TD BANK INTERNATIONAL S.A.

Pillar 3 Disclosures
Year Ended October 31, 2016

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1. Overview

Purpose

The purpose of the Pillar 3 disclosure report is to provide information on the implementation at TD Bank International S.A. ("the Bank" or TDBI) of the Basel III framework and risk assessment processes in accordance with the Pillar 3 requirements as described within part XIX "disclosure by credit institutions" of the Commission de Surveillance du Secteur Financier ("CSSF") circular 06/273 as amended, and Circular CSSF 15/618 transposing EBA guidelines on "Pillar 3 disclosures". In addition, it follows to meet the regulatory disclosure requirements as laid down in Part Eight of the "Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms" (Capital Requirements Regulation, or "CRR") and the "Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms" (Capital Requirements Directive 4, or "CRD IV").

The Bank also decided to apply for some material items disclosures in line with EBA Guidelines (on regulatory disclosure requirements following an update of the Pillar 3 requirements by the Basel Committee in January 2015) published on 14 of December 2016, in order to provide further useful information on the capital and risk profile of the Bank.

With effect from 1 January 2014, the reforms of the accord by the Basel III were implemented in the EU legal framework through two EU legislative acts: the CRR and CRD IV. Their aim is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks' transparency and disclosures. The Basel III framework introduced higher minimum capital requirements, conservation and countercyclical buffers, revised risk-based capital measures, a leverage ratio and new provisions on liquidity risk management to strengthen the resilience of the banking sector.

The disclosures in this document complement the work already undertaken by the bank in their assessment of capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP). The Basel framework established a more risk sensitive approach to capital management and is comprised of three pillars:

- **Pillar 1**: Defines the rules and regulations for calculating risk-weighted assets and regulatory minimum capital requirements for Credit, Market and Operational Risks.

- **Pillar 2**: Addresses a banking organization's internal processes for assessing its overall capital adequacy in relation to its risks, the process that is also referred to as the Internal Capital Adequacy Assessment Process (ICAAP). Pillar 2 requires CSSF to undertake a supervisory review to assess the robustness of TDBI's internal assessment.

- **Pillar 3**: Designed to promote market discipline by providing market participants with key information on a banking organisation's risk exposure and risk management processes through a set of minimum disclosure requirements. Expanded disclosure about capital and risk enables interested parties to better understand the risk profile of individual banks and to make comparisons. Pillar 3 requires all material risks to be disclosed, enabling a comprehensive view of a bank's risk profile.

TDBI is authorized and regulated by the CSSF and as such is subject to minimum regulatory capital requirements. The Bank is a leading international online brokerage and banking service firm. As a regulated company, TDBI is required to disclose certain aspects of regulatory information and certain details of internal processes relating to the structure and operations in place to measure and report risks. As part of this disclosure, details of the capital structure and regulatory capital requirements are required. The disclosures are to be published so they are readily available for any party interested in doing business with the regulated entity and are to be verified as a formal document of the Company.

Frequency and Location

The Bank publishes the Pillar 3 disclosure report on an annual basis, or more frequently if required by significant changes in the business model. TDBI has an accounting reference date of 31 October. The date of publication of the report is around the date of publication of the Annual Accounts.

The report will be published on the TDBI's website, int.tddirectinvesting.com and will not be subject to external audit, except to the extent that any disclosures are equivalent to those made in the annual accounts. Per regulation it is not required to have Pillar 3 disclosures audited.

The Pillar 3 disclosures have been prepared purely for explanation of the basis on which TDBI has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose.

Significant events

During the year, the Banks' Authorised Management was informed of the intention of the current shareholder TD Bank (TDBG) to divest of its 100% ownership interest in the Bank. At the same time, TDBG also signalled intent to divest ownership of the TD Direct Investing UK business (TDDI), the Bank's sister company in the UK, that provides TDBI with critical brokerage operations based on an intra-group operational outsourcing agreement approved by CSSF.

In August 2016, TDBG signed a Share Purchase Agreement with Interactive Investors PLC to purchase 100% of the share capital of the Bank from TDBG. The deal also includes the purchase of TD Direct Investing UK. Both transactions are subject to regulatory approval, by the CSSF/ECB in Luxembourg and the FCA in the UK.

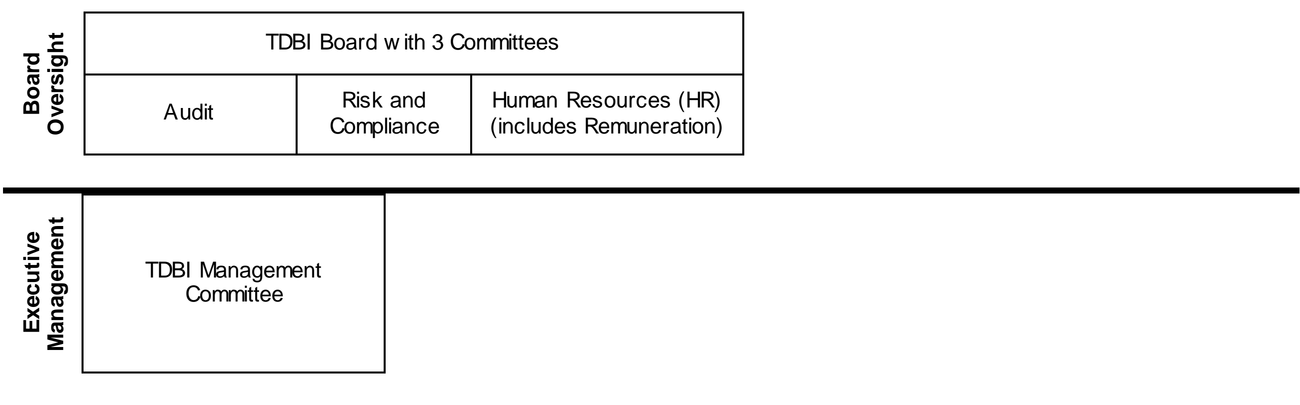
Interactive Investors PLC is an established and significant UK regulated investment firm and execution only retail brokerage business. It offers a complete suite of services and products that investors can use to research, learn about and trade markets. Interactive Investor provides customers with execution only share, fund, gilt and bond trading, and a white labelled solution for UK derivatives trading.

2. Governance and Risk Management Framework

2.1 Governance Framework

TDBI's risk management process and associated governance structure are designed to ensure that there is an effective process and a clear organizational structure with well defined responsibilities to identify, manage and monitor risk.

The robust governance structure separates oversight and management as shown below:



Executive Oversight	TDBI Risk & Compliance Committee	TDBI Commercial Committee	TDBI Asset & Liability Management Committee

Board oversight:
Each Business Area is responsible for managing the risks within its operations, which includes identification, control, mitigating actions and reporting. The Board of Directors has the ultimate responsibility for limiting and monitoring the Bank's risk exposure as well as for setting targets for the capital ratios and risk appetite.

The Board's central role is to create and deliver value by effectively governing the TDBI's business, while meeting the interests of shareholders and other stakeholders through transparent reporting and active engagement. Risk is measured and reported according to common principles and policies approved by the Board of Directors, which also decides on policies for credit risk, counterparty credit risk, liquidity risk and operational risk management as well as the ICAAP.

Risk and Compliance Committee
The Board of TDBI has established a Risk and Compliance Committee. The Risk and Compliance Committee assists the Board in fulfilling their oversight responsibilities with regard to the management of the Bank's risks and the quality of the internal control environment, the risk management and compliance framework and the governance structure that supports it. Specific responsibilities include advising the Board on the overall risk appetite, tolerance and strategy, reviewing the risk profile against the risk appetite, as well as any exceptions to the risk appetite metrics, as reported by senior management and reviewing the effectiveness of Risk Management as appropriate.

Audit Committee
The Board of TDBI has established an Audit Committee. The Audit Committee assists the Board in their oversight responsibilities relating to financial matters, including corporate reporting, risk management and internal control. The Audit Committee is responsible for the oversight of the quality and integrity of accounting and reporting practices, and the performance of the Bank's internal audit function and independent external auditors.

HR Committee
The Human Resources Committee assists the Board in fulfilling its corporate governance and oversight responsibilities relating to the remuneration practices of the Bank. It ensures that compensation processes are aligned with the business and compensation strategy, that it appropriately rewards senior officers for their contribution to the Bank, that the business is compliant with regulatory expectations and best practice and that the Bank is able to attract, retain and motivate high performing individuals to create sustainable value.

Executive Management:
The Executive Management level is the stage at which decisions are made in respect of how the Bank operates, by translating into decisions and process organization the policies and strategies as set forth by the Board of Directors. It is supported by the Management Committee, a forum for review, discussion and guidance in relation to strategic goals and the strategies to implement.

The Management Committee is required also to strengthen the risk culture within the Bank and embeds all aspects of the Risk Appetite Statement having regard for the need to improve internal control and minimise risk within the business.

Executive oversight:
The Executive Oversight level is the stage at which risks in respect of decisions made by the Executives and risks with current business practice and strategies are considered and assessed. This will influence the decisions made by the Executives if necessary.

Risk & Compliance Committee (RCC) is a forum for review, discussion and guidance on the principal risks and compliance issues facing the business, the extent of financial, regulatory and reputational exposure and

the direction of those risks/regulatory issues. The RCC is required to have regard to the Board's attitude to risk in carrying out its proceedings.

Commercial Committee is a forum for review, discussion and guidance in relation to the commercial strategy and the products offered.

Asset & Liability Management Committee (ALCO)
The ALCO serves as a key governance vehicle to assess the economic and financial environment, reviews and recommends on the Bank Investment portfolio strategy in line with all relevant policies and verifies and confirms adherence to all required counterparty and prudential limits.

2.2 Risk Management Framework

The Bank operates under TDBI's Enterprise Risk Framework Policy (which adheres to all TD Banking Group (TDBG) Risk Management Policies) and the Board of Directors has developed and approved a Risk Appetite statement for the Bank, which follows an annual review. Key risk metrics (assigned with internal limits) are mapped to the Risk Appetite Core Objectives that the Executive team believes are fundamental to delivering TDBI's strategy. The Risk Appetite statement has been communicated to all employees and any changes follow appropriate Board approval.

TDBI's operating model differentiates accountabilities using a 'three lines of defense' approach as follows:
- First line: Businesses (Owners of Risks and Controls)
- Second line: Risk and Control Functions (who provide oversight and challenges)
- Third line: Audit (who provide independent assurance).

The risk management strategy of TDBI is to develop and implement effective processes to identify, report, assess, measure and manage risks incurred by the Bank, and to comply with applicable regulatory requirements and internal guidelines associated with risk management, within the risk appetite defined by the Board of Directors. TDBI has implemented and continues to develop an appropriate risk management program, alongside with maintaining a level of capital proportionate to the risks it is exposed to. Key areas of focus are:

- Identification and effective management of all types of risks the Bank is exposed to;
- Strong governance;
- Use of key risk and business performance indicators to monitor levels of risk;
- Monitoring the implementation of significant changes in the Bank through an established change process;
- A culture of ethical conduct, accountability, risk awareness and transparency that extends across the Bank and all its activities enabling effective escalation and decision making;
- Full compliance with applicable laws, regulations and policies.

Risk appetite within TDBI is defined as the level and nature of risk that the Bank is prepared to accept in meeting its core objectives before action is deemed necessary. TDBI's risk appetite framework sets out the risk appetite, risk tolerance and risk capacity in relation to the key risk areas for the Bank. The status of the Core Objectives is now driven by both quantitative and qualitative factors and corrective actions are set up if the tolerance or capacity level is reached.

Tracking of loss history and trends provides information that is important to on-going risk assessment and applicability. Mitigating internal controls operate and, where risk exposures trend above tolerance levels, appropriate mitigating actions are put in place to reduce the exposure, and actions are tracked to completion.

Risk Guidelines prescribe that reporting of risk shall be generated with the appropriate frequency and level of detail to facilitate its effective management by Senior Management. Key risk and performance indicators are used to monitor exposure to the risks the Bank is facing. These indicators are used to establish TDBI's actual risk profile and are intended to trigger a management response when indicator threshold breaches are noted.

3. Capital

3.1 Capital Management

Capital management and adequacy in TDBI is performed in an integrated way, seeking to guarantee the Bank's solvency and fulfillment of regulatory requirements as detailed in the CRR and CRD IV. It is determined by the strategic objectives and by the risk appetite set by the Board of Directors.

The Bank establishes higher Capital Targets (Limits and Thresholds) in order to mitigate the risk of breaching Minimum Capital Requirements. Capital Targets are aligned with TDBG's risk profile, capital objectives and capital adequacy risk appetite.

Capital Targets are intended to ensure the Bank remains adequately capitalized under prolonged economic stress conditions. Thresholds function as an early indicator of serious capital adequacy risk. In limited circumstances and for short durations, the Bank could operate below the Capital Thresholds. Capital Limits act as outer boundaries that determine the stage at which the Bank must assess whether it is still within its risk appetite. The capital position and solvency ratio are frequently reported to the Board of Directors and on a monthly basis to the local Management Committee and to the local Risk and Compliance Committee.

3.2 Own Funds

Table 1 Own Funds and capital ratios as at 31 October 2016

Own funds and capital ratios	**31.10.2016 € '000[1] '000**	**31.10.2015 €**
Own funds		
Common Equity Tier 1 (CET1)	19,713	23,070
Tier 1 capital	19,713	23,070
Total capital	19,713	23,070
Risk-weighted assets		
Credit and counterparty risks	108,658	101,995
Market risk	627	1,329
Operational risks	16,147	18,081
Total risk-weighted assets	**125,432**	**121,406**
% Capital ratios		
Common Equity Tier 1 capital ratio	15.72%	19.00%
Tier 1 capital ratio	15.72%	19.00%
Total capital ratio	15.72%	19.00%

The solvency ratio noted a decrease as compared to last year, mainly due to the decision taken by the Authorised Management to write-down Bank's Intangible and Tangible assets in consideration of the long term impairment attributed to those assets in light of market and technology changes and the cost of the full FGDL provision for the years 2017 and 2018.

The Bank is fully financed by share capital with 29,000 ordinary shares having been issued.
Share capital is 100% owned by Toronto-Dominion Bank Group (TDBG), a Canadian company listed on the Toronto Stock Exchange (TSX).

The total capital of the Bank consists entirely of Tier 1 capital. There are no Tier 2 deductions. See below the situation of total capital as of October 31, 2016:

[1] 2016 regulatory own funds have been computed on a LuxGaap basis and not on IFRS basis as in 2015. Indeed the Bank decided, as a prudent approach in this particular context of change of control and in accordance with its external auditors, EY, to consider the less favorable level of own funds as per LuxGaap for the computation of the CAD on October 31, 2016. The difference is EUR 727k due to FGDL provision for 2017 and 2018 already recognized under LuxGaap and not under Finrep. Finrep regulatory own funds are of EUR 20.44 MM as of October 31, 2016.

Table 2 Own funds disclosure

Own funds disclosure	31.10.2016
	€ '000
Original own funds	29,000
Reserves (including retained earnings)	-5,679
+ Profit / (Loss) for the year	-3,608
Total Tier 1 capital	**19,713**
Total capital	**19,713**

3.3 Leverage ratio

Under the Basel III prudential regulations, the Leverage ratio entered definitively into effect on 1 January 2015. The Leverage ratio measures the degree to which Tier 1 Capital covers the Bank's total exposure. The ratio is calculated by considering assets and off-balance sheet exposures (excluding assets held on behalf of customers). The objective of the indicator is to contain the degree of indebtedness on banks' accounts by establishing a minimum level of coverage of exposures with equity.

Although CRR/CRD IV does not impose a minimum ratio, the Basel Committee suggested a minimum ratio of 3%. The Bank performs the monitoring of this ratio monthly in order to take corrective actions if required. As of 31 October 2016, the Bank reports a leverage ratio equal to 4.31%.

Table 3: Leverage ratio

(€ 000's)	LR Exposure: Month-1-value	LR Exposure: Month-2-value	LR Exposure: Month-3-value
Exposure value	463,914	459,259	479,124
Tier 1 capital	20,862	19,775	19,713
Leverage ratio	4.50%	4.31%	4.11%
Regulatory leverage ratio		**4.31%**	

3.4 Capital requirements

The current regulatory framework for capital requirements is articulated around the below pillars:

- Pillar I sets the minimum capital requirement for credit, market and operational risk. The aim is to make the regulatory requirements more sensitive to the risks actually incurred by financial institutions in carrying out their business activities.
- Pillar II establishes a system of supervisory review, aimed at improving banks' internal risk management and capital adequacy self-assessment in line with their risk profile.

The Bank reviews the adequacy of its capital in detail through the Internal Capital Adequacy Assessment Process (ICAAP). This process requires the Bank to look in detail at the risks it faces and stresses the amount and quality of capital the Bank has against these risks. Should the Senior Management of the Bank determine that an increased amount of capital is required in order to meet perceived risks, then an additional capital requirement would be added. A stress testing program is also in place at the Bank level, mainly based on scenarios' analysis. Reverse stress tests are covered in the Recovery plan (run currently every 2 years in line with the proportionality principle for a simplified version).

Table 4: Total capital requirements and capital buffers

Capital Resource & Requirement	**31-Oct-16** **€ '000**
Total capital Resources	**19,713**
Credit Risk	8,693
Operational Risk	1,292
Market (FX) Risk	50
Capital Resource Requirement	**10,035**
Capital Adequacy Ratio % (includes the buffers; min 10.5%)	**15.72%**
Pillar 2 add-on Risks	1,425
Stress Test	4,038
Capital Adequacy Ratio % for ICAAP (min 8%)	**11.21%**
Capital Conservation Buffer	3,136
Countercyclical Capital Buffer	3

3.4.1 Capital Adequacy – Pillar 1

In the context of the capital adequacy regime, the Bank's reporting is based on the simplified ratio.
The Pillar 1 CET 1 minimum capital requirement applicable to the Bank is 4.50% of risk-weighted assets (RWA). The Pillar 1 total capital requirement of 8.00 % demands further resources that may be met with up to 1.50% Additional Tier 1 capital and up to 2.00% Tier 2 capital. Failure to meet minimum capital requirements can result in supervisory measures such as restrictions of profit distributions or limitations on certain businesses such as lending.

Pillar 1 Capital Adequacy Ratio is calculated as below and ensures Total capital resources is in excess of 8%:

$$\frac{\text{Total Capital Resources}}{\text{Capital Resource Requirement}} \times 8\%$$

Based on the above calculation (refer to table 4), the Bank complies with the regulatory capital adequacy requirements as of 31 October 2016.

Since 1 January 2014, TDBI is obliged to maintain a capital conservation buffer, which is equal to 2.50% of the total risk exposures. Conversely, the countercyclical capital buffer which is applicable from 1 January 2016 is set by the Luxembourg Regulator. At the date of preparation of this report the Regulator issued CSSF Regulation 16-15 concerning setting of countercyclical buffer rate for the first quarter of 2017 applicable to relevant exposures located in Luxembourg –still at 0%.

Even though the CCyB rate was set to zero in Luxembourg, by having exposures to other jurisdictions, the Bank computed its institution-specific CCyB rate as defined by CSSF Circular 15/625. The institution-specific CCyB rate consists of the weighted average of the CCyB rates that apply in the jurisdiction where the credit exposures are located, where the weights to be applied are the own funds requirements for the credit risk.

The below table discloses the amount of the institution's specific countercyclical buffer as of 31 October 2016, in the standard format as set out in Commission Delegated Regulation (EU) 2015/1555. The countries that imposed a countercyclical capital buffer rate as of 31 October 2016 were: Hong Kong, Sweden and Norway.

Table 5: Institution-specific countercyclical capital buffer

	31.10.2016 € '000
Total risk exposure amount	125,432
Institution specific countercyclical buffer rate	0.00228%
Institution specific countercyclical buffer requirement	**3**

Credit and counterparty risks

Credit risk represents our largest regulatory capital requirement.
The Bank incurs the following main credit risks: credit exposure from Lombard/margin Loans which are fully guaranteed by securities and cash and credit exposure towards third party banks (treasury placements). The Bank uses the standardised approach for credit risk and simple method for financial collateral when calculating the pillar 1 requirements.

Credit risk is applied to all assets: deposits with financial institutions (risk weight varies according to credit rating assigned by a nominated external credit assessment institution), Lombard loans to clients (risk weighted at 75%), to other balance sheet assets (risk weighted at 100%), and to off balance sheet clients' undrawn Lombard loans (risk weight at 75% x 50%, even if an initial weighting of 0% instead of 50% could be assigned as a low risk commitment due to revocability).

The Bank is not making use of any Credit Risk Mitigation technique for reducing its capital requirements to cover credit risk in the frame of its Capital Adequacy Ratio calculation. As noted above the full value of margin loans is subject to credit risk with no mitigation adopted for the collateral held by the Bank on behalf of the client. Regarding large exposures, the Bank is not currently facing any client exposure exceeding 10% of the Bank's own funds, except for money market placement. It has however to be mentioned that a vast majority of those money market placements are done intra-group. As credit risk exposure is also monitored on a Group consolidated level, under the supervision of the Canadian Supervisory Authority, TDBI has obtained from CSSF a waiver of the large risk exposure limit towards TD Group (TDBI being therefore allowed to place more than its own funds intra-group).

Table 6: Credit and counterparty risk capital requirements

	31.10.2016 € '000	
	RWAs	Capital required
Credit risk. Standardised approach		
Financial Institutions	84,960	6,797
Corporates	-	-
Retail Customers	9,662	773
Other exposures	14,036	1,123
Total credit risk	108,658	8,693

Lombard/margin loans

The capital allocated to retail customers and other exposures comprises mainly the Lombard loans to clients and the off-balance sheet commitments arising from them.

Since 2009, the Bank offers its eligible clients Lombard/margin loans which are fully collateralized by the assets in deposit with the Bank. The level of coverage required may vary depending on the type and quality of assets held by the client. Credit Risk Management regularly monitors the margins allocated, in line with TDBI and TDBG margin policy, which is reviewed and approved by the Board annually. Starting January

2016, TDBI margin policy was fully aligned to TD Global Margin Lending policy (TD Bank Group policy). Margin call positions are monitored daily by the bank and corrected on a timely basis.

The Bank generates a daily Margin Summary Report (MSR), sorted into margin calls greater than a threshold and by order of a Risk Ratio (high risk at the top). More specifically, the MSR compares the assets of the clients held as collateral against the client's debt levels. The report enables the Bank to identify clients who have a too high level of debt relative to the collateral assets, and accordingly, who represent an increased credit risk. Margin rates applied are reviewed and adjusted by Credit Risk Management of TD Bank (Canada).

Based on the information provided by the MSR, the Bank undertakes corrective actions for all accounts in a margin call position. These may include disposal of client assets in order to ensure appropriate levels of collateral are held, in case the client has not funded his account.

For liquidity purpose, the Bank secures that the total value of the drawn down loan book remains below the value of its own funds.

Counterparty credit risk
The capital allocated to financial institutions comprises mainly deposits with the Group but also with third party banks.

As the Bank has been granted a full intra-group exemption from the Regulator, the Board of Directors allowed TDBI to have full exemption of large exposure limit, meaning intra-group limit can be set up to 100% of TDBI placements (or customers 'deposits). The Bank made intra-group placements to approximately 56% as of 31 October 2016.

Monitoring of counterparty financial institutions
TDBI has a structured process in place to assess new and continuing banking counterparty relationships to hold both client and own funds. The Finance team manages this process, leveraging the expertise of TD Bank Credit Risk Management Group (CRM in Canada) for vendor/supplier counterparty risk assessment and new relationship approval. Annual ongoing financial strength due diligence on all banking relationships is carried out to ensure ongoing suitability and to meet the regulatory standards.

In addition to the daily control executed by TDBI, CRM controls monthly overall TD Group exposure to all banking counterparties, including country level exposure, therefore including TDBI exposures. While there is strong parental oversight of the deposit process, the placement process remains within the Treasury function of TDBI. CRM monitors daily the banking counterparty's credit rating, and no counterparty rated below BB for 1-year or BBB on overnight placement terms is accepted.

TDBI also invests a significant part of its funds with various high credit quality financial institutions that are not connected and geographically spread (including with the Luxembourg Central Bank). Therefore, the risk of loss due to the bankruptcy of any of its bank counterparties is considered low given this strong group wide counterparty risk assessment framework. TDBI is limited to placing funds with counterparties to the level of the Bank's own capital base to meet local regulations, or to limits defined by TDBG CRM (the lowest of both limits applying).

Asset encumbrance

TDBI is a deposit-led bank and hence the majority of its funding is from customer deposits payable on demand or at short notice. On the other hand, the Bank places the assets on short term deposits with financial institutions or the Group. Therefore, the Bank has a low level of encumbrance as of October 31, 2016 made up only of the mandatory reserve with the Central Bank amounting to EUR 3.9 million.

Operational Risk

The Basic Indicator Approach is utilised to calculate operational risk.

Monitoring is performed through an annual Risk and Control Self-Assessment (RCSA) review which identifies the material risks to which the Bank is exposed and through monthly risks events reporting.

Market Risk

Market risk covers the risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates. The Bank's overall net currency position is above the 2% threshold of Total capital resources as defined in the CSSF Circular 06/273[2] and thus 50.13 € thousands are to be allocated to cover foreign exchange risk as at 31 October 2016.

Market risk for the Bank comprises foreign exchange risk. The Bank does not engage into transactions with market risk exposures for its own account. The Bank performs foreign exchange transactions in order to close out any position initiated on behalf of clients. Funding of client transactions is generally done in the currency requested by the clients. No foreign exchange position should therefore be created by client equity trading. However, some open positions could appear mainly following interests, commissions and corporate actions. Opened forex positions, if any, are reviewed daily and closed once a certain limit, defined as per internal risk management policy, is reached.

The Bank has only invested in money market deposits of up to 1 year terms and therefore the sensitivity to interest rate changes is minor. In addition, the Bank does not hold any own portfolio being neither for placing nor for trading.

Liquidity risk

TDBI has a global liquidity policy which governs liquidity management practices and establishes the limits and minimum requirements for the management of liquidity risk conducted by the Bank. It follows annual approval by the Board of Directors.

The Bank has defined a series of granular risk appetite statements dealing with treasury placements and liquidity. These are as follows:

Risk class	Quantitative measure	Responsibility
Liquidity risk	Cash flow projections satisfy near term liquid funding requirements	Finance
Maintenance of adequate liquidity	Maintain no less than 10% to 15% of liquid funds	Finance
Treasury risk	Placements within TD approved limits	Board/Finance

The Finance department is responsible for the Bank's liquidity management according to the rules described in the Bank's Liquidity Policy and Investment policy. The Financial Controller performs the treasury management on a daily basis enabling the Bank to monitor its funding obligations and to avoid any liquidity shortages. The global Asset and Liability policy is defined by the Board of Directors but implemented and supervised by the Authorised Management.

The Bank's cash is managed in a conservative manner with at least 10% of the total cash kept on overnight Deposit. The key regulatory requirement is the large exposure rule where the Bank cannot place more than 100% of its own funds with any Financial Institution. The Bank was granted an intragroup exemption that allows it to place up to 100% of its funds with a TD Banking Group entity. The placement at intragroup is treated as overnight placement for GBP and CHF, while the EUR, USD, and CAD are on-demand. The concentration of intragroup placements with TD Bank NV as at 31 October 2016 was 56%. The remaining placements are split between several banks in order to mitigate risk. Operational funds are kept with BGL BNP Paribas and ING BE. TD Credit Risk Management Group approves all banking counterparties and limits. The Bank can only make placing with a maximum maturity of less than a yeardeposits as placement type. All interbank placings are callable at any time in case of liquidity stress situation.

[2] CSSF Circular 06/273 (as amended by Circulars CSSF 07/317, CSSF 10/450, CSSF 10/475, CSSF 10/496, CSSF 11/501 and CSSF 13/568; version applicable as from 31.12.2011)

Part of the Bank's available liquidity is lent to eligible clients of the Bank as Lombard credits/Margin loans. Those loans are secured by the clients' securities portfolio deposited with the Bank. The balance of Lombard loans as of 31 October 2016 amounts to EUR 12.50 million, which is well below the Bank's own funds therefore securing the Bank can always cover any liquidity stress situation.

The Bank only faces a limited foreign exchange risk as it hedges its currency positions every day once a maximum threshold has been reached. Management is immediately informed of any major change in the liquidity position of the Bank.

Liquidity ratios

The new regulatory framework defined by the CRD IV introduces new liquidity requirements aiming at strengthening the short-term liquidity profile (LCR) and the long-term liquidity profile (NSFR) of the financial institutions.

Liquidity Coverage Ratio

Since 01 January 2014, CRR/CRD IV framework transposing Basel III requirements into the European legislation has come into force. In line with this new regime, the Bank calculates the LCR ratio, allowing it to cover potential stressed situations wherein the Bank would suffer from abnormal deposit outflows.

Specifically, the LCR was introduced as planned on 1 January 2015, having the minimum requirement set at 60% and rise in equal annual steps to reach 100% on 1 January 2019. This graduated approach, was designed to ensure that the LCR can be introduced without material disruption to the orderly strengthening of banking systems or the ongoing financing of economic activity.

The liquidity ratio of the Bank is monitored on a monthly basis by the Financial Controller. The nature of the Bank's transactions exposes liquidity risk on its ability to settle transactions with its clients and its service provider on a daily basis. In this respect, the Bank monitors on a daily basis the funding of its transactions. This is achieved through the daily control of the actual deposits, per currency, held with TDDI and the forecasted movements based on the deals placed by the customers and other expected corporate actions. In case of breach of the upper/lower limits of amounts held with TDDI, Finance department initiates the necessary transfer in/out.

The remaining liquidity risk comes from the fact that customers' deposits are to be considered as available "on demand", while some of the placing are on term deposits. The Bank maintains in permanence a significant part of its placing on short term (please refer to description above for additional information).

The Liquidity Coverage Ratio on 31/10/2016 was computed as follows:

(€ 000's)	***31.10.2016***
Total inflows [A]	*287,499*
Outflows [B]	*73,568*
Total net outflows = *[B] – min ([A];0.75x[B])*	**18,392**
HQLA	**47,219**
LCR =HQLA **/ Total net outflows**	**256.74%**

Net Stable Funding Ratio

The purpose of the net stable funding ratio ("NSFR") is to ensure that banks hold a minimum amount of stable funding based on the liquidity characteristics of their assets and activities over a one-year horizon. The objective is to reduce maturity mismatches between the asset and liability items on the balance sheet and thereby reduce funding risks.

The NSFR will be introduced from January 2018 with an obligation to report a higher ratio than or equal to 100%. As of 31 October 2016, the NSFR ratio is estimated at 1,991% (see table below), which is well above regulatory requirements.

(€ 000's)	***31.10.2016***
Available amount of stable funding [A]	335,707
Required amount of stable funding [B]	16,859
NSFR = *[A] / [B]*	**1,991%**

3.4.2 Capital Adequacy – Pillar 2

TDBI bases its internal capital requirements under the ICAAP on risks defined by the CSSF Circular 07/301 and risks internally defined in the Departmental risk registers (under Pillar 2), which follow the TDBI Enterprise Risk Management Framework. The Bank has adopted a "Pillar 1 plus" approach to determine its capital requirements. A bottom-up and top-down methodology is used to quantify and validate the adequacy of the Bank's Pillar 1 and Pillar 2 capital add-on requirements and to ensure completeness and comprehensiveness.

The bottom-up approach entitles the completion of Departmental risk registers based on all risks relevant to the business. Significant risks are then quantified using actual internal loss experiences and management's judgment. The risk controls, systems, policies and procedures of the Bank are factored into the quantification to determine the probability of occurrence and net impact on the Bank's capital.

A top-down (scenario analysis) approach validates the Pillar 1 and Pillar 2 capital assessment conclusions. All these risks are assessed through the ICAAP. The Board reviews and approves the ICAAP on an annual basis, or when there are any major changes to the business strategy and risk profile. The Board uses the ICAAP as part of its business planning and capital management.

The risks included in the Pillar 2 add-on and their capital requirements based on relevant scenarios are detailed below:

CSSF Risk Category	Pillar 2 Capital Requirements (in EUR)
Operational Risk	369,689
Credit and counterparty Risk	985,667
Liquidity Risk *	0
Concentration Risk**	0
Reputational Risk	162,484
Compliance Risk	150,000
Legal Risk	40,000
Business and strategic Risk	754,075
Macroeconomic/regulatory Risk	318,669
Total Pillar 2 add-on capital requirement (excluding credit risk and operational risk already included in pillar 1)	**1,425,228 €**

* ***Liquidity risk*** is considered as material; however capital is not the best mitigation for it. Liquidity needs close and recurrent monitoring and measurement to ensure liabilities are met when they fall due. Clear liquidity planning and management policies and procedures are in place to monitor this risk.

** ***Concentration Risk*** is captured by all scenarios used to quantify the risks above.

From the table above it can be noted that Business and strategic risk and Macroeconomic/regulatory risk are the categories to which TDBI is most exposed to, excluding the Operational and Credit and counterparty risks. It was noted that Pillar 1 imposes enough capital requirements to cover Credit risk and Operational risk. Therefore management decided to exclude them from the calculation of the Pillar 2 add-on.

Business and strategic Risk

Business risk is defined as the risk that the business will be materially altered or even rendered unviable trough a shock or other change.

The scenario considered for the pillar 2 capital requirements was of senior management decision to change the pricing model resulting in unfavorable result on revenue.

TDBI's management quantifies the internal capital requirement as the **Pillar 1 (which includes the buffers) + Higher of Pillar 2 add-on and Stress test**.

In addition to calculating risk capital for its various risk categories, TDBI conducts a comprehensive capital adequacy stress test to analyze the effects of a series of risks that will materialize within one year. As result, **the stress test total combined impact = 4,038,185€**

The internal capital requirement as at October 31, 2016, demonstrated the Bank is well capitalized. Management states that 2017 forecast strategy will bring the Bank to sustained profitability, thus increasing the Bank's capital.

4. Remuneration

4.1 Remuneration Governance and Policies

Oversight of remuneration at TD Bank Group (TD) globally is a key function of the Human Resources Committee (TD HRC) of the Board of Directors. Additional oversight of remuneration for TD Bank International S.A. is provided by the TD Bank International S.A. Human Resources Committee (TDBI HRC) whose mandate includes ensuring alignment with regulatory requirements in Luxembourg.

TD Bank Group Human Resources Committee

The TD HRC is the committee of the TD Bank Group Board of Directors that is responsible for overseeing TD's remuneration programs including remuneration (base salary and variable incentives including deferred remuneration), pension, benefits, and perquisites on a global basis. In addition, the TD HRC is responsible for overseeing talent management and succession planning for the senior-most executives of the bank, as well as for setting objectives and evaluating the performance of the Authorised Managers of the bank. The TD HRC meets at least five times a year or more frequently as circumstances dictate.

Committee Composition

In keeping with best practices, the TD HRC is composed entirely of independent directors who are knowledgeable about issues related to human resources, leadership, talent management, remuneration, governance and risk management. To assist in executing its responsibilities, the TD HRC hires an independent remuneration advisor who reports solely to the TD HRC and does not provide any services to management.

TDBI Human Resources Committee

The TDBI HRC is the committee of the Board of TDBI that has been authorized by the Board to play a critical role in the oversight of remuneration.

The TDBI HRC is responsible for overseeing remuneration policies and programs for employees of TDBI in Luxembourg and for ensuring alignment with the requirements of the applicable regulatory authority, including the promotion of effective risk management. As part of the oversight responsibilities, the TDBI HRC is responsible for: identifying Identified Staff; for reviewing and recommending to the Board of TDBI the individual remuneration packages for all Identified Staff; and, for reviewing and recommending to the Board of TDBI the aggregate incentive awards for all employees.

The TDBI HRC met five times in 2016.

Committee Composition

The TDBI HRC is composed of 2 non-executive directors of the business. No individual is involved in decisions relating to his or her own remuneration.

Advisors
The TDBI HRC may engage external advisors for independent advice and counsel.

Identified Staff

In identifying Identified Staff, all employees that could have a material impact on TDBI's risk profile are considered. The final list is determined by the TDBI HRC after assessing a number of factors.

The process for identifying Identified Staff incorporates the qualitative and quantitative criteria for identifying material risk takers, as published by the European Banking Authority (EBA) in June 2014.

At a minimum of annually, the TDBI HRC reviews and approves the individuals identified as Identified Staff, based on the criteria established by the Commission de Surveillance du Secteur Financier and the EBA.

4.2 Link between Remuneration and Performance

Remuneration is made up of fixed pay (i.e. salary), variable incentive pay (non-deferred and deferred incentives), and benefits. Fixed pay is typically aligned with the market for similar roles at similar sized companies.

All variable incentive pay is dependent on the achievement of financial and non-financial measures at the bank, segment, and individual level (additional details on the metrics in the different incentive plans is provided in the next section of this disclosure). All variable or incentive pay includes consideration of adherence to effective risk management at both the plan and individual level.

Under all incentive plans, the TD HRC and the TDBI HRC have the ability to reduce or cancel awards in the event of poor performance, significant risk related issues, or other unusual circumstances. To facilitate appropriate risk adjustments to incentive plans, the TD Chief Risk Officer presents an annual Enterprise Risk Appetite Scorecard to a joint session of the TD HRC and the Risk Committees of the TD Board of Directors. This process allows the TD HRC to appropriately consider risk when determining global incentive pools, and to ensure that remuneration is appropriately linked to the bank's risk-adjusted performance. The TDBI HRC is advised of the Risk Appetite Scorecard results for consideration when determining annual awards for TDBI. In addition, there is an annual process under which material risk and control events are identified and documented (with input from risk and control function heads, as appropriate) and then, based on the circumstances of the event, individual performance and remuneration impacts are considered. Results from the risk and control process are reviewed with the TDBI HRC.

Variable incentive is delivered in two parts – non-deferred incentives and deferred incentives. Generally, the more senior or more highly paid the employee, the greater the portion of remuneration that is delivered in deferred remuneration. Deferred incentives (share based) are used to align employees with shareholders over the long term, and the ultimate value realized is based on performance over time.

Deferred incentives are delivered through a number of different plans including a Restricted Share Unit Plan, a Performance Share Unit Plan, and a Stock Option Plan. These plans "cliff vest" (i.e., vest 100%) at the end of a minimum of three years. To ensure that remuneration is aligned with risks over the medium term, at maturity the share-unit based deferred plans (Restricted Share Units / Performance Share Units) are subject to a discretionary reduction to the value of outstanding awards in unusual circumstances prior to payout based on consideration of risk outcomes during the deferral period.

Design and structure of remuneration including criteria used for performance measurement, risk adjustment, deferral policy and vesting criteria

All Identified Staff receive a salary plus incentive. TD ensures that fixed remuneration is sufficient to maintain an appropriate balance between fixed and variable remuneration components.

Annual incentive awards for Identified Staff are delivered through the Executive Compensation Plan (ECP) or the Employee Incentive Plan (EIP).

Details regarding the criteria used for performance measurement, risk adjustment, the deferral policy and vesting criteria can be found in the TD Annual Management Proxy Circular found at the following site: https://www.td.com/document/PDF/investor/2016/E-Circular-2016.pdf

Executive Compensation Plan (ECP)

Under the ECP, each executive has an individual remuneration target. At year-end, the aggregate pool of funds available to award as incentive remuneration is equal to the sum of the individual targets multiplied by a business performance factor.

The key metrics used to determine the business performance factor include Net Income After Tax (NIAT) and Customer Experience results for the bank and for business segments as applicable. In addition, relative performance is evaluated against a peer group of companies on a series of measures that are determined by the TD HRC on an annual basis. The final business performance factor is subject to a discretionary risk adjustment that is approved by the TD HRC after considering performance against the bank's risk appetite.

To protect against conflict of interest, NIAT and Customer Experience results for executives in control functions are based on TD's enterprise performance, not on the performance of TDBI or TD Wealth Management. For all other executives (including for the Head of TDBI), results are based on TD and TD Wealth Management NIAT as well as TD Wealth Customer Experience results.

Individual awards are based on an evaluation of a number of factors including individual performance against objectives, leadership, future potential, and an evaluation against a standard set of accountabilities regarding risk and control behaviours. Individual awards can be higher or lower than their variable remuneration target multiplied by their applicable business performance factor (funds available). The sum of individual awards should not exceed the aggregate funds available under the plan on a global basis.

Employee Incentive Plan (EIP)

Annual incentive awards for TD employees in support and control functions are delivered through EIP. Under the plan, each individual has an incentive target which is multiplied by a business performance factor as well as an individual performance factor. The key metrics under the plan are similar to those of the Executive Compensation Plan and include NIAT and Customer Experience results for the bank and for business segments as applicable. The Employee Incentive Plan also includes a discretionary adjustment to account for risk or other factors.

To protect against conflict of interest, for employees in control functions, NIAT and Customer Experience results are based on TD performance, not on the performance of TDBI or TD Wealth Management. For all other employees, results are based on TD and TD Wealth Management NIAT as well as TD Wealth International Customer Experience results.

Individual awards are based on an evaluation of a number of factors including individual performance against objectives. Awards to individual employees may be higher or lower than their funds available (i.e., their variable remuneration target multiplied by their applicable business performance factor multiplied by their applicable individual performance multiplier). However, the sum of individual awards should not exceed the aggregate funds available under the plan.

Annually, the TDBI HRC reviews and approves the aggregate ECP and EIP awards, ensuring they are aligned with and support the performance of the business.

Remuneration Awarded to Identified Staff Employees

The following table summarises the total remuneration awarded to Identified Staff employed by TDBI in respect of the performance year ending October 31, 2016. Due to the size of the Identified Staff population, and data protection issues, we are not differentiating between Senior Managers and other Identified Staff.

Table 1 – Aggregate Remuneration

	Total
Number of Identified Staff[1]	4
2016 Remuneration *(in €mm)*[2]	0.58

Note

1. Reflects the number of Identified Staff employed by TDBI effective October 31, 2016.
2. Remuneration reflects annualized amounts paid to Identified Staff employed by TDBI, effective October 31, 2016.

5. Regulatory developments

Implementation of IFRS 9
Next steps:

- the integration into ECL measurement of forward-looking information and macro-economic factors
- the assessment of a significant increase in credit risk (which triggers the measurement of provisions on a 'lifetime' basis)
- the limited use of practical expedients/simplifications by banks

The regulator is also considering performing at a later stage a qualitative and quantitative survey among banks to assess the impact of IFRS 9.

Single Supervisory Mechanism (SSM): Supervisory Review and Evaluation (SREP)/Stress testing

On 11 December 2015, European Banking Authority (EBA) launched a consultation on draft guidelines on the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP).
Additionally on 18 December 2015, EBA launched a consultation on stress testing and supervisory stress testing. These guidelines complement the EBA SREP guidelines by providing guidance on the use of supervisory stress testing by competent authorities, describing the aspects relating to the organization, resources, methodologies, and the use of the outcomes when assessing capital and liquidity adequacy under the SREP.

Next steps:
• The Guidelines on ICAAP and ILAAP have been finalized and entered into force since June 2016. The first reporting timeline is being communicated by the Regulator.

Capital Requirement Directive & Regulation (CRD/CRR) Single Resolution Mechanism, Bank Recovery & Resolution Directive, Deposit Guarantee Scheme Directive (SRM/BRRD/DGSD)

As from 1 January 2016, The Countercyclical Capital Buffer (CCB) enters into force for credit institutions subject to CRD IV. As per CSSF Regulation No 16-15, the CCyB rate applicable to relevant exposures located in Luxembourg is set to 0%. Further guidance is provided in CSSF Regulation No 15-01 as the credit institutions which have exposures to counterparties in more than one jurisdiction compute their institution-specific CCyB by using the CCyB applicable in the country of location of these exposures. The Institution Specific Countercyclical Capital Buffer was assessed and reflected in the present report.

New guidelines on sound remuneration policies in CRD IV/CRR were published by the EBA and are applicable from 1 January 2017.

The Law of 18 December 2015, implementing BRRD & DGSD was published in Memorial A on 24 December 2015. As a consequence, from January 2016 on, BRRD and DGSD provisions will be binding and a new resolution authority, the Single Resolution Board (SRB), will begin to reshape resolution planning in the Eurozone.