Fixed rate, fixed term 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 an assumed maturity profile that considers historical and forecasted trends in balances.

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, 2017 and 2016.

Interest Rate Gap Position

As at October 31, 2017 (Canadian \$ in millions, except as noted)	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
Assets											
Cash and cash equivalents	29,450	757	692	30,899	0.57	2,522	0.20	26	-	(848)	32,599
Interest bearing deposits with banks	6,490	-	-	6,490	0.84	-	-	-	-	-	6,490
Securities	102,922	3,232	4,674	110,828	1.34	22,697	2.25	28,306	2.67	1,367	163,198
Securities borrowed or purchased under resale agreements	71,154	2,354	1,490	74,998	0.58	49	0.97	-	-	-	75,047
Loans	207,556	17,359	30,572	255,487	2.95	101,322	3.51	4,863	3.92	-	361,672
Other assets	42,389	372	1,054	43,815	na	396	na	(1,265)	na	27,628	70,574
Total assets	459,961	24,074	38,482	522,517		126,986		31,930		28,147	709,580
Liabilities and Equity											
Deposits	249,185	28,195	39,694	317,074	0.97	134,907	0.89	31,507	0.68	-	483,488
Securities sold but not yet purchased	25,097	-	-	25,097	1.42	54	-	12	-	-	25,163
Securities lent or sold under repurchase agreements	54,809	290	20	55,119	0.56	-	-	-	-	-	55,119
Other liabilities	57,351	537	1,460	59,348	na	11,501	na	7,897	na	17,681	96,427
Subordinated debt	(121)	900	-	779	7.13	4,100	3.12	150	8.25	-	5,029
Total equity	(84)	-	157	73	na	3,789	na	-	na	40,492	44,354
Total liabilities and shareholders' equity	386,237	29,922	41,331	457,490		154,351		39,566		58,173	709,580
Asset/liability gap position	73,724	(5,848)	(2,849)	65,027		(27,365)		(7,636)		(30,026)	-
Notional amounts of derivatives	(64,225)	1,925	(2,121)	(64,421)		58,009		6,412		-	-
Total interest rate gap position - 2017											
Canadian dollar	(376)	(1,772)	2,722	574		17,839		(1,623)		(16,790)	-
Foreign currency	9,875	(2,151)	(7,692)	32		12,805		399		(13,236)	-
Total gap	9,499	(3,923)	(4,970)	606		30,644		(1,224)		(30,026)	-
Total interest rate gap position - 2016											
Canadian dollar	3,591	(1,006)	(1,146)	1,439		13,056		705		(15,200)	-
Foreign currency	(335)	4,653	(1,431)	2,887		9,508		(829)		(11,566)	-
Total gap	3,256	3,647	(2,577)	4,326		22,564		(124)		(26,766)	-

na - not applicable

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