MANAGEMENT'S DISCUSSION AND ANALYSIS

The following section provides a discussion and analysis of the Bank's operations for the most recent fiscal period ended October 31, 2005 and compared to the previous two fiscal years. This information should be read in conjunction with the Bank's audited Consolidated Financial Statements, which are prepared in accordance with Canadian generally accepted accounting principles (GAAP), on pages 71 to 109. Management's Discussion and Analysis is current as of December 8, 2005.

Certain comparative amounts have been restated.

Additional information relating to TD Bank Financial Group, including the Bank's Annual Information Form for the year ended October 31, 2005 is on the Bank's website at www.td.com, on SEDAR at www.sedar.com, as well as on the United States Securities and Exchange Commissions website at www.sec.gov (EDGAR filers section).

Caution regarding forward-looking statements

From time to time, the Bank makes written and oral forward-looking statements, including in this report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission (SEC), and in other communications. All such statements are made pursuant to the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements include, among others, statements regarding the Bank's objectives and targets, and strategies to achieve them, the outlook for the Bank's business lines, and the Bank's anticipated financial performance. Forward-looking statements are typically identified by words such as "believe", "expect", "anticipate", "intend", "estimate", "plan", "may" and "could". By their very nature, these statements require us to make assumptions and are subject to inherent risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements. Some of the factors that could cause such differences include: the credit, market, liquidity, interest rate, operational, reputational and other risks discussed in the management discussion and analysis section of this report and in other regulatory filings made in Canada and with the SEC; general business and economic conditions in Canada, the United States and other countries in which the Bank conducts business, as well as the effect of changes in monetary policy in those jurisdictions and changes in the foreign exchange rates for the currencies of those jurisdictions; the degree of competition in the markets in which the Bank operates, both from established competitors and new entrants; legislative and regulatory developments; the accuracy and completeness of information the Bank receives on customers and counterparties; the timely development and introduction of new products and services in receptive markets; expanding existing distribution channels; developing new distribution channels and realizing increased revenue from these channels, including electronic commerce-based efforts; the Bank's ability to execute its growth and acquisition strategies including those of its subsidiaries; changes in accounting policies and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; the effect of applying future accounting changes; global capital market activity; consolidation in the Canadian financial services sector; the Bank's ability to attract and retain key executives; reliance on third parties to provide components of the Bank's business infrastructure; technological changes; change in tax laws; unexpected judicial or regulatory proceedings; continued negative impact of the United States securities litigation environment; unexpected changes in consumer spending and saving habits; the possible impact on the Bank's businesses of international conflicts and terrorism; acts of God, such as earthquakes; the effects of disease or illness on local, national or international economies; the effects of disruptions to public infrastructure, such as transportation, communications, power or water supply; and management's ability to anticipate and manage the risks associated with these factors and execute the Bank's strategies. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity. The preceding list is not exhaustive of all possible factors. Other factors could also adversely affect the Bank's results. For more information, please see the discussion starting on page 56 of this report concerning the effect certain key factors could have on actual results. All such factors should be considered carefully when making decisions with respect to the Bank, and undue reliance should not be placed on the Bank's forward-looking statements. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf.

HOW WE PERFORMED

TD Bank Financial Group delivered strong underlying financial results in 2005. Each of our businesses contributed to shareholder value.

CORPORATE OVERVIEW

TD Bank Financial Group is one of the largest financial services providers in North America, offering comprehensive retail and commercial banking, wealth management and wholesale banking products and services. The Bank's operations and activities are organized around operating groups: Canadian Personal and Commercial Banking, U.S. Personal and Commercial Banking, Wholesale Banking and Wealth Management. The U.S. Personal and Commercial Banking segment is a new segment created from the acquisition of a majority stake in TD Banknorth in 2005.

HOW THE BANK REPORTS

The Bank prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) and refers to results prepared in accordance with GAAP as the "reported basis" or "reported".

The Bank also utilizes earnings before amortization of intangibles to assess each of its businesses and to measure overall Bank performance. In addition, in the "Analysis of Performance against Shareholder Indicators", the Bank has also excluded items of note in order to better reflect how management measures the performance of the Bank. The items of note are listed in the table below. To arrive at earnings before amortization of intangibles, the Bank removes amortization of intangibles from reported basis earnings. To arrive at earnings before amortization of intangibles and items of note, the Bank removes items of note from earnings before amortization of intangibles. The Bank's intangible amortization of assets primarily relates to the TD Banknorth acquisition in March 2005 and the Canada Trust acquisition in fiscal 2000. The items of note relate to items which management does not believe are indicative of underlying business performance. Consequently, the Bank believes that earnings before amortization of intangibles and, as applicable, items of note provides the reader with an understanding of how management views the Bank's performance. As explained, earnings before amortization of intangibles and, as applicable, items of note are different from reported results determined in accordance with GAAP. Earnings before amortization of intangibles and items of note and related terms used in this report are not defined terms under GAAP, and therefore may not be comparable to similar terms used by other issuers. Table 1 below provides a reconciliation between the Bank's earnings before amortization of intangibles and items of note and its reported results.

TABLE 1 **RECONCILIATION OF NON-GAAP MEASURES**

Net income before amortization of intangibles and items of note to reported results[1] (millions of Canadian dollars)	**2005**	2004	2003
Net interest income	**$ 6,021**	$5,773	$5,437
Provision for credit losses	**319**	336	423
Other income	**6,015**	4,961	4,469
Non-interest expenses	**7,825**	7,081	6,881
Income before provision for income taxes and non-controlling interest	**3,892**	3,317	2,602
Provision for income taxes	**899**	832	657
Non-controlling interest	**132**	–	–
Income before amortization of intangibles and items of note	**2,861**	2,485	1,945
Items of note impacting income, net of income taxes[3]			
Tax charge related to reorganizations	**(163)**	–	–
Other tax items	**98**	–	–
Loss on structured derivative portfolios	**(100)**	–	–
Restructuring charge	**(29)**	–	(617)
Non-core portfolio loan loss recoveries (sectoral related)	**127**	426	52
General allowance release	**23**	43	100
Litigation charge	**(238)**	(195)	–
Preferred share redemption	**(13)**	–	–
Hedging impact due to AcG-13	**17**	(50)	–
Net income before amortization of intangibles	**2,583**	2,709	1,480
Amortization of intangibles, net of income taxes	**(354)**	(477)	(491)
Net income available to common shareholders – reported basis	**$ 2,229**	$2,232	$ 989
Earnings per share (EPS) before amortization of intangibles and items of note to reported results (Canadian dollars)			
Basic – reported basis	**$ 3.22**	$ 3.41	$ 1.52
Diluted – reported basis	**3.20**	3.39	1.51
Items of note impacting income (as above)	**.40**	(.34)	.72
Amortization of intangibles	**.51**	.72	.75
Item of note impacting EPS	**.03**[2]	–	–
Diluted – before amortization of intangibles and items of note	**$ 4.14**	$ 3.77	$ 2.98

[1] Certain comparative amounts have been restated.

[2] Adjusting for the impact of TD Banknorth earnings in the 2005, due to the one month lag between fiscal quarter ends. Only one month of TD Banknorth earnings were included in the second quarter while two months of funding costs and share issuance impacted the quarter.

[3] Items of note include the following: $163 million tax expense primarily related to the TD Waterhouse reorganization in 2005 compared with nil in 2004 and nil in 2003; $98 million of other tax benefits in 2005 which includes the impact of a recent court decision and a tax benefit being applied to the future tax asset related to specific provisions compared with nil in 2004 and nil in 2003; $100 million loss in 2005 related to a reduction in the estimated value and the exit of certain structured product businesses compared with nil in 2004 and nil in 2003; $29 million in 2005 restructuring charges of the global structured products businesses compared with nil in 2004 and $617 million in 2003 primarily due to goodwill write downs; $127 million in 2005 for non-core portfolio loan loss recoveries (sectoral related) compared with $426 million in 2004 and $52 million in 2003; $23 million in 2005 general allowance release compared with $43 million in 2004 and $100 million in 2003; $238 million in 2005 contingent litigation reserve relating to Enron compared with $195 million in 2004 and nil in 2003; $13 million in 2005 preferred share redemption premium compared with nil in 2004 and nil in 2003 and $17 million in 2005 hedging impact due to AcG-13 compared with ($50) million in 2004 and nil in 2003.

ECONOMIC SUMMARY

The performance of the Canadian and U.S. economies in 2005 have been quite solid. In Canada, the domestic economy has performed well, with domestic demand growing at a strong pace. This reflected healthy consumer spending, supported by robust labour market conditions – as illustrated by a three decade low unemployment rate – and strong housing markets that increased outlays on big-ticket items, like furniture and appliances.

Meanwhile, double-digit corporate profit growth has helped to boost business investment. The main factor holding back the economy has been the fallout from the past appreciation in the Canadian dollar, which hit the non-commodity manufacturing sector particularly hard. The resulting challenging environment for exporters is expected to hold back the pace of Canadian economic growth to a moderate pace of close to 3 per cent this year. However, there are clear signs that businesses are gradually adjusting to the higher foreign exchange rate. Finally, the Canadian economy has been coping well with the energy shock. For the economy as a whole, the effect of high oil and gas prices is largely a wash, as the energy sector benefits, but consumers and energy-intensive businesses pay more.

Governments also benefit from higher tax revenues arising from the high energy prices. The high energy prices have not fuelled a sharp acceleration in inflation, which largely reflects the impact of cheap foreign imports and extremely competitive local markets that has limited the ability of firms to pass along the higher costs.

The U.S. economy has delivered a good performance in 2005 and is on track to post growth of about 3.5 per cent in the calendar year. This performance has been broadly based, with solid gains in consumer spending, business investment, government spending and exports. Moreover, the U.S. economy has weathered remarkably well the fallout from a number of hurricanes. Having said that, a couple of key imbalances have developed that warrant monitoring. Housing markets have been remarkably strong and the gains look excessive and unsustainable in some markets. The massive U.S. current account is also a key risk, but we expect that the U.S. will be able to finance the imbalance in the coming year.

ECONOMIC PROFIT AND RETURN ON INVESTED CAPITAL

The Bank utilizes economic profit as a tool to measure shareholder value creation. Economic profit is net income before amortization of intangibles and, for the purposes of the "Analysis of Performance Against Shareholder Indicators", items of note less a charge for average invested capital. Average invested capital is equal to average common equity for the period plus the average cumulative after-tax goodwill and intangible assets amortized as of the reporting date. The rate used in the charge for capital is the equity cost of capital calculated using the capital asset pricing model. The charge represents an assumed minimum return required by common shareholders on the Bank's invested capital. The Bank's goal is to achieve positive and growing economic profit.

Return on invested capital (ROIC) is net income before amortization of intangibles divided by average invested capital. ROIC is a variation on the economic profit measure that is useful in comparison to the equity cost of capital. Both ROIC and the cost of capital are percentage rates, while economic profit is a dollar measure. When ROIC exceeds the equity cost of capital, economic profit is positive. The Bank's goal is to maximize economic profit by achieving ROIC that exceeds the equity cost of capital.

Economic profit and ROIC are not defined terms under GAAP, and therefore may not be comparable to similar terms used by other issuers. The following table reconciles between the Bank's economic profit, return on invested capital and net income before amortization of intangibles and items of note. Earnings before amortization of intangibles and items of note and related terms are discussed in the "How the Bank Reports" section.

TABLE 2 **RECONCILIATION OF ECONOMIC PROFIT, RETURN ON INVESTED CAPITAL AND NET INCOME BEFORE AMORTIZATION OF INTANGIBLES AND ITEMS OF NOTE**

(millions of Canadian dollars)	**2005**	2004	2003
Average common equity	**$ 14,600**	$12,050	$11,396
Average cumulative goodwill/intangible assets amortized	**3,213**	2,834	2,396
Average invested capital	**$ 17,813**	$14,884	$13,792
Rate charged for invested capital	**10.1%**	10.7%	10.9%
Charge for invested capital	**(1,799)**	(1,593)	(1,530)
Net income before amortization of intangibles	**2,583**	2,709	1,480
Economic profit before amortization of intangibles	**$ 784**	$ 1,116	$ (50)
Items of note (as per Table 1)	**278**	(224)	465
Economic profit before amortization of intangibles and items of note	**$ 1,062**	$ 892	$ 415
Return on invested capital before amortization of intangibles	**14.5%**	18.2%	10.5%
Return on total common equity – reported basis	**15.3%**	18.5%	8.7%

ANALYSIS OF PERFORMANCE AGAINST SHAREHOLDER INDICATORS

Shareholder performance indicators help guide and benchmark the Bank's accomplishments. They represent medium-term objectives and assist in our assessment of achieving consistent sustainable earnings growth. The Bank's shareholder indicators are subject to economic conditions and other factors described in this report. However, our objective is to remain focused on achieving and exceeding the financial performance indicators over the medium-term. The following is an analysis of the Bank's performance against the shareholder indicators in 2005. For the purposes of this analysis, the Bank excludes amortization of intangibles and items of note from the reported basis results that are prepared in accordance with GAAP. For further explanations see "How the Bank Reports", "Economic Profit and Return on Invested Capital" and Table 1 "Reconciliation of Non-GAAP Measures" that are disclosed above and on the previous page.

ECONOMIC PROFIT[1]

Economic profit increased by $170 million or 19% in 2005. The increase was primarily due to Canadian Personal and Commercial Banking earnings generating $228 million of growth in economic profit. Strong volume growth across most personal and business products particularly in insurance products, business deposits and real estate secured lending drove the increase that was partially offset by tightening margins. Wealth Management generated $91 million of growth in economic profit largely driven by higher discount brokerage spreads and cash balances. Partially offsetting the above-mentioned growth was an economic loss of $105 million in TD Banknorth that was acquired in 2005. In addition, Wholesale Banking had a $49 million decline in economic profit largely due to lower trading revenues from the interest and credit portfolios.

TOTAL SHAREHOLDER RETURN

The total shareholder return was 16.9% compared to a Canadian Bank peer average of 12.9%. The result was driven primarily by appreciation of the Bank's share price as the closing price of $55.70 on October 31, 2005 was $6.72 higher than a year earlier. In addition the Bank paid quarterly dividends consistently throughout the past year. Total quarterly dividends were $1.58 per common share and included two dividend increases during the year.

DILUTED EARNINGS PER SHARE[1]

Diluted earnings per share growth was 10% for 2005. The increase was the result of strong earnings in Canadian Personal and Commercial Banking and Wealth Management. The diluted earnings per share growth was due to stronger earnings and the accretive acquisition of TD Banknorth. This acquisition on March 1, 2005 resulted in the number of average common shares outstanding increasing 6% during the year.

REVENUE GROWTH EXCEEDS EXPENSE GROWTH[1]

During 2005 each of our businesses had revenue growth that exceeded expense growth with the exception of Wholesale Banking. The differential between revenue and expense growth for each of our businesses was: 5% Canadian Personal and Commercial Banking (CP & CB), 4% Wealth Management (WM) and (2%) Wholesale Banking (WB). Our U.S. Personal and Commercial Banking business was acquired in 2005 and hence does not have comparable growth information.

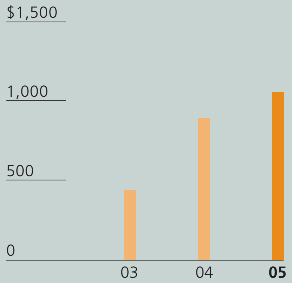
Canadian Personal and Commercial Banking and Wealth Management experienced strong revenue growth throughout 2005 primarily in real estate secured lending, insurance and discount brokerage spreads and cash balances. Prudent expense management in these businesses contained expense growth to reasonable levels. Wholesale Banking experienced lower trading related revenues during the year compared to 2004. Current year Wholesale Banking expenses were lower than 2004, however, the decline did not fully offset the lower revenue impact.

RETURN ON RISK WEIGHTED ASSETS[1]

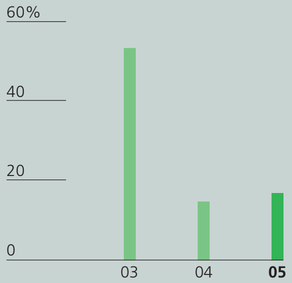
The Bank's return on risk weighted assets was 2.33% compared to the highest Canadian peer of 1.99%. Average risk-weighted assets increased $14.2 billion or 14% from 2004 due largely to TD Banknorth. While still maintaining a good risk profile, we also experienced strong volume growth in real estate secured lending and personal lending in Canadian Personal and Commercial Banking.

[1] These shareholder indicators and financial measures are presented before amortization of intangibles and excluding items of note (see Table 1 and "How the Bank Reports"). Reported diluted earnings per share decreased 5.6%. On a reported basis the difference between revenue and expense growth in Wholesale Banking was (12)% and there would be no change in Canadian Personal and Commercial Banking and Wealth Management. The return on risk weighted assets on a reported basis was 1.88%.

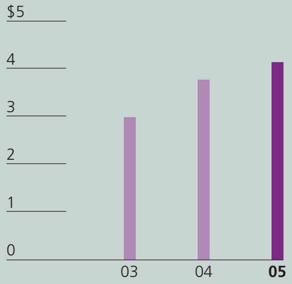
Economic profit[1]
(millions of Canadian dollars)



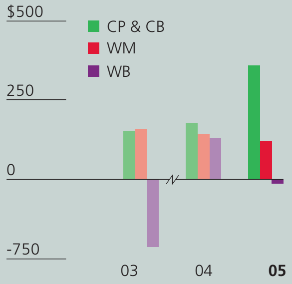
Total shareholder return
(percent)



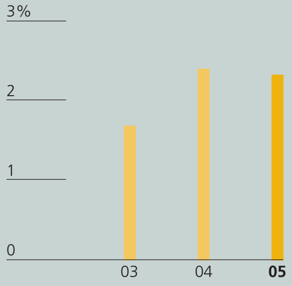
Diluted earnings per share[1]
(Canadian dollars)



Revenue growth vs expense growth gap[1]
(millions of Canadian dollars)



Return on risk-weighted assets[1]
(percent)



FINANCIAL RESULTS OVERVIEW

Net Income

AT A GLANCE OVERVIEW

- **Reported net income was $2,229 million, down $3 million from the prior year.**
- **Earnings before amortization of intangibles decreased by $126 million or 5%.**

As illustrated in Table 1, reported net income was $2,229 million in 2005, compared with reported net income of $2,232 million in 2004 and $989 million in 2003. Net income before amortization of intangibles was $2,583 million in 2005, compared with $2,709 million in 2004 and $1,480 million in 2003.

Diluted earnings per share before amortization of intangibles decreased by $.40 or 10% from a year ago. The decrease was primarily due to lower earnings before amortization of intangibles and the additional common shares outstanding during the year. The average number of diluted common shares was 697 million in fiscal 2005, compared to 659 million in 2004.

Net interest income increased $235 million or 4% from 2004 due to strong volume growth in real estate secured lending, credit cards and personal and business deposits and the inclusion of TD Banknorth's results. Discount brokerage deposit spreads and balances also experienced significant growth throughout the year. Retail banking's volume growth was partially offset by a weighting towards lower margin products that included guaranteed investment accounts and real estate secured lending. Trading related revenues from interest rate and credit portfolios that are reported in net interest income were substantially down from the prior year.

Provision for credit losses of $55 million was up $441 million compared to a net reversal of $386 million in 2004. During the year the Bank recorded $352 million of new provisions, $245 million of loan loss recoveries (mainly sectoral related) and a general loan loss allowance release of $52 million. In 2004, the Bank recorded $505 million of sectoral allowance reversals that did not recur in 2005.

Other income increased $1,006 million or 21% from 2004 primarily due to strong premium revenue from insurance products, the inclusion of TD Banknorth's results, and growth in the advice-based businesses.

Non-interest expenses increased $775 million or 10% primarily due to the inclusion of TD Banknorth's results. The litigation charge due to Enron-related claims was $365 million, an increase of $65 million over the prior year. Other expense increases occurred in restructuring costs and compensation related items.

Non-controlling interest was $132 million compared to nil in 2004. Non-controlling interest is the result of approximately 55% ownership in TD Banknorth.

Net income on a reported basis from Canadian operations was $1,117 million, down $251 million from 2004. Net income before amortization of intangibles from Canadian operations was $1,466 million, down $375 million from 2004. This decrease in net income from the prior year was largely due to provisions for credit losses of $301 million compared to a reversal of $388 million in 2004. The reversals in the prior year were largely related to sectoral allowance releases. Canadian operation expenses increased due to higher costs associated with the volume growth in insurance, higher employee compensation in the advice-based businesses and an increase of $65 million in the contingent litigation charges for Enron-related claims over the $300 million expensed in 2004. Revenue growth of $443 million resulted from solid lending and deposit product volume growth and consistently strong insurance revenues.

U.S. operations net income on a reported basis was $639 million, compared to $259 million in 2004. U.S. operations net income before amortization of intangibles increased to $644 million from $263 million primarily due to the acquisition of TD Banknorth in 2005. This acquisition contributed $158 million of net income, $1,004 million of total revenues and $549 million of expenses before amortization of intangibles to the Bank's U.S. operations. In addition, the decline in the provision for credit losses of $224 million from the prior year was the result of U.S. sectoral recoveries of $229 million.

Other international net income on a reported basis and net income before amortization of intangibles decreased by $132 million or 22% mainly reflecting lower net interest income from trading.

U.S. GAAP (see Note 27 of the Consolidated Financial Statements)

Net income under U.S. GAAP was $2,089 million for fiscal 2005, compared with $2,229 million under Canadian GAAP. The difference in net income is primarily due to the U.S. GAAP requirement to report the change in fair value of all Canadian GAAP effective hedges that are not designated or do not qualify for hedge accounting under U.S. GAAP and all ineffectiveness related to effective hedges through the Consolidated Statement of Income.

The Consolidated Statement of Comprehensive Income is a U.S. GAAP requirement, with no Canadian GAAP equivalent. Changes in the Bank's other comprehensive income are primarily driven by the U.S. GAAP requirement to record unrealized gains and losses on available for sale securities, changes in gains and losses on derivative instruments designated as cash flow hedges and unrealized foreign currency translation gains and losses through the Consolidated Statement of Comprehensive Income.

TABLE 3 **RESULTS BY GEOGRAPHIC SEGMENT**[1]

(millions of Canadian dollars)				**2005**				2004				2003
	Canada	**United States**	**Other International**	**Total**	Canada	United States	Other International	Total	Canada	United States	Other International	Total
Net interest income	**$3,860**	**$1,338**	**$810**	**$ 6,008**	$3,849	$ 747	$1,177	$ 5,773	$3,579	$ 681	$1,177	$5,437
Other income	**4,550**	**1,286**	**53**	**5,889**	4,118	812	(47)	4,883	3,623	907	(106)	4,424
Total revenues	**8,410**	**2,624**	**863**	**11,897**	7,967	1,559	1,130	10,656	7,202	1,588	1,071	9,861
Provision for (reversal of) credit losses	**301**	**(222)**	**(24)**	**55**	(388)	2	–	(386)	401	(150)	(65)	186
Non-interest expenses	**6,168**	**1,587**	**481**	**8,236**	5,793	1,119	469	7,381	5,113	1,749	730	7,592
Provision for income taxes	**475**	**483**	**(67)**	**891**	721	175	56	952	523	12	68	603
Non-controlling interest	**–**	**132**	**–**	**132**	–	–	–	–	–	–	–	–
Net income before amortization of intangibles	**1,466**	**644**	**473**	**2,583**	1,841	263	605	2,709	1,165	(23)	338	1,480
Amortization of intangibles, net of income taxes	**349**	**5**	**–**	**354**	473	4	–	477	491	–	–	491
Net income – reported basis	**$1,117**	**$ 639**	**$473**	**$ 2,229**	$1,368	$ 259	$ 605	$ 2,232	$ 674	$ (23)	$ 338	$ 989

[1] Based on geographic location of unit responsible for recording revenue.

FINANCIAL RESULTS OVERVIEW

Revenues

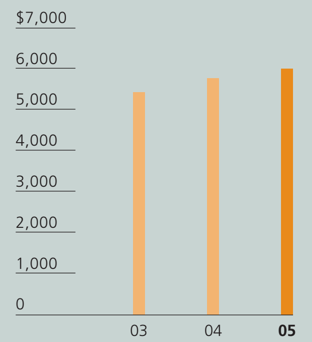
AT A GLANCE OVERVIEW

- **Revenues increased by $1,241 million or 12% from 2004.**
- **Net interest income was up $235 million or 4%.**
- **Other income was up $1,006 million or 21%.**
- **TD Banknorth's revenue was $1,004 million.**

Total revenues were up $1,241 million or 12% from 2004, reaching $11.9 billion. Canadian and U.S. revenues increased 6% and 68%, respectively. Revenue increases were driven by both organic growth and the acquisition of TD Banknorth. The revenue growth was positively impacted by net interest income and fee income primarily due to TD Banknorth. Insurance premiums and brokerage fee growth also had a favourable impact on other income.

NET INTEREST INCOME

Net interest income was $6,008 million in 2005, a year-over-year increase of $235 million or 4%. As shown in Table 4, while higher asset volumes added $1,109 million to net interest income in 2005, changes in rates reduced net interest income by $874 million. The overall increase in net interest income primarily related to our acquisition of TD Banknorth. The inclusion of 7 months of net interest income from TD Banknorth contributed $705 million. This was the first year that TD Banknorth results were included in the Bank's results. Net interest income in Wealth Management's discount brokerage business increased by $151 million due to higher brokerage account spreads and balances. There was also an increase of $188 million of net interest income in Canadian Personal and Commercial Banking due to strong volume growth in real estate secured lending, core banking and business deposits, partially offset by a continued product mix shift into lower margin products, including real estate secured lending and guaranteed investment savings accounts. Wholesale Banking experienced reduced trading related net interest income in the equity and credit portfolios, largely due to higher U.S. dollar cost of funds which more than doubled during the year due to an increase in U.S. short-term interest rates. See trading related income discussion on page 20. Net interest income also decreased in the Corporate segment due to lower non-core portfolio revenue and income earned on income tax refunds in the prior year that did not recur.



Net interest income
(millions of Canadian dollars)

TABLE 4 ANALYSIS OF CHANGE IN NET INTEREST INCOME

(millions of Canadian dollars)	**2005 vs 2004**			2004 vs 2003		
	Favourable (unfavourable) due to change in			Favourable (unfavourable) due to change in		
	Average volume	**Average rate**	**Net change**	Average volume	Average rate	Net change
Total earning assets	**$1,634**	**$ 10**	**$ 1,644**	$335	$(405)	$ (70)
Total interest-bearing liabilities	**(525)**	**(884)**	**(1,409)**	(29)	435	406
Net interest income	**$1,109**	**$(874)**	**$ 235**	$306	$ 30	$336

NET INTEREST MARGIN

The net interest margin declined by 17 basis points in 2005, reaching 2.09%. This reflected spread compression on domestic mortgages and deposits due to a change in product mix as volume growth continues to be weighted toward lower margin products including real estate secured lending and guaranteed investment savings accounts. The downward trend in margin was less pronounced in the latter half of the year. As shown in Table 5 the average rate paid on total liabilities increased by 28 basis points and the average rate received on total assets increased by 7 basis points.

TABLE 5	NET INTEREST INCOME ON AVERAGE EARNING BALANCES[1]								
(millions of Canadian dollars)		**2005**			2004				2003
	Average balance	**Interest**	**Average[2] rate**	Average balance	Interest	Average[2] rate	Average balance	Interest	Average[2] rate
Earning assets									
Deposits with banks	**$ 10,654**	**$ 415**	**3.90%**	$ 7,760	$ 517	6.66%	$ 7,323	$ 212	2.89%
Securities									
Investment	**32,354**	**1,503**	**4.65**	27,678	1,219	4.40	29,183	1,017	3.48
Trading	**77,906**	**2,536**	**3.26**	71,188	2,438	3.42	62,161	2,431	3.91
Total securities	**110,260**	**4,039**	**3.66**	98,866	3,657	3.70	91,344	3,448	3.77
Securities purchased under reverse repurchase agreements	**27,253**	**907**	**3.33**	28,306	734	2.59	33,311	902	2.71
Loans									
Residential mortgages	**58,033**	**2,807**	**4.84**	52,155	2,625	5.03	53,168	2,881	5.42
Consumer instalment and other personal	**55,975**	**3,067**	**5.48**	45,215	2,373	5.25	36,909	2,195	5.95
Credit card	**2,690**	**323**	**12.01**	2,289	271	11.84	2,181	271	12.43
Business and government	**23,288**	**1,218**	**5.23**	20,778	955	4.60	27,571	1,293	4.69
Total loans	**139,986**	**7,415**	**5.30**	120,437	6,224	5.17	119,829	6,640	5.54
Total earning assets	**$288,153**	**$12,776**	**4.43%**	$255,369	$11,132	4.36%	$251,807	$11,202	4.45%
Interest-bearing liabilities									
Deposits									
Personal	**$122,032**	**$ 2,509**	**2.06%**	$108,586	$ 2,077	1.91%	$102,485	$ 2,130	2.08%
Banks	**14,683**	**462**	**3.15**	16,166	309	1.91	22,170	412	1.86
Business and government	**99,827**	**2,158**	**2.16**	81,139	1,467	1.81	77,750	1,660	2.14
Total deposits	**236,542**	**5,129**	**2.17**	205,891	3,853	1.87	202,405	4,202	2.08
Subordinated notes and debentures	**5,626**	**328**	**5.83**	5,731	312	5.44	4,710	259	5.50
Obligations related to securities sold short and under repurchase agreements	**34,499**	**1,164**	**3.37**	34,730	1,024	2.95	38,378	1,125	2.93
Preferred shares and capital trust secuities	**2,215**	**147**	**6.64**	2,672	170	6.36	2,789	179	6.42
Total interest-bearing liabilities	**$278,882**	**$ 6,768**	**2.43%**	$249,024	$ 5,359	2.15%	$248,282	$ 5,765	2.32%
Total net interest income		**$ 6,008**	**2.00%**		$ 5,773	2.21%		$ 5,437	2.13%

[1] Net interest income includes dividends on securities.
[2] Calculation is subject to rounding.

TABLE 6	NET INTEREST RATE MARGIN								
(millions of Canadian dollars)		**2005**			2004				2003
	Average earning assets	**Net interest income**	**Margin**	Average earning assets	Net interest income	Margin	Average earning assets	Net interest income	Margin
Canada	**$183,607**	**$ 3,860**	**2.10%**	$166,647	$3,849	2.31%	$156,193	$3,579	2.29%
United States	**61,159**	**1,339**	**2.19**	43,067	747	1.73	48,582	681	1.40
Other international	**43,387**	**809**	**1.86**	45,655	1,177	2.58	47,032	1,177	2.50
Total Bank	**$288,153**	**$ 6,008**	**2.09%**	$255,369	$5,773	2.26%	$251,807	$5,437	2.16%

OTHER INCOME

Sources of the Bank's other income include revenues from brokerage fees, insurance premiums, service fees, mutual fund management fees, income from loan securitizations and other revenue.

Other income, on a reported basis was $5,889 million in 2005, an increase of $1,006 million or 21% from 2004.

Trading income reported in other income for 2005 was $147 million, up $300 million compared with a loss of $153 million in fiscal 2004 mainly due to an increase in trading revenue within the Wholesale Banking credit and equity trading businesses. See trading related income discussion on page 20. Trading income for 2005 also included a $153 million loss due to a reduction in the estimated value and the exit of certain structured derivative portfolios in connection with the repositioning of the Bank's global structured products businesses.

Insurance revenues, net of claims, increased by $233 million or 39% compared with the prior year. The increase was due to the acquisition of business from Liberty Mutual Group, the inclusion of TD Banknorth's insurance business, organic growth and a slightly lower claims ratio. Card services revenues increased by $107 million or 62% from 2004 due to the inclusion of results from TD Banknorth, organic volume growth and adjustments for reward programs included in prior year results. Securitization income increased by $24 million due to higher levels of average securitized assets. Service charges increased by $114 million or 17% from fiscal 2004 largely due to the inclusion of results from TD Banknorth.

Investment and securities services increased by $121 million or 5% from 2004. Mutual fund management fees also increased by $51 million or 9% due to a 20% increase in mutual funds assets under management from the end of 2004. Securities and full service brokerage revenues increased by $189 million due to higher activity within Wealth Management's advice-based businesses as a result of growth in the number of client facing advisors. Included in securities and full service brokerage, capital market fee revenue (which includes revenues from mergers and acquisitions, underwriting and equity sales and trading) increased by $81 million or 26% mainly due to an increase in the domestic underwriting business and increased equity trading commissions earned on equity block trading. Discount brokerage fees decreased by $119 million or 12% compared with the prior year due to a decline in commissions per trade, lower average trades per day and the impact of foreign exchange in TD Waterhouse U.S.A. Average trades per day decreased by 3% to 105,000 compared with 108,000 in 2004.

The Bank reported a gain of $27 million in other income, net of accrual costs, related to derivatives not afforded hedge accounting as a result of the hedging relationships accounting guideline (AcG-13).

TABLE 7 **OTHER INCOME**

(millions of Canadian dollars)						2005 vs 2004
	2005	2004	2003	2002	2001	% change
Investment and securities services:						
Discount brokerage	**$ 866**	$ 985	$ 957	$ 922	$1,002	(12.1)%
Securities and full service brokerage	**927**	738	667	641	701	25.6
Mutual funds	**624**	573	508	522	502	8.9
Credit fees	**343**	343	415	415	425	–
Net investment securities gains	**242**	192	23	26	216	26.0
Trading income (loss)	**147**	(153)	104	529	1,318	196.1
Service charges	**787**	673	641	596	561	16.9
Loan securitizations	**414**	390	250	218	272	6.2
Card services	**279**	172	252	249	249	62.2
Insurance, net of claims	**826**	593	420	375	326	39.3
Trust fees	**111**	78	70	76	86	42.3
Gains on sale of investment real estate	**–**	–	–	–	350	–
Gain on sale of mutual fund record keeping and custody business	**–**	–	–	40	–	–
Write-down of investment in joint ventures	**–**	–	(39)	–	–	–
Other	**323**	299	156	320	439	8.0
Total	**$5,889**	$4,883	$4,424	$4,929	$6,447	20.6%

TRADING RELATED INCOME

As shown in Table 8, total trading related income, which is the total of trading income reported in other income and net interest income on trading positions, decreased by $280 million or 32%, resulting in $604 million of total trading revenue. This decline was a result of weaker performance within the interest rate, credit and equity portfolios. The interest rate and equity derivatives businesses were negatively impacted by a $153 million loss incurred due to a reduction in the estimated value and exit of certain structured derivatives portfolios that was recorded in trading income (loss) in 2005. Additionally, weaker results were experienced in the trading of credit instruments.

TABLE 8 **TRADING RELATED INCOME**[1]

(millions of Canadian dollars)				2005 vs 2004
	2005	2004	2003	% change
Net interest income	**$457**	$1,037	$889	(55.9)%
Other income	**147**	(153)	104	196.1
Total trading related income	**$604**	$ 884	$993	(31.7)%
By product				
Interest rate and credit portfolios	**$370**	$ 559	$581	(33.8)%
Foreign exchange portfolios	**248**	230	248	7.8
Equity and other portfolios	**(14)**	95	164	(114.7)
Total trading related income	**$604**	$ 884	$993	(31.7)%
Trading related revenues as a percentage of total revenues	**5.1%**	8.3%	10.1%	

[1] Trading related income includes both trading income reported in other income and net interest income derived from trading instruments.

FINANCIAL RESULTS OVERVIEW

Expenses

AT A GLANCE OVERVIEW

- **Reported non-interest expenses increased by $775 million.**
- **TD Banknorth expenses before amortization of intangibles were $549 million.**
- **Enron related litigation provisions of $365 million.**
- **Restructuring charges of $43 million.**

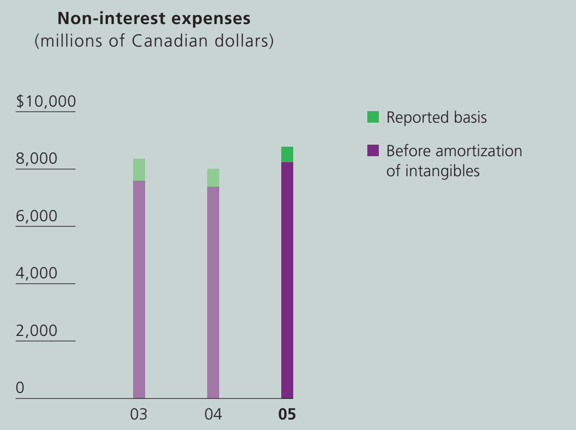
NON-INTEREST EXPENSES

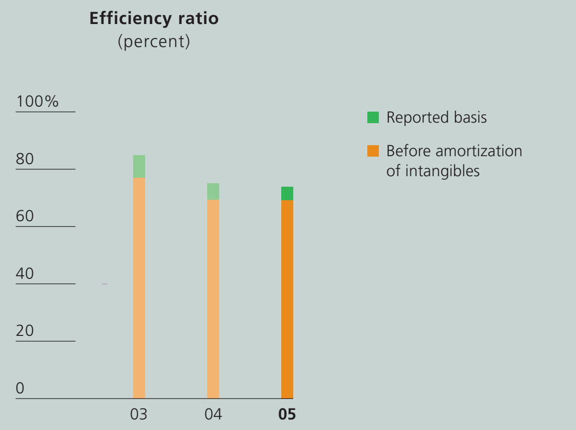
Expenses include costs, such as salaries, occupancy and equipment costs, amortization of intangibles and other operating and non-operating expenses.

In 2005, we continued to tightly manage our cost base with a clear focus on improving the efficiency of all our businesses. On a reported basis, expenses for fiscal 2005 were $8,782 million compared with $8,007 million in fiscal 2004, up $775 million or 10%. The inclusion of results from the TD Banknorth acquisition contributed $549 million to this expense increase. Expenses before amortization of intangibles in fiscal 2005 were $8,236 million up from $7,381 million in 2004.

As shown in Table 9, salaries and employee benefits rose $438 million or 12% during the year, reflecting a $290 million or 13% increase in salaries, a $55 million or 5% increase in incentive compensation and a $93 million or 21% increase in pension and other employee benefits. Occupancy costs were up $64 million or 11%. Equipment costs were up $47 million or 8%. Occupancy and equipment costs increased due to the inclusion of TD Banknorth results which operates 397 branches and 556 automated banking machines. Professional and advisory services expenses increased by $48 million or 11%, primarily due to increased business development activity related to the acquisition of TD Banknorth, the proposed transactions with Ameritrade and Hudson United Bancorp. The increase in other expenses was largely due to the recognition of approximately $365 million of expense related to contingent litigation reserves increases related to Enron, compared to $300 million the previous year and increases in restructuring costs and marketing and business development. The impact of the amortization of intangibles on the Bank's reported expenses was $546 million, compared with $626 million in fiscal 2004.

Expenses in Canadian Personal and Commercial Banking increased mainly due to very strong growth in the insurance business, growth in compensation costs, increased marketing costs and increased investments in systems development and infrastructure. Also this was the first full year of expenses from the Liberty Mutual acquisition. Expenses increased in Wealth Management due to an increase in compensation costs in the advisory businesses and higher mutual fund sales commissions, driven by higher assets under management. The expense increase was partially offset by the impact of foreign exchange translation in TD Waterhouse U.S.A.. Expenses in Wholesale Banking increased primarily due to the recognition of $43 million in restructuring costs relating to the global structured products businesses. The restructuring costs are further explained in Note 24 on page 104.





EFFICIENCY RATIO

The efficiency ratio measures the efficiency of operations. The ratio is calculated by taking expenses as a percentage of total revenue. A lower ratio indicates a more efficient business operation.

On a reported basis, the Bank's overall efficiency ratio improved to 73.8% from 75.1% in 2004 and 84.8% in 2003. The Bank's consolidated efficiency ratio is impacted by shifts in its business mix. The efficiency ratio is viewed as a more relevant measure for Canadian Personal and Commercial Banking, which had an efficiency ratio, before amortization of intangibles of 56.3% this year compared with 58.7% in 2004 and 59.2% in 2003. The Bank's efficiency ratio before amortization of intangibles was 69.2% compared with 69.3% in 2004 and 77.0% in 2003.

TABLE 9	NON-INTEREST EXPENSES AND EFFICIENCY RATIO					
(millions of Canadian dollars)						2005 vs 2004
	2005	2004	2003	2002	2001	% change
Salaries and employee benefits						
Salaries	**$ 2,544**	$2,254	$2,304	$2,273	$2,225	12.9%
Incentive compensation	**1,139**	1,084	986	875	1,150	5.1
Pension and other employee benefits	**535**	442	468	418	333	21.0
Salaries and employee benefits total	**4,218**	3,780	3,758	3,566	3,708	11.6
Occupancy						
Rent	**373**	353	361	330	323	5.7
Depreciation	**147**	134	143	148	149	9.7
Property tax	**17**	14	15	18	19	21.4
Other	**139**	111	137	109	101	25.2
Occupancy total	**676**	612	656	605	592	10.5
Equipment						
Rent	**192**	165	185	170	159	16.4
Depreciation	**175**	160	175	164	169	9.4
Other	**242**	237	290	327	328	2.1
Equipment total	**609**	562	650	661	656	8.4
Goodwill impairment[1]/amortization	**–**	–	624	–	198	–
Amortization of intangible assets	**546**	626	772	998	1,292	(12.8)
Restructuring costs	**43**	(7)	92	–	239	714.3
Marketing and business development	**469**	384	348	388	410	22.1
Brokerage related fees	**226**	228	229	224	229	(.9)
Professional and advisory services	**494**	446	372	366	322	10.8
Communications	**205**	207	208	225	205	(1.0)
Other						
Capital and business taxes	**167**	141	133	107	106	18.4
Postage	**108**	100	91	96	115	8.0
Travel and relocation	**78**	62	58	68	67	25.8
Other	**943**	866	373	448	515	8.9
Other total	**1,296**	1,169	655	719	803	10.9
Total expenses	**$ 8,782**	$8,007	$8,364	$7,752	$8,654	9.7%
Efficiency ratio – reported basis	**73.8%**	75.1%	84.8%	77.0%	81.1%	(130)bps
Efficiency ratio – before amortization of intangibles	**69.2**	69.3	77.0	67.1	69.0	(10)

[1] Amount represents goodwill impairment in 2003 and goodwill amortization in 2001.

TAXES

Total income and other taxes were up $42 million from 2004. Current income tax expense before amortization of intangibles was down $61 million, reflecting a 6.4% decrease from 2004. Other taxes were up $103 million from the prior year mainly due to an increase in payroll taxes, capital taxes and sales taxes by $44 million, $28 million and $32 million respectively.

The Bank's effective income tax rate, on a reported basis, was 22.8% for fiscal 2005, compared with 26.4% in fiscal 2004. Based on earnings before amortization of intangibles, the effective income tax rate was 24.7% for fiscal 2005, compared with 26.0% in fiscal 2004. The effective income tax rate on the reported basis is set out in Note 16 of the Bank's Consolidated Financial Statements.

The Bank has entered into certain agreements with Ameritrade. These agreements called for reorganization of the corporate entities prior to completion of the transaction. This reorganization was largely completed in the fourth quarter, with related tax costs of $138 million. Other corporate restructuring added $25 million.

The Government of Canada has the practice of announcing proposed legislation and enacting it only years, in some cases, many years later. However such enactment is often retroactive to the original announcement date although the form of the legislation may have greatly altered over the time period. Neither Canadian nor U.S. GAAP allows for any provision of the estimated impact of such proposals, even where they have a high likelihood of passage.

Currently, there is a very large amount of proposed legislation which would affect the Bank. Because of its complexity and uncertainty it is not possible to estimate a total impact. Generally, however, the Bank believes that the net impact will be favourable.

TABLE 10 TAXES					
(millions of Canadian dollars)	**2005**	2004	2003	2002	2001
Income tax expense (benefit) – before amortization of intangibles	**$ 891**	$ 952	$ 603	$ (81)	$ 646
Other taxes					
Payroll	**222**	178	193	187	174
Capital	**161**	133	125	97	98
GST and provincial	**178**	146	150	162	149
Municipal and business	**84**	85	86	93	91
Total other taxes	**645**	542	554	539	512
Total taxes	**$1,536**	$1,494	$1,157	$458	$1,158
Effective income tax rate – before amortization of intangibles	**24.7%**	26.0%	28.9%	–%	27.0%
Effective total tax rate – before amortization of intangibles[1]	**36.1**	35.5	43.9	49.1	39.9

[1] Total income and other taxes as a percentage of net income before income and other taxes.

FINANCIAL RESULTS OVERVIEW

Quarterly Financial Information

PERFORMANCE SUMMARY

Net income, on a reported basis, was $589 million for the fourth quarter, compared with $595 million in the same quarter last year. Reported basic earnings per share were $.83, compared with $.91 in the same quarter last year. Reported diluted earnings per share were $.82 for the fourth quarter, compared with $.90 in the same quarter last year. Reported return on total common equity, on an annualized basis was 14.8%, compared with 19.1% in the same quarter last year.

Net income before amortization of intangibles for the fourth quarter was $675 million, compared with $687 million in the same quarter last year. Basic earnings per share before amortization of intangibles were $.95, compared with $1.05 in the same quarter last year. Diluted earnings per share before amortization of intangibles were $.94 for the quarter, compared with $1.04 in the same quarter last year. Return on total common equity before amortization of intangibles, on an annualized basis was 17.0% for the quarter, compared with 22.1% in the same quarter last year.

See fourth quarter 2005 news release for a discussion of items of note.

NET INTEREST INCOME

Net interest income on a reported basis was $1,641 million for the fourth quarter, an increase of $206 million compared with the same quarter last year. The increase was a result of the inclusion of TD Banknorth results, which reported net interest income of $298 million. Net interest income in Wealth Management's discount brokerage operations also increased due to growth in deposit spreads and margin balances. There was also increased net interest income in Canadian Personal and Commercial Banking due to volume growth across most banking products, particularly in business deposits, real estate secured lending, and credit cards. Wholesale Banking experienced reduced trading-related net interest income within the U.S. dollar equity businesses largely due to increases in U.S. short term interest rates. Net interest income also decreased in the Corporate segment due to interest earned on income tax refunds in the prior year.

OTHER INCOME

Other income, on a reported basis was $1,442 million for the fourth quarter, an increase of $324 million compared with the same quarter last year. $119 million of this increase was attributable to TD Banknorth.

Investment and securities services revenues increased by $123 million compared with the same quarter last year. Self-directed brokerage fees increased by $19 million compared with the same quarter last year due to an increase in trading volumes. Average trades per day increased by 28% to 106,000 compared with 83,000 in the same quarter last year. This was partially offset by a decline in commissions per trade and the impact of foreign exchange in TD Waterhouse U.S.A.. Mutual fund management fees and investment management fees also increased by $13 million and $20 million respectively, in the same quarter last year due to an increase in assets under management. Capital market fee revenue (which includes revenues from mergers and acquisitions, underwriting and equity sales and trading) increased by $46 million mainly due to an increase in the equity underwriting business and increased equity trading commissions.

The Bank reported a trading loss of $88 million compared with a loss of $75 million in the same quarter last year. Trading-related income (which is the total of trading income reported in other income and net interest income on trading positions reported in net interest income) decreased by $114 million compared with the same quarter last year primarily due to a $107 million loss recorded in the fourth quarter due to a reduction in the estimated value and the exit of certain structured derivatives portfolios in connection with the repositioning of the global structured products businesses. Net investment securities gains increased by $32 million compared with the same quarter last year. The Bank also recognized income of $10 million in the current quarter, related to derivatives not afforded hedge accounting as a result of the adoption of the hedging relationships accounting guideline (AcG-13).

Insurance revenues, net of claims, increased by $35 million compared with the same quarter last year due to the inclusion of results from the TD Banknorth acquisition, organic volume growth and a slightly lower claims ratio. Card services increased by $65 million compared to the same quarter last year due to the inclusion of results from TD Banknorth, increased volume and adjustments for reward programs included in prior year results. Service charges also increased by $49 million compared with the same quarter last year mainly due to the inclusion of results from TD Banknorth. Securitization income increased by $38 million due to higher average levels of securitized assets.

PROVISION FOR (REVERSAL OF) CREDIT LOSSES

In the fourth quarter, the Bank recorded a reversal of credit losses of $15 million, compared with a reversal of $73 million in the same quarter last year. The reversal was a result of a $109 million recovery in the non-core lending portfolio for amounts previously provided for under sectoral provisions. This recovery was largely offset by provisions for credit losses in the normal course of business, mainly attributable to Canadian Personal and Commercial Banking which reported a $97 million provision (before the effect of securitizations). U.S. Personal and Commercial Banking reported a provision of $7 million during the quarter. No credit losses were experienced in the Wholesale Banking credit portfolio during the quarter.

NON-INTEREST EXPENSES

On a reported basis, expenses for the fourth quarter were $2,203 million, an increase of $299 million from $1,904 million in the same quarter last year.

The increase in expenses was largely due to the inclusion of results from the TD Banknorth acquisition, which contributed $216 million. Expenses also increased in Wholesale Banking, partially as a result of higher variable compensation costs and higher payroll taxes. Canadian Personal and Commercial Banking also contributed to the expense increase, mainly due to increased employee compensation, marketing, and investments in systems development and infrastructure. Expenses increased in Wealth Management due to an increase in compensation costs in the advisory businesses, higher mutual fund sales commissions, driven by higher assets under management and higher mutual funds marketing costs, partially offset by the impact of foreign exchange in TD Waterhouse U.S.A. These increases were partially offset by a $54 million litigation accrual last year that did not recur this quarter in Corporate. The impact of amortization of other intangibles on the Bank's reported total expenses before amortization of intangibles was $135 million for the fourth quarter, compared with $142 million in the same quarter last year. Total expenses before the amortization of intangibles in the fourth quarter were $2,068 million compared to $1,762 million in the same quarter last year.

TAXES

The Bank's effective tax rate, on a reported basis, was 28.3% for the fourth quarter, compared with 17.6% in the same quarter last year.

The provision for income taxes for the fourth quarter includes a $138 million tax expense relating to TD Waterhouse. Certain steps have been taken to reorganize the TD Waterhouse group of companies which precedes the transaction with Ameritrade. These steps have been essentially completed in fiscal 2005. The provision for income taxes also includes favourable tax items of $68 million, which include the impact of a recent court decision.

Table 11 provides the summary information related to the Bank's eight most recently completed quarters.

TABLE 11 **QUARTERLY RESULTS**

(millions of Canadian dollars)				**2005**				2004
				Quarter ended				Quarter ended
	October 31	**July 31**	**April 30**	**January 31**	October 31	July 31	April 30	January 31
Net interest income	**$1,641**	**$1,563**	**$1,393**	**$1,411**	$1,435	$1,452	$1,441	$1,445
Other income	**1,442**	**1,535**	**1,517**	**1,395**	1,118	1,181	1,284	1,300
Total revenues	**3,083**	**3,098**	**2,910**	**2,806**	2,553	2,633	2,725	2,745
Provision for (reversal of) credit losses	**(15)**	**40**	**20**	**10**	(73)	(17)	(192)	(104)
Non-interest expenses	**2,068**	**2,434**	**1,923**	**1,811**	1,762	1,755	2,109	1,755
Provision for income taxes	**302**	**64**	**257**	**268**	177	231	211	333
Non-controlling interest in net income of subsidiaries	**53**	**58**	**21**	**–**	–	–	–	–
Net income before amortization of intangibles	**675**	**502**	**689**	**717**	687	664	597	761
Amortization of intangibles, net of income taxes	**86**	**91**	**90**	**87**	92	99	107	179
Net income available to common shareholders – reported basis	**$ 589**	**$ 411**	**$ 599**	**$ 630**	$ 595	$ 565	$ 490	$ 582
(Canadian dollars)								
Basic earnings per share								
– reported basis	**$ .83**	**$ .58**	**$ .87**	**$ .96**	$ .91	$ .87	$ .75	$ .89
– before amortization of intangibles	**.95**	**.71**	**1.00**	**1.09**	1.05	1.02	.91	1.16
Diluted earnings per share								
– reported basis	**.82**	**.58**	**.86**	**.95**	.90	.86	.74	.88
– before amortization of intangibles	**.94**	**.70**	**.99**	**1.08**	1.04	1.01	.90	1.15
Return on common shareholders' equity								
– reported basis	**14.8%**	**10.4%**	**17.2%**	**19.5%**	19.1%	18.4%	16.5%	19.8%
– before amortization of intangibles	**17.0**	**12.7**	**19.8**	**22.1**	22.1	21.7	20.1	26.0
(billions of Canadian dollars)								
Average earning assets	**$ 304**	**$ 302**	**$ 279**	**$ 267**	$ 257	$ 258	$ 258	$ 248
Net interest margin as a percentage of average earning assets	**2.14%**	**2.05%**	**2.05%**	**2.10%**	2.22%	2.23%	2.27%	2.32%

BUSINESS SEGMENT ANALYSIS

Business Focus

For management reporting purposes, the Bank's operations and activities are organized around the following operating business segments: Canadian Personal and Commercial Banking, U.S. Personal and Commercial Banking, Wholesale Banking and Wealth Management.

Canadian Personal and Commercial Banking comprises the Bank's personal and business banking business in Canada as well as the Bank's global insurance operations (excluding the U.S.). Operating in Canada under the TD Canada Trust brand, the retail operations provide a full range of financial products and services to approximately 10 million personal and small business customers. Products and services are provided – anywhere, anytime – through telephone and internet banking, more than 2,400 automated banking machines and a network of 1,014 branches located across Canada. TD Commercial Banking serves the needs of medium sized Canadian businesses, customizing a broad range of products and services to meet their financing, investment, cash management, international trade and day-to-day banking needs. Under the TD Insurance and TD Meloche Monnex brands, the Bank offers in Canada a broad range of insurance products including home and automobile coverage, life and health insurance, as well as credit protection coverage on TD Canada Trust lending products.

U.S. Personal and Commercial Banking. The Bank's approximate 55% ownership of TD Banknorth serves as the focal point of our personal and commercial banking operations in the United States. TD Banknorth provides financial services to more than 1.3 million households in the northeastern United States. Headquartered in Portland, Maine the business comprises commercial banking, insurance agency, wealth management, mortgage banking and other financial services. TD Banknorth distributes products and services through a network of 397 branches and 556 automated banking machines. The Bank's U.S. Personal and Commercial banking footprint will expand with the proposed acquisition of Hudson United Bancorp in 2006. This acquisition will add approximately U.S.$9.1 billion of assets and U.S. $6.6 billion of deposits and will expand TD Banknorth's network with an additional 204 branches and 201 automated banking machines in the Hudson River Valley, New Jersey, Connecticut and Philadelphia marketplaces.

Wholesale Banking serves a diverse base of corporate, government and institutional clients in key financial markets around the world. Under the TD Securities brand, Wholesale Banking provides a full range of capital markets and investment banking products and services that include: advice on corporate strategy and mergers and acquisitions; underwriting and distributing loan, debt and equity products; structuring tailored risk management solutions; and executing financial transactions.

Wealth Management provides a wide array of investment products and services through different brands to a large and diverse retail and institutional global client base. Wealth Management comprises a number of advisory, distribution and asset management businesses including TD Waterhouse and TD Mutual Funds, and is one of Canada's largest asset managers. Through Wealth Management's discount brokerage channels, it serves customers in Canada, the United States and the United Kingdom. In Canada, discount brokerage, financial planning, and private client services cater to the needs of different retail customer segments through all stages of their investing life cycle. At the end of the year, Wealth Management had assets under administration of $314 billion and assets under management of $130 billion.

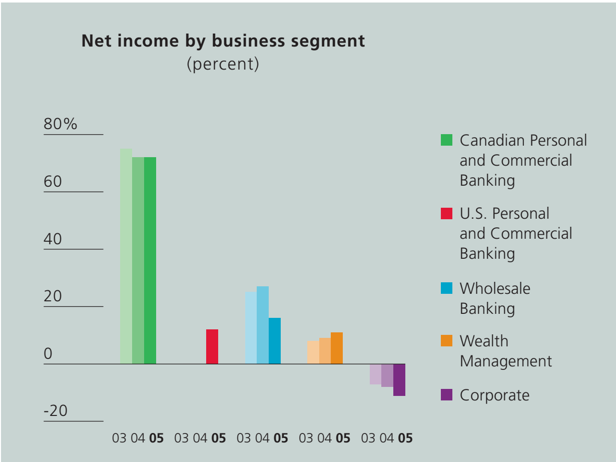
Discount brokerage will expand operations through a proposed transaction to sell TD Waterhouse U.S.A. to Ameritrade Holding Inc. The new organization will be called TD Ameritrade and is anticipated to have a combined 5.9 million client accounts that generate approximately 239 thousand trades per day. The Bank will own approximately 32% of TD Ameritrade after closing and has agreed to tender for an additional 7.9% of TD Ameritrade shares promptly after closing which, if successful, would bring the Bank's total holdings to 39.9%.

The Bank's other business activities are not considered reportable segments and are therefore grouped in the Corporate segment. The Corporate segment includes activities from the non-core lending portfolio, effects of asset securitization programs, treasury management, general provisions for credit losses, elimination of taxable equivalent adjustments, corporate level tax benefits, and residual unallocated revenues, expenses, and taxes. The non-core portfolio represents lending accounts where the Bank has determined the risk-return relationship was unsatisfactory. As a result, the Bank has substantially wound down this portfolio.

Results of each business segment reflect revenues, expenses, assets and liabilities generated by the businesses in that segment. The Bank measures and evaluates the performance of each segment based on earnings before amortization of intangibles and, where applicable, the Bank notes that the measure is before amortization of intangibles. This measure is relevant in the Canadian Personal and Commercial Banking, Wealth Management and the U.S. Personal and Commercial Banking segments. There are no intangibles allocated to the Wholesale Banking and Corporate segments. For further details see the "How the Bank Reports" section on page 14. For information concerning the Bank's measures of economic profit and return on invested capital, see page 15 of this Annual Report. Segmented information also appears in Note 22 on page 101 of the Bank's Consolidated Financial Statements.

Net interest income, primarily within Wholesale Banking, is disclosed on a taxable equivalent basis (TEB), hence the value of non-taxable or tax-exempt income such as dividends is increased to its equivalent before tax value. Using TEB allows the Bank to measure income from all securities and loans consistently and makes for a more meaningful comparison of net interest income with similar institutions. The TEB adjustment reflected in the Wholesale Banking segment's results is eliminated in the Corporate segment.

The "Economic Outlook" and "Business Outlook and Focus for 2006" sections provided on the following pages are based on the Bank's views and the actual outcome is uncertain. For more information, see the "Caution regarding forward-looking statements" on page 13 and the "Risk Factors That May Affect Future Results" section on page 56.



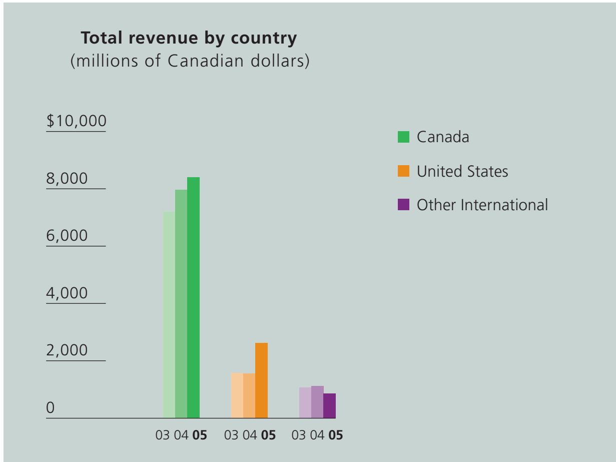


TABLE 12 **RESULTS BY SEGMENT**

	Canadian Personal and Commercial Banking			U.S. Personal and Commercial Banking			Wholesale Banking			Wealth Management			Corporate		
(millions of Canadian dollars)	**2005**	2004	2003	**2005**	2004	2003	**2005**	2004	2003	**2005**	2004	2003	**2005**	2004	2003
Net interest income	**$4,342**	$4,154	$4,051	**$705**	N/A	N/A	**$ 977**	$1,581	$1,335	**$ 643**	$ 492	$ 421	**$(659)**	$(454)	$(370)
Other income	**2,361**	2,066	1,803	**299**			**1,011**	615	701	**2,103**	2,098	1,873	**115**	104	47
Provision for (reversal of) credit losses	**373**	373	460	**4**			**52**	41	15	**–**	–	–	**(374)**	(800)	(289)
Non-interest expenses before amortization of intangibles	**3,773**	3,650	3,463	**549**			**1,325**	1,289	1,689	**2,083**	2,047	2,234	**506**	395	206
Provision for (benefit of) income taxes and non-controlling interest	**855**	747	689	**293**			**189**	278	92	**231**	191	145	**(545)**	(264)	(323)
Net income (loss) before amortization of intangibles	**$1,702**	$1,450	$1,242	**$158**			**$ 422**	$ 588	$ 240	**$ 432**	$ 352	$ (85)	**$(131)**	$ 319	$ 83
(billions of Canadian dollars) Risk-weighted assets	**$ 60**	$ 58	$ 56	**$ 25**			**$ 33**	$ 30	$ 40	**$ 9**	$ 9	$ 6	**$ 2**	$ 3	$ 7

ECONOMIC OUTLOOK

The economic backdrop is expected to be mildly supportive to financial services in 2006. Economic growth in Canada is expected to average close to 3% next year, broadly in line with the performance in 2005 and only marginally lower than the 3.3% expected by the U.S. economy. However, the annual average growth rates mask an expected moderation in the North American expansion in the second half of 2006, which reflects the fallout from an expected cooling in housing markets, particularly in the United States. Within Canada, the annual growth forecast also conceals very different regional economic conditions, with Western Canada posting above average growth and Central and Eastern Canada recording below average growth next year.

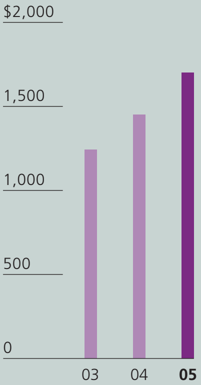
With respect to financial conditions, the Bank of Canada and the U.S. Federal Reserve are in the midst of monetary policy tightening cycles that are expected to carry into early 2006. However, the prospects of slower economic growth in the second half of next year suggests that the peak in rates is likely to come at relatively low levels and the upward pressure on bond yields should prove modest. For financial services, the limited rise in rates is favourable, but the prospect of extremely flat yield curves could negatively impact profitability. The Canadian dollar could strengthen in the near term in response to Bank of Canada rate hikes and a possible weakening in the U.S. dollar. The Canadian dollar is likely to give up some of its gains in the second half of next year in reaction to a pullback in commodity prices.

BUSINESS SEGMENT ANALYSIS

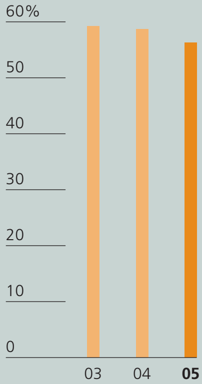
Canadian Personal and Commercial Banking

Canadian Personal and Commercial Banking comprises the Bank's personal and business banking business in Canada as well as the Bank's global insurance operations (excluding the U.S.). Under the TD Canada Trust brand, the retail operations provide a full range of financial products and services to approximately 10 million personal and small business customers.

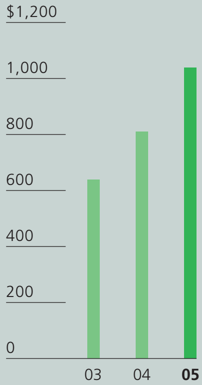
$1,702
(millions of Canadian dollars)
Net income before amortization of intangibles

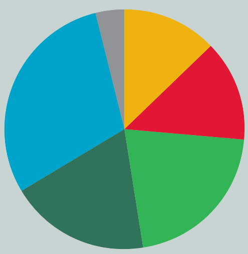


56.3%
(percent)
Efficiency ratio before amortization of intangibles



$1,038
(millions of Canadian dollars)
Economic profit





Revenues

(millions of Canadian dollars)	**2005**	2004	2003
Insurance, net of claims	**$ 861**	$ 659	$ 446
Real estate secured lending	**921**	815	748
Business banking	**1,415**	1,308	1,300
Consumer lending	**1,262**	1,190	1,143
Personal deposits	**2,000**	1,988	2,004
Other[1]	**244**	260	213
Total	**$6,703**	$6,220	$5,854

[1] Other revenue includes internal commissions on sales of mutual funds and other Wealth Management products, fees for foreign exchange, safety deposit box rentals and other branch services.


BUSINESS HIGHLIGHTS

- **Revenue growth of 8%, despite continued interest rate margin compression, on volume growth across most products.**
- **Increased sales capacity and efficiency through investing in infrastructure, process improvements and the opening of 21 new branches.**
- **Growth in personal deposit market share, which as of August 2005 was 21.5%, up .3% from last year and growth in small business banking market share to 16.6% as of June 2005, up .7% from last year.**
- **TD Canada Trust ranked first by market research firm Synovate among the country's five major banks in eight of eleven customer satisfaction categories including "overall quality of customer service," "would recommend to friends and family," "staff service at my branch," and "online banking."**[1]
- **Received the Contact Centre Industry Service Quality Award of Excellence from SQM.**[2]

CHALLENGES IN 2005

- **Continued interest rate margin compression.**
- **Improving the process for resolving customer problems on a timely basis.**
- **Decline in personal lending market share, which as of August 2005 was 20.1%, down .4% from last year.**

INDUSTRY PROFILE

The personal and business banking business in Canada is very competitive amongst the five dominant banks and some strong regional players. The competition amongst the largest banks, combined with the entrance of niche players on a select product-by-product basis, make it difficult to sustain market share gains and competitive advantages over the long-term. Increasing customer sophistication and awareness add to the challenges of offering new products to satisfy needs in a convenient, cost effective manner. In addition to outstanding customer service, continued success is contingent upon disciplined risk management practices and expense management. The Canadian property and casualty insurance industry, on the other hand, features a relatively large number of participants with limited market share. The past few years have seen reduced claim costs as a percentage of premiums, leading to strong increases in profitability after an industry cyclical low in 2002. The life and health insurance industry in Canada and the reinsurance market internationally, are more consolidated featuring a few large players.

OVERALL BUSINESS STRATEGY

The strategy for Canadian Personal and Commercial Banking has remained consistent for four years and is summarized as follows:

- Deliver superior service through a powerful, distinctive customer experience based brand.
- Leverage superior service into above average growth through better customer retention, better attraction and increased business with each customer.
- Grow under-penetrated businesses such as business banking, insurance, credit cards, and our regional presence in Quebec, at above average growth rates.
- Manage to a consistent spread between the revenue growth rate and the expense growth rate as a core competency, leading to consistent double digit earnings growth over time.

REVIEW OF FINANCIAL PERFORMANCE

Canadian Personal and Commercial Banking reported record net income before amortization of intangibles for the year of $1,702 million, an increase of $252 million from the prior year. A positive spread of five percentage points between revenue and expense growth combined with strong credit performance resulted in 17% earnings growth. Return on invested capital before amortization of intangibles increased from 20.4% in 2004 to 23.1% in 2005 as earnings growth exceeded the 4% growth in average invested capital. The segment contributed strongly to shareholder value by generating economic profit before amortization of intangibles of $1,038 million during the year, an improvement of $228 million over the prior year.

Revenue grew by $483 million or 8% over last year. Volume growth across most banking products was the main contributor to revenue growth and was particularly strong in business deposits and real estate secured lending. Volume growth was partly offset by lower margins. Also contributing to higher revenue were growth in banking and credit card service and transaction fees and insurance revenue growth through improved claims experience and new sales. The acquisition of insurance business from Liberty Mutual in 2004 contributed $57 million to revenue growth in 2005.

[1] The Synovate results come from a survey which took place July 11 to August 24, 2005, using a nationally representative sample of more than 13,500 customers at banks and other financial institutions across the country. Known as the Customer Service Index, the survey has been conducted by Synovate annually since 1987.

[2] Service Quality Management Group Inc. (SQM), based in British Columbia, Canada, specializes in benchmarking and tracking contact centre's service quality performance for call centre, email, website and IVR contact channels. SQM benchmarks over 200 leading North American contact centres on an annual basis and have been conducting benchmarking studies for over 9 years, managing one of the largest customer and employee survey data bases in North America.

As compared with the prior year, real estate secured lending average volume (including securitizations) grew by $10 billion or 10% and personal deposit volume grew $4 billion or 4%, while other personal loans were relatively flat. Business deposits grew by $3 billion or 12%, while business loans and acceptances grew by $725 million or 4%. Originated gross insurance premiums grew by $242 million or 13%.

Margin on average earning assets decreased from 3.05% in 2004 to 2.96% in 2005 primarily due to a change in product mix as volume growth was weighted towards lower margin products such as real estate secured lending and guaranteed investment savings accounts.

Provision for credit losses (PCL) of $373 million comprised $354 million from personal loans and $19 million from business loans. PCL was unchanged compared with the prior year in total, and for each of personal and business loans. PCL as a percent of credit volume improved to .25% from .27% in the prior year.

Expenses before amortization of intangibles increased by $123 million or 3% compared with last year. The Liberty insurance acquisition accounted for $37 million of expense growth. Employee compensation, marketing, systems projects and organic insurance business volume growth were the main factors contributing to the remaining expense increase, partly offset by synergies and lower integration expenses related to the branches acquired from Laurentian Bank the prior year. Average full-time equivalent staffing levels increased by 704 or 2% compared to the prior year due to growth in insurance business (including the acquisition) and the addition of sales and service personnel in branches and call centres. The efficiency ratio, before amortization of intangibles, for the year was 56.3%, an improvement of 2.4 percentage points over the prior year.

KEY PRODUCT GROUPS

Real Estate Secured Lending

- Offers mortgages and home equity lines of credit through branches, direct sales force, multi unit residential, and broker channels.
- During 2005, the industry continued to experience above normal growth driven by continued increases in home prices, strong unit sales and refinance activity.
- The strong housing market drove growth in new business while customer retention improved to its highest level since the integration with Canada Trust branches in 2001. Volume growth was below estimated industry growth in a highly competitive environment.
- Margins were relatively stable throughout the year.
- Improvements to customer payment options and renewal processes were launched during the year.
- Business objectives in 2006 are to increase new originations while also improving customer cross sell and maintaining margins.

Personal Deposits

- Offers a complete range of Canadian and U.S. dollar chequing, savings and term investment vehicles designed to promote primary banking relationships, retirement savings and retirement income options.
- Personal Deposits experienced growth in all key areas during 2005. Net growth in active chequing accounts of 5% was fueled by an increase in openings, fewer closures and the "EasySwitch" account transfer process. Despite a highly competitive market, volume growth outpaced the industry allowing the Bank to increase market share, and maintain its number one share ranking.
- Margin compression continued during the year due to the impact of low interest rates, rate competition and growth being weighted toward the lower margin guaranteed investment account.
- For 2006, the continued focus is on growing the number of chequing accounts and core banking relationships. Margin is expected to improve with the anticipated rising interest rate environment, moderated by continued growth in the guaranteed investment account.

Consumer Lending

- Offers lines of credit, loans, overdraft protection products and a wide selection of Visa credit cards including classic, premium, and commercial cards as well as compelling reward programs such as the TD Gold Travel Visa card and the GM Card.
- Revenue growth was driven by improved margins and growth in card and other fee income.
- Lending volumes, excluding credit cards, were relatively flat reflecting growth in our line of credit and loan portfolios, offset by the wind-down of a financing program for customers of the Insurance Company of British Columbia.
- Credit losses continued to be maintained at low rates reflecting the benefits of new credit management systems.
- Credit card purchase volume and outstanding balances increased 13% and 7%, respectively. The Bank signed a definitive agreement to outsource product administration to an industry leader in credit card technology solutions.

TABLE 13 **CANADIAN PERSONAL AND COMMERCIAL BANKING**

(millions of Canadian dollars)	**2005**	2004	2003
Net interest income	**$4,342**	$4,154	$4,051
Provision for credit losses	**373**	373	460
Other income	**2,361**	2,066	1,803
Non-interest expenses before amortization of intangibles	**3,773**	3,650	3,463
Income before provision for income taxes	**2,557**	2,197	1931
Provision for income taxes	**855**	747	689
Net income – before amortization of intangibles	**$1,702**	$1,450	$1,242
Selected volumes and ratios			
Average loans and acceptances (billions of Canadian dollars)	**$ 117**	$ 110	$ 104
Average deposits (billions of Canadian dollars)	**124**	116	110
Economic profit (millions of Canadian dollars)	**$1,038**	$ 810	$ 639
Return on invested capital – before amortization of intangibles	**23.1%**	20.4%	18.5%
Efficiency ratio – before amortization of intangibles	**56.3%**	58.7%	59.2%
Margin on average earning assets[1]	**2.96%**	3.05%	3.25%

[1] Including securitized assets.

• The key objectives for 2006 are to grow the credit card and indirect lending businesses, improve profitability of the unsecured line of credit product, increase the penetration of overdraft protection and ensure the successful implementation of the credit card product administration platform.

Small Business Banking and Merchant Services

• Offers quick and efficient delivery of deposit, lending, cash management and investment services to Canada's small business owners through the full retail branch network, as well as the award winning EasyWeb and EasyLine banking services. Additionally, 160 rural account managers serve the banking needs of agri-businesses through the retail branch network in rural communities.
• Merchant services offers point-of-sale settlement solutions for debit and credit card transactions, supporting over 100,000 business locations across Canada.
• In 2005, 100 small business advisors were added to the retail branch network; individuals specifically trained in understanding and meeting the banking needs of small businesses and their owners.
• Focus on meeting the needs of these customers has helped achieve a 6% growth in net new deposit accounts and 9% growth in new small business borrowers.
• Focus in 2006 will be to continue to make it simpler, faster and easier for small business customers to do business and on building the expertise in retail branches to help customers meet their goals.

Commercial Banking

• Offers a full range of lending, deposit, investment and cash management services to medium sized businesses in Canada.
• Improved credit markets and strengthened business development efforts led to a 4% increase in commercial loan volumes in 2005 compared to an overall decline in the prior year.
• Commercial deposit growth continued to be strong at 11%, surpassing the rate of growth achieved in 2004. Margin compression, although less significant than in the prior year, continued primarily due to an ongoing customer preference for lower margin term products.
• The overall risk profile of the credit portfolio has increased only moderately and continues to remain well within acceptable risk guidelines.
• Loan losses continued to be well below historic norms in 2005. While provisions are likely to increase in 2006, they should continue to be below cyclical averages.
• In 2006, continued investments in business processes and relationship management capability will be made in order to increase commercial banking relationships, volumes and revenues in line with the overall strategy to grow at an above average rate.

TD Life Group

• Provides life and health insurance protection to 1.8 million retail customers, as well as life and health reinsurance in the international market.
• A leader in critical illness and direct life and health insurance in Canada. The first full year of critical illness coverage on lines of credit exceeded all expectations and contributed to the overall success of this product category.
• Revenue grew by 16% over last year, continuing the trend of strong growth.
• The focus for 2006 will be on continued growth in sales and further investments in systems development that will position us to enhance product offerings well into the future.

TD Meloche Monnex

• Aims to be the benchmark in the personal automobile and home insurance industry in Canada by growing through a unique direct marketing model.
• Services niche segments representing alumni, professionals, and members of employer groups, and also to individuals who are primarily customers of the Bank.
• #3 in personal lines market share and the #1 direct writer in Canada.
• Premiums were $1.7 billion, and grew 13% over 2004.
• Through good underwriting practices and a reduction in claims frequency, we improved the loss ratio from 72.7% in 2004 to 68.6% in 2005 despite a higher than usual level of weather-related claims.
• Best in class expense ratio in the Canadian property and casualty industry.
• The integration of operations acquired from Liberty Mutual was substantially completed.
• To maintain better than industry average margins, key priorities will be to maintain growth related to the group and non-group businesses, further develop information technology tools and operating systems, and improve business processes.

ECONOMIC OUTLOOK

The Canadian economy should be supportive to personal and commercial banking activities in 2006. Tight labour markets suggest stronger personal income growth in the coming year although there will be a moderation in housing markets and tempered consumer spending on big-ticket items thus dampening demand for mortgages and personal credit. A rise in rates should not be sufficient to cause an outright pullback in consumer spending. Businesses are adjusting to a stronger Canadian dollar and high energy prices. Exporters will also face another hurdle if the U.S. economy begins to slow. Demand for borrowing should be supported by the need to invest in assets in order to boost competitiveness and slower profit growth may dampen the ability of firms to finance with internally generated funds.

BUSINESS OUTLOOK AND FOCUS FOR 2006

The outlook for revenue growth continues to be strong for both personal and business banking products as new marketing initiatives, branch openings, leadership in customer satisfaction, as well as greater sales capacity are targeted to attract both new customers and more business from existing customers. Insurance volume is expected to remain solid, however, revenue growth will be moderated by premium rate reductions. The low PCL rates on personal loans are expected to be sustainable, however business banking loan losses are likely to increase moderately going forward. Further investments in systems development and infrastructure, as well as increased marketing efforts will result in further expense growth. Canadian Personal and Commercial Banking remains committed to deliver continuing double-digit earnings growth over time. Key priorities for 2006 are as follows:

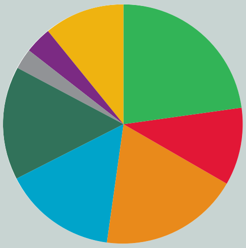
• Make customers the number one priority for all employees and go beyond expectations in resolving customer complaints.
• Support employee development by improving training, coaching and leadership, enhance recruitment and orientation and better reflect the diverse communities we serve.
• Develop relationships with more Canadians and deepen relationships with our existing customers.
• Continue to reduce business process complexity and increase productivity levels.
• Maintain industry leadership in direct insurance through TD Meloche Monnex and TD Insurance.
• Continue growing under-penetrated businesses.

BUSINESS SEGMENT ANALYSIS

U.S. Personal and Commercial Banking

Operating under the TD Banknorth brand name, U.S. Personal and Commercial Banking offers a full range of banking services and products, including commercial, consumer, wealth management and insurance agency services.

REVENUES AND ASSETS



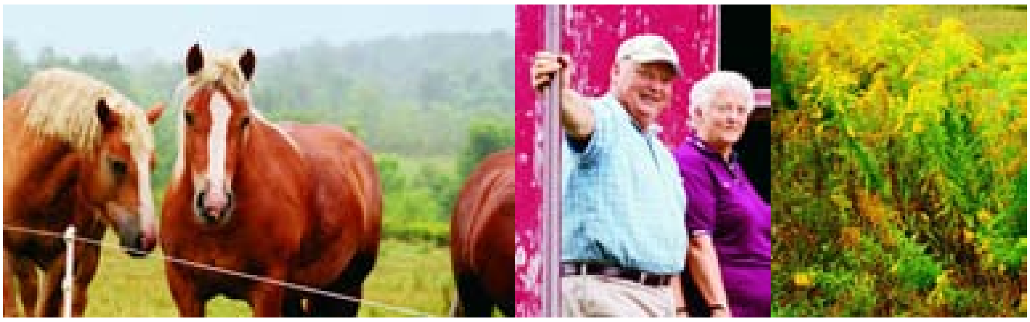
Revenues

(millions of Canadian dollars)	2005
Commercial real estate lending	$ 299
Residential real estate lending	136
Consumer lending (including home equity loans)	248
Commercial lending	196
Treasury/corporate	199
Insurance	38
Wealth management	45
Chequing and banking fees	141
Less: unallocated interest expense	(298)
Total	**$1,004**

Assets[1]

(millions of Canadian dollars)	2005
Residential mortgages	$ 3,632
Consumer loans	6,984
Business and government loans	12,555
Investment securities	5,263
Other assets	2,425
Total	**$30,859**

[1] Excluding all goodwill and other intangibles.



BUSINESS HIGHLIGHTS

- **Earnings before amortization of intangibles were $158 million for the seven month period March 1, 2005 to September 30, 2005.**
- **For the period March 1, 2005 to September 30, 2005, total loans averaged $24 billion, total deposits averaged $27 billion and the margin on average earning assets was 4.11%.**
- **The annualized return on invested capital before amortization of intangibles was 5.4%.**
- **Continued strong asset quality.**
- **Acquired the naming rights to the TD Banknorth Garden, the home of the Boston Bruins and Boston Celtics.**

CHALLENGES IN 2005

- **Margin compression related to increasing short-term interest rates and the continued flattening of the yield curve.**
- **Slowing commercial loan growth.**

INDUSTRY PROFILE

The personal and commercial banking industry in the U.S. is very competitive in all aspects of our business. The Bank is subject to vigorous competition from other banks and financial institutions, including savings banks, finance companies, credit unions and other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. TD Banknorth is one of the largest financial institutions located in the northeastern U.S., but the competition includes banks and other financial institutions with larger branch networks, a wider array of commercial banking services, and substantially greater resources. Keys to profitability are attracting and retaining customer relationships over the long-term, effective risk management, rational product pricing, the use of technology to deliver products and services for customers anytime/anywhere, growing fee-based businesses and the effective control of operating expenses.

OVERALL BUSINESS STRATEGY

- Deliver superior customer service across all channels.
- Unify various brands under the single TD Banknorth brand.
- Focus organic banking growth on core chequing accounts and commercial and small business loans.
- Continue to grow wealth management, investment planning and insurance agency businesses.
- Maintain strong asset quality and expense discipline.
- Continue the acquisition strategy throughout New England and other niche areas of the United States.

REVIEW OF FINANCIAL PERFORMANCE

For the seven month period March 1, 2005 to September 30, 2005, the U.S. Personal and Commercial Banking segment's earnings before amortization of intangibles was $158 million, the annualized return on invested capital was 5.4% and the economic loss before amortization of intangibles was $105 million.

Total revenues were $1.0 billion. The margin on average earning assets was 4.11% and benefited from balance sheet de-leveraging in February 2005. Consumer loan growth has been solid, while commercial loan growth slowed late in the year and residential mortgage loans have declined.

Provision for credit losses was $4 million, reflecting continued strong asset quality.

Expenses before amortization of intangibles were $549 million, including $10 million of merger related charges. The average FTE staffing level was 7,284. The efficiency ratio, before amortization of intangibles was 54.7%.

KEY PRODUCTS GROUPS

Community Banking

The community banking business offers a broad range of banking services and products to individuals, business and governments through branches, telephone banking and internet banking channels. Products and services include loans and loan-related services for commercial real estate, commercial businesses, residential real estate and consumers as well as a full array of deposit products to individuals, businesses and governments including, chequing, savings, money-market, term investment, merchant services and cash management products designed to meet the needs of the customer.

The community banking gross revenues, which comprise the majority of TD Banknorth's revenues, amounted to $1.0 billion on average loans of $24 billion and average deposits of $27 billion over the seven month period ended September 30, 2005. Net interest margin of 4.11%, solid chequing and banking fees, and strong asset quality were important factors in the performance.

Wealth Management and Investment Advisory Services

The wealth management business delivers wealth advisory, investment management and investment advisory services to both individuals and businesses. Wealth management revenues amounted to $45 million for the seven months ended September 30, 2005. Wealth management had total assets under management of $15.9 billion at September 30, 2005 including both discretionary and custodial investments.

Insurance Agency

The insurance agency business provides insurance products and services to individuals and businesses including homeowners, automobile, property and casualty and employee benefits and is one of the leading insurance agencies in the northeastern U.S.

Insurance agency revenues, which are predominantly commissions earned on sales of insurance products, amounted to $38 million for the seven months ended September 30, 2005.

ECONOMIC OUTLOOK

- The U.S. economy, including the U.S. northeast, is expected to deliver solid economic growth in 2006, but the pace of expansion is expected to slow over the course of the year. However, after two years of outperforming the national average, the pace of expansion in New England is likely to underperform next year.
- Although employment will likely rise at a modest pace, personal income growth is expected to accelerate next year and the personal savings rate is expected to rise. Corporate profit growth is expected to drop from the double-digit gains over the past couple of years, but should remain in positive territory. These trends should be supportive to deposit growth.
- Commercial loan growth is likely to be tempered by less stimulative monetary policy. However, while short-term rates will have risen significantly from their 1% trough, the peak in rates will be low by historical standards. The rise in long-term borrowing costs will likely prove modest. Moreover, strong business investment and slower growth in corporate profits could boost demand for commercial loans.
- Personal loan growth is vulnerable to a cooling in U.S. housing markets. Over the past few years, the wealth effects from booming real estate markets has been a powerful catalyst to consumer spending. However, the recent trends are not sustainable, and U.S. consumer outlays will lose momentum if the housing market declines. Even if the annual increase in home prices were to slow to roughly the pace of inflation, consumer spending growth would dip. Outlays on big-ticket items such as furniture, appliances and autos are the most vulnerable. If this moderation occurs, it would dampen personal loan growth.

BUSINESS OUTLOOK AND FOCUS FOR 2006

Build on our strengths of providing superior customer service and timely, local decision making. The outlook is for modest organic revenue growth in 2006. Net interest margins are expected to remain under pressure until the yield curve steepens. Credit loss provisions are at historic lows and are expected to increase. Fee income and operating expenses, each excluding acquisitions, are expected to grow modestly. The goal of U.S. Personal and Commercial Banking is to achieve consistent earnings growth over time. Key priorities for 2006 are:

- **Complete the pending acquisition and achieve a smooth integration of Hudson United into the TD Banknorth organization and complete re-branding of all Hudson United locations.**
- **Achieve projected revenue growth and cost reduction targets for the Hudson acquisition.**
- **Regain momentum in growing commercial loans and core deposits, while keeping strong credit quality and competitive pricing.**
- **Continue to deliver customer service that is above and beyond customer expectations.**
- **Continue to improve the efficiency ratio.**

TABLE 14 **U.S. PERSONAL AND COMMERCIAL BANKING**

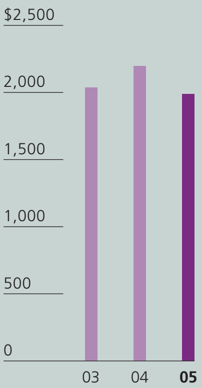
(millions of Canadian dollars)	2005
Net interest income	$ 705
Provision for credit losses	4
Other income	299
Non-interest expenses before amortization of intangibles	549
Income before provision for income taxes	451
Provision for income taxes	161
Non-controlling interest in subsidiaries	132
Net income – before amortization of intangibles	$ 158
Selected volumes and ratios	
Average loans and acceptances (billions of Canadian dollars)	$ 24
Average deposits (billions of Canadian dollars)	27
Economic loss (millions of Canadian dollars)	$ (105)
Return on invested capital – before amortization of intangibles	5.4%
Efficiency ratio – before amortization of intangibles	54.7%
Margin on average earning assets	4.11%

BUSINESS SEGMENT ANALYSIS

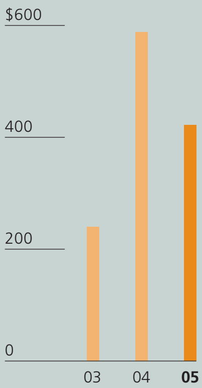
Wholesale Banking

Wholesale Banking serves a diverse base of corporate, government and institutional clients in key global financial centres.

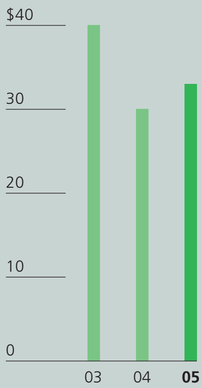
$1,988
(millions of Canadian dollars)
Total revenue

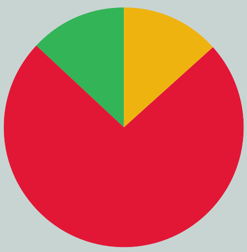


$422
(millions of Canadian dollars)
Net income



$33
(billions of Canadian dollars)
Risk-weighted assets





Revenues

(millions of Canadian dollars)	**2005**	2004	2003
Corporate banking	**$ 266**	$ 303	$ 335
Investment banking and capital markets	**1,467**	1,594	1,552
Equity investments	**255**	299	149
Total	**$1,988**	$2,196	$2,036

BUSINESS HIGHLIGHTS

- **Strong results from the domestic franchise driven partially by improved market share in areas such as block trading, where TD Securities held the #1 market share for the year.**
- **Restructuring activities undertaken in 2005 have improved the market and operational risk profile which should lead to increased profitability in future years.**
- **Continued to use credit effectively by focusing on client profitability.**
- **Continued to maintain a low credit risk profile.**

CHALLENGES IN 2005

- **Restructuring activities in the global structured products businesses had a negative impact on earnings.**
- **Weaker results in our equity investment portfolios compared to 2004.**
- **Reducing run rate costs while maintaining business momentum and operational excellence.**
- **Tightening lending margins.**

INDUSTRY PROFILE

The Wholesale Banking sector in Canada is a mature market with intense competition from the Canadian banks, the large global investment banks and to a lesser extent – small niche investment banks and dealers. In order to compete effectively, it is necessary to offer a complete package of solutions and products, with credit often being a key component of a relationship. Additionally, it is necessary to offer international expertise in order to service the Canadian based international corporate client base. We believe there are increasing opportunities for a Wholesale Bank that offers innovative solutions and ideas which span across products and regions.

OVERALL BUSINESS STRATEGY

- Deliver a full suite of capital market services for Wholesale Banking's established and growing client base in Canada with a goal to becoming a top 3 relationship bank in Canada.
- Maintain a strong international trading platform and global operations to support our domestic strategy.
- Selectively use credit to support high return relationships.

REVIEW OF FINANCIAL PERFORMANCE

Net income was $422 million in 2005, a decrease of $166 million from $588 million last year. Net income includes the impact of restructuring costs of $43 million and losses related to the reduction of the estimated value and exit of certain structured derivative portfolios which had an impact of $153 million. The return on invested capital for 2005 was 17%, compared with 25% last year. Economic profit for the year was $100 million compared with an economic profit of $278 million in 2004.

Wholesale Banking revenue is derived primarily from capital markets and investment banking, investing and corporate banking activities. Revenue for the year was $1,988 million, compared with revenue of $2,196 million last year. Capital markets and investment banking revenues, which include advisory, underwriting, trading, facilitation and execution services were lower than last year, largely due to the impact of losses of $153 million incurred due to a reduction of the estimated value and exit of certain structured derivative portfolios. Excluding these items, revenue is up slightly on significant growth in equity underwriting and equity facilitation revenues partially offset by weaker trading revenue in the equity, credit and interest rate portfolios. Revenue from the equity investment portfolios decreased as higher security gains were more than offset by lower interest, dividend and other income. Lending revenue decreased as margins have come under pressure due to high investor demand for assets relative to corporate borrowing requirements.

Provisions for credit losses were $52 million in 2005, an increase of $11 million from $41 million in 2004. Provisions for credit losses in the Wholesale Banking segment represents allowances for loan losses and the accrual costs for credit protection. The change in market value of the credit protection, in excess of the accrual cost, is reported in the Corporate segment. The provision for credit losses of $52 million is attributed solely to costs of credit protection. The credit quality of the portfolio remains strong as there have been no credit losses in the core lending portfolio in Wholesale Banking.

Wholesale Banking holds $3.2 billion in credit protection against the lending portfolio, a decrease of $1.3 billion from the end of last year. Wholesale Banking continues to proactively manage its credit risk through active management of the credit protection portfolio.

Risk-weighted assets of the Wholesale Banking segment were $33 billion this year, an increase of $3 billion compared with 2004. The increase is largely due to an increase in exposures in the lending portfolio.

Expenses were $1,325 million compared with $1,289 million last year. The increase is a result of a $43 million restructuring charge compared to a $7 million restructuring release in 2004. The underlying change in expenses, before the impact of restructuring, was a decrease of $14 million. This is a result of lower variable compensation related to weaker performance in the capital markets businesses, partially offset by higher operating expenses related to infrastructure improvements.

KEY PRODUCT GROUPS

Corporate Banking

- Corporate banking, which includes corporate lending, trade finance and related activities, had a revenue decline of 12% from $303 million in 2004 to $266 million in 2005. This decrease is largely a result of reduced revenue from lending activities. Lending revenue decreased because of reduced lending margins.

Investment Banking and Capital Markets

- Investment banking and capital markets revenues decreased 8% from $1,594 million in 2004 to $1,467 million in 2005. Capital markets revenue includes the impact of $153 million in losses related to the reduction of the estimated value and exit of certain structured derivative portfolios noted above. Excluding these items revenue is up 2% from last year. This reflects stronger investment banking, underwriting and equity facilitation revenues which are a result of both better market conditions and increased market share – shown by TD Securities' #1 rank in block trading market share in 2005. These gains were partially offset by weaker trading revenue in our structured equity, interest rate and credit portfolios as these portfolios experienced difficult market conditions.

Equity Investments

- The equity investment portfolios, comprised public and private equity, had weaker overall results in 2005 as revenue decreased by 15% from a very strong result in 2004 of $299 million to $255 million. This was a result of lower interest and dividends partially offset by higher security gains. Although revenue was lower in 2005, the unrealized gains in the portfolios increased by $332 million to $750 million.

ECONOMIC OUTLOOK

- Moderate growth in client demand for wholesale banking services is expected in 2006.
- Despite the tightening in monetary policy, sustained low bond yields and relatively tight corporate spreads are likely to remain supportive to borrowing.
- Business investment is expected to be a major engine for economic growth in the coming year, which should be positive for activity in investment banking, debt capital markets, institutional equities and private equity.
- Continued growth in corporate profits should also be beneficial for business confidence, and with profit growth slowing to a single digit annual pace, some firms may find it more difficult to finance outlays with internally generated funds.
- Demand for foreign exchange services is expected to remain strong. The U.S. dollar is likely to lose ground in response to the massive U.S. current account deficit and the currency is expected to be weakened by signs that the U.S. economic expansion is slowing in reaction to a cooling in U.S. housing markets.
- This outlook augurs for further volatility in the Canadian dollar and suggests that the exchange rate to the U.S. dollar could climb higher, particularly in early 2006. However, the gains in the currency may prove fleeting, as a future U.S. slowdown would result in a pullback in commodity prices that would reduce the international attractiveness of the Canadian currency. Nevertheless, any retreat in the Canadian dollar should be limited and the currency is expected to remain well above the U.S. $.80 mark.

BUSINESS OUTLOOK AND FOCUS FOR 2006

Equity markets were strong in 2005 and our domestic franchise benefited from these conditions. Wholesale Banking is optimistic that momentum will continue in 2006. Key priorities for 2006 are:

- **Complete the restructuring of the global structured products businesses, including the right-sizing of the cost structure.**
- **Continue the momentum of increasing market share in the Canadian franchise.**
- **Achieve return on invested capital target of 15% to 22%.**

In 2006, Wholesale Banking will continue to focus on growing and deepening domestic client relationships, expanding its product and service suite and operating with excellence. The segment is expected to deliver a strong return on invested capital in 2006 with a significantly reduced risk profile.

TABLE 15 **WHOLESALE BANKING**

(millions of Canadian dollars)	**2005**	2004	2003
Net interest income	**$ 977**	$1,581	$1,335
Provision for credit losses	**52**	41	15
Other income	**1,011**	615	701
Non-interest expenses	**1,325**	1,289	1,689
Income before provision for income taxes	**611**	866	332
Provision for income taxes	**189**	278	92
Net income	**$ 422**	$ 588	$ 240
Selected volumes and ratios			
Risk-weighted assets (billions of Canadian dollars)	**$ 33**	$ 30	$ 40
Economic profit (loss) (millions of Canadian dollars)	**$ 100**	$ 278	$ (125)
Return on invested capital	**17.0%**	24.7%	8.6%
Efficiency ratio	**66.6%**	58.7%	83.0%

BUSINESS SEGMENT ANALYSIS

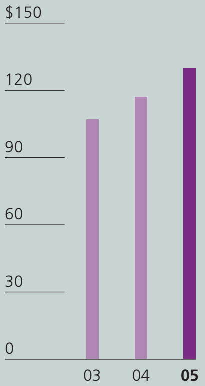
Wealth Management

Wealth Management provides a wide array of investment products and services through a variety of brands to a large and diverse retail and institutional global client base.

$130

(billions of Canadian dollars)

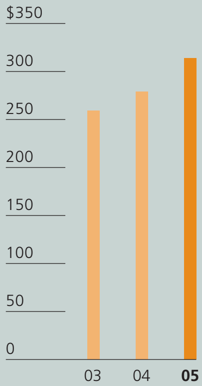
Assets under management[1]



$314

(billions of Canadian dollars)

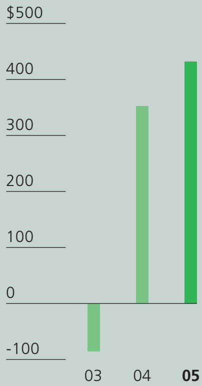
Assets under administration[2]

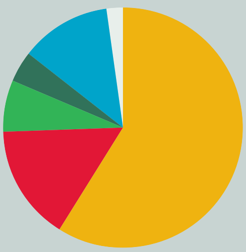


$432

(millions of Canadian dollars)

Net income before amortization of intangibles





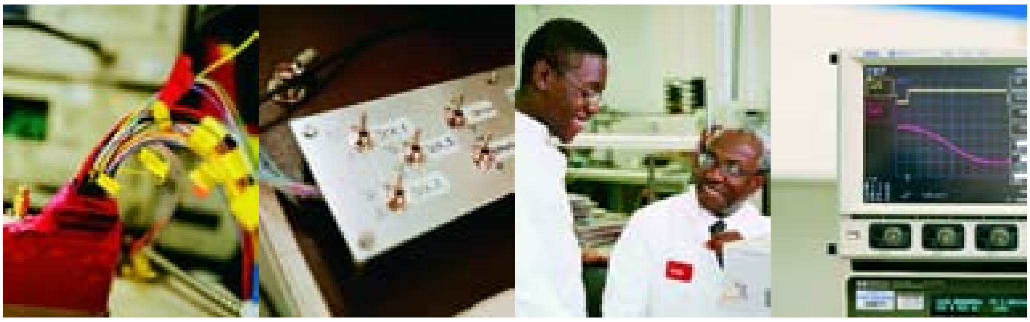
Revenues[3]

(millions of Canadian dollars)	**2005**	2004	2003
Discount brokerage	**$1,621**	$1,611	$1,456
Mutual funds	**427**	381	326
Private client group	**187**	167	151
Investment management	**117**	103	102
Private investment advice	**333**	291	241
Financial planning	**61**	37	18
Total	**$2,746**	$2,590	$2,294

[1] Assets under management: Assets owned by customers, managed by the Bank, where the Bank makes investment selections on behalf of the client (in accordance with an investment policy). In addition to the TD family of mutual funds, the Bank manages assets on behalf of individuals, pension funds, corporations, institutions, endowments and foundations. These assets are not reported on the Bank's Consolidated Balance Sheet.

[2] Assets under administration: Assets owned by customers where the Bank provides services of an administrative nature, such as the collection of investment income and the placing of trades on behalf of the clients (where the client has made their own investment selection). These assets are not reported on the Bank's Consolidated Balance Sheet.

[3] Certain revenues are presented net of internal transfers.



BUSINESS HIGHLIGHTS

- **Wealth management assets under administration increased $35 billion or 13% from 2004 due to growth in net new assets combined with market growth. Assets under management grew $14 billion or 12% over the prior year due to net asset growth and market appreciation.**
- **The 2004 investment in under-penetrated businesses started to pay off in 2005 with solid profitability growth in those channels.**
- **Exceeded our goal of adding 125 net new client facing advisors.**
- **TD Mutual Funds had the best ever year of net fund sales with $4.1 billion including a 73% increase in sales to external dealers.**
- **Discount brokerage will expand operations through a proposed transaction to sell TD Waterhouse U.S.A. to Ameritrade Holding. The transaction is subject to shareholder and regulatory approval and is expected to close in early 2006.**

CHALLENGES IN 2005

- **Price competition, particularly in the U.S., continued to negatively impact commission revenue.**
- **Canadian markets generally improved in 2005, challenges continued in the U.S. markets, impacting average trades per day which declined 3% from 108,000 in 2004 to 105,000 in 2005.**
- **The stronger Canadian dollar negatively impacted the TD Waterhouse U.S.A. results and produced lower commission revenue on U.S. transactions for the Canadian discount brokerage operations.**

INDUSTRY PROFILE

The wealth management industry in North America is large, diverse and very competitive. Profitability is dependent on price competition, the ability to attract and retain client assets and market volatility. Cost management is a critical success factor in the industry and consolidation of industry participants continues to occur. Key events in 2005:

- The industry benefited from strong growth in long term mutual fund sales.
- In the U.S., discount brokerage revenues were hampered by intense price competition.
- In Canada, the strength of the oil sector and income trusts were factors in the growth of Canadian markets and corresponding trading activity.

OVERALL BUSINESS STRATEGY

- Develop an integrated asset gathering client focused organization.
- Continue to grow under-penetrated businesses at above average growth rates.
- Retain focus on the financial planning and private investment advice businesses.
- Leverage the wealth brands of TD Waterhouse and TD Mutual Funds as premier, trusted advisors in investing for clients.
- Develop a world class continuum of products, services and solutions designed to meet the needs of each client segment.
- Leverage technology to enhance the systems architecture supporting the customer experience and to increase operational efficiency.
- Leverage the strong client referral relationship with Canadian Personal and Commercial Banking to ensure clients are serviced in the most appropriate distribution channel within Wealth Management.

REVIEW OF FINANCIAL PERFORMANCE

Wealth Management's net income before amortization of intangibles for 2005 was $432 million compared with $352 million in 2004, an increase of 23% as a result of growth across the Wealth businesses. The return on invested capital before the amortization of intangibles for the year was 16% compared with 13% in 2004. The economic profit for 2005 was $116 million, an improvement of $91 million over 2004.

Total revenue increased by $156 million from 2004 to $2,746 million due to strong growth in advice-based and asset management businesses. Mutual fund management fees increased as a result of 20% asset growth and the shift in portfolio mix to higher earning fund classes while growth in assets under administration generated improved results in private investment advice and financial planning. Discount brokerage revenues were impacted by a 3% decline in trading volumes and the negative impact of foreign exchange on U.S. results offset by growth in net interest income from higher margin volumes and increased deposit spreads.

Expenses before the amortization of intangibles were $2,083 million in 2005, an increase of $36 million from 2004. Higher trailer payments to sellers of the Bank's mutual funds and higher sales force compensation in private investment advice and financial planning were partially offset by the benefits of cost control in all businesses and the foreign exchange impact of the higher Canadian dollar on expenses.

Assets under management of $130 billion at October 31, 2005 increased $14 billion or 12% from October 31, 2004 due to strong sales of mutual funds and growth in institutional assets. The impact of market growth on assets under management was approximately 3%. Assets under administration totaled $314 billion at the end of the year, increasing $35 billion or 13% from October 31, 2004 due to the addition of new assets in discount brokerage, private investment advice and financial planning and market growth of approximately 4%.

KEY PRODUCT GROUPS

TD Waterhouse Discount Brokerage

- A leader in self-directed investing, serving customers in Canada, the United States and the United Kingdom.
- The businesses continued to be challenged on trade volumes which declined 3% from 2004.
- Revenue increased by $10 million as higher net interest income due to higher deposit balances combined with higher spread revenue more than offset the impact on revenue of declines in trade volumes, lower commissions per trade and the impact on U.S. results of the higher Canadian dollar. The decline in commissions per trade resulted from pricing pressures in the U.S. and lower commissions per trade on U.S. transactions for the Canadian discount brokerage operations.
- Expenses before the amortization of intangibles declined by $49 million primarily due to cost control in the face of declining volumes, the impact of foreign exchange on U.S. results partially offset by higher marketing expenses and the costs associated with call centre closures in the U.S.

TD Asset Management

- TD mutual funds is the sixth largest mutual fund family in Canada with $42 billion in assets under management at October 31, 2005, an increase of 20% over 2004, resulting in record earnings for the year. Revenue growth of 12% resulted from this growth in assets, offset by trailer payments to internal Wealth counterparties. Expenses before the amortization of intangibles increased $21 million also due to the increase in assets as trailer payments to the Bank and external sellers of the Bank's funds increased over 2004. For the third year in a row, TD mutual funds was second in the industry in long term sales at $5.0 billion.
- TD investment management is recognized as one of the largest quantitative managers in the country. Services provided include investment management to pension funds, corporations, institutions, endowments and foundations. Assets under management increased by 12% compared with 2004. Revenue increased 14% as the growth in assets generated higher management fees.

Advice-Based Businesses

- TD Waterhouse Private Client Group includes trust services, private banking and private investment counsel. Increases in customer assets were responsible for a 12% or $20 million increase in revenue year-over-year. Expenses before the amortization of intangibles were flat due to the offsetting impacts of higher expenses due to growth in assets and the costs incurred in 2004 related to the rebranding of private client services under the TD Waterhouse banner.
- TD Waterhouse private investment advice provides full-service brokerage services to its retail customers throughout Canada. In 2005, assets under administration continued to grow resulting in a $42 million increase in revenue. Expenses before the amortization of intangibles grew at 14% reflecting increases in investment advisor compensation with the growth in commissionable revenue.
- TD Waterhouse financial planning continues to aggressively grow its client facing advisors with a 21% increase in the number of planners and a 66% increase in assets under administration in 2005. As a result, revenues increased $24 million in 2005 while expenses grew $17 million as the investment in growing the number of financial planners continues.

ECONOMIC OUTLOOK

- Economic conditions are expected to remain positive for Wealth Management in 2006. Rising personal income and low unemployment rates should encourage increased investing activity.
- The return on money market instruments is likely to rise in reaction to Bank of Canada rate hikes in late 2005 and early 2006.
- Bond yields may rise during the monetary policy tightening, but they are likely to retreat in reaction to slower economic growth in late 2006.
- Foreign exchange volatility will continue, particularly with respect to the U.S. dollar, which may impact investment strategies.

BUSINESS OUTLOOK AND FOCUS FOR 2006

The outlook is favourable for continued revenue growth in 2006 as the focus on diversifying the Wealth Management revenue stream continues. Key priorities for 2006 are:

- **Ensure the successful closing and successful integration of the TD Ameritrade transaction, including the realization of revenue and expense synergies planned for the upcoming year.**
- **Improve Wealth Management's new client asset growth by increasing the number of client facing advisors, both through competitive hiring and training programs for new and experienced advisors.**
- **Increase share of business with current customers by enhancing and delivering new products, services and solutions.**
- **Introduce an active-trader platform in Canada to target the frequent trading customers in Wealth Management's discount brokerage business.**
- **Maintain a positive spread between revenue and expense growth by aggressively managing costs through technology investment and elimination of overlapping functions and processes.**
- **Focus on growing a more stable revenue base by targeting fee-based and net interest revenues.**

TABLE 16 WEALTH MANAGEMENT

(millions of Canadian dollars)	**2005**	2004	2003
Net interest income	**$ 643**	$ 492	$ 421
Other income	**2,103**	2,098	1,873
Non-interest expenses before amortization of intangibles	**2,083**	2,047	2,234
Income before provision for income taxes	**663**	543	60
Provision for income taxes	**231**	191	145
Net income (loss) – before amortization of intangibles	**$ 432**	$ 352	$ (85)
Selected volumes and ratios			
Assets under administration (billions of Canadian dollars)	**$ 314**	$ 279	$ 259
Assets under management (billions of Canadian dollars)	**130**	117	107
Economic profit (loss) (millions of Canadian dollars)	**$ 116**	$ 25	$ (476)
Return on invested capital – before amortization of intangibles	**16.4%**	13.0%	(3.6)%
Efficiency ratio – before amortization of intangibles	**75.9%**	79.0%	97.4%
Average trades per day (thousands)	**105**	108	98

BUSINESS SEGMENT ANALYSIS

Corporate

The Corporate segment includes activities from the non-core lending portfolio, effects of asset securitization programs, treasury management, general provisions for credit losses, elimination of taxable equivalent adjustments, corporate level tax benefits, and residual unallocated revenues, expenses, and taxes.

During fiscal 2005, the Corporate segment reported a net loss of $131 million. There was a tax charge of $163 million related to the TD Waterhouse reorganization which precedes the transaction with Ameritrade. The gain on this transaction is expected to be recognized in the first quarter of 2006. During the year, the Bank increased its contingent litigation reserves by $365 million. Other expenses included a preferred share redemption premium resulting in a charge of $13 million as well as costs associated with net treasury activities and net unallocated revenues, expenses and taxes. These losses were offset by gains realized of $229 million related to specific non-core portfolio loan loss recoveries from prior year sectoral provisions and a general allowance release of $35 million. Corporate also recorded gains of $27 million as a result of the impact of hedging relationships accounting guideline (AcG-13), which requires the mark-to-market the value of credit protection on the corporate lending portfolio amongst other things. Favourable tax items during the year were $98 million including the benefit of a court decision and a $30 million tax benefit as a result of a higher tax rate now being applied on prior year sectoral provisions.

The negative net interest income in Corporate segment is substantially due to the reversal of taxable equivalent basis adjustments. Primarily within Wholesale Banking, the value of non-taxable or tax-exempt income such as dividends is increased to its equivalent before tax value. Corporate segment records a matching decrease such that, in aggregate, the Bank's Net Interest Income excludes TEB adjustments.

TABLE 17 **CORPORATE**

(millions of Canadian dollars)	**2005**	2004	2003
Net interest loss	**$ (659)**	$ (454)	$ (370)
Reversal of credit losses	**(374)**	(800)	(289)
Other income	**115**	104	47
Non-interest expenses	**506**	395	206
Income (loss) before benefit of income taxes	**(676)**	55	(240)
Benefit of income taxes	**(545)**	(264)	(323)
Net income (loss)	**$ (131)**	$ 319	$ 83

CORPORATE MANAGEMENT

The corporate management function of the Bank comprised audit, compliance, corporate and public affairs, economics, enterprise technology solutions (information technology), finance, human resources, legal, marketing, office of the ombudsman, real estate, risk management and security.

Banking is an increasingly complex and challenging business. The demands and expectations of our stakeholders – customers, shareholders, employees, regulators, governments and the community at large – are constantly changing. Ensuring the Bank stays abreast of emerging trends and developments is vital to maintaining stakeholders' confidence in the Bank.

Those who serve our more than 14 million global customers most directly in our four key businesses need strong and effective support from a wide range of functional groups, so that they can remain focused on the key priority of exceeding customer expectations. Corporate management's mandate is to provide centralized advice and counsel and to design, establish and implement processes, systems and technologies to ensure that the Bank's key businesses operate efficiently, reliably and in compliance with all applicable regulations. To accomplish this, corporate management endeavors to have the best people, processes and tools to support our businesses, customers, employees and shareholders.

PROPOSED TRANSACTIONS

TD Waterhouse U.S.A. and Ameritrade

On June 22, 2005 the Bank announced its intention to sell its U.S. brokerage business, TD Waterhouse U.S.A. to Ameritrade Holding Corporation in exchange for approximately a 32% ownership in the combined legal entity. As part of the transaction, promptly after closing the Bank has agreed to tender for an additional 7.9% of the shares which, if successful, would bring the Bank's total holdings to 39.9%. The new entity will operate under the name TD Ameritrade. The transaction is currently expected to result in a net gain on sale of approximately U.S.$900 million after-tax subject to the value of Ameritrade's share price at closing. The Bank intends to account for its investment in TD Ameritrade using the equity method of accounting. Also on June 22, 2005, the Bank announced its intention to purchase 100% of Ameritrade's Canadian brokerage operations for U.S.$60 million cash consideration. Both transactions are expected to close early in calendar 2006 subject to Canadian and U.S. regulatory approvals and Ameritrade shareholder approval.

Hudson United Bancorp

On July 12, 2005, TD Banknorth announced an agreement to acquire Hudson United Bancorp ("Hudson") for total consideration of approximately U.S.$1.9 billion, consisting of cash consideration of approximately U.S.$950 million and the remainder in TD Banknorth common shares. The cash consideration is to be funded by the sale of TD Banknorth common shares to the Bank. The transaction is expected to close early in calendar 2006 and is subject to approvals by shareholders of Hudson and TD Banknorth as well as regulatory approvals. TD Banknorth will consolidate the financial results of Hudson. On a proforma basis, based on the number of TD Banknorth shares outstanding on June 30, 2005, the Bank's proportionate ownership interest in TD Banknorth will decrease slightly after giving effect to the transaction which will result in an approximate after-tax $80 million dilution loss. The Bank also announced its intention to at least maintain its ownership of TD Banknorth at the level prior to the acquisition of Hudson through TD Banknorth share repurchases or open market purchases, in each case subject to regulatory requirements, or to potentially increase its position as market conditions warrant.

2004 FINANCIAL RESULTS OVERVIEW

Summary of 2004 Performance

EVENTS IN 2004

The Bank expanded insurance operations though the acquisition of the Canadian personal property and casualty operations of Boston-based Liberty Mutual Group, in April 2004. The prior year's results also incorporate the 57 Laurentian Bank branches, which were acquired on October 31, 2003.

TABLE 18 **REVIEW OF 2004 FINANCIAL PERFORMANCE**

(millions of Canadian dollars)	Canadian Personal and Commercial Banking	Wholesale Banking	Wealth Management	Corporate	Total Consolidated
Net interest income (loss)	$4,154	$1,581	$ 492	$(454)	$ 5,773
Other income	2,066	615	2,098	104	4,883
Total revenue	6,220	2,196	2,590	(350)	10,656
Provision for (reversal of) credit losses	373	41	–	(800)	(386)
Non-interest expenses before amortization of intangibles	3,650	1,289	2,047	395	7,381
Income before provision for income taxes	2,197	866	543	55	3,661
Provision for (benefit of) income taxes	747	278	191	(264)	952
Net income – before amortization of intangibles	$1,450	$ 588	$ 352	$ 319	$ 2,709
Amortization of intangibles, net of income taxes					477
Net income – reported basis					$ 2,232

Net interest income on a reported basis was $5,773 million in 2004, a year-over-year increase of $336 million or 6%. Numerous factors contributed to the increase, including the mix of interest earning securities and derivatives within the trading businesses of Wholesale Banking, continued growth in lending volumes in Canadian Personal and Commercial Banking, and higher margin lending and higher spreads on loans and deposits in Wealth Management's discount brokerage business. At 2.3%, the Bank achieved the largest interest rate spread among the big six banks in 2004.

Other income on a reported basis was $4,883 million in 2004, an increase of $459 million or 10% from 2003. The improvement was primarily due to higher insurance revenues, income from loan securitizations, and investment and securities services. The increase was partially offset by a decrease in credit fees due to a reduction in assets as well as outstanding commitments in the core and non-core lending portfolios, and trading-related income due to weaker results in the equity trading businesses. The improvement in the investment securities portfolio was largely a result of stronger market conditions resulting in opportunities in the Bank's private and public equity portfolios.

Non-interest expenses on a reported basis were $8,007 million compared with $8,364 million in 2003. Expenses before amortization of intangibles were $7,381 million, a year-over-year decrease of $211 million or 3%. The Bank posted a marked improvement in its productivity ratio to 74% in 2004. The decline in expenses is primarily a result of $624 million in goodwill write downs and $92 million of restructuring costs included in prior period figures that related to the international unit of the Bank's wealth management business and its U.S. equity options business in Wholesale Banking. This decrease was partially offset by litigation loss accruals of $300 million recorded in fiscal 2004. The impact of the amortization of intangibles on the Bank's reported before tax expenses was $626 million, compared with $772 million in fiscal 2003.

Income tax expense on a reported basis was $803 million in fiscal 2004, up $481 million from 2003. The Bank's effective income tax rate was 26.4% for fiscal 2004, compared with 24.6% in 2003.

BALANCE SHEET

The Bank, with 92% of its assets in Canada, increased assets by $37 billion or 13.7% to $311 billion at the end of fiscal 2004. It was significantly higher than assets growth of 4.5% in the six largest banks in Canada, and total assets growth of 5.6% in the Canadian banking industry.

2004 FINANCIAL RESULTS OVERVIEW

2004 Financial Performance by Business Line

Canadian Personal and Commercial Banking reported record earnings in 2004. Net income of $1,450 million before amortization of intangibles for the year increased by $208 million or 17% from the prior year. Return on invested capital increased from 18.5% last year to 20.4% in 2004 as earnings growth exceeded the 6% growth in average invested capital. Canadian Personal and Commercial Banking contributed strongly to shareholder value by generating economic profit of $810 million during the year, an improvement of $171 million over last year.

Revenue grew by $366 million or 6% over the prior year. The acquisition of insurance business from Liberty Mutual Group and branches from Laurentian Bank contributed $130 million to revenue growth. The main contributors to organic revenue growth were strong volumes in insurance, core deposits, real estate secured lending, small business deposits and branch mutual fund sales, as well as improved insurance claims experience and higher transaction-based fees. These areas of growth were partly offset by a contraction in commercial lending, lower net interest margins and adjustments for credit card customer reward programs.

Margin on average earning assets decreased from 3.25% last year to 3.05% as margins narrowed on deposits from a combination of competitive pricing, customers moving balances to higher rate savings accounts and the low interest rate environment.

Provision for credit losses (PCL) decreased by $87 million or 19% compared with the prior year. Commercial and small business PCL was low at $19 million for the year down $68 million from last year. Personal PCL of $354 million was $19 million lower than last year on improved delinquency rates. PCL as a percent of lending volume was at a cyclically low rate of .27% down from .36% last year.

Expenses before amortization of intangibles increased by $187 million or 5% compared with the prior year. The insurance and branch acquisitions accounted for $115 million or 3% of the expense growth. Higher volumes in the insurance business, systems development projects and the upgrading of the Bank's automated banking machines also contributed to the increase in expenses. Offsetting these factors were higher severance and Wal-Mart in-store branch closure costs in the prior year. Growth in the insurance business added 695 full-time equivalent (FTE) to average staffing levels compared to 2003. Base average staffing levels were down 380 FTE from last year as a result of the in-store branch closures and a series of productivity improvements in operations centres. The efficiency ratio for the year was 58.7% an improvement of .5% over the prior year.

Wholesale Banking net income was $588 million in 2004, an increase of $348 million or 145% from $240 million the prior year. The return on invested capital for 2004 was 25%, compared with 9% the prior year. Economic profit for the year was $278 million compared with an economic loss of $125 million in 2003.

Revenue for the year was $2,196 million, compared with revenue of $2,036 million the prior year. Capital markets and investment banking revenues were slightly higher than the prior year as overall trading revenue was relatively flat year-over-year but Wholesale Banking's equity underwriting and institutional equity facilitation revenues improved. Revenue from the equity investment portfolios also improved significantly relative to the prior year because of higher dividends received and higher net security gains on improved market conditions. These increases were partially offset by lower revenues in corporate banking due to lower lending fees on a reduced loan portfolio.

Provisions for credit losses increased by $26 million resulting in $41 million in 2004, and were attributed solely to costs of credit protection. The credit quality of the portfolio remained strong. Wholesale Banking held $4.5 billion in credit protection against the lending portfolio, an increase of $1.6 billion from 2003, as significant hedging activities were undertaken in 2004.

Risk-weighted assets (RWA) of the Wholesale Banking segment were $30 billion in 2004, a decrease of $10 billion compared with 2003. The reduction is a result of a decrease in both market risk and credit risk.

Expenses were $1,289 million in fiscal 2004 compared with $1,689 million in 2003, which included $416 million relating to the restructuring costs and goodwill impairment charges for the U.S. equity options business. The underlying increase in expenses was $23 million (before the impact of restructuring costs and goodwill). This was a result of higher variable compensation related to stronger performance in the capital markets businesses and increased investment in infrastructure improvements.

Wealth Management's net income before amortization of intangibles for 2004 was $352 million compared with a loss of $85 million in 2003. The return on invested capital for the year was 13% compared with a negative return of 4% in 2003. The economic profit for 2004 was $25 million, an improvement of $501 million over 2003.

Total revenue increased by a healthy $296 million from 2003 to $2,590 million due to improvements in both equity markets and client asset growth. Trades per day in discount brokerage grew 10% while interest revenue increased due to 20% growth in margin balances. Mutual fund management fees increased as a result of 12% growth in mutual fund assets under management while growth in assets under administration generated improved results in private investment advice and financial planning.

Expenses before the amortization of intangibles were $2,047 million in 2004, a decrease of $187 million from 2003. The change in expenses resulted from volume-related trade execution costs, higher trailer payments to sellers of TD mutual funds and higher sales force compensation in private investment advice and financial planning resulting from the growth in revenue in those businesses. Expenses also reflect a higher level of investment in technology, hiring of sales staff and marketing costs in order to better position the business for future growth.

Assets under management of $117 billion at October 31, 2004 increased $10 billion or 9% from October 31, 2003 due to strong sales of mutual funds and growth in institutional assets. Assets under administration totaled $279 billion at the end of the year, increasing $20 billion or 8% from October 31, 2003 due to the addition of new assets in discount brokerage, private investment advice and financial planning.

Corporate segment reported net income of $319 million in 2004. The most significant factors contributing to this result were pre-tax income of $655 million in sectoral allowance releases during the year, a $67 million general allowances release in the second quarter 2004, and interest income earned on income tax refunds of $77 million before tax. This income was partially offset by litigation loss accruals of $300 million. Corporate also recorded $77 million in losses relating to the impact of the hedging relationship guideline and costs associated with net treasury activities and net unallocated revenues, expenses and taxes.

GROUP FINANCIAL CONDITION

Balance Sheet Review

Total assets were $365 billion at the end of fiscal 2005, $54 billion or 17% higher than October 31, 2004. At October 31, 2005 total assets primarily comprised loans (net of allowance for credit losses) of $152 billion or 42% of total assets, trading assets of $66 billion or 18% of total assets, investments of $42 billion or 12% of total assets, and securities purchased under reverse repurchase agreements of $26 billion or 7% of total assets.

Total average interest-earning assets were $288 billion compared to $255 billion in 2004. Total liabilities increased by $50 billion comprising $40 billion or 19% increase in deposits and a $10 billion or 13% increase in other liabilities, partially offset by a slight decrease in subordinated notes and debentures. In addition, at October 31, 2005, total shareholder equity increased $3 billion to $16 billion, up 25% from the prior year.

TABLE 19 SELECTED CONSOLIDATED BALANCE SHEET ITEMS

(millions of Canadian dollars)			**As at October 31, 2005**	As at October 31, 2004
	TDBFG excluding TD Banknorth	**TD Banknorth**	**TDBFG Consolidated**	TDBFG Consolidated
Securities	**$102,833**	**$ 5,263**	**$108,096**	$ 98,280
Securities purchased under reverse repurchase agreements	**26,375**	**–**	**26,375**	21,888
Loans (net of allowance for credit losses)	**129,347**	**22,896**	**152,243**	123,924
Deposits	**220,926**	**26,055**	**246,981**	206,893

FACTORS AFFECTING ASSETS AND LIABILITIES

The consolidation of TD Banknorth added assets of $33 billion (9% of the Bank's total assets) and total liabilities of $30 billion to the Bank's October 31, 2005 Consolidated Balance Sheet. The consolidation also added financial instruments measured at fair value of $55 billion to the Bank's October 31, 2005 Consolidated Balance Sheet. The Bank also enters into structured transactions on behalf of clients and the assets are recorded on the Bank's Consolidated Balance Sheet for which market risk is transferred to third parties via total return swaps. As at October 31, 2005, assets under such arrangements amounted to $14 billion unchanged from 2004 and compared with $13 billion in 2003. The Bank also acquires market risk on certain assets via total return swaps, without acquiring the cash instruments directly. Assets under such arrangements amounted to $5 billion as at October 31, 2005 unchanged from 2004 and compared with $6 billion in 2003. Market risk for all such positions is tracked and monitored, and regulatory market risk capital is required. The assets sold under these arrangements (excluding equity derivatives) discussed in the Off-balance Sheet Arrangements on page 53 are included in this amount. See Note 19 on page 97 for more details on derivative contracts.

Securities and securities purchased under reverse repurchase agreements increased by $10 billion or 10% and $5 billion or 20%, respectively. The increase was attributable to portfolio growth of $9 billion in government and government-insured securities, $552 million in equity securities, and $499 million in other debt securities.

Total Loans (net of allowance for credit losses) at October 31, 2005 were $152 billion compared to $124 billion in the prior year, up $28 billion or 23%. TD Banknorth contributed $23 billion of the growth. The increase represents significant growth in the consumer loan and the business and government loan portfolios reflecting the TD Banknorth acquisition, an increase in loan originations during the year due to the favourable interest rate environment, and partially offset by the impact of foreign exchange rates. Personal loans, including securitizations, increased by $15 billion or 27%, of which TD Banknorth contributed $7 billion. Growth in personal loans was also a result of strong growth in real estate secured lending volumes within Canadian Personal and Commercial Banking. Residential mortgages, including securitizations, increased by $4 billion or 6%. Bank-originated securitized assets not included on the balance sheet amounted to $24 billion, compared with $20 billion last year.

Other assets were up $7 billion or 12%. This was due mainly to an increase in goodwill from the TD Banknorth acquisition.

Deposits were $247 billion, up $40 billion or 19% from the prior year. TD Banknorth contributed $26 billion of deposits. This increase was driven by a $20 billion or 24% increase in business and government deposits and a $21 billion or 19% increase in personal deposits. Personal non-term deposits increased by $13 billion while personal term deposits remained relatively unchanged. The growth in deposits primarily reflects the effects of organic growth, acquisition of TD Banknorth and offset by the impact of foreign currency translation.

Other liabilities increased by $10 billion or 13%. The growth was largely caused by a $8 billion or 30% increase in obligations related to securities sold short and under repurchase agreements, and a $2 billion or 13% increase in other liabilities.

Subordinated notes and debentures were down by $506 million or 9% due to repayment of various subordinated notes and debentures.

Non-controlling interest in subsidiaries consists entirely of the Bank's interest in TD Banknorth.

Shareholders equity rose by $3 billion or 25% from the prior year, due to $2 billion of common shares issued for the TD Banknorth acquisition, a 12% growth in retained earnings, during the year partially offset by the foreign currency translation adjustments.

U.S. GAAP

Total assets under U.S. GAAP were $372 billion as at October 31, 2005, $7 billion higher than under Canadian GAAP. The difference was primarily due to non-cash collateral. Under U.S. GAAP, certain non-cash collateral received in securities lending transactions is recognized as an asset and a liability is recorded for the obligation to return the collateral. Under Canadian GAAP, non-cash collateral received as part of a security lending transaction is not recognized in the Consolidated Balance Sheet. Total liabilities under U.S. GAAP were $350 billion as at October 31, 2005, $3 billion higher than under Canadian GAAP. The increase is mainly due to the U.S./Canadian GAAP difference for derivative instruments recorded in other liabilities. Under U.S. GAAP, all of the Bank's non-trading derivatives are required to be recorded on the Consolidated Balance Sheet at fair value. Under Canadian GAAP, only certain non-trading derivatives are recorded on the Consolidated Balance Sheet.

GROUP FINANCIAL CONDITION

Credit Portfolio Quality

AT A GLANCE OVERVIEW

- **Loans and acceptances portfolio net of allowances for credit losses was $158 billion, up $29 billion or 22% from the prior year.**
- **Impaired loans after specific allowance were $196 million, down $75 million or 28%.**
- **Provision for credit losses was $55 million, compared with a reversal of $386 million in 2004.**
- **Total allowances for credit losses increased by $110 million or 9%, to $1,293 million in 2005.**

LOAN PORTFOLIO

Overall in 2005 the Bank's credit quality continues to be stable as a result of strong economic conditions in North America, established business and risk management strategies and the current low interest rate environment. The Bank experienced no corporate defaults and nominal levels of new impaired loan formations during the year.

During 2005, the loans and acceptances portfolio continued to be diversified between retail and business and government. The Bank increased its credit portfolio by $29 billion or 22% from the prior year, mainly due to a 49% increase in business and government loans and acceptances and a 15% increase in personal loans. The business and government portfolio totaled $40 billion at year end. The increase was primarily due to the acquisition of TD Banknorth, which added $12 billion to the portfolio. The non-core wholesale portfolio continues to run off and was $.6 billion compared to $1.8 billion in 2004 and $5.6 billion in 2003. The Bank will continue to manage this portfolio downward. Loans authorized and amounts outstanding to small and mid-sized business customers are provided in Table 20 below.

TABLE **20** **LOANS TO SMALL AND MID-SIZED BUSINESS CUSTOMERS**

(millions of Canadian dollars)		Loans authorized			Amount outstanding	
Loan amount	**2005**	2004	2003	**2005**	2004	2003
(thousands of Canadian dollars)						
0 – 24	**$ 1,137**	$ 1,054	$ 1,056	**$ 589**	$ 522	$ 530
25 – 49	**1,000**	768	745	**648**	445	434
50 – 99	**1,582**	1,308	1,298	**931**	727	745
100 – 249	**3,251**	2,701	2,682	**1,988**	1,608	1,626
250 – 499	**3,100**	2,484	2,409	**1,798**	1,452	1,421
500 – 999	**3,235**	2,537	2,478	**1,653**	1,286	1,271
1,000 – 4,999	**9,735**	6,969	6,769	**4,457**	3,185	3,112
Total[1]	**$23,040**	$17,821	$17,437	**$12,064**	$9,225	$9,139

[1] Personal loans used for business purposes are not included in these totals.

The retail business portfolio continued to be the dominating category for lending activity. During the year, the portfolio, which primarily comprised residential mortgages and consumer instalments and other personal loans, increased by $16 billion or 15%, and totaled $118 billion at year end. The growth was primarily due to the retail portfolio acquired in the TD Banknorth acquisition as well as the targeted expansion of retail lending in TD Canada Trust. The Banknorth portfolio was $11 billion and included $7 billion of consumer loans and leases and $4 billion of residential mortgages at year end. Furthermore, strong domestic demand for consumer lending products, including residential mortgages, added $5 billion to the portfolio.

As illustrated in Table 21, the total retail portfolio represents 75% of net loans, including acceptances, compared with 79% in 2004 and 77% in 2003. This portfolio declined in overall percentage due to the additional business and government loans acquired in the TD Banknorth acquisition. Residential mortgages represented 33% of the portfolio in 2005, compared with 40% in 2004 and 42% in 2003. Consumer installment and other personal loans were 41% of total loans, compared with 39% in 2004 and 34% in 2003. The portion of business and government credit exposure increased to 25% in 2005, from 21% in 2004 and 23% in 2003, mainly due to the Banknorth acquisition.

The majority of credit risk exposure relates to the loan and acceptances portfolio, however, the Bank also engages in activities that have off-balance sheet credit risk. These include credit instruments and derivative financial instruments, as explained in Note 21 on page 101.

TABLE 21 LOANS AND ACCEPTANCES, NET OF ALLOWANCE FOR CREDIT LOSSES BY INDUSTRY SECTOR[1]

(millions of Canadian dollars, except percentage amounts)	2005	2004	2003	Percentage of total 2005	2004	2003
Canada						
Residential mortgages	**$ 49,067**	$ 51,374	$ 52,525	**31.0%**	39.7%	42.1%
Consumer instalment and other personal	**54,063**	46,814	38,623	**34.2**	36.2	31.0
Total residential and personal	**103,130**	98,188	91,148	**65.2**	75.9	73.1
Real estate development						
Commercial and industrial	**1,326**	1,343	1,491	**.9**	1.0	1.2
Residential	**1,608**	1,395	1,247	**1.0**	1.1	1.0
Retail	**388**	346	352	**.2**	.3	.3
Real estate services	**267**	251	300	**.2**	.2	.2
Total real estate	**3,589**	3,335	3,390	**2.3**	2.6	2.7
Agriculture	**2,187**	2,155	2,428	**1.4**	1.7	1.9
Apparel and textile	**309**	270	323	**.2**	.2	.3
Automotive	**1,283**	1,404	1,644	**.8**	1.1	1.3
Cable	**386**	543	417	**.2**	.4	.3
Chemical	**424**	435	415	**.3**	.3	.3
Construction	**754**	764	694	**.5**	.6	.6
Financial	**3,745**	1,983	1,960	**2.4**	1.5	1.6
Food, beverage and tobacco	**1,367**	1,233	1,319	**.9**	1.0	1.1
Forestry	**530**	427	563	**.3**	.3	.5
Government	**537**	464	589	**.3**	.4	.5
Health and social services	**1,264**	1,130	1,144	**.8**	.9	.9
Media and entertainment	**1,201**	904	1,111	**.8**	.7	.9
Metals and mining	**451**	464	600	**.3**	.4	.5
Oil and gas	**1,205**	863	941	**.8**	.7	.7
Retail	**1,020**	1,071	1,072	**.6**	.8	.8
Sundry manufacturing	**810**	905	910	**.5**	.7	.7
Telecommunications	**21**	60	92	**–**	–	.1
Transportation	**520**	448	600	**.3**	.3	.5
Utilities	**558**	613	665	**.3**	.5	.5
All other loans	**1,738**	1,935	1,487	**1.1**	1.4	1.2
Total business and government	**23,899**	21,406	22,364	**15.1**	16.5	17.9
Total Canada	**127,029**	119,594	113,512	**80.3**	92.4	91.0
United States						
Residential mortgages	**3,625**	–	–	**2.3**	–	–
Consumer instalment and other personal	**11,258**	4,294	4,272	**7.1**	3.3	3.4
Total residential and personal	**14,883**	4,294	4,272	**9.4**	3.3	3.4
Real estate development						
Residential	**1,498**	16	85	**.9**	–	.1
Real estate services	**6,009**	–	4	**3.8**	–	–
Total real estate	**7,507**	16	89	**4.7**	–	.1
Agriculture	**103**	–	–	**.1**	–	–
Apparel and textile	**39**	–	–	**–**	–	–
Automotive	**317**	52	91	**.2**	–	.1
Cable	**161**	145	363	**.1**	.1	.3
Chemical	**208**	–	24	**.1**	–	–
Construction	**291**	5	27	**.2**	–	–
Financial	**1,280**	772	264	**.9**	.6	.2
Food, beverage and tobacco	**198**	103	106	**.1**	.1	.1
Forestry	**178**	68	209	**.1**	.1	.2
Government	**290**	328	151	**.2**	.3	.1
Health and social services	**369**	–	57	**.3**	–	–
Media and entertainment	**448**	183	351	**.3**	.1	.3
Metals and mining	**193**	10	42	**.1**	–	–
Oil and gas	**192**	152	451	**.1**	.1	.5
Retail	**214**	–	59	**.1**	–	–
Sundry manufacturing	**448**	74	9	**.3**	–	–
Telecommunications	**230**	111	333	**.1**	.1	.3
Transportation	**197**	31	57	**.1**	–	–
Utilities	**292**	476	1,171	**.2**	.4	.9
All other loans	**1,491**	207	247	**1.0**	.2	.2
Total business and government	**14,646**	2,733	4,101	**9.3**	2.1	3.3
Total United States	**29,529**	7,027	8,373	**18.7**	5.4	6.7
Other International						
Residential mortgages	**–**	–	–	**–**	–	–
Consumer instalment and other personal	**9**	11	13	**–**	–	–
Total residential and personal	**9**	11	13	**–**	–	–
Real estate development - retail	**–**	–	19	**–**	–	–
Apparel and textile	**–**	–	38	**–**	–	–
Automotive	**83**	–	3	**.1**	–	–
Cable	**–**	77	298	**–**	.1	.3
Chemical	**52**	60	80	**–**	.1	.1
Construction	**6**	1	21	**–**	–	–
Financial	**755**	1,728	466	**.5**	1.3	.4
Food, beverage and tobacco	**97**	102	141	**.1**	.1	.1
Forestry	**3**	18	27	**–**	–	–
Government	**14**	–	–	**–**	–	–
Media and entertainment	**199**	252	255	**.1**	.2	.2
Metals and mining	**110**	18	10	**.1**	–	–
Oil and gas	**–**	–	278	**–**	–	.2
Sundry manufacturing	**1**	22	2	**–**	–	–
Telecommunications	**51**	140	309	**–**	.1	.3
Transportation	**52**	47	50	**–**	–	.1
Utilities	**217**	182	652	**.1**	.2	.5
All other loans	**25**	152	156	**–**	.1	.1
Total business and government	**1,665**	2,799	2,805	**1.0**	2.2	2.3
Total Other International	**1,674**	2,810	2,818	**1.0**	2.2	2.3
Total	**$158,232**	$129,431	$124,703	**100.0%**	100.0%	100.0%
Percentage change	**22.3%**	3.8%	(4.3)%			

[1] Based on geographic location of unit responsible for recording revenue.

CONCENTRATION OF CREDIT RISK

Geographically, the credit portfolio remains highly concentrated in Canada. In 2005, the percentage of loans held in Canada was 80%, compared with 92% in 2004 and 91% in 2003. The remaining balance is predominantly in the United States. Exposure in the United Kingdom, Asia, Australia and New Zealand is limited. The acquisition of TD Banknorth which operates in the United States increased the overall lending portfolio by $23 billion at year end and was responsible for the increase in our U.S. geographic lending.

As indicated in Table 22, the largest Canadian exposure is in Ontario, at 48% of total loans in 2005, down from 56% in fiscal 2004. Internationally, the largest concentration is in the United States, which comprises 18% of total loans, up from 5% in 2004.

TABLE 22 **LOANS AND ACCEPTANCES, NET OF ALLOWANCE FOR CREDIT LOSSES BY LOCATION OF ULTIMATE RISK**

(millions of Canadian dollars, except percentage amounts)	**2005**	2004	2003	2002	Percentage of total **2005**	2004	2003	2002
Canada								
Atlantic	**$ 3,637**	$ 3,463	$ 3,445	$ 3,342	**2.3%**	2.7%	2.8%	2.6%
Québec	**8,312**	7,570	6,822	6,663	**5.3**	5.9	5.5	5.1
Ontario	**75,673**	72,334	71,914	70,219	**47.8**	55.9	57.6	53.9
Prairies	**19,150**	18,424	16,667	16,286	**12.1**	14.2	13.4	12.5
British Columbia	**19,074**	17,780	15,054	15,310	**12.1**	13.7	12.1	11.7
Total Canada	**125,846**	119,571	113,902	111,820	**79.5**	92.4	91.4	85.8
United States	**28,609**	6,131	7,731	11,714	**18.1**	4.7	6.2	9.0
Other International								
United Kingdom	**1,039**	904	434	1,118	**.7**	.7	.3	.8
Europe – other	**1,095**	962	854	1,838	**.7**	.8	.7	1.4
Australia and New Zealand	**638**	665	746	1,328	**.4**	.5	.6	1.0
Japan	**–**	–	42	138	**–**	–	–	.1
Asia – other	**573**	894	488	1,254	**.4**	.7	.4	1.0
Latin America and Caribbean	**431**	303	503	1,123	**.3**	.2	.4	.9
Middle East and Africa	**1**	1	3	13	**–**	–	–	–
Total Other International	**3,777**	3,729	3,070	6,812	**2.4**	2.9	2.4	5.2
Total	**$158,232**	$129,431	$124,703	$130,346	**100.0%**	100.0%	100.0%	100.0%

Percentage change over previous year	**2005**	2004	2003	2002
Canada	**5.2%**	5.0%	1.9%	5.4%
United States	**366.6**	(20.7)	(34.0)	(25.7)
Other International	**1.3**	21.5	(54.9)	(2.4)
Total	**22.3%**	3.8%	(4.3)%	1.2%

As shown in Table 21 on page 45, the largest business and government sector concentrations in Canada are real estate development, financial and agriculture at 2%, 2% and 1% respectively. Real estate development was also the leading sector of concentration in the United States at 5%.

IMPAIRED LOANS

A loan is considered impaired when, in management's opinion, it can no longer be reasonably assured that we will be able to collect the full amount of principal and interest when due. Note 3 on page 79 provides an enhanced explanation of impaired loans. Table 23 shows the decreasing impact on net interest income due to impaired loans.

As indicated in Table 24 and Table 25 on page 47 and 48, net impaired loans before general allowances were $196 million for the year ended October 31, 2005, compared with a total of $271 million a year earlier and $884 million for 2003. The decline from 2004 was due to a $90 million decrease in corporate net impaired loans. Successful collection activities and fewer new problem loans contributed to this result. The decline in corporate net impaired loans was entirely in the non-core lending portfolio that is being wound down. There were no net impaired non-core loans at October 31, 2005 compared to $133 million in 2004 and $640 million in 2003. The acquisition of TD Banknorth added $49 million of new additions to net impaired loans.

TABLE 23 **IMPACT ON NET INTEREST INCOME DUE TO IMPAIRED LOANS**

(millions of Canadian dollars)	**2005**	2004	2003
Reduction in net interest income due to impaired loans	**$ 35**	$49	$111
Recoveries	**(26)**	(8)	(11)
Net reduction	**$ 9**	$41	$100

TABLE 24 IMPAIRED LOANS LESS ALLOWANCE FOR CREDIT LOSSES BY INDUSTRY SECTOR[1]

(millions of Canadian dollars, except percentage amounts)	2005	2004	2003	Percentage of total 2005	2004	2003
Canada						
Residential mortgages	**$ 8**	$ 15	$ 43	**4.1%**	5.5%	4.8%
Consumer instalment and other personal	**63**	41	52	**32.2**	15.2	5.9
Total residential and personal	**71**	56	95	**36.3**	20.7	10.7
Real estate development						
Commercial and industrial	**2**	4	9	**1.0**	1.4	1.0
Residential	**1**	1	2	**.5**	.4	.2
Total real estate	**3**	5	11	**1.5**	1.8	1.2
Agriculture	**49**	46	73	**25.0**	17.0	8.4
Apparel and textile	**1**	(2)	(1)	**.5**	(.7)	(.1)
Automotive	**9**	13	20	**4.6**	4.8	2.3
Chemical	**11**	1	6	**5.6**	.4	.7
Construction	**1**	4	2	**.5**	1.4	.2
Financial	**–**	–	2	**–**	–	.2
Food, beverage and tobacco	**1**	(8)	2	**.5**	(3.0)	.2
Forestry	**–**	1	11	**–**	.4	1.2
Health and social services	**–**	1	2	**–**	.4	.2
Media and entertainment	**–**	3	9	**–**	1.1	1.0
Metals and mining	**–**	2	23	**–**	.7	2.6
Oil and gas	**–**	3	–	**–**	1.1	–
Retail	**1**	1	2	**.5**	.4	.2
Sundry manufacturing	**–**	9	1	**–**	3.3	.1
Telecommunications	**–**	–	2	**–**	–	.2
Transportation	**–**	1	6	**–**	.4	.7
Utilities	**–**	–	44	**–**	–	5.0
All other loans	**–**	3	5	**–**	1.1	.6
Total business and government	**76**	83	220	**38.7**	30.6	24.9
Total Canada	**147**	139	315	**75.0**	51.3	35.6
United States						
Residential mortgages	**–**	–	–	**–**	–	–
Consumer instalment and other personal	**–**	–	–	**–**	–	–
Total residential and personal	**–**	–	–	**–**	–	–
Real estate development						
Commercial and industrial	**23**	–	–	**11.8**	–	–
Residential	**1**	–	–	**.5**	–	–
Shopping Centres	**1**	–	–	**.5**	–	–
Real Estate Services	**4**	–	–	**2.0**	–	–
Total real estate	**29**	–	–	**14.8**	–	–
Automotive	**–**	–	1	**–**	–	.1
Cable	**–**	–	146	**–**	–	16.5
Chemical	**–**	–	9	**–**	–	1.0
Construction	**3**	–	–	**1.5**	–	–
Financial	**–**	15	20	**–**	5.5	2.3
Food, beverage and tobacco	**1**	–	–	**.5**	–	–
Forestry	**1**	–	–	**.5**	–	–
Media and entertainment	**1**	–	–	**.5**	–	–
Metals and mining	**4**	–	(2)	**2.1**	–	(.2)
Sundry manufacturing	**6**	–	–	**3.1**	–	–
Telecommunications	**–**	–	41	**–**	–	4.7
Transportation	**1**	–	8	**.5**	–	.9
Utilities	**1**	88	259	**.5**	32.5	29.3
All other loans	**2**	12	3	**1.0**	4.4	.3
Total business and government	**49**	115	485	**25.0**	42.4	54.9
Total United States	**49**	115	485	**25.0**	42.4	54.9
Other International						
Residential mortgages	**–**	–	–	**–**	–	–
Consumer instalment and other personal	**–**	–	–	**–**	–	–
Total residential and personal	**–**	–	–	**–**	–	–
Automotive	**–**	–	6	**–**	–	.7
Cable	**–**	17	22	**–**	6.3	2.5
Media and entertainment	**–**	–	1	**–**	–	.1
Telecommunications	**–**	–	20	**–**	–	2.3
Utilities	**–**	–	35	**–**	–	3.9
Total business and government	**–**	17	84	**–**	6.3	9.5
Total Other International	**–**	17	84	**–**	6.3	9.5
Total net impaired loans before general and sectoral allowances	**196**	271	884	**100.0%**	100.0%	100.0%
Less: general allowances	**1,140**	917	984			
sectoral allowances	**–**	–	541			
Total net impaired loans	**$ (944)**	$(646)	$(641)			
Net impaired loans as a % of common equity	**(6.0)%**	(5.1)%	(5.5)%			

[1] Based on geographic location of unit responsible for recording revenue.

Net impaired loans after specific and general allowances were $(944) million compared to $(646) million for 2004 and $(641) million for 2003. The overall impaired loans coverage increased by $298 million from the prior year primarily due to lower net impaired loans coupled with a higher general allowance due to the consolidation of Banknorth's general allowance of $289 million.

TABLE 25	IMPAIRED LOANS LESS ALLOWANCE FOR CREDIT LOSSES BY LOCATION[1]							
(millions of Canadian dollars, except percentage amounts)					Percentage of total			
	2005	2004	2003	2002	**2005**	2004	2003	2002
Canada								
Atlantic	**$ 2**	$ 2	$ 4	$ 5	**1.0%**	.7%	.5%	.4%
Québec	**7**	3	9	18	**3.6**	1.1	1.0	1.2
Ontario	**99**	91	223	345	**50.5**	33.6	25.2	23.8
Prairies	**33**	36	62	60	**16.8**	13.3	7.0	4.1
British Columbia	**6**	7	17	21	**3.1**	2.6	1.9	1.5
Total Canada	**147**	139	315	449	**75.0**	51.3	35.6	31.0
United States	**49**	115	485	929	**25.0**	42.4	54.9	64.0
Other International	**–**	17	84	73	**–**	6.3	9.5	5.0
Total net impaired loans before general and sectoral allowances	**196**	271	884	1,451	**100.0%**	100.0%	100.0%	100.0%
Less: general allowances	**1,140**	917	984	1,141				
sectoral allowances	**–**	–	541	1,285				
Total net impaired loans	**$ (944)**	$(646)	$(641)	$ (975)				
Net impaired loans as a % of net loans[2]	**(.6)%**	(.5)%	(.5)%	(.7)%				

[1] Based on geographic location of unit responsible for recording revenue.
[2] Includes customers' liability under acceptances.

ALLOWANCE FOR CREDIT LOSSES

Total allowance for credit losses consists of specific and general allowances carried on the Consolidated Balance Sheet. The allowance is increased by the provision for credit losses, and decreased by write-offs net of recoveries. The Bank maintains the allowance at levels that management believes is adequate to absorb losses in the lending portfolio. Individual problem accounts, general economic conditions as well as the sector and geographic mix of the lending portfolio are all considered by management in assessing the appropriate allowance levels.

Specific Allowance

The Bank establishes specific allowances for impaired loans when a loss is likely or when the estimated value of the loan is less than its recorded value, based on discounting expected future cash flows. Allowances for personal credit portfolios are based on delinquency and type of security.

Specific allowances for credit losses are established to reduce the book value of loans to estimated realizable amounts in the normal course of business. Specific allowances for the corporate and commercial portfolios are established by borrower and reviewed quarterly. For the retail portfolio, allowances are calculated on an aggregated facility basis, using a formula that takes recent loss experience into account.

During 2005, specific allowances decreased by $113 million or 42%, resulting in a total allowance of $153 million. The change was mainly due to write-offs of $487 million, recoveries of $245 million, new provisions throughout the year of $107 million and $27 million from the acquisition of TD Banknorth. Allowances for credit losses are more fully described in Note 3 on page 79.

General Allowance

To recognize losses that management estimates to have occurred in the portfolio at the balance sheet date for loans or credits not yet specifically identified as impaired, we establish general allowances for credit risk. The level of general allowances reflects exposures across all portfolios and categories. General allowances are reviewed quarterly using credit risk models developed by the Bank. The level of allowances is based on the probability of a borrower defaulting on a loan obligation (loss frequency), the loss if default occurs (loss severity) and the expected exposure at the time of default.

For the corporate and commercial portfolios, allowances are computed at the borrower level. The loss if default occurs is based on the security of the facility. Exposure at default is a function of current usage, the borrower's risk rating and the committed amount. For the retail portfolio, the general allowance is calculated on a portfolio-level and is based on a statistical estimate of loss using historical loss and recovery data models and forecast balances. Ultimately, the general allowance is established on the basis of expected losses and is directly related to the variance of losses and the inherent product characteristics in each portfolio. Models are validated against historical experience and are updated at least annually. The general allowance methodology is annually approved by the Board.

At October 31, 2005 our general allowance for loan losses was $1,140 million, compared with $917 million last year. The increase of $223 million in general allowances resulted primarily from the acquisition of TD Banknorth.

Previously, where losses were not adequately covered by the general allowances, sectoral allowances for credit losses were established by the Bank. These allowances were for industry sectors and geographical regions that have experienced adverse events or changes in economic conditions, even though the loans comprising each group are not classified as impaired. In 2005 the Bank had no requirement for sectoral allowances.

PROVISION FOR CREDIT LOSSES

The provision for credit losses is the amount charged to the specific and general allowances for credit losses during the year to bring the total allowance to a level that management considers adequate to absorb all probable credit-related losses in the Bank's loan portfolio. The net provision for the year is reduced by any recoveries from loans that were previously assumed to be in default.

The Bank recorded provisions for credit losses of $55 million in 2005, compared with reversal of credit losses of $386 million in 2004 and provisions of $186 million in 2003. Table 26 provides a summary of provisions charged to the Consolidated Statement of Income.

TABLE 26 PROVISION FOR CREDIT LOSSES

(millions of Canadian dollars)	**2005**	2004	2003
New provisions	**$ 352**	$ 459	$ 543
Reversal of sectoral provision	**–**	(505)	(23)
Reversal of general provision			
TD Bank	**(35)**	(67)	(157)
TD Banknorth	**(17)**	–	–
Recoveries			
Sectoral	**(229)**	(150)	(57)
Specific	**(16)**	(123)	(120)
Total provision for credit losses	**$ 55**	$(386)	$ 186

New specific provisions were $352 million and have continually declined since 2003 reflecting a strong overall credit environment. In 2005 Canadian residential mortgage defaults reached historical lows and business and government loan provisions were at 10 year lows. Reversals of sectoral provisions were nil in 2005 due to the elimination of the sectoral allowances in 2004.

Total provision for credit losses as a percentage of net average loans was .04% in fiscal 2005, compared to (.30)% in 2004 and .15% in 2003.

TABLE 27 PROVISION FOR CREDIT LOSSES BY LOCATION[1]

(millions of Canadian dollars, except percentage amounts)					Percentage of total			
	2005	2004	2003	2002	**2005**	2004	2003	2002
Canada								
Atlantic	**$ 11**	$ 11	$ 10	$ 11	**20.0%**	(2.8)%	5.4%	.4%
Québec	**29**	15	16	18	**52.7**	(3.9)	8.6	.6
Ontario	**227**	238	372	348	**412.7**	(61.6)	200.0	11.9
Prairies	**36**	38	73	57	**65.5**	(9.8)	39.2	2.0
British Columbia	**29**	37	33	83	**52.7**	(9.7)	17.7	2.8
Total Canada	**332**	339	504	517	**603.6**	(87.8)	270.9	17.7
United States	**(205)**	39	276	1,006	**(372.7)**	(10.1)	148.4	34.4
Other International								
United Kingdom	**(13)**	(43)	206	132	**(23.7)**	11.1	110.8	4.5
Australia	**–**	9	8	2	**–**	(2.3)	4.3	.1
Asia	**(7)**	(2)	6	3	**(12.7)**	.5	3.2	.1
Total Other International	**(20)**	(36)	220	137	**(36.4)**	9.3	118.3	4.7
General provision	**(52)**	(67)	(157)	–	**(94.5)**	17.4	(84.4)	–
Sectoral provision (net of transfer to specifics)	**–**	(661)	(657)	1,265	**–**	171.2	(353.2)	43.2
Total	**$ 55**	$(386)	$ 186	$2,925	**100.0%**	100.0%	100.0%	100.0%
Provision for credit losses as a % of net average loans[2]								
Canada								
Residential mortgages	**.02%**	.01%	–%	.01%				
Personal	**.64**	.73	.94	1.09				
Business and other	**(.01)**	.12	.74	.71				
Total Canada	**.27**	.29	.45	.48				
United States	**(.98)**	.50	2.43	6.37				
Other International	**(.94)**	(1.30)	5.16	2.30				
General provision	**(.04)**	(.05)	(.12)	–				
Sectoral provision	**–**	(.52)	.52	.97				
Total	**.04%**	(.30)%	.15%	2.24%				

[1] Based on geographic location of unit responsible for recording revenue.

[2] Includes customers' liability under acceptances.

TABLE 28 PROVISION FOR CREDIT LOSSES BY INDUSTRY SECTOR[1]

(millions of Canadian dollars, except percentage amounts)	2005	2004	2003	Percentage of total 2005	2004	2003
Canada						
Residential mortgages	**$ 12**	$ 3	$ 2	**11.2%**	.9%	.2%
Consumer instalment and other personal	**323**	311	332	**301.9**	90.9	33.2
Total residential and personal	**335**	314	334	**313.1**	91.8	33.4
Real estate development						
Commercial and industrial	**–**	–	7	**–**	–	.7
Residential	**–**	–	2	**–**	–	.2
Total real estate	**–**	–	9	**–**	–	.9
Agriculture	**–**	(5)	27	**–**	(1.5)	2.7
Apparel and textile	**(1)**	1	1	**(.9)**	.3	.1
Automotive	**(1)**	7	8	**(.9)**	2.0	.8
Chemical	**3**	(2)	6	**2.8**	(.6)	.6
Construction	**–**	3	(2)	**–**	.9	(.2)
Financial	**–**	–	2	**–**	–	.2
Food, beverage and tobacco	**–**	2	2	**–**	.6	.2
Forestry	**–**	–	4	**–**	–	.4
Health and social services	**–**	1	2	**–**	.3	.2
Media and entertainment	**(1)**	2	14	**(.9)**	.6	1.4
Metals and mining	**–**	3	19	**–**	.9	1.9
Oil and gas	**–**	3	1	**–**	.9	.1
Retail	**–**	2	2	**–**	.6	.2
Sundry manufacturing	**1**	3	11	**.9**	.9	1.1
Telecommunications	**(4)**	7	–	**(3.8)**	2.0	–
Transportation	**–**	(1)	48	**–**	(.3)	4.8
Utilities	**–**	–	13	**–**	–	1.3
All other loans	**–**	(1)	3	**–**	(.3)	.3
Total business and government	**(3)**	25	170	**(2.8)**	7.3	17.0
Total Canada	**332**	339	504	**310.3**	99.1	50.4
United States						
Residential mortgages	**–**	–	–	**–**	–	–
Consumer instalment and other personal	**12**	1	1	**11.2**	.3	.1
Total residential and personal	**12**	1	1	**11.2**	.3	.1
Real estate development						
Commercial and industrial	**1**	–	–	**.9**	–	–
Total real estate	**1**	–	–	**.9**	–	–
Apparel and textile	**–**	–	11	**–**	–	1.1
Cable	**–**	(30)	(2)	**–**	(8.8)	(.2)
Chemical	**–**	7	4	**–**	2.0	.4
Construction	**(1)**	–	(6)	**(.9)**	–	(.6)
Food, beverage and tobacco	**1**	–	–	**.9**	–	-
Health and social services	**–**	–	(1)	**–**	–	(.1)
Media and entertainment	**–**	–	23	**–**	–	2.3
Metals and mining	**2**	(2)	4	**1.9**	(.6)	.4
Retail	**1**	–	–	**.9**	–	–
Sundry manufacturing	**1**	–	(5)	**.9**	–	(.5)
Telecommunications	**(14)**	(20)	26	**(13.1)**	(5.8)	2.6
Utilities	**(202)**	78	221	**(188.7)**	22.8	22.1
All other loans	**(6)**	5	–	**(5.6)**	1.5	–
Total business and government	**(217)**	38	275	**(202.8)**	11.1	27.5
Total United States	**(205)**	39	276	**(191.6)**	11.4	27.6
Other International						
Residential mortgages	**–**	–	–	**–**	–	–
Consumer instalment and other personal	**–**	–	–	**–**	–	–
Total residential and personal	**–**	–	–	**–**	–	–
Automotive	**–**	(4)	8	**–**	(1.2)	.8
Cable	**(9)**	2	97	**(8.4)**	.6	9.7
Construction	**–**	–	1	**–**	–	.1
Financial	**(11)**	(11)	–	**(10.3)**	(3.2)	–
Media and entertainment	**–**	–	9	**–**	–	.9
Telecommunications	**–**	2	11	**–**	.6	1.1
Utilities	**–**	(25)	94	**–**	(7.3)	9.4
Total business and government	**(20)**	(36)	220	**(18.7)**	(10.5)	22.0
Total Other International	**(20)**	(36)	220	**(18.7)**	(10.5)	22.0
Total before general and sectoral provisions	**$107**	$ 342	$1,000	**100.0%**	100.0%	100.0%
General provision (reversal)	**(52)**	(67)	(157)			
Sectoral provision (reversal) (including transfer to specifics)	**–**	(661)	(657)			
Total	**$ 55**	$(386)	$ 186			

[1] Based on geographic location of unit responsible for recording revenue.

GROUP FINANCIAL CONDITION

Capital Position

TABLE 29 CAPITAL STRUCTURE AND RATIOS			
(millions of Canadian dollars)	**2005**	2004	2003
Tier 1 capital			
Retained earnings	**$ 10,650**	$ 9,540	$ 8,518
Foreign currency translation adjustments	**(696)**	(265)	(130)
Common shares	**5,872**	3,373	3,179
Additional adjustment for dealer holding TD shares	**(29)**	(121)	–
Qualifying preferred shares	**895**	1,310	1,535
Contributed surplus	**40**	20	9
Qualifying non-controlling interest in subsidiaries	**1,632**	–	–
Capital Trust Securities	**1,250**	1,250	1,250
Less: goodwill and intangibles in excess of 5% limit	**(6,508)**	(2,467)	(3,035)
Total Tier 1 capital	**13,106**	12,640	11,326
Tier 2 capital			
Subordinated notes and debentures	**5,138**	5,644	5,887
General allowance for credit losses included in capital	**1,137**	878	947
Less: amortization of subordinated notes and debentures	**(39)**	(212)	(241)
Total Tier 2 capital	**6,236**	6,310	6,593
Investment in regulated insurance subsidiaries	**(1,043)**	(819)	(594)
Substantial investments in unconsolidated subsidiaries	**(1,072)**	(1,036)	(325)
First loss protection	**(44)**	(189)	(145)
Total regulatory capital	**$ 17,183**	$16,906	$16,855
Regulatory capital ratios			
Tier 1 capital	**10.1%**	12.6%	10.5%
Total capital	**13.2**	16.9	15.6
Assets to capital multiple[1]	**19.9**	17.1	15.2
Tangible common equity	**$ 9,567**	$ 9,000	$ 7,417
Tangible common equity as a percentage of risk-weighted assets	**7.4%**	9.0%	6.9%

[1] Total assets plus off-balance sheet credit instruments such as letters of credit and guarantees less investments in associated corporations and goodwill and net intangibles divided by total regulatory capital.

THE BANK'S GOALS ARE TO:

- Provide enough capital to maintain the confidence of investors and depositors, while providing the Bank's common shareholders with a satisfactory return.
- Be an appropriately capitalized institution, as measured internally, defined by regulatory authorities and compared with the Bank's peers.
- Achieve the lowest overall cost of capital consistent with preserving the appropriate mix of capital elements to meet target capitalization levels.
- Maintain strong ratings.

CAPITAL SOURCES

The Bank's capital is primarily derived from common shareholders and retained earnings. Other sources of capital include the Bank's preferred shareholders and holders of the Bank's subordinated debt.

CAPITAL MANAGEMENT

Group Risk Management manages capital for the Bank and is responsible for acquiring, maintaining and retiring capital. The Board of Directors oversees capital policy and management.

ECONOMIC CAPITAL

The Bank's internal measure of required capital is called economic capital or invested capital. Economic capital comprises risk based capital required to fund losses that could occur under extremely adverse economic or operational conditions, and investment capital that has been used to fund acquisitions or investments in fixed assets.

The Bank uses internal models to determine how much risk based capital is required for credit, market, operational and other identified risks. Risk based capital differs from regulatory capital because it applies to deposit products as well as asset products, and it applies to operational and insurance risks as well as credit and market risks. Regulatory capital is set by regulations established by the Superintendent of Financial Institutions Canada.

Within the Bank's measurement framework, our objective is to hold risk based capital to cover unexpected losses to a high level of confidence and ratings standard. Unlike rating agency and regulatory capital measures, economic capital refers solely to common equity capital. Since losses flow through the Consolidated Statement of Operations, the Bank ensures it has sufficient common equity to absorb worst case losses.

The Bank makes business decisions based on the return on economic capital, while also ensuring that, in aggregate, regulatory and rating agency requirements and capital available are kept in balance.

REGULATORY CAPITAL

Tier 1 Capital

Tier 1 capital was $13.1 billion at October 31, 2005, up from $12.6 billion last year. Foreign exchange adjustments unfavourably affected retained earnings by $696 million as at October 31, 2005. The Bank raised $2,499 million of common stock including $1,988 million issued as part of the acquisition of TD Banknorth and $380 million from the dividend reinvestment plan. The Bank also redeemed $410 million of First Preferred Shares, Series J, during the year with an additional premium of $13 million. On November 1, 2005, the Bank raised $425 million of First Preferred Shares, Series O. See Note 28 to the Bank's Consolidated Financial Statements for more details.

Tier 2 Capital

The Bank redeemed $750 million of subordinated debt during the year. In addition, with the consent of the noteholders, the Bank removed the subordination provisions of four issues of U.S. dollar denominated subordinated debt aggregating approximately $642 million, with a remaining capital value of $315 million. Subsequent to year end, the Bank raised $800 million of subordinated debt qualifying as Tier 2A capital. See Note 28 to the Bank's Consolidated Financial Statements for more details.

DIVIDENDS

The Bank's dividend policy is approved by the Board of Directors. During the year, the Bank increased its quarterly dividend twice and as at October 31, 2005 it is at $.42 per share, consistent with the Bank's target payout range of 35-45% of earnings before amortization of intangibles. Cash dividends declared and paid for 2005 were $1.58 (2004 – $1.36, 2003 – $1.16). As at October 31, 2005, 711.8 million common shares were outstanding (2004 – 655.9 million, 2003 – 656.3 million). The Bank's ability to pay dividends is subject to the Bank Act and the regulations of the Superintendent of Financial Institutions Canada. Note 13 of the Bank's Consolidated Financial Statements provides further details.

RATINGS

Moody's Investors Service revised the Bank's financial strength rating to stable from negative, citing the Bank's success in shifting its strategy to Canadian personal, commercial and wholesale banking businesses with better credit fundamentals. The Bank's long term ratings were reaffirmed by Fitch (AA-), Moody's (Aa3), DBRS (AA(low)), and S&P (A+), following the announcement of the Bank's intention to sell our U.S. discount brokerage business to Ameritrade, and the announcement that TD Banknorth intends to purchase 100% of Hudson United Bancorp.

CAPITAL RATIOS

About Capital Ratios

Capital ratios are measures of financial strength and flexibility.

The Office of the Superintendent of Financial Institutions Canada (OSFI) defines two primary ratios to measure capital adequacy, the Tier 1 capital ratio and the total capital ratio. OSFI sets target levels for Canadian banks:

- The Tier 1 capital ratio is defined as Tier 1 capital divided by risk-weighted assets. OSFI has established a target Tier 1 capital requirement of 7%.
- The total capital ratio is defined as total regulatory capital divided by risk-weighted assets. OSFI has established a target total capital requirement of 10%.

The Bank's Tier 1 and total capital ratios were 10.1% and 13.2%, respectively, on October 31, 2005 compared with 12.6% and 16.9% on October 31, 2004. The principal factor for the year-over-year decline was the increase in risk-weighted assets and goodwill and intangibles from the purchase of TD Banknorth. The Bank exceeded its revised medium term target for Tier 1 capital of 8–8.5%.

OSFI measures the capital adequacy of Canadian banks according to its instructions for determining risk-adjusted capital, risk-weighted assets and off-balance sheet exposures. This approach is based on the Bank for International Settlements' (BIS) agreed framework for achieving a more consistent way to measure the capital adequacy and standards of banks engaged in international business.

RISK-WEIGHTED ASSETS

Risk-weighted assets are determined by applying OSFI prescribed risk-weights to balance sheet assets and off-balance sheet financial instruments according to credit risk of the counterparty. Risk-weighted assets also include an amount for the market risk exposure associated with the Bank's trading portfolio.

The Bank's total risk-weighted assets (RWA) increased by $29.7 billion or 29.6% in 2005 from prior year, principally from the acquisition of TD Banknorth.

TABLE **30** **RISK-WEIGHTED ASSETS**

(millions of Canadian dollars)		**2005**		2004		2003
	Balance	**Risk-weighted balance**	Balance	Risk-weighted balance	Balance	Risk-weighted balance
Balance sheet assets						
Cash resources and other	**$ 13,418**	**$ 2,435**	$ 9,038	$ 1,582	$ 7,719	$ 1,344
Securities	**108,096**	**4,955**	98,280	4,155	79,665	3,686
Securities purchased under reverse repurchase agreements	**26,375**	**559**	21,888	589	17,475	235
Loans (net)	**152,243**	**82,713**	123,924	61,251	118,058	59,273
Customers' liability under acceptances	**5,989**	**5,896**	5,507	5,414	6,645	6,400
Other assets	**59,089**	**7,695**	52,390	6,208	43,970	5,885
Total balance sheet assets	**$365,210**	**$104,253**	$311,027	$ 79,199	$273,532	$ 76,823
Off-balance sheet assets						
Credit instruments		**13,419**		9,031		10,937
Derivative financial instruments		**7,201**		6,268		5,987
Total off-balance sheet assets		**20,620**		15,299		16,924
Total risk-weighted asset equivalent – credit risk		**124,873**		94,498		93,747
– market risk		**5,109**		5,808		14,470
Total risk-weighted assets		**$129,982**		$100,306		$108,217

REVISED CAPITAL ACCORD

In 2004, the Basel Committee on Banking Supervision finalized the new Basel capital framework to replace the accord originally introduced in 1988 and supplemented in 1996. The underlying principles of the new framework are intended to be suitable for application to banks of varying levels of complexity and sophistication. The framework will allow qualifying banks to determine capital levels consistent with the manner in which they measure, manage and mitigate risk. The new framework provides a spectrum of methodologies, from simple to advanced, for the measurement of both credit and operational risk. More advanced measurement of risks should result in regulatory and economic capital being more closely aligned. In addition, the framework includes provisions for changes to the computation of Tier 1 and total capital.

The objective of the framework is to reward for more rigorous and accurate risk management by reducing regulatory capital required under weaker or less sophisticated approaches. While the overall objective of the new framework is to neither increase nor decrease the level of overall capital in the system, some financial institutions will see an increase in regulatory capital, while others will see a decrease. The impact will depend upon the particular institution's asset mix, risk and loss experience.

The Bank is in the process of collecting, analyzing and reporting the necessary data and is on track to meet the requirements of the new framework as applied to the Canadian context by our regulator. For Canadian banks, formal implementation is expected to be in fiscal 2008.

GROUP FINANCIAL CONDITION

Off-balance Sheet Arrangements

In the normal course of operations, the Bank engages in a variety of financial transactions that, under Canadian Generally Accepted Accounting Principles, are either not recorded on the Consolidated Balance Sheet or are recorded in amounts that differ from the full contract or notional amounts. These off-balance sheet arrangements involve, among other risks, varying elements of market, credit and liquidity risk which are discussed in the Managing Risk section on pages 57 to 66 of this Annual Report. Off-balance sheet arrangements are generally undertaken for risk management, capital management and/or funding management purposes and include securitizations, commitments, guarantees, and contractual obligations.

SPECIAL PURPOSE ENTITIES

The Bank carries out certain business activities via arrangements with special purpose entities (SPEs). We use SPEs to obtain sources of liquidity by securitizing certain of the Bank's financial assets, to assist our clients in securitizing their financial assets, and to create investment products for our clients. SPEs may be organized as trusts, partnerships or corporations and they may be formed as qualifying special purpose entities (QSPEs) or variable interest entities (VIEs). When an entity is deemed a VIE under the CICA accounting guideline the entity must be consolidated by the existing primary beneficiary. See Note 6 on page 83 to the Consolidated Financial Statements for further information regarding the adoption of the accounting guideline for VIEs.

Securitizations are an important part of the financial markets, providing liquidity by facilitating investor access to specific portfolios of assets and risks. In a typical securitization structure, the Bank sells assets to a SPE and the SPE funds the purchase of those assets by issuing securities to investors. SPEs are typically set up for a single, discrete purpose, are not operating entities and usually have no employees. The legal documents that govern the transaction describe how the cash earned on the assets held in the SPE must be allocated to the investors and other parties that have rights to these cash flows. The Bank is involved in SPEs through the securitization of its own assets, securitization of third party assets and other financial transactions.

Certain of the Bank's securitizations of its own assets and of third party assets are structured through QSPEs. QSPEs are trusts or other legal vehicles that are demonstrably distinct from the Bank, have specified permitted activities, defined asset holdings and may only sell or dispose of selected assets in automatic response to limited conditions. QSPEs are not consolidated by any party including the Bank.

The Bank monitors its involvement with SPEs through the Structured Products Committee. The Committee is responsible for the review of structured transactions and complex credits with potentially significant reputational, legal, regulatory, accounting or tax risks, including transactions involving SPEs.

SECURITIZATION OF BANK-ORIGINATED ASSETS

The Bank securitizes residential mortgages, personal loans, credit card loans and commercial mortgages to enhance our liquidity position, diversify sources of funding and to optimize the management of the balance sheet. Details of these securitizations are as follows.

Residential Mortgages Loans

The Bank securitizes residential mortgages through the creation of mortgage-backed securities and the eventual transfer to VIEs. The Bank continues to service the securitized mortgages and may be exposed to the risks of the transferred loans through retained interests. There are no expected credit losses on the retained interests of the securitized residential mortgages as they are all government guaranteed. We retain interests in the excess spread on the sold mortgage-backed securities and continue to service the mortgages underlying these mortgage-backed securities for which we receive benefits, equivalent to market-based compensation.

As at October 31, 2005, the Bank had outstanding securitized residential mortgages of \$15.5 billion as compared with \$13.1 billion in fiscal 2004. The carrying value of our retained interests in securitized residential mortgage loans at October 31, 2005, was \$273 million compared to \$271 million in 2004.

Co-ownership Structures

The Bank securitizes real estate secured personal loans, credit card loans and commercial mortgages through a co-ownership structure. Through this structure ownership interests in a homogenous pool are sold to SPEs. The ownership interest entitles the SPE to a portion of the loan collections to pay its expenses and obligations to the holders of its asset-backed securities. Although these interests in the receivables are no longer on our balance sheet, we maintain the client account and retain the relationship. The securitization of our real estate secured personal loans and credit card receivables is a sale from a legal perspective and qualifies for sale treatment from an accounting perspective. At the time of sale these receivables are removed from our balance sheet resulting in a gain or loss reported in non-interest income on the Consolidated Statement of Income.

For the securitization of real estate secured personal loans the Bank provides credit enhancement through its retained interest in the excess spread of the QSPE and in some cases by providing letters of credit. The Bank's interest in the excess spread of the QSPEs and the letters of credit is subordinate to obligations of the holders of the asset-backed securities and absorbs losses with respect to the real estate personal loans before payments to noteholders are affected. As at October 31, 2005, the Bank had outstanding securitized real estate personal loans of $4.8 billion as compared with $4.0 billion in fiscal 2004. The carrying value of our retained interests in securitized real estate personal loans at October 31, 2005, was $32 million compared to $2 million in 2004.

For credit card securitizations the Bank provides credit enhancement to the QSPE through its retained interest in the excess spread. The Bank's interest in the excess spread of the QSPE is subordinate to the QSPE's obligations to the holders of its asset-backed securities and absorbs losses with respect to the credit card loans before payments to the noteholders are affected. If the net cash flows are insufficient, the Bank's loss is limited to an interest-only strip that arises from the calculation of the gain or loss at the time receivables are sold. As at October 31, 2005, the Bank had outstanding securitized credit card receivables of $1.3 billion as compared with $1.3 billion in fiscal 2004. The carrying value of our retained interests in securitized credit card receivables at October 31, 2005, was $24 million compared to $24 million in 2004.

The Bank sells commercial mortgages in collateral pools, to a SPE. The SPE finances the purchase of these pools by way of issuing ownership certificates that carry varying degrees of subordination and which, when rated, range from AAA to B-, and unrated. The ownership certificates represent undivided interests in the collateral pool, and the SPE, having sold all undivided interests available in the pool, retains none of the risk of the collateral pools. The sale of our commercial mortgages to the SPE constitutes an accounting and true sale and since we neither control the SPE nor carry any residual risks/returns in the mortgages, we do not consolidate the SPE.

The Bank also securitizes commercial mortgages through sales to VIEs. As at October 31, 2005, $55 million of our originated commercial mortgages had been securitized through a VIE sponsored by us, while $79 million of commercial mortgages had been sold to a third-party sponsored VIE during the year. The Bank's interest in the excess spread, cash collateral account, and the commercial mortgages of the VIE sponsored by us is subordinate to the VIE's obligations to the holders of its asset-backed securities. The Bank's interest in the excess spread of the third-party sponsored VIE is subordinate to the VIE's obligations to the holders of its asset-backed securities.

Total bank-originated securitized assets not included on the Consolidated Balance Sheet amounted to $23.9 billion compared with $20.2 billion a year ago. Further details are provided in Note 4 of the Bank's Consolidated Financial Statements. If these securitizations were to be terminated, the Bank would experience capital implications of maintaining the assets on the Consolidated Balance Sheet and be exposed to the assets' full operational, financial and market risks.

CAPITAL TRUSTS

We sponsor two SPEs, TD Capital Trust and TD Capital Trust II, to raise capital (TD CaTS) that qualifies as Tier 1 regulatory capital. For further details on this capital trust activity and the terms of the TD CaTS issued and outstanding, refer to Note 12 on page 85. We previously consolidated these SPEs under current Canadian GAAP, however, certain changes to Canadian accounting guidelines have resulted in the classification of TD CaTS II as a VIE and resulted in deconsolidation. OSFI has advised that future capital issues by TD Capital Trust II will qualify as Tier 1 capital provided that the Bank has continued clear ownership and control of the trust, evidenced by ownership of 100% of the trust's voting securities.

SECURITIZATION OF THIRD PARTY ORIGINATED ASSETS

The Bank assists its clients in securitizing their financial assets through SPEs administered by the Bank. The Bank may provide credit enhancement, swap facilities or liquidity facilities to the resulting SPEs as well as securities distribution services. Liquidity facilities are only available in the event of a general market disruption and the probability of loss is negligible. The Bank does not provide employees to the SPEs, nor does it have ownership interests in these SPEs and all fees earned in respect of these activities are on a market basis. If these securitizations were to be terminated, the Bank would experience a reduction in securitization income.

Within our securitization group, our principal relationship with SPEs comes in the form of administering multi-seller asset-backed commercial paper conduit programs (multi-seller conduits) totaling $9.7 billion as at October 31, 2005, and $8.0 billion as at October 31, 2004. We currently administer 4 multiseller conduits. We are involved in the multi-seller conduit markets because they generate a favourable risk-adjusted return for us. Our clients primarily utilize multi-seller conduits to diversify their financing sources and to reduce funding costs by leveraging the value of high-quality collateral.

CREATION OF OTHER INVESTMENT AND FINANCING PRODUCTS

The Bank sells trading securities to VIEs in conjunction with its balance sheet management strategies. The Bank holds a significant variable interest in these VIEs, but is not considered to be the primary beneficiary, and as a result does not consolidate these VIEs. Also, the Bank does not retain effective control over the assets sold. Assets sold under such arrangements at October 31, 2005 amounted to $1.4 billion as compared with $3.0 billion in fiscal 2004. The Bank enters into total return swaps with the sale counterparties in respect of the assets sold. Market risk for all such transactions is tracked and monitored.

The Bank is also involved in Collateralized Debt Obligation vehicles (CDOs). In relation to these CDOs, the Bank may serve in the capacity of an underwriter, a third party investor or a derivative counterparty. CDOs raise capital by issuing debt securities and use their capital to invest in portfolios of securities and derivatives. Any net income or loss is shared by the CDOs' variable interest holders. The CDOs we manage may from time to time purchase collateral assets originated by us or third parties. We do not consolidate these CDOs. We recognize fee income from structuring and collateral management services and, where indicated, interest income from investments in individual CDOs.

In addition, the Bank offers equity-linked notes, credit linked notes, interest linked notes, and commodity linked notes to various VIEs and third party clients. The Bank's exposure to risk from these transactions is not significant.

The Bank through The Canada Trust Company acts as a trustee for personal and corporate trusts. In the capacity as a trustee, fees are earned.

The Bank also sponsors numerous mutual funds. The Bank acts as the administrator of these funds and does not guarantee the principal or return to investors on these funds.

The Bank also offers other financial products to clients. These financial products are, on occasion, created using a VIE as issuer or obligor of the financial products. The Bank may provide certain administrative services and other financial products to the VIEs in exchange for market rate compensation.

GUARANTEES

In the normal course of business, we enter into various guarantee contracts to support our clients. These guarantees, with the exception of related premiums, are kept off-balance sheet unless a provision is needed to cover probable losses. Our significant types of guarantee products are financial and performance standby letters of credit, assets sold with recourse, credit enhancements, written options and indemnification agreements. Note 20 on page 99 provides detailed information about the Bank's guarantees.

COMMITMENTS

The Bank enters into various commitments to meet the financing needs of the Bank's clients and to earn fee income. Significant commitments of the Bank include financial and performance standby letters of credit, documentary and commercial letters of credit and commitments to extend credit. These products may expose the Bank to liquidity, credit and reputational risks. There are adequate risk management and control processes in place to mitigate these risks. Credit facility commitment fee is deferred and recognized in interest income in the Consolidated Statement of Income when the facility is drawn down. Note 20 of the Bank's Consolidated Financial Statements provides detailed information about the maximum amount of additional credit the Bank could be obligated to commit.

CONTRACTUAL OBLIGATIONS

The Bank has contractual obligations to make future payments on operating and capital lease commitments and certain purchase obligations. These contractual obligations impact the Bank's short-term and long-term liquidity and capital resource needs. All contracts, with the exception of operating lease commitments (those where we are committed to purchase determined volumes of goods and services), are reflected on the Bank's Consolidated Balance Sheet. Table 31 below summarizes our contractual obligations.

TABLE 31 **CONTRACTUAL OBLIGATIONS BY REMAINING MATURITY**

(millions of Canadian dollars)	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
2005					
Deposits[1]	**$189,972**	**$30,364**	**$24,021**	**$2,624**	**$246,981**
Subordinated notes and debentures	**153**	**1**	**–**	**4,984**	**5,138**
Operating lease commitments	**319**	**534**	**396**	**580**	**1,829**
Capital trust securities	**–**	**–**	**900**	**–**	**900**
Network service agreements	**141**	**393**	**123**	**–**	**657**
Automated banking machines	**66**	**181**	**124**	**–**	**371**
Total	**$190,651**	**$31,473**	**$25,564**	**$8,188**	**$255,876**
2004					
Deposits[1]	$171,155	$18,919	$15,767	$1,052	$206,893
Subordinated notes and debentures	5	3	663	4,973	5,644
Operating lease commitments	299	468	346	455	1,568
Capital trust securities	–	–	–	1,250	1,250
Network service agreements	118	331	203	–	652
Automated banking machines	66	190	181	–	437
Total	$171,643	$19,911	$17,160	$7,730	$216,444
2003					
Deposits[1,2]	$182,880	$ –	$ –	$ –	$182,880
Subordinated notes and debentures	157	5	396	5,329	5,887
Operating lease commitments	314	492	329	505	1,640
Capital trust securities	–	–	–	1,250	1,250
Network service agreements	116	216	200	188	720
Total	$183,467	$ 713	$ 925	$7,272	$192,377

[1] As the timing of deposits payable on demand, and deposits payable after notice, is non-specific and callable by the depositor, obligations have been included as less than one year.

[2] As the information is not reasonably determinable, all amounts are disclosed within 1 year.

GROUP FINANCIAL CONDITION

Financial Instruments

As a financial institution, the Bank's assets and liabilities are substantially comprised of financial instruments. Financial assets of the Bank include, but are not limited to, cash resources, investment and trading securities, loans and derivatives while financial liabilities include deposits, obligations related to securities sold short, obligations related to securities sold under repurchase agreements, derivative instruments and subordinated debt.

The Bank uses financial instruments for both trading and non-trading activities. The Bank typically engages in trading activities by the purchase and sale of securities to provide liquidity and meet the needs of clients and, less frequently, by taking proprietary trading positions with the objective of earning a profit. Trading financial instruments include trading securities and trading derivatives. Non-trading financial instruments include the Bank's lending portfolio, investment securities, hedging derivatives and financial liabilities. Trading financial instruments are measured at fair value in the Bank's Consolidated Financial Statements while non-trading financial instruments are carried at cost. This reflects how the Bank manages its businesses internally. For details on how fair values of financial instruments are determined, refer to the Critical Accounting Policies and Estimates section on page 66.

The use of financial instruments allows the Bank to earn profits in interest and fee income. Financial instruments also create a variety of risks which the Bank manages with its extensive risk management policies and procedures. The key risks include interest rate, credit, liquidity, equities and foreign exchange. For a more detailed description on how the Bank manages its risk, refer to the Managing Risk section on pages 57 to 66.

RISK FACTORS AND MANAGEMENT

Risk Factors That May Affect Future Results

All forward-looking statements, by their very nature, including those in this Annual Report, are subject to inherent risks and uncertainties, general and specific, which may cause the Bank's actual results to differ materially from the expectations expressed in the forward-looking statements. Some of these factors are discussed below.

INDUSTRY FACTORS

General Business and Economic Conditions in the Regions in Which We Conduct Business

The Bank operates in Canada, the United States, and other countries. As a result, the Bank's earnings are significantly affected by the general business and economic conditions in the geographic regions in which it operates. These conditions include short-term and long-term interest rates, inflation, fluctuations in the debt and capital markets, exchange rates, the strength of the economy, threats of terrorism and the level of business conducted in a specific region.

Currency Rates

Currency rate movements in Canada, the United States and other jurisdictions in which the Bank does business may have an adverse impact on the Bank's financial position as a result of foreign currency translation adjustments and on the Bank's future earnings. For example, the rising value of the Canadian dollar may negatively affect our investments in the United States, including the Bank's investment in TD Banknorth Inc. The rising Canadian dollar may also adversely affect the earnings of the Bank's small business, commercial and corporate clients in Canada.

Monetary Policy

The Bank's earnings are affected by the monetary policies of the Bank of Canada and the Federal Reserve System in the United States and other financial market developments. Changes in the supply of money and the general level of interest rates can impact the Bank's profitability. A change in the level of interest rates affects the interest spread between the Bank's deposits and loans and as a result impacts the Bank's net interest income. Changes in monetary policy and in the financial markets are beyond the Bank's control and difficult to predict or anticipate.

Level of Competition

The Bank's performance is impacted by the level of competition in the markets in which it operates. The Bank currently operates in a highly competitive industry. Customer retention can be influenced by many factors such as the pricing of products or services, changes in customer service levels and changes in products or services offered.

Changes in Laws and Regulations; Legal Proceedings

Changes to laws and regulations, including changes in their interpretation or implementation, could affect the Bank by limiting the products or services it can provide and increasing the ability of competitors to compete with its products and services. Also, the Bank's failure to comply with applicable laws and regulations could result in sanctions and financial penalties that could adversely impact its earnings and damage the Bank's reputation. Judicial or regulatory judgments and legal proceedings against the Bank may also adversely affect its results.

Accuracy and Completeness of Information on Customers and Counterparties

The Bank depends on the accuracy and completeness of information about customers and counterparties. In deciding whether to extend credit or enter into other transactions with customers and counterparties, the Bank may rely on information furnished by them, including financial statements and other financial information. The Bank may also rely on the representations of customers and counterparties as to the accuracy and completeness of that information and with respect to financial statements, on the reports of auditors. The Bank's financial condition and earnings could be negatively impacted to the extent it relies on financial statements that do not comply with Generally Accepted Accounting Principles, that are materially misleading, or that do not fairly present, in all material respects, the financial condition and results of operations of the customers and counterparties.

Accounting Policies and Methods Used by the Bank

The accounting policies and methods the Bank utilizes determine how the Bank reports its financial condition and results of operations, and they may require management to make estimates or rely on assumptions about matters that are inherently uncertain. Such estimates and assumptions may require revisions, and changes to them may materially adversely affect the Bank's results of operations and financial condition.

BANK SPECIFIC FACTORS

New Products and Services to Maintain or Increase Market Share

The Bank's ability to maintain or increase its market share depends, in part, on its ability to adapt products and services to evolving industry standards. There is increasing pressure on financial services companies to provide products and services at lower prices. This can reduce the Bank's net interest income and revenues from fee-based products and services. In addition, the widespread adoption of new technologies, including Internet-based services, could require the Bank to make substantial expenditures to modify or adapt existing products and services. The Bank might not be successful in introducing new products and services, achieving market acceptance of its products and services, and/or developing and maintaining loyal customers.

Acquisitions

The Bank regularly explores opportunities to acquire other financial services companies or parts of their businesses directly or indirectly via the acquisition strategies of its subsidiaries. The Bank's or a subsidiary's ability to successfully complete an acquisition is often subject to regulatory and shareholder approvals, as is the case in the pending TD Ameritrade merger and Hudson United Bancorp acquisition, and the Bank cannot be certain when or if, or on what terms and conditions, any required approvals will be granted. Acquisitions can affect future results depending on management's success in integrating the acquired business. If the Bank encounters difficulty in integrating the acquired business, this can prevent the Bank from realizing expected revenue increases, cost savings, increases in market share and other projected benefits from the acquisition.

Ability to Attract and Retain Key Executives

The Bank's future performance depends to a large extent on its ability to attract and retain key executives. There is intense competition for the best people in the financial services sector and executives employed by a company the Bank acquires may choose not to remain following the acquisition. There is no assurance that the Bank will be able to continue to attract and retain key executives, although this is the goal of the Bank's management resources policies and practices.

Business Infrastructure

Third parties provide key components of the Bank's business infrastructure such as Internet connections and network access. Disruptions in Internet, network access or other voice or data communication services provided by these third parties could adversely affect the Bank's ability to deliver products and services to customers and otherwise conduct business.

OTHER FACTORS

Other factors beyond the Bank's control that may affect the Bank's future results are noted in the Caution regarding forward-looking statements on page 13 of this Annual Report.

The Bank cautions that the preceding discussion of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions with respect to the Bank, investors and others should carefully consider these factors as well as other uncertainties, potential events and industry and Bank specific factors that may adversely impact the Bank's future results. The Bank does not undertake to update any forward-looking statements, written or oral, that may be made from time to time by or on its behalf.

Managing Risk

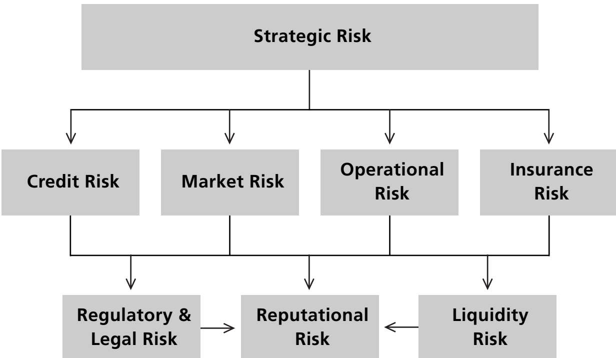
EXECUTIVE SUMMARY

Financial services involves prudently taking risks in order to generate profitable growth. At the Bank, our goal is to earn stable and sustainable returns from our various businesses while managing risks within acceptable limits. From a shareholder's perspective, what matters is how we manage our exposure to risks. Our businesses thoroughly examine the various risks to which they are exposed and assess the impact and likelihood of those risks. We respond by developing business and risk management strategies for our various business units taking into consideration the risks and business environment in which we operate.

WHAT ARE THE RISKS INVOLVED IN OUR BUSINESSES?

Through our businesses and operations TD Bank Financial Group is exposed to a broad number of risks that have been identified and defined in our Enterprise Risk Framework. This framework forms the foundation for the setting of appropriate risk oversight processes and the consistent communication and reporting of key risks that could have an impact on the achievement of our business objectives and strategies.

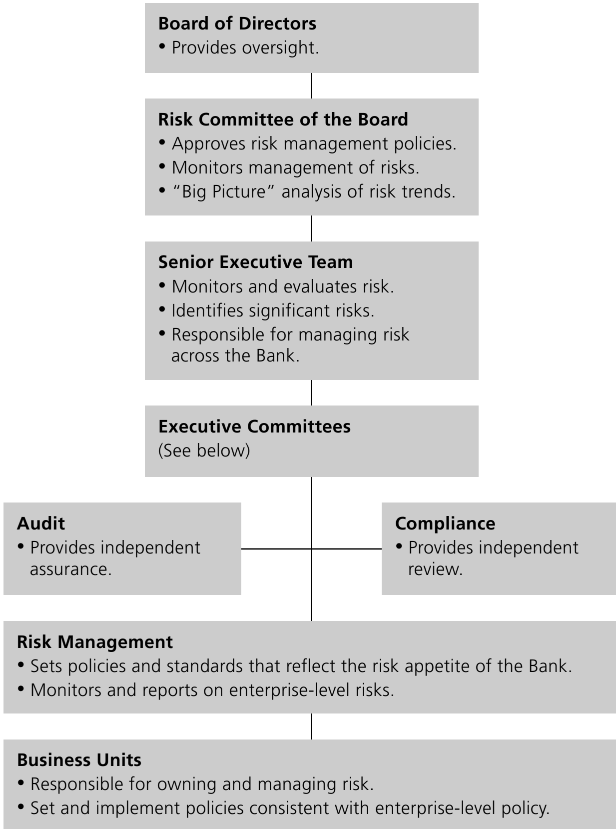
THE ENTERPRISE RISK FRAMEWORK



As illustrated, the Enterprise Risk Framework sets out the major categories of risk to which we are exposed, and how they are interrelated.

WHO MANAGES RISK

We have a risk governance structure in place that assigns ownership of risk and outlines the accountabilities of directors, officers and employees involved in risk management. Our structure ensures that important information about risks flows up from the business units and oversight functions to the Senior Executive Team and the Board of Directors.



Executive Committees

Business Performance Review Committee • Chaired by the President and Chief Executive Officer. • Reviews overall strategies and operating performance.	**Operational Risk Oversight Committee** • Chaired by the Vice Chair and Chief Risk Officer. • Responsible for the oversight of all operational risk management and legislative compliance activities of the Bank.	**Investment Committee** • Chaired by the Vice Chair and Chief Risk Officer. • Reviews the performance of all significant investments, including the Bank's own portfolio and client mandates, managed by internal and external portfolio managers.	**Asset/Liability Committee** • Chaired by the Vice Chair and Chief Risk Officer. • Responsible for the oversight of the Bank's non-trading market risk, consolidated liquidity and funding position and consolidated capital position including foreign exchange capital hedging.
Reputational Risk Committee • Chaired by the Vice Chair and Chief Risk Officer. • Reviews and approves reputational risk issues as well as complex structured product transactions, and establishes and monitors policy involving reputational risk.	**Disclosure Committee** • Chaired by the Executive Vice President and Chief Financial Officer. • Responsible for ensuring appropriate controls and procedures are in place to permit timely, reliable and compliant disclosure to regulators, shareholders and the market.	**Enterprise Committee** • Chaired by the President and Chief Executive Officer. • Responsible for coordinating enterprise wide corporate functions and execution of merger & acquisition transactions.	**Domestic Shared Services Committee** • Chaired by the Vice Chair, Corporate Operations. • Responsible for effectively leveraging services shared by the Canadian-based businesses.

OUR RISK GOVERNANCE STRUCTURE ESTABLISHES THAT:

- The Board of Directors and its Risk Committee are responsible for overseeing the formation and nurturing by management of an effective risk management culture throughout the organization. This includes setting the Bank's appetite for risk through the review and approval of appropriate risk management policies.
- The Senior Executive Team of the Bank, chaired by the President and Chief Executive Officer is responsible for monitoring, evaluating and managing risk across the Bank as a whole. The President and Chief Executive Officer and the Vice Chair and Chief Risk Officer, with the support of other members of the Senior Executive Team, are accountable for identifying significant risks and communicating them to the Board of Directors.
- Executive Committees provide enterprise-level oversight for key risks and exposures through the review and endorsement of risk management policies, strategies and control activities. The Executive Committees ensure there are sufficient and qualified risk management resources across the Bank to meet our risk management objectives.
- The corporate risk management function, headed by the Vice Chair and Chief Risk Officer, is responsible for setting enterprise-level policies and practices that reflect the risk appetite of the Bank. Risk Management also monitors and reports on discrete business and enterprise-level risks that could have a significant impact on the Bank's well being. The Vice Chair and Chief Risk Officer either chairs or is a member of the risk focussed Executive Committees.
- The Audit and Compliance functions independently monitor and report to management and the Board of Directors on the effectiveness of risk management policies, procedures and internal controls.
- Each business unit owns and is accountable for managing risk within the business unit. Business management and risk management professionals in each business unit ensure that policies, processes and internal controls are in place to manage not only the business but also the risks inherent in that business.

HOW WE MANAGE RISK

The Bank has a comprehensive and proactive risk management approach that combines the experience and specialized knowledge of individual business units, risk professionals and the corporate oversight functions. Our approach is designed to promote a strong risk management culture and ensure alignment to the Bank's strategic objectives. It includes:

- Maintaining appropriate enterprise-wide risk management policies and practices including guidelines, requirements and limits to ensure risks are managed to acceptable levels.
- Subjecting risk management policies to regular review and evaluation by the Executive Committees and review and approval by the Risk Committee of the Board.
- An integrated enterprise-wide risk monitoring and reporting process that communicates key elements of the Bank's risk profile, both quantitatively and qualitatively, to senior management, the executive and the Board of Directors.
- Maintaining risk measurement methodologies that support risk quantification, including Value-at-Risk analysis, scenario analysis and stress-testing.
- Annual self-assessments by significant business units and corporate oversight functions of their key risks and internal controls.
- Supporting appropriate performance measurement that allocates risk-based economic capital to businesses and charges a cost against that capital.
- Actively monitoring internal and external risk events to assess whether our internal controls are effective.
- Independent and comprehensive reviews conducted by the Internal Audit department of the quality of the internal control environment and compliance with established risk management policies and procedures.

HOW RISK IS MANAGED AT TD BANKNORTH

As a publicly traded company, TD Banknorth actively manages risk within its own governance structure according to the risks inherent in its business. The Bank maintains oversight of the governance and management of TD Banknorth risk in a number of ways. Two of the Bank's independent directors, the Chief Executive Officer and the Vice Chair and Chief Risk Officer are also members of TD Banknorth's board. One of these independent directors and the Vice Chair and Chief Risk Officer are members of its Risk Management Committee. TD Banknorth provides risk reporting and meets regularly with senior Bank risk management personnel.

The following pages describe the key risks the Bank faces and how they are managed.

Strategic Risk

Strategic risk is the potential for loss arising from ineffective business strategies, the absence of integrated business strategies, the inability to implement those strategies, and the inability to adapt the strategies to changes in the business environment.

The most significant strategic risks faced by the Bank are assessed, managed and mitigated by senior management, with oversight by the Board.

WHO MANAGES STRATEGIC RISK

The Senior Executive Team manages the Bank's strategic risk. The Senior Executive Team comprised the most senior executives of the Bank, representing every significant business and corporate oversight function.

The Bank's overall strategy is established by the President and Chief Executive Officer and the Senior Executive Team, in consultation with and subject to approval by the Board of Directors. Each executive who manages a significant business or function is responsible for managing strategies within that area, and for ensuring that they are aligned with the Bank's overall strategy. They are also accountable to the President and Chief Executive Officer and the Senior Executive Team for monitoring, managing and reporting on business risks inherent in their respective strategies.

The President and Chief Executive Officer report to the Board on the implementation of Bank strategies, identifying business risks within those strategies and how they are managed.

HOW WE MANAGE STRATEGIC RISK

The strategies and operating performance of the Bank's significant business units and corporate oversight functions are reviewed by the Senior Executive Team in business performance review sessions. The frequency with which strategies are reviewed in these sessions depends on the risk profile and the magnitude of the business or function concerned.

Credit Risk

Credit risk is the potential for financial loss if a borrower or counterparty in a transaction fails to meet its obligations.

Credit risk is one of the most significant and pervasive risks in banking. Every loan, extension of credit or transaction that involves settlements between the Bank and other parties or financial institutions – such as derivative transactions and securities inventories – exposes the Bank to some degree of credit risk. For this reason, we lend exclusively on a relationship basis, and we manage all of our businesses in a disciplined and conservative manner, with a strict focus on economic returns for all client relationships.

Our primary objective is to create a thorough, transparent and methodological approach to credit risk in order to better understand, select and dynamically manage our exposures to deliver reduced earnings volatility.

Our strategy is to ensure strong central oversight of credit risk in each business, reinforcing a culture of accountability, independence and balance.

WHO MANAGES CREDIT RISK

We control credit risk through the use of Board of Directors approved, enterprise - wide policies governing country risk, industry risk, group exposures and discretionary limits. This includes:

- Setting standards for measuring credit exposure and limits for the amount of credit an officer may extend.
- Approving all significant policies relating to Bank products that entail credit risk.
- Setting criteria for rating risk on business accounts based on a 21-category rating system.
- Approving the "scoring" techniques used in extending personal credit.

A credit risk control group within each business unit is primarily responsible for adjudication, subject to compliance with established policies, exposure and discretionary limits.

HOW WE MANAGE CREDIT RISK

Credit Risk is managed through a centralized infrastructure based on:

- The centralized approval of credit risk policies and discretionary limits by Risk Management.
- Joint reporting of business unit credit risk control groups to the business head and Risk Management.
- Guidelines to monitor and limit concentrations in the portfolios.
- The dynamic management of country, industry and borrower risk ratings.

COUNTRY RISK

Unanticipated economic or political changes in a foreign country could affect cross-border payments – for goods and services, loans, dividends, trade-related finance, as well as repatriation of the Bank's capital in that country. The Bank currently has counterparty exposure in 61 countries with the majority of the exposure in North America. Country risk ratings are based on approved risk rating models and expert judgment and are used to establish country exposure guidelines covering all aspects of credit exposure, across all businesses. Country risk ratings are dynamically managed and subject to a detailed review on at least an annual basis.

BUSINESS AND GOVERNMENT LOANS

As part of the strategy, we establish industry and group limits for credit exposure to business and governments. A systematic approach is used to limit industry concentrations and ensure diversification of the Bank's loan portfolio. Exposure guidelines are a key element of this process as they limit exposure based on an internal risk rating score. The rating is determined by using our industry risk rating model and through detailed industry analysis.

If several industry segments are affected by common risk factors, we assign a single exposure guideline to them. In addition, for each industry, Risk Management assigns a concentration limit, which is a percentage of the Bank's total corporate and commercial exposure. We regularly review industry risk ratings to ensure that they properly reflect the risk of the industry.

The Bank assigns each business or government borrower a risk rating using a 21-category rating system, and sets limits on credit exposure to related business or government accounts accordingly. In addition, we use a risk adjusted return on capital model to assess the return on credit relationships according to the structure and maturity of the loans and the internal ratings of the borrowers involved. We review the rating and return on capital for each borrower at least once every year.

For accounts where exposures include derivatives, we use master netting agreements or collateral whenever possible to reduce our exposures.

FINANCIAL INSTITUTIONS

The financial institutions portfolio is divided into major groups comprising individual companies that have similar attributes and common risk factors. Within these groups we have established specific exposure risk guidelines for different segments. Risk Management conducts ongoing reviews of the segment and exposure guidelines for each group.

Risk rating models are used together with expert judgment to assign each group a risk rating based on their financial strength. The models assign a credit rating based on each borrower's net worth, the quality of its assets, the consistency and level of its profits, as well as the rating of the major credit rating agencies. The model output is supplemented, where warranted, with expert judgment subject to assigned discretionary limits. For certain types of financial institutions we may use additional criteria.

CREDIT DERIVATIVES

The Bank uses credit derivatives to mitigate credit risk in our portfolio. Credit derivatives allow the Bank to transfer risk associated with an underlying asset to another obligor in a synthetic transaction. The obligor is paid a fee to take on this credit risk while the Bank retains the underlying credit asset.

Credit default protection is generally only purchased from strong investment grade counterparties. When terms of the protection match the terms of the underlying asset, the notional exposure of the underlying credit facility is reduced by the notional amount of the protection.

PERSONAL CREDIT

The personal credit portfolios are large segments, which include residential mortgages, unsecured loans, credit card receivables, and small business credits. These portfolios are made up of a large number of relatively small accounts. Thus, credit risk is evaluated most efficiently through statistically derived analytical models and decision strategies. Requests for personal credit are processed using automated credit scoring systems or, for larger and more complex transactions, are directed to underwriters in regional credit centres who operate within clear authority limits. Once retail credits are funded they are continually monitored with quantitative customer management programs to identify changes in risk and provide opportunities that increase risk-adjusted performance. The centralized quantitative review of personal credit has resulted in well-balanced portfolios with predictable risk performance.

Consistent with its strategy of efficient quantitative evaluation of personal credit, the Bank channels a large portion of its technology investment in the platform for retail applications, loan fulfillment, and customer account management. This ongoing investment not only improves the Bank's ability to manage retail credit losses within predictable ranges, it also strengthens the control environment that reduces the potential for operational errors. The infrastructure investment also provides more complete, timely and accurate management information, permitting measurable improvement in the management of credit risk. Thus, the Bank's personal credit strategy is to leverage the disciplined management of the personal credit portfolio with state-of-the-art systems, methods and processes.

CLASSIFIED RISK/IMPAIRED LOANS

Classified risk refers to loans and other credit exposures that pose a higher than normal credit risk. A loan is considered impaired when, in management's opinion, we can no longer be reasonably assured that we will be able to collect the full amount of principal and interest when due.

We establish specific allowances for impaired loans when a loss is likely or when the estimated value of the loan is less than its recorded value, based on discounting expected future cash flows. Allowances for personal credit portfolios are based on delinquency and type of security.

Please refer to the Credit Portfolio Quality discussion on pages 44 to 50.

Market Risk

Market risk is the potential for loss from changes in the value of financial instruments. The value of a financial instrument can be affected by changes in:

- *Interest rates;*
- *Foreign exchange rates;*
- *Equity and commodity prices;*
- *Credit spreads.*

We are exposed to market risk in our trading and investment portfolios, as well as through our non-trading activities. In our trading and investment portfolios we are active participants in the market, seeking to realize returns for the Bank through careful management of our positions and inventories. In our non-trading activities we are exposed to market risk through the transactions that our customers execute with us.

MARKET RISK IN TRADING ACTIVITIES

The four main trading activities that expose us to market risk are:

- Market making. We provide markets for a large number of securities and other traded products. We keep an inventory of these securities to buy from and sell to investors, profiting from the spread between bid and ask prices. Profitability is driven by trading volumes.
- Sales. We provide a wide variety of financial products to meet the needs of our clients, earning money on these products from mark ups and commissions. Profitability is driven by sales volumes.
- Arbitrage. We take positions in certain markets or products and offset the risk in other markets or products. Our knowledge of various markets and products and how they relate to one another allows us to identify and benefit from pricing anomalies.
- Positioning. We aim to make profits by taking positions in certain financial markets in anticipation of changes in those markets. This is the riskiest of our trading activities and we use it selectively.

WHO MANAGES MARKET RISK IN TRADING ACTIVITIES

Primary responsibility for managing market risk lies with Wholesale Banking, with oversight from Trading Risk Management within Risk Management.

The Market Risk and Capital Committee is chaired by the Senior Vice President, Trading Risk Management and includes members of senior management from Wholesale Banking and Audit. They meet regularly to conduct a review of the market risk profile of our trading businesses, approve changes to risk policies, review underwriting inventories, and review the usage of capital and assets in Wholesale Banking.

The Risk Committee of the Board oversees the management of market risk and periodically approves all major market risk policies.

HOW WE MANAGE MARKET RISK IN TRADING ACTIVITIES

Managing market risk is a key part of our business planning process. We begin new trading operations or expand existing ones only if the risk has been thoroughly assessed and is judged to be within our risk tolerance and business expertise, and if the appropriate infrastructure is in place to monitor, control and manage the risk.

Trading Limits

We set trading limits that are consistent with the approved business plan for each business and our tolerance for the market risk of that business. In setting limits we take into account market volatility, market liquidity, trader experience and business strategy. Limits are prescribed at the desk level, portfolio level, business line level and Wholesale Banking in aggregate.

Our primary trading limits are sensitivity and specialized limits, such as notional limits, credit spread limits, yield curve shift limits, price and volatility shift limits. A variety of other limits are also reviewed.

Another primary measure of trading limits is Value at Risk (VaR). VaR measures the adverse impact that potential changes in market rates and prices could have on the value of a portfolio over a specified period of time. We use VaR to monitor and control overall risk levels and to calculate the regulatory capital required for market risk in trading activities.

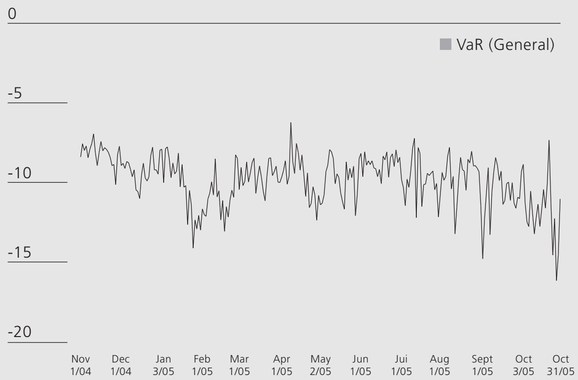
At the end of each day, risk positions are compared with risk limits and all instances where trading limits have been exceeded are reported. Any excesses are escalated and managed according to market risk policies and procedures. For selected high-impact excesses, there is an immediate escalation process to the Vice Chair and Chief Risk Officer.

Calculating VaR

We estimate VaR by creating a distribution of potential changes in the market value of the current portfolio. We value the current portfolio using the most recent 259 trading days of market price and rate changes. VaR is then computed as the threshold level that portfolio losses are not expected to exceed more than one out of every 100 trading days.

The graph below discloses daily VaR usage.[1]

Value at Risk
(millions of Canadian dollars)



[1] VAR data excludes TD Banknorth.

Stress Testing
Our trading business is subject to an overall global stress test limit, and each global business has a stress test limit, and each global business has an overall stress test limit. Also, each broad risk class has an overall stress test limit. Stress scenarios are designed to model extreme economic events, replicate worst-case historical experiences or introduce large but plausible moves in key market risk factors.

Stress tests are produced and reviewed regularly with the Vice Chair and Chief Risk Officer, and with the Market Risk and Capital Committee.

MARKET RISK IN INVESTMENT ACTIVITIES

We are also exposed to market risk in the Bank's own investment portfolio and in the merchant banking business. Risks are managed through a variety of processes, including identification of our specific risks and determining their potential impact. Policies and procedures are established to monitor, measure and mitigate those risks.

WHO MANAGES RISK IN INVESTMENT ACTIVITIES

The Risk Committee of the Board reviews and approves the investment policies and limits for the Bank's own portfolio and for the merchant banking business. The Investment Committee regularly reviews the performance of the Bank's investments and assesses the success of the portfolio managers.

HOW WE MANAGE RISK IN INVESTMENT ACTIVITIES

We use advanced systems and measurement tools to manage portfolio risk. Risk intelligence is embedded in the investment decision-making process by integrating performance targets, risk/return tradeoffs and quantified risk tolerances. Analysis of returns identifies performance drivers such as sector and security exposures, as well as the impact of certain processes such as the execution of trades.

MARKET RISK IN NON-TRADING BANKING TRANSACTIONS

We are exposed to market risk when we enter into non-trading banking transactions with our customers. These transactions primarily include deposit taking and lending, which are also referred to as "asset and liability" positions.

Asset Liability Management

Asset liability management deals with managing the market risks of our traditional banking activities. Market risks primarily include interest rate risk and foreign exchange risk.

WHO IS RESPONSIBLE FOR ASSET LIABILITY MANAGEMENT

The treasury and balance sheet management department measures and manages the market risks of our non-trading banking activities, with oversight from the Asset/Liability Committee, which is chaired by the Vice Chair and Chief Risk Officer and includes the Executive Vice President and Chief Financial Officer as well as other senior executives. The Risk Committee of the Board periodically reviews and approves all asset liability management market risk policies and compliance with approved risk limits.

HOW WE MANAGE OUR ASSET AND LIABILITY POSITIONS

When Bank products are issued, risks are measured using a fully hedged option-adjusted transfer-pricing framework that allows treasury and balance sheet management to measure and manage product risk within a target risk profile. The framework also ensures that business units engage in risk-taking activities only if they are productive.

Managing Interest Rate Risk
Interest rate risk is the impact that changes in interest rates could have on the Bank's margins, earnings and economic value. The objective of interest rate risk management is to ensure that earnings are stable and predictable over time. To this end, the Bank has adopted a disciplined hedging approach to managing the net income contribution from its asset and liability positions including a modeled maturity profile for non-rate sensitive assets, liabilities and equity. Key aspects of this approach are:

- Evaluating and managing the impact of rising or falling interest rates on net interest income and economic value.
- Measuring the contribution of each Bank product on a risk-adjusted, fully hedged basis, including the impact of financial options, such as mortgage commitments, that are granted to customers.
- Developing and implementing strategies to stabilize net income from all personal and commercial banking products.

We are exposed to interest rate risk when asset and liability principal and interest cash flows have different interest payment or maturity dates. These are called "mismatched positions." An interest sensitive asset or liability is re-priced when interest rates change or when there is cash flow from final maturity, normal amortization, or when customers exercise prepayment, conversion or redemption options offered for the specific product.

Our exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions. It is also affected by new business volumes, renewals of loans or deposits, and how actively customers exercise options such as prepaying a loan before its maturity date.

Interest rate risk is measured using various interest rate "shock" scenarios to estimate the impact of changes in interest rates on both the Bank's annual Earnings at Risk (EaR) and Economic Value at Risk (EVaR). EaR is defined as the change in the Bank's annual net interest income from a 100-basis-point unfavourable interest-rate shock due to mismatched cash flows. EVaR is defined as the combined difference in the present value of the Bank's asset portfolio and the change in the present value of the Bank's liability portfolio, including off-balance-sheet instruments, resulting from a 100-basis-point unfavourable interest-rate shock.

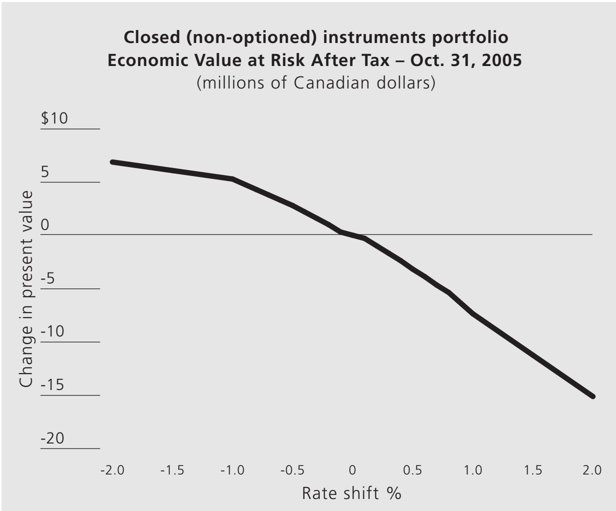
Valuations of all asset and liability positions, as well as off-balance-sheet exposures, are performed regularly. Our objectives are to protect the present value of the margin booked at the time of inception for fixed rate assets and liabilities, and to reduce the volatility of net interest income over time.

The interest rate risk exposures from instruments with closed (non-optioned) fixed rate cash flows are measured and managed separately from imbedded product options. Projected future cash flows include the impact of modeled exposures for:

- An assumed maturity profile for the Bank's core deposit portfolio.
- The Bank's targeted investment profile on its net equity position.
- Liquidation assumptions on mortgages other than from imbedded pre-payment options.

The objective of portfolio management within the closed book is to eliminate cash flow mismatches, thereby reducing the volatility of net interest income.

The graph below shows our interest rate exposure on October 31, 2005 on the closed (non-optioned) instruments within the financial position. If this portfolio had experienced an immediate and sustained 100 basis point increase in rates on October 31, 2005, the economic value of shareholders' equity would have decreased by $26 million after tax, compared with $110 million for a 100 basis point increase in rates on October 31, 2004. A 100 basis point decrease in rates would reduce net income by $15 million over the next 12 months, compared with $11 million for a 100 basis point decrease in rates in 2004.[2]

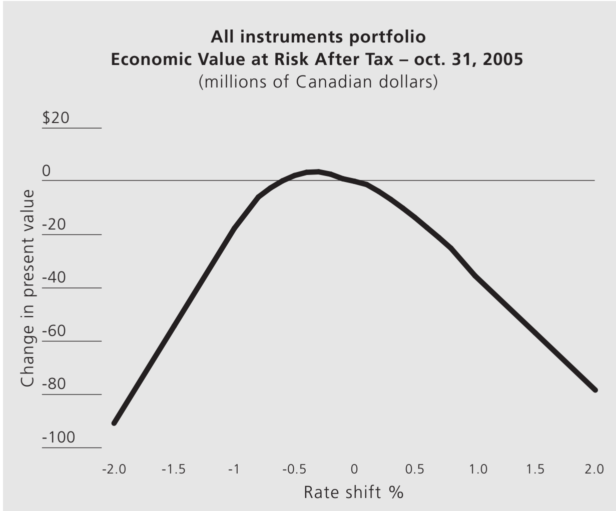


Product options, whether they are freestanding options such as mortgage rate commitments or embedded in loans and deposits, expose the Bank to a significant financial risk.

Our exposure from freestanding mortgage rate commitment options is modelled based on an expected funding ratio derived from historical experience. We model our exposure to written options imbedded in other products, such as the rights to prepay or redeem, based on analysis of rational customer behaviour. We also model an exposure to declining interest rates resulting in margin compression on certain interest rate-sensitive demand deposit accounts. Product option exposures are managed by purchasing options or through a dynamic hedging process designed to replicate the payoff on a purchased option.

The following graph shows our interest rate risk exposure on October 31, 2005 on all instruments within the financial position (i.e., the closed (non-optioned) instruments plus product options). An immediate and sustained 100 basis points increase in rates would have decreased the economic value of shareholders' equity by $36 million after tax or 0.23% of common equity, compared with $124 million in 2004 for a 100 basis point increase in rates. Our EVaR for the total portfolio ranged from $35 to $118 million during the year ended October 31, 2005.[3] The Bank's policy sets overall limits on EVaR and EaR based on a 100 basis point interest rate shock.

[2, 3] EVAR and EAR information excludes the impact of TD Banknorth exposures.



Managing Non-Trading Foreign Exchange Risk

Foreign exchange risk refers to losses that could result from changes in foreign currency exchange rates. Assets and liabilities that are denominated in foreign currencies have foreign exchange risk.

We are exposed to non-trading foreign exchange risk from our investments in foreign operations, and when our foreign currency assets are greater or less than our liabilities in that currency, creating a foreign currency open position. An adverse change in foreign exchange rates can impact the Bank's reported net income and equity, and also the Bank's capital ratios. Our objective is to minimize these impacts.

Minimizing the impact of an adverse foreign exchange rate change on reported equity will cause some variability in capital ratios, due to the amount of risk-weighted assets that are denominated in a foreign currency. If the Canadian dollar weakens, the Canadian-dollar equivalent of the Bank's risk-weighted assets in a foreign currency increases, thereby increasing the Bank's capital requirement. For this reason, the foreign exchange risk arising from the Bank's net investment in foreign operations is hedged to the point where capital ratios change by no more than a tolerable amount for a given change in foreign exchange rates. The tolerable amount increases as the Bank's capital ratio increases.

WHY PRODUCT MARGINS FLUCTUATE OVER TIME

As explained above, a fully hedged approach to asset liability management locks in margins on fixed rate loans and deposits, as they are booked. It also mitigates the impact of an instantaneous interest-rate shock on the level of net interest income to be earned over time as a result of cash flow mismatches and the exercise of embedded options. Despite a fully hedged position, however, the margin on average earning assets can change over time for the following reasons:

- Margins earned on new and renewing fixed-rate products relative to the margin previously earned on matured products will impact on the existing portfolio margin.
- The weighted average margin on average earning assets will shift due to changes in the mix of business.
- Changes in the prime-Bankers' Acceptances basis and the lag in changing product prices in response to changes in wholesale rates may have an impact on margins earned.
- The general level of interest rates will impact the return the Bank generates on its modeled maturity profile for core deposits and the investment profile for its net equity position as it evolves over time. The general level of interest rates is also a key driver of some modeled option exposures, and will affect the cost of hedging such exposures.

A fully hedged approach tends to moderate the impact of these factors over time, resulting in a more stable and predictable earnings stream.

Net interest income simulation modeling is employed to assess the level and changes in NII to be earned over time under various interest rate scenarios. It also includes the impact of projected product volume growth, new margin and product mix assumptions.

Liquidity Risk

Liquidity risk is the risk that we cannot meet a demand for cash or fund our obligations as they come due. Demand for cash can arise from withdrawals of deposits, debt maturities and commitments to provide credit. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

The Bank must always ensure that it has access to enough readily available funds to cover its financial obligations as they come due and to sustain and grow its assets and operations both under normal and stress conditions. In the unlikely event of a funding disruption, the Bank needs to be able to continue to function without being forced to sell too many of its assets. The process that ensures adequate access to funds is known as the management of liquidity risk.

WHO MANAGES LIQUIDITY RISK

The Asset/Liability Committee (described on page 61) oversees the Bank's liquidity risk management program. It ensures that an effective management structure is in place to properly measure and manage liquidity risk. In addition, a Global Liquidity Forum, comprising senior management from Finance, Treasury and Balance Sheet Management, Risk Management and Wholesale Banking, identifies and monitors our liquidity risks. When necessary, the Forum recommends actions to the Asset/Liability Committee to maintain our liquidity position within limits in both normal and stress conditions.

The Bank has one global liquidity risk policy, but the major operating areas measure and manage liquidity risks as follows:

- The Treasury and Balance Sheet Management department is responsible for consolidating and reporting the Bank's global liquidity risk position and for managing the Canadian Personal and Commercial Banking liquidity position.
- Wholesale Banking is responsible for managing the liquidity risks inherent in the wholesale and corporate banking portfolios.
- TD Waterhouse Bank is responsible for managing its liquidity position.

Each area must comply with the Global Liquidity Risk Management policy that is periodically reviewed and approved by the Risk Committee of the Board.

HOW WE MANAGE LIQUIDITY RISK

The Bank's overall liquidity requirement is defined as the amount of liquidity required to fund expected cash outflows as well as a prudent liquidity reserve to fund potential cash outflows in the event of a disruption in the capital markets or other event that could affect our access to liquidity. We do not rely on short-term wholesale funding for purposes other than funding marketable securities or short-term assets.

We measure liquidity requirements using a conservative base-case scenario to define the amount of liquidity that must be held at all times for a specified minimum period. This scenario provides coverage for 100% of our unsecured wholesale debt coming due, as well as other potential deposit run-off and related liabilities. We also use an extended liquidity coverage test to ensure that we can fund our operations on a fully collateralized basis for a period up to one year.

We meet liquidity requirements by holding assets that can be readily converted into cash, and by managing our cash flows. To qualify for liquidity purposes, assets must be currently marketable, of sufficient credit quality and available for sale. Liquid assets are represented in a cumulative liquidity gap framework based on settlement timing and market depth. Assets needed for collateral purposes or those that are similarly unavailable are not included for liquidity purposes.

While each of our major operations has responsibility for the measurement and management of its own liquidity risks, we also manage liquidity on a global basis to ensure consistent and efficient management of liquidity risk across all of our operations. On October 31, 2005 our consolidated surplus liquid asset position up to 90 days was $23.6 billion, compared with a surplus liquid asset position of $18.8 billion on October 31, 2004. Our surplus liquid asset position is the Bank's total liquid assets less the Bank's unsecured wholesale funding requirements, potential non-wholesale deposit run-off and contingent liabilities coming due in 90 days.

If a liquidity crisis were to occur, we have contingency plans in place to ensure that we can meet all our obligations as they come due.

FUNDING

The Bank has a large base of stable retail and commercial deposits, making up over 63% of our total funding. In addition, we have an active wholesale funding program to provide access to widely diversified funding sources, including asset securitization. The Bank's wholesale funding is diversified geographically, by currency and by distribution network. We maintain limits on the amounts of deposits that we can hold from any one depositor so that we do not overly rely on one or a small group of customers as a source of funding.

In 2005, the Bank securitized and sold $2.6 billion of mortgages and $1.5 billion of lines of credit. In addition, the Bank issued $3.9 billion of other medium and long-term funding.

The Bank's proposed transaction with Ameritrade and TD Banknorth's proposed transaction with Hudson United Bancorp (see "Proposed Transactions" on page 40) have been factored into the Bank's funding plan and management of the ongoing liquidity surplus.

Insurance Risk

Insurance Risk is the risk of loss due to actual insurance claims exceeding the insurance claims expected in product pricing. This risk can arise due to improper estimation or selection of the underlying risks, poor product design, extreme or catastrophic events, as well as the inherent randomness associated with the risks insured.

Insurance by nature involves the distribution of products that transfer individual risks with the expectation of a return built into the insurance premiums earned. We are exposed to insurance risk in our property and casualty insurance business, and our life & health insurance and reinsurance businesses.

WHO MANAGES INSURANCE RISK

Primary responsibility for managing insurance risk lies with senior management within the insurance business units, with oversight from Risk Management. The Audit Committee of the Board of Directors of the Bank acts as the audit and conduct review committee for the Canadian insurance company subsidiaries. The insurance company subsidiaries also have their own separate boards of directors, as well as independent Appointed Actuaries, that provide additional risk management oversight.

HOW WE MANAGE INSURANCE RISK

We maintain a number of policies and practices to manage insurance risk. Sound product design is an essential element. The vast majority of risks insured are short-term in nature, i.e. do not involve long term pricing guarantees. Geographic diversification, as well as product line diversification, are important elements as well. Reinsurance protection is purchased to further minimize exposure to fluctuations in claims, notably the exposure to natural catastrophes in the property and casualty insurance business. We also manage risk through effective underwriting and claim adjudication practices, ongoing monitoring of experience, and stress testing scenario analysis.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operating a complex financial institution exposes our businesses to a broad range of operational risks. These risks include; failed transaction processing and documentation errors, fiduciary breaches, technology failures, business disruption, theft and fraud, workplace safety and damage to physical assets originating from internal or outsourced business activities. Its impact can result in financial loss, reputational harm or regulatory penalty.

Managing operational risk is imperative and essential to creating and sustaining shareholder value, operating efficiently and providing a safe environment for employees and customers. This involves ensuring the Bank has highly disciplined processes for the management of operational risk including a strong internal control environment.

WHO MANAGES OPERATIONAL RISK

Risk Management is responsible for the design and maintenance of the Bank's operational risk management framework that sets out the enterprise-level policies and processes to identify, assess, report, mitigate and control operational risk. Risk Management facilitates appropriate monitoring and reporting to senior management, the Operational Risk Oversight Committee and the Risk Committee of the Board, on operational risk exposures across the Bank.

The senior management of individual business units have primary accountability for the ongoing management of operational risk. Each business unit and corporate area has an independent risk management function that implements the operational risk management framework consistent with the nature and scope of the operational risks the area is exposed to. Each business unit has a Risk Management Committee comprising the senior executives in the unit, providing oversight on operational risk management issues and initiatives.

HOW WE MANAGE OPERATIONAL RISK

Through the operational risk management framework, the Bank maintains a system of comprehensive policies, processes and methodologies to manage operational risk to acceptable levels and emphasize proactive management practices. Key operational risk management activities include:

Risk and Control Self-Assessment

The Risk and Control Self-Assessment is a process adopted by each of our businesses to proactively identify key operational risks to which they are exposed and assess whether there are appropriate internal controls in place to mitigate these risks. The likelihood and potential impact of these risks occurring are measured against the internal controls we have in place and action plans may result where we can find additional ways to reduce our exposure.

Operational Risk Event Monitoring

Operational risk event monitoring is important to maintain our awareness of the risks we encounter and to assist management in taking constructive action to reduce our exposure to future losses. The Bank uses a centralized reporting system to monitor and report on internal and external operational risk events. This event data is analyzed to determine trends for benchmarking, and to gain an understanding of the types of risks our businesses and the Bank as a whole face day to day. Through continuous monitoring and improving our understanding of these events, we ensure management remains focused on the management of such risks.

Risk Reporting

Risk Management, in partnership with business management, facilitates regular reporting of risk related metrics up to senior management and the Board of Directors that provides transparent indicators regarding the level and direction of risk throughout the Bank. Significant operational risk issues and action plans are systematically tracked and reported to ensure management accountability and attention is maintained.

Insurance

Risk Management actively manages a broad portfolio of insurance and other risk financing instruments to provide additional protection from loss. Risk Management assesses the type and level of corporate insurance coverage that is required to ensure it meets our tolerance for risk and statutory requirements. This includes conducting in-depth risk analysis and identifying opportunities to transfer our risk where appropriate.

Risk Management also reviews the insurance coverage of our suppliers involved in outsourcing arrangements to ensure they provide adequate protection.

Information Technology

Managing the operational risk exposures related to our technology and systems infrastructure is of significant importance to the Bank. Technology is used in virtually all aspects of our business and operations including creating and supporting new markets, competitive products and delivery channels. Technology exposures associated with the operational integrity and security of our data, systems and infrastructure are actively managed through the implementation of enterprise level technology risk and information security management programs. These management programs include robust threat and vulnerability assessments, security and disciplined change management practices.

Business Continuity Management

Business Continuity Management is a vital and integral part of our normal business operations. It includes the establishment of enterprise-wide business continuity management processes that provide safeguards to minimize the likelihood, cost and duration of disruptions to business processes and services.

The Business Continuity Management Group sets appropriate business continuity practices, policies and procedures to assist business units in the management of their business continuity strategies. All areas of the Bank maintain and regularly test business continuity plans to address the loss or failure of any component on which critical functions depend.

Outsourcing Governance

Outsourcing is an arrangement where a service provider performs a business activity, function or process on behalf of the Bank. Outsourcing business activities can be beneficial to the Bank by providing access to leading technology, specialized expertise, economies of scale and operational efficiencies. While these arrangements bring benefits to our businesses and customers, we recognize that there are attendant risks that need to be managed. To minimize our exposure to risks related to outsourcing, we maintain an enterprise-level outsourcing risk management program.

Regulatory and Legal Risk

Regulatory risk is the risk of non-compliance with applicable legislation, regulation and regulatory directives. Legal risk is the risk of non-compliance with legal requirements, including the effectiveness of preventing and handling litigation.

Financial services is one of the most closely regulated industries, and the management of a financial services business such as ours is expected to meet high standards in all business dealings and transactions. As a result, we are exposed to regulatory risk in virtually all of our activities. The Bank and its subsidiaries are also involved in various legal actions in the ordinary course of business, many of which are loan-related. Failure to meet regulatory requirements not only poses a risk of regulatory censure or penalty, and may lead to litigation, but also puts the reputation of the Bank as a whole at risk. Financial penalties, judicial or regulatory judgments and other costs associated with legal proceedings may also adversely affect the earnings of the Bank.

Regulatory and legal risk differs from other banking risks, such as credit risk or market risk, in that it is typically not a risk actively or deliberately assumed by management in expectation of a return. It occurs as part of the normal course of operating our businesses.

WHO MANAGES REGULATORY AND LEGAL RISK

Proactive management of regulatory risk is a key objective of the Bank. It is carried out primarily through an enterprise-wide regulatory risk management framework called the "Legislative Compliance Management Framework." The Compliance department is responsible for the Legislative Compliance Management Framework.

The Legislative Compliance Management Framework establishes two levels of controls through which regulatory risk is managed. These are controls to meet day-to-day regulatory requirements, and independent oversight controls.

Business unit management is responsible for managing day-to-day regulatory risk. They are required to demonstrate compliance with all regulatory requirements. In meeting this responsibility they receive advice and assistance from the corporate oversight functions – Legal, Compliance and Audit. The oversight functions also provide an independent review of controls in the business unit and bring significant issues to the attention of senior management and the Board. The Compliance and Audit functions monitor and test the extent to which business units meet regulatory requirements, as well as the effectiveness of internal controls, and report their findings to business unit management, senior management and the Audit Committee of the Board.

Internal and external counsel also work closely with the business units in daily operations to identify areas of potential legal risk, to draft and negotiate legal agreements to manage those risks and to provide advice on the performance of legal obligations under agreements. The litigation group within the Legal department manages litigation to which the Bank and its subsidiaries are a party in conjunction with the particular business involved and other areas of the Bank as needed. The General Counsel is involved in significant litigation matters.

HOW WE MANAGE REGULATORY AND LEGAL RISK

Business units manage day-to-day regulatory and legal risk primarily by setting the appropriate tone at the top with respect to compliance, establishing and maintaining appropriate policies and procedures, and monitoring for compliance. The corporate oversight functions promote a compliance culture within the Bank by:

- Communicating regulatory requirements and emerging compliance risks to each business unit.
- Ensuring that business units have appropriate policies and procedures in place and that staff are trained to meet regulatory requirements.
- Independently monitoring the business units for adherence to the policies, procedures and requirements.
- Tracking, escalating and reporting significant issues and findings to senior management and the Board.

Compliance with regulatory requirements is also documented through a formal business unit management certification process. In addition to ongoing monitoring and review processes, Canadian business units annually review regulatory requirements relating to the Bank's governing legislation and update their risk assessments and the controls that they have in place to mitigate those risks. The higher the risk, the more rigorous the control process must be to minimize the risk of non-compliance. Their assessments are also reviewed by the Compliance department to evaluate the effectiveness of the business unit controls. Once the annual review process is completed, senior management of the business unit certify in writing whether they are in compliance with applicable regulatory requirements, or whether any gaps or weaknesses exist – in which case an action plan must be established and implemented to remedy the gap or weakness.

While it is not possible to completely eliminate legal risk, the legal function strives to ensure that the business units understand the potential risks, and actively seek to manage them in order to reduce the Bank's exposure. In addition, legal risk associated with the handling of litigation is managed by:

- Use of appropriate experts and external counsel.
- Regular review of matters by the Legal department with the business involved and others as needed.
- With respect to the effect of litigation on the Bank's financial condition and related reporting, quarterly review of matters by the Legal department and General Counsel with the Finance department and other areas of management, the shareholders' auditors and, if material, the Audit Committee.

Reputational Risk

Reputational risk is the potential that negative publicity, whether true or not regarding an institution's business practices, actions or inactions, will or may cause a decline in the institution's value, liquidity or customer base.

A company's reputation is a valuable business asset in its own right, essential to optimizing shareholder value, and as such is constantly at risk. Reputational risk cannot be managed in isolation from other forms of risks, since all risks can have an impact on reputation, which in turn can impact the brand, earnings and capital. Credit, market, operational, insurance, liquidity, regulatory and legal risks must all be managed effectively in order to safeguard the Bank's reputation.

As business practices evolve to address new operating environments with respect to reputational risk, we, like others in our industry, have strengthened our focus in this area. We have defined and documented a process to approve structured transactions. The process involves committees with representation from the businesses and control functions, and includes consideration of all aspects of a new Structured Product, including reputational risk. We also have an enterprise wide reputational risk policy, which establishes a framework to have each business unit identify reputational issues, and have those issues considered at the appropriate committees including the Reputational Risk Committee.

WHO MANAGES REPUTATIONAL RISK

Ultimate responsibility for the Bank's reputation lies with the Senior Executive Team and the executive committees that examine reputational risk as part of their ongoing mandate. However, every employee and representative of the Bank has a responsibility to contribute in a positive way to the Bank's reputation. This means ensuring that ethical practices are followed at all times, that interactions with our stakeholders are positive and that the Bank complies with applicable policies, legislation and regulations. Reputational risk is most effectively managed when every individual works continuously to protect and enhance the Bank's reputation.

BASEL II

Basel II is a new framework developed in 2004 by the Basel Committee on Banking Supervision. The goal of the framework is to improve the consistency of capital requirements internationally, make regulatory capital more risk sensitive, and promote improved risk management practices for internationally active banking organizations. The Bank has dedicated qualified resources on this project to meet the requirements of Basel II.

ACCOUNTING STANDARDS AND POLICIES

Critical Accounting Policies and Estimates

The Bank's accounting policies are essential to understanding its results of operations and financial condition. A summary of the Bank's significant accounting policies is presented in Note 1 of the Bank's Consolidated Financial Statements beginning on page 76 of this Annual Report. Some of the Bank's policies require subjective, complex judgements and estimates as they relate to matters that are inherently uncertain. Changes in these judgements or estimates could have a significant impact on the Bank's financial statements. The Bank has established procedures to ensure that accounting policies are applied consistently and that the processes for changing methodologies are well controlled and occur in an appropriate and systematic manner. In addition, the Bank's critical accounting policies are reviewed with the Audit Committee on a periodic basis. Critical accounting policies that require management's judgement and estimates include accounting for loan losses, accounting for the fair value of financial instruments held in trading portfolios, accounting for income taxes, the valuation of investment securities, accounting for securitizations and variable interest entities, the valuation of goodwill and intangible assets, the accounting for pensions and post-retirement benefits and contingent liabilities.

ACCOUNTING FOR LOAN LOSSES

Accounting for loan losses is an area of importance given the size of the Bank's loan portfolio. The Bank has two types of allowances against loan losses – specific and general. Previously the Bank utilized sectoral allowances. Loan impairment is recognized when the Bank determines, based on its identification and evaluation of problem loans and accounts that the timely collection of all contractually due interest and principal payments is no longer assured. Judgement is required as to the timing of designating a loan as impaired and the amount of the required specific allowance. Management's judgement is based on its assessment of probability of default, loss given default and exposure at default. Changes in these estimates due to a number of circumstances can have a direct impact on the provision for loan losses and may result in a change in the allowance. Changes in the allowance, if any, would primarily impact the Canadian Personal and Commercial Banking, U.S. Personal and Commercial Banking and Wholesale Banking segments. Reviews by regulators in Canada and the U.S. bring a measure of uniformity to specific allowances recorded by banks.

General allowances require management judgement and their level depends upon an assessment of business and economic conditions, historical and expected loss experience, loan portfolio composition and other relevant indicators. In establishing the appropriateness of general allowances, in addition to management judgement, the Bank refers to an internally developed model that utilizes parameters for probability of default, loss given default and usage given default. If these parameters were independently increased or decreased by 10%, then the model would indicate an increase or decrease to the aggregate corporate and commercial allowance of $51 million for probability of default, $52 million for loss given default and $18 million for usage given default, respectively.

The Managing Risk section on page 57 of this Annual Report provides a more detailed discussion regarding credit risk. Also, see Note 3 of the Bank's Consolidated Financial Statements for additional disclosures on the Bank's allowance for credit losses.

ACCOUNTING FOR THE FAIR VALUE OF FINANCIAL INSTRUMENTS HELD IN TRADING PORTFOLIOS

The Bank's trading securities, obligations related to securities sold short and trading derivatives are carried at fair value on the Consolidated Balance Sheet with the resulting realized and unrealized gains or losses recognized immediately in other income. See Notes 2, 17 and 19 of the Bank's Consolidated Financial Statements on Securities and Derivative Financial Instruments for more details.

The fair value of exchange traded financial instruments is based on quoted market prices, adjusted for daily margin settlements, where applicable. Note 17 of the Bank's Consolidated Financial Statements provides disclosures of the estimated fair value of all financial instruments at October 31, 2005.

The fair value for a substantial majority of financial instruments held in trading portfolios is based on quoted market price or valuation models that use independently observable market parameters. Independently observable market parameters include interest rate yield curves, foreign exchange rates and option volatilities. The valuation models incorporate prevailing market rates and prices on underlying instruments with similar maturities and characteristics, and take into account factors such as counterparty credit quality, liquidity and concentration concerns. Certain derivatives are valued using models with unobservable market parameters, where the parameters estimated are subject to management judgement. These derivatives are normally not actively traded and are complex. For example, certain credit products are valued using models with parameters such as correlation and recovery rates that are unobservable. Uncertainty in estimating the parameters can impact the amount of revenue or loss recorded for a particular position. Where a market parameter is not observable, the Bank defers all of the unrealized inception profit.

Management judgement is also used in recording fair value adjustments to model valuations to account for measurement uncertainty when valuing complex and less actively traded derivatives.

The Bank has controls in place to ensure that the valuations derived from the models are appropriate. These include independent review and approval of valuation models and independent review of the valuations by qualified personnel. As the market for complex derivative products develops, the pricing for these products becomes more transparent, resulting in refinement of valuation models.

The Bank believes that its estimates of fair value are reasonable given the process for obtaining multiple quotes of external market prices, consistent application of models over a period of time and the controls and processes discussed above. The valuations are also validated by past experience, and through the actual cash settlement of contracts. This policy primarily impacts the Wholesale Banking. For a discussion of Market Risk, refer to page 60 of this Annual Report.

ACCOUNTING FOR INCOME TAXES

Accounting for current income taxes requires the Bank to exercise judgement for issues relating to certain complex transactions, known issues under discussion with tax authorities or matters yet to be settled in court. As a result, the Bank maintains a tax provision for contingencies and regularly assesses the adequacy of this tax provision.

Future income taxes are recorded to account for the effects of future taxes on transactions occurring in the current period. The accounting for future income taxes also requires judgement in the following key situations:

- Future tax assets are assessed for recoverability. The Bank records a valuation allowance when it believes based on all available evidence, that it is more likely than not that all of the future tax assets recognized will not be realized prior to their expiration. The amount of the future income tax asset recognized and considered realizable could, however, be reduced if projected income is not achieved due to various factors such as unfavourable business conditions. If projected income is not expected to be achieved, the Bank would record an additional valuation allowance to reduce its future tax assets to the amount that it believes can be realized in its future tax returns. The magnitude of the valuation allowance is significantly influenced by the Bank's forecast of future profit generation, which drives the extent to which it will be able to utilize the future tax assets.
- Future tax assets are calculated based on tax rates expected to be in effect in future periods. Previously recorded tax assets and liabilities need to be adjusted when the expected date of the future event is revised based on current information.
- The Bank has not recognized a future income tax liability for undistributed earnings of certain operations as it does not plan to repatriate them. Estimated taxes payable on such earnings in the event of repatriation would be $264 million at October 31, 2005.
- All of the Bank's segments are impacted by this accounting policy.

VALUATION OF INVESTMENT SECURITIES

The Bank's investment securities comprise both publicly traded securities and investments in private equity securities that are not publicly traded. Under Canadian Generally Accepted Accounting Principles (GAAP), investment securities are carried at cost or amortized cost and are adjusted to net realizable value to recognize other than temporary impairment.

The Bank discloses the estimated fair value of investment securities in Note 2 of the Bank's Consolidated Financial Statements. Valuation of publicly traded securities is determined by using quoted market prices, which fluctuate from reporting period to reporting period. Valuation of private equity investments held by the Bank requires management judgement due to the absence of quoted market prices, inherent lack of liquidity and the longer term nature of such investments. Private equity investments are initially valued at cost. Fair value is determined using valuation techniques, including discounted cash flows and a multiple of earnings before taxes, depreciation and amortization. Management applies judgement in the selection of the valuation methodology and the various inputs to the calculation, which may vary from reporting period to reporting period. These estimates are monitored and reviewed on a regular basis by the Portfolio Risk Management Group for consistency and reasonableness. Any imprecision in these estimates can affect the resulting fair value. The inherent nature of private equity investing is that management's valuation will change over time as the underlying investment matures and an exit strategy is developed and realized. Estimates of fair value may also fluctuate between reporting periods due to developments in the business underlying the investment. Such fluctuations may be significant depending on the nature of the factors going into the valuation methodology and the extent of change in those factors.

Investment securities are written down to their net realizable value when there is an impairment in value that is considered to be other than temporary in nature. The determination of whe-ther or not other than temporary impairment exists is a matter of judgement. The Bank's management reviews these investment securities regularly for possible impairment that is other than temporary and this review typically includes an analysis of the facts and circumstances of each investment and the expectations for that investment's performance. Specifically, impairment of the value of an investment may be indicated by conditions such as a prolonged period during which the quoted market value of the investment is less than its carrying value, severe losses by the investee in the current year or current and prior years, continued losses by the investee for a period of years, suspension of trading in the securities, liquidity or going concern problems of the investee. All the Bank's segments are impacted by this accounting policy.

ACCOUNTING FOR SECURITIZATIONS AND VARIABLE INTEREST ENTITIES

There are two key determinations relating to the accounting for securitizations. The first key determination is in regards to bank-originated securitized assets. A decision must be made as to whether the securitization should be considered a sale under Canadian GAAP. GAAP requires that specific criteria be met in order for the Bank to have surrendered control of the assets and thus be able to recognize a gain or loss on sale. For instance, the securitized assets must be isolated from the Bank and placed beyond the reach of the Bank and its creditors, even in the case of bankruptcy or other receivership. In determining the gain or loss on sale, management estimates future cash flows by relying on estimates of the amount of interest that will be collected on the securitized assets, the yield to be paid to investors, the portion of the securitized assets that will be prepaid before their scheduled maturity, expected credit losses, the cost of servicing the assets and the rate at which to discount these expected future cash flows. Actual cash flows may differ significantly from those estimated by management. If actual cash flows are different from management's estimate of future cash flows then the gains or losses on the securitization recognized in income will be adjusted. Retained interests are taken into income over the life of the securitized asset. Note 4 of the Bank's Consolidated Financial Statements provides additional disclosures regarding securitizations, including a sensitivity analysis for key assumptions. For fiscal 2005, there were no significant changes to the key assumptions used in estimating the future cash flows. These assumptions are subject to periodic review and may change due to significant changes in the economic environment.

The second key determination is whether the variable interest entity (VIE) should be consolidated into the Bank's Financial Statements. All of the Bank's securitization trusts are considered VIEs. Current GAAP requires consolidation of VIEs only when the Bank retains substantially all of the residual risks and rewards of the VIE. In addition, if the VIE is a Qualifying Special Purpose Entity then the Bank should not consolidate the VIE. The Bank's management uses judgment to estimate the expected losses and expected residual returns in order to determine if the Bank retains substantially all of the residual risk and rewards of the VIEs. Under current Canadian GAAP, all of the bank-originated assets transferred to VIEs meet the criteria for sale treatment and non-consolidation. This accounting policy impacts Canadian Personal and Commercial Banking, Wholesale Banking and the Corporate Segment.

VALUATION OF GOODWILL AND INTANGIBLE ASSETS

Under Canadian GAAP, goodwill is not amortized, but is instead assessed for impairment at the reporting unit level on at least an annual basis. Goodwill is assessed for impairment using a two step approach with the first step being to assess whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than the carrying value, a second impairment test is performed. The second test requires a comparison of the fair value of goodwill to its carrying amount. If the fair value of goodwill is less than its carrying value, goodwill is considered impaired and a charge for impairment must be recognized immediately. The fair value of the Bank's reporting units are determined from internally developed valuation models that consider various factors such as normalized and projected earnings, price earnings multiples and discount rates. The Bank's management uses judgement in estimating the fair value of reporting units and imprecision in any assumptions and estimates used in the fair value calculations could influence the determination of goodwill impairment and affect the valuation of goodwill. The Bank's management believes that the assumptions and estimates used are reasonable and supportable in the existing environment. Where possible, fair values generated internally are compared to market information and are found to be reasonable. The carrying values of the Bank's reporting units are determined by management using economic capital models to adjust net assets and liabilities by reporting unit. These models consider various factors such as market risk, credit risk, operational risk, and are designed to produce the equity capital a reporting unit would have if it was a stand alone entity. The Bank's allocation of economic capital to the reporting unit is reviewed by the Capital Management Committee.

Intangible assets that derive their value from contractual customer relationships or that can be separated and sold, and have a finite useful life are amortized over their estimated useful life. Determining the estimated useful life of these finite life intangible assets requires an analysis of the circumstances and judgement by the Bank's management. Finite life intangible assets are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. Such circumstances would indicate potential intangible asset impairment and would require a cash flow analysis at that time. As a result, the finite life intangible assets would be written down to net recoverable value based on expected future cash flows similar to other capital assets. This accounting policy impacts all of the Bank's business segments. See Note 5 of the Bank's Consolidated Financial Statements for additional disclosures regarding goodwill and intangible assets.

ACCOUNTING FOR PENSIONS AND POST-RETIREMENT BENEFITS

The Bank's pension and post-retirement benefits obligation and expense is determined in accordance with GAAP, and is dependent on the assumptions used in calculating these amounts. The actuarial assumptions are determined by management and are reviewed annually by management and the Bank's actuaries. These assumptions include the discount rate, the rate of compensation increase, the overall health care cost trend rate and the expected long term rate of return on plan assets. The discount rate used to value liabilities is based on long term corporate AA bond yields as of the valuation date. The other assumptions are also long term estimates. The expected long term rate of return on plan assets assumption is based on historical returns and future expectations for returns for each asset class, as well as the target asset allocation of the fund. As these assumptions relate to factors that are long term in nature, they are subject to a degree of uncertainty. Differences between actual experience and the assumptions, as well as changes in the assumptions resulting from changes in future expectations, result in increases or decreases in the Bank's pension and post-retirement benefits expense in future years.

The following table provides the sensitivity of the accrued pension benefit obligation, and the pension expense for the Bank's principal pension plan, to changes in the discount rate, expected long term return on plan assets assumption and rate of compensation increase as at October 31, 2005. The sensitivity analysis provided in the table is hypothetical and should be used with caution. All of the Bank's segments are impacted by this accounting policy. For a further discussion of the key assumptions used in determining the Bank's annual pension expense and accrued benefit obligation, see Note 15 of the Consolidated Financial Statements.

(millions of Canadian dollars)	Obligation	Expense
Impact of a change of 1.0% in key assumptions		
Discount rate	5.20%	6.40%
Decrease in assumption	337	38
Increase in assumption	(264)	(21)
Expected long term return on assets	6.75%	6.75%
Decrease in assumption	N/A	16
Increase in assumption	N/A	(16)
Rate of compensation increase	3.50%	3.50%
Decrease in assumption	(70)	(11)
Increase in assumption	79	14

CONTINGENT LIABILITIES

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.

Contingent litigation loss accruals are established when it becomes probable that the Bank will incur an expense and the amount can be reasonably estimated. In addition to the Bank's management, internal and external experts are involved in assessing probability and in estimating any amounts involved. Throughout the existence of a contingency, the Bank's management or its experts may learn of additional information that may impact its assessments about probability or about the estimates of amounts involved. Changes in these assessments may lead to changes in recorded loss accruals. In addition, the actual costs of resolving these claims may be substantially higher or lower than the amounts accrued for those claims.

During fiscal 2005, the Bank added $365 million to its contingent litigation reserves for Enron-related claims, to bring the total reserve for this matter to approximately $641 million. See Note 20 of the Bank's Consolidated Financial Statements for more details.

DERIVATIVES

The impact of non-trading derivatives on net interest income and other income for the year ended October 31, 2005 is provided in Table 32 below.

TABLE 32 **NON-TRADING DERIVATIVES**

(millions of Canadian dollars)	Non-trading derivatives qualifying for hedge accounting	Non-trading derivatives not qualifying for hedge accounting
Net interest income (loss)	$162	$(35)
Other income	1	(19)

ACCOUNTING STANDARDS AND POLICIES

Accounting Policies Changes in 2005

As of November 1, 2004, the Bank adopted the Canadian Institute of Chartered Accountants (CICA) amendments to the accounting standard on financial instruments – disclosure and presentation on a retroactive basis with restatement of prior periods comparatives. As a result of these amendments, the Bank reclassified into liabilities on the Consolidated Balance Sheet existing preferred shares totaling $1,310 million and certain capital trust structures totaling $900 million, as at October 31, 2004. Dividend and yield distributions on these instruments have been reclassified to interest expense on our Consolidated Statement of Income.

As of November 1, 2004, the Bank prospectively adopted the CICA accounting guideline on the consolidation of variable interest entities (VIEs). VIEs are entities in which the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinate financial support provided by any parties, including equity investors. The Bank has identified VIEs that it has an interest in, determined whether it is the primary beneficiary of such entities and if so, consolidated them. The primary impact of adopting the revised guideline is that the Bank no longer consolidates one of its innovative capital structures – TD Capital Trust II, which accounts for $350 million of Tier 1 capital. Although the Bank has voting control it is not deemed the primary beneficiary under the VIE rules. For regulatory capital purposes, the Bank's innovative capital structures have been grandfathered by the Superintendent of Financial Institutions Canada, and the Bank's capital ratios are unaffected.

ACCOUNTING STANDARDS AND POLICIES

Future Accounting and Reporting Changes

The Bank expects to adopt the following accounting standards in the future. See Note 1 of the Bank's Consolidated Financial Statements for more details of future accounting and reporting changes.

FINANCIAL INSTRUMENTS, HEDGES AND COMPREHENSIVE INCOME

The CICA has issued three new accounting standards – *Financial Instruments – Recognition and Measurement, Hedges* and *Comprehensive Income*. These standards are substantially harmonized with U.S. GAAP and are effective for the Bank beginning in fiscal 2007. The principal impacts of the standards are detailed below.

- Other comprehensive income will be a new component of shareholders' equity and a new statement entitled Statement of Comprehensive Income will be added to the Bank's primary Consolidated Financial Statements.
- Financial assets will be required to be classified as available for sale, held to maturity, trading or loans and receivables.
- For fair value hedges, where the Bank is hedging changes in the fair value of assets, liabilities or firm commitments, the change in the value of derivatives and hedged items will be recorded in the Consolidated Statement of Income.
- For cash flow hedges where the Bank is hedging the variability in cash flows related to variable rate assets, liabilities or forecasted transactions, the effective portion of the changes in the fair values of the derivative instruments will be recorded through other comprehensive income until the hedged items are recognized in the Consolidated Statement of Income.

U.S. GAAP

The Financial Accounting Standards Board issued a new standard in December 2004 that will require compensation costs relating to share-based payments be measured based on the fair value of the equity or liability instruments issued rather than be disclosed as is permitted under current U.S. GAAP. While the effective date is November 1, 2005, the Bank already measures its compensation costs using fair values. Accordingly, the new standard will not have a significant impact on the Bank's net income, financial position or cash flows for the purposes of the U.S. GAAP reconciliation in Note 27 of the Bank's Consolidated Financial Statements.

ACCOUNTING STANDARDS AND POLICIES

Controls and Procedures

Based on current U.S. Securities and Exchange Commission (SEC) rules as per the Sarbanes-Oxley Act of 2002, the Chief Executive Officer and Chief Financial Officer will be required to certify as at October 31, 2006 that they have assessed the effectiveness of internal controls over financial reporting.

In preparation for this certification, the Bank has dedicated resources in place to document the internal control environment and evaluate its design and operating effectiveness. These resources have also been actively engaged with the Bank's external auditors in the development and implementation of the activities necessary to meet the requirements of the Sarbanes-Oxley Act of 2002.

During fiscal 2005, there have been no significant changes in the Bank's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect the Bank's internal controls over financial reporting. The Bank is, however continually improving its infrastructure and controls.

An evaluation was performed under the supervision and with participation of the Bank's management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Bank's disclosure controls and procedures, as defined in the rules of the SEC and Canadian Securities Administrators, as of October 31, 2005. Based on that evaluation, the Bank's management concluded that the Bank's disclosure controls and procedures were effective as of October 31, 2005.

ACCOUNTING STANDARDS AND POLICIES

Bank's Auditors

The Bank's Audit Committee has implemented a policy restricting the services that may be provided by the Bank's auditors and the fees paid to the Bank's auditors. Any non-audit service to be provided by the shareholders' auditors must be permitted by law and by the policy, and must be pre-approved by the Audit Committee pursuant to the policy, along with the associated fees for those services. The policy provides for the annual pre-approval of specific types of services, together with the maximum amount of the fees that may be paid for such services, pursuant to policies and procedures adopted by the Audit Committee, and gives detailed guidance to management as to the specific services that are eligible for such annual pre-approval. All other services and the associated fees must also be specifically pre-approved by the Audit Committee as they arise throughout the year. In making its determination regarding non-audit services, the Audit Committee considers the compliance with the policy and the provision of non-audit services in the context of avoiding impact on auditor independence. This includes considering applicable regulatory requirements and guidance and whether the provision of the services would place the auditors in a position to audit their own work, result in the auditors acting in the role of the Bank's management or place the auditors in an advocacy role on behalf of the Bank. By law, the shareholders' auditors may not provide certain services to the Bank or its subsidiaries. Each quarter, the Bank's Chief Financial Officer makes a presentation to the Audit Committee detailing the non-audit services performed by the Bank's auditors on a year-to-date basis, and details of any proposed assignments for consideration by the Audit Committee and pre-approval, if appropriate.

TABLE **33** **FEES PAID TO THE BANK'S AUDITORS**

(thousands of Canadian dollars)	**2005**	2004	2003
Audit fees	**$13,741**	$10,464	$ 7,773
Audit related fees	**3,276**	5,023	605
Tax fees	**3,373**	2,866	3,457
All other fees	**1,987**	3,867	6,368
Total	**$22,377**	$22,220	$18,203

Audit fees are fees for the professional services in connection with the audit of the Bank's financial statements or other services that are normally provided by the Bank's auditors in connection with statutory and regulatory filings or engagements. In addition to including fees for services necessary to perform an audit or review in accordance with generally accepted auditing standards, the Bank's audit fees include fees paid to the Bank's auditors for comfort letters, statutory audits, attest services, consents and assistance with and review of documents filed with regulators.

Audit related fees are fees for assurance and related services that are performed by the Bank's auditors. These services include employee benefit plan audits, accounting consultations in connection with acquisitions and divestitures, application and general control reviews (including Sarbanes-Oxley pilot audit), attest services not required by statute or regulation and interpretation of financial accounting and reporting standards.

Tax fees are fees for services performed by the Bank's auditors for tax compliance, tax advice and tax planning except those tax services related to the audit. Tax compliance generally involves preparation of original and amended tax returns and claims for refund. Tax advice includes assistance with tax audits, appeals and rulings plus tax advice related to mergers and acquisitions. Tax planning includes expatriate and domestic tax services and transfer pricing matters.

All other fees primarily include fees for insolvency and viability matters either paid by the Bank or by third parties. In these instances, the Bank's auditors are retained to provide assistance on operational business reviews, lender negotiations, business plan assessments, debt restructuring and asset recovery. The amount of insolvency and viability fees paid by third parties is $.6 million (2004 – $1.6 million; 2003 – $3.5 million). Also included in this category are fees for mutual funds audits (including tax and prospectus renewals), the purchase of software for compliance and regulatory filings, benchmark studies, translation of documents, audit of charitable organizations and section 5900/SAS 70 reports on control procedures at a service organization.