

LETTER TO SHAREHOLDERS

STRATEGIES FOR DELIVERING VALUE

WITH A SOLID FINANCIAL PERFORMANCE AND PROGRESS IN DEVELOPING OUR BUSINESSES, TD HAD A POSITIVE IMPACT ON THE FINANCIAL SECURITY OF A LOT OF PEOPLE IN 1996. WE CONTRIBUTED THROUGH THE RETURNS WE DELIVERED TO SHAREHOLDERS, THROUGH THE PRODUCTS AND SERVICES WE PROVIDED TO CUSTOMERS, THROUGH THE TAXES – OVER \$800 MILLION IN 1996 – WE PAID AS ONE OF CANADA’S LARGEST TAXPAYERS, THROUGH OUR ROLE AS A MAJOR EMPLOYER, AND THROUGH THE BUSINESS FINANCING WE PROVIDED THAT GENERATED ECONOMIC GROWTH.

In striving to deliver more, we have been reshaping and expanding the products, services and businesses of the Bank. The new section that follows this letter – Review of TD’s Businesses – was designed to give you a sense of the scope and scale of our businesses and their markets, strategies and performance.

As you will see in Review of TD’s Businesses, our core traditional banking businesses for retail and corporate customers are large, healthy and profitable, but growth is constrained.

DRIVING CHANGE

There are a number of reasons for this: a slow growth, low inflation economic environment; intense price competition; changing demographics which have seen North America’s huge baby boom population shift its focus from borrowing to investing; ongoing disintermediation which has enabled corporate clients to access financing directly in the capital markets rather than through banking intermediaries; and globalization and technology which have reduced barriers to entry and increased competition in our traditional businesses and markets.

These are the challenges we have been facing in our efforts to contribute more to shareholders and customers. In responding to these challenges, we have worked to build on the strong foundation provided by our traditional banking businesses by accelerating investment in a number of high growth, high return areas where we believe we can achieve success based on our existing strengths. These include investment banking, brokerage services, mutual funds, investment management and electronic banking.

PROGRESS IN '96

We made exceptional progress in all these areas in 1996, as discussed in Review of TD’s Businesses. Most notably:

- through acquisition, we expanded our discount brokerage and our investment management businesses;
- through internal growth we made strong gains in mutual funds (where we are now number two among Canadian banks), investment banking (where TD Securities Inc., our investment dealer, has established itself as a significant player) and full service brokerage (where TD Evergreen Investment Services is now a national firm);
- and through ongoing development and investments in technology, we stayed at the forefront in providing convenient electronic “virtual banking” services – launching TD Access: PC, North America’s first fully integrated banking and brokerage PC package.

CAPITAL STRATEGIES

TD's strong capital position makes it possible for us to pursue opportunities in all the businesses we have targeted for accelerated growth and we are proceeding in a disciplined way. Just as customers and shareholders are becoming increasingly strategic, focused and disciplined in their investments – to build security in changing times – so too is your Bank.

The buyback we announced in the third quarter for up to 10% of TD's shares underscores our focus on shareholder value and our disciplined approach to capital investment. We believe excess capital should be returned to shareholders if current opportunities do not meet our objectives for building value. Our target hurdle is an after-tax rate of return of 15% of capital invested in acquiring new businesses or expanding existing ones.

This disciplined approach led to our decision to sell TD's institutional and pension custody business in the fourth quarter. We recognized that even with substantial investment, we could not become a large enough player in that business to generate satisfactory returns. We do, however, have that opportunity in the businesses we have singled out for accelerated growth.

WATERHOUSE IMPACT

One of the areas we have targeted is discount brokerage, and in 1996, we doubled our presence in this rapidly growing market with the acquisition of Waterhouse Investor Services, Inc., the fourth largest discount broker in the United States. Waterhouse is comparable in size to Green Line Investor Services, Canada's leading discount broker.

This was the largest acquisition in your Bank's history and it has made TD the third largest discount broker in the world, and the only one with a North American franchise. We see global opportunities in this business, and will benefit from our increased size and scope with new economies of scale, market reach and the sharing of technology between Waterhouse and Green Line.

This acquisition is also significant as the first major move we have made in the retail sector outside Canada. As an electronically based business that is licenced as a broker in all 50 states and currently has 90 branches in 41 states, Waterhouse represents an important delivery system as well as a product. Furthermore, it has a national bank charter in the United States – providing a national franchise in a country where retail banking operations tend to be regional. We are exploring opportunities to deliver a broader range of financial services through Waterhouse to its customer base of 600,000. Again, TD's strong capital position enables us to pursue attractive opportunities, and we broadened access to capital in the United States by listing TD's common shares on the New York Stock Exchange in the fourth quarter.

MAKING IT EASIER

While we put shareholders' capital to good use in building the future value of the Bank, TD people across Canada and around the world worked hard to build our businesses internally and to make banking easier and more enjoyable for customers.

Thanks to their efforts, TD enhanced customer service as well as returns to shareholders. Our Customer Service Index, the most important internal measure for TD's service delivery, improved further during 1996 – a record level of 83% of our customers rate TD's service as very good.

RESPONDING TO COMMUNITIES

We are making gains in a difficult and competitive environment – and in the process, we are delivering positive benefits to the communities where we operate. As noted, we contribute as a major taxpayer and by providing valuable financial services. In building our businesses, we have been attempting to make the delivery of those services more responsive to the needs of local communities.

One example of this is our Main\$treteet Banking initiative which has moved the delivery of commercial services for small businesses into every single branch in TD's network, enabling small businesses to do their banking right in their local community. A second example is our ongoing development of Asian banking services in Canada and the Pacific Rim, which services were enhanced during the year with the opening of a Green Line office in Hong Kong. Yet another example can be seen in our launch of the First Nations Bank of Canada – focused on aboriginal banking and investment – jointly with the Saskatchewan Indian Equity Foundation, Inc. and the Federation of Saskatchewan Indian Nations, Inc.

As well, we have become more responsive to our communities by becoming more strategic in our corporate donations program. In last year's report, we mentioned that we had boosted our donations budget and developed a special focus on youth – the future of our communities. To this end in 1996, we helped launch Career Edge, an internship opportunity providing young people with work experience in corporations across the country; we also announced a new bursary program, where TD will channel higher education giving directly to students in order to improve their access to post-secondary education.

BUILDING VALUE

Clearly, TD is investing in the future in many different ways – to build the future of the Bank. In doing so, we have been building future value for all of you – our direct shareholders – and for millions of Canadians who are indirect shareholders through their pension funds and mutual funds. While building for the future, we delivered solid returns to shareholders in 1996, as earnings per share grew by 18% to \$2.95, and as total market return, including dividends, reached 36.2% compared to 20.1% in 1995. We aim to deliver more.

We do not expect the pace of change to diminish in the year ahead – given the forces of technology, demographics, competition and globalization. The challenges continue. But we believe we have the strategies and strength to make further progress in 1997 – benefiting shareholders, customers and the communities we serve.



Richard M. Thomson
Chairman and
Chief Executive Officer



A. Charles Baillie
President

Toronto, Canada
November 28, 1996

A. CHARLES BAILLIE, WHO JOINED TD IN 1964 AND OVERSAW THE DEVELOPMENT OF OUR CORPORATE AND INVESTMENT BANKING BUSINESS BEFORE BECOMING PRESIDENT IN 1995, WILL BECOME PRESIDENT AND CHIEF EXECUTIVE OFFICER ON FEBRUARY 1, 1997. RICHARD M. THOMSON, CHIEF EXECUTIVE OFFICER SINCE 1977, WILL CONTINUE AS CHAIRMAN OF THE BANK UNTIL HE RETIRES ON JANUARY 31, 1998. WILLIAM T. BROCK, A VICE CHAIRMAN WHO HAS BEEN THE BANK'S SENIOR CREDIT OFFICER FOR OVER SIX YEARS, WILL BECOME DEPUTY CHAIRMAN ON FEBRUARY 1, 1997.