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Consolidated financial statements

Financial reporting responsibility

The consolidated financial statements of The Toronto-Dominion Bank and related financial information presented elsewhere in this Annual Statement 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 sheets of The Toronto-Dominion Bank as at October 31, 1998 and 1997 and the consolidated statements of income, changes in shareholders' equity and changes in financial position for the years 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 audits.

We conducted our audits 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 Internal 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 LLP and PricewaterhouseCoopers LLP, 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
Chairman 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, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in Canada, including the accounting requirements of the Superintendent of Financial Institutions Canada.

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

Ernst & Young LLP
Chartered Accountants

PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, Canada
November 19, 1998

Consolidated balance sheet

As at October 31		
(millions of dollars)	1998	1997
ASSETS		
Cash resources		
Cash and non-interest bearing deposits with Bank of Canada and other banks	\$ 1,379	\$ 1,200
Interest bearing deposits with other banks	1,700	6,387
	3,079	7,587
Securities purchased under resale agreements	12,291	23,321
Securities (Note 2)		
Investment	12,512	12,611
Trading	37,207	20,811
	49,719	33,422
Loans (net of allowance for credit losses) (Note 3)		
Residential mortgages	32,255	30,442
Consumer instalment and other personal	15,160	13,736
Business and government	37,511	35,524
	84,926	79,702
Other		
Customers' liability under acceptances	9,948	7,036
Land, buildings and equipment (Note 4)	1,666	1,505
Other assets (Note 5)	20,202	11,279
	31,816	19,820
Total assets	\$ 181,831	\$ 163,852
LIABILITIES		
Deposits (Note 6)		
Personal	\$ 47,693	\$ 44,044
Banks	17,063	16,268
Business and government	55,921	50,314
	120,677	110,626
Other		
Acceptances	9,948	7,036
Obligations related to securities sold short	13,034	9,640
Obligations related to securities sold under repurchase agreements	8,421	15,199
Other liabilities (Note 7)	17,612	10,657
	49,015	42,532
Subordinated notes (Note 8)	3,606	3,391
SHAREHOLDERS' EQUITY		
Capital stock (Note 9)		
Preferred	845	546
Common	1,301	1,297
Retained earnings	6,387	5,460
	8,533	7,303
Total liabilities and shareholders' equity	\$ 181,831	\$ 163,852

A. Charles Baillie
Chairman and
Chief Executive Officer

William T. Brock
Deputy Chairman

Consolidated statement of income

For the years ended October 31

(millions of dollars)	1998	1997	1996
Interest income			
Loans	\$ 7,490	\$ 6,310	\$ 6,036
Securities			
Dividends	306	250	216
Interest	1,867	1,041	870
Deposits with banks	334	225	200
	9,997	7,826	7,322
Interest expense			
Deposits	5,582	3,892	3,958
Subordinated notes	226	192	157
Other obligations	1,248	920	740
	7,056	5,004	4,855
Net interest income	2,941	2,822	2,467
Provision for credit losses (Note 3)	450	360	152
Net interest income after credit loss provision	2,491	2,462	2,315
Other income			
Investment and securities services	1,217	952	440
Credit fees	403	352	312
Net investment securities gains	386	329	103
Trading income	298	270	186
Service charges	283	268	260
Card services	180	165	150
Other	430	314	298
	3,197	2,650	1,749
Net interest and other income	5,688	5,112	4,064
Non-interest expenses			
Salaries and staff benefits (Note 10)	2,167	1,826	1,452
Occupancy including depreciation	344	313	283
Equipment including depreciation	335	270	237
Other	1,110	974	682
	3,956	3,383	2,654
Income before provision for income taxes	1,732	1,729	1,410
Provision for income taxes (Note 11)	611	641	496
Net income	1,121	1,088	914
Preferred dividends (Note 9)	45	31	32
Net income applicable to common shares	\$ 1,076	\$ 1,057	\$ 882
Average number of common shares outstanding (thousands)	297,020	298,705	298,551
Net income per common share	\$ 3.62	\$ 3.54	\$ 2.95
Dividends per common share	1.32	1.12	1.00

Consolidated statement of changes in shareholders' equity

For the years ended October 31			
(millions of dollars)	1998	1997	1996
Preferred shares (Note 9)			
Balance at beginning of year	\$ 546	\$ 534	\$ 535
Proceeds from share issues	350	–	–
Share redemptions	(75)	–	–
Translation adjustment on shares issued in a foreign currency	24	12	(1)
Balance at end of year	845	546	534
Common shares (Note 9)			
Balance at beginning of year	1,297	1,305	882
Issued on acquisition of a subsidiary	–	1	459
Proceeds from shares issued on exercise of options	4	21	12
Shares purchased for cancellation	–	(30)	(48)
Balance at end of year	1,301	1,297	1,305
Retained earnings			
Balance at beginning of year	5,460	4,840	4,636
Net income	1,121	1,088	914
Preferred dividends	(45)	(31)	(32)
Common dividends	(392)	(335)	(302)
Translation adjustments, net of income taxes	270	120	(8)
Shares purchased for cancellation	–	(222)	(375)
Stock options settled in cash, net of income taxes	(25)	(6)	–
Other	(2)	6	7
Balance at end of year	6,387	5,460	4,840
Total common equity	7,688	6,757	6,145
Total shareholders' equity	\$ 8,533	\$ 7,303	\$ 6,679

Consolidated statement of changes in financial position

For the years ended October 31

(millions of dollars)	1998	1997	1996
Cash flows provided by (used in) operating activities			
Net income	\$ 1,121	\$ 1,088	\$ 914
Adjustments to determine net cash flows			
Provision for credit losses	450	360	152
Depreciation and amortization	224	158	135
Future income taxes	(106)	(116)	77
Net investment securities gains	(386)	(329)	(103)
Changes in accrued interest			
Increase in interest receivable	(776)	(164)	(126)
Increase (decrease) in interest payable	578	(2)	(69)
Net increase (decrease) in deferred loan fees	24	(9)	(16)
Net increase in trading securities	(16,396)	(7,310)	(2,578)
Net increase (decrease) in current income taxes payable	(84)	74	(37)
Net increase (decrease) in other items and accruals	(1,422)	(1,812)	628
Net cash used in operating activities	(16,773)	(8,062)	(1,023)
Cash flows provided by (used in) financing activities			
Net increase in deposits	10,051	23,063	4,832
Net increase (decrease) in securities sold			
under repurchase agreements	(6,778)	3,392	8,492
Net increase in securities sold short	3,394	3,277	265
Net increase (decrease) in debt of subsidiaries	32	39	(11)
Issuance of subordinated notes	215	1,571	13
Repayment of subordinated notes	–	(515)	(66)
Common shares issued on exercise of options	4	21	12
Common shares issued on acquisition of a subsidiary	–	1	459
Common shares purchased for cancellation	–	(252)	(423)
Common stock options settled in cash, net of income taxes	(25)	(6)	–
Issuance of preferred shares	350	–	–
Redemption of preferred shares	(75)	–	–
Dividends paid on – preferred shares	(45)	(31)	(32)
– common shares	(392)	(335)	(302)
Other financing	59	18	(9)
Net cash provided by financing activities	6,790	30,243	13,230
Cash flows provided by (used in) investing activities			
Decrease (increase) in balances on deposit with other banks	4,687	(2,544)	(287)
Activity in investment securities			
Purchases	(50,367)	(18,376)	(11,525)
Proceeds from maturities	48,001	11,464	6,424
Proceeds from sales	2,851	5,353	6,707
Net increase in loans	(8,948)	(9,649)	(5,382)
Proceeds from loan securitizations	3,250	1,969	–
Land, buildings and equipment – net purchases	(342)	(313)	(290)
Net decrease (increase) in securities purchased			
under resale agreements	11,030	(10,258)	(6,489)
Acquisition of a subsidiary	–	–	(726)
Net cash provided by (used in) investing activities	10,162	(22,354)	(11,568)
Net increase (decrease) in cash and cash equivalents	179	(173)	639
Cash and cash equivalents at beginning of year	1,200	1,373	734
Cash and cash equivalents at end of year represented by cash and non-interest bearing deposits with Bank of Canada and other banks	\$ 1,379	\$ 1,200	\$ 1,373
Supplementary disclosure of cash flow information			
Amount of interest paid during the year	\$ 6,478	\$ 5,006	\$ 4,924
Amount of income taxes paid during the year	694	661	446

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 20 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 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.

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

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

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

General allowances 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) Loan securitizations

Loans are considered securitized and removed from the consolidated balance sheet when the significant risks and rewards of ownership are transferred to a special purpose trust. The gains on sale are recognized in other income only when received in cash by the Bank and only when the trust has no recourse to the funds.

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

Trading derivatives are entered into by the Bank to meet the needs of its customers and to take trading positions. Derivative trading portfolios are marked to market with the resulting realized and unrealized gains or losses recognized immediately in other income. The market value for interest rate swaps including cross-currency interest rate swaps is determined net of a deferral which recognizes the need to cover the cost of capital, credit risk 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 from the early termination, sale, maturity or extinguishment of such derivatives are generally deferred and amortized over the remaining term of the related on-balance sheet instruments. Premiums on purchased options are deferred at inception and amortized into other income over the contract life.

(l) Provision for income taxes

During the year, the Bank applied the provisions of the new standard for income taxes retroactively. Under the new standard, the Bank accounts for future income tax assets or future income tax liabilities at the tax rates that are expected to apply when the asset or liability is settled. Adoption of the standard does not have a material effect on the previous or current consolidated financial statements.

(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.

(n) Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in 1998.

Securities maturity schedule at year end

(millions of dollars)	Remaining term to maturity						1998 Total	1997 Total
	Within 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	No specific maturity		
Investment securities								
Securities issued or guaranteed by								
Canada	\$ 1,038	\$ 14	\$ 3	\$ 2	\$ 61	\$ –	\$ 1,118	\$ 1,896
Provinces	436	100	68	–	–	–	604	428
Total	1,474	114	71	2	61	–	1,722	2,324
Other debt securities								
Canadian issuers	173	21	21	58	4	95	372	376
U.S. federal government	4,456	15	25	26	–	–	4,522	4,371
Other foreign governments	405	70	–	–	–	–	475	484
Other issuers	695	302	480	22	48	27	1,574	1,194
Total	5,729	408	526	106	52	122	6,943	6,425
Equity securities								
Preferred shares	273	436	206	378	9	343	1,645	1,630
Common shares	–	–	–	–	–	2,202	2,202	2,232
Total	273	436	206	378	9	2,545	3,847	3,862
Total investment securities	7,476	958	803	486	122	2,667	12,512	12,611
Trading securities								
Securities issued or guaranteed by								
Canada	1,499	528	1,651	1,653	2,587	–	7,918	4,445
Provinces	215	573	195	287	954	–	2,224	1,376
Total	1,714	1,101	1,846	1,940	3,541	–	10,142	5,821
Other debt securities								
Canadian issuers	1,308	262	460	424	257	–	2,711	1,803
U.S. federal government	581	511	–	142	3	–	1,237	461
Other foreign governments	1,708	191	169	453	819	–	3,340	1,266
Other issuers	4,025	1,818	2,223	3,329	773	1	12,169	7,358
Total	7,622	2,782	2,852	4,348	1,852	1	19,457	10,888
Equity securities								
Preferred shares	–	–	–	1,208	1,857	218	3,283	1,129
Common shares	–	–	–	–	–	4,325	4,325	2,973
Total	–	–	–	1,208	1,857	4,543	7,608	4,102
Total trading securities	9,336	3,883	4,698	7,496	7,250	4,544	37,207	20,811
Total securities¹	\$ 16,812	\$ 4,841	\$ 5,501	\$ 7,982	\$ 7,372	\$ 7,211	\$ 49,719	\$ 33,422

¹ Includes loan substitutes in the amount of \$183 million (1997 – \$163 million).

Securities – Unrealized gains and losses

(millions of dollars)	1998				1997			
	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Investment securities								
Issued or guaranteed by								
Canada	\$ 1,118	\$ 1	\$ 5	\$ 1,114	\$ 1,896	\$ 14	\$ –	\$ 1,910
Provinces	604	3	–	607	428	3	–	431
U.S. federal government	4,522	8	1	4,529	4,371	1	–	4,372
Other debt	2,421	3	8	2,416	2,054	4	7	2,051
Equity	3,847	483	7	4,323	3,862	669	10	4,521
Total investment securities	12,512	498	21	12,989	12,611	691	17	13,285
Trading securities	37,207	–	–	37,207	20,811	–	–	20,811
Total securities	\$ 49,719	\$ 498	\$ 21	\$ 50,196	\$ 33,422	\$ 691	\$ 17	\$ 34,096

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ANNUAL STATEMENT

Note 3
LOANS, IMPAIRED LOANS AND ALLOWANCE 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 allowance	General allowance	Total		
1998						
Residential mortgages	\$ 32,302	\$ 2	\$ 45	\$ 47	\$ 32,255	\$ 43
Consumer instalment and other personal	15,333	53	120	173	15,160	104
Business and government	38,167	201	455	656	37,511	470
Total	\$ 85,802	\$ 256	\$ 620	\$ 876	\$ 84,926	\$ 617
1997						
Residential mortgages	\$ 30,457	\$ 13	\$ 2	\$ 15	\$ 30,442	\$ 49
Consumer instalment and other personal	13,891	70	85	155	13,736	90
Business and government	35,939	100	315	415	35,524	367
Total	\$ 80,287	\$ 183	\$ 402	\$ 585	\$ 79,702	\$ 506
					1998	1997
Average gross impaired loans during the year					\$ 631	\$ 845
Net impaired loans at year end					\$ (259)	\$ (79)

Included in gross residential mortgages are Canadian government-insured mortgages of \$24,399 million at October 31, 1998 (1997 – \$15,276 million). Gross impaired loans include foreclosed assets held for sale with a

gross carrying value of \$117 million at October 31, 1998 (1997 – \$93 million) and a related allowance of \$29 million (1997 – \$5 million). Loans are reported net of unearned income of \$142 million (1997 – \$118 million).

Allowance for credit losses

(millions of dollars)	1998	1997
Balance at beginning of year	\$ 585	\$ 429
Write-offs	(260)	(340)
Recoveries	101	136
Provision for credit losses charged to the consolidated statement of income		
– specific	232	117
– general	218	243
Balance at end of year	\$ 876	\$ 585

Note 4 LAND, BUILDINGS AND EQUIPMENT

(millions of dollars)	1998			1997
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 188	\$ –	\$ 188	\$ 179
Buildings	1,107	230	877	817
Computer equipment	652	394	258	215
Furniture, fixtures and other equipment	424	233	191	158
Leasehold improvements	270	118	152	136
	\$ 2,641	\$ 975	\$ 1,666	\$ 1,505

Accumulated depreciation at the end of 1997 was \$1,065 million.

Note 5 OTHER ASSETS

(millions of dollars)	1998	1997
Market revaluation of trading derivative financial instruments (Note 14)	\$ 12,898	\$ 6,489
Amounts receivable from brokers, dealers and clients	2,213	1,087
Accrued interest	1,786	1,010
Accounts receivable, prepaid expenses and other items	1,656	1,486
Unamortized goodwill ¹	958	522
Future income taxes (Note 11)	370	264
Mortgages sold with recourse to Green Line mutual funds	237	341
Prepaid pension expense (Note 10)	84	80
	\$ 20,202	\$ 11,279

¹ Amortization of goodwill included in other non-interest expenses in the consolidated statement of income was \$43 million (1997 – \$28 million).

(millions of dollars)				1998	1997
	Demand	Notice	Term	Total	Total
Personal	\$ 8,149	\$ 15,187	\$ 24,357	\$ 47,693	\$ 44,044
Banks	616	35	16,412	17,063	16,268
Business and government	7,356	7,360	41,205	55,921	50,314
Total	\$ 16,121	\$ 22,582	\$ 81,974	\$ 120,677	\$ 110,626
Non-interest bearing deposits included above					
In domestic offices				\$ 1,776	\$ 1,498
In foreign offices				69	376
Interest bearing deposits included above					
In domestic offices				68,052	70,420
In foreign offices				47,945	37,454
U.S. federal funds purchased				2,835	878
Total				\$ 120,677	\$ 110,626

(millions of dollars)	1998	1997
Market revaluation of trading derivative financial instruments (Note 14)	\$ 12,232	\$ 6,485
Accrued interest	1,944	1,366
Accounts payable, accrued expenses and other items	1,797	688
Amounts payable to brokers, dealers and clients	614	970
Accrued salaries and staff benefits	466	230
Liabilities of subsidiaries other than deposits	322	290
Obligations related to mortgages sold with recourse	237	341
Cheques and other items in transit, net	-	287
	\$ 17,612	\$ 10,657

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	1998	1997	
5.00	To Feb. 1999	—		\$ 1	\$ 3	
7.75 ¹	Apr. 1999	—	Yen 5 billion	66	59	
Various ²	Aug. 1999 to Oct. 2001	—		31	21	
Various ³	Jan. 2002 to Feb. 2002	—		6	6	
1.38	May 2002	—		2	2	
Various ⁴	June 2002 to Sept. 2002	—		13	13	
Floating rate ⁵	Oct. 2002	—	US\$150 million	231	211	
Floating rate ⁶	Aug. 2003	—	US\$150 million	231	211	
Floating rate ⁷	Oct. 2003	—		100	100	
8.00	Dec. 2003	July 1998		150	150	
7.88	Aug. 2004	Aug. 1999	US\$150 million	231	211	
5.60	Sept. 2006	Sept. 2001		400	400	
6.45	Oct. 2006	Oct. 2001		350	350	
6.50	Jan. 2007	Jan. 2002	US\$300 million	463	423	
6.75	Mar. 2007	Mar. 2002	US\$200 million	309	282	
5.65	Sept. 2007	Sept. 2002		25	25	
6.50	Aug. 2008	—	US\$150 million	231	211	
6.15	Oct. 2008	—	US\$150 million	231	211	
6.13	Nov. 2008	—	US\$100 million	154	141	
6.45	Jan. 2009	—	US\$150 million	231	211	
8.40	Dec. 2010	Dec. 2005		150	150	
				\$ 3,606	\$ 3,391	

¹ Interest is payable in Australian dollars.

² Interest is payable at various rates, from .13% to 4.20%.

³ Interest is payable at various rates, from 1.13% to 3.05%.

⁴ Interest is payable at various rates, from .13% to 2.95%.

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

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

⁷ 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)	1998	1997
Within 1 year	\$ 68	\$ 3
Over 1 to 2 years	8	60
Over 2 to 3 years	22	7
Over 3 to 5 years	583	245
Over 5 years	2,925	3,076
	\$ 3,606	\$ 3,391

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)	1998	1997
Issued and fully paid		
Preferred shares issued by the Bank		
7,000,000 Non-cumulative Redeemable Class A First Preferred Shares, Series G (US\$175 million)	\$ 270	\$ 246
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
	495	546
Preferred shares issued by TD Mortgage Investment Corporation		
350,000 Non-cumulative Preferred Shares, Series A	350	-
Total preferred shares	845	546
Common shares (1998 – 297,118,824; 1997 – 296,946,199)	1,301	1,297
	\$ 2,146	\$ 1,843

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

The Class A First Preferred Shares, Series Y, were redeemed by the Bank in accordance with their terms on October 30, 1998.

TD Mortgage Investment Corporation Preferred Shares, Series A

On December 4, 1997, TD Mortgage Investment Corporation (TDMIC) issued 350,000 preferred shares, Series A, for cash consideration of \$350 million.

Semi-annually, on or after October 31, 2007, TDMIC has the option of redeeming the outstanding Series A shares for \$1,000.00.

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

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

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

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 A, semi-annual rate of \$32.30 per share.

Common shares

	1998	1997
Number outstanding at beginning of year	296,946,199	302,702,896
Issued on acquisition of a subsidiary	-	28,278
Issued on exercise of options	172,625	1,092,525
Purchased for cancellation	-	(6,877,500)
Number outstanding at end of year	297,118,824	296,946,199

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 \$16.375 to \$61.20. Their weighted average remaining contractual life is 7.9 years, and they expire on dates ranging from April 2000 to April 2008. At October 31, 1998, a total of 5,511,700 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:

	1998	Weighted average exercise price	1997	Weighted average exercise price	1996	Weighted average exercise price
Number outstanding, beginning of year	10,200,445	\$24.24	9,161,020	\$ 20.65	7,213,325	\$ 18.88
Granted	2,088,100	61.20	2,476,500	34.90	2,738,900	23.63
Exercised – cash	(1,100,275)	21.30	(209,925)	18.78	–	–
– shares	(172,625)	20.80	(1,092,525)	19.26	(666,705)	18.47
Forfeited	(82,075)	29.49	(134,625)	24.90	(124,500)	20.83
Number outstanding, end of year	10,933,570	\$31.60	10,200,445	\$ 24.24	9,161,020	\$ 20.65
Exercisable, end of year	5,190,021	\$21.95	4,333,345	\$ 19.35	2,709,376	\$ 18.80

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.

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)	1998	1997	1996
Vested benefit obligation	\$ 1,076	\$ 985	\$ 847
Accumulated benefit obligation	1,078	987	849
Projected benefit obligation for services rendered to date	1,157	1,066	894
Plan assets at fair value	1,052	1,202	1,020
Excess (deficit) of plan assets over projected benefit obligation	(105)	136	126
Unrecognized net (gain) loss from past experience, different from that assumed, and effects of changes in assumptions	215	(15)	4
Unrecognized prior service costs	23	24	24
Unrecognized transition amount	(49)	(65)	(82)
Prepaid pension expense	\$ 84	\$ 80	\$ 72
Annual expense			
Net pension expense includes the following components:			
Service cost – benefits earned	\$ 23	\$ 18	\$ 14
Interest on projected benefit obligation	71	67	63
Actual (gain) loss on plan assets	108	(223)	(219)
Net amortization and deferral	(206)	130	141
Canadian pension expense	(4)	(8)	(1)
International pension expense	12	10	2
Pension expense	8	2	1
Canada and Québec pension plan contribution	23	21	19
Total pension expense	\$ 31	\$ 23	\$ 20
Actuarial assumptions			
Weighted average discount rate for projected benefit obligation	6.5%	6.5%	7.3%
Weighted average rate of compensation increase	3.5	3.5	3.5
Weighted average expected long-term rate of return on plan assets	7.5	7.3	8.0

(millions of dollars)	1998	1997	1996
The provision for income taxes is included in the following financial statements:			
Consolidated statement of income	\$ 611	\$ 641	\$ 496
Consolidated statement of changes in shareholders' equity	(107)	(22)	(10)
Total provision for income taxes	\$ 504	\$ 619	\$ 486
Current income taxes			
Federal	\$ 282	\$ 404	\$ 222
Provincial	102	155	82
Foreign	226	176	105
	610	735	409
Future income taxes			
Federal	(79)	(89)	55
Provincial	(25)	(33)	20
Foreign	(2)	6	2
	(106)	(116)	77
	\$ 504	\$ 619	\$ 486

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:

	1998	1997	1996
Canadian statutory income tax rate	42.8%	43.1%	43.0%
Decrease resulting from:			
Dividends from taxable Canadian corporations	(6.4)	(5.3)	(5.5)
Lower tax rates on earnings of international subsidiaries	(5.7)	(4.1)	(3.0)
Federal large corporations tax	.8	.6	.7
Financial institutions temporary surcharge	.5	.5	.5
Other – net	3.3	2.3	(.5)
Effective income tax rate	35.3%	37.1%	35.2%

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

(millions of dollars)	1998	1997	1996
Future income tax assets			
Premises and equipment	\$ –	\$ –	\$ 7
Allowance for credit losses	202	138	30
Deferred income	50	31	56
Securities	157	112	50
Other	49	27	47
Total future income tax assets	458	308	190
Valuation allowance	–	–	–
Future income tax assets	458	308	190
Future income tax liabilities			
Premises and equipment	(19)	(6)	–
Pension fund	(37)	(36)	(32)
Other	(32)	(2)	(10)
Future income tax liabilities	(88)	(44)	(42)
Net future income tax asset	\$ 370	\$ 264	\$ 148

(millions of dollars)	1998		1997	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Consolidated balance sheet				
Assets				
Securities	\$ 49,719	\$ 50,196	\$ 33,422	\$ 34,096
Loans	84,926	84,840	79,702	80,154
Liabilities				
Deposits	120,677	121,011	110,626	111,152
Subordinated notes	3,606	3,719	3,391	3,469

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 14.

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.

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 \$1.5 billion from the \$20.8 billion reported below as at October 31, 1998 (1997 – \$6.9 billion from \$21.1 billion).

Interest rate risk

(billions of dollars)								
	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
1998								
Assets								
Cash resources	\$.5	\$ 1.7	\$.1	\$ 2.3	\$ –	\$ –	\$.8	\$ 3.1
<i>Effective yield</i>		4.7%	5.6%					
Loans	\$ 19.7	\$ 22.3	\$ 11.2	\$ 53.2	\$ 28.5	\$ 2.6	\$.6	\$ 84.9
<i>Effective yield</i>		6.3%	6.8%		6.7%	6.8%		
Securities purchased under resale agreements	\$ 4.3	\$ 5.6	\$ 2.2	\$ 12.1	\$ –	\$ –	\$.2	\$ 12.3
<i>Effective yield</i>		5.4%	5.1%					
Investment securities	\$ 3.6	\$ 3.4	\$ 1.7	\$ 8.7	\$ 1.2	\$.3	\$ 2.3	\$ 12.5
<i>Effective yield</i>		4.9%	4.5%		5.3%	3.1%		
Trading securities	\$ 1.7	\$ 6.0	\$ 4.3	\$ 12.0	\$ 9.1	\$ 9.3	\$ 6.8	\$ 37.2
<i>Effective yield</i>		5.8%	5.4%		5.8%	6.1%		
Other	\$ 23.6	\$ –	\$ –	\$ 23.6	\$ –	\$ –	\$ 8.2	\$ 31.8
Total assets	\$ 53.4	\$ 39.0	\$ 19.5	\$ 111.9	\$ 38.8	\$ 12.2	\$ 18.9	\$ 181.8
Liabilities and shareholders' equity								
Deposits	\$ 29.5	\$ 40.5	\$ 32.1	\$ 102.1	\$ 11.5	\$.6	\$ 6.5	\$ 120.7
<i>Effective yield</i>		5.0%	5.3%		5.5%	1.3%		
Subordinated notes	\$ –	\$.5	\$.3	\$.8	\$ 2.8	\$ –	\$ –	\$ 3.6
<i>Effective yield</i>		6.0%	4.7%		7.5%			
Obligations related to securities sold short	\$ 1.3	\$.8	\$.7	\$ 2.8	\$ 4.1	\$ 5.6	\$.5	\$ 13.0
<i>Effective yield</i>		5.2%	5.1%		6.2%	5.6%		
Obligations related to securities sold under repurchase agreements	\$ 1.8	\$ 5.3	\$.6	\$ 7.7	\$ –	\$.7	\$ –	\$ 8.4
<i>Effective yield</i>		5.1%	5.2%			5.0%		
Other	\$ 23.6	\$ –	\$ –	\$ 23.6	\$ –	\$ –	\$ 4.0	\$ 27.6
Shareholders' equity	\$.1	\$ –	\$ –	\$.1	\$.2	\$.3	\$ 7.9	\$ 8.5
Total liabilities and shareholders' equity	\$ 56.3	\$ 47.1	\$ 33.7	\$ 137.1	\$ 18.6	\$ 7.2	\$ 18.9	\$ 181.8
On-balance sheet position	\$ (2.9)	\$ (8.1)	\$ (14.2)	\$ (25.2)	\$ 20.2	\$ 5.0	\$ –	\$ –
Total pay side instruments ¹	\$ –	\$ (31.1)	\$ (3.0)	\$ (34.1)	\$ (10.8)	\$ (.9)	\$ –	\$ (45.8)
<i>Effective yield</i>		5.5%	5.2%		5.7%	6.4%		
Total receive side instruments ¹	\$ –	\$ 31.4	\$ 7.1	\$ 38.5	\$ 6.5	\$.8	\$ –	\$ 45.8
<i>Effective yield</i>		6.0%	6.7%		5.8%	3.0%		
Off-balance sheet position	\$ –	\$.3	\$ 4.1	\$ 4.4	\$ (4.3)	\$ (.1)	\$ –	\$ –
Net position	\$ (2.9)	\$ (7.8)	\$ (10.1)	\$ (20.8)	\$ 15.9	\$ 4.9	\$ –	\$ –

¹ Notional principal amounts

Interest rate risk by currency

(billions of dollars)								
	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
1998								
Canadian currency on-balance sheet position	\$ (13.1)	\$ (1.1)	\$ (3.5)	\$ (17.7)	\$ 20.3	\$ 1.8	\$ (6.5)	\$ (2.1)
Foreign currency on-balance sheet position	10.2	(7.0)	(10.7)	(7.5)	(.1)	3.2	6.5	2.1
On-balance sheet position	(2.9)	(8.1)	(14.2)	(25.2)	20.2	5.0	-	-
Canadian currency off-balance sheet position	-	.2	-	.2	(6.5)	(.2)	-	(6.5)
Foreign currency off-balance sheet position	-	.1	4.1	4.2	2.2	.1	-	6.5
Off-balance sheet position	-	.3	4.1	4.4	(4.3)	(.1)	-	-
Net position	\$ (2.9)	\$ (7.8)	\$ (10.1)	\$ (20.8)	\$ 15.9	\$ 4.9	\$ -	\$ -

Interest rate risk

(billions of dollars)							
	Within 3 months	3 months to 1 year	Total within 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
1997							
Total assets	\$ 85.8	\$ 22.4	\$ 108.2	\$ 32.8	\$ 8.7	\$ 14.2	\$ 163.9
Total liabilities and shareholders' equity	101.7	24.8	126.5	15.1	4.8	17.5	163.9
On-balance sheet position	(15.9)	(2.4)	(18.3)	17.7	3.9	(3.3)	-
Off-balance sheet position	(2.3)	(.5)	(2.8)	3.2	(.4)	-	-
Net position	\$ (18.2)	\$ (2.9)	\$ (21.1)	\$ 20.9	\$ 3.5	\$ (3.3)	\$ -

Note 14**DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

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

Over-the-counter and exchange traded derivative financial instruments

(millions of dollars)						
Notional principal	Trading				1998 Total	1997 Total
	Over-the-counter	Exchange traded	Total	Non-trading		
Interest rate contracts						
Futures	\$ –	\$ 87,212	\$ 87,212	\$ –	\$ 87,212	\$ 73,911
Forward rate agreements	30,528	–	30,528	4,012	34,540	19,320
Swaps	236,909	–	236,909	38,074	274,983	213,359
Options written	28,946	3,823	32,769	241	33,010	36,419
Options purchased	33,529	3,310	36,839	488	37,327	42,233
Foreign exchange contracts						
Forward contracts	242,276	–	242,276	16,051	258,327	193,857
Swaps	5,628	–	5,628	72	5,700	2,909
Cross-currency interest rate swaps	39,606	–	39,606	11,003	50,609	28,664
Options written	18,584	–	18,584	–	18,584	8,845
Options purchased	18,251	–	18,251	–	18,251	8,540
Other contracts ¹	24,520	134	24,654	6,387	31,041	13,770
Total	\$ 678,777	\$ 94,479	\$ 773,256	\$ 76,328	\$ 849,584	\$ 641,827

¹ Includes equity, commodity and credit derivatives.

Derivative financial instruments by term to maturity

(millions of dollars)						
Notional principal	Remaining term to maturity				1998 Total	1997 Total
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years		
Interest rate contracts						
Futures	\$ 68,664	\$ 18,548	\$ –	\$ –	\$ 87,212	\$ 73,911
Forward rate agreements	34,214	326	–	–	34,540	19,320
Swaps	83,235	73,643	58,577	59,528	274,983	213,359
Options written	17,002	9,688	4,341	1,979	33,010	36,419
Options purchased	18,354	10,608	5,237	3,128	37,327	42,233
Foreign exchange contracts						
Forward contracts	249,890	8,079	322	36	258,327	193,857
Swaps	2,320	803	841	1,736	5,700	2,909
Cross-currency interest rate swaps	6,049	9,146	12,178	23,236	50,609	28,664
Options written	9,149	9,334	92	9	18,584	8,845
Options purchased	16,790	1,336	107	18	18,251	8,540
Other contracts ¹	10,832	6,538	5,680	7,991	31,041	13,770
Total	\$ 516,499	\$ 148,049	\$ 87,375	\$ 97,661	\$ 849,584	\$ 641,827

¹ Includes equity, commodity and credit derivatives.

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 exchange traded derivative financial instruments is based on quoted market rates plus or minus daily margin settlements. This results in minimal

fair values as these instruments are effectively settled on a daily basis. The estimated fair value of over-the-counter derivative financial instruments is 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 the cost of capital, credit risk and administrative expenses over the life of the contract.

Fair value of derivative financial instruments

(millions of dollars)	1998				1997	
	Average ¹ fair value for the year		Year-end fair value		Year-end fair value	
	Positive	Negative	Positive	Negative	Positive	Negative
Derivative financial instruments held or issued for trading purposes:						
Interest rate contracts						
Forward rate agreements	\$ 8	\$ 10	\$ 14	\$ 12	\$ 5	\$ 14
Swaps	3,989	3,583	5,779	5,244	3,034	2,998
Options written	–	350	–	499	–	302
Options purchased	365	–	422	–	362	–
Total interest rate contracts	4,362	3,943	6,215	5,755	3,401	3,314
Foreign exchange contracts						
Forward contracts	2,800	2,138	3,897	3,559	1,807	1,956
Swaps	196	151	217	192	196	66
Cross-currency interest rate swaps	1,198	1,308	1,811	1,811	787	818
Options written	–	127	–	149	–	125
Options purchased	206	–	303	–	125	–
Total foreign exchange contracts	4,400	3,724	6,228	5,711	2,915	2,965
Other contracts ²	315	379	455	766	173	206
Fair value – trading	\$ 9,077	\$ 8,046	\$ 12,898	\$ 12,232	\$ 6,489	\$ 6,485
Derivative financial instruments held or issued for non-trading purposes:						
Interest rate contracts						
Forward rate agreements			\$ –	\$ –	\$ 1	\$ –
Swaps			483	376	193	123
Options written			–	–	–	1
Options purchased			6	–	4	–
Total interest rate contracts			489	376	198	124
Foreign exchange contracts						
Forward contracts			709	687	509	90
Swaps			16	–	15	–
Cross-currency interest rate swaps			579	148	177	136
Total foreign exchange contracts			1,304	835	701	226
Fair value – non-trading			1,793	1,211	899	350
Total fair value			\$ 14,691	\$ 13,443	\$ 7,388	\$ 6,835

¹ The average fair value of trading derivative financial instruments for the year ended October 31, 1997 was: Positive \$5,305 million and Negative \$5,192 million. Averages are calculated on a monthly basis.

² Includes equity, commodity and credit derivatives.

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

On the following schedule, the current replacement cost, which is the positive fair value of all outstanding derivative financial instruments, represents the Bank's

maximum derivative credit exposure. The credit equivalent amount is the sum of the current replacement cost and the potential future exposure, which is calculated by applying factors supplied by the Office of the Superintendent of Financial Institutions Canada to the notional principal amount of the instruments. The risk-weighted amount is determined by applying standard measures of counterparty credit risk to the credit equivalent amount.

Credit exposure of derivative financial instruments at year end

(millions of dollars)	1998			1997		
	Current replacement cost ¹	Credit equivalent amount	Risk-weighted amount	Current replacement cost ¹	Credit equivalent amount	Risk-weighted amount
Interest rate contracts						
Forward rate agreements	\$ 14	\$ 16	\$ 4	\$ 6	\$ 13	\$ 3
Swaps	6,262	7,805	1,979	3,227	4,243	1,156
Options purchased	425	551	150	366	473	118
Total interest rate contracts	6,701	8,372	2,133	3,599	4,729	1,277
Foreign exchange contracts						
Forward contracts	4,529	7,034	2,825	2,316	4,103	1,104
Swaps	233	468	121	211	401	135
Cross-currency interest rate swaps	2,390	5,259	1,141	964	2,499	696
Options purchased	234	476	165	125	253	78
Total foreign exchange contracts	7,386	13,237	4,252	3,616	7,256	2,013
Other contracts ²	450	2,854	895	173	1,112	385
Total derivative financial instruments	\$ 14,537	\$ 24,463	\$ 7,280	\$ 7,388	\$ 13,097	\$ 3,675
Less impact of master netting agreements	5,853	8,448	2,273	2,747	4,091	910
	\$ 8,684	\$ 16,015	\$ 5,007	\$ 4,641	\$ 9,006	\$ 2,765

¹ Exchange traded instruments and forward foreign exchange contracts maturing within 14 days are excluded in accordance with the guidelines of the Office of the Superintendent of Financial Institutions Canada. The total positive fair value of the excluded contracts at October 31, 1998 was \$154 million (1997 – nil).

² Includes equity, commodity and credit derivatives.

Note 15**CONTINGENT LIABILITIES AND COMMITMENTS**

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

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

Credit instruments

(millions of dollars)	1998	1997
Guarantees and standby letters of credit	\$ 8,536	\$ 7,407
Documentary and commercial letters of credit	1,043	799
Commitments to extend credit ¹		
Original term to maturity of one year or less	21,206	13,749
Original term to maturity of more than one year	34,546	31,561
	\$ 65,331	\$ 53,516

¹ 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, 1998 was \$280 million (1997 – \$234 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 \$100 thousand and for premises are as follows:

(millions of dollars)	
1999	\$ 137
2000	117
2001	90
2002	66
2003	45
2004 and thereafter	71
	\$ 526

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

with a carrying value of \$3.1 billion (1997 – \$1 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, 1998 securities and other assets with a carrying value of \$21.2 billion (1997 – \$28.2 billion) were pledged in respect of securities sold short or under repurchase agreements. In addition, as at October 31, 1998 assets

(e) In the ordinary course of business, the Bank agrees to lend unpaid customer securities, or its own securities, to borrowers on a fully collateralized basis. Securities lent at October 31, 1998 amounted to \$.8 billion (1997 – \$.6 billion).

Note 16

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, 1998, 74% were to borrowers in Canada, with the largest concentration in Ontario (40%), and 17% to borrowers in the United States. At September 30, 1997, loan concentration was 74% in Canada (including 41% in Ontario) and 16% in the United States. No single industry accounted for more than 7% of the total loans and customers' liability under acceptances (1997 – 7%).

Off-balance sheet financial instruments**(a) Credit instruments**

At October 31, 1998, the Bank had commitments and contingent liability contracts in the amount of \$65,331 million (1997 – \$53,516 million). Included are commitments to extend credit totalling \$55,752 (1997 – \$45,310), of which approximately 56% of the credit risk was in the United States (1997 – 51%), 30% in Canada (1997 – 31%), and 7% in the United Kingdom (1997 – 9%).

Of the commitments to extend credit, approximately 21% of the industry concentration related to financial institutions (1997 – 16%), 16% related to communications (1997 – 19%), and 13% related to utilities (1997 – 11%).

No other industry segment exceeded 10% of the total.

(b) Derivative instruments

At October 31, 1998, the current replacement cost of derivative financial instruments amounted to \$14,537 million (1997 – \$7,388 million). Based on the location of the ultimate counterparty, 32% of this credit risk amount related to Canada (1997 – 33%), 27% to the United States (1997 – 25%), and 23% to Europe (1997 – 22%). The largest concentration by counterparty type was with other financial institutions, which accounted for 78% of the total (1997 – 76%).

Note 17**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)	1998	1997
Mortgage loans	\$ 794	\$ 745
Other loans	648	393

Note 18**YEAR 2000**

The Year 2000 issue arises because many existing computer systems record and identify years with two digits, rather than four. These systems may not properly distinguish years beginning after 1999, as they may, for example, recognize the year 2000 as 1900 or some other date. As a result, data processing by such date-sensitive systems may result in errors. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000. If not properly addressed, the impact on operations and financial reporting may range from minor calculation errors to significant systems failure, which could affect the Bank's ability to conduct normal business activities.

While the Bank has initiated an extensive program intended to ensure computer systems will be ready for the Year 2000 in advance of January 1, 2000, it is not possible to be certain that all aspects of the Year 2000 issue will be resolved and that the problems will not adversely affect the Bank.

In addition to the Bank's own internal systems, the impact of the Year 2000 issue will depend on the readiness of other entities, such as customers, suppliers, or other counterparties, as well as any entity providing data to, receiving data from, or processing data for the Bank. The Year 2000 readiness of the Bank's borrowers may also increase credit risk, which may give rise to increases in impaired loans, or provisions for credit losses.

On April 17, 1998, the Bank entered into an agreement with the Canadian Imperial Bank of Commerce (CIBC) to amalgamate under the Bank Act (Canada). Under the merger agreement, each common share of the Bank will be converted into 1.318 common shares of the amalgamated bank. Each common share of CIBC will be converted into one share of the amalgamated bank.

The transaction is expected to close by the end of fiscal 1999, subject to regulatory and shareholder approval. It is the Bank's intention to account for the transaction as a pooling of interests.

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)	1998	1997	1996
Net income based on Canadian GAAP	\$ 1,121	\$ 1,088	\$ 914
Stock-based compensation	(13)	(104)	–
Net income based on U.S. GAAP	\$ 1,108	\$ 984	\$ 914
Earnings per common share – U.S. GAAP	\$ 3.58	\$ 3.19	\$ 2.95
– Canadian GAAP	3.62	3.54	2.95

Shareholders' equity

(millions of dollars)	1998	1997
Shareholders' equity based on Canadian GAAP	\$ 8,533	\$ 7,303
Stock-based compensation	(86)	(98)
Net unrealized gains on investment securities	285	395
Minority interest	(350)	–
Shareholders' equity based on U.S. GAAP	\$ 8,382	\$ 7,600

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. 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.

Minority interest

Preferred shares of the Bank’s subsidiary, TD Mortgage Investment Corporation, are presented as a minority interest under U.S. GAAP, whereas they are included within shareholders’ equity under Canadian GAAP.

Cash flow statement

Under Canadian GAAP, cash flows provided by the issuance of common shares and cash flows used in the acquisition of Waterhouse Investor Services, Inc. in fiscal 1996 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 21**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 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 of the Annual Report to Shareholders.

Comprehensive income

A new U.S. standard, effective for fiscal 1999, will require the Bank to report and display comprehensive income and its components, which include net income, net unrealized gains (losses) on available-for-sale securities, and foreign currency translation adjustments. The adoption of this standard relates only to disclosure and therefore will have no impact on the Bank’s financial position or results of operations.

Derivative instruments and hedging activities

A new standard was recently issued in the U.S. which is effective for fiscal 2000. The standard provides guidance for the accounting for all derivative and hedging activities. The standard requires that all derivative instruments be reported on the consolidated balance sheet at their fair values, with changes in the fair value for derivatives that are not hedges reported through the consolidated statement of income. The changes in the fair value of derivatives that are hedges will be reported either through the consolidated statement of comprehensive income until the hedged item is recognized in earnings, or through the consolidated statement of income, depending on the nature of the hedge. The changes recommended by this standard are currently being reviewed to determine their impact on the Bank.

Principal subsidiaries

(thousands of dollars)		
Canadian	Head office	Book value of all shares owned by the Bank
Business Windows Inc.	Toronto, Canada	\$ –
First Nations Bank of Canada (89%)	Saskatoon, Canada	8,000
Green Line Investor Services (Hong Kong) Inc.	Toronto, Canada	747
TD Asset Finance Corp.	Toronto, Canada	–
TD Asset Management Inc.	Toronto, Canada	1,975
TD Capital Group Limited	Toronto, Canada	246,021
TD Factors Limited	Toronto, Canada	–
TD Finance Ltd.	Toronto, Canada	–
TD Futures Inc.	Toronto, Canada	–
TD Mortgage Corporation	Toronto, Canada	478,003
TD Mortgage Investment Corporation	Calgary, Canada	87,500
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	84,437
United States		
Toronto-Dominion Holdings (U.S.A.), Inc. TD New York Equities, Inc. TD Securities (USA) Inc. The Toronto-Dominion Bank Trust Company Toronto Dominion Capital (U.S.A.), Inc. Toronto Dominion Investments, Inc. Toronto Dominion (New York), Inc. Toronto-Dominion (Texas), Inc.	Houston, U.S.A. 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.	563,160
Waterhouse Investor Services, Inc. National Investor Services Corp. Waterhouse National Bank Waterhouse Asset Management Inc. Waterhouse Mortgage Services Inc. Waterhouse, Nicoll & Associates, Inc. Waterhouse Securities, 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. New York, U.S.A.	1,215,495
Other foreign		
Dominbank Nominees Limited	London, England	–
Green Line Holdings (Australia) Pty Ltd Green Line Investor Services Limited	Sydney, Australia Sydney, Australia	29,343
Green Line Investor Services (U.K.) Limited Gall & Eke Limited	London, England London, England	3,162
TD Ireland	Shannon, Ireland	200,000
TD Reinsurance (Barbados) Inc.	St. Michael, Barbados	5,200
Toronto Dominion Australia Limited Toronto Dominion Securities Pty. Limited	Melbourne, Australia Melbourne, Australia	53,771
Toronto Dominion International Inc. TD Trust (Bermuda) Limited	St. Michael, Barbados Hamilton, Bermuda	208,772
Toronto Dominion Investments B.V. Toronto Dominion Bank Europe Limited Toronto Dominion Holdings (U.K.) Limited Toronto Dominion Finance (UK) Limited Toronto Dominion International Limited Toronto Dominion Investments Limited Toronto Dominion (United Kingdom) Limited	Amsterdam, The Netherlands London, England London, England London, England London, England London, England London, England	904,710
Toronto Dominion (South East Asia) Limited	Singapore, Singapore	616,396

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