

TORONTO DOMINION BANK
Form 6-K
December 06, 2002

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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

REPORT OF FOREIGN PRIVATE ISSUER

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

For the month of December, 2002.

The Toronto-Dominion Bank
(Translation of registrant's name into English)

P.O. Box 1, Toronto Dominion Centre,
Toronto, Ontario, M5K 1A2
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ☐ Form 40-F ☒

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐ No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____

This Form 6-K is incorporated by reference into the Registration Statement on Form F-3 of The Toronto-Dominion Bank dated February 21, 2002.

FORM 6-K

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE TORONTO-DOMINION BANK

DATE: December 6, 2002

By "Norie C. Campbell"
Name: Norie C. Campbell
Title: Associate Vice President, Legal

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Consolidated financial statements

Independent auditors' report to the directors

We have audited the consolidated balance sheets of The Toronto-Dominion Bank as at October 31, 2002 and 2001, and the consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the three-year period ended October 31, 2002. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2002 in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

Ernst & Young LLP

Chartered Accountants

Toronto, Canada

November 27, 2002

Comments by auditor for U.S. readers on Canada-U.S. reporting difference

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of The Toronto-Dominion Bank's consolidated financial statements, such as the changes described in Note 1 to the consolidated financial statements. Our report to the directors dated November 27, 2002 is expressed in accordance with Canadian reporting standards which do not require a reference to such changes in accounting principles in the auditors' report when the changes are properly accounted for and adequately disclosed in the consolidated financial statements.

Ernst & Young LLP

Chartered Accountants

Toronto, Canada

November 27, 2002

Consolidated balance sheet

	As at October 31	
	2002	2001
	(millions of dollars)	
ASSETS		
Cash resources		
Cash, deposits with Bank of Canada and non-interest-bearing deposits with other banks	\$ 1,902	\$ 1,961
Interest-bearing deposits with other banks	4,636	3,984
	<u>6,538</u>	<u>5,945</u>
Securities purchased under resale agreements	13,060	20,205
Securities (Note 2)		
Investment	28,802	31,010
Trading	53,395	66,184
	<u>82,197</u>	<u>97,194</u>
Loans (net of allowance for credit losses) (Note 3)		
Residential mortgages	52,784	50,807
Consumer instalment and other personal	36,332	31,126
Business and government	33,511	37,740
	<u>122,627</u>	<u>119,673</u>
Other		
Customers' liability under acceptances	7,719	9,122
Trading derivatives' market revaluation (Note 15)	25,739	21,435
Intangible assets (Note 5)	3,383	4,381
Goodwill (Note 5)	3,134	2,298
Land, buildings and equipment (Note 6)	1,634	1,832
Other assets	12,009	5,753
	<u>53,618</u>	<u>44,821</u>
Total assets	\$ 278,040	\$ 287,838
LIABILITIES		
Deposits (Note 7)		
Personal	100,942	\$ 95,982
Banks	16,800	23,173
Business and government	71,448	74,759
	<u>189,190</u>	<u>193,914</u>
Other		
Acceptances	7,719	9,122
Obligations related to securities sold short	17,058	21,436
Obligations related to securities sold under repurchase agreements	8,655	14,637

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	As at October 31	
Trading derivatives' market revaluation (Note 15)	25,954	21,770
Other liabilities	10,830	7,391
	70,216	74,356
Subordinated notes and debentures (Note 8)	4,343	4,892
Non-controlling interest in subsidiaries (Note 9)	1,250	1,272
SHAREHOLDERS' EQUITY		
Capital stock (Note 10)		
Preferred	1,485	1,492
Common	2,846	2,259
Retained earnings	8,710	9,653
	13,041	13,404
Total liabilities and shareholders' equity	\$ 278,040	\$ 287,838

A. Charles Baillie
Chairman and Chief
Executive Officer

W. Edmund Clark
President and Chief
Operating Officer

See Notes to consolidated financial statements page 7

Consolidated statement of operations

	For the years ended October 31		
	2002	2001	2000
	(millions of dollars)		
Interest income			
Loans	\$ 7,796	\$ 10,154	\$ 9,956
Securities	3,678	3,926	3,245
Deposits with banks	277	391	474
	11,751	14,471	13,675
Interest expense			
Deposits	4,886	8,284	8,794
Subordinated notes and debentures	214	297	251
Other obligations	1,351	1,499	1,025
	6,451	10,080	10,070
Net interest income	5,300	4,391	3,605

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	For the years ended October 31		
	2,925	920	480
Provision for credit losses (Note 3)			
Net interest income after credit loss provision	2,375	3,471	3,125
Other income			
Investment and securities services	2,085	2,205	2,640
Credit fees	415	425	545
Net investment securities gains	26	216	382
Trading income	529	1,318	1,225
Service charges	596	561	441
Loan securitizations (Note 4)	218	272	236
Card services	249	249	233
Insurance	375	326	198
Trust fees	76	86	75
Gains on sale of investment real estate (Note 19)		350	
Gain on sale of mutual fund record keeping and custody business (Note 19)	40		
Other	320	439	425
	4,929	6,447	6,400
Net interest and other income	7,304	9,918	9,525
Non-interest expenses			
Salaries and employee benefits (Note 11)	3,566	3,708	3,399
Occupancy including depreciation	605	592	498
Equipment including depreciation	661	656	561
Amortization of intangible assets (Note 5)	998	1,292	1,203
Amortization of goodwill (Note 5)		198	142
Restructuring costs (Note 20)		239	475
Other	1,922	1,969	1,849
	7,752	8,654	8,127
Income (loss) before provision for (benefit of) income taxes	(448)	1,264	1,398
Provision for (benefit of) income taxes (Note 12)	(406)	(164)	296
Income (loss) before non-controlling interest in subsidiaries	(42)	1,428	1,102
Non-controlling interest in net income of subsidiaries	34	45	77
Net income (loss)	(76)	1,383	1,025
Preferred dividends (Note 10)	84	83	56
Net income (loss) applicable to common shares	\$ (160)	\$ 1,300	\$ 969
Average number of common shares outstanding (thousands) (Note 21)			
basic	641,046	627,047	621,585
diluted	646,946	635,500	632,100
Earnings (loss) per common share (Note 21)			
basic	\$ (.25)	\$ 2.07	\$ 1.56
diluted	(.25)	2.05	1.53
Dividends per common share	1.12	1.09	.92

See Notes to consolidated financial statements page 7

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Consolidated statement of changes in shareholders' equity

	For the years ended October 31		
	2002	2001	2000
	(millions of dollars)		
Preferred shares (Note 10)			
Balance at beginning of year	\$ 1,492	\$ 1,251	\$ 833
Proceeds from share issues		225	410
Translation adjustment on shares issued in a foreign currency	(7)	16	8
Balance at end of year	1,485	1,492	1,251
Common shares (Note 10)			
Balance at beginning of year	2,259	2,060	2,006
Issued on acquisition of subsidiaries		181	41
Proceeds from shares issued for cash	400		
Proceeds from shares issued on exercise of options	13	18	13
Proceeds from shares issued as a result of dividend reinvestment plan	174		
Balance at end of year	2,846	2,259	2,060
Retained earnings			
Balance at beginning of year	9,653	9,039	8,694
Net income (loss)	(76)	1,383	1,025
Preferred dividends	(84)	(83)	(56)
Common dividends	(718)	(684)	(572)
Foreign currency translation adjustments, net of income taxes	(32)	171	2
Stock options settled in cash, net of income taxes	(25)	(39)	(41)
Obligations arising from adoption of accounting standard for employee future benefits, net of income taxes (Note 1)		(132)	
Other	(8)	(2)	(13)
Balance at end of year	8,710	9,653	9,039
Total common equity	11,556	11,912	11,099
Total shareholders' equity	\$ 13,041	\$ 13,404	\$ 12,350

See Notes to consolidated financial statements page 7

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Consolidated statement of cash flows

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	For the years ended October 31		
	2002	2001	2000
	(millions of dollars)		
Cash flows from (used in) operating activities			
Net income (loss)	\$ (76)	\$ 1,383	\$ 1,025
Adjustments to determine net cash flows			
Provision for credit losses	2,925	920	480
Restructuring costs		239	475
Depreciation	312	317	260
Amortization of intangible assets	998	1,292	1,203
Amortization of goodwill		198	142
Gains on sale of investment real estate		(350)	
Gain on sale of mutual fund record keeping and custody business	(40)		
Net investment securities gains	(26)	(216)	(382)
Changes in operating assets and liabilities			
Future income taxes	(1,017)	(1,210)	(831)
Current income taxes payable	249	(78)	(233)
Interest receivable and payable	(422)	(249)	288
Trading securities	12,789	(7,887)	(7,233)
Unrealized gains and amounts receivable on derivatives contracts	(4,304)	(7,177)	(4,607)
Unrealized losses and amounts payable on derivatives contracts	4,184	8,968	4,329
Other	(1,640)	(982)	(828)
Net cash from (used in) operating activities	13,932	(4,832)	(5,912)
Cash flows from (used in) financing activities			
Deposits	(4,724)	8,103	4,008
Securities sold under repurchase agreements	(5,982)	5,782	(11,484)
Securities sold short	(4,378)	2,415	3,733
Debt of subsidiaries		(501)	135
Issuance of subordinated notes and debentures	557	809	1,252
Repayment of subordinated notes and debentures	(1,106)	(857)	(5)
Common shares issued for cash, net of expenses	392		
Common shares issued on exercise of options	13	18	13
Common shares issued as a result of dividend reinvestment plan	174		
Common stock options settled in cash, net of income taxes	(25)	(39)	(41)
Issuance of preferred shares		225	410
Dividends paid on			
preferred shares	(84)	(83)	(56)
common shares	(718)	(684)	(572)
Proceeds on issuance of subsidiary shares	350		900
Other			(12)
Net cash from (used in) financing activities	(15,531)	15,188	(1,719)
Cash flows from (used in) investing activities			
Interest-bearing deposits	(652)	(1,318)	2,097
Activity in investment securities			
Purchases	(16,620)	(15,098)	(69,754)
Proceeds from maturities	7,024	3,751	63,223
Proceeds from sales	11,830	7,985	11,935
Loans	(6,396)	(1,232)	(11,750)

	For the years ended October 31		
Loan securitizations	517	1,528	6,345
Land, buildings and equipment	(114)	994	(193)
Securities purchased under resale agreements	7,145	(6,231)	12,953
Acquisitions and dispositions less cash and cash equivalents acquired (Note 19)	(1,194)	(296)	(7,167)
Net cash from (used in) investing activities	1,540	(9,917)	7,689
Net changes in cash and cash equivalents	(59)	439	58
Cash and cash equivalents at beginning of year	\$ 1,961	\$ 1,522	\$ 1,464
Cash and cash equivalents at end of year represented by cash, deposits with Bank of Canada and non-interest-bearing deposits with other banks	\$ 1,902	\$ 1,961	\$ 1,522
Supplementary disclosure of cash flow information			
Amount of interest paid during the year	\$ 6,962	\$ 10,447	\$ 9,063
Amount of income taxes paid during the year	565	834	1,314

See Notes to consolidated financial statements page 7

Notes to consolidated financial statements

NOTE 1 Summary of significant accounting policies

Bank Act

The Bank Act stipulates that the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles, except as specified by the Superintendent of Financial Institutions Canada.

The accounting principles followed by the Bank conform with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

Note 22 to the consolidated financial statements describes and reconciles the differences between Canadian and United States generally accepted accounting principles.

The significant accounting policies and practices followed by the Bank are:

(a) Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of subsidiaries, namely corporations effectively controlled by the Bank. As of November 1, 2001, the Bank prospectively adopted the new accounting standard on business combinations. The Bank uses the purchase method to account for all business acquisitions.

When the Bank effectively controls a subsidiary but does not own all of the common and preferred shares, the non-controlling interest in the net book value of the subsidiary is disclosed in the consolidated balance sheet separately from the Bank's shareholders' equity. The non-controlling interest in the subsidiary's net income is disclosed net of income taxes as a separate line item in the consolidated statement of operations.

Corporations over which the Bank has significant influence are reported in investment securities in the consolidated balance sheet and are accounted for using the equity method of accounting. The Bank's share of earnings of such corporations is reported in interest income in the consolidated statement of operations.

(b) Use of estimates in the preparation of financial statements

The preparation of the consolidated financial statements of the Bank requires management to make estimates and assumptions based on information available as of the date of the financial statements. Therefore, actual results could differ from those estimates.

(c) Translation of foreign currencies

Foreign currency assets and liabilities are translated into Canadian dollars at prevailing year-end rates of exchange. Foreign currency income and expenses are translated into Canadian dollars at the average exchange rates prevailing throughout the year.

Unrealized translation gains and losses related to the Bank's investment positions in foreign operations, net of any offsetting gains or losses arising from economic hedges of these positions and applicable income taxes, are included in shareholders' equity. All other unrealized translation gains and losses and all realized gains and losses are included in other income in the consolidated statement of operations.

(d) Cash resources

Cash resources includes cash and cash equivalents represented by cash and highly liquid deposits with the Bank of Canada and non-interest-bearing deposits with other banks.

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(e) Securities purchased under resale and sold under repurchase agreements

Securities purchased under resale agreements consist of the purchase of a security with the commitment by the Bank to resell the security to the original seller at a specified price. Securities sold under repurchase agreements consist of the sale of a security with the commitment by the Bank to repurchase the security at a specified price. Securities purchased under resale and sold under repurchase agreements are carried at cost on the consolidated balance sheet. The difference between the sale price and the agreed repurchase price on a repurchase agreement is recorded as interest expense. Conversely, the difference between the cost of the purchase and the predetermined proceeds to be received on a resale agreement is recorded as interest income.

(f) Securities

Investment account securities, excluding loan substitutes, are securities where the Bank's original intention is to hold to maturity or until market conditions render alternative investments more attractive, and which are generally available for sale. Investment account securities include nonmarketable equity securities that are not publicly traded. Investment account securities are carried at cost or amortized cost, adjusted to net realizable value to recognize other than temporary impairment. Gains and losses realized on disposal are determined on the average cost basis. Such gains, losses and writedowns are included in other income.

Trading account securities, including trading securities sold short included in liabilities, are carried at market value. Gains and losses on disposal and adjustments to market are reported in other income.

Interest income earned, amortization of premiums and discounts on debt securities and dividends received are included in interest income.

Loan substitutes are securities which have been structured as after-tax instruments rather than conventional loans in order to provide the issuers with a borrowing rate advantage and are identical in risk and security to bank loans of comparable term. Loan substitutes are carried at cost less any allowance for anticipated credit losses as described in (h).

(g) Loans

Loans are stated net of unearned income and an allowance for credit losses.

Interest income is recorded on the accrual basis until such time as the loan is classified as impaired. Interest on impaired loans subsequently received is recorded as income only when management has reasonable assurance as to the timely collection of the full amount of the principal and interest.

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An impaired loan is any loan where, in management's opinion, there has been a deterioration of credit quality to the extent that the Bank no longer has reasonable assurance as to the timely collection of the full amount of the principal and interest. In addition, any loan where a payment is contractually past due 90 days is classified as impaired, other than a deposit with a bank, a credit card loan, or a loan that is guaranteed or insured by Canada, the provinces or an agency controlled by these governments.

Deposits with banks are considered impaired when a payment is contractually past due 21 days. Credit card loans with payments 180 days in arrears are considered impaired and are entirely written off.

Loan origination fees are considered to be adjustments to loan yield and are deferred and amortized to interest income over the term of the loan. Commitment fees are amortized to other income over the commitment period when it is unlikely that the commitment will be called upon; otherwise, they are deferred and amortized to interest income over the term of the resulting loan. Loan syndication fees are recognized in other income unless the yield on any loans retained by the Bank is less than that of other comparable lenders involved in the financing. In such cases an appropriate portion of the fee is deferred and amortized to interest income over the term of the loan.

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(h) Allowance for credit losses

An allowance is maintained which is considered adequate to absorb all credit-related losses in a portfolio of items which are both on and off the consolidated balance sheet. Assets in the portfolio which are included in the consolidated balance sheet are deposits with banks, loans, mortgages, loan substitutes, securities purchased under resale agreements, acceptances and derivative financial instruments. Items not included in the consolidated balance sheet and referred to as off-balance sheet items include guarantees and letters of credit. The allowance is deducted from the applicable asset in the consolidated balance sheet except for acceptances and off-balance sheet items. The allowance for acceptances and for off-balance sheet items is included in other liabilities.

The allowance consists of specific, general and sectoral allowances.

Specific allowances include all the accumulated provisions for losses on particular assets required to reduce the book values to estimated realizable amounts in the ordinary course of business. Specific provisions are established on an individual facility basis to recognize credit losses on business and government loans. For personal loans, excluding credit cards, specific provisions are calculated using a formula method taking into account recent loss experience. No specific provisions for credit cards are recorded and balances are written off when payments are 180 days in arrears.

General allowances include all the accumulated provisions for losses which are prudential in nature and cannot be determined on an item-by-item or group basis. The level of the general allowance depends upon an assessment of business and economic conditions, historical and expected loss experience, loan portfolio composition and other relevant indicators.

When an industry sector or geographic region experiences specific adverse events or changes in economic condition, it may be necessary to establish an additional allowance for loan loss for the group of loans as a whole even though the individual loans comprising the group are still performing. These allowances are considered sectoral and are established for losses which have not been specifically identified, and where the losses are not adequately covered by the general allowances noted above. The amount of the allowance is reviewed and adjusted regularly and depends on management's assessment of the current and expected business and economic conditions as well as the extent of the Bank's exposure to the sector.

General and sectoral allowances are computed using credit risk models developed by the Bank. The level of the allowances considers the probability of default (loss frequency), the loss given default (loss severity) and the expected exposure at default.

The total level of allowances is considered adequate to absorb all credit losses in the portfolio of on and off-balance sheet items. Actual write-offs, net of recoveries, are deducted from the allowance for credit losses. The provision for credit losses, which is charged to the consolidated statement of operations, is that required to bring the total of all allowances (specific, general and sectoral) to a level which management considers adequate to absorb probable credit-related losses in its portfolio of on and off-balance sheet items.

(i) Loan securitizations

When loan receivables are sold in a securitization to a qualifying special purpose entity under terms that transfer control to third parties, the transaction is recognized as a sale and the related loan assets are removed from the consolidated balance sheet. As part of the securitization, certain financial assets are retained and consist of one or more subordinated tranches, servicing rights, and in some cases a cash reserve account.

The retained interests are classified as investment account securities and are carried at cost or amortized cost. With effect from July 1, 2001, a gain or loss on sale of the loan receivables is recognized immediately in other income. The amount of the gain or loss recognized depends in part on the previous carrying amount of the receivables involved in the transfer, allocated

between the assets sold and the retained interests based on their relative fair values at the date of transfer. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests and the Bank generally estimates fair value based on the present value of future expected cash flows estimated using management's best estimates of key assumptions – credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved. Prior to July 1, 2001, gains arising on loan securitizations were deferred and amortized to income whereas losses were recognized immediately.

Transactions entered into prior to July 1, 2001 or completed subsequently pursuant to commitments to sell made prior to July 1, 2001 have not been restated and deferred gains will be amortized over the remaining terms of the commitment period.

Subsequent to the securitization, any retained interests that cannot be contractually settled in such a way that the Bank can recover substantially all of its recorded investment are adjusted to fair value. The current fair value of retained interests is determined using the present value of future expected cash flows as discussed above.

(j) Acceptances

The potential liability of the Bank under acceptances is reported as a liability in the consolidated balance sheet. The Bank's recourse against the customer in the event of a call on any of these commitments is reported as an offsetting asset of the same amount.

(k) Derivative financial instruments

Derivative financial instruments are financial contracts which derive their value from changes in interest rates, foreign exchange rates and other financial or commodity indices. Such instruments include interest rate, foreign exchange, equity, commodity and credit derivative contracts. These instruments are traded by the Bank and are also used by the Bank for its own risk management purposes. To be designated as a non-trading derivative contract and receive hedge accounting treatment, the contract must substantially offset the effects of price, interest rate or foreign exchange rate exposures to the Bank, must be documented at inception as a non-trading derivative contract, and must have a high correlation at inception and throughout the contract period between the derivative contract and the Bank's exposure. If these criteria are not met, the contract is designated as a trading derivative.

Trading derivatives are entered into by the Bank to meet the needs of its customers and to take trading positions. Derivative trading portfolios are marked to market with the resulting realized and unrealized gains or losses recognized immediately in other income. The market value for over-the-counter trading derivatives is determined net of valuation adjustments which recognize the need to cover market, liquidity and credit risks, as well as the cost of capital and administrative expenses over the life of each contract.

Non-trading derivatives are entered into by the Bank in order to meet the Bank's funding, investing and credit portfolio management strategies. This is accomplished by modifying one or more characteristics of the Bank's risk related to on-balance sheet financial instruments.

Unrealized gains and losses on non-trading derivatives are accounted for on a basis consistent with the related on-balance sheet financial instrument. Realized gains and losses resulting from the early termination, sale, maturity or extinguishment of such derivatives are generally deferred and amortized over the remaining term of the related on-balance sheet instruments. Premiums on purchased options are deferred at inception and amortized into other income over the contract life.

(l) Goodwill and intangible assets

As of November 1, 2001, the Bank prospectively adopted the new accounting standard on goodwill and other intangible assets. Goodwill represents the difference between the acquisition cost of an investment and the fair value of the net tangible assets acquired after an allocation is made for indefinite and finite life intangible assets. Under the new standard, goodwill is not amortized but is subject to fair value impairment

tests, on at least an annual basis. Goodwill is allocated to reporting units and any potential goodwill impairment is identified by comparing the carrying value of the reporting unit with its fair value. If any potential impairment is identified, then the amount of the impairment is quantified by comparing the carrying value of goodwill to its fair value, based on the fair value of the assets and liabilities of the reporting unit. Intangibles with a finite life are amortized over their estimated useful life and also are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. Finite life intangible assets are considered impaired and written down to their net recoverable amount when their net carrying value exceeds their estimated future net cash flows. Any impairment of goodwill or intangible assets is charged to income in the period in which the impairment is determined. The Bank's finite life intangible assets consist primarily of core deposit intangibles that represent the intangible value of depositor relationships acquired when deposit liabilities are assumed in an acquisition. Other significant finite life intangible assets include term deposit, loan and mutual fund intangibles resulting from acquisitions. These finite life intangible assets are amortized to income on a double declining basis over eight years, based on their estimated useful lives.

(m) Land, buildings and equipment

Land is reported at cost. Buildings, equipment and leasehold improvements are reported at cost less accumulated depreciation. Gains and losses on disposal are reported in other income. When the Bank reports a gain on sale of property in which it retains a significant leasing interest, the portion of the gain which can be allocated to the leased interest is deferred and amortized to income over the remaining term of the lease. Depreciation methods and rates by asset category are as follows:

Asset	Rate and depreciation method
Buildings	5% or 10%, declining balance
Computer equipment	30%, declining balance
Computer software	maximum 3 years, straight-line
Furniture, fixtures and other equipment	20%, declining balance
Leasehold improvements	estimated useful life, straight-line

(n) Stock-based compensation plans

The Bank operates various stock-based compensation plans. One of these plans is a stock option plan for eligible employees and non-employee directors of the Bank. Under this plan, options are periodically awarded to participants to purchase common shares at prices equal to the closing market price of the shares on the date prior to the date the options were issued, subject to vesting provisions. For years up to and including fiscal 2002, no expenses have been recorded when the stock options were issued. The consideration paid by option holders on the exercise of the options is credited to capital stock. Until October 5, 2002, option holders could elect to receive cash for the options equal to the excess of the current market price of the shares over the option exercise price. Effective October 6, 2002, new grants of options and all outstanding options can only be settled for shares. Cash payments to option holders who elected to receive cash were charged to retained earnings on a net of tax basis. Option awards granted after November 1, 2002 will be accounted for as described in Note 23.

The Bank also operates a share purchase plan available to all employees. Under the plan, the Bank matches 50% of employees' permitted contributions toward the purchase of Bank common shares,

subject to vesting provisions. The Bank's annual contributions are recorded in salaries and employee benefits.

Changes in the value of phantom share units and deferred share units are recorded, net of the effects of related hedges, in the consolidated statement of operations.

(o) Employee future benefits

The Bank's principal pension plan is The Pension Fund Society of The Toronto-Dominion Bank, a defined benefit plan for which membership is voluntary. As a result of the acquisition of CT Financial Services Inc. (CT), the Bank sponsors a second pension plan consisting of a defined benefit portion and a defined contribution portion. Funding for both plans is provided by contributions from the Bank and members of the plans. In addition, the Bank and CT maintain partially funded benefit plans for eligible employees. Related retirement benefits are paid from Bank assets and contributions.

The Bank also provides certain post-retirement benefits, post-employment benefits, compensated absences and termination benefits for its employees (non-pension employee benefits), which are generally non-funded. These benefits include health care, life insurance and dental benefits. Employees eligible for the post-retirement benefits are those who retire from the Bank at certain retirement ages. Employees eligible

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	Remaining term to maturity							
Mortgage-backed securities ¹	70	7,195	853				8,118	7,609
Total Canada	3,525	7,287	1,743	192	8		12,755	14,255
Provinces	1	55	142	20	13		231	131
Total	3,526	7,342	1,885	212	21		12,986	14,386
Other debt securities								
Canadian issuers	139	111	3	22	51		326	258
U.S. federal government	2,757	21	33	40	2		2,853	2,598
Other foreign governments	2,162	1,835	141	119			4,257	4,738
Other issuers	1,342	1,563	141	839	27		3,912	3,955
Total	6,400	3,530	318	1,020	80		11,348	11,549
Equity securities								
Preferred shares	175	236	511	98		471	1,491	1,771
Common shares						2,977	2,977	3,304
Total	175	236	511	98		3,448	4,468	5,075
Total investment securities	10,101	11,108	2,714	1,330	101	3,448	28,802	31,010
Trading securities								
Government and government-insured securities								
Canada	1,088	337	1,470	997	2,527		6,419	13,251
Provinces	189	338	1,005	700	628		2,860	2,794
Total	1,277	675	2,475	1,697	3,155		9,279	16,045
Other debt securities								
Canadian issuers	88	574	385	537	344		1,928	1,271
U.S. federal government	876	451	127	140	50		1,644	1,563
Other foreign governments	73	240	359	909	1,267		2,848	3,327
Other issuers	2,647	4,001	5,406	7,948	3,152		23,154	30,077
Total	3,684	5,266	6,277	9,534	4,813		29,574	36,238
Equity securities								
Preferred shares		1	312	9	511	129	962	812
Common shares						13,580	13,580	13,089
Total		1	312	9	511	13,709	14,542	13,901
Total trading securities	4,961	5,942	9,064	11,240	8,479	13,709	53,395	66,184
Total securities²	\$ 15,062	\$ 17,050	\$ 11,778	\$ 12,570	\$ 8,580	\$ 17,157	\$ 82,197	\$ 97,194

¹ Mortgage-backed securities are guaranteed by the government of Canada.

² Includes loan substitutes in the amount of \$5 million (2001 \$20 million).

Securities Unrealized gains and losses

	2002				2001			
	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
	(millions of dollars)							
Investment securities								
Issued or guaranteed by								
Canada	\$ 12,755	\$ 249	\$ 1	\$ 13,003	\$ 14,255	\$ 454	\$	\$ 14,709
Provinces	231	1		232	131			131
U.S. federal government	2,853			2,853	2,598	5		2,603
Other debt	8,495	198	4	8,689	8,951	144	35	9,060
Equity	4,468	422	294	4,596	5,075	513	183	5,405
Total investment securities	28,802	870	299	29,373	31,010	1,116	218	31,908
Trading securities	53,395			53,395	66,184			66,184
Total securities	\$ 82,197	\$ 870	\$ 299	\$ 82,768	\$ 97,194	\$ 1,116	\$ 218	\$ 98,092

NOTE 3 Loans, impaired loans and allowance for credit losses
Loans and impaired loans

	Gross amount of loans	Gross impaired loans	Specific allowance	Impaired loans net of specific allowance	General allowance	Sectoral allowance	Total allowance for credit losses	Net amount of loans
	(millions of dollars)							
2002								
Residential mortgages	\$ 52,810	\$ 57	\$ 10	\$ 47	\$ 16	\$	\$ 26	\$ 52,784
Consumer instalment and other personal	36,601	137	69	68	200		269	36,332
Business and government	36,716	2,331	995	1,336	925	1,285	3,205	33,511
Total	\$ 126,127	\$ 2,525	\$ 1,074	\$ 1,451	\$ 1,141	\$ 1,285	\$ 3,500	\$ 122,627
2001								
Residential mortgages	\$ 50,874	\$ 88	\$ 6	\$ 82	\$ 61	\$	\$ 67	\$ 50,807
Consumer instalment and other personal	31,396	154	60	94	210		270	31,126
Business and government	38,723	1,025	113	912	870		983	37,740
Total	\$ 120,993	\$ 1,267	\$ 179	\$ 1,088	\$ 1,141	\$	\$ 1,320	\$ 119,673
							2002	2001

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	Gross amount of loans	Gross impaired loans	Specific allowance	Impaired loans net of specific allowance	General allowance	Sectoral allowance	Total allowance for credit losses	Net amount of loans
Average gross impaired loans during the year							\$ 1,647	\$ 1,242

Included in gross residential mortgages are Canadian government-insured mortgages of \$41,360 million at October 31, 2002 (2001 \$39,204 million). Gross impaired loans include foreclosed assets held for sale with a gross carrying value of \$27 million at October 31, 2002 (2001 \$51 million) and a related allowance of \$8 million (2001 \$4 million).

Included in consumer instalment and other personal loans are Canadian government-insured real estate secured personal loans of \$2,680 million at October 31, 2002 (2001 nil).

Included in business and government loans are \$7,032 million of gross loans in the communications sector and \$5,872 million of gross loans in the utilities sector against which sectoral allowances of \$619 million and \$508 million have been provided, respectively.

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Allowance for credit losses

	2002				2001		
	Specific allowance	General allowance	Sectoral allowance ¹	Total	Specific allowance	General allowance	Total
	(millions of dollars)						
Balance at beginning of year	\$ 179	\$ 1,141	\$	\$ 1,320	\$ 312	\$ 836	\$ 1,148
Provision for credit losses charged to the consolidated statement of operations	1,455		1,470	2,925	620	300	920
Transfer from sectoral to specific	205		(205)				
Write-offs ²	(893)			(893)	(844)		(844)
Recoveries	127			127	90		90
Other, including foreign exchange rate changes	1		20	21	1	5	6
Allowance for credit losses at end of year	\$ 1,074	\$ 1,141	\$ 1,285	\$ 3,500	\$ 179	\$ 1,141	\$ 1,320

1

There was no sectoral allowance for the year ended October 31, 2001.

2

For the year ended October 31, 2002, \$57 million of write-offs related to restructured loans. There were no restructured loans written off during the year ended October 31, 2001.

NOTE 4 Loan securitizations

During the year, the Bank securitized government guaranteed residential mortgage loans through the creation of mortgage-backed securities and received net cash proceeds of \$3,486 million (2001 \$999 million). The Bank retained the rights to future excess interest on the residential mortgages valued at \$159 million (2001 \$47 million) and received cash flows on interests retained of \$24 million. The gain on sale, net of transaction fees and expenses and before the effects of hedges on the assets sold, was \$114 million (2001 \$38 million). The Bank retained the responsibility for servicing the mortgages. The key assumptions used to value the sold and retained interests included a prepayment rate of 7.0% (2001 7.0%), an excess spread of 1.3% (2001 1.4%) and a discount rate of 4.2% (2001 4.5%). There are no expected credit losses as the mortgages are government guaranteed.

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The following table presents key economic assumptions and the sensitivity of the current fair value of retained interests to two adverse changes in each key assumption as at October 31. The sensitivity analysis is hypothetical and should be used with caution.

	Residential mortgage loans	Personal loans	Credit card loans
	(millions of dollars)		
2002			
Carrying value of retained interests	\$ 184	\$ 11	\$ 3
Discount rate	3.5%	3.4%	3.4%
+10%	\$ (1)	\$	
+20%	(3)		
Prepayment rate	7.0%	5.5%	38.2%
+10%	\$ (2)	\$ (1)	\$
+20%	(5)	(2)	
Expected credit losses		%	%
+10%	\$	\$	3.2%
+20%			

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The following table presents information about gross impaired loans and net write-offs for components of reported and securitized financial assets as at October 31.

	2002			2001		
	Loans (net of allowance for credit losses)	Gross impaired loans	Net write offs	Loans (net of allowance for credit losses)	Gross impaired loans	Net write offs
	(millions of dollars)					
Type of loan						
Residential mortgages	\$ 60,857	\$ 57	\$ 2	\$ 59,204	\$ 88	\$ 4
Personal loans	42,886	151	389	40,985	184	343
Other loans	33,800	2,331	445	37,940	1,025	490
Total loans reported and securitized	137,543	2,539	836	138,129	1,297	837
Less: loans securitized	14,916	14	70	18,456	30	83
Loans held	\$ 122,627	\$ 2,525	\$ 766	\$ 119,673	\$ 1,267	\$ 754

NOTE 5 Goodwill and intangible assets

Goodwill

The changes in the Bank's carrying value of goodwill, by business segment and in total, are as follows:

	TD Canada Trust	TD Securities	TD Wealth Management	Total
	(millions of dollars)			
2002				
Carrying value of goodwill at beginning of year	\$ 841	\$ 147	\$ 1,310	\$ 2,298
Goodwill acquired during the year		379	457	836

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	TD Canada Trust	TD Securities	TD Wealth Management	Total
Carrying value of goodwill at end of year	\$ 841	\$ 526	\$ 1,767	\$ 3,134
2001				
Carrying value of goodwill at beginning of year	\$ 917	\$	\$ 1,245	\$ 2,162
Goodwill acquired during the year	42	160	132	334
Amortization of goodwill during the year	(118)	(13)	(67)	(198)
Carrying value of goodwill at end of year	\$ 841	\$ 147	\$ 1,310	\$ 2,298

Intangible assets

The following table presents details of the Bank's intangible assets as at October 31. Future income tax liabilities related to these intangible assets are disclosed in Note 12.

	2002		2001	
	Carrying value	Accumulated amortization	Net carrying value	Net carrying value
	(millions of dollars)			
Finite life intangible assets				
Core deposit intangible assets	\$ 1,867	\$ 753	\$ 1,114	\$ 1,443
Other intangible assets	3,806	1,537	2,269	2,938
Total intangible assets	\$ 5,673	\$ 2,290	\$ 3,383	\$ 4,381

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Future amortization expense for the carrying amount of intangible assets is estimated to be as follows for the next five years:

	(millions of dollars)
2003	\$ 772
2004	595
2005	458
2006	354
2007	274
	\$ 2,453

For comparative purposes, the table below is provided to present the prior years' net income applicable to common shares and earnings per common share on a consistent basis with the presentation in effect since November 1, 2001.

For the years ended October 31		
2002	2001	2000

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For the years ended October 31

(millions of dollars)

Net income (loss)			
Reported net income (loss) applicable to common shares	\$ (160)	\$ 1,300	\$ 969
Add back: goodwill amortization, net of income taxes		189	133
Net income (loss) applicable to common shares excluding goodwill amortization	\$ (160)	\$ 1,489	\$ 1,102
Basic earnings (loss) per common share			
Reported basic earnings (loss) per common share	\$ (.25)	\$ 2.07	\$ 1.56
Add back: goodwill amortization, net of income taxes		.30	.21
Basic earnings (loss) per common share excluding goodwill amortization	\$ (.25)	\$ 2.37	\$ 1.77
Diluted earnings (loss) per common share			
Reported diluted earnings (loss) per common share	\$ (.25)	\$ 2.05	\$ 1.53
Add back: goodwill amortization, net of income taxes		.30	.21
Diluted earnings (loss) per common share excluding goodwill amortization	\$ (.25)	\$ 2.35	\$ 1.74

NOTE 6 Land, buildings and equipment

	2002		2001	
	Cost	Accumulated depreciation	Net book value	Net book value
(millions of dollars)				
Land	\$ 227	\$	\$ 227	\$ 305
Buildings	526	177	349	459
Computer equipment and software	920	541	379	372
Furniture, fixtures and other equipment	596	268	328	356
Leasehold improvements	543	192	351	340
	\$ 2,812	\$ 1,178	\$ 1,634	\$ 1,832

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Accumulated depreciation at the end of 2001 was \$1,164 million.

NOTE 7 Deposits

	2002			2001	
	Demand	Notice	Term	Total	Total
(millions of dollars)					
Personal	\$ 15,902	\$ 34,874	\$ 50,166	\$ 100,942	\$ 95,982
Banks	565	43	16,192	16,800	23,173
Business and government	11,872	13,610	45,966	71,448	74,759

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				2002	2001
Total	\$ 28,339	\$ 48,527	\$ 112,324	\$ 189,190	\$ 193,914
Non-interest-bearing deposits included above					
In domestic offices				\$ 4,469	\$ 3,875
In foreign offices				58	10
Interest-bearing deposits included above					
In domestic offices				126,916	122,806
In foreign offices				56,532	65,668
U.S. federal funds purchased				1,215	1,555
Total				\$ 189,190	\$ 193,914

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NOTE 8 Subordinated notes and debentures

The notes and debentures are direct unsecured obligations of the Bank or its subsidiaries and are subordinated in right of payment to the claims of depositors and certain other creditors of the Bank or its subsidiaries. Where appropriate, the Bank has entered into interest rate options, interest rate swaps and currency swaps to modify the related interest rate and foreign currency risks.

Interest rate (%)	Maturity date	Redeemable at par by issuer beginning ⁶	Foreign currency amount	Outstanding October 31	
				2002	2001
				(millions of dollars)	
Various ¹	Jan. 2002 to Oct. 2002			\$	\$ 29
Various ²	Dec. 2002 to Sept. 2005			20	13
Floating rate ³	Oct. 2002		US\$150 million		238
Floating rate ⁴	Aug. 2003		US\$75 million	116	119
Floating rate ⁵	Oct. 2003			100	100
8.00	Dec. 2003			150	150
6.50	Jan. 2007	Jan. 2002	US\$300 million		477
6.75	Mar. 2007	Mar. 2002	US\$200 million		318
5.65	Sept. 2007	Sept. 2002			25
6.50	Aug. 2008		US\$150 million	234	238
6.15	Oct. 2008		US\$150 million	234	238
6.13	Nov. 2008		US\$100 million	155	159
6.45	Jan. 2009		US\$150 million	234	238
6.60	Apr. 2010	Apr. 2005		750	750
8.40	Dec. 2010	Dec. 2005		150	150
6.00	July 2011	July 2006		800	800
6.55	July 2012	July 2007		500	500
5.20	Sept. 2012	Sept. 2007		550	
10.05	Aug. 2014			150	150
9.15	May 2025			200	200
				\$ 4,343	\$ 4,892

¹

Interest is payable at various rates, from .13% to 3.10%.

Interest is payable at various rates, from .13% to 2.95%.

Interest at six-month U.S. dollar LIBOR less .13%, subject to minimum and maximum rates of 5% and 10% respectively.

Interest at three-month U.S. dollar LIBOR, subject to a minimum of 4.10%.

Interest at three-month customers' liability under acceptance rate less .30%, subject to minimum and maximum rates of 6.50% and 9% respectively.

Subject to prior approval of the Superintendent of Financial Institutions Canada.

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Repayment schedule

The aggregate maturities of the Bank's subordinated notes and debentures are as follows:

	2002	2001
	(millions of dollars)	
Within 1 year	\$ 229	\$ 267
Over 1 to 2 years	157	232
Over 2 to 3 years		150
Over 5 years	3,957	4,243
	<u>\$ 4,343</u>	<u>\$ 4,892</u>

NOTE 9 Non-controlling interest in subsidiaries

	2002	2001
	(millions of dollars)	
Trust units issued by TD Capital Trust		
900,000 Capital Trust Securities Series 2009	\$ 900	\$ 900
Trust units issued by TD Capital Trust II		
350,000 Capital Trust Securities Series 2012	350	
Common shares and retained earnings of TD Waterhouse Group, Inc.		372
	<u>\$ 1,250</u>	<u>\$ 1,272</u>

TD Capital Trust Securities Series 2009

The TD Capital Trust Securities (TD CaTS) are issued by TD Capital Trust, whose voting securities are owned 100% by the Bank. Holders of TD CaTS are eligible to receive semi-annual non-cumulative fixed cash distributions of \$38 per TD CaTS. Should the trust fail to pay the semi-annual distributions in full, the Bank's ability to declare dividends on Bank common and preferred shares will be restricted.

Between June 30, 2005 and December 31, 2009, the trust has the option of redeeming the outstanding TD CaTS for the greater of: (a) \$1,000 together with unpaid distributions to the date of redemption and (b) a price calculated to provide an annual yield equal to the yield of

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a Government of Canada bond maturing on December 31, 2009 at that time plus .375% together with unpaid distributions to the date of redemption. In the event of an unfavourable change in tax or capital treatment as it applies to the trust prior to June 30, 2005, the trust may redeem the outstanding TD CaTS for a redemption price as calculated above. On or after December 31, 2009, the redemption price would be \$1,000 together with unpaid distributions to the date of redemption. Such redemption rights are subject to the approval of the Superintendent of Financial Institutions Canada.

On or after June 30, 2010, each TD CaTS may, at the option of the holder, be converted semi-annually into one Non-cumulative Class A Redeemable First Preferred Share of the Bank.

By giving at least 60 days of notice prior to the date of conversion to all holders who have given a conversion notice, the Bank may redeem or find substitute purchasers at the purchase price of \$1,000 per TD CaTS together with unpaid distributions to the date of conversion.

Each TD CaTS may be automatically exchanged into one preferred share of the Bank without consent of the holder in the following circumstances: (a) proceedings are commenced for the winding-up of the Bank; (b) the Superintendent of Financial Institutions Canada takes control of the Bank; (c) the Bank has Tier 1 capitalization of less than 5% or a Total Capital ratio of less than 8%; or (d) the Bank has

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failed to comply with a direction of the Superintendent of Financial Institutions Canada to increase its capital or provide additional liquidity.

The distribution rate on the trust securities is 7.60% per annum.

TD Capital Trust Securities Series 2012

The TD Capital Trust Securities (TD CaTS II) are issued by TD Capital Trust II, whose voting securities are owned 100% by the Bank. Holders of TD CaTS II are eligible to receive semi-annual non-cumulative fixed cash distributions of \$33.96 per TD CaTS II. Should the trust fail to pay the semi-annual distributions in full, the Bank's ability to declare dividends on Bank common and preferred shares will be restricted. The proceeds from the issuance were invested in Bank deposits.

Between December 31, 2007 and December 31, 2012, the trust has the option of redeeming the outstanding TD CaTS II for the greater of: (a) \$1,000 together with unpaid distributions to the date of redemption and (b) a price calculated to provide an annual yield equal to the yield of a Government of Canada bond maturing on December 31, 2012 at that time plus .38% together with unpaid distributions to the date of redemption. In the event of an unfavourable change in tax or capital treatment as it applies to the trust prior to December 31, 2012, the trust may redeem the outstanding TD CaTS II for a redemption price as calculated above. On or after December 31, 2012, the redemption price would be \$1,000 together with unpaid distributions to the date of redemption. Such redemption rights are subject to the approval of the Superintendent of Financial Institutions Canada.

At any time, each TD CaTS II may, at the option of the holder, be converted into 40 Non-cumulative Class A Redeemable First Preferred Shares, Series A2 of