

	<b>CONSOLIDATED FINANCIAL STATEMENTS</b>
38	Financial reporting responsibility
38	Auditors' report to the shareholders
39	Consolidated balance sheet
40	Consolidated statement of income
41	Consolidated statement of changes in shareholders' equity
42	Consolidated statement of changes in financial position
43	<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</b>
67	<b>PRINCIPAL SUBSIDIARIES</b>
68	<b>TEN-YEAR STATISTICAL REVIEW</b>
72	<b>REPORTED QUARTERLY RESULTS</b>

## TD MAIN\$TREET BANKING

TD Main\$street Banking is well on its way to making it easier for our small business customers by providing them with the ability to do their personal and business banking through any TD branch or electronic delivery channel. Responding to the needs of this vital and growing market segment, we introduced two new simple and cost-effective credit products in 1997 – the TD Businessline line of credit, and the TD Venture Line of Credit Visa card.



## Consolidated financial statements

### Financial reporting responsibility

The consolidated financial statements of The Toronto-Dominion Bank and related financial information presented elsewhere in this Annual Report have been prepared by management, which is responsible for their integrity, consistency, objectivity and reliability. Generally accepted accounting principles as well as the requirements of the Bank Act and the related regulations have been applied and management has exercised its judgement and made best estimates where deemed appropriate.

The Bank's accounting system and related internal controls are designed, and supporting procedures maintained, to provide reasonable assurance that financial records are complete and accurate and that assets are safeguarded against loss from unauthorized use or disposition. These supporting procedures include the careful selection and training of qualified staff, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines of business conduct throughout the Bank.

The Bank's Board of Directors, acting through the Audit Committee which is comprised of directors who are not officers or employees of the Bank, oversees management's responsibilities for the financial reporting and internal control systems.

### Auditors' report to the shareholders

We have audited the Consolidated balance sheet of The Toronto-Dominion Bank as at October 31, 1997 and the Consolidated statements of income, changes in shareholders' equity and changes in financial position for the year then ended. 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 audit.

We conducted our audit in accordance with 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.

The Bank's Chief Auditor, who has full and free access to the Audit Committee, conducts an extensive program of audits in coordination with the Bank's shareholders' auditors. This program is an integral part of the system of internal control and is carried out by a professional staff of auditors.

The Superintendent of Financial Institutions Canada makes such examination and enquiry into the affairs of the Bank as he may deem necessary to satisfy himself that the provisions of the Bank Act, having reference to the safety of the depositors and shareholders of the Bank, are being duly observed and that the Bank is in a sound financial condition.

Ernst & Young and Price Waterhouse, the shareholders' auditors, have audited our consolidated financial statements. They have full and free access to, and meet periodically with, the Audit Committee to discuss their audit and matters arising therefrom such as comments they may have on the fairness of financial reporting and the adequacy of internal controls.

**A. Charles Baillie**  
President and  
Chief Executive Officer

**William T. Brock**  
Deputy Chairman

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

The consolidated financial statements for the years ended October 31, 1996 and 1995 were audited by Ernst & Young and KPMG who expressed an opinion thereon without reservation in their report dated November 28, 1996.

**Ernst & Young**  
Chartered Accountants

**Price Waterhouse**  
Chartered Accountants

Toronto, Canada  
November 20, 1997

## Consolidated balance sheet

As at October 31		
(millions of dollars)	1997	1996
<b>ASSETS</b>		
<b>Cash resources</b>		
Cash and deposits with Bank of Canada	\$ 517	\$ 906
Deposits with other banks		
Interest bearing	6,387	3,843
Non-interest bearing	683	467
	7,587	5,216
<b>Securities purchased under resale agreements</b>	23,321	13,063
<b>Securities (Note 2)</b>		
Investment	12,611	10,723
Trading	20,811	13,501
	33,422	24,224
<b>Loans (net of allowance for credit losses) (Note 3)</b>		
Residential mortgages	30,442	28,624
Consumer instalment and other personal	11,347	8,587
Credit card	2,389	2,145
Business and government	35,524	33,035
	79,702	72,391
<b>Other</b>		
Customers' liability under acceptances	7,036	6,411
Land, buildings and equipment (Note 4)	1,505	1,350
Other assets (Note 5)	11,279	7,642
	19,820	15,403
<b>Total assets</b>	<b>\$ 163,852</b>	<b>\$ 130,297</b>
<b>LIABILITIES</b>		
<b>Deposits (Note 6)</b>		
Personal	\$ 44,044	\$ 43,546
Banks	16,268	14,164
Business and government	50,314	29,853
	110,626	87,563
<b>Other</b>		
Acceptances	7,036	6,411
Securities sold short or under repurchase agreements	24,839	18,170
Other liabilities (Note 7)	10,657	9,139
	42,532	33,720
<b>Subordinated notes (Note 8)</b>	3,391	2,335
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 9)		
Preferred	546	534
Common	1,297	1,305
Retained earnings	5,460	4,840
	7,303	6,679
<b>Total liabilities and shareholders' equity</b>	<b>\$ 163,852</b>	<b>\$ 130,297</b>

**A. Charles Baillie**  
President and  
Chief Executive Officer

**William T. Brock**  
Deputy Chairman

## Consolidated statement of income

For the years ended October 31			
(millions of dollars)	1997	1996	1995
Interest income	\$ 7,826	\$ 7,322	\$ 7,266
Interest expense	5,004	4,855	4,888
<b>Net interest income (Note 11)</b>	<b>2,822</b>	2,467	2,378
<b>Provision for credit losses (Note 3)</b>	<b>360</b>	152	180
<b>Net interest income after credit loss provision</b>	<b>2,462</b>	2,315	2,198
<b>Other income</b>			
Investment and securities services	952	440	267
Credit fees	352	312	289
Service charges	268	260	251
Trading income (Note 12)	270	186	150
Card services	165	150	133
Net investment securities gains	329	103	92
Other	314	298	279
	<b>2,650</b>	1,749	1,461
<b>Net interest and other income</b>	<b>5,112</b>	4,064	3,659
<b>Non-interest expenses</b>			
Salaries and staff benefits (Note 13)	1,826	1,452	1,305
Occupancy including depreciation	313	283	283
Equipment including depreciation	270	237	216
Other	974	682	609
	<b>3,383</b>	2,654	2,413
<b>Income before provision for income taxes</b>	<b>1,729</b>	1,410	1,246
<b>Provision for income taxes (Note 14)</b>	<b>641</b>	496	452
<b>Net income</b>	<b>1,088</b>	914	794
<b>Preferred dividends</b>	<b>31</b>	32	38
<b>Net income applicable to common shares</b>	<b>\$ 1,057</b>	\$ 882	\$ 756
<b>Per common share (Note 10)</b>			
Net income	\$ 3.54	\$ 2.95	\$ 2.51
Dividends	1.12	1.00	.88

## Consolidated statement of changes in shareholders' equity

For the years ended October 31			
(millions of dollars)	1997	1996	1995
<b>Preferred shares (Note 9)</b>			
Balance at beginning of year	\$ 534	\$ 535	\$ 397
Proceeds from share issues	–	–	225
Share redemptions	–	–	(85)
Translation adjustment on shares issued in a foreign currency	12	(1)	(2)
Balance at end of year	546	534	535
<b>Common shares (Note 9)</b>			
Balance at beginning of year	1,305	882	879
Issued on acquisition of a subsidiary	1	459	–
Proceeds from shares issued on exercise of options	21	12	3
Shares purchased for cancellation	(30)	(48)	–
Balance at end of year	1,297	1,305	882
<b>Retained earnings before foreign currency translation</b>			
Balance at beginning of year	4,805	4,593	4,107
Net income	1,088	914	794
Preferred dividends	(31)	(32)	(38)
Common dividends	(335)	(302)	(265)
Shares purchased for cancellation	(222)	(375)	–
Stock options settled in cash	(6)	–	–
Other	6	7	(5)
Balance at end of year	5,305	4,805	4,593
<b>Foreign currency translation</b>			
Balance at beginning of year	35	43	56
Translation adjustments	97	(18)	(9)
Income taxes applicable to translation adjustments	23	10	(4)
Balance at end of year	155	35	43
<b>Retained earnings at end of year after foreign currency translation</b>			
	5,460	4,840	4,636
<b>Total common equity</b>	<b>6,757</b>	<b>6,145</b>	<b>5,518</b>
<b>Total shareholders' equity</b>	<b>\$ 7,303</b>	<b>\$ 6,679</b>	<b>\$ 6,053</b>

## Consolidated statement of changes in financial position

For the years ended October 31			
(millions of dollars)	1997	1996	1995
<b>Cash flows provided by (used in) operating activities</b>			
Net income	\$ 1,088	\$ 914	\$ 794
Adjustments to determine net cash flows			
Provision for credit losses	360	152	180
Depreciation and amortization	158	135	132
Deferred income taxes	(116)	77	(12)
Net investment securities gains	(329)	(103)	(92)
Changes in accrued interest			
Increase in interest receivable	(164)	(126)	(164)
Increase (decrease) in interest payable	(2)	(69)	395
Net decrease in deferred loan fees	(9)	(16)	(23)
Net increase in trading securities	(7,310)	(2,578)	(3,541)
Net increase (decrease) in current income taxes payable	74	(37)	(133)
Net increase (decrease) in other items and accruals	(1,812)	628	636
Net cash used in operating activities	(8,062)	(1,023)	(1,828)
<b>Cash flows provided by (used in) financing activities</b>			
Net increase in deposits	23,063	4,832	524
Net increase in securities sold under repurchase agreements	3,392	8,492	1,364
Net increase in securities sold short	3,277	265	4,494
Net increase (decrease) in debt of subsidiaries	39	(11)	(52)
Issuance of subordinated notes	1,571	13	159
Repayment of subordinated notes	(515)	(66)	(265)
Common shares issued on exercise of options	21	12	3
Common shares issued on acquisition of a subsidiary	1	459	–
Common shares purchased for cancellation	(252)	(423)	–
Common stock options settled in cash	(6)	–	–
Issuance of preferred shares	–	–	225
Redemption of preferred shares	–	–	(85)
Dividends paid on – preferred shares	(31)	(32)	(38)
– common shares	(335)	(302)	(265)
Other financing	18	(9)	(8)
Net cash provided by financing activities	30,243	13,230	6,056
<b>Cash flows provided by (used in) investing activities</b>			
Increase in balances on deposit with other banks	(2,760)	(546)	(968)
Activity in investment securities			
Purchases	(18,376)	(11,525)	(10,405)
Proceeds from maturities	11,464	6,424	4,293
Proceeds from sales	5,353	6,707	6,876
Net increase in loans	(9,807)	(5,517)	(356)
Proceeds from mortgage loan securitizations	1,969	–	–
Land, buildings and equipment – net purchases	(155)	(155)	(180)
Net increase in securities purchased under resale agreements	(10,258)	(6,489)	(3,627)
Acquisition of a subsidiary	–	(726)	–
Net cash used in investing activities	(22,570)	(11,827)	(4,367)
Net increase (decrease) in cash and cash equivalents	(389)	380	(139)
Cash and cash equivalents at beginning of year	906	526	665
Cash and cash equivalents at end of year represented by cash and deposits with Bank of Canada	\$ 517	\$ 906	\$ 526
<b>Supplementary disclosure of cash flow information</b>			
Amount of interest paid during the year	\$ 5,006	\$ 4,924	\$ 4,493
Amount of income taxes paid during the year	661	446	600

# 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 generally accepted accounting principles, except as specified by the Superintendent of Financial Institutions Canada.

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

Note 24 to the consolidated financial statements describes and reconciles the differences between generally accepted accounting principles in Canada and in the United States.

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

#### (a) Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of subsidiaries, namely corporations effectively controlled by the Bank. The purchase method is used to account for all business acquisitions. The difference between the acquisition cost of an investment and the fair value of the net assets acquired represents goodwill which is amortized to income over a period not to exceed 20 years. The unamortized balance of goodwill is included in other assets. Goodwill is written down to fair value when a permanent impairment in value is indicated by the expected cash flows from each subsidiary.

Interests in joint ventures are recognized using the proportionate consolidation method. Under this approach, the Bank's share of assets, liabilities, revenues and expenses of joint ventures are reported on a line-by-line basis.

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 income from securities within interest income in the Consolidated statement of income.

#### (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 a separate component of 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 income.

#### (d) 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. They are carried at cost or amortized cost, adjusted to recognize other than temporary impairment in the underlying value. 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 values. Gains and losses on disposal and adjustments to market are reported in other income.

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

#### (e) 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 consumer instalment loan, 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 and consumer instalment loans are considered impaired when a payment is contractually past due 21 and 31 days respectively. Credit card loans with payments 180 days in arrears 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.

#### **(f) 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 and acceptances. Items not included in the Consolidated balance sheet and referred to as off-balance sheet items include guarantees, letters of credit and derivative financial instruments. The allowance is deducted from the applicable asset in the Consolidated balance sheet except for acceptances and off-balance sheet items. The allowance for acceptances and for off-balance sheet items is included in other liabilities.

The allowance consists of specific and general provisions.

Specific provisions include all the accumulated provisions for losses on particular assets required to reduce the book values to estimated realizable amounts in the ordinary course of business. The accumulated provisions for losses on particular off-balance sheet items are also included in specific provisions.

General provisions include all the accumulated provisions for losses which are prudential in nature and cannot be determined on an item-by-item basis. These provisions are established to absorb credit losses in a portfolio of on and off-balance sheet items where, in management's opinion, there exists a potential for impairment.

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 income, is added to bring the allowance to a level which management considers adequate to absorb credit-related losses in its portfolio of on and off-balance sheet items.

#### **(g) Mortgage loan securitizations**

Mortgage loan securitizations involve the sale of mortgages to a special purpose trust. Proceeds on sale are computed as the aggregate of the initial cash consideration and the present value of any additional proceeds. Gains are deferred to the extent of the recourse provided by the Bank to the trust, and are recognized only when there is no further recourse obligation. Losses require immediate recognition.

#### **(h) Securities purchased under resale and sold under repurchase agreements**

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

#### **(i) 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.

#### **(j) Land, buildings and equipment**

Land is reported at cost. Buildings, equipment and leasehold improvements are reported at cost less accumulated depreciation. Gains and losses on disposal are reported in other income. Depreciation methods and rates by asset category are as follows:

Asset	Depreciation method	Rate
Buildings	Declining balance	5% or 10%
Computer equipment	Declining balance	30%
Furniture, fixtures and other equipment	Declining balance	20%
Mainframe central processing units	Straight-line	4 years
Mainframe operating systems	Straight-line	3 years
Leasehold improvements	Straight-line	estimated useful life

### (k) Derivative financial instruments

Derivative financial instruments include interest rate and foreign exchange contracts. These instruments are traded by the Bank and are also used to modify interest rate and foreign currency exposures. To be designated as a non-trading derivative contract and receive hedge accounting treatment, the contract must substantially offset the effects of price, interest rate or foreign exchange rate exposures to the Bank, must be documented at inception as a non-trading derivative contract, and must have a high correlation at inception and throughout the contract period between the derivative contract and the Bank's exposure. If these criteria are not met the contract is designated as a trading derivative.

Trading derivatives are entered into by the Bank to meet the needs of its customers and to take trading positions. Derivative trading portfolios are marked to market with the resulting realized and unrealized gains or losses recognized immediately in other income. The market value for interest rate swaps including cross-currency interest rate swaps is determined net of a deferral, which recognizes the need to cover credit 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 and investing strategies. This is accomplished by modifying one or more characteristics of the Bank's risk related to on-balance sheet financial instruments. Unrealized gains and losses on non-trading derivatives are accounted for on a basis consistent with the related on-balance sheet financial instrument. Realized gains and losses resulting on 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) Provision for income taxes

The Bank follows the tax allocation method of providing for income taxes. The cumulative difference between tax calculated on this basis and taxes currently payable arises from timing differences which result in deferred income taxes.

### (m) Pension and other post-retirement employee benefits

The Bank's principal pension plan is The Pension Fund Society of The Toronto-Dominion Bank for which membership is voluntary and funding is provided by contributions from the Bank and members of the plan.

Each year, actuarial valuations are made of the pension plans maintained by the Bank to determine the present value of the accrued pension benefits. Pension plan assets are valued at market values.

Pension costs are determined based upon separate actuarial valuations using the projected benefit method pro-rated on service and management's best estimates rather than on valuations for funding purposes.

Pension expense includes the cost of pension benefits for the current year's service, interest expense on pension liabilities, income on plan assets and the amortization of pension adjustments on a straight-line basis over the expected average remaining service life of the employee group.

The cumulative difference between pension expense and funding contributions is reported in other assets.

The Bank also provides certain health care and life insurance benefits for its employees upon retirement. Eligible employees are those who retire from the Bank at normal retirement age. The cost of these benefits is recognized as incurred by the retirees.

## Note 2

## SECURITIES

## Securities maturity schedule at year end

(millions of dollars)	Remaining term to maturity						1997 Total	1996 Total
	Within 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	No specific maturity		
<b>Investment securities</b>								
<b>Securities issued or guaranteed by</b>								
Canada	\$ 1,344	\$ 438	\$ 35	\$ 59	\$ –	\$ 20	\$ 1,896	\$ 1,961
Provinces	74	329	23	–	–	2	428	266
Total	1,418	767	58	59	–	22	2,324	2,227
<b>Other debt securities</b>								
Canadian issuers	122	22	59	12	33	128	376	300
U.S. federal government	4,043	324	3	–	1	–	4,371	3,834
Other foreign governments	265	187	–	25	–	7	484	394
Other issuers	585	99	308	160	21	21	1,194	633
Total	5,015	632	370	197	55	156	6,425	5,161
<b>Equity securities</b>								
Preferred shares	63	390	267	46	18	846	1,630	1,930
Common shares	–	–	–	–	–	2,232	2,232	1,405
Total	63	390	267	46	18	3,078	3,862	3,335
Total investment securities	6,496	1,789	695	302	73	3,256	12,611	10,723
<b>Trading securities</b>								
<b>Securities issued or guaranteed by</b>								
Canada	1,661	518	317	794	1,155	–	4,445	5,487
Provinces	224	140	274	239	499	–	1,376	1,240
Total	1,885	658	591	1,033	1,654	–	5,821	6,727
<b>Other debt securities</b>								
Canadian issuers	474	310	213	487	263	56	1,803	1,757
U.S. federal government	242	134	79	6	–	–	461	94
Other foreign governments	95	293	407	134	337	–	1,266	285
Other issuers	1,782	1,468	906	2,905	297	–	7,358	2,321
Total	2,593	2,205	1,605	3,532	897	56	10,888	4,457
<b>Equity securities</b>								
Preferred shares	–	–	–	–	–	1,129	1,129	159
Common shares	–	–	–	–	–	2,973	2,973	2,158
Total	–	–	–	–	–	4,102	4,102	2,317
Total trading securities	4,478	2,863	2,196	4,565	2,551	4,158	20,811	13,501
<b>Total securities<sup>1</sup></b>	<b>\$ 10,974</b>	<b>\$ 4,652</b>	<b>\$ 2,891</b>	<b>\$ 4,867</b>	<b>\$ 2,624</b>	<b>\$ 7,414</b>	<b>\$ 33,422</b>	<b>\$ 24,224</b>

<sup>1</sup> Includes loan substitutes in the amount of \$163 million (1996 – \$177 million).

**Securities – Unrealized gains and losses**

(millions of dollars)	1997				1996			
	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
<b>Investment securities</b>								
<b>Issued or guaranteed by</b>								
Canada	\$ 1,896	\$ 14	\$ –	\$ 1,910	\$ 1,961	\$ 12	\$ –	\$ 1,973
Provinces	428	3	–	431	266	4	–	270
U.S. federal government	4,371	1	–	4,372	3,834	–	15	3,819
Other debt	2,054	4	7	2,051	1,327	3	–	1,330
Equity	3,862	669	10	4,521	3,335	330	11	3,654
<b>Total investment securities</b>	<b>12,611</b>	<b>691</b>	<b>17</b>	<b>13,285</b>	<b>10,723</b>	<b>349</b>	<b>26</b>	<b>11,046</b>
<b>Trading securities</b>	<b>20,811</b>	<b>–</b>	<b>–</b>	<b>20,811</b>	<b>13,501</b>	<b>–</b>	<b>–</b>	<b>13,501</b>
<b>Total securities</b>	<b>\$ 33,422</b>	<b>\$ 691</b>	<b>\$ 17</b>	<b>\$ 34,096</b>	<b>\$ 24,224</b>	<b>\$ 349</b>	<b>\$ 26</b>	<b>\$ 24,547</b>

**Note 3****LOANS, IMPAIRED LOANS AND ALLOWANCES FOR CREDIT LOSSES****Loans and impaired loans**

(millions of dollars)	Gross amount of loans	Allowance for credit losses			Net amount of loans	Gross impaired loans
		Specific provisions	General provisions	Total		
<b>1997</b>						
Residential mortgages	\$ 30,457	\$ 13	\$ 2	\$ 15	\$ 30,442	\$ 49
Consumer instalment, credit card and other personal	13,891	70	85	155	13,736	90
Business and government	35,939	100	315	415	35,524	367
<b>Total</b>	<b>\$ 80,287</b>	<b>\$ 183</b>	<b>\$ 402</b>	<b>\$ 585</b>	<b>\$ 79,702</b>	<b>\$ 506</b>
<b>1996</b>						
Residential mortgages	\$ 28,637	\$ 13	\$ –	\$ 13	\$ 28,624	\$ 65
Consumer instalment, credit card and other personal	10,800	68	–	68	10,732	91
Business and government	33,383	189	159	348	33,035	617
<b>Total</b>	<b>\$ 72,820</b>	<b>\$ 270</b>	<b>\$ 159</b>	<b>\$ 429</b>	<b>\$ 72,391</b>	<b>\$ 773</b>
					<b>1997</b>	<b>1996</b>
Average gross impaired loans during the year					\$ 845	\$ 954
Net impaired loans at year end					\$ (79)	\$ 344
Recoveries recorded as income on impaired loans					\$ 13	\$ 44

Included in gross residential mortgages are Canadian government-insured mortgages of \$15,276 million at October 31, 1997 (1996 – \$11,604 million). Gross impaired loans include foreclosed assets held for sale with a

gross carrying value of \$93 million at October 31, 1997 (1996 – \$151 million) and a related allowance of \$5 million (1996 – \$7 million). Loans are reported net of unearned income of \$118 million (1996 – \$127 million).

**Allowance for credit losses**

(millions of dollars)	1997	1996
Balance at beginning of year	\$ 429	\$ 427
Write-offs	(340)	(264)
Recoveries	136	114
Provision for credit losses charged to the Consolidated statement of income	360	152
Balance at end of year	\$ 585	\$ 429

**Note 4****LAND, BUILDINGS AND EQUIPMENT**

(millions of dollars)	1997			1996
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 179	\$ –	\$ 179	\$ 159
Buildings	1,060	243	817	744
Computer equipment	602	387	215	170
Furniture, fixtures and other equipment	386	228	158	148
Leasehold improvements	343	207	136	129
	\$ 2,570	\$ 1,065	\$ 1,505	\$ 1,350

Accumulated depreciation at the end of 1996 was \$975 million.

**Note 5****OTHER ASSETS**

(millions of dollars)	1997	1996
Market revaluation of trading derivative financial instruments (Note 17)	\$ 6,489	\$ 4,653
Accounts receivable, prepaid expenses and other items	1,708	564
Accrued interest	1,010	846
Amounts receivable from brokers	865	410
Unamortized goodwill – Waterhouse Investor Services, Inc. <sup>1</sup>	522	522
Mortgages sold with recourse to Green Line mutual funds	341	427
Deferred income taxes (net) (Note 14)	264	148
Prepaid pension expense (Note 13)	80	72
	\$ 11,279	\$ 7,642

<sup>1</sup> Amortization of goodwill included in Other non-interest expenses in the Consolidated statement of income was \$28 million (1996 – nil).

## Note 6

## DEPOSITS

(millions of dollars)				1997	1996
	Demand	Notice	Term	Total	Total
Personal	\$ 4,228	\$ 16,289	\$ 23,527	\$ 44,044	\$ 43,546
Government of Canada or provinces	110	185	379	674	791
Business	5,241	6,389	38,010	49,640	29,062
Banks	1,460	22	14,786	16,268	14,164
<b>Total</b>	<b>\$ 11,039</b>	<b>\$ 22,885</b>	<b>\$ 76,702</b>	<b>\$ 110,626</b>	<b>\$ 87,563</b>
<b>Non-interest bearing deposits included above</b>					
In domestic offices				\$ 1,498	\$ 765
In foreign offices				376	207
<b>Interest bearing deposits included above</b>					
In domestic offices				70,420	61,483
In foreign offices				37,454	24,180
U.S. federal funds purchased				878	928
<b>Total</b>				<b>\$ 110,626</b>	<b>\$ 87,563</b>

## Note 7

## OTHER LIABILITIES

(millions of dollars)	1997	1996
Market revaluation of trading derivative financial instruments (Note 17)	\$ 6,485	\$ 4,786
Accrued interest	1,366	1,368
Accounts payable, accrued expenses and other items	1,136	1,154
Amounts payable to brokers	522	183
Obligations related to mortgages sold with recourse	341	427
Liabilities of subsidiaries other than deposits	290	253
Cheques and other items in transit, net	287	818
Accrued salaries and payroll deductions	230	150
	<b>\$ 10,657</b>	<b>\$ 9,139</b>

## Note 8

## SUBORDINATED NOTES

The notes are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors of the Bank. 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.

(millions of dollars)				Outstanding October 31	
Interest rate (%)	Maturity date	Redeemable beginning	Foreign currency amount	1997	1996
5.00	Dec. 1996 to Feb. 1999	–		\$ 3	\$ 20
7.75 <sup>1</sup>	Apr. 1999	–	Yen 5 billion	59	61
Various <sup>2</sup>	Aug. 1999 to Oct. 2001	–		21	19
8.75	Dec. 2001	Dec. 1996		–	150
Various <sup>3</sup>	Jan. 2002 to Feb. 2002	–		6	–
8.80	Mar. 2002	Mar. 1997		–	150
1.38	May 2002	–		2	–
12.33	May 2002	May 1997		–	50
9.10	May 2002	May 1997		–	125
Various <sup>4</sup>	June 2002 to Sept. 2002	–		13	–
10.65	Sept. 2002	Sept. 1997		–	25
Floating rate <sup>5</sup>	Oct. 2002	–	US\$150 million	211	200
Floating rate <sup>6</sup>	Aug. 2003	–	US\$150 million	211	200
Floating rate <sup>7</sup>	Oct. 2003	–		100	100
8.00	Dec. 2003	July 1998		150	150
7.88	Aug. 2004	Aug. 1999	US\$150 million	211	200
5.60	Sept. 2006	Sept. 2001		400	–
6.45	Oct. 2006	Oct. 2001		350	–
6.50	Jan. 2007	Jan. 2002	US\$300 million	423	–
6.75	Mar. 2007	Mar. 2002	US\$200 million	282	–
5.65	Sept. 2007	Sept. 2002		25	–
6.50	Aug. 2008	–	US\$150 million	211	200
6.15	Oct. 2008	–	US\$150 million	211	200
6.13	Nov. 2008	–	US\$100 million	141	135
6.45	Jan. 2009	–	US\$150 million	211	200
8.40	Dec. 2010	Dec. 2005		150	150
				<b>\$ 3,391</b>	<b>\$ 2,335</b>

<sup>1</sup> Interest is payable in Australian dollars.

<sup>2</sup> Interest is payable at various rates, from 1.13% to 5.00%.

<sup>3</sup> Interest is payable at various rates, from 1.13% to 3.05%.

<sup>4</sup> Interest is payable at various rates, from .13% to 2.95%.

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

<sup>6</sup> Interest at three-month U.S. dollar LIBOR, subject to a minimum of 4.10%.

<sup>7</sup> Interest at three-month customers' liability under acceptance rate less .30%, subject to minimum and maximum rates of 6.50% and 9% respectively.

### Repayment schedule

The aggregate maturities of the Bank's subordinated notes, assuming the earlier of the date of maturity or

retraction at the holders' option under the terms of issue, are as follows:

(millions of dollars)	1997	1996
Within 1 year	\$ 3	\$ 16
Over 1 to 2 years	60	3
Over 2 to 3 years	7	63
Over 3 to 5 years	245	18
Over 5 years	3,076	2,235
	<b>\$ 3,391</b>	<b>\$ 2,335</b>

## Note 9

## 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.

(millions of dollars)	1997	1996
<b>Issued and fully paid</b>		
Included in Tier 1 capital		
7,000,000 Non-cumulative Redeemable Class A First Preferred Shares, Series G (US\$175 million)	\$ 246	\$ 234
9,000,000 Non-cumulative Redeemable Class A First Preferred Shares, Series H	225	225
75 Non-cumulative Redeemable Class A First Preferred Shares, Series Y	75	75
Total preferred shares	546	534
296,946,199 common shares (1996 – 302,702,896)	1,297	1,305
	<b>\$ 1,843</b>	<b>\$ 1,839</b>

**Preferred shares**

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

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

**Class A First Preferred Shares, Series G**

Between April 30, 2001 and April 30, 2002, the Bank has the option of redeeming the outstanding Series G shares for US\$26.00. After April 30, 2003, the redemption price is reduced to US\$25.00 together with declared and unpaid dividends to the date of redemption.

On or after April 30, 2001, the Bank may convert the outstanding Series G shares in whole or in part into common shares, determined by dividing the then applicable redemption price per Series G share together with declared and unpaid dividends to the date of conversion by the greater of US\$1.00 and 95% of the U.S. dollar equivalent of the average trading price of such common shares at that time.

On or after January 31, 2004, each Series G 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 US\$25.00 cash per share together with declared and unpaid dividends to the date of conversion.

**Class A First Preferred Shares, Series H**

Between April 30, 2002 and April 30, 2003, the Bank has the option of redeeming the outstanding Series H shares for \$26.00. After April 30, 2004, the redemption price is reduced to \$25.00 together with declared and unpaid dividends to the date of redemption.

On or after April 30, 2002, 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 Y**

Series Y shares are redeemable at the option of the Bank for their stated value together with declared and unpaid dividends to the date of redemption.

The Bank has the option of converting the outstanding Series Y shares in whole or in part into common shares, determined by dividing \$1 million 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 April 1, 1999, each Series Y share may, at the option of the holder, be converted monthly into common shares as described above.

By giving at least two 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 million cash per share together with declared and unpaid dividends to the date of conversion.

### Dividend rates on preferred shares

The dividend rates for the preferred shares are:

- (i) Series G, quarterly rate of US\$.3375 per share.
- (ii) Series H, quarterly rate of \$.44375 per share.
- (iii) Series Y, calculated monthly based upon 72% of the one-month customers' liability under acceptance rate on the last business day of the preceding month.

### Common shares

	1997	1996
Number outstanding at beginning of year	302,702,896	301,402,561
Issued on acquisition of a subsidiary	28,278	16,699,200
Issued on exercise of options	1,092,525	666,705
Purchased for cancellation	(6,877,500)	(16,065,570)
Number outstanding at end of year	296,946,199	302,702,896

### Stock options

Under the Bank's stock option plan, options on common shares may be issued to certain employees for terms of 10 years, vesting over a four-year period and exercisable at the market price of the shares on the date the options were issued. Outstanding options have exercise prices ranging from \$16.37 to \$34.90, remaining weighted average life of 5.75 to 9.75 years, and expire on dates ranging from April 2000 to March 2007. At October 31, 1997, a total of 7,517,725 common shares have been reserved for future issuance under the stock option plan.

During 1997 the plan administration was modified to allow employees to elect to receive cash for the options equal to their intrinsic value, being the difference between the option exercise price and the current market value of the shares.

A summary of the Bank's stock option activity and related information for the years ended October 31 is as follows:

	1997		1996		1995	
		Weighted average exercise price		Weighted average exercise price		Weighted average exercise price
Number outstanding, beginning of year	9,161,020	\$ 20.65	7,213,325	\$ 18.88	4,961,900	\$ 18.72
Granted	2,476,500	34.90	2,738,900	23.63	2,622,000	20.25
Exercised – cash	(209,925)	18.78	–	–	–	–
– shares	(1,092,525)	19.26	(666,705)	18.47	(201,450)	16.52
Forfeited	(134,625)	24.90	(124,500)	20.83	(169,125)	19.48
Number outstanding, end of year	10,200,445	\$ 24.24	9,161,020	\$ 20.65	7,213,325	\$ 18.88
Exercisable, end of year	4,333,345	\$ 19.35	2,709,376	\$ 18.80	1,532,425	\$ 18.19

### Dividend restrictions

The Bank is prohibited by the Bank Act from declaring any 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. In addition, the ability to pay common share dividends is restricted by the terms

of the outstanding preferred shares whereby the Bank may not pay dividends on its common shares without the approval of the holders of the outstanding preferred shares 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 10

### NET INCOME PER COMMON SHARE

Net income per common share is calculated based on net income less preferred share dividends and the average number of common shares outstanding during the year of 298,704,882 (1996 – 298,550,937).

### Note 11

### NET INTEREST INCOME

(millions of dollars)	1997	1996	1995
<b>Interest income</b>			
Loans	\$ 6,310	\$ 6,036	\$ 6,106
Securities			
Dividends	250	216	181
Interest	1,041	870	831
Deposits with banks	225	200	148
	<b>7,826</b>	7,322	7,266
<b>Interest expense</b>			
Deposits	3,892	3,958	4,286
Subordinated notes	192	157	170
Other liabilities	920	740	432
	<b>5,004</b>	4,855	4,888
<b>Net interest income</b>	<b>\$ 2,822</b>	\$ 2,467	\$ 2,378

## Note 12

## TRADING RELATED INCOME

The accounting for trading instruments is described in Note 1(d) under Securities and 1(k) under Derivative financial instruments. Trading related income includes both trading income and net interest income derived from

trading instruments. Trading income excludes the portion of income earned on foreign exchange transactions which is not considered part of the Bank's trading activities.

(millions of dollars)	1997			1996			1995		
	Trading income	Net interest income	Trading related income	Trading income	Net interest income	Trading related income	Trading income	Net interest income	Trading related income
Interest rate contracts	\$ 174	\$ 66	\$ 240	\$ 102	\$ 7	\$ 109	\$ 65	\$ (20)	\$ 45
Foreign exchange contracts	80	1	81	79	1	80	67	2	69
Other contracts	16	11	27	5	(20)	(15)	18	(4)	14
<b>Total</b>	<b>\$ 270</b>	<b>\$ 78</b>	<b>\$ 348</b>	<b>\$ 186</b>	<b>\$ (12)</b>	<b>\$ 174</b>	<b>\$ 150</b>	<b>\$ (22)</b>	<b>\$ 128</b>

## Note 13

## PENSIONS

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

The Bank's principal pension plan is funded by contributions from the Bank and from the members of the plan. 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.

The following table presents the financial position of the Bank's pension plan at October 31.

(millions of dollars)	1997	1996	1995
Vested benefit obligation	\$ 985	\$ 847	\$ 730
Accumulated benefit obligation	987	849	732
Projected benefit obligation for services rendered to date	1,066	894	756
Plan assets at fair value	1,202	1,020	850
Excess of plan assets over projected benefit obligation	136	126	94
Unrecognized net loss from past experience, different from that assumed, and effects of changes in assumptions	(15)	4	67
Unrecognized prior service costs	24	24	-
Unrecognized transition amount	(65)	(82)	(90)
<b>Prepaid pension expense</b>	<b>\$ 80</b>	<b>\$ 72</b>	<b>\$ 71</b>
<b>Annual expense</b>			
Net pension expense includes the following components:			
Service cost – benefits earned	\$ 18	\$ 14	\$ 11
Interest on projected benefit obligation	67	63	61
Actual return on plan assets	(223)	(219)	(84)
Net amortization and deferral	130	141	(3)
Canadian pension expense	(8)	(1)	(15)
International pension expense	10	2	2
Pension expense	2	1	(13)
Canada and Québec pension plan contribution	21	19	18
<b>Total pension expense</b>	<b>\$ 23</b>	<b>\$ 20</b>	<b>\$ 5</b>
<b>Actuarial assumptions</b>			
Weighted average discount rate for projected benefit obligation	6.5%	7.3%	8.3%
Weighted average rate of compensation increase	3.5	3.5	3.5
Weighted average expected long-term rate of return on plan assets	7.3	8.0	9.0

## Note 14

## PROVISION FOR INCOME TAXES

(millions of dollars)	1997	1996	1995
Net income before provision for income taxes:			
Canada	\$ 1,227	\$ 1,066	\$ 885
United States	384	275	275
Other international	118	69	86
<b>Total</b>	<b>\$ 1,729</b>	<b>\$ 1,410</b>	<b>\$ 1,246</b>
The provision for income taxes is included in the following financial statements:			
Consolidated statement of income			
Canada	\$ 465	\$ 387	\$ 332
United States	162	110	115
Other international	14	(1)	5
<b>Total</b>	<b>\$ 641</b>	<b>\$ 496</b>	<b>\$ 452</b>
Consolidated statement of changes in shareholders' equity	(22)	(10)	2
<b>Total provision for income taxes</b>	<b>\$ 619</b>	<b>\$ 486</b>	<b>\$ 454</b>
Current income taxes			
Federal	\$ 404	\$ 222	\$ 254
Provincial	155	82	100
Foreign	176	105	113
	735	409	467
Deferred income taxes			
Federal	(89)	55	(13)
Provincial	(33)	20	(5)
Foreign	6	2	5
	(116)	77	(13)
	<b>\$ 619</b>	<b>\$ 486</b>	<b>\$ 454</b>

The provision for income taxes shown in the Consolidated statement of income is less than that obtained by applying

statutory tax rates to the net income before provision for income taxes for the following reasons:

	1997	1996	1995
Canadian statutory income tax rate	43.1%	43.0%	42.9%
Decrease resulting from:			
Dividends from taxable Canadian corporations	(5.3)	(5.5)	(5.6)
Other – net	(.7)	(2.3)	(1.0)
Effective income tax rate	37.1%	35.2%	36.3%

The net deferred tax asset which is reported in other assets comprises both assets and liabilities as follows:

(millions of dollars)	1997	1996	1995
<b>Assets</b>			
Premises and equipment	\$ (6)	\$ 7	\$ (17)
Allowance for credit losses	138	30	78
Deferred income	31	56	65
Securities	112	50	57
Other	27	47	80
	302	190	263
<b>Liabilities</b>			
Pension fund	(36)	(32)	(31)
Other	(2)	(10)	(7)
	(38)	(42)	(38)
Deferred income tax asset	\$ 264	\$ 148	\$ 225

## Note 15

## FAIR VALUE OF FINANCIAL INSTRUMENTS

(millions of dollars)	1997		1996	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<b>Consolidated balance sheet</b>				
<b>Assets</b>				
Securities	\$ 33,422	\$ 34,096	\$ 24,224	\$ 24,547
Loans	79,702	80,154	72,391	73,176
<b>Liabilities</b>				
Deposits	110,626	111,152	87,563	88,210
Subordinated notes	3,391	3,469	2,335	2,359

The aggregate of the estimated fair value amounts presented does not represent management's estimate of the underlying value of the Bank. Moreover, fair values disclosed represent estimates of value made at a specific point in time and may not be reflective of future fair values.

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

In the case of items 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 17.

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 is determined by reference to quoted market prices.

## Note 16

## INTEREST RATE RISK

The following table sets out the assets, liabilities and off-balance sheet instruments on the date of the earlier of contractual maturity or repricing date. Use of this table to derive information about the Bank's interest rate risk position is limited by the fact that customers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing date. Examples of this include mortgages, which are shown at contractual maturity but which often prepay earlier, and certain

term deposits, which are shown at contractual maturity but which are often cashed before their contractual maturity. Adjusting the total positions for expected prepayments and early withdrawals and reclassifying trading securities to the floating rate category in accordance with the way in which the Bank manages the risk, results in a decrease in the interest sensitive position within one year to \$6.9 billion from the \$21.1 billion reported below as at October 31, 1997 (1996 – \$4.7 billion from \$14.7 billion).

## Interest rate risk

(billions of dollars)								
1997	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
<b>Assets</b>								
Cash resources	\$ 2.0	\$ 3.8	\$ 1.0	\$ 6.8	\$ .1	\$ –	\$ .7	\$ 7.6
<i>Effective yield</i>		5.2%	5.1%		6.9%			
Loans	\$ 17.0	\$ 21.9	\$ 13.2	\$ 52.1	\$ 25.3	\$ 1.7	\$ .6	\$ 79.7
<i>Effective yield</i>		6.0%	6.5%		7.2%	7.3%		
Securities purchased under resale agreements	\$ 2.4	\$ 18.3	\$ 2.5	\$ 23.2	\$ .1	\$ –	\$ –	\$ 23.3
<i>Effective yield</i>		4.3%	4.5%		5.7%			
Investment securities	\$ .9	\$ 2.8	\$ 3.5	\$ 7.2	\$ 2.7	\$ .3	\$ 2.5	\$ 12.7
<i>Effective yield</i>		2.0%	5.0%		4.6%	2.8%		
Trading securities	\$ –	\$ 2.6	\$ 2.2	\$ 4.8	\$ 4.6	\$ 6.7	\$ 4.7	\$ 20.8
<i>Effective yield</i>		4.5%	4.2%		4.7%	5.8%		
Other	\$ 14.0	\$ .1	\$ –	\$ 14.1	\$ –	\$ –	\$ 5.7	\$ 19.8
<b>Total assets</b>	<b>\$ 36.3</b>	<b>\$ 49.5</b>	<b>\$ 22.4</b>	<b>\$ 108.2</b>	<b>\$ 32.8</b>	<b>\$ 8.7</b>	<b>\$ 14.2</b>	<b>\$ 163.9</b>
<b>Liabilities and shareholders' equity</b>								
Deposits	\$ 29.5	\$ 43.1	\$ 21.9	\$ 94.5	\$ 10.7	\$ .2	\$ 5.2	\$ 110.6
<i>Effective yield</i>		4.9%	5.0%		5.9%	3.5%		
Subordinated notes	\$ –	\$ –	\$ .2	\$ .2	\$ 2.0	\$ 1.2	\$ –	\$ 3.4
<i>Effective yield</i>			8.0%		6.8%	6.7%		
Securities sold short or under repurchase agreements	\$ 2.8	\$ 12.4	\$ 2.7	\$ 17.9	\$ 2.4	\$ 3.4	\$ 1.1	\$ 24.8
<i>Effective yield</i>		4.7%	3.8%		4.6%	5.6%		
Other	\$ 13.8	\$ –	\$ –	\$ 13.8	\$ –	\$ –	\$ 3.9	\$ 17.7
Shareholders' equity	\$ .1	\$ –	\$ –	\$ .1	\$ –	\$ –	\$ 7.3	\$ 7.4
<b>Total liabilities and shareholders' equity</b>	<b>\$ 46.2</b>	<b>\$ 55.5</b>	<b>\$ 24.8</b>	<b>\$ 126.5</b>	<b>\$ 15.1</b>	<b>\$ 4.8</b>	<b>\$ 17.5</b>	<b>\$ 163.9</b>
<b>On-balance sheet position</b>	<b>\$ (9.9)</b>	<b>\$ (6.0)</b>	<b>\$ (2.4)</b>	<b>\$ (18.3)</b>	<b>\$ 17.7</b>	<b>\$ 3.9</b>	<b>\$ (3.3)</b>	<b>\$ –</b>
Total pay side instruments <sup>1</sup>	\$ –	\$ (19.4)	\$ (6.3)	\$ (25.7)	\$ (2.9)	\$ (.6)	\$ –	\$ (29.2)
<i>Effective yield</i>		4.7%	5.4%		5.0%	6.5%		
Total receive side instruments <sup>1</sup>	\$ –	\$ 17.1	\$ 5.8	\$ 22.9	\$ 6.1	\$ .2	\$ –	\$ 29.2
<i>Effective yield</i>		5.1%	5.5%		5.6%	3.4%		
<b>Off-balance sheet position</b>	<b>\$ –</b>	<b>\$ (2.3)</b>	<b>\$ (.5)</b>	<b>\$ (2.8)</b>	<b>\$ 3.2</b>	<b>\$ (.4)</b>	<b>\$ –</b>	<b>\$ –</b>
<b>Net position</b>	<b>\$ (9.9)</b>	<b>\$ (8.3)</b>	<b>\$ (2.9)</b>	<b>\$ (21.1)</b>	<b>\$ 20.9</b>	<b>\$ 3.5</b>	<b>\$ (3.3)</b>	<b>\$ –</b>

<sup>1</sup> Notional principal amounts

**Interest rate risk by currency**

(billions of dollars)								
1997	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
Canadian currency on-balance sheet position	\$ (15.7)	\$ 1.3	\$ (.2)	\$ (14.6)	\$ 15.4	\$ 1.7	\$ (4.2)	\$ (1.7)
Foreign currency on-balance sheet position	5.8	(7.3)	(2.2)	(3.7)	2.3	2.2	.9	1.7
<b>On-balance sheet position</b>	<b>(9.9)</b>	<b>(6.0)</b>	<b>(2.4)</b>	<b>(18.3)</b>	<b>17.7</b>	<b>3.9</b>	<b>(3.3)</b>	<b>-</b>
Canadian currency off-balance sheet position	-	(6.6)	(.8)	(7.4)	1.4	(.5)	-	(6.5)
Foreign currency off-balance sheet position	-	4.3	.3	4.6	1.8	.1	-	6.5
<b>Off-balance sheet position</b>	<b>-</b>	<b>(2.3)</b>	<b>(.5)</b>	<b>(2.8)</b>	<b>3.2</b>	<b>(.4)</b>	<b>-</b>	<b>-</b>
<b>Net position</b>	<b>\$ (9.9)</b>	<b>\$ (8.3)</b>	<b>\$ (2.9)</b>	<b>\$ (21.1)</b>	<b>\$ 20.9</b>	<b>\$ 3.5</b>	<b>\$ (3.3)</b>	<b>\$ -</b>

**Interest rate risk**

(billions of dollars)							
1996	Within 3 months	3 months to 1 year	Total within 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Total assets	\$ 66.7	\$ 21.5	\$ 88.2	\$ 28.3	\$ 3.4	\$ 10.4	\$ 130.3
Total liabilities and shareholders' equity	84.6	17.6	102.2	11.9	2.9	13.3	130.3
On-balance sheet position	(17.9)	3.9	(14.0)	16.4	.5	(2.9)	-
Off-balance sheet position	(1.7)	1.0	(.7)	(.5)	1.2	-	-
<b>Net position</b>	<b>\$ (19.6)</b>	<b>\$ 4.9</b>	<b>\$ (14.7)</b>	<b>\$ 15.9</b>	<b>\$ 1.7</b>	<b>\$ (2.9)</b>	<b>\$ -</b>

**Note 17****DERIVATIVE FINANCIAL INSTRUMENTS**

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

Interest rate and cross-currency swaps are transactions that generally involve the contractual exchange of fixed and floating rate interest payment obligations and/or currencies on a specified amount of notional principal for a specified period of time.

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.

Financial futures are future commitments to purchase or deliver securities or money market instruments 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.

Foreign currency and interest rate 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.

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

## Over-the-counter and exchange traded derivative financial instruments

(millions of dollars)						
Notional principal	Trading				1997 Total	1996 Total
	Over-the-counter	Exchange traded	Total	Non-trading		
Interest rate contracts						
Futures	\$ –	\$ 58,184	\$ 58,184	\$ 28	\$ 58,212	\$ 42,303
Forward rate agreements	18,358	–	18,358	962	19,320	39,577
Swaps	201,028	–	201,028	12,331	213,359	169,914
Options written	30,862	5,316	36,178	241	36,419	42,517
Options purchased	35,019	6,707	41,726	507	42,233	42,886
Foreign exchange contracts						
Forward contracts	183,638	–	183,638	10,219	193,857	175,160
Swaps	2,842	–	2,842	67	2,909	3,110
Cross-currency interest rate swaps	24,257	–	24,257	4,407	28,664	16,752
Options written	8,845	–	8,845	–	8,845	11,587
Options purchased	8,540	–	8,540	–	8,540	10,770
Other contracts	9,064	–	9,064	4,706	13,770	2,524
<b>Total</b>	<b>\$ 522,453</b>	<b>\$ 70,207</b>	<b>\$ 592,660</b>	<b>\$ 33,468</b>	<b>\$ 626,128</b>	<b>\$ 557,100</b>

Included in non-trading derivatives are \$28 million of exchange traded derivatives.

## Derivative financial instruments by term to maturity

(millions of dollars)						
Notional principal	Remaining term to maturity				1997 Total	1996 Total
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years		
Interest rate contracts						
Futures	\$ 44,412	\$ 13,800	\$ –	\$ –	\$ 58,212	\$ 42,303
Forward rate agreements	17,990	1,330	–	–	19,320	39,577
Swaps	76,307	63,174	39,857	34,021	213,359	169,914
Options written	19,741	11,786	2,896	1,996	36,419	42,517
Options purchased	24,884	10,740	3,781	2,828	42,233	42,886
Foreign exchange contracts						
Forward contracts	188,553	5,301	3	–	193,857	175,160
Swaps	540	908	211	1,250	2,909	3,110
Cross-currency interest rate swaps	4,495	6,532	6,352	11,285	28,664	16,752
Options written	7,754	1,063	28	–	8,845	11,587
Options purchased	7,487	1,012	41	–	8,540	10,770
Other contracts	8,759	4,401	477	133	13,770	2,524
<b>Total</b>	<b>\$ 400,922</b>	<b>\$ 120,047</b>	<b>\$ 53,646</b>	<b>\$ 51,513</b>	<b>\$ 626,128</b>	<b>\$ 557,100</b>

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

The estimated fair value of derivative financial instruments is based on quoted market rates for exchange traded instruments plus or minus daily margin settlements and net gains or losses for over-the-counter derivative

financial instruments. The net gains or losses on over-the-counter derivative financial instruments are calculated as the net present value of contractual cash flows using prevailing market rates on underlying instruments with similar maturities and characteristics. The fair value for trading interest rate swaps including cross-currency interest rate swaps is determined net of a deferral, which recognizes the need to cover credit and administrative expenses over the life of the contract.

## Fair value of derivative financial instruments

(millions of dollars)	1997				1996	
	Average <sup>1</sup> fair value for the year		Year-end fair value		Year-end fair value	
	Positive	Negative	Positive	Negative	Positive	Negative
<b>Derivative financial instruments held or issued for trading purposes:</b>						
Interest rate contracts						
Forward rate agreements	\$ 11	\$ 20	\$ 5	\$ 14	\$ 30	\$ 37
Swaps	2,374	2,314	3,034	2,998	2,042	2,040
Options written	–	162	–	302	–	111
Options purchased	220	–	362	–	164	–
<b>Total interest rate contracts</b>	<b>2,605</b>	<b>2,496</b>	<b>3,401</b>	<b>3,314</b>	<b>2,236</b>	<b>2,188</b>
Foreign exchange contracts						
Forward contracts	1,761	1,683	1,807	1,956	1,661	1,653
Swaps	180	73	196	66	212	98
Cross-currency interest rate swap	568	594	787	818	394	460
Options written	–	129	–	125	–	151
Options purchased	134	–	125	–	127	–
<b>Total foreign exchange contracts</b>	<b>2,643</b>	<b>2,479</b>	<b>2,915</b>	<b>2,965</b>	<b>2,394</b>	<b>2,362</b>
Other contracts	57	217	173	206	23	236
<b>Fair value – trading</b>	<b>\$ 5,305</b>	<b>\$ 5,192</b>	<b>\$ 6,489</b>	<b>\$ 6,485</b>	<b>\$ 4,653</b>	<b>\$ 4,786</b>
<b>Derivative financial instruments held or issued for non-trading purposes:</b>						
Interest rate contracts						
Forward rate agreements			\$ 1	\$ –	\$ –	\$ –
Swaps			193	123	753	778
Options written			–	1	–	148
Options purchased			4	–	158	–
<b>Total interest rate contracts</b>			<b>198</b>	<b>124</b>	<b>911</b>	<b>926</b>
Foreign exchange contracts						
Forward contracts			509	90	415	322
Swaps			15	–	20	1
Cross-currency interest rate swaps			177	136	122	71
<b>Total foreign exchange contracts</b>			<b>701</b>	<b>226</b>	<b>557</b>	<b>394</b>
<b>Fair value – non-trading</b>			<b>899</b>	<b>350</b>	<b>1,468</b>	<b>1,320</b>
<b>Total fair value</b>			<b>\$ 7,388</b>	<b>\$ 6,835</b>	<b>\$ 6,121</b>	<b>\$ 6,106</b>

<sup>1</sup> The average fair value of trading derivative financial instruments for the year ended October 31, 1996 was: Positive \$4,297 and Negative \$4,217. Averages are calculated on a monthly basis.

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.

The current replacement cost, which is the positive fair value of all outstanding derivative financial instruments,

represents the Bank's maximum derivative credit exposure. Potential future exposure is calculated by applying factors supplied by the Superintendent of Financial Institutions Canada to the notional principal amount of the instruments. The credit equivalent amount is the sum of the current replacement cost and the potential future exposure.

**Credit exposure of derivative financial instruments at year end**

(millions of dollars)	1997			1996		
	Current replacement cost	Potential future exposure	Credit equivalent amount	Current replacement cost	Potential future exposure	Credit equivalent amount
Interest rate contracts						
Forward rate agreements	\$ 6	\$ 6	\$ 12	\$ 30	\$ 12	\$ 42
Swaps	3,227	1,017	4,244	2,795	789	3,584
Options purchased	366	115	481	322	113	435
Total interest rate contracts	3,599	1,138	4,737	3,147	914	4,061
Foreign exchange contracts						
Forward contracts	2,316	1,810	4,126	2,076	1,696	3,772
Swaps	211	190	401	232	186	418
Cross-currency interest rate swaps	964	1,535	2,499	516	852	1,368
Options purchased	125	128	253	127	159	286
Total foreign exchange contracts	3,616	3,663	7,279	2,951	2,893	5,844
Other contracts	173	939	1,112	23	189	212
<b>Total derivative financial instruments</b>	<b>\$ 7,388</b>	<b>\$ 5,740</b>	<b>\$ 13,128</b>	<b>\$ 6,121</b>	<b>\$ 3,996</b>	<b>\$ 10,117</b>
Less impact of master netting agreements	2,747	1,344	4,091			
	<b>\$ 4,641</b>	<b>\$ 4,396</b>	<b>\$ 9,037</b>			

**Note 18****CONTINGENT LIABILITIES AND COMMITMENTS**

(a) In the normal course of business, the Bank enters into various commitments and contingent liability contracts.

The credit instruments reported below are not reflected in the Consolidated balance sheet.

**Credit instruments**

(millions of dollars)	1997	1996
Guarantees and standby letters of credit	\$ 7,407	\$ 6,496
Documentary and commercial letters of credit	799	538
Commitments to extend credit <sup>1</sup>	45,310	39,019
	<b>\$ 53,516</b>	<b>\$ 46,053</b>

<sup>1</sup> Consists of unused portions of commitments to extend credit in the form of loans, customers' liability under acceptances, guarantees and letters of credit.

(b) The premises and equipment net rental expense charged to net income for the year ended October 31, 1997 was \$234 million (1996 – \$210 million).

The Bank has obligations under long-term non-cancellable leases for premises and equipment. Future minimum operating lease commitments for equipment where the annual rental is in excess of \$25 thousand and for premises are as follows:

(millions of dollars)	
1998	\$ 113
1999	102
2000	78
2001	58
2002	42
2003 and thereafter	86
	\$ 479

(c) The Bank and its subsidiaries are involved in various legal actions, the outcome of which is indeterminable. In management's opinion, the ultimate disposition of these actions will not have a material adverse effect on the financial condition of the Bank.

in respect of securities sold short or under repurchase agreements. In addition, as at October 31, 1997 assets with a carrying value of \$1 billion (1996 – \$.9 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.

(d) In the ordinary course of business, securities and other assets are pledged against liabilities. As at October 31, 1997 securities and other assets with a carrying value of \$28.2 billion (1996 – \$17.9 billion) were pledged

## Note 19

### CONCENTRATION OF CREDIT RISK

Concentration of credit risk 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. Management considers the following concentrations to be within acceptable limits.

#### **On-balance sheet assets**

Of the total loans outstanding at September 30, 1997, 74% were to borrowers in Canada, with the largest concentration in Ontario (49%), and 16% to borrowers in the United States. At September 30, 1996, loan concentration was 76% in Canada (including 43% in Ontario) and 15% in the United States. No single industry accounted for more than 7% of total loans and customers' liability under acceptances (1996 – 6%).

## Off-balance sheet financial instruments

### (a) Credit instruments

At October 31, 1997, the Bank had commitments and contingent liability contracts valued at \$53,516 million, of which 28% related to Canada (1996 – 29%), 56% to the United States (1996 – 56%) and 12% to the United Kingdom (1996 – 11%).

### (b) Derivative instruments

At October 31, 1997, the current replacement cost of derivative financial instruments amounted to \$7,388 million (1996 – \$6,121 million), of which approximately 55% related to Canada (1996 – 56%), 10% to the United States (1996 – 11%), 18% to the United Kingdom (1996 – 17%) and 13% to Japan (1996 – 15%). The largest concentration by counterparty type was with other financial institutions, which accounted for 76% of the total (1996 – 78%).

## Note 20

### RELATED PARTY TRANSACTIONS

The Bank makes loans to its officers, employees and directors and their affiliates. The amounts outstanding are as follows:

(millions of dollars)	1997	1996
Mortgage loans	\$ 745	\$ 690
Other loans	393	755

## Note 21

### ACQUISITION OF WATERHOUSE INVESTOR SERVICES, INC.

On October 15, 1996, the Bank acquired Waterhouse Investor Services, Inc., a discount broker operating in the United States. All of the outstanding common shares of Waterhouse were acquired in exchange for a combination of cash and common shares of the Bank. The transaction

was accounted for using the purchase method. Goodwill arising from the transaction is being amortized to non-interest expenses over the expected period of benefit of 20 years.

(millions of dollars)	
Purchase consideration:	
Cash	\$ 267
Common shares	459
	726
Less: Fair value of net assets acquired	204
Goodwill	\$ 522

## Note 22

### COMPARATIVE FIGURES

Comparative figures have been reclassified to conform with the presentation adopted in 1997.

## Note 23

## SUBSEQUENT EVENTS

**(a) Discount brokerage acquisition**

On November 7, 1997, Waterhouse Investor Services, Inc., the Bank's wholly owned U.S. discount brokerage subsidiary, acquired the business of Kennedy, Cabot & Co., a California-based discount broker, for cash of US\$155 million.

**(b) Preferred share issue**

The Bank has incorporated a new subsidiary, which intends to issue preferred shares up to the amount of \$400 million. Subject to regulatory approval, the share issue will be eligible as Tier 1 regulatory capital.

## Note 24

RECONCILIATION OF CANADIAN AND UNITED STATES  
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements of the Bank are prepared in accordance with accounting principles generally accepted in Canada, including the accounting requirements of the Superintendent of Financial

Institutions Canada (Canadian GAAP). Material differences at October 31 between Canadian GAAP and accounting principles generally accepted in the United States (U.S. GAAP) are described below.

**Net income**

(millions of dollars)	1997	1996	1995
Net income based on Canadian GAAP	\$ 1,088	\$ 914	\$ 794
Stock-based compensation	(104)	–	–
Post-retirement benefits	(13)	(11)	–
Net income based on U.S. GAAP	\$ 971	\$ 903	\$ 794
Earnings per common share – U.S. GAAP	\$ 3.15	\$ 2.91	\$ 2.51
– Canadian GAAP	3.54	2.95	2.51

**Shareholders' equity**

(millions of dollars)	1997	1996
Shareholders' equity based on Canadian GAAP	\$ 7,303	\$ 6,679
Stock-based compensation	(98)	–
Net unrealized gains on investment securities	395	126
Post-retirement benefits	(24)	(11)
Shareholders' equity based on U.S. GAAP	\$ 7,576	\$ 6,794

**Stock-based compensation**

During 1997, the employee stock option plan administration was modified to allow option holders to elect to receive cash for the options equal to their intrinsic value, being the difference between the option exercise price and the current market value of the shares. 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. The impact of the plan administration modification on 1997 U.S. GAAP net income includes a catch-up adjustment of \$31 million for options issued in prior periods. Under Canadian GAAP, no expenses are recorded and cash payments to option holders are charged to retained earnings.

**Net unrealized gains on investment securities**

Under U.S. GAAP, the Bank accounts for all investment account securities as “available for sale” and reports them at estimated fair value with unrealized gains and

losses reported net of taxes in a separate component of shareholders’ equity. Under Canadian GAAP, investment account securities are carried at cost or amortized cost, with gains or losses only recognized when sold.

**Post-retirement benefits**

U.S. GAAP requires the accrual of the cost of post-employment and post-retirement benefits other than pensions. Under Canadian GAAP, the costs are expensed as incurred.

**Cash flow statement**

Under Canadian GAAP, cash flows provided by the issuance of common shares and cash flows used in the acquisition of Waterhouse are presented separately in the Consolidated statement of changes in financial position as financing and investing activities respectively. Under U.S. GAAP, these amounts are presented as net cash used in the acquisition of a subsidiary under investing activities in the amount of \$267 million.

**Note 25****FUTURE ACCOUNTING CHANGES**

The effective dates noted below are the dates on which new accounting standards must be implemented. Earlier implementation is permitted and the Bank will assess each standard separately to determine the year of adoption.

**Segmented information**

A new accounting standard has been issued in both Canada and the U.S. effective for fiscal year 1999. The standard will require an entity to report business segment results consistent with the existing management organization. Reportable business segments are those whose revenues, profits, or assets comprise at least 10% of the total of all operating segments. Disclosure of general information about the products and services from which each reportable business segment derives its revenues and quantitative information detailing components of profit/loss and assets are required. Information disclosed under this standard will be similar to that currently disclosed by the Bank in the Review of TD’s Businesses section.

**Corporate income taxes**

A new Canadian accounting standard has been issued, effective for fiscal year 2001. This standard will harmonize Canadian and U.S. corporate income tax accounting. The standard will require measurement of future income tax assets and liabilities at tax rates expected to apply when the asset is realized or the liability settled; drawdowns would be measured using the actual tax rates in effect during the period of reversal. The Bank does not anticipate a significant impact from the new standard.

## Principal subsidiaries

(thousands of dollars)		
	Head office	Book value of all shares owned by the Bank
<b>Canadian</b>		
Business Windows Inc.	Toronto, Canada	\$ –
First Nations Bank of Canada (89%)	Saskatoon, Canada	8,000
Green Line Investor Services (Hong Kong) Inc.	Toronto, Canada	683
TD Asset Finance Corp.	Toronto, Canada	–
TD Asset Management Inc.	Toronto, Canada	1,974
TD Capital Group Limited	Toronto, Canada	246,021
TD Factors Limited	Edmonton, Canada	–
TD Finance Ltd.	Toronto, Canada	–
TD Futures Inc.	Toronto, Canada	–
TD Mortgage Corporation	Toronto, Canada	453,003
TD Mortgage Investment Corporation	Calgary, Canada	–
TD Nordique Inc.	Calgary, Canada	100
TD Pacific Mortgage Corporation	Toronto, Canada	102,000
TD Securities Inc.	Toronto, Canada	160,018
TD Trust Company	Toronto, Canada	20,000
Toronto Dominion General Insurance Company	Toronto, Canada	10,007
Toronto Dominion Life Insurance Company	Toronto, Canada	10,000
Toronto Dominion Realty Limited	Toronto, Canada	54,494
<b>United States</b>		
Toronto-Dominion Holdings (U.S.A.), Inc. TD Securities (USA) Inc. The Toronto-Dominion Bank Trust Company Toronto Dominion Capital (U.S.A.), Inc. Toronto Dominion Funding Inc. Toronto Dominion (New York), Inc. Toronto-Dominion (Texas), Inc. Toronto Dominion Investments, Inc.	Houston, U.S.A. New York, U.S.A. New York, U.S.A. New York, U.S.A. Houston, U.S.A. New York, U.S.A. Houston, U.S.A. Houston, U.S.A.	514,068
Waterhouse Investor Services, Inc. National Investor Services Corp. Washington Discount Brokerage Corp. Waterhouse National Bank Waterhouse Securities, Inc. Waterhouse, Nicoll & Associates, Inc.	New York, U.S.A. New York, U.S.A. New York, U.S.A. New York, U.S.A. New York, U.S.A. New York, U.S.A.	736,310
<b>Other foreign</b>		
Dominbank Nominees Limited	London, England	–
Green Line Holdings (Australia) Pty Ltd Pont Securities Limited	Melbourne, Australia Sydney, Australia	30,115
Green Line Investor Services (U.K.) Limited	London, England	528
TD Ireland	Shannon, Ireland	200,000
TD Reinsurance (Barbados) Inc.	Bridgetown, Barbados	5,200
Toronto Dominion Australia Limited Toronto Dominion Securities Pty. Limited	Melbourne, Australia Melbourne, Australia	206,448
Toronto Dominion Bank Europe Limited	London, England	35,210
Toronto Dominion International Inc. TD Trust (Bermuda) Limited	Bridgetown, Barbados Hamilton, Bermuda	190,573
Toronto Dominion Investments B.V. Toronto Dominion Holdings (U.K.) Limited Toronto Dominion Finance (UK) Limited Toronto Dominion (United Kingdom) Limited Toronto Dominion International Limited Toronto Dominion Investments Limited	Amsterdam, The Netherlands London, England London, England London, England London, England London, England	448,433
Toronto Dominion (South East Asia) Limited	Singapore, Singapore	577,126

Unless otherwise noted, the Bank, either directly or through its subsidiaries, own 100% of the issued and outstanding voting shares of the companies listed.

## Ten-year statistical review

(millions of dollars)	1997	1996	1995	1994
<b>Consolidated balance sheet</b>				
<b>Assets</b>				
Cash resources	\$ 7,587	\$ 5,216	\$ 4,351	\$ 3,148
Securities purchased under resale agreements	23,321	13,063	6,363	2,736
Securities	33,422	24,224	22,128	19,310
Loans	49,260	43,767	39,968	40,945
Residential mortgages	30,442	28,624	26,327	25,180
Customers' liability under acceptances	7,036	6,411	6,297	4,809
Land, buildings, equipment and other assets	12,784	8,992	9,911	3,631
<b>Total</b>	<b>\$163,852</b>	<b>\$130,297</b>	<b>\$115,345</b>	<b>\$ 99,759</b>
<b>Liabilities</b>				
Deposits – personal	\$ 44,044	\$ 43,546	\$ 41,551	\$ 41,181
– other	66,582	44,017	39,580	39,282
Acceptances	7,036	6,411	6,297	4,809
Securities sold short or under repurchase agreements	24,839	18,170	9,725	3,637
Other liabilities	10,657	9,139	9,735	2,901
	153,158	121,283	106,888	91,810
<b>Subordinated notes</b>	<b>3,391</b>	<b>2,335</b>	<b>2,404</b>	<b>2,510</b>
<b>Shareholders' equity</b>				
Capital stock – preferred	546	534	535	397
– common	1,297	1,305	882	879
Retained earnings	5,460	4,840	4,636	4,163
	7,303	6,679	6,053	5,439
<b>Total</b>	<b>\$163,852</b>	<b>\$130,297</b>	<b>\$115,345</b>	<b>\$ 99,759</b>
<b>Consolidated statement of income</b>				
Interest income	\$ 7,826	\$ 7,322	\$ 7,266	\$ 5,814
Interest expense	5,004	4,855	4,888	3,363
<b>Net interest income</b>	<b>2,822</b>	<b>2,467</b>	<b>2,378</b>	<b>2,451</b>
<b>Provision for credit losses</b>	<b>360</b>	<b>152</b>	<b>180</b>	<b>345</b>
<b>Net interest income after credit loss provision</b>	<b>2,462</b>	<b>2,315</b>	<b>2,198</b>	<b>2,106</b>
<b>Other income</b>				
Investment and securities services	952	440	267	230
Credit fees	352	312	289	243
Service charges	268	260	251	240
Trading income	270	186	150	129
Card services	165	150	133	87
Net investment securities gains	329	103	92	32
Other	314	298	279	218
	2,650	1,749	1,461	1,179
<b>Net interest and other income</b>	<b>5,112</b>	<b>4,064</b>	<b>3,659</b>	<b>3,285</b>
<b>Non-interest expenses</b>				
Salaries and staff benefits	1,826	1,452	1,305	1,221
Occupancy including depreciation	313	283	283	276
Equipment including depreciation	270	237	216	179
Restructuring	–	–	–	–
Other	974	682	609	533
	3,383	2,654	2,413	2,209
<b>Income before provision for income taxes</b>	<b>1,729</b>	<b>1,410</b>	<b>1,246</b>	<b>1,076</b>
<b>Provision for income taxes</b>	<b>641</b>	<b>496</b>	<b>452</b>	<b>393</b>
<b>Net income</b>	<b>1,088</b>	<b>914</b>	<b>794</b>	<b>683</b>
<b>Preferred dividends</b>	<b>31</b>	<b>32</b>	<b>38</b>	<b>40</b>
<b>Net income applicable to common shares</b>	<b>\$ 1,057</b>	<b>\$ 882</b>	<b>\$ 756</b>	<b>\$ 643</b>

	1993	1992	1991	1990	1989	1988	Ten-year growth rate
\$ 1,791	\$ 2,523	\$ 2,129	\$ 1,149	\$ 1,296	\$ 1,678		15
1,537	457	-	-	-	-		100+
13,140	10,852	7,380	4,882	4,888	5,903		19
37,041	35,527	35,591	36,797	34,932	31,774		5
24,002	18,252	16,577	15,311	13,520	11,772		12
4,166	3,960	5,686	7,009	6,999	6,593		4
3,334	2,562	1,542	1,752	1,434	1,565		24
\$ 85,011	\$ 74,133	\$ 68,905	\$ 66,900	\$ 63,069	\$ 59,285		12
\$ 40,394	\$ 30,513	\$ 29,661	\$ 28,224	\$ 26,102	\$ 22,197		8
27,345	29,178	25,012	23,859	23,081	24,202		10
4,166	3,960	5,686	7,009	6,999	6,593		4
2,554	1,150	831	526	190	430		75
3,357	2,757	2,012	1,716	1,696	1,720		26
77,816	67,558	63,202	61,334	58,068	55,142		12
2,179	1,560	825	852	604	387		37
408	456	496	552	554	347		3
877	877	877	877	877	875		5
3,731	3,682	3,505	3,285	2,966	2,534		9
5,016	5,015	4,878	4,714	4,397	3,756		8
\$ 85,011	\$ 74,133	\$ 68,905	\$ 66,900	\$ 63,069	\$ 59,285		12
\$ 5,385	\$ 5,229	\$ 6,326	\$ 6,855	\$ 6,428	\$ 5,169		6
3,122	3,134	4,288	4,927	4,564	3,295		6
2,263	2,095	2,038	1,928	1,864	1,874		6
600	543	485	353	231	195		(10)
1,663	1,552	1,553	1,575	1,633	1,679		16
149	90	67	59	59	55		37
178	171	176	216	205	182		9
231	228	220	202	173	159		7
119	84	106	118	67	103		12
109	96	93	89	81	76		9
(60)	1	16	10	76	24		11
214	187	156	165	160	90		12
940	857	834	859	821	689		14
2,603	2,409	2,387	2,434	2,454	2,368		15
1,061	971	923	896	843	749		11
266	237	215	194	171	143		9
163	154	142	124	112	103		12
140	-	-	-	-	-		-
535	412	356	335	310	275		14
2,165	1,774	1,636	1,549	1,436	1,270		12
438	635	751	885	1,018	1,098		26
163	227	254	289	323	430		38
275	408	497	596	695	668		22
29	32	44	53	34	27		-
\$ 246	\$ 376	\$ 453	\$ 543	\$ 661	\$ 641		25

(millions of dollars)		1997	1996	1995
<b>Consolidated statement of changes in shareholders' equity</b>	<b>Common shares</b>			
	Balance at beginning of year	\$ 1,305	\$ 882	\$ 879
	Shares issued	22	471	3
	Shares purchased for cancellation	(30)	(48)	–
	Balance at end of year	1,297	1,305	882
	<b>Retained earnings</b>			
	Balance at beginning of year	4,840	4,636	4,163
	Net income	1,088	914	794
	Preferred dividends	(31)	(32)	(38)
	Common dividends	(335)	(302)	(265)
	Income taxes	–	–	–
	Unrealized net foreign currency translation gains (losses), net of income taxes	120	(8)	(13)
	Shares purchased for cancellation	(222)	(375)	–
	Stock options settled in cash	(6)	–	–
	Other	6	7	(5)
	Balance at end of year	5,460	4,840	4,636
	Total common equity	6,757	6,145	5,518
	<b>Preferred shares</b>			
	Balance at beginning of year	534	535	397
	Proceeds from share issues	–	–	225
	Share redemptions	–	–	(85)
	Translation adjustment on shares issued in a foreign currency	12	(1)	(2)
Balance at end of year	546	534	535	
<b>Total equity</b>	<b>\$ 7,303</b>	<b>\$ 6,679</b>	<b>\$ 6,053</b>	
<b>Other statistics</b>				
<b>Per common share</b>				
1	Net income <sup>1</sup>	\$ 3.54	\$ 2.95	\$ 2.51
2	Dividends <sup>1</sup>	1.12	1.00	.88
3	Book value <sup>1</sup>	22.75	20.30	18.31
4	Closing market price <sup>1</sup>	51.65	31.35	23.75
5	Closing market price to book value	2.27	1.54	1.30
6	Closing market price appreciation	64.8%	32.0%	15.9%
7	Total market return	68.3	36.2	20.1
<b>Performance ratios</b>				
8	Return on common equity	16.6%	15.4%	14.3%
9	Return on assets	.74	.78	.72
10	Efficiency ratio <sup>2</sup>	59.0	61.0	60.2
11	Net interest rate margin (TEB)	2.35	2.53	2.65
12	Common dividend payout ratio	31.7	34.3	35.1
13	Dividend yield	3.6	4.2	4.3
14	Price earnings ratio	14.6	10.6	9.5
<b>Asset quality</b>				
15	Net impaired loans as a % of net loans <sup>3</sup>	(.1)%	.4%	.9%
16	Net impaired loans as a % of common equity	(1.2)	5.6	12.8
17	Provision for credit losses as a % of net average loans <sup>3</sup>	.35	.18	.23
18	Average total assets	\$146,397	\$117,029	\$109,968
<b>Capital ratios</b>				
19	Tier 1 capital to risk-weighted assets	6.6%	6.8%	7.4%
20	Total capital to risk-weighted assets	10.2	9.3	10.3
21	Common equity to total assets	4.1	4.9	5.1
22	Net common equity to risk-weighted assets	6.1	6.2	6.7
<b>Other</b>				
23	Number of common shares outstanding (thousands) <sup>1</sup>	296,946	302,703	301,403
24	Market capitalization (millions)	\$ 15,337	\$ 9,490	\$ 7,158
25	Number of employees	28,001	26,815	25,413
26	Number of Bank branches	919	953	955
27	Number of brokerage offices	187	157	54
28	Number of Green Machines	2,038	1,991	1,966

<sup>1</sup> The per share figures have been adjusted to reflect the one-for-one stock dividend approved by the Board of Directors on May 25, 1989.

<sup>2</sup> Efficiency ratio excluding goodwill and one-time costs or credits.

<sup>3</sup> Includes customers' liability under acceptances and securities purchased under resale agreements.

	1994	1993	1992	1991	1990	1989	1988
\$	877	\$ 877	\$ 877	\$ 877	\$ 877	\$ 875	\$ 822
	2	-	-	-	-	2	53
	-	-	-	-	-	-	-
	879	877	877	877	877	877	875
	3,731	3,682	3,505	3,285	2,966	2,534	2,224
	683	275	408	497	596	695	668
	(40)	(29)	(32)	(44)	(53)	(34)	(27)
	(238)	(229)	(229)	(229)	(229)	(214)	(152)
	-	-	-	-	-	-	(152)
	44	26	30	(16)	4	(12)	(26)
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	(17)	6	-	12	1	(3)	(1)
	4,163	3,731	3,682	3,505	3,285	2,966	2,534
	5,042	4,608	4,559	4,382	4,162	3,843	3,409
	408	456	496	552	554	346	421
	234	-	-	75	-	210	-
	(248)	(48)	(40)	(131)	(2)	(2)	(74)
	3	-	-	-	-	-	-
	397	408	456	496	552	554	347
\$	5,439	\$ 5,016	\$ 5,015	\$ 4,878	\$ 4,714	\$ 4,397	\$ 3,756
\$	2.14	\$ .82	\$ 1.25	\$ 1.51	\$ 1.80	\$ 2.20	\$ 2.14
	.79	.76	.76	.76	.76	.71	.51
	16.74	15.30	15.14	14.55	13.82	12.76	11.33
	20.50	21.00	18.13	18.50	15.38	21.38	18.44
	1.22	1.37	1.20	1.27	1.11	1.67	1.63
	(2.4)%	15.9%	(2.0)%	20.3%	(28.1)%	15.9%	46.7%
	1.4	20.1	2.1	25.3	(24.5)	19.8	50.7
	13.3%	5.4%	8.4%	10.6%	13.5%	18.2%	20.0%
	.72	.34	.58	.72	.90	1.11	1.15
	59.6	59.2	57.6	54.2	52.4	50.5	46.8
	2.95	3.14	3.48	3.58	3.63	3.73	3.96
	37.0	93.0	60.9	50.5	42.1	32.4	23.8
	3.8	4.2	4.1	4.9	3.6	3.9	4.1
	9.6	25.7	14.5	12.3	8.5	9.7	8.6
	1.0%	1.8%	2.7%	2.3%	1.4%	.8%	.8%
	14.4	26.5	34.8	31.0	20.4	12.0	11.1
	.48	.91	.94	.81	.60	.42	.39
\$	95,320	\$ 82,026	\$ 70,343	\$ 68,992	\$ 66,468	\$ 62,376	\$ 58,144
	6.9%	6.7%	7.4%	7.2%	6.5%	6.3%	5.9%
	10.2	9.7	9.9	8.7	8.2	7.7	7.0
	5.1	5.4	6.2	6.4	6.2	6.1	5.8
	6.5	6.3	6.9	6.8	6.2	6.0	5.9
	301,201	301,090	301,090	301,090	301,090	301,090	298,823
\$	6,175	\$ 6,323	\$ 5,459	\$ 5,570	\$ 4,631	\$ 6,437	\$ 5,510
	25,767	25,603	23,514	24,003	24,560	23,881	22,853
	966	978	907	908	910	927	960
	41	-	-	-	-	-	-
	1,891	1,858	1,663	1,290	991	877	697

## Reported quarterly results

	1997				1996			
	Quarter ended				Quarter ended			
	October 31	July 31	April 30	January 31	October 31	July 31	April 30	January 31
<i>(millions of dollars)</i>								
Net interest income (TEB)	\$ 798	\$ 739	\$ 726	\$ 720	\$ 692	\$ 659	\$ 613	\$ 639
Provision for credit losses	240	40	40	40	24	43	42	43
<b>Net interest income after credit loss provision</b>	<b>558</b>	<b>699</b>	<b>686</b>	<b>680</b>	668	616	571	596
Other income	888	657	565	540	470	425	442	412
<b>Net interest and other income</b>	<b>1,446</b>	<b>1,356</b>	<b>1,251</b>	<b>1,220</b>	1,138	1,041	1,013	1,008
Non-interest expenses	955	850	820	758	721	668	641	624
<b>Net income before provision for income taxes</b>	<b>491</b>	<b>506</b>	<b>431</b>	<b>462</b>	417	373	372	384
Imputed income taxes on grossed-up income	202	211	191	198	168	150	152	162
<b>Net income</b>	<b>\$ 289</b>	<b>\$ 295</b>	<b>\$ 240</b>	<b>\$ 264</b>	\$ 249	\$ 223	\$ 220	\$ 222
Applicable to common shares	281	287	233	256	241	215	212	214
<b>Per common share</b>								
Net income	\$ .95	\$ .96	\$ .78	\$ .85	\$ .81	\$ .73	\$ .70	\$ .71
Dividends	.28	.28	.28	.28	.25	.25	.25	.25
<b>Return on common equity</b>	<b>16.8%</b>	<b>17.8%</b>	<b>15.2%</b>	<b>16.4%</b>	16.3%	14.8%	15.1%	15.2%
<i>(billions of dollars)</i>								
<b>Average earning assets</b>	<b>\$ 137</b>	<b>\$ 130</b>	<b>\$ 124</b>	<b>\$ 117</b>	\$ 108	\$ 106	\$ 100	\$ 97
<b>Average total assets</b>	<b>158</b>	<b>151</b>	<b>142</b>	<b>135</b>	124	120	114	111
Net interest income (TEB) as a % of:								
Average earning assets	2.31%	2.26%	2.40%	2.45%	2.54%	2.48%	2.49%	2.62%
Average total assets	2.01	1.94	2.10	2.12	2.22	2.19	2.20	2.29

## INTEGRATED CORPORATE & INVESTMENT BANKING

A prime example of our integrated corporate and investment management approach – and our focus on industry specialization – was TD's participation in the multi-stage TimberWest Trust transaction. This was one of the major forest products deals of 1997, involving the purchase of TimberWest Forest and Pacific Forest Products. TD Bank led the senior bank financing ... TD Capital, our Merchant Bank, provided subordinated debt ... and TD Securities was an advisor and led a successful issue of equity trust units.



# TD SECURITIES

NEW ISSUE

**TimberWest  
Timber Trust  
\$275,000,000  
Trust Units  
November, 1997**