

TD Bank Europe Limited  
Directors' Report and Audited Financial Statements  
for the year ended 31 October 2004

Registered Number 2734652



# **TD Bank Europe Limited**

## **Directors' Report and Financial Statements for the year ended 31 October 2004**

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# **TD Bank Europe Limited**

## **Directors' Report for the year ended 31 October 2004**

The directors submit their report and audited financial statements for the year ended 31 October 2004.

### **Principal Activity**

The company, an authorised institution under The Financial Services and Markets Act 2000, carries on the business of corporate banking.

### **Directors**

The directors of the company who served during the year and subsequently are as follows:

|                           |  |
|---------------------------|--|
| Mr M Fedder (German)      | - Director, Chairman and Managing Director     |
| Mr M Singh (Canadian)     | - Finance Director (Appointed 28 January 2004) |
| Mr J White (British)      | - Legal and Compliance Director                |
| Mr T Hill (British)       | - Director                                     |
| Miss E Merica (British)   | - Non-Executive Director                       |
| Mr M Newman (Canadian)    | - Director                                     |
| Mr G W Piercey (Canadian) | - Finance Director (Resigned 31 January 2004)  |

### **Business Review and Future Developments**

The company's results for the year are set out on page 5. The profit on ordinary activities after taxation for the year was £23,588,000 (2003: profit £5,609,000).

No Redeemable Preference dividends were declared and paid during the year (2003: Nil). No dividend on Ordinary Shares was declared and none is proposed (2003: Nil).

During the year the company continued its strategy, started in 2003, of lending to its core clients while actively seeking to exit existing relationships with customers identified as non-core. This strategy, along with a substantial recovery in the credit markets, proved successful as the company recorded positive net interest income and net loan loss recoveries in the year. The size and composition of the lending portfolio has changed during 2004 as a number of non-core loans were sold. The company does not anticipate any changes in principal activity in the forthcoming year.

### **Directors' Interests**

None of the directors had any interest in the share capital of the company or of any other Toronto-Dominion Bank group companies which are incorporated in the United Kingdom.

## **TD Bank Europe Limited**

### **Directors' Report for the year ended 31 October 2004 (continued)**

#### **Statement of Directors' Responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board



M Singh  
Finance Director

Triton Court,  
14/18 Finsbury Square,  
London EC2A 1DB.

21 January 2005

## **TD Bank Europe Limited**

### **Independent Auditors' Report to the Members of TD Bank Europe Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet and related notes.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 2.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

#### **Basis of audit opinion**

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

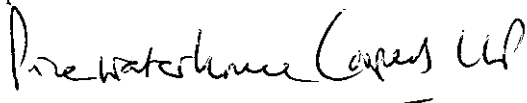
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **TD Bank Europe Limited**

### **Independent Auditors Report to the Members of TD Bank Europe Limited (continued)**

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 October 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read "PricewaterhouseCoopers LLP", is written over the printed name of the firm.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London

21 January 2005

## TD Bank Europe Limited

### Profit and loss account for the year ended 31 October 2004

|  |       | 2004          | 2003          |
|--|-------|---------------|---------------|
|  | Notes | £000          | £'000         |
| Interest receivable and similar income                     | 2     | 18,512        | 31,024        |
| Interest payable and similar charges                       | 3     | (3,215)       | (16,601)      |
| <b>Net interest income</b>                                 |       | <b>15,297</b> | <b>14,423</b> |
| Fees and commissions receivable                            | 4     | 5,144         | 8,165         |
| Gain on sale of loans                                      |       | 9,975         | -             |
| <b>Operating income</b>                                    |       | <b>30,416</b> | <b>22,588</b> |
| Administrative expenses                                    |       | (2,130)       | (2,756)       |
| Other operating expenses                                   |       | (2,364)       | (11,626)      |
| <b>Operating profit before provisions</b>                  | 5     | <b>25,922</b> | <b>8,206</b>  |
| Reversal/(Charge) of Provisions for bad and doubtful debts | 9     | 7,894         | (192)         |
| <b>Profit on Ordinary Activities Before Taxation</b>       |       | <b>33,816</b> | <b>8,014</b>  |
| Tax on Profit on Ordinary Activities                       | 8     | (10,228)      | (2,405)       |
| <b>Retained Profit for the financial year</b>              | 17    | <b>23,588</b> | <b>5,609</b>  |

The above results are derived solely from continuing operations.

The profits for the years as stated above are not different from the results on an unmodified historical cost basis.

There were no recognised gains or losses other than the profit for the years quoted above, other than revaluation of non Sterling denominated equity shown in note 16, and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 7 to 26 form part of these financial statements.

# TD Bank Europe Limited

## Balance Sheet as at 31 October 2004

|  |       | 2004           | 2003           |
|--|-------|----------------|----------------|
|  | Notes | £000           | £'000          |
| <b>ASSETS</b>  |       |                |                |
| Loans and advances to banks  | 10/20 | 545,558        | 405,683        |
| Loans and advances to customers                                      | 11/20 | 105,425        | 259,993        |
| Other debtors  | 12    | 8,906          | 21,920         |
| <b>Total Assets</b>  |       | <b>659,889</b> | <b>687,596</b> |
| <b>LIABILITIES</b>   |       |                |                |
| Deposits by banks  | 13    | 245,047        | 293,000        |
| Other liabilities  | 14    | 3,205          | 6,547          |
| <b>Total liabilities</b>   |       | <b>248,252</b> | <b>299,547</b> |
| <b>Shareholder's funds</b>   |       |                |                |
| Called up share capital  | 16    | 353,423        | 357,880        |
| Profit and loss account  | 17    | 58,214         | 30,169         |
| <b>Total Shareholder's Funds</b>                                     |       | <b>411,637</b> | <b>388,049</b> |
| including non-equity interest of £331,659,000 (2003 : £334,272,000 ) |       |                |                |
|  | 18    |                |                |
| <b>Total Liabilities and Shareholder's Funds</b>                     |       | <b>659,889</b> | <b>687,596</b> |
| <b>MEMORANDUM ITEMS</b>  |       |                |                |
| <b>Contingent liabilities: Guarantees</b>                            | 19    | 2,171          | 4,938          |
| <b>Commitments: Undrawn committed facilities</b>                     | 19    | 745,729        | 1,061,469      |

The financial statements on pages 5 to 26 were approved by the Directors on 21 January 2005 and signed on their behalf by:



M Singh  
Finance Director



# **TD Bank Europe Limited**

## **Notes to the financial statements for the year ended 31 October 2004**

### **1 Accounting Policies**

#### **Accounting Convention**

These financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the requirements of Schedule 9 of the Companies Act 1985 relating to banking companies, applicable Accounting Standards and Statements of Recommended Practice issued by the British Bankers Association.

A summary of the accounting policies of the company, which have been consistently applied, is set out below:

#### **(a) Fees and commissions receivable**

Fees and commissions receivable arise from lending activities in Europe. Loan related fees are matched with costs of initiation or ongoing administration of the loan. Other fees are recognised over the life of the loan on a constant yield basis.

#### **(b) Deferred taxation**

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date arising from transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

#### **(c) Loans and advances and provision for bad and doubtful debts**

Loans and advances are stated at the principal amounts outstanding, net of provisions for losses on loans and advances.

Provisions for losses on loans and advances are based on evaluation by the directors of their collectability. Specific provisions are raised against debts whose recovery has been identified as doubtful. A general provision is made in respect of losses, which although not yet specifically identified, are known from experience to be present in any portfolio of advances.

# **TD Bank Europe Limited**

## **Notes to the financial statements for the year ended 31 October 2004 (continued)**

### **1 Accounting Policies (continued)**

Estimates of losses on loans and advances require the exercise of judgement and the use of assumptions. The principal factors considered in determining the loan loss provision are the composition and quality of the loan portfolio, the ability of the individual borrowers to repay the loans, past performance of the individual loans, existence of overdue interest or principal repayments and, in the event of default, the value and adequacy of collateral/security.

#### **(d) Foreign currencies**

Net interest income and fee and commission denominated in foreign currencies are translated into Sterling at average rates of exchange during the year.

For reporting purposes, monetary assets and liabilities (including share capital) denominated in currencies other than Sterling are translated into Sterling at spot rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities denominated in currencies other than Sterling are translated into Sterling at the spot rates of exchange at the date of the transaction. Foreign exchange differences relating to the company's share capital are taken directly to profit and loss account reserves. Other foreign exchange gains or losses are dealt with through the profit and loss account as other operating income or expense.

#### **(e) Financial instruments**

The criteria required for an instrument to be classified as a hedge are that the transaction must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities, other positions or cash flows being hedged and which results from potential movements in interest rates or exchange rates. Also, adequate evidence of the intention to hedge and linkage with the underlying risk inherent in the assets, liabilities, other positions or cash flow being hedged must be established at the outset of the transaction.

All cash flow arising from interest rate related instruments which are designated as hedges are accounted for on an accrual basis equivalent to the underlying assets, liabilities, or positions. Where a hedge is terminated early, the realised gain or loss is amortised over the residual life of the underlying instrument. If the underlying instrument is redeemed, the remaining hedge cash flows are marked to market and immediately recognised in the profit and loss account. Amounts accrued on hedging instruments are included within prepayments or accruals.

#### **(f) Pension costs**

An external pension provider operates a defined contribution scheme on behalf of the company and payments made by the company are charged directly to the profit and loss account in the period to which they relate.

# TD Bank Europe Limited

## Notes to the financial statements for the year ended 31 October 2004 (continued)

### 1 Accounting Policies (continued)

#### Related Party Transactions

Under paragraph 3 (c) of FRS 8 "Related Party Disclosures" the company has taken advantage of the exemptions permitted for related party transactions as a result of being a wholly owned subsidiary of a Group, where the parent prepares consolidated financial statements which include the company and which are publicly available.

#### Cash flow statement

The company has not produced a cash flow statement. In accordance with FRS 1 (revised), the company is claiming an exemption because the financial statements of its ultimate parent are publicly available

#### Segmented Information

The sole class of business for the company during the period was corporate banking. The sole geographical segment of the company's corporate banking is Europe. Consequently, no segmental analysis of the company's revenue and assets is required.

### 2 Interest receivable and similar income

|  | 2004          | 2003          |
|--|---------------|---------------|
|  | £000          | £000          |
| Interest received on loans to customers            | 5,138         | 15,727        |
| Interest received on deposits with banks           | 5,779         | 1,210         |
| Interest received from ultimate parent undertaking | 7,595         | 14,087        |
|  | <u>18,512</u> | <u>31,024</u> |

### 3 Interest payable and similar charges

|  | 2004         | 2003          |
|--|--------------|---------------|
|  | £000         | £000          |
| Interest payable to immediate parent undertaking | 1,998        | 1,972         |
| Interest payable to ultimate parent undertaking  | 1,142        | 11,098        |
| Interest payable on deposits by customers        | 75           | 3,531         |
|  | <u>3,215</u> | <u>16,601</u> |

## TD Bank Europe Limited

### Notes to the financial statements for the year ended 31 October 2004 (continued)

#### 4 Fees and commissions receivable

|   | 2004         | 2003         |
|---|--------------|--------------|
|   | £000         | £000         |
| Loan commitment fees receivable                             | 2,056        | 3,767        |
| Other fees receivable                                       | 1,367        | 1,683        |
| Other income from group undertakings, including commissions | 1,721        | 2,715        |
|   | <u>5,144</u> | <u>8,165</u> |

#### 5 Operating Profit before Provisions

Operating profit before provisions is stated after (crediting) / charging:

|  | 2004 | 2003   |
|--|------|--------|
|  | £000 | £000   |
| Other charges payable to ultimate parent | 451  | 554    |
| FX translation loss                      | 209  | 10,581 |
| Auditor's remuneration – audit services  | 43   | (8)    |
| – non-audit services                     | (1)  | 19     |

Auditor's remuneration for non audit services in 2004 includes £10,465 relating to the fee incurred for the year ended 31 October 2004 and £11,355 relating to an over accrual in the prior year.

#### 6 Directors' Emoluments

|                       | 2004      | 2003     |
|-----------------------|-----------|----------|
|                       | £000      | £000     |
| Emoluments            | 10        | 9        |
| Pension contributions | -         | -        |
|                       | <u>10</u> | <u>9</u> |

No pension contributions under either a defined contribution or defined benefit schemes were accrued for any director in 2004 (2003: none).

During the year, no director was advanced a loan (2003: none).

## TD Bank Europe Limited

### Notes to the financial statements for the year ended 31 October 2004 (continued)

#### 7 Employees

|                       | 2004         | 2003         |
|-----------------------|--------------|--------------|
|                       | £000         | £000         |
| Wages and salaries    | 1,214        | 1,597        |
| Social security costs | 172          | 193          |
| Other pension costs   | 36           | 45           |
|                       | <u>1,422</u> | <u>1,835</u> |

The average number of direct employees during the year was 6 (2003: 10).

#### 8 Taxation

|  | 2004          | 2003         |
|--|---------------|--------------|
|  | £000          | £000         |
| <b>Current tax:</b>                          |               |              |
| UK Corporation tax on profits of the year    | -             | -            |
| Adjustments in respect of prior years        | (709)         | -            |
| Total current tax charge                     | <u>(709)</u>  | <u>-</u>     |
| <b>Deferred tax:</b>                         |               |              |
| Origination & reversal of timing differences | 10,145        | 2,405        |
| Adjustments in respect of prior years        | 792           | -            |
| Total deferred tax charge                    | <u>10,937</u> | <u>2,405</u> |
| <b>Tax on profit on ordinary activities</b>  | <u>10,228</u> | <u>2,405</u> |

## TD Bank Europe Limited

### Notes to the financial statements for the year ended 31 October 2004 (continued)

|  | 2004         | 2003     |
|--|--------------|----------|
|  | £000         | £000     |
| Profit on ordinary activities at the UK tax rate 30% (2003: 30%) | 10,145       | 2,405    |
| Effect of deferred tax   | (10,145)     | (2,405)  |
| Adjustments to tax charge in respect of prior years              | (709)        | -        |
| <b>Tax Charge for current year</b>                               | <b>(709)</b> | <b>-</b> |

### 9 Provision for Bad and Doubtful Debts

|  | 2004         |              |              | 2003          |              |               |
|--|--------------|--------------|--------------|---------------|--------------|---------------|
|  | Specific     | General      | Total        | Specific      | General      | Total         |
|  | £000         | £000         | £000         | £000          | £000         | £000          |
| Balance at beginning of year                           | 21,063       | 4,300        | 25,363       | 84,087        | 4,300        | 88,387        |
| Charged for the year                                   | 3,341        | -            | 3,341        | 3,651         | -            | 3,651         |
| Recovered during the year                              | (9,085)      | (2,150)      | (11,235)     | (3,459)       | -            | (3,459)       |
| Loans written off during the year                      | (12,684)     | -            | (12,684)     | (63,937)      | -            | (63,937)      |
| Foreign exchange revaluation of non-sterling provision | (18)         | -            | (18)         | 721           | -            | 721           |
| <b>Balance at end of year</b>                          | <b>2,617</b> | <b>2,150</b> | <b>4,767</b> | <b>21,063</b> | <b>4,300</b> | <b>25,363</b> |

Net profit on sale of Loans in the year was £9,975,000

## TD Bank Europe Limited

### Notes to the financial statements for the year ended 31 October 2004 (continued)

#### 10 Loans and advances to banks

|   | 2004           | 2003           |
|---|----------------|----------------|
|   | £000           | £000           |
| <b>Remaining maturity:</b>                      |                |                |
| - 3 months or less, but not repayable on demand | 232,000        | 148,734        |
| - repayable on demand                           | 313,558        | 256,949        |
|   | <b>545,558</b> | <b>405,683</b> |

Included in loans and advances to banks are amounts owed by ultimate parent undertaking of £313,558,000 (2003: £256,949,000) which are repayable on demand.

#### 11 Loans and advances to customers

|   | 2004           | 2003           |
|---|----------------|----------------|
|   | £000           | £000           |
| <b>Remaining maturity:</b>                      |                |                |
| - over 5 years                                  | 15,462         | 70,244         |
| - 5 years or less, but over 1 year              | 86,956         | 161,006        |
| - 1 year or less, but over 3 months             | 7,774          | 48,827         |
| - 3 months or less, but not repayable on demand | -              | 5,279          |
|   | <b>110,192</b> | <b>285,356</b> |
| Provision for bad and doubtful debts (note 9)   | (4,767)        | (25,363)       |
|   | <b>105,425</b> | <b>259,993</b> |

## TD Bank Europe Limited

### Notes to the financial statements for the year ended 31 October 2004 (continued)

#### 12 Other Debtors

|   | <u>2004</u>  | <u>2003</u>   |
|---|--------------|---------------|
|   | <u>£000</u>  | <u>£000</u>   |
| Amount due from ultimate parent undertaking                           | 56           | 764           |
| Amount receivable from a fellow subsidiary in respect of group relief | 121          | -             |
| Prepayments and accrued income  | 994          | 3,096         |
| Corporation tax recoverable   | 5,926        | 5,314         |
| Deferred tax asset  | 1,809        | 12,746        |
|   | <u>8,906</u> | <u>21,920</u> |

The deferred tax asset shown above relates to general provisions not allowed against current taxation of £2,150,000 (2003: £4,300,000) and unrelieved trading losses of £3,880,000 (2003: £38,187,000).

|                                       | <u>2004</u>  |
|---------------------------------------|--------------|
|                                       | <u>£000</u>  |
| <b>Deferred Tax Asset:</b>            |              |
| Deferred tax asset at 1 November 2003 | 12,746       |
| Utilised in the year (note 8)         | (10,145)     |
| Adjustments in respect of prior years | (792)        |
| Deferred tax asset at 31 October 2004 | <u>1,809</u> |



## TD Bank Europe Limited

### Notes to the financial statements for the year ended 31 October 2004 (continued)

#### 13 Deposits by Banks

|   | 2004           | 2003           |
|---|----------------|----------------|
|   | £000           | £000           |
| <b>Remaining maturity:</b>                      |                |                |
| - 3 months or less, but not repayable on demand | -              | 73,777         |
| - repayable on demand                           | 245,047        | 219,223        |
|   | <u>245,047</u> | <u>293,000</u> |

Included in deposits by banks are amounts owed to ultimate parent undertaking of £143,193,000 (2003: £121,253,000) and amounts due to parent undertaking of £101,854,000 (2003: £97,970,000), which are repayable on demand.

#### 14 Other Liabilities

|   | 2004         | 2003         |
|---|--------------|--------------|
|   | £000         | £000         |
| Amounts owed to parent undertaking  | 56           | 43           |
| Amounts owed to ultimate parent undertaking                                   | 393          | 55           |
| Amount payable to a fellow subsidiary in respect of tax saved by group relief | 59           | -            |
| Accruals and deferred income  | 2,697        | 6,449        |
|   | <u>3,205</u> | <u>6,547</u> |

Amounts owed to parent undertaking and to ultimate parent undertaking are repayable on demand and are non-interest bearing.

## TD Bank Europe Limited

### Notes to the financial statements for the year ended 31 October 2004 (continued)

#### 15 Assets and liabilities in foreign currencies

The aggregate amounts of assets and liabilities on the balance sheet in foreign currencies were as follows:

|                        | <b>Denominated<br/>in GBP</b> | <b>Denominated<br/>in other<br/>currencies</b> | <b>Total</b> |
|------------------------|-------------------------------|--|--------------|
|                        | <b>£000</b>                   | <b>£000</b>                                    | <b>£000</b>  |
| Assets                 | 456,439                       | 203,450  | 659,889      |
| Liabilities            | (403,846)                     | (256,043)                                      | (659,889)    |
| <b>31 October 2004</b> | <b>52,593</b>                 | <b>(52,593)</b>                                | <b>-</b>     |
| <br>31 October 2003    | <br>6,337                     | <br>(6,337)                                    | <br>-        |

The mismatch between assets and liabilities in foreign currencies arises in the normal course of business.

# TD Bank Europe Limited

## Notes to the financial statements for the year ended 31 October 2004 (continued)

### 16 Share Capital

|   | 2004           | 2003           |
|---|----------------|----------------|
| <b>Authorised:</b>  |                |                |
|   | US\$ 000       | US\$ 000       |
| 100,000,000 ordinary shares of US\$1 each                       | 100,000        | 100,000        |
| 500,000,000 redeemable preference shares of US\$1 each          | 500,000        | 500,000        |
|   | <u>600,000</u> | <u>600,000</u> |
|   | £ 000          | £ 000          |
| 500,000,000 redeemable preference shares of £1 each             | <u>500,000</u> | <u>500,000</u> |
| <b>Allotted and fully paid:</b>                                 |                |                |
|   | US\$ 000       | US\$ 000       |
| 40,000,000 ordinary shares of US\$1 each                        | 40,000         | 40,000         |
| 56,663,750 redeemable preference shares of US\$1 each           | 56,664         | 56,664         |
|   | <u>96,664</u>  | <u>96,664</u>  |
|   | £ 000          | £ 000          |
| 300,827,500 redeemable preference shares of £1 each             | <u>300,828</u> | <u>300,828</u> |
| <b>Movement in share capital during the year is as follows:</b> |                |                |
|   | £000           | £000           |
| Share capital at opening exchange rate                          | 357,880        | 362,601        |
| Translation difference on non-Sterling shares (see note 17)     | (4,457)        | (4,721)        |
| Share capital at closing exchange rate                          | <u>353,423</u> | <u>357,880</u> |

All the Redeemable Preference shares (both £ and US\$) are redeemable at par at the option of the issuer on 31 October 2026.

In the event that it is resolved to distribute, by way of dividend, all or part of the profits, the holder of the Redeemable Preference shares (both £ and US\$) has the right to receive a variable non-cumulative preferential dividend between the rates of 1 per cent and 20 per cent per share per annum.

The Redeemable Preference shares (both £ and US\$) have attached to them the same rights regarding voting and payment on a winding up as are attached to Ordinary shares.

The Redeemable Preference capital (both £ and US\$) are eligible for inclusion in Tier 1 capital.

# TD Bank Europe Limited

## Notes to the financial statements for the year ended 31 October 2004 (continued)

### 17 Profit and Loss Reserve

|  | 2004          |
|--|---------------|
|  | £000          |
| Balance brought forward                                  | 30,169        |
| Profit / (Loss) for the year                             | 23,588        |
| Translation differences on non-Sterling shares (note 16) | 4,457         |
|  | <u>58,214</u> |

### 18 Reconciliation and Analysis of Shareholder's Funds

|   | 2004           | 2003           |
|---|----------------|----------------|
|   | £000           | £000           |
| Opening Shareholder's funds   | 388,049        | 382,440        |
| Profit for the year attributable to shareholders (note 17)                | 23,588         | 5,609          |
| Closing Shareholder's funds   | <u>411,637</u> | <u>388,049</u> |
| <b>Attributable to equity interest:</b>                                   |                |                |
| 40,000,000 Ordinary shares of US\$ 1 each @ 1.8379 (2003: 1.6943)         | 21,764         | 23,608         |
| Profit and Loss Reserve (note 17)   | 58,214         | 30,169         |
| <b>Total equity interest</b>  | <u>79,978</u>  | <u>53,777</u>  |
| <b>Attributable to non-equity interest:</b>                               |                |                |
| 300,827,500 Redeemable pref. shares of £1 each                            | 300,828        | 300,828        |
| 56,663,750 Redeemable pref. shares of US\$ 1 each @ 1.8379 (2003: 1.6943) | 30,831         | 33,444         |
| <b>Total non-equity interest</b>  | <u>331,659</u> | <u>334,272</u> |

## TD Bank Europe Limited

### Notes to the financial statements for the year ended 31 October 2004 (continued)

#### 19 Contingent Liabilities and Commitments

|  | <u>2004</u>    | <u>2003</u>      |
|--|----------------|------------------|
|  | £000           | £000             |
| <b>Contingent Liabilities</b>          |                |                  |
| Guarantees                             | <u>2,171</u>   | <u>4,938</u>     |
| <b>Commitments</b>                     |                |                  |
| Undrawn committed facilities maturing: |                |                  |
| - 1 year and over                      | 506,442        | 753,544          |
| - less than 1 year                     | 239,287        | 307,925          |
|  | <u>745,729</u> | <u>1,061,469</u> |

Committed facilities represent amounts available to customers, which were undrawn at the balance sheet date.

#### 20 Risk Management

##### Objectives, policies and strategies

The principal financial risks faced by the company are credit risk, interest rate risk, liquidity risk and currency rate risk. A description of the significant risks associated with the Bank's activities is provided below.

TD Bank Europe Limited has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed by the Board. Instruments used for risk management purposes include derivative financial instruments ('derivatives'), which are contracts or agreements whose value is derived from one or more underlying prices, or rates inherent in the contract or agreement, such as interest rate and exchange rates.

The company uses matched funding with the ultimate parent undertaking to finance advances to customers. Interest rate risk with one particular loan is hedged through fixed to floating interest rate swaps with the parent entity.

# TD Bank Europe Limited

## Notes to the financial statements for the year ended 31 October 2004 (continued)

### 20 Risk Management (continued)

#### Interest rate risk

The net interest income of the company is exposed to movements in interest rates. This exposure is managed on a continuous basis, within limits set by the Board, using a combination of on and off balance sheet instruments. After taking into account the various derivatives entered into by the company, the interest rate sensitivity of the company (based on interest rate re-pricing) was:

|  | Less than 3<br>month | 3 to 6 months  | 6 to 12<br>months | 1 to 5 years   | More than 5<br>years | Non-interest<br>bearing | Total            |
|--|----------------------|----------------|-------------------|----------------|----------------------|-------------------------|------------------|
|  | £000                 | £000           | £000              | £000           | £000                 | £000                    | £000             |
| <b>At 31 October 2004</b>                |                      |                |                   |                |                      |                         |                  |
| Loans to banks                           | 545,558              | -              | -                 | -              | -                    | -                       | 545,558          |
| Loans to customers                       | -                    | 3,076          | 4,698             | 86,956         | 15,462               | -                       | 110,192          |
| General loan loss<br>provision (note 9)  | -                    | -              | -                 | -              | -                    | (4,767)                 | (4,767)          |
| Other debtors                            | -                    | -              | 5,926             | -              | -                    | 2,980                   | 8,906            |
| <b>Total Assets</b>                      | <b>545,558</b>       | <b>3,076</b>   | <b>10,624</b>     | <b>86,956</b>  | <b>15,462</b>        | <b>(1,787)</b>          | <b>659,889</b>   |
| Deposits by banks                        | (245,047)            | -              | -                 | -              | -                    | -                       | (245,047)        |
| Other liabilities                        | -                    | -              | -                 | -              | -                    | (3,205)                 | (3,205)          |
| Share capital                            | -                    | -              | -                 | -              | -                    | (353,423)               | (353,423)        |
| Reserves                                 | -                    | -              | -                 | -              | -                    | (58,214)                | (58,214)         |
| <b>Total liabilities and<br/>equity</b>  | <b>(245,047)</b>     | <b>-</b>       | <b>-</b>          | <b>-</b>       | <b>-</b>             | <b>(414,842)</b>        | <b>(659,889)</b> |
| Off balance sheet items                  | -                    | -              | -                 | -              | -                    | -                       | -                |
| <b>Interest rate sensitivity<br/>gap</b> | <b>300,511</b>       | <b>3,076</b>   | <b>10,624</b>     | <b>86,956</b>  | <b>15,462</b>        | <b>(416,629)</b>        | <b>-</b>         |
| <b>Cumulative gap</b>                    | <b>300,511</b>       | <b>303,587</b> | <b>314,211</b>    | <b>401,167</b> | <b>416,629</b>       | <b>-</b>                | <b>-</b>         |

# TD Bank Europe Limited

## Notes to the financial statements for the year ended 31 October 2004 (continued)

### 20 Risk Management (continued)

#### Interest rate risk

|  | Less than 3<br>month | 3 to 6 months  | 6 to 12<br>months | 1 to 5 years   | More than 5<br>years | Non-interest<br>bearing | Total            |
|--|----------------------|----------------|-------------------|----------------|----------------------|-------------------------|------------------|
|  | £000                 | £000           | £000              | £000           | £000                 | £000                    | £000             |
| <b>At 31 October 2003</b>                |                      |                |                   |                |                      |                         |                  |
| Loans to banks                           | 405,683              | -              | -                 | -              | -                    | -                       | 405,683          |
| Loans to customers                       | 5,279                | -              | 48,827            | 161,006        | 70,244               | -                       | 285,356          |
| General loan loss<br>provision (note 9)  | -                    | -              | -                 | -              | -                    | (25,363)                | (25,363)         |
| Other debtors                            | -                    | -              | -                 | -              | -                    | 21,920                  | 21,920           |
| <b>Total Assets</b>                      | <b>410,962</b>       | <b>-</b>       | <b>48,827</b>     | <b>161,006</b> | <b>70,244</b>        | <b>(3,443)</b>          | <b>687,596</b>   |
| Deposits by banks                        | (293,000)            | -              | -                 | -              | -                    | -                       | (293,000)        |
| Other liabilities                        | -                    | -              | -                 | -              | -                    | (6,547)                 | (6,547)          |
| Share capital                            | -                    | -              | -                 | -              | -                    | (357,880)               | (357,880)        |
| Reserves                                 | -                    | -              | -                 | -              | -                    | (30,169)                | (30,169)         |
| <b>Total liabilities and<br/>equity</b>  | <b>(293,000)</b>     | <b>-</b>       | <b>-</b>          | <b>-</b>       | <b>-</b>             | <b>(394,596)</b>        | <b>(687,596)</b> |
| Off balance sheet items                  | -                    | -              | -                 | -              | -                    | -                       | -                |
| <b>Interest rate sensitivity<br/>gap</b> | <b>117,962</b>       | <b>-</b>       | <b>48,827</b>     | <b>161,006</b> | <b>70,244</b>        | <b>(398,039)</b>        | <b>-</b>         |
| <b>Cumulative gap</b>                    | <b>117,962</b>       | <b>117,962</b> | <b>166,789</b>    | <b>327,795</b> | <b>398,039</b>       | <b>-</b>                | <b>-</b>         |

## TD Bank Europe Limited

### Notes to the financial statements for the year ended 31 October 2004 (continued)

#### 20 Risk Management (continued)

##### Liquidity Risk

The company's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the company and to enable the company to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets and through management control of the growth of the business. The maturity profile of the company's assets and liabilities, based on contract maturity date or earliest available date on which repayment can be demanded where relevant is as shown below:

|                                | Less than 3<br>month | 3 to 6 months | 6 to 12<br>months | 1 to 5 years  | More than 5<br>years | Non-interest<br>bearing | Total            |
|--------------------------------|----------------------|---------------|-------------------|---------------|----------------------|-------------------------|------------------|
|                                | £000                 | £000          | £000              | £000          | £000                 | £000                    | £000             |
| <b>At 31 October 2004</b>      |                      |               |                   |               |                      |                         |                  |
| Loans to banks                 | 545,558              | -             | -                 | -             | -                    | -                       | 545,558          |
| Loans to customers             | -                    | 3,076         | 4,698             | 86,956        | 15,462               | -                       | 110,192          |
| General loan loss<br>provision | -                    | -             | -                 | -             | -                    | (4,767)                 | (4,767)          |
| Other debtors                  | -                    | -             | 5,926             | -             | -                    | 2,980                   | 8,906            |
| <b>Total Assets</b>            | <b>545,558</b>       | <b>3,076</b>  | <b>10,624</b>     | <b>86,956</b> | <b>15,462</b>        | <b>(1,787)</b>          | <b>659,889</b>   |
| Deposits by banks              | (245,047)            | -             | -                 | -             | -                    | -                       | (245,047)        |
| Other liabilities              | -                    | -             | -                 | -             | -                    | (3,205)                 | (3,205)          |
| <b>Total liabilities</b>       | <b>(245,047)</b>     | <b>-</b>      | <b>-</b>          | <b>-</b>      | <b>-</b>             | <b>(3,205)</b>          | <b>(248,252)</b> |
| <b>Liquidity gap at</b>        |                      |               |                   |               |                      |                         |                  |
| <b>31 October 2004</b>         | <b>300,511</b>       | <b>3,076</b>  | <b>10,624</b>     | <b>86,956</b> | <b>15,462</b>        | <b>(4,992)</b>          | <b>411,637</b>   |



# TD Bank Europe Limited

## Notes to the financial statements for the year ended 31 October 2004 (continued)

### 20 Risk Management (continued)

#### Liquidity Risk

|                                | Less than 3<br>month | 3 to 6 months | 6 to 12<br>months | 1 to 5 years   | More than 5<br>years | Non-interest<br>bearing | Total            |
|--------------------------------|----------------------|---------------|-------------------|----------------|----------------------|-------------------------|------------------|
|                                | £000                 | £000          | £000              | £000           | £000                 | £000                    | £000             |
| <b>At 31 October 2003</b>      |                      |               |                   |                |                      |                         |                  |
| Loans to banks                 | 405,683              | -             | -                 | -              | -                    | -                       | 405,683          |
| Loans to customers             | 5,279                | -             | 48,827            | 161,006        | 70,244               | -                       | 285,356          |
| General loan loss<br>provision | -                    | -             | -                 | -              | -                    | (25,363)                | (25,363)         |
| Other debtors                  | -                    | -             | -                 | -              | -                    | 21,920                  | 21,920           |
| <b>Total Assets</b>            | <b>410,962</b>       | <b>-</b>      | <b>48,827</b>     | <b>161,006</b> | <b>70,244</b>        | <b>(3,443)</b>          | <b>687,596</b>   |
| Deposits by banks              | (293,000)            | -             | -                 | -              | -                    | -                       | (293,000)        |
| Other liabilities              | -                    | -             | -                 | -              | -                    | (6,547)                 | (6,547)          |
| <b>Total liabilities</b>       | <b>(293,000)</b>     | <b>-</b>      | <b>-</b>          | <b>-</b>       | <b>-</b>             | <b>(6,547)</b>          | <b>(299,547)</b> |
| <b>Liquidity gap at</b>        |                      |               |                   |                |                      |                         |                  |
| <b>31 October 2003</b>         | <b>117,962</b>       | <b>-</b>      | <b>48,827</b>     | <b>161,006</b> | <b>70,244</b>        | <b>(9,990)</b>          | <b>388,049</b>   |

#### Currency rate risk

The company's position with respect to foreign currency denominated assets, liabilities and share capital is broadly matched:

|                        | Denominated in<br>GBP | Denominated in<br>USD | Denominated in<br>EUR | Denominated in<br>other currencies | Total     |
|------------------------|-----------------------|-----------------------|-----------------------|------------------------------------|-----------|
|                        | £000                  | £000                  | £000                  | £000                               | £000      |
| Assets                 | 456,439               | 48,269                | 148,436               | 6,745                              | 659,889   |
| Liabilities and Equity | (403,846)             | (100,868)             | (148,430)             | (6,745)                            | (659,889) |
| <b>31 October 2004</b> | <b>52,593</b>         | <b>(52,599)</b>       | <b>6</b>              | <b>-</b>                           | <b>-</b>  |
| <b>31 October 2003</b> | <b>6,337</b>          | <b>32,601</b>         | <b>(45,513)</b>       | <b>6,575</b>                       | <b>-</b>  |

## **TD Bank Europe Limited**

### **Notes to the financial statements for the year ended 31 October 2004 (continued)**

#### **20 Risk Management (continued)**

##### **Credit risk**

The company's exposure to credit risk, excluding the value of collateral, is generally reflected in the carrying amounts of financial assets on the balance sheet.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The company uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approval, risk control limits and monitoring procedures.

#### **21 Financial Instruments**

##### **Fair value of financial assets and financial liabilities**

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity.

The fair value of a financial instrument is the amount at which it could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale and excludes accrued interest. Where available, market values are used to determine fair values. Where market values are not available, fair values are calculated for other financial instruments by discounting and converting cash flows at prevailing interest and exchange rates.

Management considers that it is inappropriate to estimate the fair value of loans and advances to customers, because they are not listed or publicly traded nor is there a liquid and active market for them.

Fair value of other financial assets and liabilities, excluding the assets described above, are considered to approximate their respective carrying values due to their short-term nature.

##### **Derivative financial instruments**

The principal derivatives used in balance sheet risk management are interest rate swaps which are used to hedge interest rate mismatches between assets and liabilities. The company only enters derivative contracts for the purposes of mitigating interest rate and foreign exchange risk. Derivatives are not used in trading activity or for speculative purposes and all derivatives are therefore designated as hedging instruments. These hedges are accounted for on an accrual basis, in line with the underlying instruments being hedged. Any gains or losses that would occur if these instruments were carried at market value are therefore not recognised. All of the company's derivatives activity during the year was contracted with its ultimate parent, The Toronto-Dominion Bank.

# TD Bank Europe Limited

## Notes to the financial statements for the year ended 31 October 2004 (continued)

### 21 Financial Instruments (continued)

#### Fair value of derivative financial instruments

The table below analyses the derivatives used to manage interest rate risk by type of contract and maturity and shows the nominal principal amount, credit risk weighted amount and replacement cost of contracts.

Nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date and reflects the company's exposure at that date should the counterparties default. The credit risk weighted amount, which is calculated according to guidelines specified by the Financial Services Authority, is based on the replacement cost, but also takes into account measures of the extent of potential future exposure and the nature of the counterparty.

|                         | 2004               |                                   |                     | 2003               |                                   |                     |
|-------------------------|--------------------|-----------------------------------|---------------------|--------------------|-----------------------------------|---------------------|
|                         | Notional<br>amount | Credit risk<br>weighted<br>amount | Replacement<br>cost | Notional<br>amount | Credit risk<br>weighted<br>amount | Replacement<br>cost |
|                         | £000               | £000                              | £000                | £000               | £000                              | £000                |
| Interest rate swaps:    |                    |                                   |                     |                    |                                   |                     |
| - less than 1 year      | -                  | -                                 | -                   | -                  | -                                 | -                   |
| - between 1 and 5 years | -                  | -                                 | -                   | -                  | -                                 | -                   |
| - over 5 years          | 3,291              | 10                                | -                   | 5,893              | 13                                | -                   |
|                         | <u>3,291</u>       | <u>10</u>                         | <u>-</u>            | <u>5,893</u>       | <u>13</u>                         | <u>-</u>            |

Fair values have been calculated for other financial instruments by discounting cash flows at prevailing interest and exchange rates:

The carrying amount of the Interest Rate Swaps and their fair value was:

|   | 2004       |            | 2003       |            |
|---|------------|------------|------------|------------|
|   | Book value | Fair value | Book value | Fair value |
|   | £000       | £000       | £000       | £000       |
| Assets/ (liabilities) : Interest rate swaps |            |            |            |            |
| 31 October                                  | (49)       | (299)      | (75)       | (456)      |

## TD Bank Europe Limited

### Notes to the financial statements for the year ended 31 October 2004 (continued)

#### 21 Financial Instruments (continued)

##### Fair value of derivative financial instruments (continued)

All derivative contracts were entered into as hedging transactions supporting the non-trading banking book. Movements in the amount of unrecognised gains and losses on hedging instruments were as follows:

|  | 2004                  |                        | 2003                  |                        |
|--|-----------------------|------------------------|-----------------------|------------------------|
|  | Unrecognised<br>gains | Unrecognised<br>losses | Unrecognised<br>gains | Unrecognised<br>losses |
|  | £000                  | £000                   | £000                  | £000                   |
| Balance at beginning of year                           | -                     | (456)                  | 26                    | (2,423)                |
| Gains and losses not recognised in the<br>current year | -                     | 157                    | (26)                  | 1,967                  |
| Balance at end of year                                 | -                     | (299)                  | -                     | (456)                  |

#### 22 Parent Undertaking

The immediate parent company and the parent company of the smallest group of which the company forms part is Toronto Dominion Investments BV, which is incorporated in the Netherlands. Copies of the group accounts may be obtained from: Atrium Gebouw, Strawinskylaan 3025, 1077 ZX, Amsterdam, The Netherlands.

The company's ultimate parent company, controlling party and the parent of the largest group to consolidate the financial statements of the company is The Toronto-Dominion Bank, which is incorporated in Canada. Copies of The Toronto-Dominion Bank's group accounts may be obtained from: Finance Control Division, The Toronto Dominion Bank, PO Box 1, Toronto-Dominion Centre, King St. W and Bay St., Toronto, Ontario M5K 1A2, Canada.