

TORONTO DOMINION BANK
Form 6-K
November 26, 2003

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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

450, 5th Street
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 November, 2003.

The Toronto-Dominion Bank

(Translation of registrant's name into English)

**c/o General Counsel's Office
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 and the Registration Statement on Form F-10 of The Toronto-Dominion Bank dated December 16, 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: November 26, 2003

By: /s/ NORIE C. CAMPBELL

Name: Norie C. Campbell

Title: *Vice President, Corporate Governance*

148th Annual Statement 2003

Year Ended October 31

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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, 2003 and 2002 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, 2003. 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, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three year period ended October 31, 2003 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants

Toronto, Canada
November 26, 2003

PricewaterhouseCoopers LLP
Chartered Accountants

Comments by auditors 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 26, 2003 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 26, 2003

PricewaterhouseCoopers LLP
Chartered Accountants

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CONSOLIDATED BALANCE SHEET

| | As at October 31 | |
|---|-----------------------|--------------|
| | 2003 | 2002 |
| | (millions of dollars) | |
| ASSETS | | |
| Cash resources | | |
| Cash and non-interest-bearing deposits with other banks | \$ 1,468 | \$ 1,902 |
| Interest-bearing deposits with other banks | 6,251 | 4,636 |
| | 7,719 | 6,538 |

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| | As at October 31 | |
|--|------------------|------------|
| | 2018 | 2017 |
| Securities purchased under resale agreements | 17,475 | 13,060 |
| Securities (Note 2) | | |
| Investment | 24,775 | 28,802 |
| Trading | 54,890 | 53,395 |
| | 79,665 | 82,197 |
| Loans (Note 3) | | |
| Residential mortgages | 52,566 | 52,810 |
| Consumer instalment and other personal | 43,185 | 36,601 |
| Business and government | 24,319 | 36,716 |
| | 120,070 | 126,127 |
| Allowance for credit losses | (2,012) | (3,500) |
| Loans (net of allowance for credit losses) | 118,058 | 122,627 |
| Other | | |
| Customers' liability under acceptances | 6,645 | 7,719 |
| Trading derivatives' market revaluation (Note 18) | 28,451 | 25,739 |
| Intangible assets (Note 5) | 2,737 | 3,383 |
| Goodwill (Note 5) | 2,263 | 3,134 |
| Land, buildings and equipment (Note 6) | 1,417 | 1,634 |
| Other assets (Note 7) | 9,102 | 12,009 |
| | 50,615 | 53,618 |
| Total assets | \$ 273,532 | \$ 278,040 |
| LIABILITIES | | |
| Deposits (Note 8) | | |
| Personal | \$ 105,996 | \$ 100,942 |
| Banks | 11,958 | 16,800 |
| Business and government | 64,926 | 71,448 |
| | 182,880 | 189,190 |
| Other | | |
| Acceptances | 6,645 | 7,719 |
| Obligations related to securities sold short | 15,346 | 17,058 |
| Obligations related to securities sold under repurchase agreements | 7,845 | 8,655 |
| Trading derivatives' market revaluation (Note 18) | 28,000 | 25,954 |
| Other liabilities (Note 9) | 12,568 | 10,830 |
| | 70,404 | 70,216 |
| Subordinated notes and debentures (Note 10) | 5,887 | 4,343 |
| Non-controlling interest in subsidiaries (Note 11) | 1,250 | 1,250 |

| | As at October 31 | |
|--|-------------------|-------------------|
| | 2003 | 2002 |
| Contingent liabilities, commitments and guarantees (Note 19) | | |
| SHAREHOLDERS' EQUITY | | |
| Capital stock (Note 12) | | |
| Preferred | 1,535 | 1,485 |
| Common (millions of shares issued and outstanding 656.3 in 2003 and 645.4 in 2002) | 3,179 | 2,846 |
| Contributed surplus | 9 | |
| Foreign currency translation adjustments | (130) | 418 |
| Retained earnings | 8,518 | 8,292 |
| | <u>13,111</u> | <u>13,041</u> |
| Total liabilities and shareholders' equity | \$ 273,532 | \$ 278,040 |

John M. Thompson
Chairman of the Board

W. Edmund Clark
President and
Chief Executive Officer

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENT OF OPERATIONS

| | For the years ended October 31 | | |
|--|--------------------------------|---------------|---------------|
| | 2003 | 2002 | 2001 |
| | (millions of dollars) | | |
| Interest income | | | |
| Loans | \$ 7,542 | \$ 7,796 | \$ 10,154 |
| Securities | | | |
| Dividends | 721 | 595 | 540 |
| Interest | 2,727 | 3,083 | 3,386 |
| Deposits with banks | 212 | 132 | 191 |
| | <u>11,202</u> | <u>11,606</u> | <u>14,271</u> |
| Interest expense | | | |
| Deposits | 4,202 | 4,754 | 8,077 |
| Subordinated notes and debentures | 259 | 201 | 304 |
| Other obligations | 1,125 | 1,351 | 1,499 |
| | <u>5,586</u> | <u>6,306</u> | <u>9,880</u> |
| Net interest income | 5,616 | 5,300 | 4,391 |
| Provision for credit losses (Note 3) | 186 | 2,925 | 920 |
| Net interest income after credit loss provision | 5,430 | 2,375 | 3,471 |

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For the years ended October 31

Other income

| | | | |
|---|-------|-------|-------|
| Investment and securities services | 2,132 | 2,085 | 2,205 |
| Credit fees | 415 | 415 | 425 |
| Net investment securities gains | 23 | 26 | 216 |
| Trading income | 104 | 529 | 1,318 |
| Service charges | 641 | 596 | 561 |
| Loan securitizations (Note 4) | 250 | 218 | 272 |
| Card services | 252 | 249 | 249 |
| Insurance, net of claims | 420 | 375 | 326 |
| Trust fees | 70 | 76 | 86 |
| Gains on sale of investment real estate (Note 22) | | | 350 |
| Gain on sale of mutual fund record keeping and custody business (Note 22) | | 40 | |
| Write down of investment in joint ventures | (39) | | |
| Other | 156 | 320 | 439 |

4,424 **4,929** **6,447**

Net interest and other income

9,854 **7,304** **9,918**

Non-interest expenses

| | | | |
|--|-------|-------|-------|
| Salaries and employee benefits (Note 14) | 3,758 | 3,566 | 3,708 |
| Occupancy including depreciation | 656 | 605 | 592 |
| Equipment including depreciation | 650 | 661 | 656 |
| Amortization of intangible assets (Note 5) | 772 | 998 | 1,292 |
| Amortization of goodwill (Note 5) | | | 198 |
| Goodwill impairment (Note 5) | 624 | | |
| Restructuring costs (Note 23) | 92 | | 239 |
| Other | 1,812 | 1,922 | 1,969 |

8,364 **7,752** **8,654**

Income (loss) before provision for (benefit of) income taxes

1,490 **(448)** **1,264**

Provision for (benefit of) income taxes (Note 15)

322 **(445)** **(206)**

Income (loss) before non-controlling interest in subsidiaries

1,168 **(3)** **1,470**

Non-controlling interest in net income of subsidiaries

92 **64** **78**

Net income (loss)

1,076 **(67)** **1,392**

Preferred dividends (Note 12)

87 **93** **92**

Net income (loss) applicable to common shares

\$ 989 **\$ (160)** **\$ 1,300**

Average number of common shares outstanding (millions) (Note 24)

basic **649.8** 641.0 627.0

diluted **653.9** 646.9 635.5

Earnings (loss) per common share (Note 24)

basic **\$ 1.52** \$ (.25) \$ 2.07

diluted **1.51** (.25) 2.05

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | For the years ended October 31 | | |
|---|--------------------------------|------------------|------------------|
| | 2003 | 2002 | 2001 |
| | (millions of dollars) | | |
| Preferred shares (Note 12) | | | |
| Balance at beginning of year | \$ 1,485 | \$ 1,492 | \$ 1,251 |
| Proceeds from share issues | 550 | | 225 |
| Translation adjustment on shares issued in a foreign currency | (23) | (7) | 16 |
| Share redemptions | (477) | | |
| Balance at end of year | 1,535 | 1,485 | 1,492 |
| Common shares (Note 12) | | | |
| Balance at beginning of year | 2,846 | 2,259 | 2,060 |
| Issued on acquisition of subsidiaries | | | 181 |
| Proceeds from shares issued for cash | | 400 | |
| Proceeds from shares issued on exercise of options | 47 | 13 | 18 |
| Proceeds from shares issued as a result of dividend reinvestment plan | 286 | 174 | |
| Balance at end of year | 3,179 | 2,846 | 2,259 |
| Contributed surplus | | | |
| Balance at beginning of year | | | |
| Stock option expense (Note 1) | 9 | | |
| Balance at end of year | 9 | | |
| Foreign currency translation adjustments | | | |
| Balance at beginning of year | 418 | 450 | 279 |
| Foreign exchange gains (losses) from investments in subsidiaries and other items | (1,595) | (112) | 458 |
| Foreign exchange gains (losses) from hedging activities | 1,528 | 145 | (478) |
| (Provision for) benefit of income taxes (Note 15) | (481) | (65) | 191 |
| Balance at end of year | (130) | 418 | 450 |
| Retained earnings | | | |
| Balance at beginning of year | 8,292 | 9,203 | 8,760 |
| Net income (loss) | 1,076 | (67) | 1,392 |
| Preferred dividends | (87) | (93) | (92) |
| Common dividends | (754) | (718) | (684) |
| Stock options settled in cash, net of income taxes | | (25) | (39) |
| Obligations arising from adoption of accounting standard for employee future benefits, net of income taxes (Note 1) | | | (132) |
| Other | (9) | (8) | (2) |
| Balance at end of year | 8,518 | 8,292 | 9,203 |
| Total common equity | 11,576 | 11,556 | 11,912 |
| Total shareholders' equity | \$ 13,111 | \$ 13,041 | \$ 13,404 |

CONSOLIDATED STATEMENT OF CASH FLOWS

| | For the years ended October 31 | | |
|--|--------------------------------|---------------|----------------|
| | 2003 | 2002 | 2001 |
| | (millions of dollars) | | |
| Cash flows from (used in) operating activities | | | |
| Net income (loss) | \$ 1,076 | \$ (67) | \$ 1,392 |
| Adjustments to determine net cash flows | | | |
| Provision for credit losses | 186 | 2,925 | 920 |
| Gains on sale of investment real estate | | | (350) |
| Gain on sale of mutual fund record keeping and custody business | | (40) | |
| Depreciation | 318 | 312 | 317 |
| Amortization of intangible assets | 772 | 998 | 1,292 |
| Amortization of goodwill | | | 198 |
| Goodwill impairment | 624 | | |
| Restructuring costs | 98 | | 239 |
| Stock option expense | 9 | | |
| Write down of investment in joint ventures | 39 | | |
| Net investment securities gains | (23) | (26) | (216) |
| Changes in operating assets and liabilities | | | |
| Future income taxes | (74) | (1,017) | (1,210) |
| Current income taxes payable | 669 | 249 | (78) |
| Interest receivable and payable | 145 | (422) | (249) |
| Trading securities | (1,495) | 12,789 | (7,887) |
| Unrealized gains and amounts receivable on derivatives contracts | (2,712) | (4,304) | (7,177) |
| Unrealized losses and amounts payable on derivatives contracts | 2,046 | 4,184 | 8,968 |
| Other | 3,475 | (1,628) | (1,030) |
| Net cash from (used in) operating activities | 5,153 | 13,953 | (4,871) |
| Cash flows from (used in) financing activities | | | |
| Deposits | (6,310) | (4,724) | 8,103 |
| Securities sold under repurchase agreements | (810) | (5,982) | 5,782 |
| Securities sold short | (1,712) | (4,378) | 2,415 |
| Debt of subsidiaries | | | (501) |
| Issuance of subordinated notes and debentures | 1,904 | 557 | 809 |
| Repayment of subordinated notes and debentures | (360) | (1,106) | (857) |
| Common shares issued for cash, net of expenses | | 392 | |
| Common shares issued on exercise of options | 47 | 13 | 18 |
| Common shares issued as a result of dividend reinvestment plan | 286 | 174 | |
| Common stock options settled in cash, net of income taxes | | (25) | (39) |
| Issuance of preferred shares | 550 | | 225 |
| Redemption of preferred shares | (477) | | |
| Dividends paid on preferred shares | (87) | (93) | (92) |
| common shares | (754) | (718) | (684) |
| Proceeds on issuance of subsidiary shares | | 350 | |

| | For the years ended October 31 | | |
|--|--------------------------------|-----------------|-----------------|
| | (23) | (7) | 16 |
| Other | | | |
| Net cash from (used in) financing activities | (7,746) | (15,547) | 15,195 |
| Cash flows from (used in) investing activities | | | |
| Interest-bearing deposits | (1,615) | (652) | (1,318) |
| Activity in investment securities | | | |
| Purchases | (25,199) | (16,620) | (15,098) |
| Proceeds from maturities | 9,110 | 7,024 | 3,751 |
| Proceeds from sales | 20,139 | 11,830 | 7,985 |
| Loans | (3,221) | (6,396) | (1,232) |
| Proceeds from loan securitizations | 7,604 | 517 | 1,528 |
| Land, buildings and equipment | (101) | (114) | 994 |
| Securities purchased under resale agreements | (4,415) | 7,145 | (6,231) |
| Acquisitions and dispositions less cash and cash equivalents acquired (Note 22) | | (1,194) | (296) |
| Net cash from (used in) investing activities | 2,302 | 1,540 | (9,917) |
| Effect of exchange rate changes on cash and cash equivalents | (143) | (5) | 32 |
| Net changes in cash and cash equivalents | (434) | (59) | 439 |
| Cash and cash equivalents at beginning of year | 1,902 | 1,961 | 1,522 |
| Cash and cash equivalents at end of year represented by cash and non-interest-bearing deposits with other banks | \$ 1,468 | \$ 1,902 | \$ 1,961 |
| Supplementary disclosure of cash flow information | | | |
| Amount of interest paid during the year | \$ 5,861 | \$ 6,962 | \$ 10,447 |
| Amount of income taxes paid during the year | 306 | 565 | 834 |
| Dividends per common share | \$ 1.16 | \$ 1.12 | \$ 1.09 |

See Notes to Consolidated Financial Statements

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 including the accounting requirements of the Superintendent of Financial Institutions Canada conform with Canadian generally accepted accounting principles.

Note 25 to the Consolidated Financial Statements describes and reconciles the significant 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

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The Consolidated Financial Statements include the assets and liabilities and results of operations of subsidiaries, namely corporations effectively controlled by the Bank after elimination of intercompany transactions and balances. 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 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 include cash and cash equivalents represented by cash and non-interest-bearing deposits with other banks.

(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 obligations related to securities 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. The Bank takes possession of the underlying collateral, monitors its market value relative to the amounts due under the agreements and when necessary, requires transfer of additional collateral or reduction in the balance to maintain contractual margin protection. In the event of counter-party default, the financing agreement provides the Bank with the right to liquidate the collateral held.

(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 write downs 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.

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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.

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.

(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.

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The allowance consists of specific, general and sectoral allowances.

Specific allowances include 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 large and medium-sized business and government loans. For personal and small business 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 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. General allowances are computed using credit risk models developed by the Bank. The models consider probability of default (loss frequency), loss given default (loss severity) and expected exposure at default.

When an industry sector or geographic region experiences specific adverse events or changes in economic condition, an additional allowance is established 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 computed using expected loss methodologies that incorporate probability of default, loss given default and expected loss on sale.

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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 allowances (specific, general and sectoral) to a level which management considers adequate to absorb probable credit-related losses.

(i)

Loan securitizations

When loan receivables are sold in a securitization to a 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 may 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, before the effects of hedges on the assets sold. 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, credit spreads, commodity prices, equities and other financial measures. 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 accounted for 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, model, 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. 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 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. 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 goodwill impairment is identified by comparing the carrying value of the reporting unit

with its fair value. If any 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. The majority of 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. 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. Gains and losses on disposal are included in other income in the Consolidated Statement of Operations. When land, building and equipment are no longer in use or considered impaired they are written down to their net recoverable amount. 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 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 stock options issued up to October 31, 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. As of November 1, 2002, the Bank adopted the accounting standard on stock-based compensation and has elected to adopt on a prospective basis the fair value method of accounting for all stock option awards. Under this method the Bank recognizes a compensation expense based on the fair value of the options on the date of grant which is determined by using an option pricing model. The fair value of the options is recognized over the vesting period of the options granted as compensation expense and contributed surplus. The contributed surplus balance is reduced as the options are exercised and the amount initially recorded for the options in contributed surplus is credited to capital stock. No compensation expense is recorded for stock options awarded and outstanding prior to November 1, 2002.

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.

In addition, the Bank operates phantom share unit plans which are offered to certain employees of the Bank. Under these plans participants are granted phantom share units equivalent to the Bank's common stock that generally vest over three to four years. A liability is established by the Bank related to the phantom share units awarded and an incentive compensation expense is recognized in the Consolidated Statement of Operations over the vesting period. At the maturity date, the participant receives cash representing the value of the phantom share units. The Bank also offers deferred share unit plans to eligible executives. Under these plans a portion of the participant's annual incentive award may be deferred as share units equivalent to the Bank's common stock. The deferred share units are redeemable when the participant ceases to be an employee of the Bank and must be redeemed for cash within one year thereafter. Dividend equivalents accrue to the participants. Compensation expense for these plans are recorded in the year the incentive award is earned by the plan participant. 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 maintains 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 for the post-employment benefits are those on disability and maternity leave.

As of November 1, 2000, the Bank adopted the accounting standard on employee future benefits on a retroactive basis without restatement. As a result, an after-tax amount of \$132 million was charged to retained earnings. For the defined benefit plans and the non-pension employee benefit plans, actuarial valuations are made each year to determine the present value of the accrued benefits. Pension and non-pension benefit expenses are determined based upon separate actuarial valuations using the projected benefit method pro-rated on service and management's best estimates of investment returns on the plan assets, compensation increases, retirement age of employees and estimated health care costs. The discount rate used to value liabilities is based on a market rate as of the valuation date. The expense includes the cost of benefits for the current year's service, interest expense on liabilities, expected income on plan assets based on fair values and the amortization of plan amendments on a straight-line basis over the expected average remaining service life of the employee group. The excess, if any, of the net actuarial gain or loss over 10% of the greater of the projected benefit obligation and the fair value of plan assets is also amortized over the expected average remaining service life of the employee group. The cumulative difference between expense and funding contributions is reported in other assets or other liabilities.

For the defined contribution plans, annual pension expense is based on the Bank's contributions to the plan.

(p)

Provision for income taxes

The Bank recognizes both the current and future income tax consequences of all transactions that have been recognized in the financial statements. Future income tax assets and liabilities are determined based on the tax rates that are expected to apply when the assets or liabilities are reported for tax purposes. The Bank records a valuation allowance when it is not more likely than not that all of the future tax assets recognized will be realized prior to their expiration.

(q)

Earnings per share

The Bank uses the treasury stock method to calculate diluted earnings per share. The treasury stock method determines the number of additional common shares by assuming that the outstanding stock options, whose exercise price is less than the average market price of the Bank's common stock during the period, are exercised and then reduced by the number of common shares assumed to be repurchased with the exercise proceeds. Basic earnings per share is determined by dividing net income applicable to common shares by the average number of common shares outstanding for the period. Diluted earnings per share is determined using the same method as basic earnings per share except that the weighted average number of common shares outstanding includes the potential dilutive effect of stock options granted by the Bank as determined under the treasury stock method. Such potential dilution is not recognized in a loss period.

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(r)

Restructuring costs

On April 1, 2003, the Bank prospectively adopted new guidance on the accounting for severance and termination benefits and the accounting for costs associated with exit and disposal activities (including costs incurred in a restructuring). The new guidance generally require recognition of costs related to severance, termination and exit and disposal activities in the period when they are incurred rather than at the date of commitment to an exit or disposal plan.

(s)

Insurance

Earned premiums, net of fees, paid claims and changes in policy liabilities are included in other income.

(t)

Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in 2003.

NOTE 2 SECURITIES**Securities maturity schedule at year end**

| | Remaining term to maturity | | | | | | 2003 Total | 2002 Total |
|---|----------------------------|-----------------|-----------------|------------------|------------------|-------------------------|---------------|---------------|
| | Within 1 year | 1 to 3 years | 3 to 5 years | 5 to 10 years | Over 10 years | No specific maturity | | |
| (millions of dollars) | | | | | | | | |
| Investment securities | | | | | | | | |
| Government and government-insured securities | | | | | | | | |
| Canada | \$ 2,610 | \$ 211 | \$ 85 | \$ 45 | \$ 6 | \$ | \$ 2,957 | \$ 4,637 |
| Mortgage-backed securities | 33 | 9,771 | 1,120 | | | | 10,924 | 8,118 |
| Total Canada | 2,643 | 9,982 | 1,205 | 45 | 6 | | 13,881 | 12,755 |
| Provinces | 16 | 68 | 36 | 18 | 4 | | 142 | 231 |
| Total | 2,659 | 10,050 | 1,241 | 63 | 10 | | 14,023 | 12,986 |
| Other debt securities | | | | | | | | |
| Canadian issuers | 226 | 151 | 126 | 68 | 53 | | 624 | 326 |
| U.S. federal government | 1,836 | 65 | 25 | 23 | 2 | | 1,951 | 2,853 |
| Other foreign governments | 1,293 | 1,850 | 200 | 1 | | | 3,344 | 4,257 |
| Other issuers | 676 | 731 | 145 | 400 | 19 | | 1,971 | 3,912 |
| Total | 4,031 | 2,797 | 496 | 492 | 74 | | 7,890 | 11,348 |
| Equity securities | | | | | | | | |
| Preferred shares | 187 | 272 | 138 | 66 | | 464 | 1,127 | 1,491 |
| Common shares | | | | | | 1,735 | 1,735 | 2,977 |
| Total | 187 | 272 | 138 | 66 | | 2,199 | 2,862 | 4,468 |
| Total investment securities | 6,877 | 13,119 | 1,875 | 621 | 84 | 2,199 | 24,775 | 28,802 |
| Trading securities¹ | | | | | | | | |
| Government and government-insured securities | | | | | | | | |
| Canada | 846 | 957 | 1,237 | 544 | 557 | | 4,141 | 6,419 |
| Provinces | 478 | 371 | 554 | 726 | 587 | | 2,716 | 2,860 |
| Total | 1,324 | 1,328 | 1,791 | 1,270 | 1,144 | | 6,857 | 9,279 |
| Other debt securities | | | | | | | | |

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Remaining term to maturity

| | | | | | | | |
|-------------------------------------|------------------|------------------|------------------|-----------------|-----------------|------------------|------------------|
| Canadian issuers | 63 | 229 | 256 | 673 | 451 | 1,672 | 1,928 |
| U.S. federal government | 203 | 76 | 171 | 232 | 37 | 719 | 1,644 |
| Other foreign governments | 344 | 755 | 384 | 775 | 1,126 | 3,384 | 2,848 |
| Other issuers | 2,941 | 4,209 | 5,517 | 6,187 | 3,634 | 22,488 | 23,154 |
| Total | 3,551 | 5,269 | 6,328 | 7,867 | 5,248 | 28,263 | 29,574 |
| Equity securities | | | | | | | |
| Preferred shares | | | 7 | | 604 | 135 | 962 |
| Common shares | | | | | | 19,024 | 13,580 |
| Total | | | 7 | | 604 | 19,159 | 14,542 |
| Total trading securities | 4,875 | 6,597 | 8,126 | 9,137 | 6,996 | 19,159 | 53,395 |
| Total securities² | \$ 11,752 | \$ 19,716 | \$ 10,001 | \$ 9,758 | \$ 7,080 | \$ 21,358 | \$ 82,197 |

¹ During fiscal 2003, a portfolio with a carrying value of approximately \$2 billion was transferred from investment to trading securities along with the related hedges resulting in an immaterial net income effect (2002 nil).

² Includes loan substitutes in the amount of \$3 million (2002 \$5 million).

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Securities Unrealized gains and losses

| | 2003 | | | | 2002 | | | |
|---|---------------|------------------------|-------------------------|------------------------|---------------|------------------------|-------------------------|------------------------|
| | 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 | | | | | | | | |
| Government and government-insured securities | | | | | | | | |
| Canada | \$ 13,881 | \$ 108 | \$ 18 | \$ 13,971 | \$ 12,755 | \$ 249 | \$ 1 | \$ 13,003 |
| Provinces | 142 | 3 | | 145 | 231 | 1 | | 232 |
| Other debt securities | | | | | | | | |
| Canadian issuers | 624 | 5 | 1 | 628 | 326 | 3 | | 329 |
| U.S. federal government | 1,951 | | | 1,951 | 2,853 | | | 2,853 |
| Other foreign governments | 3,344 | 23 | 9 | 3,358 | 4,257 | 39 | 1 | 4,295 |
| Other issuers | 1,971 | 22 | 1 | 1,992 | 3,912 | 156 | 3 | 4,065 |
| Equity securities | | | | | | | | |
| Preferred shares | 1,127 | 103 | 3 | 1,227 | 1,491 | 31 | 26 | 1,496 |
| Common shares | 1,735 | 398 | 69 | 2,064 | 2,977 | 391 | 268 | 3,100 |
| Total investment securities | 24,775 | 662 | 101 | 25,336 | 28,802 | 870 | 299 | 29,373 |

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| | 2003 | | | | 2002 | | | |
|-------------------------|------------------|---------------|---------------|------------------|------------------|---------------|---------------|------------------|
| | | | | | | | | |
| Trading securities | 54,890 | | | 54,890 | 53,395 | | | 53,395 |
| Total securities | \$ 79,665 | \$ 662 | \$ 101 | \$ 80,226 | \$ 82,197 | \$ 870 | \$ 299 | \$ 82,768 |

NOTE 3 LOANS, IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans and impaired loans

| 2003 | Gross amount of loans ¹ | 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) | | | | | | | | |
| Residential mortgages | \$ 52,566 | \$ 51 | \$ 8 | \$ 43 | \$ 33 | | \$ 41 | \$ 52,525 |
| Consumer instalment and other personal | 43,185 | 114 | 62 | 52 | 215 | | 277 | 42,908 |
| Business and government | 24,319 | 1,206 | 417 | 789 | 736 | 541 | 1,694 | 22,625 |
| Total | \$ 120,070 | \$ 1,371 | \$ 487 | \$ 884 | \$ 984 | \$ 541 | \$ 2,012 | \$ 118,058 |
| 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 |
| | | | | | | | 2003 | 2002 |
| Average gross impaired loans during the year | | | | | | | \$ 2,305 | \$ 1,647 |

¹ Loans are net of unearned income of \$122 million (2002 \$229 million).

Included in gross residential mortgages are Canadian government-insured mortgages of \$36,659 million at October 31, 2003 (2002 \$41,360 million). Gross impaired loans include foreclosed assets held for sale with a gross carrying value of \$17 million at October 31, 2003 (2002 \$27 million) and a related allowance of \$5 million (2002 \$8 million).

Included in consumer instalment and other personal loans are Canadian government-insured real estate secured personal loans of \$2,578 million at October 31, 2003 (2002 \$2,680 million).

Included in business and government loans are \$3,241 million (2002 \$7,032 million) of gross loans in the communications sector and \$2,579 million (2002 \$5,872 million) of gross loans in the utilities sector against which sectoral allowances of \$216 million (2002 \$619 million) and \$209 million (2002 \$508 million) have been provided, respectively.

Allowance for credit losses

2003

2002

2001

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| | Specific allowance | General allowance | Sectoral allowance | Total | Specific allowance | General allowance | Sectoral allowance | Total | Total ¹ |
|---|--------------------|-------------------|--------------------|----------|--------------------|-------------------|--------------------|----------|--------------------|
| (millions of dollars) | | | | | | | | | |
| Balance at beginning of year | \$ 1,074 | \$ 1,141 | \$ 1,285 | \$ 3,500 | \$ 179 | \$ 1,141 | | \$ 1,320 | \$ 1,148 |
| Provision for credit losses charged to the Consolidated Statement of Operations | 423 | (157) | (80) | 186 | 1,455 | | 1,470 | 2,925 | 920 |
| Transfer from sectoral to specific | 577 | | (577) | | 205 | | (205) | | |
| Write-offs ² | (1,601) | | | (1,601) | (893) | | | (893) | (844) |
| Recoveries | 120 | | 57 | 177 | 127 | | | 127 | 90 |
| Other, including foreign exchange rate changes | (106) | | (144) | (250) | 1 | | 20 | 21 | 6 |
| Allowance for credit losses at end of year | \$ 487 | \$ 984 | \$ 541 | \$ 2,012 | \$ 1,074 | \$ 1,141 | \$ 1,285 | \$ 3,500 | \$ 1,320 |

¹ There was no sectoral allowance for the year ended October 31, 2001.

² For the year ended October 31, 2003, \$39 million (2002 \$57 million; 2001 nil) of write-offs related to restructured loans.

NOTE 4 LOAN SECURITIZATIONS

During the year, the Bank securitized government guaranteed residential mortgage loans through the creation of mortgage-backed securities of \$7,305 million (2002 \$3,735 million). The Bank retained the rights to future excess interest on the residential mortgages valued at \$157 million (2002 \$159 million) and received cash flows on interests retained of \$91 million (2002 \$24 million). The gain on sale, net of transaction fees and expenses and before the effects of hedges on the assets sold, was \$77 million (2002 \$114 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 20.0% (2002 7.0%), an excess spread of .8% (2002 1.3%) and a discount rate of 6.7% (2002 4.2%). There are no expected credit losses as the mortgages are government guaranteed.

During the year, the Bank also securitized \$3,000 million in credit card receivables and retained the rights to future excess interest on the receivables valued at \$53 million. The gain on sale, net of transaction fees and expenses was \$43 million. The Bank retained the responsibility for servicing the credit card receivables. The key assumptions used to value the sold and retained interests included a monthly payment rate of 39.4%, a discount rate of 4.4% and expected credit losses of 3.2%.

In addition, during the year, the Bank securitized commercial mortgages of \$879 million (2002 \$89 million). The Bank retained the rights to future excess interest, subordinated tranches and a cash reserve account on \$341 million of the commercial mortgages securitized valued at \$11 million (2002 nil). The key assumptions used to value these retained interests included a prepayment rate of 5.0%, a discount rate of 4.6% and expected credit losses of .06%. The Bank retained the responsibility for servicing the \$341 million of commercial mortgages securitized to which it holds a retained interest. The gain on sale related to all commercial mortgages securitized, net of transaction fees and expenses and before the effect of hedges on the assets sold was \$28 million (2002 \$3 million).

During the year, there were maturities of previously securitized loans and receivables of \$3,580 million (2002 \$3,307 million). As a result, the net proceeds from loan securitizations were \$7,604 million (2002 \$517 million).

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.

| 2003 | Residential mortgage loans | Personal loans | Credit card loans | Commercial mortgage loans |
|------|----------------------------|----------------|-------------------|---------------------------|
|------|----------------------------|----------------|-------------------|---------------------------|

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| 2003 | Residential mortgage loans | Personal loans | Credit card loans | Commercial mortgage loans |
|----------------------------------|----------------------------|----------------|-------------------|---------------------------|
| (millions of dollars) | | | | |
| Fair value of retained interests | \$ 268 | \$ 8 | \$ 27 | \$ 10 |
| Discount rate | 5.2% | 6.7% | 4.4% | 4.1% |
| +10% | \$ (2) | \$ | \$ (1) | \$ |
| +20% | (4) | | (2) | |
| Prepayment rate | 20.0% | 5.8% | 39.4% | 5.0% |
| +10% | \$ (10) | \$ (1) | \$ (2) | \$ |
| +20% | (19) | (1) | (4) | |
| Expected credit losses | | | 3.2% | .1% |
| | % | % | | |
| +10% | \$ | \$ | \$ (1) | \$ |
| +20% | | | (2) | |
| <hr/> | | | | |
| 2002 | | | | |
| Fair value of retained interests | \$ 184 | \$ 11 | | |
| Discount rate | 3.5% | 3.4% | | |
| +10% | \$ (1) | \$ | | |
| +20% | (3) | | | |
| Prepayment rate | 7.0% | 5.5% | | |
| +10% | \$ (2) | \$ (1) | | |
| +20% | (5) | (2) | | |
| Expected credit losses | | | | |
| | % | % | | |
| +10% | \$ | \$ | | |
| +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.

| | 2003 | | | 2002 | | |
|--------------------------------------|--|----------------------|----------------|--|----------------------|----------------|
| | 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 | \$ 63,834 | \$ 51 | \$ 4 | \$ 60,857 | \$ 57 | \$ 2 |
| Personal loans | 48,988 | 125 | 380 | 42,886 | 151 | 389 |
| Other loans | 23,673 | 1,206 | 1,079 | 33,800 | 2,331 | 445 |
| Total loans reported and securitized | 136,495 | 1,382 | 1,463 | 137,543 | 2,539 | 836 |
| Less: loans securitized | 18,437 | 11 | 39 | 14,916 | 14 | 70 |
| Loans held | \$ 118,058 | \$ 1,371 | \$ 1,424 | \$ 122,627 | \$ 2,525 | \$ 766 |

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:

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| 2003 | Personal and Commercial Banking | Wholesale Banking | Wealth Management | Total |
|---|---------------------------------------|----------------------|----------------------|----------|
| (millions of dollars) | | | | |
| Carrying value of goodwill at beginning of year | \$ 841 | \$ 526 | \$ 1,767 | \$ 3,134 |
| Goodwill acquired during the year | | | | |
| Goodwill impairment | | (350) | (274) | (624) |
| Foreign currency translation adjustments | | (30) | (217) | (247) |
| Carrying value of goodwill at end of year | \$ 841 | \$ 146 | \$ 1,276 | \$ 2,263 |
| 2002 | | | | |
| Carrying value of goodwill at beginning of year | \$ 841 | \$ 147 | \$ 1,310 | \$ 2,298 |
| Goodwill acquired during the year | | 372 | 477 | 849 |
| Foreign currency translation adjustments | | 7 | (20) | (13) |
| Carrying value of goodwill at end of year | \$ 841 | \$ 526 | \$ 1,767 | \$ 3,134 |

During the second quarter of fiscal 2003, the Bank reviewed the value of goodwill assigned to the international unit of its wealth management business and determined that an impairment in value existed in this business given that the Bank's ability to profitably run a global brokerage business has been impacted by declining volumes in the discount brokerage business worldwide. As a result, a goodwill impairment loss of \$274 million was charged to the Consolidated Statement of Operations.

In addition, during the second quarter of fiscal 2003, the Bank reviewed the value of goodwill assigned to its U.S. equity options business in its Wholesale Banking segment and determined that impairment in value existed in this business given the dramatic volume and margin declines. The Bank determined that the benefits of the U.S. equity options acquisition in fiscal 2002 had not been realized. Consequently, a \$350 million pre-tax goodwill impairment loss was charged to the Consolidated Statement of Operations and a related future income tax asset of \$117 million was recorded for a net of tax charge of \$233 million.

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 15.

| | 2003 | | 2002 | |
|--------------------------------|----------------|--------------------------|--------------------|--------------------|
| | Carrying value | Accumulated amortization | Net carrying value | Net carrying value |
| (millions of dollars) | | | | |
| Finite life intangible assets | | | | |
| Core deposit intangible assets | \$ 1,993 | \$ 1,006 | \$ 987 | \$ 1,114 |
| Other intangible assets | 3,806 | 2,056 | 1,750 | 2,269 |
| Total intangible assets | \$ 5,799 | \$ 3,062 | \$ 2,737 | \$ 3,383 |

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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) |
|------|-----------------------|
| 2004 | \$ 621 |
| 2005 | 484 |
| 2006 | 379 |

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| | |
|------|-----------------------|
| | (millions of dollars) |
| 2007 | 299 |
| 2008 | 237 |
| | <u>\$ 2,020</u> |

For comparative purposes, the table below is provided to present fiscal 2001 net income (loss) applicable to common shares and earnings per common share on a consistent basis with 2002 and 2003 (refer to Note 1 (l)).

| | For the years ended October 31 | | |
|---|--------------------------------|-----------------|-----------------|
| | 2003 | 2002 | 2001 |
| | (millions of dollars) | | |
| Net income (loss) | | | |
| Reported net income (loss) applicable to common shares | \$ 989 | \$ (160) | \$ 1,300 |
| Add back: goodwill amortization, net of income taxes | | | 189 |
| Net income (loss) applicable to common shares excluding goodwill amortization | <u>\$ 989</u> | <u>\$ (160)</u> | <u>\$ 1,489</u> |
| Basic earnings (loss) per common share | | | |
| Reported basic earnings (loss) per common share | \$ 1.52 | \$ (.25) | \$ 2.07 |
| Add back: goodwill amortization, net of income taxes | | | .30 |
| Basic earnings (loss) per common share excluding goodwill amortization | <u>\$ 1.52</u> | <u>\$ (.25)</u> | <u>\$ 2.37</u> |
| Diluted earnings (loss) per common share | | | |
| Reported diluted earnings (loss) per common share | \$ 1.51 | \$ (.25) | \$ 2.05 |
| Add back: goodwill amortization, net of income taxes | | | .30 |
| Diluted earnings (loss) per common share excluding goodwill amortization | <u>\$ 1.51</u> | <u>\$ (.25)</u> | <u>\$ 2.35</u> |

NOTE 6 LAND, BUILDINGS AND EQUIPMENT

| | 2003 | | 2002 | |
|---|-----------------------|--------------------------|-----------------|-----------------|
| | Cost | Accumulated depreciation | Net book value | Net book value |
| | (millions of dollars) | | | |
| Land | \$ 188 | \$ | \$ 188 | \$ 227 |
| Buildings | 464 | 161 | 303 | 349 |
| Computer equipment and software | 894 | 582 | 312 | 379 |
| Furniture, fixtures and other equipment | 571 | 277 | 294 | 328 |
| Leasehold improvements | 537 | 217 | 320 | 351 |
| | <u>\$ 2,654</u> | <u>\$ 1,237</u> | <u>\$ 1,417</u> | <u>\$ 1,634</u> |

Accumulated depreciation at the end of 2002 was \$1,178 million.

Depreciation for land, buildings, and equipment amounted to \$318 million for 2003 (2002 \$312 million; 2001 \$317 million).

NOTE 7 OTHER ASSETS

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| | 2003 | 2002 |
|---|-----------------------|------------------|
| | (millions of dollars) | |
| Amounts receivable from brokers, dealers and clients | \$ 4,006 | \$ 6,971 |
| Accrued interest | 1,421 | 1,841 |
| Accounts receivable, prepaid expenses and other items | 2,353 | 2,095 |
| Insurance related assets, excluding investments | 860 | 779 |
| Prepaid pension expense (Note 14) | 462 | 323 |
| | <u>\$ 9,102</u> | <u>\$ 12,009</u> |

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NOTE 8 DEPOSITS

| | | | | 2003 | 2002 |
|---|-----------------------|---------------------|-------------------|-------------------|-------------------|
| | Demand ¹ | Notice ² | Term ³ | Total | Total |
| | (millions of dollars) | | | | |
| Personal | \$ 15,675 | \$ 37,689 | \$ 52,632 | \$ 105,996 | \$ 100,942 |
| Banks | 688 | 44 | 11,226 | 11,958 | 16,800 |
| Business and government | 13,726 | 15,273 | 35,927 | 64,926 | 71,448 |
| Total | <u>\$ 30,089</u> | <u>\$ 53,006</u> | <u>\$ 99,785</u> | <u>\$ 182,880</u> | <u>\$ 189,190</u> |
| Non-interest-bearing deposits included above | | | | | |
| In domestic offices | | | | \$ 4,948 | \$ 4,469 |
| In foreign offices | | | | 35 | 58 |
| Interest-bearing deposits included above | | | | | |
| In domestic offices | | | | 126,993 | 126,916 |
| In foreign offices | | | | 50,541 | 56,532 |
| U.S. federal funds deposited | | | | 363 | 1,215 |
| Total | | | | <u>\$ 182,880</u> | <u>\$ 189,190</u> |

¹ Demand deposits are those for which the Bank does not have the right to require notice prior to withdrawal. These deposits are in general, chequing accounts.

² Notice deposits are those for which the Bank can legally require notice prior to withdrawal. These deposits are in general, savings accounts.

³ Term deposits are those payable on a fixed date of maturity. These deposits are generally term deposits, guaranteed investment certificates and similar instruments.

NOTE 9 OTHER LIABILITIES

| | 2003 | 2002 |
|--|-----------------------|----------|
| | (millions of dollars) | |
| Amounts payable to brokers, dealers and clients | \$ 2,883 | \$ 3,477 |
| Accrued interest | 1,642 | 1,917 |
| Accounts payable, accrued expenses and other items | 4,319 | 2,210 |
| Accrued salaries and employee benefits | 752 | 530 |

| | 2003 | 2002 |
|-------------------------------------|------------------|------------------|
| Insurance related liabilities | 1,325 | 1,122 |
| Cheques and other items in transit | 1,277 | 1,240 |
| Accrued benefit liability (Note 14) | 370 | 334 |
| | \$ 12,568 | \$ 10,830 |

NOTE 10 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 ⁴ | Foreign currency amount | Outstanding October 31 | |
|----------------------------|------------------------|--|-------------------------|------------------------|-----------------|
| | | | | 2003 | 2002 |
| (millions of dollars) | | | | | |
| Various ¹ | Jan. 2004 to Apr. 2006 | | | \$ 12 | \$ 20 |
| Floating rate ² | Aug. 2003 | | US\$75 million | | 116 |
| Floating rate ³ | Oct. 2003 | | | | 100 |
| 8.00 | Dec. 2003 | | | 150 | 150 |
| 6.50 | Aug. 2008 | | US\$150 million | 198 | 234 |
| 6.15 | Oct. 2008 | | US\$150 million | 198 | 234 |
| 6.13 | Nov. 2008 | | US\$100 million | 131 | 155 |
| 6.45 | Jan. 2009 | | US\$150 million | 198 | 234 |
| 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 | 550 |
| 4.54 | Sept. 2013 | Sept. 2008 | | 1,000 | |
| 10.05 | Aug. 2014 | | | 150 | 150 |
| 5.69 | June 2018 | June 2013 | | 900 | |
| 9.15 | May 2025 | | | 200 | 200 |
| | | | | \$ 5,887 | \$ 4,343 |

¹ Interest is payable at various rates, from .13% to 2.95%.

² Interest at three-month U.S. dollar LIBOR, subject to a minimum of 4.10%.

³ Interest at three-month customers' liability under acceptance rate less .30%, subject to minimum and maximum rates of 6.50% and 9% respectively.

⁴ Subject to prior approval of the Superintendent of Financial Institutions Canada.

Repayment schedule

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

| | <u>2003</u> | <u>2002</u> |
|-------------------|-----------------------|-----------------|
| | (millions of dollars) | |
| Within 1 year | \$ 157 | \$ 229 |
| Over 1 to 2 years | 5 | 157 |
| Over 4 to 5 years | 396 | |
| Over 5 years | 5,329 | 3,957 |
| | <u>\$ 5,887</u> | <u>\$ 4,343</u> |

NOTE 11 NON-CONTROLLING INTEREST IN SUBSIDIARIES

| | <u>2003</u> | <u>2002</u> |
|--|-----------------------|-----------------|
| | (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 | 350 |
| | <u>\$ 1,250</u> | <u>\$ 1,250</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 would 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 a Government of Canada bond maturing on December 31, 2009 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 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 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 would 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

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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 the Bank. Prior to the conversion, provided the holder has not withheld consent, the Bank may find substitute purchasers at a purchase price not less than 90% of the closing price of the TD CaTS II.

Each TD CaTS II may be automatically exchanged into 40 Non-cumulative Class A Redeemable First Preferred Shares, Series A3 of the Bank without consent of the holder subject to events similar to those described for TD CaTS (Series 2009).

The distribution rate on the trust securities is 6.792% per annum. No Non-cumulative Class A Redeemable First Preferred Shares, Series A2 or Series A3 have been issued as at October 31, 2003. If issued, these shares would have dividend rates of 4.40% and 5.15%, respectively.

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NOTE 12 CAPITAL STOCK

The share capital of the Bank consists of:

Authorized

An unlimited number of Class A First Preferred Shares, without par value, issuable in series.

An unlimited number of common shares, without par value.

| | 2003 | 2002 |
|---|----------|----------|
| (millions of dollars) | | |
| Issued and fully paid | | |
| Preferred shares issued by the Bank | | |
| Non-cumulative Redeemable Class A First Preferred Shares | | |
| 7,000,000 Series G (US\$175 million) | \$ | \$ 272 |
| 9,000,000 Series H | 225 | 225 |
| 16,065 Series I | | |
| 16,383,935 Series J | 410 | 410 |
| 6,000,000 Series K | | 150 |
| 2,000,000 Series L (US\$50 million) | | 78 |
| 14,000,000 Series M | 350 | |
| 8,000,000 Series N | 200 | |
| | 1,185 | 1,135 |
| Preferred shares issued by TD Mortgage Investment Corporation | | |
| 350,000 Non-cumulative Preferred Shares, Series A | 350 | 350 |
| | 1,535 | 1,485 |
| Total preferred shares | 3,179 | 2,846 |
| Common shares (2003 656,260,564; 2002 645,399,134) | 4,714 | 4,331 |
| | \$ 4,714 | \$ 4,331 |

Preferred shares

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None of the outstanding preferred shares are redeemable at the option of the holder.

Redemptions and repurchases of all preferred shares are subject to the prior approval of the Superintendent of Financial Institutions Canada.

Class A First Preferred Shares, Series G

On May 1, 2003, the Bank redeemed all the outstanding Class A First Preferred Shares, Series G at the price of US\$25 per share.

Class A First Preferred Shares, Series H

Until April 30, 2004, the Bank has the option of redeeming the outstanding Series H shares for \$25.50 per share. After April 30, 2004, the redemption price is reduced to \$25.00 per share together with declared and unpaid dividends to the date of redemption.

At any time, the Bank may convert the outstanding Series H shares in whole or in part into common shares, determined by dividing the then applicable redemption price per Series H share together with declared and unpaid dividends to the date of conversion by the greater of \$1.00 and 95% of the average trading price of such common shares at that time.

On or after January 31, 2005, each Series H share may, at the option of the holder, be converted quarterly into common shares as described above.

By giving at least 40 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 \$25.00 cash per share together with declared and unpaid dividends to the date of conversion.

Class A First Preferred Shares, Series I

On November 1, 1999, the Bank issued 16,400,000 units for cash consideration of \$102.5 million. Each unit consisted of one Non-cumulative Class A Redeemable First Preferred Share, Series I and one Non-cumulative Class A Redeemable First Preferred Share, Series J Purchase Warrant.

On or prior to October 31, 2000, the unitholders had the option of exercising one Series J Purchase Warrant together with a cash payment of \$18.75 per share to convert one Series I share into one Series J share. A total of 16,383,935 Series I shares were converted into Series J shares.

On or after November 1, 2004, the Bank has the option of redeeming the outstanding Series I shares for \$6.25 per share together with declared and unpaid dividends to the date of redemption.

Class A First Preferred Shares, Series J

Between April 30, 2005 and October 30, 2005, the Bank has the option of redeeming the outstanding Series J shares for \$26.00 per share. The redemption price, together with declared and unpaid dividends to the date of redemption, is reduced to \$25.80 after October 30, 2005; \$25.60 after October 30, 2006; \$25.40 after October 30, 2007; \$25.20 after October 30, 2008; and \$25.00 after October 30, 2009.

On or after April 30, 2005, the Bank may convert the outstanding Series J shares in whole or in part into common shares, determined by dividing the then applicable redemption price per Series J share together with declared and unpaid dividends to the date of conversion by the greater of \$2.00 and 95% of the average trading price of such common shares at that time. On or after January 29, 2010, each Series J share may, at the option of the holder, be converted quarterly into common shares as described above.

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By giving at least 40 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 \$25.00 cash per share together with declared and unpaid dividends to the date of conversion.

Class A First Preferred Shares, Series K

On February 3, 2003, the Bank redeemed all the outstanding Class A First Preferred Shares, Series K at a price of \$25.00 per share.

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Class A First Preferred Shares, Series L

On February 3, 2003, the Bank redeemed all the outstanding Class A First Preferred Shares, Series L at a price of US\$25.00 per share.

Class A First Preferred Shares, Series M

On February 3, 2003, the Bank issued 14,000,000 Series M shares for gross cash consideration of \$350 million.

On or after April 30, 2009, the Bank may redeem all, or from time to time part, of the outstanding Series M shares by payment in cash of \$26.00 per share if redeemed prior to April 30, 2010; \$25.75 if redeemed on or after April 30, 2010 and prior to April 30, 2011; \$25.50 if redeemed on or after April 30, 2011 and prior to April 30, 2012; \$25.25 if redeemed on or after April 30, 2012 and prior to April 30, 2013; and \$25.00 if redeemed thereafter together with the unpaid dividends to the date of redemption.

On or after April 30, 2009, the Bank may convert the outstanding Series M shares in whole or in part into common shares of the Bank, determined by dividing the then applicable redemption price per Series M share together with any declared and unpaid dividends to the date of conversion by the greater of \$2.00 and 95% of the average trading price of such common shares at that time.

On or after October 31, 2013, each Series M share may, at the option of the holder, be converted quarterly into common shares as described above.

By giving at least 40 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 \$25.00 cash per share together with unpaid dividends to the date of conversion.

Class A First Preferred Shares, Series N

On April 30, 2003, the Bank issued 8,000,000 Series N shares for gross cash consideration of \$200 million.

On or after April 30, 2009, the Bank may redeem all, or from time to time part, of the outstanding Series N shares by payment in cash of \$26.00 per share if redeemed prior to April 30, 2010; \$25.75 if redeemed on or after April 30, 2010 and prior to April 30, 2011; \$25.50 if redeemed on or after April 30, 2011 and prior to April 30, 2012; \$25.25 if redeemed on or after April 30, 2012 and prior to April 30, 2013; and \$25.00 if redeemed thereafter together with unpaid dividends to the date of redemption.

On or after April 30, 2009, the Bank may convert the outstanding Series N shares in whole or in part into common shares of the Bank, determined by dividing the then applicable redemption price per Series N share together with any declared and unpaid dividends to the date of conversion by the greater of \$2.00 and 95% of the average trading price of such common shares at that time.

On or after January 31, 2014, each Series N share may, at the option of the holder, be converted quarterly into common shares as described above.

By giving at least 40 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 \$25.00 cash per share together with unpaid dividends to the date of conversion.

TD Mortgage Investment Corporation Preferred Shares, Series A

Semi-annually, on or after October 31, 2007, TD Mortgage Investment Corporation (TDMIC) has the option of redeeming the outstanding Series A shares for \$1,000.00 per share.

Semi-annually, on or after October 31, 2007, the Bank may exchange the outstanding Series A shares in whole into common shares of the Bank, determined by dividing \$1,000.00 plus the declared and unpaid dividends to the date of exchange by 95% of the average trading price of such common shares at that time.

Semi-annually, on or after October 31, 2007, each Series A share may, at the option of the holder, be exchanged into common shares of the Bank, determined by dividing \$1,000.00 plus the declared and unpaid dividends to the date of exchange by the greater of \$1.00 and 95% of the average trading price of such common shares at that time.

By giving at least two business days of notice prior to the date of exchange to all holders who have given an exchange notice, TDMIC may redeem or the Bank may find substitute purchasers at the purchase price of \$1,000.00 plus the declared and unpaid dividends to the date of conversion.

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Each Series A share may be automatically exchanged into one preferred share of the Bank without consent of the holder in the following specific circumstances: (a) TDMIC fails to pay dividends on the Series A shares; (b) the Bank fails to pay dividends on all of its non-cumulative preferred shares; (c) proceedings are commenced for the winding-up of the Bank; (d) the Superintendent of Financial Institutions Canada takes control of the Bank; (e) the Bank has Tier 1 capitalization of less than 5% or a Total Capital ratio of less than 8%; or (f) the Bank or TDMIC has failed to comply with a direction of the Superintendent of Financial Institutions Canada to increase its capital or provide additional liquidity.

Dividend rates on preferred shares

| | | Rate |
|-----------------|---------------|-------------|
| | | (per share) |
| Series G | Quarterly | US\$.33750 |
| Series H | Quarterly | \$.44375 |
| Series I | Quarterly | \$.01000 |
| Series J | Quarterly | \$.31875 |
| Series K | Quarterly | \$.45940 |
| Series L | Quarterly | US\$.40000 |
| Series M | Quarterly | \$.29375 |
| Series N | Quarterly | \$.28750 |
| TDMIC, Series A | Semi-annually | \$32.30 |

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Common shares

| | 2003 | 2002 |
|---|--------------------|-------------|
| Number outstanding at beginning of year | 645,399,134 | 628,451,159 |
| Issued (cancelled) on acquisition of subsidiaries | | (18,789) |
| Issued for cash (Note 22) | | 10,958,900 |
| Issued on exercise of options | 2,900,483 | 836,754 |
| Issued as a result of dividend reinvestment plan | 7,960,947 | 5,171,110 |
| | 656,260,564 | 645,399,134 |
| Number outstanding at end of year | | |

Dividend reinvestment plan

The Bank offers a dividend reinvestment plan for its common shareholders. Participation in the plan is optional and under the terms of the plan, cash dividends on common shares are used to purchase additional common shares. The common shares may be purchased either from the Bank's treasury at an average market price based on the last five trading days before the date of the dividend payment with a discount range of 0% to 5% at the Bank's discretion or from the open market at market price. During the year, a total of 7,960,947 common shares (2002 5,171,110) have been issued from the Bank's treasury at a discount of 2.5% (2002 2.5%) of the average market price under the dividend reinvestment plan.

Dividend restrictions

The Bank is prohibited by the Bank Act from declaring dividends on its preferred or common shares if there are reasonable grounds for believing that the Bank is, or the payment would cause the Bank to be, in contravention of the capital adequacy and liquidity regulations of the Bank Act or directions of the Superintendent of Financial Institutions Canada. The Superintendent of Financial Institutions Canada administers a restriction under the Bank Act on the Bank's ability to pay dividends on common and preferred shares which assesses the ongoing maintenance by the Bank of satisfactory regulatory capital and liquidity. The Bank does not anticipate that these conditions will restrict it from paying dividends in the normal course of business.

The Bank is also restricted in the event that either TD Capital Trust or TD Capital Trust II fails to pay semi-annual distributions in full to holders of TD Capital Trust Securities. In addition, the ability to pay dividends on its common shares without the approval of the holders of the outstanding preferred shares is restricted unless all dividends on the preferred shares have been declared and paid or set apart for payment. Currently, these limitations do not restrict the payment of dividends on preferred or common shares.

NOTE 13 STOCK-BASED COMPENSATION

Stock option plan

Under the Bank's stock option plan, options on common shares are periodically granted to eligible employees and non-employee directors of the Bank for terms of 10 years, vesting over a four-year period. These options provide holders with the right to purchase common shares of the Bank at a fixed price equal to the closing market price of the shares on the day prior to the date the options were issued. Under this plan, 18,535,594 common shares have been reserved for future issuance (2002 22,075,610). The outstanding options expire on various dates to March 2013. The Bank's predecessor plan, the 1993 stock option plan, expired in 2000 and there will be no further issuance of stock options from this plan. The outstanding options under the 1993 stock option plan expire on various dates to July 2010. A summary of the Bank's stock option activity and related information for the years ended October 31 is as follows:

| | 2003 | Weighted average exercise price | 2002 | Weighted average exercise price | 2001 | Weighted average exercise price |
|---------------------------------------|-------------|--|-------------|--|-------------|--|
| Number outstanding, beginning of year | 23,859,413 | \$ 30.35 | 22,218,787 | \$ 26.65 | 23,403,443 | \$ 22.54 |
| Granted | 4,065,116 | 33.42 | 4,708,800 | 41.11 | 3,639,640 | 41.66 |
| Exercised cash shares | (2,900,483) | 16.25 | (1,673,495) | 17.51 | (2,593,303) | 15.30 |
| Forfeited/cancelled | (644,350) | 40.00 | (836,754) | 15.84 | (1,303,943) | 13.38 |
| | | | (557,925) | 36.06 | (927,050) | 32.27 |
| Number outstanding, end of year | 24,379,696 | \$ 32.28 | 23,859,413 | \$ 30.35 | 22,218,787 | \$ 26.65 |
| Exercisable, end of year | 14,775,784 | \$ 28.87 | 13,239,598 | \$ 23.94 | 13,081,260 | \$ 20.49 |

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The following table summarizes information relating to stock options outstanding and exercisable at October 31, 2003.

| Range of exercise prices | Options outstanding | | | Options exercisable | |
|--------------------------|-----------------------|--|------------------------------------|-----------------------|------------------------------------|
| | Number outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price | Number exercisable | Weighted average exercise price |
| \$10.44 \$11.81 | 1,293,662 | 2.4 | \$ 11.08 | 1,293,662 | \$ 11.08 |
| \$17.45 \$25.43 | 5,214,309 | 4.6 | \$ 22.05 | 5,214,309 | \$ 22.05 |
| \$27.15 \$40.55 | 10,550,500 | 6.9 | \$ 33.65 | 5,663,675 | \$ 33.40 |
| \$40.80 \$42.90 | 7,321,225 | 7.6 | \$ 41.32 | 2,604,138 | \$ 41.45 |

During fiscal 2003, the Bank has recognized a compensation expense of \$9 million for the stock option awards granted during the year in the Consolidated Statement of Operations. The fair value of options granted was estimated at the date of grant using the Black-Scholes valuation model with the following assumptions: (i) risk-free interest rate of 4.29%, (ii) expected option life of 5.5 years, (iii) expected volatility of 27.7% and (iv) expected dividend yield of 3.37%. During the year, options were granted with a weighted-average fair value of \$7.49 per option.

Other stock-based compensation plans

Phantom share unit plans are offered to certain employees of the Bank. The number of Bank phantom share units under these plans at October 31, 2003 is 5,064,400 (2002 3,634,300; 2001 350,100) subject to final determination in December 2003 based on then current share prices. For the year ended October 31, 2003, the Bank recognized compensation expense, net of the effects of hedges, for these plans of \$51 million (2002 \$37 million; 2001 \$2 million).

A Senior Executive Deferred Share Unit Plan is offered to eligible executives of the Bank. As at October 31, 2003, a total of 1,377,471 deferred share units were outstanding (2002 1,309,764; 2001 1,197,524).

Employee savings plan

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Under the Bank's Employee Savings Plan (ESP), employees may contribute up to 6% of their annual base earnings to a maximum of \$4,500 per calendar year toward the purchase of Bank common shares. The Bank matches 50% of the employee contribution amount. The Bank's contributions vest once the employee has completed two years of continuous service with the Bank. For the year ended October 31, 2003, the Bank's contributions totalled \$32 million (2002 \$18 million; 2001 \$13 million). As at October 31, 2003, an aggregate of 5,236,646 common shares were held under the ESP (2002 4,476,634; 2001 5,001,746). The shares in the ESP are purchased in the open market and are considered outstanding for computing earnings per share. Dividends earned on Bank common shares held by the ESP are used to purchase additional common shares for the ESP in the open market.

NOTE 14 EMPLOYEE FUTURE BENEFITS

Pension benefit plan

The Bank's principal pension plan, The Pension Fund Society of The Toronto-Dominion Bank, is a defined benefit plan funded by contributions from the Bank and from members. In accordance with legislation, the Bank contributes amounts determined on an actuarial basis to the plan and has the ultimate responsibility for ensuring that the liabilities of the plan are adequately funded over time.

Pension benefits are based upon the length of service and the final five years' average salary of the employees.

The table on the following page presents the financial position of the Bank's principal pension plan. The pension plan assets and obligations are measured as at July 31.

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| | 2003 | 2002 | 2001 |
|---|-----------------------|--------------|--------------|
| | (millions of dollars) | | |
| Change in projected benefit obligation | | | |
| Projected benefit obligation at beginning of period | \$ 1,271 | \$ 1,257 | \$ 1,144 |
| Service cost benefits earned | 31 | 26 | 19 |
| Interest cost on projected benefit obligation | 90 | 86 | 82 |
| Members' contributions | 25 | 19 | 17 |
| Benefits paid | (92) | (88) | (82) |
| Actuarial (gains) losses | 7 | 9 | 2 |
| Change in actuarial assumptions | 86 | (42) | 76 |
| Plan amendments | | 5 | 4 |
| Other | | (1) | (5) |
| Projected benefit obligation at end of period | 1,418 | 1,271 | 1,257 |
| Change in plan assets | | | |
| Plan assets at fair value at beginning of period | 1,164 | 1,191 | 1,263 |
| Actual income on plan assets | 55 | 55 | 49 |
| Gain (loss) on disposal of investments | 80 | (23) | 67 |
| Members' contributions | 25 | 19 | 17 |
| Employer's contributions | 291 | 76 | |
| Increase (decrease) in unrealized gains on investments | (11) | (57) | (114) |
| Benefits paid | (92) | (88) | (82) |
| General and administrative expenses | (9) | (8) | (7) |
| Other | 4 | (1) | (2) |
| Plan assets at fair value at end of period | 1,507 | 1,164 | 1,191 |
| Excess (deficit) of plan assets over projected benefit obligation | 89 | (107) | (66) |
| Unrecognized net (gain) loss from past experience, different from that assumed, and effects of changes in assumptions | 299 | 253 | 178 |
| Unrecognized prior service costs | 7 | 8 | 4 |
| Employer's contributions in fourth quarter | 13 | 152 | 40 |

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| | 2003 | 2002 | 2001 |
|--|---------------|---------------|---------------|
| Prepaid pension expense | \$ 408 | \$ 306 | \$ 156 |
| Annual expense | | | |
| Net pension expense includes the following components: | | | |
| Service cost – benefits earned | \$ 31 | \$ 26 | \$ 19 |
| Interest cost on projected benefit obligation | 90 | 86 | 82 |
| Expected return on plan assets | (85) | (81) | (98) |
| Amortization of net actuarial (gains) losses | 13 | 6 | |
| Amortization of prior service costs | 1 | 1 | |
| Pension expense | \$ 50 | \$ 38 | \$ 3 |
| Actuarial assumptions at end of period | | | |
| Weighted average discount rate for projected benefit obligation | 6.50% | 7.00% | 6.75% |
| Weighted average rate of compensation increase | 3.50 | 3.50 | 3.50 |
| Weighted average expected long-term rate of return on plan assets ¹ | 6.75 | 6.75 | 6.75 |

¹ Net of fees and expenses.

For 2003, the Bank's principal pension plan's net assets included investments in the Bank and its affiliates which had a market value of \$65 million (2002 \$118 million; 2001 \$134 million).

The effect of a one percentage point increase or decrease in the weighted average expected long-term rate of return on plan assets on the 2003 pension expense would be a \$13 million decrease or increase, respectively.

Other pension plans

In connection with the acquisition of CT, the Bank sponsors a second pension plan consisting of a defined benefit portion and a defined contribution portion. Funding for both portions is provided by contributions from the Bank and members of the plan. The defined benefit portion of the plan was closed to new members after May 31, 1987. CT employees joining the plan on or after June 1, 1987 were only eligible to join the defined contribution portion. Effective August 2002, the defined contribution portion of the plan was closed to new contributions from active employees and employees eligible for that plan became eligible to join the Bank's principal defined benefit plan.

For 2003, the defined benefit portion of CT's plan reported a projected benefit obligation of \$307 million (2002 \$289 million; 2001 \$272 million), plan assets with a fair value of \$309 million (2002 \$271 million; 2001 \$271 million) and the prepaid pension expense was \$54 million (2002 \$17 million; 2001 \$14 million). The 2003 pension expense was \$3 million (2002 \$3 million; 2001 \$.7 million).

The 2003 pension expense for the defined contribution portion was \$.5 million (2002 \$10 million; 2001 \$14 million).

With respect to the Bank's largest other benefit plan, a partially funded benefit plan for eligible employees, the projected benefit obligation was \$211 million (2002 \$182 million; 2001 \$137 million), the plan assets had a fair value of \$11 million (2002 \$20 million; 2001 \$23 million) and the accrued benefit liability was \$137 million (2002 \$119 million; 2001 \$107 million). The 2003 pension expense was \$20 million (2002 \$13 million; 2001 \$10 million).

Other plans operated by the Bank and certain of its subsidiaries are not considered material for disclosure purposes.

Non-pension post-retirement benefit plans

In addition to the Bank's pension plans, the Bank also provides certain health care, life insurance and dental benefits to retired employees. The table on the following page presents the financial position of the Bank's non-pension post-retirement benefit plans.

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| | 2003 | 2002 | 2001 |
|---|-----------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| | (millions of dollars) | | |
| Change in projected benefit obligation | | | |
| Projected benefit obligation at beginning of period | \$ 220 | \$ 213 | \$ 183 |
| Service cost benefits earned | 8 | 8 | 7 |
| Interest cost on projected benefit obligation | 16 | 15 | 13 |
| Benefits paid | (5) | (4) | (7) |
| Change in actuarial assumptions | 20 | (9) | 20 |
| Actuarial (gains) losses | 9 | (3) | |
| Other | | | (3) |
| | <u> </u> | <u> </u> | <u> </u> |
| Projected benefit obligation at end of period | 268 | 220 | 213 |
| | <u> </u> | <u> </u> | <u> </u> |
| Unrecognized net (gain) loss from past experience, different from that assumed, and effects of changes in assumptions | 34 | 5 | 17 |
| Employer's contributions in fourth quarter | 1 | | |
| | <u> </u> | <u> </u> | <u> </u> |
| Accrued benefit liability | \$ 233 | \$ 215 | \$ 196 |
| | <u> </u> | <u> </u> | <u> </u> |
| Annual expense | | | |
| Net non-pension post-retirement benefit expense includes the following components: | | | |
| Service cost benefits earned | \$ 8 | \$ 8 | \$ 7 |
| Interest cost on projected benefit obligation | 16 | 15 | 13 |
| | <u> </u> | <u> </u> | <u> </u> |
| Non-pension post-retirement benefit expense | \$ 24 | \$ 23 | \$ 20 |
| | <u> </u> | <u> </u> | <u> </u> |
| Actuarial assumptions at end of period | | | |
| Weighted average discount rate for projected benefit obligation | 6.75% | 7.00% | 6.75% |
| Weighted average rate of compensation increase | 3.50 | 3.50 | 3.50 |
| | <u> </u> | <u> </u> | <u> </u> |

The assumed health care cost increase rate for the next year used to measure the expected cost of benefits covered for the non-pension post-retirement benefit plans is 6.25%. The rate is assumed to decrease gradually to 4.5% over seven years and remain at that level thereafter. For 2003, the effect of one percentage point increase or decrease in the assumed health care cost trend rate on the benefit expense is a \$4 million increase and a \$3 million decrease, respectively, and on the benefit obligation, a \$36 million increase and a \$29 million decrease, respectively.

NOTE 15 PROVISION FOR (BENEFIT OF) INCOME TAXES

| | 2003 | 2002 | 2001 |
|---|-----------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| | (millions of dollars) | | |
| Provision for income taxes Consolidated Statement of Operations | | | |
| Current income taxes | \$ 392 | \$ 571 | \$ 931 |
| Future income taxes | (70) | (1,016) | (1,137) |
| | <u> </u> | <u> </u> | <u> </u> |
| | 322 | (445) | (206) |
| | <u> </u> | <u> </u> | <u> </u> |
| Provision for income taxes Consolidated Statement of Changes in Shareholders' Equity | | | |
| Current income taxes | 481 | 46 | (217) |
| Future income taxes | (4) | (1) | (74) |
| | <u> </u> | <u> </u> | <u> </u> |
| | 477 | 45 | (291) |
| | <u> </u> | <u> </u> | <u> </u> |
| Total provision for (benefit of) income taxes | \$ 799 | \$ (400) | \$ (497) |
| | <u> </u> | <u> </u> | <u> </u> |

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| | 2003 | 2002 | 2001 |
|----------------------------------|---------------|-----------------|-----------------|
| Current income taxes | | | |
| Federal | \$ 582 | \$ 405 | \$ 370 |
| Provincial | 229 | 160 | 140 |
| Foreign | 62 | 52 | 204 |
| | <u>873</u> | <u>617</u> | <u>714</u> |
| Future income taxes ² | | | |
| Federal | (56) | (591) | (785) |
| Provincial | (16) | (184) | (343) |
| Foreign | (2) | (242) | (83) |
| | <u>(74)</u> | <u>(1,017)</u> | <u>(1,211)</u> |
| | <u>\$ 799</u> | <u>\$ (400)</u> | <u>\$ (497)</u> |

¹ Includes the tax effect of goodwill amortization of \$9 million in fiscal 2001.

² Includes a net future income tax benefit of \$3 million (2002 \$22 million; 2001 \$215 million) related to federal and provincial tax rate reductions.

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The provision for (benefit of) income taxes shown in the Consolidated Statement of Operations differs from that obtained by applying statutory tax rates to the income (loss) before provision for (benefit of) income taxes for the following reasons:

| | 2003 | | 2002 | | 2001 | |
|---|-----------------------|--------------|-----------------|--------------|-----------------|----------------|
| | (millions of dollars) | | | | | |
| Income taxes at Canadian statutory income tax rate | \$ 542 | 36.4% | \$ (172) | 38.4% | \$ 520 | 41.1% |
| Increase (decrease) resulting from: | | | | | | |
| Goodwill amortization and impairment | 114 | 7.7 | | | 55 | 4.4 |
| Dividends | (179) | (12.0) | (175) | 39.1 | (155) | (12.3) |
| Rate differentials on international operations | (146) | (9.8) | (84) | 18.8 | (240) | (19.0) |
| Future federal and provincial tax rate reductions | (3) | (.2) | (21) | 4.7 | (215) | (17.0) |
| Federal large corporations tax | 13 | .9 | 16 | (3.6) | 18 | 1.4 |
| Gains on sale of investment real estate | | | (1) | .2 | (115) | (9.1) |
| Other net | (19) | (1.4) | (8) | 1.7 | (74) | (5.8) |
| Provision for (benefit of) income taxes and effective income tax rate | <u>\$ 322</u> | <u>21.6%</u> | <u>\$ (445)</u> | <u>99.3%</u> | <u>\$ (206)</u> | <u>(16.3)%</u> |

The net future tax asset which is reported in other assets is comprised of:

| | 2003 | 2002 |
|-----------------------------|-----------------------|----------|
| | (millions of dollars) | |
| Future income tax assets | | |
| Allowance for credit losses | \$ 653 | \$ 1,047 |
| Premises and equipment | 248 | 205 |

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| | 2003 | 2002 |
|---------------------------------------|----------------|----------------|
| Deferred income | 22 | 67 |
| Securities | 185 | 111 |
| Goodwill | 117 | |
| Employee benefits | 149 | 113 |
| Other | 98 | 70 |
| Total future income tax assets | 1,472 | 1,613 |
| Valuation allowance | (41) | (15) |
| Future income tax assets | 1,431 | 1,598 |
| Future income tax liabilities | | |
| Intangible assets | (840) | (1,122) |
| Employee benefits | (122) | (100) |
| Other | (83) | (64) |
| Future income tax liabilities | (1,045) | (1,286) |
| Net future income tax asset | \$ 386 | \$ 312 |

Earnings of certain international subsidiaries would be taxed only upon repatriation to Canada. The Bank has not recognized a future income tax liability for these undistributed earnings since it does not currently plan to repatriate them. If all the undistributed earnings of the international operations of these subsidiaries were repatriated, estimated taxes payable would be \$206 million at October 31, 2003 (2002 \$235 million).

NOTE 16 FAIR VALUE OF FINANCIAL INSTRUMENTS

| | 2003 | | 2002 | |
|-----------------------------------|----------------|----------------------|----------------|----------------------|
| | Carrying value | Estimated fair value | Carrying value | Estimated fair value |
| (millions of dollars) | | | | |
| Assets | | | | |
| Securities | \$ 79,665 | \$ 80,226 | \$ 82,197 | \$ 82,768 |
| Loans | 118,058 | 118,658 | 122,627 | 123,591 |
| Liabilities | | | | |
| Deposits | 182,880 | 183,397 | 189,190 | 189,860 |
| Subordinated notes and debentures | 5,887 | 6,246 | 4,343 | 4,662 |

Fair values are based on the following methods of valuation and assumptions:

For assets and liabilities which are short term in nature or contain variable rate features, fair value is considered to be equal to carrying value. These items are not listed above.

Details of the estimated fair value of derivative financial instruments are provided in Note 18.

The estimated fair value of securities is determined as the estimated market values reported in Note 2.

The estimated fair value of loans reflects changes in general interest rates which have occurred since the loans were originated and changes in the creditworthiness of individual borrowers. For fixed rate loans, estimated fair value is determined by discounting the expected future cash flows related to these loans at market interest rates for loans with similar credit risks.

The estimated fair value of term deposits is determined by discounting the contractual cash flows using interest rates currently offered for deposits with similar terms.

The estimated fair value of the subordinated notes and debentures is determined by reference to quoted market prices.

NOTE 17 INTEREST RATE RISK

The Bank's management of interest rate risk is described in the Managing risk section of the Management's Discussion and Analysis contained in the Bank's Annual Report. The Canadian Institute of Chartered Accountants' Handbook Section 3860, *Financial Instruments - Disclosure and Presentation*, requires disclosure of exposure to interest rate risk in a prescribed format, as set out in the following table.

Interest rate risk¹

| 2003 | Floating rate | Within 3 months | 3 months to 1 year | Total within 1 year | 1 year to 5 years | Over 5 years | Non-interest sensitive | Total |
|--|-----------------|------------------|--------------------|---------------------|-------------------|----------------|------------------------|-----------------|
| (billions of dollars) | | | | | | | | |
| Assets | | | | | | | | |
| Cash resources | \$.4 | \$ 7.1 | \$ | \$ 7.5 | \$ | \$ | \$.2 | \$ 7.7 |
| <i>Effective yield</i> | | 1.2% | 2.1% | | | | | |
| Securities purchased under resale agreements | \$ 3.1 | \$ 11.6 | \$ 2.4 | \$ 17.1 | \$ | \$ | \$.4 | \$ 17.5 |
| <i>Effective yield</i> | | 2.3% | 2.4% | | | | | |
| Investment securities | \$.3 | \$ 5.8 | \$ 5.7 | \$ 11.8 | \$ 11.8 | \$.8 | \$.4 | \$ 24.8 |
| <i>Effective yield</i> | | 2.3% | 3.5% | | 3.8% | 8.0% | | |
| Trading securities | \$ 54.9 | \$ | \$ | \$ 54.9 | \$ | \$ | \$ | \$ 54.9 |
| Loans | \$ 42.7 | \$ 17.6 | \$ 15.2 | \$ 75.5 | \$ 39.0 | \$ 3.0 | \$.5 | \$ 118.0 |
| <i>Effective yield</i> | | 4.1% | 5.2% | | 5.6% | 5.5% | | |
| Other | \$ 35.1 | \$ | \$ | \$ 35.1 | \$ | \$ | \$ 15.5 | \$ 50.6 |
| Total assets | \$ 136.5 | \$ 42.1 | \$ 23.3 | \$ 201.9 | \$ 50.8 | \$ 3.8 | \$ 17.0 | \$ 273.5 |
| Liabilities and shareholders' equity | | | | | | | | |
| Deposits | \$ 47.1 | \$ 57.3 | \$ 23.6 | \$ 128.0 | \$ 29.3 | \$ 1.1 | \$ 24.5 | \$ 182.9 |
| <i>Effective yield</i> | | 1.4% | 2.7% | | 3.7% | 4.4% | | |
| Obligations related to securities sold short | \$ 15.3 | \$ | \$ | \$ 15.3 | \$ | \$ | \$ | \$ 15.3 |
| Obligations related to securities sold under repurchase agreements | \$ | \$ 5.8 | \$ 1.3 | \$ 7.1 | \$.1 | \$ | \$.7 | \$ 7.9 |
| <i>Effective yield</i> | | 2.4% | 2.8% | | 1.2% | | | |
| Subordinated notes and debentures | \$ | \$.2 | \$ | \$.2 | \$ 4.0 | \$ 1.7 | \$ | \$ 5.9 |
| <i>Effective yield</i> | | 7.9% | | | 5.7% | 6.7% | | |
| Other | \$ 34.6 | \$ | \$ | \$ 34.6 | \$ | \$ 1.3 | \$ 12.5 | \$ 48.4 |
| Shareholders' equity | \$ | \$ | \$.2 | \$.2 | \$.8 | \$.6 | \$ 11.5 | \$ 13.1 |
| Total liabilities and shareholders' equity | \$ 97.0 | \$ 63.3 | \$ 25.1 | \$ 185.4 | \$ 34.2 | \$ 4.7 | \$ 49.2 | \$ 273.5 |
| On-balance sheet position | \$ 39.5 | \$ (21.2) | \$ (1.8) | \$ 16.5 | \$ 16.6 | \$ (.9) | \$ (32.2) | |
| Total pay side instruments ² | \$ | \$ (104.6) | \$ (15.4) | \$ (120.0) | \$ (33.8) | \$ (1.9) | \$ | \$ (155.7) |
| <i>Effective yield</i> | | 2.4% | 4.3% | | 4.8% | 4.4% | | |
| Total receive side instruments ² | \$ | \$ 91.5 | \$ 21.8 | \$ 113.3 | \$ 39.3 | \$ 3.1 | \$ | \$ 155.7 |
| <i>Effective yield</i> | | 2.0% | 3.2% | | 4.3% | 5.9% | | |

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| 2003 | Floating rate | Within 3 months | 3 months to 1 year | Total within 1 year | 1 year to 5 years | Over 5 years | Non-interest sensitive | Total |
|-----------------------------------|---------------|-----------------|--------------------|---------------------|-------------------|--------------|------------------------|-------|
| Off-balance sheet position | \$ | \$ (13.1) | \$ 6.4 | \$ (6.7) | \$ 5.5 | \$ 1.2 | \$ | \$ |
| Net position | \$ 39.5 | \$ (34.3) | \$ 4.6 | \$ 9.8 | \$ 22.1 | \$.3 | \$ (32.2) | \$ |

1

The above table details the earlier of maturity or repricing date of interest sensitive instruments. Contractual repricing may be adjusted according to management estimates for prepayments or early redemptions that are independent of changes in interest rates. Off-balance sheet transactions include only transactions that are put into place as hedges of items not included in the trading account. Certain assets and liabilities are shown as non-rate sensitive although the profile assumed for actual management may be different. Trading securities are presented in the floating rate category.

2

Notional principal amounts.

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Interest rate risk by currency

| 2003 | Floating rate | Within 3 months | 3 months to 1 year | Total within 1 year | 1 year to 5 years | Over 5 years | Non-interest sensitive | Total |
|--|----------------|------------------|--------------------|---------------------|-------------------|--------------|------------------------|-----------|
| (billions of dollars) | | | | | | | | |
| Canadian currency on-balance sheet position | \$ 14.7 | \$ 6.8 | \$ 1.1 | \$ 22.6 | \$ 12.8 | \$ (1.3) | \$ (34.3) | \$ (.2) |
| Foreign currency on-balance sheet position | 24.8 | (28.0) | (2.9) | (6.1) | 3.8 | .4 | 2.1 | .2 |
| On-balance sheet position | 39.5 | (21.2) | (1.8) | 16.5 | 16.6 | (.9) | (32.2) | |
| Canadian currency off-balance sheet position | | (23.7) | 1.2 | (22.5) | 7.9 | 1.3 | | (13.3) |
| Foreign currency off-balance sheet position | | 10.6 | 5.2 | 15.8 | (2.4) | (.1) | | 13.3 |
| Off-balance sheet position | | (13.1) | 6.4 | (6.7) | 5.5 | 1.2 | | |
| Net position | \$ 39.5 | \$ (34.3) | \$ 4.6 | \$ 9.8 | \$ 22.1 | \$.3 | \$ (32.2) | \$ |

Interest rate risk

| 2002 | Floating rate | Within 3 months | 3 months to 1 year | Total within 1 year | 1 year to 5 years | Over 5 years | Non-interest sensitive | Total |
|--|---------------|-----------------|--------------------|---------------------|-------------------|--------------|------------------------|----------|
| (billions of dollars) | | | | | | | | |
| Total assets | \$ 131.4 | \$ 41.2 | \$ 26.2 | \$ 198.8 | \$ 48.3 | \$ 5.1 | \$ 25.8 | \$ 278.0 |
| Total liabilities and shareholders' equity | 97.8 | 62.9 | 39.8 | 200.5 | 32.7 | 3.7 | 41.1 | 278.0 |
| On-balance sheet position | 33.6 | (21.7) | (13.6) | (1.7) | 15.6 | 1.4 | (15.3) | |
| Off-balance sheet position | | (15.8) | 9.5 | (6.3) | 6.2 | .1 | | |

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| 2002 | Floating rate | Within 3 months | 3 months to 1 year | Total within 1 year | 1 year to 5 years | Over 5 years | Non-interest sensitive | Total |
|--------------|---------------|-----------------|--------------------|---------------------|-------------------|--------------|------------------------|-------|
| Net position | \$ 33.6 | \$ (37.5) | \$ (4.1) | \$ (8.0) | \$ 21.8 | \$ 1.5 | \$ (15.3) | \$ |

NOTE 18 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into derivative financial instruments, as described below, for trading and for risk management purposes.

Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount. Foreign exchange swaps involve the exchange of the principal and fixed interest payments in different currencies. Cross-currency interest rate swaps involve the exchange of both the principal amount and fixed and floating interest payment obligations in two different currencies.

Forward rate agreements are contracts fixing an interest rate to be paid or received on a notional amount of specified maturity commencing at a specified future date.

Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Futures are future commitments to purchase or deliver a commodity or financial instrument on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.

Options are agreements between two parties in which the writer of the option grants the buyer the future right, but not the obligation, to buy or to sell, at or by a specified date, a specific amount of a financial instrument at a price agreed when the option is arranged. The writer receives a premium for selling this instrument.

The Bank also transacts equity, commodity and credit derivatives in both the exchange and over-the-counter markets.

Notional principal amounts, upon which payments are based, are not indicative of the credit risk associated with derivative financial instruments.

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Over-the-counter and exchange traded derivative financial instruments

| Notional principal | Trading | | | Non-trading | 2003 Total | 2002 Total |
|------------------------------------|------------------|-----------------|----------|-------------|------------|------------|
| | Over-the-counter | Exchange traded | Total | | | |
| (billions of dollars) | | | | | | |
| Interest rate contracts | | | | | | |
| Futures | \$ | \$ 195.1 | \$ 195.1 | \$ | \$ 195.1 | \$ 186.9 |
| Forward rate agreements | | 173.4 | 173.4 | 44.4 | 217.8 | 227.6 |
| Swaps | | 667.7 | 667.7 | 159.3 | 827.0 | 833.0 |
| Options written | | 61.8 | 61.8 | | 61.8 | 46.4 |
| Options purchased | | 70.6 | 70.6 | 19.3 | 89.9 | 54.3 |
| Foreign exchange contracts | | | | | | |
| Forward contracts | | 317.5 | 317.5 | 31.6 | 349.1 | 513.3 |
| Swaps | | 11.0 | 11.0 | | 11.0 | 10.3 |
| Cross-currency interest rate swaps | | 89.9 | 89.9 | 15.2 | 105.1 | 106.9 |

| | Trading | | | | | |
|------------------------------|-------------------|-----------------|-------------------|-----------------|-------------------|-------------------|
| Options written | 44.6 | | 44.6 | | 44.6 | 29.3 |
| Options purchased | 41.4 | | 41.4 | | 41.4 | 22.7 |
| Other contracts ¹ | 102.8 | 9.6 | 112.4 | 8.1 | 120.5 | 133.6 |
| Total | \$ 1,580.7 | \$ 204.7 | \$ 1,785.4 | \$ 277.9 | \$ 2,063.3 | \$ 2,164.3 |

¹ Includes equity, commodity and credit derivatives.

Derivative financial instruments by term to maturity

| Notional principal | Remaining term to maturity | | | | 2003 Total | 2002 Total |
|------------------------------------|----------------------------|-----------------|-----------------|-----------------|-------------------|-------------------|
| | Within 1 year | 1 to 3 years | 3 to 5 years | Over 5 years | | |
| | (billions of dollars) | | | | | |
| Interest rate contracts | | | | | | |
| Futures | \$ 148.5 | \$ 46.6 | \$ | \$ | \$ 195.1 | \$ 186.9 |
| Forward rate agreements | 183.4 | 34.4 | | | 217.8 | 227.6 |
| Swaps | 328.6 | 175.5 | 129.1 | 193.8 | 827.0 | 833.0 |
| Options written | 30.0 | 19.2 | 5.0 | 7.6 | 61.8 | 46.4 |
| Options purchased | 48.0 | 25.3 | 8.2 | 8.4 | 89.9 | 54.3 |
| Foreign exchange contracts | | | | | | |
| Forward contracts | 320.5 | 27.7 | .9 | | 349.1 | 513.3 |
| Swaps | 2.3 | 1.3 | 2.2 | 5.2 | 11.0 | 10.3 |
| Cross-currency interest rate swaps | 27.3 | 25.9 | 17.2 | 34.7 | 105.1 | 106.9 |
| Options written | 43.2 | 1.3 | .1 | | 44.6 | 29.3 |
| Options purchased | 39.5 | 1.3 | .3 | .3 | 41.4 | 22.7 |
| Other contracts ¹ | 38.2 | 35.8 | 29.1 | 17.4 | 120.5 | 133.6 |
| Total | \$ 1,209.5 | \$ 394.3 | \$ 192.1 | \$ 267.4 | \$ 2,063.3 | \$ 2,164.3 |

¹ Includes equity, commodity and credit derivatives.

The Bank is exposed to market risk as a result of price volatility in the derivatives and cash markets relating to movements in interest rates, foreign exchange rates, equity prices and credit spreads. This risk is managed by senior officers responsible for the Bank's trading business and is monitored separately by the Bank's Risk Management Group.

The estimated fair value of exchange traded derivative financial instruments is based on quoted market rates plus or minus daily margin settlements. This results in minimal fair values as these instruments are effectively settled on a daily basis. The estimated fair value of over-the-counter derivative financial instruments is determined using valuation models that incorporate prevailing market rates and prices on underlying instruments with similar maturities and characteristics. The fair value of over-the-counter derivative financial instruments also reflects the impact of valuation adjustments which recognize the need to cover market, liquidity, model and credit risks, as well as the cost of capital and administrative expenses over the life of the contract.

Fair value of derivative financial instruments

| | 2003 | | | | 2002 | |
|--|--|------------------|---------------------|------------------|---------------------|------------------|
| | Average ¹ fair value for the year | | Year-end fair value | | Year-end fair value | |
| | Positive | Negative | Positive | Negative | Positive | Negative |
| (millions of dollars) | | | | | | |
| Derivative financial instruments held or issued for trading purposes: | | | | | | |
| Interest rate contracts | | | | | | |
| Forward rate agreements | \$ 83 | \$ 115 | \$ 47 | \$ 55 | \$ 161 | \$ 166 |
| Swaps | 15,108 | 15,136 | 13,581 | 13,581 | 13,297 | 13,294 |
| Options written | | 1,049 | | 1,084 | | 1,008 |
| Options purchased | 919 | | 859 | | 912 | |
| Total interest rate contracts | 16,110 | 16,300 | 14,487 | 14,720 | 14,370 | 14,468 |
| Foreign exchange contracts | | | | | | |
| Forward contracts | 6,364 | 5,884 | 6,217 | 4,759 | 5,124 | 4,360 |
| Swaps | 528 | 405 | 928 | 281 | 416 | 501 |
| Cross-currency interest rate swaps | 2,796 | 3,759 | 3,571 | 4,318 | 2,327 | 3,051 |
| Options written | | 275 | | 487 | | 122 |
| Options purchased | 273 | | 407 | | 159 | |
| Total foreign exchange contracts | 9,961 | 10,323 | 11,123 | 9,845 | 8,026 | 8,034 |
| Other contracts ² | 2,973 | 3,185 | 2,841 | 3,435 | 3,343 | 3,452 |
| Fair value trading | \$ 29,044 | \$ 29,808 | \$ 28,451 | \$ 28,000 | \$ 25,739 | \$ 25,954 |

Derivative financial instruments held or issued for non-trading purposes:

| | | | | | | |
|---|--|--|--------------|--------------|--------------|--------------|
| Interest rate contracts | | | | | | |
| Forward rate agreements | | | \$ 4 | \$ 9 | \$ 27 | \$ 25 |
| Swaps | | | 821 | 862 | 1,311 | 1,548 |
| Options written | | | | 6 | | |
| Options purchased | | | 74 | | 95 | |
| Total interest rate contracts | | | 899 | 877 | 1,433 | 1,573 |
| Foreign exchange contracts | | | | | | |
| Forward contracts | | | 1,444 | 2,090 | 785 | 1,110 |
| Cross-currency interest rate swaps | | | 771 | 760 | 286 | 197 |
| Total foreign exchange contracts | | | 2,215 | 2,850 | 1,071 | 1,307 |

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| | 2003 | | | |
|-------------------------------|------------------|------------------|-----------|-----------|
| | 29 | 21 | 97 | 27 |
| Other contracts ² | | | | |
| Fair value non-trading | 3,143 | 3,748 | 2,601 | 2,907 |
| Total fair value | \$ 31,594 | \$ 31,748 | \$ 28,340 | \$ 28,861 |

¹ The average fair value of trading derivative financial instruments for the year ended October 31, 2002 was: Positive \$21,584 million and Negative \$21,478 million. Averages are calculated on a monthly basis.

² Includes equity, commodity and credit derivatives.

Credit risk on derivative financial instruments is the risk of a financial loss occurring as a result of a default of a counterparty on its obligation to the Bank. The treasury credit area is responsible for the implementation of and compliance with credit policies established by the Bank for the management of derivative credit exposures.

On the following schedule, the current replacement cost, which is the positive fair value of all outstanding derivative financial instruments, represents the Bank's maximum derivative credit exposure. The credit equivalent amount is the sum of the current replacement cost and the potential future exposure, which is calculated by applying factors supplied by the Office of the Superintendent of Financial Institutions Canada to the notional principal amount of the instruments. The risk-weighted amount is determined by applying standard measures of counterparty credit risk to the credit equivalent amount.

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Credit exposure of derivative financial instruments at year end

| | 2003 | | | 2002 | | |
|---|---------------------------------------|--------------------------|----------------------|---------------------------------------|--------------------------|----------------------|
| | Current replacement cost ¹ | Credit equivalent amount | Risk-weighted amount | Current replacement cost ¹ | Credit equivalent amount | Risk-weighted amount |
| (millions of dollars) | | | | | | |
| Interest rate contracts | | | | | | |
| Forward rate agreements | \$ 51 | \$ 223 | \$ 45 | \$ 188 | \$ 273 | \$ 58 |
| Swaps | 14,402 | 18,719 | 4,810 | 14,608 | 18,120 | 4,501 |
| Options purchased | 878 | 1,171 | 282 | 925 | 1,089 | 294 |
| Total interest rate contracts | 15,331 | 20,113 | 5,137 | 15,721 | 19,482 | 4,853 |
| Foreign exchange contracts | | | | | | |
| Forward contracts | 7,366 | 11,437 | 2,579 | 5,826 | 11,030 | 2,671 |
| Swaps | 928 | 1,520 | 465 | 416 | 1,015 | 294 |
| Cross-currency interest rate swaps | 4,342 | 9,369 | 2,131 | 2,613 | 7,482 | 1,754 |
| Options purchased | 247 | 748 | 171 | 66 | 324 | 81 |
| Total foreign exchange contracts | 12,883 | 23,074 | 5,346 | 8,921 | 19,851 | 4,800 |
| Other contracts² | 1,487 | 10,218 | 2,756 | 2,163 | 11,567 | 3,129 |
| | \$ 29,701 | \$ 53,405 | \$ 13,239 | \$ 26,805 | \$ 50,900 | \$ 12,782 |

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| | 2003 | | | 2002 | | |
|---|-----------------|------------------|-----------------|-----------------|------------------|-----------------|
| Total derivative financial instruments | | | | | | |
| Less impact of master netting agreements and collateral | 20,149 | 28,824 | 7,252 | 18,176 | 26,974 | 6,523 |
| | \$ 9,552 | \$ 24,581 | \$ 5,987 | \$ 8,629 | \$ 23,926 | \$ 6,259 |

¹ Exchange traded instruments and forward foreign exchange contracts with an original maturity of 14 days or less are excluded in accordance with the guidelines of the Office of the Superintendent of Financial Institutions Canada. The total positive fair value of the excluded contracts at October 31, 2003 was \$1,893 million (2002 \$1,535 million).

² Includes equity, commodity and credit derivatives.

NOTE 19 CONTINGENT LIABILITIES, COMMITMENTS AND GUARANTEES

(a) In the normal course of business, the Bank enters into various off-balance sheet commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. The Bank's policy for requiring collateral security with respect to these contracts and the types of collateral security held is generally the same as for loans made by the Bank.

Financial and performance standby letters of credit represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties and they carry the same credit risk, recourse and collateral security requirements as loans extended to customers.

Documentary and commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Bank up to a certain amount subject to specific terms and conditions. The Bank is at risk for any drafts drawn that are not ultimately settled by the customer, and the amounts are collateralized by the goods to which they relate.

Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans and customers' liability under acceptances.

The credit instruments reported below represent the maximum amount of additional credit that the Bank could be obligated to extend should contracts be fully utilized.

Credit instruments

| | 2003 | 2002 |
|---|-----------------------|------------------|
| | (millions of dollars) | |
| Financial and performance standby letters of credit | \$ 6,275 | \$ 8,767 |
| Documentary and commercial letters of credit | 754 | 1,497 |
| Commitments to extend credit | | |
| Original term to maturity of one year or less | 32,357 | 45,472 |
| Original term to maturity of more than one year | 16,346 | 22,097 |
| | \$ 55,732 | \$ 77,833 |

(b) During the year, the Bank entered into an agreement with an external party whereby the external party will provide network and computer desktop support services for seven years at a total projected cost of \$720 million.

The premises and equipment net rental expense charged to net income for the year ended October 31, 2003 was \$552 million (2002 \$507 million).

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The Bank has obligations under long-term non-cancellable leases for premises and equipment. Future minimum operating lease commitments for premises and for equipment where the annual rental is in excess of \$100 thousand are detailed as follows.

| | (millions of dollars) |
|---------------------|------------------------------|
| 2004 | \$ 314 |
| 2005 | 269 |
| 2006 | 223 |
| 2007 | 179 |
| 2008 | 150 |
| 2009 and thereafter | 505 |
| | \$ 1,640 |

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(c) The Bank and its subsidiaries are involved in various legal actions in the ordinary course of business, many of which are loan-related. In management's opinion, the ultimate disposition of these actions, individually or in the aggregate, will not have a material adverse effect on the financial condition of the Bank.

(d) In the ordinary course of business, securities and other assets are pledged against liabilities. As at October 31, 2003 securities and other assets with a carrying value of \$20 billion (2002 \$23 billion) were pledged in respect of securities sold short or under repurchase agreements. In addition, as at October 31, 2003, assets with a carrying value of \$3 billion (2002 \$2 billion) were deposited for the purposes of participation in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign jurisdictions, or as security for contract settlements with derivative exchanges or other derivative counterparties.

(e) In the ordinary course of business, the Bank agrees to lend unpaid customer securities, or its own securities, to borrowers on a fully collateralized basis. Securities lent at October 31, 2003 amounted to \$4 billion (2002 \$4 billion).

(f) As of February 1, 2003, the Bank prospectively adopted the new accounting guideline on disclosure of guarantees. A guarantee is defined to be a contract that contingently requires the Bank to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement, or (iii) failure of another third party to pay its indebtedness when due.

Significant guarantees that the Bank has provided to third parties include the following:

Financial and performance standby letters of credit

Financial and performance standby letters of credit represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties and they carry the same credit risk, recourse and collateral security requirements as loans extended to customers. Generally, the terms of these letters of credit do not exceed four years.

Assets sold with recourse

In connection with certain asset sales, the Bank typically makes representations about the underlying assets in which the Bank may have an obligation to repurchase the assets or indemnify the purchaser against any loss. The term of these guarantees does not exceed four years.

Credit enhancements

The Bank guarantees payments to counterparties in the event that third party credit enhancements supporting asset pools are insufficient. The term of these credit facilities ranges from ten to seventeen years.

Written options

Written options are agreements under which the Bank grants the buyer the future right, but not the obligation, to sell/buy at or by a specified date, a specific amount of a financial instrument at a price agreed when the option is arranged and which can be physically or cash

settled.

Written options can be used by the counterparty to hedge foreign exchange, equity, credit, commodity and interest rate risks. The Bank does not track, for accounting purposes, whether its clients enter into these derivative contracts for trading or hedging purposes and has not determined if the guaranteed party has the asset or liability related to the underlying. Accordingly, the Bank cannot ascertain which contracts are "guarantees" under the definition contained in the accounting guideline. The Bank employs a risk framework to define risk tolerances and establishes limits designed to ensure that losses do not exceed acceptable, predefined limits. Due to the nature of these contracts, the Bank cannot make a reasonable estimate of the potential maximum amount payable to the counterparties. The total notional principal amount of the written options as at October 31, 2003 is \$114 billion.

Indemnification agreements

In the normal course of operations, the Bank provides indemnification agreements to various counterparties in transactions such as service agreements, leasing transactions, and agreements relating to acquisitions and dispositions. We also indemnify directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their services to the Bank. Under these agreements, the Bank is required to compensate counterparties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. The nature of the indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount that the Bank would be required to pay such counterparties.

The table below summarizes at October 31, 2003, the maximum potential amount of future payments that could be made under the guarantee agreements without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

| | (millions of dollars) |
|---|-----------------------|
| Financial and performance standby letters of credit | \$ 6,275 |
| Assets sold with recourse | 1,887 |
| Credit enhancements | 130 |
| | <hr/> |
| | \$ 8,292 |
| | <hr/> |

NOTE 20 CONCENTRATION OF CREDIT RISK

Concentration of credit exists where a number of borrowers or counterparties are engaged in similar activities, are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations may be similarly affected by changing economic, political or other conditions.

On-balance sheet assets

The percentage of total loans outstanding by geographic location of borrowers was as follows at September 30.

| | 2003 | 2002 |
|---------------------|-------|-------|
| | <hr/> | <hr/> |
| Canada ¹ | 90% | 83% |
| United States | 7 | 12 |
| Other countries | 3 | 5 |

¹ The largest concentration in Canada is Ontario at 55% (2002 53%).

No single industry segment accounted for more than 5% of the total loans and customers' liability under acceptances.

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Off-balance sheet financial instruments

(a)

Credit instruments

At October 31, 2003, the Bank had commitments and contingent liability contracts in the amount of \$55,732 million (2002 \$77,833 million). Included are commitments to extend credit totalling \$48,703 million (2002 \$67,569 million), of which the credit risk

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was dispersed as follows at October 31.

| | <u>2003</u> | <u>2002</u> |
|-----------------|-------------|-------------|
| Canada | 61% | 51% |
| United States | 30 | 39 |
| United Kingdom | 6 | 5 |
| Other countries | 3 | 5 |

Of the commitments to extend credit, industry segments which equalled or exceeded 5% of the total concentration were as follows at October 31.

| | <u>2003</u> | <u>2002</u> |
|------------------------|-------------|-------------|
| Financial institutions | 44% | 39% |
| Government | 7 | 10 |
| Utilities | 6 | 8 |
| Oil and gas | 5 | 6 |
| Telecommunications | 5 | 5 |

(b) Derivative financial instruments

At October 31, 2003, the current replacement cost of derivative financial instruments amounted to \$29,701 million (2002 \$26,805 million). Based on the location of the ultimate counterparty, the credit risk was allocated as follows at October 31.

| | <u>2003</u> | <u>2002</u> |
|-------------------------------------|-------------|-------------|
| Europe excluding the United Kingdom | 28% | 32% |
| United States | 29 | 32 |
| Canada | 22 | 16 |
| United Kingdom | 9 | 13 |
| Other countries | 12 | 7 |

The largest concentration by counterparty type was with financial institutions, which accounted for 87% of the total (2002 87%). The second largest concentration was with governments which accounted for 6% of the total. No other industry segment exceeded 3% of the total.

NOTE 21 SEGMENTED INFORMATION

The Bank's operations and activities are organized around the following operating business segments: Personal and Commercial Banking, Wholesale Banking and Wealth Management.

Personal and Commercial Banking provides financial services to consumers and small and medium-sized businesses. The Wholesale Banking segment provides services in the areas of investment banking, merchant banking, mergers and acquisitions, fixed income, foreign exchange, derivative products, money market, equities and corporate banking in Canada and internationally. Wealth Management provides investment management services to institutional and retail investors as well as global self-directed brokerage services.

The Corporate segment includes non-controlling interests in subsidiaries, certain gains on dispositions of businesses, real estate investments, the effect of securitizations, treasury management, general provisions for credit losses, certain taxable equivalent adjustments, corporate level tax benefits, and residual unallocated revenues and expenses.

Results of each business segment reflect revenues, expenses, assets and liabilities generated by the businesses in that segment. Transfer pricing of funds sold or purchased, and of commissions for services provided are generally at market rates. The Bank measures and evaluates the performance of each segment based on net income (loss) before non-cash goodwill and intangible amortization (net income (loss) cash basis).

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Results by business segment

| <u>2003</u> | Personal and Commercial | Wholesale Banking | Wealth Management | Corporate ¹ | <u>Total</u> |
|-------------|----------------------------|----------------------|----------------------|------------------------|--------------|
|-------------|----------------------------|----------------------|----------------------|------------------------|--------------|

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| | Banking | | | | |
|---|-----------------------|-----------------|----------------|----------------|-----------------|
| | (millions of dollars) | | | | |
| Net interest income (on a taxable equivalent basis) | \$ 4,086 | \$ 1,508 | \$ 431 | \$ (409) | \$ 5,616 |
| Provision for credit losses | 460 | (80) | | (194) | 186 |
| Other income | 1,803 | 669 | 1,746 | 206 | 4,424 |
| Non-interest expenses excluding non-cash intangible amortization | 3,463 | 1,761 | 2,107 | 261 | 7,592 |
| Income (loss) before provision for (benefit of) income taxes and non-controlling interest | 1,966 | 496 | 70 | (270) | 2,262 |
| Provision for (benefit of) income taxes (on a taxable equivalent basis) | 689 | 133 | 145 | (364) | 603 |
| Non-controlling interest in net income of subsidiaries | | | | 92 | 92 |
| Net income (loss) cash basis | \$ 1,277 | \$ 363 | \$ (75) | \$ 2 | \$ 1,567 |
| Non-cash intangible amortization, net of income taxes | | | | | 491 |
| Net income (loss) reported basis | | | | | \$ 1,076 |
| Total assets | \$ 115,900 | \$ 126,800 | \$ 21,100 | \$ 9,732 | \$ 273,532 |
| 2002 | | | | | |
| Net interest income (on a taxable equivalent basis) | \$ 4,058 | \$ 1,505 | \$ 426 | \$ (689) | \$ 5,300 |
| Provision for credit losses | 505 | 2,490 | | (70) | 2,925 |
| Other income | 1,710 | 1,163 | 1,737 | 319 | 4,929 |
| Non-interest expenses excluding non-cash intangible amortization | 3,501 | 1,235 | 1,922 | 96 | 6,754 |
| Income (loss) before provision for (benefit of) income taxes and non-controlling interest | 1,762 | (1,057) | 241 | (396) | 550 |
| Provision for (benefit of) income taxes (on a taxable equivalent basis) | 648 | (400) | 116 | (445) | (81) |
| Non-controlling interest in net income of subsidiaries | | | | 64 | 64 |
| Net income (loss) cash basis | \$ 1,114 | \$ (657) | \$ 125 | \$ (15) | \$ 567 |
| Non-cash intangible amortization, net of income taxes | | | | | 634 |
| Net income reported basis | | | | | \$ (67) |
| Total assets | \$ 111,900 | \$ 136,400 | \$ 19,800 | \$ 9,940 | \$ 278,040 |
| 2001 | | | | | |
| Net interest income (on a taxable equivalent basis) | \$ 3,951 | \$ 898 | \$ 468 | \$ (926) | \$ 4,391 |
| Provision for credit losses | 380 | 327 | | 213 | 920 |
| Other income | 1,688 | 2,265 | 1,820 | 674 | 6,447 |
| Non-interest expenses excluding non-cash goodwill/intangible amortization and restructuring costs | 3,467 | 1,373 | 2,026 | 59 | 6,925 |
| Restructuring costs | | | | 239 | 239 |
| Income (loss) before provision for (benefit of) income taxes and non-controlling interest | 1,792 | 1,463 | 262 | (763) | 2,754 |

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| 2003 | Personal and Commercial Banking | Wholesale Banking | Wealth Management | Corporate ¹ | Total |
|---|---------------------------------|-------------------|-------------------|------------------------|-----------------|
| Provision for (benefit of) income taxes (on a taxable equivalent basis) | 702 | 537 | 120 | (704) | 655 |
| Non-controlling interest in net income of subsidiaries | | | 6 | 72 | 78 |
| Net income (loss) cash basis | \$ 1,090 | \$ 926 | \$ 136 | \$ (131) | \$ 2,021 |
| Non-cash intangible amortization, net of income taxes | | | | | 440 |
| Non-cash goodwill amortization, net of income taxes | | | | | 189 |
| Net income reported basis | | | | | \$ 1,392 |

¹ The taxable equivalent basis adjustment is reflected in each segments' results and eliminated in the Corporate segment.

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Results by geographic distribution

The Bank earns revenue in Canada and in international locations. Reporting is based on the geographic location of the unit responsible for recording the revenues or assets.

| 2003 | Total revenue | Income (loss) before provision for income taxes and non-controlling interest | Net income (loss) | Total assets |
|----------------------------|-----------------------|--|-------------------|-------------------|
| | (millions of dollars) | | | |
| Canada | \$ 7,381 | \$ 1,094 | \$ 761 | \$ 191,817 |
| International ¹ | 2,659 | 396 | 315 | 81,715 |
| Total | \$ 10,040 | \$ 1,490 | \$ 1,076 | \$ 273,532 |
| 2002 | | | | |
| Canada | \$ 7,593 | \$ 1,072 | \$ 785 | \$ 171,562 |
| International ¹ | 2,636 | (1,520) | (852) | 106,478 |
| Total | \$ 10,229 | \$ (448) | \$ (67) | \$ 278,040 |
| 2001 | | | | |
| Canada | \$ 7,692 | \$ 365 | \$ 604 | \$ 171,587 |
| International ¹ | 3,146 | 899 | 788 | 116,251 |
| Total | \$ 10,838 | \$ 1,264 | \$ 1,392 | \$ 287,838 |

¹ Includes United States total revenue of \$1,588 million (2002 \$1,553 million; 2001 \$1,660 million).

NOTE 22 ACQUISITIONS AND DISPOSITIONS

(a) **Acquisition of branches from Laurentian Bank of Canada**

On October 31, 2003, the Bank completed the acquisition of 57 branches outside the Province of Quebec from the Laurentian Bank of Canada. The all-cash purchase price reflects the value of assets acquired, less liabilities assumed. Intangible assets arising from the acquisition of \$126 million are being amortized on a straight-line basis over the expected period of benefit of five years.

(b) **Sale of mutual fund record keeping and custody business**

During fiscal 2002, the Bank sold its mutual fund record keeping and custody business and recorded a pre-tax gain of \$40 million.

(c) **Acquisition of Stafford and LETCO**

On March 1, 2002, the Bank completed the acquisition of the securities and trading technology platform and listed equity options market-making businesses of the Stafford group of firms (Stafford) and the LETCO group (LETCO). The purchase price consisted of an initial cash payment of approximately \$428 million. The acquisition was accounted for by the purchase method and the results of Stafford and LETCO's operations have been included in the Consolidated Statement of Operations from March 1, 2002. As discussed in Note 5, the goodwill arising from the acquisition was written off in the second quarter of fiscal 2003.

(d) **Acquisition of TD Waterhouse shares**

On November 26, 2001, the Bank completed the acquisition of the outstanding common shares of TD Waterhouse Group, Inc. (TD Waterhouse) that it did not own for total consideration of approximately \$605 million. Goodwill arising from the acquisition was \$233 million. On November 1, 2001, the Bank issued approximately 11 million common shares for cash proceeds of \$400 million to partially fund the transaction.

(e) **Acquisition of R.J. Thompson Holdings, Inc.**

On November 1, 2001, TD Waterhouse acquired R.J. Thompson Holdings, Inc. (RJT), a direct access brokerage firm, for total cash consideration of \$122 million. Goodwill arising from the acquisition was \$120 million. The results of RJT have been included in the Consolidated Statement of Operations from November 1, 2001. In addition, contingent purchase price payments of up to \$24 million were payable upon achievement of certain results. In the fourth quarter of 2002, \$8 million was paid relating to the contingent purchase price payments and in the first quarter of 2003 an additional \$14 million was paid to satisfy the remaining contingent purchase price payments required under the purchase agreement. These payments relate to finite life intangible assets which are amortized on a straight-line basis over the expected period of benefit of three years.

(f) **Acquisition of Newcrest Holdings Inc.**

The Bank acquired all of the outstanding Class A and Class B common shares of Newcrest Holdings Inc. (Newcrest), a holding company for the securities dealer Newcrest Capital Inc., effective November 1, 2000. The total consideration in respect of this purchase amounted to \$225 million, paid in Bank common shares of \$181 million and cash of \$44 million. The acquisition was accounted for by the purchase method and the results of Newcrest's operations have been included in the Consolidated Statement of Operations from November 1, 2000. Until October 31, 2001, goodwill arising from the transaction of \$160 million was amortized on a straight-line basis over the expected period of benefit of 10 years. Beginning November 1, 2001, the remaining goodwill is tested for impairment as discussed in Note 1.

(g) **Sale of investment real estate**

During fiscal 2001, the Bank sold certain investment real estate for a pre-tax gain on sale of \$350 million, net of deferrals.

NOTE 23 RESTRUCTURING COSTS

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During the second quarter of fiscal 2003, the Bank announced a restructuring of the international unit of its wealth management business. Declining volumes in the discount brokerage business worldwide have resulted in excess capacity, which impacted the Bank's ability to profitably run a global brokerage model. The Bank recognized a total of \$26 million of pre-tax restructuring costs, with \$21 million recognized in the second quarter and \$5 million recognized in the third quarter of fiscal 2003. The restructuring was completed by the end of the third quarter of fiscal 2003. Of the \$26 million in pre-tax restructuring costs, \$7 million relates to lease termination costs and other premises related expenses and the remainder of the restructuring costs of \$19 million relates to write downs of software and systems development costs.

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During the second quarter of fiscal 2003, the Bank also announced a restructuring of its U.S. equity options business in Wholesale Banking. Dramatic volume and margin declines had a significantly negative impact on this business. Consequently, the Bank determined that it was necessary to shift its strategy and focus solely on the equity options group centered in Chicago. As a result, the Bank recognized a total of \$72 million of pre-tax restructuring costs in the second quarter of fiscal 2003. Of the \$72 million in pre-tax restructuring costs, \$31 million relates to severance and employee support costs, \$10 million relates to lease termination costs and other premises related expenses and the remainder of the restructuring costs of \$31 million relates to other expenses and revenue reserves directly related to the restructuring. The \$31 million in severance and employee support costs reflects the cost of eliminating approximately 104 positions in the U.S. and 24 positions in Europe. The Bank expects the restructuring to be substantially complete by the end of fiscal 2004.

During the fourth quarter of fiscal 2001, Wholesale Banking announced a restructuring of its operations and as a result recorded pre-tax restructuring costs of \$130 million. The restructuring costs related primarily to employee severance. The restructuring was substantially completed by the end of the fourth quarter of fiscal 2002.

In the third quarter of fiscal 2001, TD Waterhouse announced a restructuring of its operations and pre-tax costs of \$54 million were charged to income, primarily for employee severance and real estate rationalization. The restructuring was completed by the end of the third quarter of fiscal 2002.

At the time of acquisition of Newcrest in 2001, the Bank determined it was necessary to restructure the combined operations. Pre-tax restructuring costs of \$55 million were charged to income in the first quarter of fiscal 2001, primarily for employee severance. The restructuring was completed by the end of the second quarter of fiscal 2001.

In 2000, following the acquisition of CT, the Bank determined that it was necessary to restructure the combined operations. Pre-tax restructuring costs of \$475 million were recorded in the second quarter of fiscal 2000. The restructuring costs related primarily to severance and employee support costs, branch closures, rationalization of regional and head office space requirements, lease termination, and other expenses. The restructuring was completed by the end of the fourth quarter of fiscal 2003.

As at October 31, 2003, the total unutilized balance of restructuring costs of \$19 million shown below is included in other liabilities in the Consolidated Balance Sheet.

| | 2003 | | | | | 2002 |
|---|-----------------------|----------------|------------|-------|-------|--------|
| | Human Resources | Real Estate | Technology | Other | Total | Total |
| | (millions of dollars) | | | | | |
| Balance at beginning of year | \$ 6 | \$ 29 | \$ 1 | \$ | \$ 36 | \$ 337 |
| Restructuring costs arising during the year | | | | | | |
| Wholesale Banking ¹ | 31 | 10 | 4 | 27 | 72 | |
| Wealth Management | | 7 | 19 | | 26 | |
| Amount utilized during the year | | | | | | |
| Personal and Commercial Banking | | 27 | 1 | | 28 | 165 |
| Wholesale Banking | 34 | 4 | 3 | 21 | 62 | 15 |
| Wealth Management | | 6 | 19 | | 25 | 121 |
| Balance at end of year | \$ 3 | \$ 9 | \$ 1 | \$ 6 | \$ 19 | \$ 36 |

1

Includes \$6 million of revenue reserves directly related to the restructuring.

NOTE 24 EARNINGS (LOSS) PER COMMON SHARE

Basic and diluted earnings (loss) per common share at October 31 are as follows:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|-----------------------|-------------|-------------|
| | (millions of dollars) | | |
| Basic earnings (loss) per common share | | | |
| Net income (loss) | \$ 1,076 | \$ (67) | \$ 1,392 |
| Preferred dividends | 87 | 93 | 92 |
| Net income (loss) applicable to common shares | 989 | (160) | 1,300 |
| Average number of common shares outstanding (millions) | 649.8 | 641.0 | 627.0 |
| Basic earnings (loss) per common share | \$ 1.52 | \$ (.25) | \$ 2.07 |
| Diluted earnings (loss) per common share | | | |
| Net income (loss) applicable to common shares | \$ 989 | \$ (160) | \$ 1,300 |
| Average number of common shares outstanding (millions) | 649.8 | 641.0 | 627.0 |
| Stock options potentially exercisable as determined under the treasury stock method ¹ | 4.1 | 5.9 | 8.5 |
| Average number of common shares outstanding diluted | 653.9 | 646.9 | 635.5 |
| Diluted earnings (loss) per common share ² | \$ 1.51 | \$ (.25) | \$ 2.05 |

1

Excluded from the computation of diluted earnings (loss) per common share were weighted average options outstanding of 10,908,010 with a weighted exercise price of \$39.40 (2002 7,944,584 at \$40.14; 2001 2,586,705 at \$41.69) as the options' exercise prices were greater than the average market price of the Bank's common shares.

2

For 2002, the effect of stock options potentially exercisable on earnings (loss) per common share was anti-dilutive, therefore basic and diluted earnings (loss) per common share are the same.

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NOTE 25 RECONCILIATION OF CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

Significant differences between Canadian GAAP and United States generally accepted accounting principles (U.S. GAAP) are described below.

Net Income (Loss)

| | <u>For the years ended October 31</u> | | |
|--|---------------------------------------|-------------|-------------|
| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
| | (millions of dollars) | | |
| Net income (loss) based on Canadian GAAP | \$ 1,076 | \$ (67) | \$ 1,392 |
| Stock-based compensation | | 60 | 64 |
| Employee future benefits | (7) | (9) | 5 |
| Restructuring costs | (18) | (101) | (50) |

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| | For the years ended October 31 | | |
|---|--------------------------------|-----------------|-----------------|
| | 2003 | 2002 | 2001 |
| Loan securitizations | (10) | (15) | (3) |
| Non-controlling interest in TD Mortgage Investment Corporation | (23) | (23) | (22) |
| Future income taxes | | 17 | 54 |
| Available for sale securities | 81 | (73) | (48) |
| Derivative instruments and hedging activities | 95 | 116 | 142 |
| Guarantees | (13) | | |
| Asset retirement obligations | (19) | | |
| Other | | | (3) |
| Net income (loss) based on U.S. GAAP | 1,162 | (95) | 1,531 |
| Preferred dividends | 64 | 70 | 70 |
| Net income (loss) applicable to common shares based on U.S. GAAP | \$ 1,098 | \$ (165) | \$ 1,461 |
| Basic earnings (loss) per common share U.S. GAAP | \$ 1.69 | \$ (.26) | \$ 2.32 |
| Canadian GAAP | 1.52 | (.25) | 2.07 |
| Diluted earnings (loss) per common share U.S. GAAP | \$ 1.68 | \$ (.26) | \$ 2.30 |
| Canadian GAAP | 1.51 | (.25) | 2.05 |

Consolidated Statement of Comprehensive Income (Loss)

| | For the years ended October 31 | | |
|--|--------------------------------|-----------------|-----------------|
| | 2003 | 2002 | 2001 |
| | (millions of dollars) | | |
| Net income (loss) based on U.S. GAAP | \$ 1,162 | \$ (95) | \$ 1,531 |
| Other comprehensive income (loss), net of income taxes | | | |
| Net change in unrealized gains and losses on available for sale securities ¹ | 16 | (226) | 282 |
| Reclassification to earnings in respect of available for sale securities ² | (78) | 75 | 48 |
| Change in unrealized foreign currency translation gains and losses ^{3,8} | (548) | (32) | 171 |
| Change in gains and losses on derivative instruments designated as cash flow hedges ⁴ | 126 | 180 | (328) |
| Reclassification to earnings of gains and losses on cash flow hedges ⁵ | 46 | 21 | 15 |
| Gains arising from adoption of new accounting standard for derivative instruments ⁶ | | | 20 |
| Minimum pension liability adjustment ⁷ | 114 | (114) | |
| Comprehensive income (loss) | \$ 838 | \$ (191) | \$ 1,739 |

¹ Net of income taxes (benefit) of \$7 million (2002 \$(157) million; 2001 \$171 million).

² Net of income taxes (benefit) of \$(45) million (2002 \$48 million; 2001 \$35 million).

³ Net of income taxes (benefit) of \$481 million (2002 \$65 million; 2001 \$(191) million).

⁴ Net of income taxes (benefit) of \$72 million (2002 \$114 million; 2001 \$(235) million).

⁵ Net of income taxes (benefit) of \$27 million (2002 \$15 million; 2001 \$11 million).

⁶

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Net of income taxes (benefit) of nil (2002 nil; 2001 \$14 million).

7

Net of income taxes (benefit) of \$72 million (2002 \$(72) million; 2001 nil).

8

Fiscal 2003 includes \$971 million (2002 \$90 million; 2001 \$(278) million) of after-tax gains (losses) arising from hedges of the Bank's investment positions in foreign operations.

Stock-based compensation

Until October 5, 2002, under the Bank's stock option plan, option holders could elect to receive cash for the options equal to their intrinsic value, being the excess of the market value of the share over the option exercise price at the date of exercise. In accounting for stock options with this feature, U.S. GAAP requires expensing the annual change in the intrinsic value of the stock options. For options that have not fully vested, the change in intrinsic value is amortized over the remaining vesting period. Under the then current Canadian GAAP, no expenses were recorded and cash payments to option holders were charged to retained earnings on a net of tax basis. As a result, income for U.S. GAAP purposes was increased for 2002 and 2001, \$60 million and \$64 million, respectively as a result of decreases in intrinsic value during the periods. Effective October 6, 2002, the plan was amended so that new grants of options and all outstanding options can only be settled for shares. As a result, for the purposes of U.S. GAAP the accrued liability for stock options of \$39 million after-tax was reclassified to capital as at October 6, 2002. Beginning in fiscal 2003, the Bank has expensed stock option awards for both Canadian and U.S. GAAP purposes using the fair value method of accounting for stock options. The only continuing Canadian and U.S. GAAP difference relates to the draw down of the accrued liability reclassified to capital for exercises and forfeitures of stock options that existed at October 6, 2002.

TD BANK FINANCIAL GROUP ANNUAL STATEMENT 2003 35

Condensed Consolidated Balance Sheet

| | As at October 31 2003 | | | As at October 31 2002 | | |
|---|-----------------------|-----------------|-------------------|-----------------------|------------------|-------------------|
| | Canadian GAAP | Adjustments | U.S. GAAP | Canadian GAAP | Adjustments | U.S. GAAP |
| | (millions of dollars) | | | | | |
| Assets | | | | | | |
| Cash resources | \$ 7,719 | \$ | \$ 7,719 | \$ 6,538 | \$ | \$ 6,538 |
| Securities purchased under resale agreements | 17,475 | | 17,475 | 13,060 | | 13,060 |
| Securities | | | | | | |
| Investment | 24,775 | 1,844 | 26,619 | 28,802 | 1,838 | 30,640 |
| Trading | 54,890 | 195 | 55,085 | 53,395 | | 53,395 |
| Loans (net) | 118,058 | 3,996 | 122,054 | 122,627 | 6,454 | 129,081 |
| Derivatives' market revaluation | 28,451 | 3,732 | 32,183 | 25,739 | 3,104 | 28,843 |
| Intangible assets | 2,737 | 34 | 2,771 | 3,383 | 29 | 3,412 |
| Goodwill | 2,263 | 64 | 2,327 | 3,134 | 64 | 3,198 |
| Other assets | 17,164 | 42 | 17,206 | 21,362 | 36 | 21,398 |
| Total assets | \$ 273,532 | \$ 9,907 | \$ 283,439 | \$ 278,040 | \$ 11,525 | \$ 289,565 |
| Liabilities | | | | | | |
| Deposits | \$ 182,880 | \$ | \$ 182,880 | \$ 189,190 | \$ | \$ 189,190 |
| Derivatives' market revaluation | 28,000 | 4,006 | 32,006 | 25,954 | 3,328 | 29,282 |
| Other liabilities | 42,404 | 1,003 | 43,407 | 44,262 | 1,322 | 45,584 |
| Subordinated notes, debentures and other debt | 5,887 | 4,224 | 10,111 | 4,343 | 6,524 | 10,867 |
| Non-controlling interest in subsidiaries | 1,250 | 350 | 1,600 | 1,250 | 350 | 1,600 |
| Total liabilities | 260,421 | 9,583 | 270,004 | 264,999 | 11,524 | 276,523 |

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| | As at October 31 2003 | | | As at October 31 2002 | | |
|---|-----------------------|-----------------|-------------------|-----------------------|------------------|-------------------|
| Shareholders' equity | | | | | | |
| Preferred shares | 1,535 | (350) | 1,185 | 1,485 | (350) | 1,135 |
| Common shares | 3,179 | 17 | 3,196 | 2,846 | | 2,846 |
| Contributed surplus | 9 | 22 | 31 | | | |
| Foreign currency translation adjustments | (130) | 174 | 44 | 418 | (374) | 44 |
| Retained earnings | 8,518 | 249 | 8,767 | 8,292 | 189 | 8,481 |
| Accumulated other comprehensive income | | | | | | |
| Net unrealized gains on available for sale securities | | 306 | 306 | | 368 | 368 |
| Foreign currency translation adjustments | | (174) | (174) | | 374 | 374 |
| Derivative instruments | | 80 | 80 | | (92) | (92) |
| Minimum pension liability adjustment | | | | | (114) | (114) |
| Total shareholders' equity | 13,111 | 324 | 13,435 | 13,041 | 1 | 13,042 |
| Total liabilities and shareholders' equity | \$ 273,532 | \$ 9,907 | \$ 283,439 | \$ 278,040 | \$ 11,525 | \$ 289,565 |

Employee future benefits

Under Canadian GAAP, the Bank adopted the employee future benefits standard in fiscal 2001 on a retroactive basis without restatement. The Canadian standard requires the accrual of employee future benefits. Previous Canadian GAAP permitted non-pension benefits to be expensed as paid. U.S. GAAP similarly requires the accrual of employee future benefits. For purposes of U.S. GAAP, the Bank adopted the employee future benefits standard on a prospective basis. Consequently, differences between U.S. and Canadian GAAP remain, as the transitional impacts will be amortized over the expected average remaining service life of the employee group for U.S. GAAP.

U.S. GAAP also requires an additional minimum liability to be recorded if the accumulated benefit obligation is greater than the fair value of plan assets. Canadian GAAP has no such requirement. For U.S. GAAP purposes, the Bank recognized the amounts noted in the table below in the Consolidated Balance Sheet.

| | 2003 | 2002 |
|--|-----------------------|---------------|
| | (millions of dollars) | |
| Prepaid pension expense | \$ 236 | \$ (23) |
| Intangible assets | 34 | 29 |
| Accumulated other comprehensive income before income taxes | | 186 |
| Net amount recognized | \$ 270 | \$ 192 |

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Restructuring costs

Under previous Canadian GAAP, restructuring costs incurred in respect of an acquired company could be accrued as a liability provided that a restructuring plan detailing all significant actions to be taken had been approved by an appropriate level of management, and significant changes to the plan were not likely. U.S. GAAP and current Canadian GAAP require that restructuring costs related to an acquired company be included as a liability in the allocation of the purchase price, thereby increasing goodwill. U.S. GAAP and current Canadian GAAP also require that all restructuring costs be incurred within one year of a restructuring plan's approval by management and that all employees to be involuntarily terminated be notified of their termination benefit arrangement. In accordance with U.S. GAAP, restructuring costs of \$82 million after-tax have been recognized during fiscal 2003 (2002 \$101 million; 2001 \$188 million). The restructuring costs under Canadian GAAP amounted to \$64 million after-tax for fiscal 2003 (2002 nil; 2001 \$138 million).

Loan securitizations

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U.S. GAAP and current Canadian GAAP require gains on loan securitizations to be recognized in income immediately. Under previous Canadian GAAP, gains were recognized only when received in cash by the Bank.

During fiscal 2003, the Bank adopted the new U.S. interpretation on the consolidation of variable interest entities (VIEs) which is applicable to all VIEs created after January 31, 2003. The interpretation requires the Bank to identify VIEs in which it has an interest, determine whether it is the primary beneficiary of such entities and if so, consolidate them. A VIE is an entity that either lacks sufficient equity to carry on principal operations without additional subordinated financial support from other parties, or has equity holders unable to make decisions about the entities' activities or has equity holders who do not absorb losses nor receive benefits of the entities' activities. As a result of implementing this U.S. interpretation in fiscal 2003, certain VIEs have been consolidated with total assets of \$195 million. In addition, during fiscal 2001, the Bank adopted the U.S. accounting standard for transfers and servicing of financial assets and extinguishments of liabilities. The principal impact of this U.S. standard on the Bank's financial statements was to require consolidation of special purpose entities (SPEs) in circumstances where the SPE is considered a single seller and either its activities are not sufficiently limited or it does not have a minimum 3% external equity investment. Canadian GAAP requires consolidation of such entities only when the Bank retains substantially all the residual risks and rewards of the entity.

Non-controlling interest

Under U.S. GAAP, preferred shares of the Bank's subsidiary, TD Mortgage Investment Corporation, are presented as a non-controlling interest on the Consolidated Balance Sheet, and the net income applicable to the non-controlling interest is presented separately on the Consolidated Statement of Operations. Under Canadian GAAP, these preferred shares are included within the total preferred shares presented on the Consolidated Balance Sheet.

Future income taxes

Under Canadian GAAP, the effects of income tax rate reductions are recorded when considered substantively enacted. Under U.S. GAAP, the effects of rate changes do not impact the measurement of tax balances until passed into law.

Investment securities

U.S. GAAP requires that investment securities be classified as either "available for sale" or "held to maturity", and requires available for sale securities to be reported on the Consolidated Balance Sheet at their estimated fair values. Unrealized gains and losses arising from changes in fair values of available for sale securities are reported net of income taxes in other comprehensive income. Other than temporary declines in fair value are recorded by transferring the unrealized loss from other comprehensive income to the Consolidated Statement of Operations. For U.S. GAAP, the Bank accounts for the majority of investment securities as available for sale. Under Canadian GAAP, investment securities are carried at cost or amortized cost, with other than temporary declines in value recognized based upon expected net realizable values.

In addition, under U.S. GAAP certain non-cash collateral received in securities lending transactions is recognized as an asset and a liability is recorded for obligations to return the collateral. Under Canadian GAAP, non-cash collateral received as part of a securities lending transaction is not recognized in the Consolidated Balance Sheet.

Derivative instruments and hedging activities

The Bank adopted the U.S. standard relating to derivative instruments and hedging activities on November 1, 2000 and recorded a cumulative transition adjustment recognizing after-tax gains of \$10 million in net income and \$20 million in other comprehensive income in fiscal 2001. U.S. GAAP requires all derivative instruments be reported on the Consolidated Balance Sheet at their fair values, with changes in the fair value for derivatives that are not hedges reported through the Consolidated Statement of Operations. U.S. GAAP provides specific guidance on hedge accounting including the measurement of hedge ineffectiveness, limitations on hedging strategies and hedging with intercompany derivatives. For fair value hedges, the Bank is hedging changes in the fair value of assets, liabilities or firm commitments and changes in the fair values of the derivative instruments are recorded in income. For cash flow hedges, the Bank is hedging the variability in cash flows related to variable rate assets, liabilities or forecasted transactions and the effective portion of the changes in the fair values of the derivative instruments are recorded in other comprehensive income until the hedged items are recognized in income. For fiscal 2003, deferred net losses on derivative instruments of \$27 million (2002 \$68 million; 2001 \$132 million) included in other comprehensive income are expected to be reclassified to earnings during the next 12 months. Cash flow hedges also include hedges of certain forecasted transactions up to a maximum of 11 years, although a substantial majority is under two years. The ineffective portion of hedging derivative instruments' changes in fair values are immediately recognized in income. For fiscal 2003, under U.S. GAAP, the Bank recognized pre-tax gains (losses) of \$(19) million (2002 \$3 million; 2001 \$13 million) for the ineffective portion of cash flow hedges.

Under Canadian GAAP, the Bank recognizes only derivatives used in trading activities at fair value on the Consolidated Balance Sheet, with changes in fair value included in income.

Foreign currency translation adjustments

U.S. GAAP requires foreign currency translation adjustments arising from subsidiaries where the functional currency is other than the Canadian dollar to be presented net of taxes in other comprehensive income. Under Canadian GAAP, the Bank presents foreign currency translation adjustments as a separate component of shareholders' equity.

Guarantees

During the year, the Bank adopted the U.S. interpretation on guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. As a result, for U.S. GAAP purposes, the initial liability for obligations assumed with respect to guarantees issued or modified after December 31, 2002 is recorded on the Consolidated Balance Sheet at fair value. The total amount of the current liability recorded on the Consolidated Balance Sheet is \$20 million for U.S. GAAP purposes in 2003. Under Canadian GAAP, a liability is not recognized at the inception of a guarantee.

Asset retirement obligations

During the year, the Bank prospectively adopted the U.S. standard relating to accounting for asset retirement obligations. This standard requires that a liability for an asset retirement obligation related to a long-lived asset be recognized in the period in which it is incurred and recorded at fair value. The offset to the liability is capitalized as part of the carrying amount of the related long-lived asset. There are no similar requirements under current Canadian GAAP. The cumulative effect of the change in accounting policy on prior years was a charge to income of \$15 million after-tax in the current year, two cents per share on a basic and fully diluted basis and the effect of the new standard for fiscal 2003 was a charge of \$4 million after-tax. As at October 31, 2003, the Bank has recognized a liability for asset retirement obligations related to capitalized leasehold improvements of \$53 million for U.S. GAAP reporting purposes.

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NOTE 26 FUTURE ACCOUNTING CHANGES**Hedging relationships**

During fiscal 2002, the Canadian Institute of Chartered Accountants (CICA) issued an accounting guideline on hedging relationships. The guideline is effective for the Bank beginning November 1, 2003. The guideline sets out the criteria that must be met in order to apply hedge accounting for derivatives and is based on many of the principles outlined in the U.S. standard relating to derivative instruments and hedging activities. Specifically, the guideline provides detailed guidance on the identification, designation, documentation and effectiveness of hedging relationships, for purposes of applying hedge accounting; and the discontinuance of hedge accounting. The Bank implemented the guideline on November 1, 2003 and as a result the Bank's credit default swap portfolio with a notional value of \$4 billion will no longer qualify for hedge accounting and will be carried at fair value. The resulting transition loss of \$32 million will be deferred and recognized in income in the same period as the corresponding gains, losses, revenues or expenses associated with the original hedged item. The Bank will continue using credit default swaps to manage credit risk which may result in reported earnings volatility in future periods. The impact on future results will depend on the Bank's hedging strategies and market volatility.

Consolidation of variable interest entities

During the second quarter, the Canadian Accounting Standards Board approved a new accounting guideline on the consolidation of variable interest entities (VIEs). The guideline is harmonized with a recently issued U.S. Financial Accounting Standards Board interpretation and will be effective for the Bank in fiscal 2005, except for the disclosure requirements which will be effective in the Bank's second quarter of fiscal 2004. The Bank is currently evaluating the impact of the new guideline and has not yet completed its analysis. There are significant uncertainties surrounding the application and interpretation of this guidance, as a result the following summarizes the Bank's preliminary assessment of the impact of adopting the new guideline.

Bank-originated assets

Based on a preliminary assessment, it is reasonably possible that the Bank will need to consolidate securitized bank-originated assets of approximately \$4 billion. The Bank continues to investigate restructuring alternatives for these assets.

Third party originated assets

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Based on a preliminary assessment, it is reasonably possible that the Bank will need to consolidate third party originated assets of approximately \$9 billion. The Bank continues to investigate restructuring alternatives for these third party originated assets.

Mutual funds

Mutual funds in Canada may be considered VIEs with the possibility that the Bank sponsors be considered the primary beneficiary. The Bank is the sponsor of several mutual funds with assets of approximately \$47 billion.

Compensation trusts

Certain of the Bank's stock-based compensation plans are funded through trusts established for these purposes. It is reasonably possible that the Bank may be considered the primary beneficiary of these trusts and consequently, may need to consolidate.

Innovative capital structures

The Bank's innovative capital structures typically involve the creation of a trust whose voting securities are 100% owned by Bank sponsors and the trust issues beneficial ownership interests in the form of trust securities to investors. The Bank currently accounts for these securities as non-controlling interests in its Consolidated Financial Statements. These structures are likely considered VIEs under the new guideline and the determination of whether the structures continue to be consolidated depends on the details of the structure.

Other financial transactions

The Bank is also involved with other entities and/or structures such as personal trusts and investment vehicles that could be deemed VIEs. The Bank continues to assess the impact of the new guideline on these transactions.

Asset retirement obligations

During the year, the CICA issued an accounting standard on asset retirement obligations that is applicable to the Bank in fiscal 2005. The new standard harmonizes Canadian GAAP with current U.S. GAAP and requires that a liability for an asset retirement obligation related to a long-lived asset be recognized in the period in which it is incurred and recorded at fair value.

Impairment of long-lived assets

During the year, the CICA issued an accounting standard on impairment of long-lived assets that is applicable to the Bank in fiscal 2004. The new standard requires that impairment of long-lived assets be measured as the amount by which the asset's carrying value exceeds its fair value.

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Principal subsidiaries

| Canadian | Head office | As at October 31, 2003 | |
|--|------------------------|-------------------------------|---|
| | | | Book value of shares owned by the Bank |
| | | | (millions of dollars) |
| Commercial Mortgage Operations Company of Canada | Toronto, Canada | \$ | 50 |
| CT Financial Assurance Company | Toronto, Canada | | 12 |
| First Nations Bank of Canada (89%) | Walpole Island, Canada | | 8 |

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As at October 31, 2003

| | | |
|--|----------------------------|-------|
| Meloche Monnex Inc. | Montreal, Canada | 188 |
| Security National Insurance Company | Montreal, Canada | |
| Primum Insurance Company | Toronto, Canada | |
| TD General Insurance Company | Toronto, Canada | |
| TD Asset Management Inc. | Toronto, Canada | 169 |
| TD Capital Canadian Private Equity Partners Ltd. | Toronto, Canada | |
| TD Capital Group Limited | Toronto, Canada | 347 |
| TD Capital Trust | Toronto, Canada | 360 |
| TD Capital Trust II | Toronto, Canada | 2 |
| TD Investment Management Inc. | Toronto, Canada | |
| TD Investment Services Inc. | Toronto, Canada | 223 |
| TD Life Insurance Company | Toronto, Canada | 18 |
| TD Mortgage Corporation | Toronto, Canada | 7,098 |
| Canada Trustco Mortgage Company | London, Canada | |
| TD Waterhouse Bank N.V. | Amsterdam, The Netherlands | |
| Canada Trustco International Limited | Bridgetown, Barbados | |
| The Canada Trust Company | Toronto, Canada | |
| TD Pacific Mortgage Corporation | Toronto, Canada | |
| TD Mortgage Investment Corporation | Calgary, Canada | 88 |
| TD Nordique Inc. | Vancouver, Canada | 637 |
| TD Securities Inc. | Toronto, Canada | 128 |
| United States | | |
| TD North America Limited Partnership | Delaware, U.S.A. | 297 |
| TD Waterhouse Group, Inc. | New York, U.S.A. | 2,520 |
| CTUSA, Inc. | New Jersey, U.S.A. | |
| TD Bank USA, F.S.B. | New Jersey, U.S.A. | |
| Drewmark, Inc. | Omaha, U.S.A. | |
| R.J. Thompson Holdings, Inc. | Omaha, U.S.A. | |
| National Investor Services Corp. | New York, U.S.A. | |
| TD Waterhouse Asset Management, Inc. | New York, U.S.A. | |
| TD Waterhouse Bank, N.A. | New Jersey, U.S.A. | |
| TD Waterhouse Canada Inc. | Toronto, Canada | |
| TD Waterhouse Capital Markets, Inc. | New Jersey, U.S.A. | |
| TD Waterhouse Investor Services, Inc. | New York, U.S.A. | |

As at October 31, 2003

| | | |
|---|------------------------------|-------|
| Toronto Dominion Holdings (U.S.A.), Inc. | Houston, U.S.A. | 848 |
| TD Equity Options, Inc. | Chicago, U.S.A. | |
| TD Options LLC | Chicago, U.S.A. | |
| TD Securities (USA) Inc. | New York, U.S.A. | |
| TD Professional Execution, Inc. | Chicago, U.S.A. | |
| Toronto Dominion (New York), Inc. | New York, U.S.A. | |
| Toronto Dominion (Texas), Inc. | Chicago, U.S.A. | |
| Other foreign | | |
| Carysforth Investments Limited (70%) | Grand Cayman, Cayman Islands | 659 |
| Haddington Investments Limited (70%) | St. Peter Port, Guernsey CI | 659 |
| NatWest Personal Financial Management Limited (50%) | London, England | 72 |
| NatWest Stockbrokers Limited | London, England | |
| TD Financial International Ltd. | Hamilton, Bermuda | |
| TD Reinsurance (Barbados) Inc. | St. Michael, Barbados | |
| TD Haddington Services B.V. | Amsterdam, The Netherlands | 989 |
| Belgravia Securities Investments Limited (66.7%) | Grand Cayman, Cayman Islands | |
| TD Guernsey Services Limited | St. Peter Port, Guernsey CI | |
| TD European Funding Limited (60.99%) | St. Peter Port, Guernsey CI | |
| TD Ireland | Shannon, Ireland | 133 |
| TD Global Finance | Dublin, Ireland | |
| TD Securities (Japan) Inc. | St. Michael, Barbados | 60 |
| TD Waterhouse Investor Services (UK) Limited | London, England | 381 |
| TD Waterhouse Investor Services (Europe) Limited | London, England | |
| Toronto Dominion International Inc. | St. Michael, Barbados | 388 |
| The TD Bermuda Trust | Hamilton, Bermuda | |
| TD Trust (Bermuda) Limited | Hamilton, Bermuda | |
| Toronto Dominion Investments B.V. | Amsterdam, The Netherlands | 782 |
| TD Bank Europe Limited | London, England | |
| Toronto Dominion Holdings (U.K.) Limited | London, England | |
| TD Securities Limited | London, England | |
| Toronto Dominion Jersey Holdings Limited | St. Helier, Jersey CI | 1,403 |
| Toronto Dominion (South East Asia) Limited | Singapore, Singapore | 497 |

Unless otherwise noted, the Bank, either directly or through its subsidiaries, owns 100% of any issued and outstanding voting securities and non-voting securities of the entities listed, except the non-voting securities of First Nations Bank of Canada, TD Capital Trust, TD Capital Trust II, and TD Mortgage Investment Corporation. Each subsidiary is incorporated in the country in which its head office is located.

THE TORONTO-DOMINION BANK
EARNINGS COVERAGE ON SUBORDINATED NOTES AND DEBENTURES
FOR THE YEAR ENDED OCTOBER 31, 2003

The Bank's interest requirements on all subordinated notes and debentures and innovative Tier 1 capital, after adjustment for new issues and retirement of subordinated debt, amounted to \$456 million for the 12 months ended October 31, 2003. The Bank reported a net income, before interest on subordinated debt and innovative Tier 1 capital and income tax, of \$1,841 million for the 12 months ended October 31, 2003, which was 4.0 times the Bank's interest requirements. On an operating cash basis¹, the Bank's interest requirements on all subordinated notes and debentures and innovative Tier 1 capital, after adjustment for new issues and retirement of subordinated debt, amounted to \$456 million for the 12 months ended October 31, 2003 and the Bank's net income before interest on subordinated debt and innovative Tier 1 capital and income tax was \$2,613 million, which was 5.7 times its interest requirements for the respective period.

1

The Bank utilizes the "operating cash basis" to assess each of its businesses and to measure overall Bank performance against goals. The derivation of operating cash basis begins with the reported GAAP results and then excludes special items and the non-cash charge for intangible amortization. There were no special items in fiscal 2003. The Bank views special items as transactions that are not part of the Bank's normal business operations and are therefore not indicative of underlying trends. The Bank's non-cash intangible amortization charge relates to the Canada Trust acquisition in fiscal 2000. The Bank excludes amortization of intangibles as it is a non-cash charge and this approach ensures comparable treatment between periods and comparable treatment with goodwill. Consequently, the Bank believes that the operating cash basis provides the reader with an understanding of the Bank's results that can be consistently tracked from period to period. The goodwill impairment recorded by the Bank in the second quarter 2003 relating to the international unit of its wealth management business and its U.S. equity options business was not considered a special item for exclusion when determining the operating cash basis results. The restructuring charges recognized by the Bank in the second quarter 2003, related to the international unit of its wealth management business and its U.S. equity options business, were not considered special items given that they were incurred as part of the rationalization of the existing businesses. As explained, operating cash basis results are different from reported results determined in accordance with GAAP. The term "operating cash basis results" is not a defined term under GAAP, and therefore may not be comparable to similar terms used by other issuers.

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