TORONTO-DOMINION BANK & CANADA TRUST CORPORATE MERGER: A CASE STUDY

By

MAHMUOD A. QUADER

Student ID # 11571

A Dissertation

Submitted in partial fulfillment of the requirements

for the degree of

Doctor of Philosophy (PhD) in Business Administration

American Century University

May 2011

AMERICAN CENTURY UNIVERSITY

ACU Committee of Dissertation

Date: March 2, 2012

Honor Member Signatures: **Dr. Amy Bicomong**

1.

2.

3.

Honor Member Signatures: **Dr. [redacted]**

Dr. Hector Gonzalez

1.

2.

3.

469911

Honor Chair Signatures: Prof. Hector Gonzalez

1. Prof. Hector Gonzalez

2. Prof. Hector Gonzalez

3. Prof. Hector Gonzalez

ABSTRACT

This dissertation examines the effects of the merger between Toronto-Dominion (TD) Bank and Canada Trust (CT) in 2000 in Canada. The research problem is as follows: "To what extent did the merger of the Toronto-Dominion (TD) Bank and Canada Trust (CT) in 2000 result in cost efficiencies and increased market share, as predicted, and, to what extent were the stakeholders benefiting (or harmed) by the merger?"

Determining whether, in actuality, the TD Bank/Canada Trust merger resulted in the anticipated cost savings, and if so, whether the savings were actually passed on to customers, is important because it directly impacts the banks' customers, shareholders, employees and the communities in which branches are located.

In order to answer this question, three issues – cost efficiency, market share and stakeholder benefits – were thoroughly explored. Prior to the merger (1999), the cost-income ratio of TD Bank was 85%. In 2000, immediately after the merger, the cost-income ratio dropped to 72%. In 1999, TD's market share was 14.32% (5th position). In 2000, TD's market share rose to 17.14% (4th position). According to the research and documentation examined in this dissertation, in 1999, a dividend of $0.81 was declared per share. However, after the merger in 2000, dividends increased to $1.36 per share.

Standard mathematical and financial formulas were used to calculate cost-income ratios, average market share and dividend per share. Furthermore, in order to analyze and evaluate the main question of this dissertation, nine component questions were designed. In brief, the resulting answers serve to complement and confirm the findings of this dissertation's focus.

After careful consideration of all the aspects of the merger between TD Bank and Canada Trust, it may be concluded that the merger was a success. According to Paul Adam, Senior Planner, TD Canada Trust, Toronto, "TD Canada Trust has been progressively doing good business since the merger in 2000 and the incorporation of the business cultures of TD Bank and CT. This is evidenced by the fact that TD Canada Trust has been number one in customer service for several years in a row."

Keywords: Merger, TD Bank, Canada Trust, TD Canada Trust, Cost Efficiency, Market Share, Stakeholders, Shareholders

ACKNOWLEDGEMENTS

This dissertation is the result of a seed planted in the mind of a young boy by his parents many years ago when he was advised, "Always continue your education." All individuals who succeed in presenting a dissertation have met the test of challenging research, built upon current ideas, and presented new ideas. Research is like the hub of a wheel--the spokes connect the researcher to various individuals who assist the researcher by providing documents or access to information.

Among the individuals who assisted me, I would like to thank my current Faculty Adviser at the American Century University, Prof. Dr. Antonin Smrcka, PhD. As I gathered my research data, he offered valuable guidance, suggestions, comments and advice. This in-depth guidance and encouragement gave me additional motivation and strength to keep me going in spite of tremendous demands from all avenues of my life. Ultimately, his belief in me strengthened my resolve to finish my Ph.D. I would also like to thank Prof. Dr. Bill Mayhall, Ph.D, guided me temporarily for one year. I am also grateful to Prof. Dr. Gonzalez, Ph.D, who has been helping me rewrite and improve my dissertation.

I offer my gratitude to the management, academia and administrative staff of the American Century University for welcoming me into the PhD program as well as providing the necessary administrative support and services. I would also like to thank the other members of my Dissertation Committee who monitored my work and took effort in reading and providing me with valuable comments on earlier versions of this dissertation. Furthermore, I would like to identify particular individuals who provided many suggestions in creating my dissertation draft outlines:

- Prof. Dr. Laurence D. Booth, Ph.D, who works as a merger specialist and Departmental Head of Finance at the University of Toronto, who suggested valuable clues.
- Prof. Dr. Wahidul Haque, Ph.D, Department of Economics at the University of Toronto, who suggested some ideas on the research statement of the problem.
- Mr. Aziz Haque, M.Sc, who worked as an educational consultant with an expertise in statistical analysis of research data. He gave advice on the gathering and interpretation of data.
- Mrs. Neiloufar Amenneia M.Sc. in Statistics, an Assistant Professor (Statistician) at Centennial College, Canada who provided valuable information about statistical tools in the analysis of data.
- Debra Parent, CISS, B.A, MAR.ED, who works as a teacher in Arizona, U.S.A. and who provided proofreading of my dissertation drafts.
- Debra Dineen, B.A in Political Science, who works as an Executive Director at the Toronto Christian Resource Centre, and who provided valuable information on how to save money at the work place, and who provided techniques regarding how to reduce corporate costs so that the unit cost will be reduced with increased outputs.
- Raghib Mahtab Quader who is currently a 7th Grade gifted student at Forest Hill Jr. & Sr. Public School in Toronto, who helped me make corrections, fix data and tables for the dissertation.

My many thanks to staff, friends and associates at various institutions, organizations, and agencies who so willingly provided me access to vast amounts of information and research materials and resources:

- TD Canada Trust, in Canada, is my target financial industry where I gathered information for my dissertation.
- The Ministry of Finance, Ottawa, Canada.
- DBRS (Dominion Bond Rating Services), Toronto, Canada.
- Canada Trust Co. Mortgage Company, Toronto, Canada.
- Robert Business Library, University of Toronto.
- Engineering and Computer Science Library, University of Toronto.
- Rotman School of Business Library, University of Toronto.
- Bora Laskin Law Library, University of Toronto.
- York University Business Library, York University, Toronto.
- American Century University Library, Albuquerque, U.S.A.
- Gerstein Science Information Library, University of Toronto.

I consulted the following journals and institutions to gather information for my dissertation.

- Journal of Business Administration, University of British Columbia, Faculty of Commerce and Business Administration, Vancouver.
- Journal of Finance, American Finance Association, U.S.A.
- Journal of Economic, Springer, Germany.
- Toronto Public Library, Toronto, Canada.
- Metro Reference Library, Toronto, Canada.
- Competition Bureau, Govt. of Canada, Ottawa.
- Statistics Canada, Govt. of Canada, Toronto.

- OSFI (Office of the Superintendent of Financial Institutions), Govt. of Canada.

In addition, I frequently used several websites to collect research materials on various topics. Additional energy and vitality for this research was provided externally through my involvement in several social and community activities and a social support network of relatives and friends.

Obtaining a PhD degree is the culmination of desire, determination, seeking information and many sleepless nights. It ended one chapter in my life but created many directions in my future. I am glad and feel honored to be part of a growing academic family. My deepest gratitude to God for always showering me with HIS blessings, and inspiring and guiding me.

This dissertation gave me the opportunity to be involved with many individuals who overwhelmingly contributed to my life and also showed me a better path of knowledge and ideas that could be passed on to society. This encouragement gave me the power to complete my dissertation. This is not the end of my endeavor. I want to continue my endeavor for rest of my life, 'God Knows Better.'

I remember my mother, Kamini Bibi, who died in 1974 but who is still alive in my mind. This dissertation is dedicated to the memory of my mother. I pray to God for the salvation of her soul. I express my heartfelt gratitude to my father, Alhaj Md. Siraj Miah, who provided me with valuable guidance on how to build my career through education.

I appreciate my son, Raghib, and daughter, Rubaiyat, who will be good citizens in the future. Finally, I would like to convey my thanks to all my friends who are living in various parts of the world for wishing me good luck and success.

Mahmuod A. Quader,
quader.m @centuryuniversity.edu and/or qufin@yahoo.com

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

Chapter I

INTRODUCTION

Statement of the Problem

Financial institutions have historically favored mergers and acquisitions of other such institutions in order to improve market position. "Why this particular route is so highly preferred is the potential cost savings that are possible, especially where larger institutions are involved"(Beitz, Gauthier, et al., 2003, p.5).

This statement was followed by the following: "cost savings… could be passed on to customers, used to provide better services, and/or to make the bank better overall" (Beitz, Gauthier, et al., 2003, p.26).The emphasis here, it will be noted, is on "could be," because whether any savings are indeed, "passed on to customers" is another question.

"During the period between the sixties and the early nineties, all banks in Canada aggressively pursued expansion policies with the intention of generating larger revenues and profits. Since the early nineties, banks have felt that in order to continue business growth and to compete globally, it was necessary to generate greater cost efficiencies through the incorporation of a better business model, cultures, tools, and technologies, to obtain significant cost savings"(Jeff, Keay, Senior Manager, External Communication Department of TD Bank, 2005, direct communication).

Driving the merger wave and the desire for cost savings are extraordinary advances in communications and data processing technology. An example of this is database management software that automates the record keeping that is the core of the banking business.

The development of personal computers and network management software made it possible for banks to provide widespread access to their records at branches and automated teller machines (ATM). These cost savings accrue most significantly in the management of very large databases in sharing information among a very large number of users over a wide distance. In other words, the benefits of the technology revolution accrue most fully for very large-scale banks (Broaddus, 1998).

Despite the popularity of mergers and acquisitions, and the commonly held notion that "bigger is better," Marks and Mirvis (1998) point out that 75 percent of all bank mergers have failed while only 25 percent have succeeded in achieving the benefits that such consolidations promise. Further, the question must be raised as to whether, for those banks that have had a successful merger or acquisition, the apparent cost savings and increased revenues were actually put to use in benefiting the new bank's customers, and/or other interests. By their nature, banks are quasi-public organizations that are tightly regulated by the government because their activities affect the public interest in a number of ways. In any particular merger, it would seem important to assess who the actual beneficiaries of any costs savings were, whether it was management, shareholders, bank employees, bank customers, and/or the general public's interest, and, on the other hand, whether any of these groups were instead possibly harmed by the merger.

In Canada, the Toronto-Dominion Bank did not succeed to increase its revenue, so it sought integration with other financial institutions to reach this goal. Throughout its merger, the TD Bank was able to adapt a dynamic business culture, increased market shares and advanced customer service satisfaction practices (Jeff Keay, Senior Manager, External Communication Department of Toronto Dominion Bank, direct communication 2005).

The TD Bank has been affected by additional factors such as the world economic recession, the declining worth of the Canadian dollar, loosening of world trade barriers (duties and tariffs), financial markets, and government policies and regulations. During this time, the bank also had to contend with the inefficiencies of several bank policies such as capital losses due to building branches at the wrong time, huge loan losses for Canadian and international companies, and uncollected interest on real estate investments. Due to worsening economic growth, TD Bank's management changed its plan from a "building" to a "buy" strategy because it appeared to be a very cost-effective means of building market share and achieving sound growth. This strategy opened new opportunities for existing and prospective customers, and offered the opportunity to develop stronger customer relationships (Beitz, Gauthier, et al., 2003, p.23).

This change in strategy could subject the bank to a number of risks and uncertainties that might affect anticipated results negatively, such as legislative or regulatory developments, competition, technological changes, global capital market activity, changes in monetary and economic policies, changes in prevailing interest rates, rates of inflation, and general economic conditions in the areas in which TD Bank operates.

Large foreign banks entered Canada in the 1990s, creating new levels of competition in the financial and banking industry. All Canadian Schedule-I banks were forbidden to merge by the Ministry of Finance because the government did not have an existing policy regarding bank mergers. TD Bank's problems were further multiplied by its ailing customer service, management turmoil and lack of advanced information technology (IT) services. All of these problems led to a decline in TD Bank's net worth and were coupled with a weak retail marketing, stagnant business culture and lackluster bank policy.

TD Bank proposed a merger with Canadian Imperial Bank of Commerce (CIBC), which was not approved by the Ministry of Finance. However, a merger between the TD Bank and the Canada Trust (CT) was approved by the Canadian Government in 2000 despite active objections by various groups. The focus of the present study is upon the TD Bank-Canada Trust merger and whether it accomplished its objectives. This study will also attempt to determine who the actual beneficiaries, if any, of the merger were.

Importance of the Problem

Determining whether the TD Bank and the Canada Trust merger resulted in the anticipated cost savings and, if this was the case, whether the savings were in actuality passed on to the bank customers, is important because, as explained in later chapters, if these goals were not realized then the bank might suffer, as might its customers, shareholders, employees and the communities in which the bank is located. The present study might assist banks in Canada and abroad in their evaluation of the benefits and detriments of mergers and joint ventures.

Purpose of the Study

The overall objective of this study was to determine whether the predicted economic advantages (reduced costs, increased revenues and greater market share) were actually achieved by the merger and, if so, the degree to which the benefits accrued were actually passed on to bank customers and used to expand the existing customer base. However, if the expected benefits were not realized, what were the reasons why?

In either case, a supplementary purpose was to investigate and report the effect the merger had upon various related stakeholders such as the bank's customers, the communities in which the bank operated, and the bank's shareholders, upper management and employees.

Main Question of the Study

The main question of this research study is: "To what extent did the merger in 2000 of the Toronto-Dominion (TD) Bank and Canada Trust (CT) result in cost efficiencies and an increased market share, as predicted, and, to what extent were the stakeholders benefiting (or harmed) by the merger?"

Component Questions of the Study

a. Did the combined financial statements of the merging bank/financial industry subsequently indicate that the merger was a profitable endeavor, as reflected by a comparison of tax return data filed before and after the merger?
b. What changes in overall cost and expenses appeared to result from the merger?
c. What effect upon the merging bank's gross revenues did the merger have?
d. What was the effect of the merger upon the merged bank's market share, retail and commercial market share?

e. In what way did the business cultures of Toronto-Dominion (TD) Bank and Canada Trust impact the merger?

f. Were the predicted substantial cost savings actually achieved by the merger?

g. Were any increases in revenues and cost savings achieved actually passed on to bank customers in terms of reducing customer fees, etc?

h. What effect did the merger have upon various interest groups such as bank employees, customers, shareholders, the general public and the communities in which the bank operates?

i. If the merger did not produce the anticipated savings and financial gains, what were the causes of the failure?

Research Design (Methodology)

Research methodology is the methods or strategies that are adopted to verify the research hypothesis. Both qualitative research methods (interview and observation) and a quantitative research method (statistical analysis) were used to verify the research hypothesis. Data was collected from various sources such as corporate annual reports, other relevant published materials and interviews with TD Bank management. The quantitative statistical analysis was applied to the three parts of the main question: cost efficiency, market share and stakeholders benefits. Based on quantitative statistical analysis, the following formula was used to calculate cost efficiency.

$$\text{Cost efficiency} = \frac{\text{Total Cost}}{\text{Total Asset}}$$

Similarly, the market share may be more explicitly stated in the following analytical formulas:

$$S_i = \frac{Q_i}{Q} \qquad \text{..(I)}$$

S_i = the market share of firm i

Q_i = the sale of firm i's product

Q = the total sale for the market

$$Q = \sum_{j=1}^{m} = Qi \qquad \text{(II)}$$

m = the number of competing firms

The last segment of the main question is stakeholders' benefits. To calculate the shareholders' benefits, the firm's return on common stock equity is a measure of how well management serves shareholder interest. It is computed as follows:

$$\text{Return on Common Stock Equity (ROCSE)} = \frac{\text{Net Earnings} - \text{Preferred Dividend}}{\text{Shareholders' Equity} - \text{Preferred Share}}$$

The stakeholders of the TD Bank included shareholders, customers, employees, communities and the general public. Apart from shareholders' earnings, the benefits of other various interest groups were also examined using various sources, including annual reports of TD Bank, Canada Trust and TD Canada Trust.

Each of the nine component questions was tested with either quantitative data or qualitative information. Pre-and post-merger tax returns of TD Bank and TD Canada Trust, respectively, were taken from different annual reports from 1995-2004 and were compared by percentage (%) (See in Chapter--III). Similarly, pre- and post-merger corporate total gross revenues were compared with corporate cost and expenses, using corporate annual reports as data sources.

The other component questions relevant to cost savings, market share (retail as well as commercial), and business culture (customer satisfaction index) data were collected and analyzed using relevant information obtained from the Toronto-Dominion Bank. In addition, the data was also collected from the TD Canada Trust after the merger (2005-2009) to verify the TD Canada Trust's business progress through a comparison of gross revenue with cost and expenses. The corporate net income indicates corporate cost savings and an increased percentage (%) of growth rate. This proves that after merger the TD Canada Trust is continuously progressing towards their financial goal.

Delimitations/Limitations of the Study

Delimitations. The scope of this study is concerned with only one financial industry merger. Data was collected on the finances and operation of the two merging financial entities, Toronto-Dominion Bank and Canada Trust, both prior to the merger (1995-1999) and for several years afterwards (2000-2004).

Limitations. A limitation of the study was that data collected and used in the preparation of this dissertation was limited to published corporate reports and data uncovered by the investigator through diligent research and studying publications related to financial activities and related to bank takeovers. The investigator noted a relative scarcity of documents on this subject due to the fact that very few mergers (25%) have been successfully accomplished in the financial industry mergers all over the world.

Definition of Terms (Glossary) and List of Acronyms

Acquisition. The purchase of enough shares in one company by another business entity to enable it to control the company.

Break-Even Point. It is the point at which revenues and expenses equal one another, leaving zero profit.

Balance Sheet. Mainly created on a given date, a balance sheet is a financial document summarizing a firm's financial position calculated as follows: total assets = total liabilities + owner's equity.

Business Culture. A business culture means how a specific company treats their employees and customers, and is achieved through the application of a company's guidelines to improve its business.

Bond. Bonds are long-term debt sold to investors by companies.

Cost. Cost is the value that must be given up to acquire a good or service, and the total spent for goods and services, including money, time and labor. In banking businesses, there are mainly two types of costs: direct cost/variable cost/interest expense, and fixed cost/overhead expense/non-interest expense/operating expense.

Cash Flow. Determined by how quickly a firm's merchandise for sale is converted into cash.

Capital Budget. A company's plan for capital expenditures (acquisition of fixed assets) for the anticipating running of their business.

Cost Efficiency. Refers to a business policy that significantly reduces costs and expenses and/or is defined as the ability to minimize costs for a given output vector and measured by the ratio of minimum to observed cost.

Combination. Combination can spark innovation by bringing technologies and people together in creating new products and services.

Consolidation. This is a joining of two or more business entities to form a new entity; the entity formed may or may not continue under the same name.

Coefficient of Variation. This is the ratio of the standard deviation of a numerical distribution to the arithmetic mean of that distribution. It is a measure of relative risk.

Correlation Coefficient. This is a measurement of the strength of the relationship between two variables. The relationship may be positive or negative. The correlation value may lie anywhere from +1.00 to -1.00.

Current Assets. These are assets that are capable of being converted into cash in less than one yr.

Chartered Bank. A chartered bank is a financial institution whose primary roles are to accept and safeguard monetary deposits from individuals and organizations, and to lend money out. The details vary from country to country, but usually a chartered bank has obtained government permission on some level to do business in the banking sector (www.invetopedia.com/terms/c/charteredbank.asp).

Customer Satisfaction Index. Customer Satisfaction Index is the overall average of all responses made by all survey respondents. It is most accurate to calculate the average by summing the value of all responses and dividing the sum by the number of responses. It is less accurate to calculate the figure by striking intermediary form, summing the intermediary average and dividing by their number to arrive at an overall average Equation: Total of ranking points divided by total number of survey answer (http://www.appa.org/Research/SAM/Customer Satisfaction Index.cfm).

Common Shareholder. Common shareholder means an individual, business or institution that holds common shares in a company, giving the holder an ownership stake in the company. This will also give the holder the right to vote on corporate issues such as board elections and corporate policy, along with the right to any common dividend payments.

Common Share and Calculation. E.g., $1.00 divided by 26.25 and multiplied by 100 equals 3.81%.

Dissertation and /or Thesis. A dissertation or thesis is a document submitted in support of candidacy for a degree or professional qualification presenting the author's research and findings. In some countries/universities, the word *thesis* is used as part of a bachelor's or master's course, while dissertation is normally applied to a doctorate degree (http://en.wikipedia.org/wiki/Thesis_or_dissertation).

Defensive Strategies. These are strategies used by a targeted company to defend itself from being taken over.

Direct Cost. Direct costs/variable costs are mainly interest expenses that were included in items such as deposits, subordinated notes, debentures and obligations.

Dividend. A company's net earnings after preferred dividends are available.

Dividend Yield. The yield on common and preferred stock is the annual dividend rate expressed as a percentage of the current market price of the stock. It represents the investor's return on the investment. Annual dividend per share is divided by current market price and multiplied by one hundred. For example, the dividend per share is $2.50 and current market price for preferred stock is $49. The dividend per share is $1 annually and the current share is $26.25 for a common share of Trans-Canada Retail Store.

Economy. An economy is a system of production, distribution and consumption.

Equilibrium Model. The equilibrium model aims to describe the economy by aggregating the behavior of individuals and farms.

Efficiency Gain. This is the cost savings that represent real savings in economic resources rather than private gains to the merging parties that result, for example, from an increase in bargaining power with suppliers due to the ability to buy in bigger lots.

Efficiency gains fall into broad classes: production efficiencies and dynamic efficiencies. Production efficiencies result from long-term savings in resources that permit firms to produce more output or better quality output from the same amount of input. Dynamic efficiencies include gains attained through the optimal introduction of new products, the development of more efficient productive processes, and the improvement of product quality and/or service.

Effectiveness. This is an organization's ability to achieve pre-set goals and objectives by using different, moderate and/or few modern technologies.

Finance. Finance is the set of activities dealing with the management of funds.

Insolvency. This is the risk that a company will not be able to satisfy its debts as they become due.

Joint Venture. A joint venture is the establishment of a complete and separate formal business entity with its own structure, governance, etc. by two or more people or business entities.

Loan. A loan is a written or oral agreement for a temporary transfer of a property (usually cash) from its owner (the lender) to the borrower who promises to return it according to the terms of the agreements, usually with interest for its use.

Leverage. The degree to which an investor or business is utilizing borrowed money. Companies that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on their debt. They may also be unable to find new lenders in the future. Leverage is not always bad, however, as it can increase the shareholders' return on their investment and often there are tax advantages associated with borrowing; also called financial leverage.

Merger. A merger is defined as the combining of two companies into one business entity. Bank mergers that involve large banks usually require government approval.

Market Power. Market Power is the ability to profitability maintains prices, quality, services and/or product variety for a significant period of time at levels that are less favorable to consumers than would exist in competitive market.

Market Share. The specific percentage of total industry sales of a particular product achieved by a single company in a given period of time.

Goods. A good or commodity in economic is any object or service that can increase utility either directly or indirectly.

Goods and Services. Economics is concerned with the production and distribution of goods and services. Goods are defined as anything that anyone wants or needs.

Overhead Expense/Fixed Expense. This is a non-interest/operating expense, including salaries, staff benefits, occupancy (including depreciation), equipment (including depreciation), and restructuring costs.

Preferred Shareholder. Preferred shareholder **is** a class of ownership in a corporation that has a higher claim on the assets and earnings than common shareholder. Preferred shareholder generally has a dividend that must be paid out before dividends to common stockholders and the shares usually don't have voting right.

Preferred Share and Calculation. For example, $2.50 divided by $49 and multiplied by 100 equals 5.10%.

Price Earnings Ratio. The price earnings ration is the ratio compared by dividing a corporation, mutual fund or limited partnership.

Quick Ratio. Quick ratios are used to calculate a company's financial strength, and liquidity, and is determined by subtracting inventories from total current assets and dividing by total current liabilities.

Retained Earnings. Earnings retained by a company for reinvestment for its operations rather than paid out to shareholders as dividends.

Schedule-I Banks. Banks subject to the ownership regime that, in the context of the current Canadian Bank Act, refers to the provision that no individual can acquire more than 10% of any class of shares in a federally incorporated financial institution without the approval of the Ministry of Finance.

Schedule-II Banks. The Bank Act classifies a bank as Schedule-I or Schedule-II bank, with different ownership rules applying to each. Schedule-II banks are permitted to be closely held upon incorporation, are mostly subsidiaries of foreign banks, and are restricted in size. Schedule-II banks are established with more than $750 million, and the shareholders' equity is required to have 34% of their voting common shares widely held and publicly traded.

Share. Certificate representing one unit of ownership in a corporation, mutual fund or limited partnership.

Stakeholder (Corporate). A person, group, organization or system that affects or can be affected by an organization's action.

Trust Company. A trust company is a financial institution that conducts activities like a bank. However, because of its fiduciary role, a trust company can administer estates, pension plans and agency contracts, which banks cannot do. A trustee will manage investments, keep records, manage assets, and prepare court accountings, pay bills (depending on the nature of the trust), medical expenses, charitable gifts, inheritance or other distribution of income and principal.

Yield. The percentage rate of return paid on an investment.

Zero Coupon Bond. A bond in which the principal and interest are paid at the maturity date rather than in increments over the life of the contract.

Acronyms

Table 1. Abbreviations for Units of Measure

ABBREV.	MEANING	ABBREV.	MEANING
ATM	Automated Tellers Machine	INTERAC	International Education Research & Analysis Corporation
ACCC	Australian Competition and Consumer Commission	IT	Information Technology
CT	Canada Trust	IE	Investment Executive
CEGEP	College of General and Professional Education	NAFTA	North American Free Trade Agreement
CDIC	Canada Deposit Insurance Corporation	OSFI	Office of the Superintendent of Financial Institutions
CNIB	Canadian National Institute for the Blind	PIIA	Public Interest Impact Assessment
CTSM	Canada Trust Service Model	PVL-1000	Partner Vision & Line 1000
CPA	Canadian Payments Association	ROI	Return on Investment
CPA	Canadian Paralegal Association	ROA	Return on Asset
DBRS	Dominion Bond Rating Services	ROCSE	Return on Common Stock Equity
EBIT	Earnings Before Interest and Taxes	TEB	Tax Equivalent Basis
FHLBAHP	Federal Home Loan Bank Affordable Housing Program	TRIAD	Target Resolving Information Augmentation Device
FEF	Friends of the Environmental Foundation	TDB	Toronto-Dominion (TD) Bank
HHI	Herfindahl Hirchman Index	WTC	World Trade Centre
ILO	International Labor Organization	WCM	Women in Capital Market
ICR	Integrated Cost Reduction	WAP	Workplace Accommodations Program

Overview of Remaining Chapters

Chapter II deals with a brief history of corporate mergers in Canada and all over the world, government regulations for the public interest's regarding mergers, business cultures, why mergers are favored by the financial industry, and how stakeholders benefit or are harmed from mergers.

Chapter III gathers data based on tax returns and/or tax payments to governments, direct corporate costs, gross revenues, overhead expenses, market shares and quantitative comparison of market shares of six Canadian Schedule-I banks in Canada, business advantages, the business cultures of TD Bank, Canada Trust and TD/CT (including pre- and post-merger), an opinion of merging banks based on quantitative data, and how mergers affect stakeholders groups.

Chapter IV presents a summary of the whole dissertation, including Chapters I to III. This is followed by conclusions based upon the findings from a quantitative data analysis, and recommendations are made for further research, inclusion into academic curricula and business people who want to do a merger, either horizontal/vertical.

Chapter II

REVIEW OF RELATED LITERATURE

A Brief History of Bank Mergers/Acquisitions in General

A merger is a combination of two or more companies into one, with only one company retaining its identity. Typically, the larger of the two companies is the company whose identity is maintained. The merger of two companies can be accomplished in one of two ways. The acquiring company can negotiate with the management of the other company, or it can make a tender offer directly to the stockholders of the company if it wants to take over their company (Barron's Educational Series, Inc, 2006).

As a lead up to the case study that deals specifically with the merger of the Toronto-Dominion (TD) Bank and Canada Trust (CT) (See in Chapter--III), a brief history of bank mergers and acquisitions (M/A) in North America is presented. The history of mergers & acquisitions of banks in both the United States of America and Canada is largely a history of restrictions on such mergers.

Consolidation in the banking industry could not occur until these restrictions were removed (Broaddus, 1998). One major source of the restrictions was a deep-seated distrust of large, centralized organizations, particularly large financial institutes. Subsequently, efforts to shield smaller banks by limiting competition from branches of large banks became an important factor in merger limitations.

Despite these apprehensions, branching was not uncommon in the South Asia before the Civil War in United States of America, and several Midwest Banks had branches as well. Following this War, though, there was little interest in establishing new branches, since the technology that would allow inexpensive long-distance communication had yet to be developed. Seeing approval from distant headquarters for local lending decisions would have been prohibitively costly before the widespread availability of the telephone. While there were approximately 13,000 banks in the U.S.A. at the turn of the century, there were only 119 bank branches in the entire country (Broaddus, 1998).

However, advances in communications technology have continually stimulated increasing interest in branch banking. This increasing interest produced strong opposition from smaller banks, which for a time led to widespread branching restrictions at the federal and state levels. As an alternative to branches, an act was passed in 1900 that lowered the minimum capital necessary to form a new national bank in a small town, which caused the number of banks to almost double in the following ten years. This trend slowed the spread of branch banking for decades.

The high failure rate of unit banks throughout the 1920s revealed a significant downsize to branching restrictions – the susceptibility of unit banks to shocks to their local, usually relatively undiversified loan portfolios. Failure rates for branch banks were relatively much lower, motivating policymakers to call for liberalized branching as a means of diversifying individual bank portfolios and strengthening the banking system. The momentum of this trend, however, was largely undercut by the passage of national deposit insurance in 1933. Insurance allowed branching restrictions to continue with relatively marginal changes from the end of the depression until 1980s. During that 50 -year period, the number of bank mergers was relatively modest, generally between 75 to 150 per year.

Since 1981, however, merger activity has exploded, with close to 600 mergers occurring in 1997 alone. In the early 1980s, states began passing laws allowing bank holding companies from other states to purchase banks within their borders, though they were required to operate these interstate acquisitions as separate banks. The consolidation of the banking industry was well under way when the Riegle-Neal Interstate Banking Act of 1994 was passed, which finally eliminated interstate banking restrictions. The merger wave that followed would not have been possible without the elimination of branching restrictions (Broaddus, 1998).

Toronto-Dominion Bank began service from February 1, 1955. It was created from two banks centered primarily in the province of Ontario. The first was the Bank of Toronto, which was granted a charter in March 1855 in Upper Canada and its operations were centered in Toronto. The second bank was the Dominion Bank, which began operation in 1871 and was also centered in Toronto in the province of Ontario.

Negotiations began in 1954 and on February 1, 1955, the Bank of Toronto and the Dominion Bank became the Toronto-Dominion Bank. The Toronto-Dominion Bank continued to grow and took advantage of the opportunity offered by two federal laws- the Bank Act, 1967 and the Bank Act, 1987.

The Canada Trust Co… and the Canada Trust were fully integrated for operating purposes, and conducted their business under the name Canada Trust. To the extent permitted by law, their operations were integrated with other companies of the Canada Trust financial family and their business was subject to the Federal Trust and Loan companies Act (the "Federal Act") and provincial legislation.

Canada Trust was originally known as the Huron and Erie Loan and Savings Company. It began operations in 1864. There is some historical evidence that the individual involved in starting the Huron and Erie Loan and Savings Company was also involved in the creation of the Bank of Toronto. Canada Trust was one of several financial institutions instrumental in providing farming communities and residents of growing rural towns across Canada with mortgage funds and financial services. It was consistently aggressive in building its business and marketing its services, and it became an innovator in customer service (http://en.wikipedia.org/wiki/Toronto Dominion_Bank History).

Canada Trust Company was one of the largest trust and loan companies in Canada based on their total assets. Historically, the Canada Trust was one of the Canada's first mortgages companies, was fully incorporated in 1855, and formed Canada's first trust company in 1872. Canada Trust provided a core banking business and lending and wealth management services for its customers.

"On February 1, 2000, the TD Bank acquired substantially all of the common shares of Canada Trust (CT). The total consideration in respect of this purchase amounted to $7,998 billion, paid in cash. The cash for the acquisition was obtained as the issue of common shares, issue of preferred shares, issue of trust units of subsidiary, issue of subordinated notes, whole sale deposits and less fees and expenses" (TD Bank annual report, 2000).

Reasons Mergers are Favored by the Financial Institutes

In this section, the various reasons why mergers and acquisitions have been so popular among banks and other financial institutions are briefly discussed.

Diversification. The management of cash-rich companies may prefer that excess cash be used to acquire or merge with other firms rather than distributing it as merged firms. When two companies are separated, one company is not the guarantor of the other company's debt. Related to this is that larger corporations receive reduced interest payments necessary to support bond issues, since the option to default on a loan is generally reduced. Further, the smaller of two firms involved in an acquisition or merger may have a unique product but lack the engineering and sales talent, and find that it is cheaper to merge with a larger firm that has these resources than to develop their own (Brealy, Richard et al., 1992, pp. 863-866).

Economies of Scale. The natural goal of horizontal mergers is an economy of scale. These economies come about through various entities now under the same corporate umbrella, sharing central financial control, executive development and top level management. Most managers seem to believe that their firms would be more competitive if only they were 'just a little bigger' as economies of scales provide decreased average unit cost of production and increased production due to reduced overhead costs.

Potential Tax Shields. There are cases where a firm may have potential tax shields but doesn't have the profits to take advantage of them. For example, after expropriation of its Cuban sugar plantations, the Bangor Punta Company had substantial tax loss carryovers it could not use, so it combined with other firms that were generating taxable profits so that the tax loss carryover could be utilized.

Competitiveness in Global Markets. In Canada in particular, it has been difficult for banks and other financial institutions to merge with one another. Thus, they have continued to be mere spectators observing the significant financial services consolidation occurring in the global financial markets. If the rules preventing bank mergers remain in place, this could reduce the long-term competitiveness of the Canadian banking system. Size is becoming increasingly important in a number of areas: (i) the rapid pace of IT development requires continued investments, which is much easier to manage for larger firms with a broad base over which to spread these costs; (ii) economies of scale will be increasingly important to reducing unit costs, as profit margins are driven lower with heightened competition; (iii) as major corporate clients merge, Canadian banks are becoming relatively smaller and less able to compete in large underwritings compared to larger foreign players (DBRS Ltd-Industry Studies, 2000, p.2).

Surplus Cash. If a firm is in a mature industry and generates a substantial amount of cash but has few profitable investment opportunities, ideally, such a firm should distribute the surplus cash to shareholders by increasing its dividend payment or, engage in a company stock repurchase. However, firms in this position often turn to mergers financed by the excess cash as a way of deploying their capital (Jensen, 1989, pp. 61-74).

Synergy. A number of reasons have been established in business behavior as to why two firms would want to merge, and the main reason appears to be that a larger firm will translate into greater power among suppliers in the market place and/or with lenders, i.e., "synergy" or the idea that the combined functioning or activity of two or more organizations working together will be more effective and efficient (Whalen, 2001, p.4).

Growth Opportunities. Major Banks in Canada are looking for ways to grow in an industry where size is critical to success and perhaps to survival. The Big Five (5) Banks are having difficulty finding growth opportunities on their own turf, however, some banks are thinking the grass looks greener on the United States side of the border, and the Canadian banks knew themselves that they must need to grow to compete in global markets (Gordon, Platt, 2004, pp. 36-39).

Integrated Cost Reduction. Integrated cost reduction (ICR) is a vital resource for top management and business practitioners who know that continuous cost reduction is at the centre for any successful enterprise. ICR provides both the basics and advanced strategies for running a leaner operation. ICR builds on work already done in most companies. Allied Signal, which began ICR in 1995 and merged with Honeywell in 1998, has created millions dollars in savings to date. Honeywell has continued to achieve millions dollars in savings from ICR since its merger with Allied Signal (Ron Nussle, Jr. and Jim Morgan, 2004, p.4).

Tax-Free Routes. Historically, buyer normally preferred a taxable plan of acquisition, whereas sellers preferred a non-taxable plan of acquisition, the rationale being that buyers generally seek a future tax benefits for their purchase price and sellers wish to defer tax. While this historical rule of preference is still timely, as a result of the recapture depreciation and investment credit provisions of the tax laws, the right money market, that's why many acquisitions are now seeking the tax-free route. The applicable tax rules are, undoubtedly, the most important technical tools of the accountant engaged in acquisition work (Hutchison, G. Scott, 1968, p. 350).

Bigger in Size Resulted in Reduced Cost. Proponents of financial sector consolidation argue that institutions need size to spread growing information technology and processing costs over large revenues bases as well requiring greater capitalization. The larger size of an organization is crucial to cost cutting and becoming a strong national institutions which are accepted by governments and financial sector regulators (ILO White Papers, 2001).

Mergers and acquisitions reflect common competitive pressures that were verified through nine case studies. The lessons gained from various case studies indicate multiple motivations for combining banks. Some deals were primarily motivated by operating cost savings, while in one case there was no possibility of reducing operations cost savings. Market access to a particulars client base or location was the most important motive in some cases. In one case, the managerial inefficiency of the target firms was positively indicated as a way in which the firm can definitely save costs (Calomiris, et al., 1998, pp.36-37).

Summary. "The lessons gained from various case studies indicate multiple motivations for combining banks." Some deals were primarily motivated by operating cost savings, while in others, market access to a particular client base or location was the most important motive. In one case, the managerial inefficiency of the target firm provided the largest potential gains from acquisition (Calomiris, 1998).

Need for Public Regulations to Protect Public Interest

Government has been involved in regulating banks for hundreds of years (Benston, 2004), made justifiable on the grounds of various interests of the public that require that bank practices be regulated. Reasons given for the continued need for such regulations include deposit insurance, preventing banks from obtaining excessive economic power, reducing the cost of individual bank insolvency, avoiding the effects of bank failures on the economy, protecting the payments system, serving the interests of popularly elected officials, enhancing the Federal Reserve's control over the money supply, supporting competition, and protecting consumers. However, there are many dissenting opinions.

In an article in the *Journal of Financial Services Research,* George J. Benton (2004) stated that "examining each of these reasons leads to conclude deposit insurance, which allows banks to hold insufficient capital, is the only public-policy-justifiable rationale for regulation. This concern can be managed with capital requirements; otherwise, banks should only be regulated as are other corporations." Major Banks in Canada faced, until recently, difficulty finding growth opportunities on their own turf due to bank merger restrictions at the national level (the over all situations are discussed further in Chapter -- III).

Thomas Melzer, a regional economist (Federal Reserve Bank of St. Louis, 1995) stated that "stories about bank mergers are blanketed the news recently ...., causing some people to become uneasy about the level of choice and service they will be left with in the post-consolidation era. Although understandable, such concern is unfounded for several reasons." He goes on to say that competition is ultimately protected by government regulation, which, while it generally allowing banks to broaden their businesses, also limits via the Riegle-Neal Act the portion of a state's banking deposits that can be held by any one bank, and if a violation is serious, federal antitrust laws could be invoked.

Thomas Melzer concluded by saying that "if the public chooses to patronize small community banks which may offer more personalized service, then these banks will stay in business. If, however, the public opts for the convenience that bigger banks can provide, they will win out. My guess is that consumers will continue to have choices for a long time to come." Many of the objections of various groups to government allowing more freedom for major banks to merge are discussed in Chapter --III.

Effect of Bank's Business Cultures on Mergers

Introduction. Organizational culture is a central factor that influences the ways in which people act and interact in a given society. Indigenous cultures evolve over time in organizations, affecting individual and group behavior in predictable but subtle ways. While culture at the organizational level is implicitly diffused, it is a pervasive and powerful force in shaping behavior (Miles, 1980; Whorton & Whortley, 1981). The integrative theme of custom is the normative glue that holds an organization together through traditional ways of carrying out organizational responsibilities. Over time, unique patterns of beliefs and expectations emerge and shape a culture's reality.

The full potency of organizational culture can be seen during a merger or acquisition in which two divergent cultures are forged to become one. In an attempt to understand the dynamics, the investigators, (in Chapter -- III), examined the merger between Toronto-Dominion Bank and Canada Trust, both medium-sized financial institutions.

By comparing each institution's objective culture, and organizational climate prior to the merger with the resulting culture after the merger, an attempt was made to clarify the influence of organizational culture on job and organizational satisfaction, individual behavior, and the process underlying organizational mergers.

In the present chapter, the effect of organizational culture is discussed globally as a lead up to the comparison in the next chapter. In general, the differences in organizational cultures could have an impact on the relative efficiency levels measured among individual businesses and the efficiency gains expected from the integration efforts of two companies with different product lines, facilities and distribution channels.

The present literature search attempts to outline some of the issues of organizational cultures that can create problems when two cultures are brought together by a merger. The objective and subjective aspects of a given culture greatly influence the behaviors, satisfactions and expectations of the members of the organization.

An "organizational culture" is comprised of the patterns of shared beliefs and values that give the members of an institution meaning, and provide them with the rules for behavior in their organization (Davis, 1984, p.1). Culture is not generally recognized within organizations because basic assumptions and preferences guiding thought and action tend to operate at a preconscious level. However, this preconscious level affects in many areas within the organization, including performance, cooperation, decision making, control, communications and justification of behavior" (Sathe, 1985, pp. 30-31).

Elements used to determine the strength of a particular corporate culture include the number of shared beliefs, values and assumptions under which the organization operates. In addition to the number of shared beliefs, the number of employees who accept, reject or share in the basic beliefs, values and assumptions is also important. If employee acceptance is high, a strong corporate culture will emerge.

Types of Culture

Roger Harrison (Cartwright & Cooper, 1992, pp.58-68) has outlined four major types of organizational culture:

Power Cultures. In an organizational power culture, power will rest either with the president (usually the founder), or a small core group of key managers. This type of culture is most common in small organizations. Employees are motivated by feelings of loyalty towards the owner, or supervisors. This type of organization tends to foster a sense of tradition in both the physical and spiritual sense. Power cultures tend to have inequitable compensation systems and other benefits based on favoritism and loyalty as well as performance.

Role Cultures. Role cultures are highly autocratic. There is a clear division of labor and the authority figures created by clearly defined rules and procedures, and a 'good employee' is one who abides by them. Organizational power is defined by position and status. These organizations respond slowly to change, they are predictable and risk averse. This type of culture thrives in industries that employ mass production techniques such as the auto manufacturing company.

Task/Achievement Cultures. This type of culture emphasizes accomplishment, research and development. Employees usually work in terms and the emphasis is upon what is achieved rather than how it is achieved. Employees are generally flexible, creative and highly autonomous.

Person/Support Cultures. Organizations with a person/support culture have minimal structure and serve to nurture personal growth and development. They are egalitarian in principle and decision making occurs on a shared collective basis. This type of culture is rarely found in profit-making corporations; it is more typical of professional partnerships such as law firms.

Cultural Compatibility. The success of a merger or acquisition depends in part upon the cultural compatibility of the two organizations. When an organization acquires or merges with another, the contract may take one of three possible forms, depending upon the nature of the two cultures, the motives for and the objective and power dynamics of the combination (Cartwright and Cooper, 1993a, pp. 63-64).

The Open Marriage. In an open marriage, the acquiring firm unequivocally accepts the acquired firm's differences in personality or organizational culture. The acquiring firm allows the acquired firm to operate as an autonomous business unit but intervenes to maintain control by integrating reporting systems and procedures. The strategy used by the acquirer in this type of acquisition is 'non-interference.'

Traditional/Redesign Marriage. In this type of acquisition, the acquirer sees its role as being to dominate and redesign the acquired organization through implementation of wide-scale and radical changes in the acquired company. Success depends upon the acquiring firm's ability to displace and replace the acquired firm's culture. In essence, it is a win or lose situation.

Modern/Collaborative Marriage. Successful modern or collaborative mergers and acquisitions rely on an integration of operations in which the equally of both organizations is recognized. The essence of the collaborative marriage is shared learning. In contrast to traditional marriages, which center on destroying and displacing one culture in favor of another, collaborative marriage seek to positively build on and integrate the two to create a "best of both worlds" culture (Cartwright and Cooper, 1992, p. 74). The two organizations are in a win-win situation.

The issue of cultural fit has become a topic of increasing interest and importance in recent merger and acquisition literature. Levinson's (1970) analogy between merger and marriage, in which the compatibility of partners is considered critical to a successful combination (Senn, 1989, p.229), suggests that two organizations merging on the basis of financial data only is similar to two people marrying based solely on height and weight, and both situations lead to high divorce rates. While it is acknowledged that successful mergers and acquisitions must primarily be based on objective strategic and financial criteria, there is growing recognition that ignoring potential culture clashes can lead to financial failure or to a significant reduction in expected results (Davis, 1968; Hall & Norburn ,1987).

Mergers and acquisitions bring together distinct corporate entities, each with their own corporate culture, explicit and implicit behavioral systems and management styles (Nevaer & Deck, 1990, p.34). The degree of decision-making responsibility, along with power and control mechanisms, have been identified as key areas where cultural clashes are apt to occur, especially where a high degree of integration is required to achieve merger and acquisition objectives (Krupar & Krupar, 1988, p.96). In merger and acquisition situations, particularly where desperate cultures collide, employees become confused, frustrated and resistant to change. The literature suggests that such cultural conflict manifests itself in terms of high turnover, including key personnel, market share shrinkage, and disappointing financial performance (Sales and Mirvis, 1984; Buono & Bowdich, 1989).

Cultural Signs of Merger Syndrome

Merger syndrome is the primary cause of the disappointing outcomes of well-conceived mergers and acquisitions. The syndrome is triggered by unavoidably unsettled conditions in the earliest days following the announcement of a deal; it encompasses stress reactions and development of crisis management in the companies involved.

The cultural sign of the merger syndrome is one of the most important parts of the merging companies. This can be exacerbated by the clash of cultures. What is noted first are differences in the ways the companies do business, which may be their relative emphasis on manufacturing versus marketing, or their predominantly financial rather than technical orientation. Then, differences are discerned in how the companies are organized, centralization vs. decentralization, and their differing styles of management and control. Finally, people see the differences to competing values and philosophies (Marks & Mirvis, 1998, pp. 37-39).

Organizational Fits and Acquisitions Performance

Organizational fit, which influences the ease with which two organizations can be assimilated after an acquisition, can be assessed according to a number of dimensions. However, the area often mentioned as being particularly important is differences in management style (Callahan, 1996, pp. 47-53; Davis, 1968).

Most studies conducted with regard to acquisition performance concern financial economics (Datta, et. al., 1990). These studies have examined performance from the perspective of gains accruing to bidding and target firm's shareholders as the result of the merger's announcement (Jarrel et. al., 1988, pp.49-68). The studies have provided limited insights into factors that influence acquisition performance, or have explained why nearly half of all acquisitions fail to fulfill prior expectations. McCann & Gilkey (1988) point out that integration of two organizations need and should only occur up to the point which business, financial and organizational fit is optimized. This may mean a total merging of cultural identities in one situation and a highly autonomous partnership in another.

Studies show that some organizations attempt to circumvent problems related to cultural differences by allowing acquisitions to remain autonomous. The literature contains a mixed opinion with respect to cultural fit within and between industries. It is suggested that it is easier to find cultural compatibility within the same industry, and the profitability of intra-industry merger and acquisition success is significantly higher (Senn 1989, p.232). In the context of mergers and acquisitions, cultural change is generally recognized as a time-consuming, expensive and emotionally intensive process (Sales & Mirvis, 1984). It is suggested that true cultural integration takes between three to seven years (Walter, 1985).

Despite the importance of cultural consideration, experience shows that merger and acquisition strategies often fail to recognize how to properly treat organizational cultures (Nevaer & Deck, 1990). In the case of mergers and acquisitions of desperate corporate cultures, it is argued that the most common cause for their failure is a clash of corporate cultures.

The literature emphasizes the importance of developing and implementing a cultural reframing process as part of merger and acquisition planning and integration. This process should include the conduct of a formal culture audit both as a means of anticipating future problems and of monitoring on going process of integration (Senn, 1989). The challenge of integrating different organizational cultures is one of the most demanding and complex aspects of mergers and acquisitions.

Impact of Corporate Cultures on the Corporate Merger

Errors in judgment when merging large corporations can be colossal but it is important to note how conflicting cultures may cause inefficiencies in corporate mergers. The impact of organizational culture on mergers can have profound implications in real world markets. This is why Camerer would like to see the creation of a merger compatibility that would help firms determine whether or not their corporate cultures are compatible.

A corporate culture provides employees with identity and stability. Employees typically emphasize or exaggerate the difficulties between organizational cultures and tend to feel that their way of doing things is superior to the style and practices of the other company (Pikula 1995). Distorted perceptions and hostile feeling toward employees from the other organization may become common and failures are typically attributed to the other company (Anderson, 1999, p.3).

Bank Mergers and Acquisitions

With regard to banks, the motivational factors can vary depending upon the circumstances and economic status during the time of amalgamation. There are three motivational factors: size, geographic expansion, and economic conditions. Physical size has long since been a measure of banking achievement. The five key aspects of mergers that can be classified under the size factors are economies of scale, economies of scope, operating synergies, technological spending, and access to a large capital base.

Economies of scale and scope are static concepts that relate cost to size. Operating synergies allow the opportunities for cost savings. Technology is expensive and an ever prominent part of today's world. In order to be able to compare with top competitors, banks must be able to stay on the leading edge of technology. The idea of a large capital base is not mandatory but it is completely self-explanatory -- it is the notion that an increase in size results in a greater accrual of capital and the expectation of larger profits.

Canada's top six banks hardly rank in the world's top sixty banks. Top executives from big Canadian banks have stressed the need to merge so that they can become players on the world scene. If the economy is in a state of economically hard times then failing banks will often opt to merge in order to avoid financial ruin.

Culture Compatibility and Culture Fit

Recent statistics show that two thirds of organizational transitions fail, and they fail because top management focuses upon "the deal." Executives who provided insufficient attention to the cultural compatibility of a post-merger environment run the risk of losing staff and business momentum. Successful mergers are composed of productive, motivated people who have a shared vision and values, a clear understanding of short- and long term goals, the opportunity to practice new behaviors, and who are reinforced /rewarded for their contribution. In an era of market situation, the quality of an organization's employees have emerged as the only sustainable competitive advantage.

Success Rate of the Banks' Mergers and Acquisitions (M/A)

Thomas Straub in "Reasons for frequent failure in mergers and acquisitions – a comprehensive analysis" (2007) analyzed reasons for frequent failure of M/A. Despite the goal of performance improvement, results from mergers and acquisitions are often disappointing. Numerous empirical studies show high failure rates of M/A deals. However, studies most frequently focused on individual determinants. The literature, Straub ARGUES, lacks a more comprehensive framework that includes different perspectives. Following are some brief quotes concerning failure rates:

- "Approximately two out of every three M&A fail to achieve the intended goals which were the stated reasons for the business deal."
  http://www.handels.gu.se/epc/archive/00004170/Antwerp and Belgium 2005.
- "The success rate of M&A has been poor -- some estimates put failure rates as high as 60-79% (Strategic Mgmt Research Center, 2005)."
- The states on M/A failure, in fact, might be gloomier than the American divorce rate. Depending on whether success is defined by shareholders' value, customer satisfaction, or some other measure, most research places the merger failure rate somewhere between 50 and 80% (Why Business Marriage Fail?).

Bertoncelj & Kovac (2007) indicated that for an M/A to succeed, certain factors should be seriously considered. Hard factors include-a professional target search and due diligence, a realistic assessment of synergies, the right mix of financial sources, a detailed post-acquisition integration plan prepared in the pre-deal phase and the speedy implementation of that plan.

The five soft success factors for M/A are implementation within a new "combined" organizational culture, a competent management team, innovative employees, efficient and consistent communication, and a creative business environment. Even though they differ in their importance for individual companies, they are all considered essential to increasing the success rate of corporate combinations (Bertoncelj, & Kovac, 2007, pp. 167-188).

Effect of Banks' Mergers upon Affected Groups (Stakeholders)

"Bank mergers are a very pertinent issue in the Canadian financial services industry. When a merger successfully passes through the merger review process, it affects a variety of different groups: the Government, the chartered bank, top managements of the merged entities, the general public, bank employees, bank shareholders, bank customers and communities" (Task force on the Future of the Canadian Services Sector, 1998, p.8).

Bank Executive

Richard J. Rosen, Assistant Professor of Finance, Indiana University, indicated that those who "may benefit the most from bank mergers are those in the banks' top management." Rosen and Richard T. Bill examined a major study where bank mergers offered private benefits in the form of increased compensation for bank chief executives. They also analyzed the compensation of bank CEOs between 1986 & 1995, & found strong evidence that "as a bank gets bigger … the salary of the CEOs goes up."

Previous studies also examined the effect of size on compensation. Rosen noted that mergers are a fast way to increase the size of a firm. If a board of directors " reward

[s] managers equally for all types of growth, then a manager desiring a quick increase in compensation will have a strong incentive to make an acquisition." Rosen and others have also found that even though " mergers increase the size of a bank, and can reduce the stock price... and thus reduce a CEOs compensation... even if the bank stock price of an acquiring bank falls...it can still significantly increase managerial compensation" (http://newsinfo.iu.edu/OCM/releases/merger.html).

The impact of mergers and acquisitions on top level of management may actually involve a 'clash of the egos'. There might be variations in the cultures of the two organizations. When this situation arises, the main focuses of the company get diverted and an executive becomes busy either setting matters among themselves or moving on (http://finance.maps of world.com/merger-acquisition/).

Bank Customers

The way in which a merger can improve the cost efficiency that is passed on to customers is a central concern when determining whether a merger may be legally undertaken. Studies in the United Kingdom have shown that retail bank mergers between 1998 and 2004 led to significantly enhanced cost efficiencies for merging banks (Ashtan et al., pp.2-3).

"The overall interest rates for most banking services are not significantly influenced by the mergers. Many studies have investigated the influence mergers have had on the efficiency of merged banks and a few studies have shown the effects of retail bank mergers on the interest rates received by, or charged to, retail banking consumers"(Amel et al., 2004).

An examination of consumer deposit data shows how merging banks and their rival banks within local markets change interest rates. This study indicated that mergers occurring in more concentrated banking markets lead to adverse short-term deposit interest rate change (Prager and Hannan 1998). On the other hand, the long-term interest rates after a merger can be changed and/or it can be positive due to hypothesized medium- term efficiency changes (Focarcli et al., 2003).

Post-merger interest rate changes that may present many challenges in financial institutions include new sources of competition as domestic markets are opened to the world by trade agreements and by new technology. This competition will benefit consumers or clients but it is forcing existing institutions, because the company after merger reduced interest rates that mean the company does not make sufficient amount of money. As the report makes clear, there are many different strategies being followed and although consolidation through a merger is a valid business strategy, it is not the only valid business strategy. As institutions seek ways to build on their strengths to serve customers better, there will be tremendous opportunity for those institutes that are successful post-merger (Task Force, Sept. 1998, p.5).

Based on financial industry's merger history, bank branch closure is one of the most important aspects of M/A. Mergers always create a new technology, especially for the successful merger. Customers have expressed displeasure at the declining quality of service as call centers and ATMs have come to replace the traditional face-to-face banking services. Consumers still overwhelmingly prefer to have quality personal service. This shift away from traditional face-to-face banking customer services is a problem for most customers and communities who are not comfortable with new electronic means of banking, especially people who cannot find any information or education about these new banking technologies.

In addition, elderly and disabled people face particular problems when forced to rely on ATM machines for their banking services. People from non-English speaking backgrounds and people without access to education about new services are adversely affected. A recent 1999 survey found that "70% of the people were not comfortable with banking services offered over the internet" (Finance Sector Union, social obligation of Australia's Finance Sector).When banks close branches; it means an increase in fees and the loss of jobs. Additionally, the staff at remaining branches must cope with increased stress and complaints from customers, which in turn is a distraction from delivering quality customer services (Hand, 2001).

Mergers threaten to hurt at least some customers in three ways. First, post-merger staffing cuts may displace some or all of the particular officers whose favor customers had previously cultivated. Surviving loan officers are unlikely to be aware of every important contact the customer has previously had with one partner.

Second, in eliminating a competitor, the merger may curtail some customers' bargaining power. Finally, an enhanced government guarantee would shift risk to the customer in its capacity as a taxpayer. Bank merger announcements reduce the equity value of small publicly traded firms that are target customers. Consistent with the hypothesized joint effect of large in-market mergers on competitive pressure and with the reduced competitive pressure on customer bargaining power, the decline in equity value increases with the size of the target bank. In addition, the stock prices of relationship customers of the acquiring bank increase (Karceski, Ongena, and Smith, 2005). A relationship customer is one who enjoys a history of successful contacts with a bank. A recent study found that target customers are likely to be people who have terminated their relationships with their previous bank. These effects are more pronounced for smaller customers with alternate lending relationship (Degyse, Masschelein and Mitchell, 2003).

Modern banking theory emphasizes that many repeated points of contact with established customers helps private information and mutual trust. Diamond's "Delegated Monitoring Hypothesis" holds that banks either win access to inside information from good customers or uncover such information through analysis undertaken in the course of supporting and observing their customers' loan and deposit business (Diamond, Douglas, 1984, pp. 393-414).

Bank Employees

"In a combination, one of the few areas employees feel they have control over is whether to stay or leave the company. The best and the brightest among the workforce, those with skills and experience most in demand, are the most marketable and most likely to walk away. Recruiters swarm over companies engaged in combinations; talented employee influences are vulnerable to poaching competitors. Retaining key personnel and trained employees influence overall business success, but professional intellect can the most of the value in the new economy of the post-industrial information ages" (Marks and Mirvis, 1988, p.46).

Opponents of consolidation have argued that the proposed mergers would necessitate a large reduction in the number of staff employed by the post-merger company. Even pro-consolidation scholars such as Matheson and Quigley (1998) concede that substantial staff reductions may occur as the result of mergers. It is clear that staff reductions will occur immediately following consolidation. An interesting insight about the effect of consolidation on staffing could be available by examining the data. The rationalization of the company is that the results of acquisitions indicate that after an initial period of transition there is a net expansion of employment and in the total wages per employee.

"Although the consolidation of the trust and banking sectors represents rationalization based on the economies of scope rather than scale, it nonetheless indicates that the net employment and wage effects of rationalization may be positive or less negative. But questions still come to mind and critics of consolidation wonder how the rationalization process can result in such a wide scope of beneficial results, namely higher levels of employment, increased wages, and heightened opportunities for growth" (Clemens, Jason, 1998, pp. 24-25).

It is well-known fact that with the consolidation of a company, there are bound to be lay-offs, which is confirmed by the aftermath of mergers and acquisitions. When a post-merger company is efficient business wise, it requires less number of people to perform the same task. Under such circumstances, the company would attempt to downsize the labor force. If the employees who have been laid-off possess sufficient skills, they may in fact benefit from the layoff and move on to greener pastures. It is usually seen that the employees who are laid off would not have played a significant role under the new organization. These workers look for reemployment and may have to be satisfied with a lesser pay package than they had with their previous company (http"//finance.mapofworld.com/merger-acquisition/impact.html).

Bank Shareholders

The financial industry has experienced an unprecedented level of consolidation as mergers and acquisitions among large financial institutions have taken place at records levels with approximately 1500 mergers in one year recorded in the United States. To a large extent, these consolidations are based on a belief that gains can accrue through expense reduction, increased market share that leads to market power, reduce earning volatility, and scale and scope economies. If consolidation does in fact lead to value gains, then shareholders' wealth can be increased. On the other hand, if consolidating entities does not lead to the promise of positive effects then mergers may lead to a less profitable and less valuable banking industry" (Amihud, Yakov & Geoffrey Miller, 1998, p.59).

Many studies on stock price reactions to consolidation announcement have indicated negative average returns for acquirers, positive average returns for acquires, and a zero average change in the value of the combined institutions. Shareholders benefits through financial industry mergers are based on the high potential for cost savings. This is possible because two business institutes are overlapped and can therefore consolidate technological platforms and efficiency, maximizing the culture of both management teams. The increase in earnings provides equal benefit to all shareholders regardless of size. Furthermore, since the two management teams have developed an integration plan and have completed their respective due diligence exercise, it is highly expected that this merger will increase shareholder wealth and lead to measurable cost savings. Marsaw, Poland, Business Wire, Nov. 3, 1999/http://findarticles.com/particles/mi_moei

Mergers are used as a surplus fund when a merging firm becomes a mature industry. Although such a firm generates a substantial amount of cash, it may have few profitable investment opportunities. Ideally such a firm should distribute the surplus cash to shareholders by increasing its dividend payment or by a stock repurchase. If the firm is not willing to purchase its own shares, it can purchase someone else's. Thus, firms with a surplus of cash and a shortage of good investment opportunities often turn to mergers financed by cash as a way of redeploying their capital.

"Some firms have excess cash and don't pay it out to stockholders or redeploy it by acquisition. Such type of firms often finds themselves as targets for take-over by other firms who propose to redeploy the cash for them" (Jensen, MC. 1989, p.61-74). The shareholders of the acquired company or firm benefit the most because in the majority of cases the acquiring company usually pays a little more than it should and because the company has to offer an amount more than the actual price for the shareholders to forgo their shares. In this case, buying a company at a higher price can actually prove to be beneficial for the local company.

The shareholders of the acquiring firms are mostly affected, in contrast the measure the benefits enjoyed by the shareholders of the acquired company in degree, the degree to which they were benefited, by the same degree, these shareholders of the other firm are harmed. This can be attributed to debt load, which accompanies an acquisition (http://finance.mapsofworld.com/ merger-acquisition/impact.html).

General Public

Financial services are a fundamental aspect of the lives of almost every Canadian. A well functioning financial system is vital to the commercial economy and it is a catalyst of economic growth and job creation. It may impact the general population if the bank's merger successfully passes through the merger review process, and because the impact of changes to the financial system is so great on the Canadian public, every precaution must be taken to ensure that the public's best interests are protected when considering whether or not to allow a merger of financial institutions.

Canadians have great expectations of their financial institutions, and therefore they demand a higher standard from merging corporations than from other companies. There are many reasons why bank mergers can have a significant affect on the Canadian public, including the strict regulations imposed on the foreign competition, the need for firms to be internationally competitive, and the resulting technological innovation. The most important reasons bank mergers have such a noteworthy affect on the Canadian public is because the market is already so highly concentrated. More concentration in the banking industry could be detrimental to the public interest.

This paper attempted to discover which groups were directly or indirectly involved with the TD/CT merger and examine the merger's real life impact on them. A bank merger is in the best interest of the public and does not create an anticompetitive environment.

The government has to undertake the consideration of public interests, the effects on the economy, and the stability of the Canadian financial system. Banks have a huge impact on Canadian and their economy, serving personal financial needs, providing employment and generating tax revenue.

The Asian financial crisis involved an industry-wide bank consolidation program within the Malaysian banking sector, which underwent a comprehensive merger exercise. During 1996 to 2002, a Malaysian domestic bank's pre-and post-merger efficiency scores were measured and compared. The post-merger bank's performance was assessed by comparing pre-and post-merger relative efficiency scores. The degree to which post-merger bank efficiency gains are passed on to the public is estimated by measuring the percentage (%) changes in the post-merger deposit market shares.

Traditional merger theory stipulates that merging is a scarce corporate resource from a firm of lesser capability to one that is able to put those resources to better use (Rvenscraft and Scherer, 1987). Mergers are regarded as a purging exercise where incompetent management is removed and a search for cost savings (efficiency gains) is carried out. A market merger is expected to result in cost savings when neighboring branches are closed, but this does not necessarily indicate improved efficiency. Unless cost savings arise from improved institutional efficiency, the public may or may not benefit from the merger.

A merger leads to the concentration of resources and a faster capital growth normally favored by regulatory agencies, but it could be followed by reduced operating efficiency unless changes are reengineered into the merged entity (Allen, 1994). Such a scenario would mean that the public could be paying for services at prices in excess of competitive norms (Rhoades, 1998). The Australian Competition and Consumer Commission (ACCC) consider public benefits to include enhanced customer service, greater efficiencies, protection of employment benefits and "anything which leads to a better utilization of resources" (Woodward, 1996, p.5).

Free-market forces prefer firm takeovers as they help an efficient management to extend their business. Large-scale operations are required to compete effectively in world markets for capital, goods and services. The potential threat of hostile takeovers now provides an effective control mechanism against inefficient management, and it ensures that management's self-interests cannot result in significant deviations from the goal of maximizing shareholder wealth. To quote from a recent annual report from the American President's Council of Economic Advisors, "[t]he available evidence is that mergers and acquisitions increase national wealth. The mergers also improve efficiency, transfer scarce resources to higher valued uses, and stimulate effective corporate management" (Demott, 1985, p.61).

Community Development

Many people involved in community developments watched the proposed merger of the Bank of America Corp. and the Fleet Boston Financial Corp. because the Bank of America pledged to lend and invest $750 billion for community economic development in the next 10 years. The National Housing Conference (NHC) also provided testimony in support of the acquisition because the Bank of America is a principal participant in the Federal Home Loan Bank Affordable Housing Program (FHLBAHP).

The Bank of America's recent $750 billion pledge represents an expansion of the previous community development pledges by both Bank of America and Fleet Boston. The Bank of America has also announced that it will provide $1.5 billion in philanthropic grants over the next 10 years. On an annual basis, this promise represents a 40% increase over the combined charitable giving of both of the banks in 2003 (http://www.housingfinance.com /ahf/articles/2004/March/Bank_merger_html).

Summary of Chapter II

In this chapter, a brief history of bank mergers and acquisitions that means in several times the financial industries are merged in Canada, the reasons are applied why the banking industry is favored. In this research study, the ten reasons for mergers were explained in detail. The effect of business cultures on a merger was discussed. The effect of bank mergers on various groups such as executive, employees, customers, shareholders, top management, communities, the general public and governments was also reviewed. This chapter will now be used as a background for Chapter -- III, in which an in-depth case to study, the horizontal merger of TD Bank and Canada Trust in 2000 will be presented. In this case study, the author will attempt to determine whether the merger that took place actually achieved its expressed goals.

Chapter III

A CASE STUDY-TORONTO-DOMINION BANK/CANADA TRUST MERGER

Methods of the Study

Introduction

A case study is a research strategy, an empirical inquiry that investigates a phenomenon within its real life context. Case study research relies on single and multiple cases which include quantitative evidence, uses multiple sources of evidence, and utilizes existing theories. Case studies should not be confused with quantitative research, as case study research uses a mixture of quantitative and qualitative evidence (Lamnek, 2005).

This research study is a case study of the merger between Toronto Dominion (TD) Bank and Canada Trust (CT) in 2000 in Canada. The case study was designed based on the research question: To what extent did the merger of the Toronto-Dominion Bank and Canada Trust (CT) in 2000 result in cost efficiencies and an increased market share, and to what extent did the stakeholders benefit from (or were harmed by) the merger? In addition to this main question, there are nine component questions that will be discussed in detail in Chapter--III and are used to support the investigation to findout the answer to the main question.

In this study, the investigator used three different research methods, including observation, interviewing as a non-statistical and quantitative research as a statistical research method. The research entailed consulting primary as well as secondary sources based on observation, TD Bank and Canada Trust corporate annual reports, TD Bank's accountability and responsibility reports, different newspapers, including Toronto Sun and Toronto Star, financial and economic journals, books, websites, DBRS, metro reference libraries and university libraries.

Interviews are one of the best and most important methods to achieve authentic results based on real-life context. Interviews can be used to resolve conflicts or questions either face to face or via telephone. The investigator interviewed many knowledgeable people who directly or indirectly helped the investigator collect information regarding this study. This research study looked at topics including cost efficiency, market share and stakeholders' benefits, business cultures and business advantages.

Quantitative research method was mainly used to collect physical data which was available from the TD Bank, Canada Trust and other institutions based on corporate tax returns, government regulations, gross revenues, direct cost and overhead expenses. These ingredients were used to verify corporate goals through the merger between TD Bank and Canada Trust in 2000. This study also examined the effects on cost savings through a merger and how it was passed on to customers as well as other interest groups who were involved with this merger. Market share is one of the most important items that was studied as it is closely related to a merger's success or failure. Through in-depth research, investigator studied and compared pre- and post-merger market share among all Schedule-I banks in Canada.

A Brief History of the Merging Banks

Toronto-Dominion Bank and Canada Trust

Toronto-Dominion Bank began service on February 1, 1955. It was created from two Ontario-centered banks. The first was the Bank of Toronto, which was granted a charter in March 1855 in Upper Canada and used Toronto as an operational center. Its growth was very slow and deliberate, with a few branches opened in emerging regional centers. Its core customers were farmers, merchants and processors of farm products (millers, brewers and distillers).

The second bank was Dominion Bank, which began operations in 1871 and was also centered in Toronto. Both banks followed policies of strict credit and slow growth, and benefited from World War-II. After 1945, both banks became more active in business lending and in the penetration of new markets. Management in the early 1950s came to realize that in order to take advantage of the opportunities presented by the post-war economy; it would be advantageous to merge as both banks were roughly of equal size.

Negotiations began in 1954 and on February 1, 1955 the Bank of Toronto and the Dominion Bank became the Toronto-Dominion Bank. The Toronto-Dominion Bank continued to grow and took advantage of the opportunity offered by two federal laws, the Bank Act, 1967 and the Bank Act, 1987. The Bank Act, 1967 ushered in a period of enormous change on the Canadian financial scene.

Banks were permitted for the first time to charge more than six (6) percent (%) interest on loans, encouraging a new emphasis on personal and specialized consumer loans. More significantly, banks could make mortgage loans on real estate and the mortgage loan portfolio quickly gained enormous significance.

The Bank Act, 1987 caused a blurring of the four banking pillars, as it brought about the deregulation of existing bank barriers. For example, banks moved into the brokerage business. The changes to the Bank Act included a "sunset" clause, which required a periodic reassessment of the Act. TD Bank recognized the benefits of the Trust business when it absorbed Central Guaranty Trust in 1992, after which it operated as TD Bank and Trust.

Canada Trust was originally known as the Huron and Erie Loan and Savings Company. It began operations in 1864. There is some historical evidence that an individual involved in starting Canada Trust was also involved in beginning the Bank of Toronto. Canada Trust was one of several financial institutions instrumental in providing farming communities and residents of the growing rural town across Canada with mortgage funds and other financial services. It was consistently aggressive in building its business and marketing services, and became an innovator in customer service (http://en.wikipedia.org/wiki /Toronto Dominion_Bank History).

"On February 1, 2000, the TD Bank acquired substantially all of the common shares of Canada Trust (CT). The total consideration in respect of this purchase amounted to $7,998 billion, paid in cash. The cash for the acquisition was obtained as the issue of common shares, issue of preferred shares, issue of trust units of subsidiary, issue of subordinated notes, whole sale deposits and less fees and expenses" (TD Bank annual report, 2000).

Canada Trust, the last of the independent trust companies in Canada, was swallowed by TD Bank. Shares of TD Bank have fallen since the announcement of the merger but TD Bank felt it needed to be bigger to compete with Canada's other five big Banks (http://www.highbeam.com/doc/1G1-30436963.html). Canada Trust was acquired by the Toronto-Dominion Bank in February 2000 and the merger was approved by the Competition Bureau and the Minister of Finance in January 2000 on the condition that the merging parties provide written undertakings to divest certain bank branches as well as Canada Trust's MasterCard credit card portfolio to acceptable purchasers within a specified time period.

The Competition Bureau required these divestitures to remedy competition issues in retail/branch banking in the Kitchener, Port Hope and Brantford markets, as well as in the Canadian credit card network market. Following the merger, the merging parties managed and operated these assets independently from their own operations prior to being divested.

Toronto-Dominion (TD) Bank has fulfilled its obligations as specified in the written undertakings. In particular, with prior approval from the Bureau, it sold 11 retail branches in Paris, Ontario to Laurentian Bank of Canada. In addition, Toronto-Dominion Bank sold the Canada Trust MasterCard issuing portfolio to CITI Bank Canada and the acquiring portfolio of MasterCard to First Data Acquisition Corp. (http://www.apeccp.org.tw/doc/Canada/Statistics/13a.html).

Canada Trust Financial Service is a holding company incorporated under the Canada Business Corporations Act and operated through two principal subsidiaries, Canada Trust Co. Mortgage Company and the Canada Trust Company. These two subsidiaries are fully integrated for operating purposes and carry on business under the name Canada Trust, and are subject to the Federal Trust and Loan Companies Act (the

"Federal Act") and provincial legislation. Canada Trust was the largest trust and the loans company in Canada based on total assets. Canada Trust's history dates back to one of Canada's first mortgage companies, incorporated in 1855, and to Canada's first trust company, formed in 1872. Canada Trust Co… provided core banking, lending and wealth management services (CT Financial Services 1999 annual report, pp.6-8).

TD Canada Trust became a leader in personal and commercial banking in Canada. The integration of Canada Trust has been a major focus since the transaction closed in September 2000; TD successfully integrated the TD Green Line family of no-load mutual funds and the Canada Trust mutual funds family, and offered TD's customers one of the largest mutual fund families in Canada, with 67 funds and 30 managed portfolios. TD Bank is one of the top three on-line financial services firms in the world and became a global multi-channel e-commerce company.

TD Bank completed two critical tasks in 2001: The integration of Canada Trust and the implementation of a single brand cross the country. The merger with Canada Trust was the largest financial services merger ever completed in Canada. Canada Trust brought together hundreds of branches, thousands of employees and millions of customers, and TD Bank became the second largest bank in Canada as well as a leader in most retail businesses (TD Bank annual report, 2000, p. 4).

Regulatory Impact on the Canadian Financial Industry & Public Interest

A task force in 1997 provided recommendations on a basic framework and process for financial sector mergers. However, this analytical framework excluded mergers among Schedule-I banks in Canada (Dept. of Finance, '1997, Canada/www. Fin.Gc. Ca/News97/97-058e.html, Ottawa, July 11, 1997).

Based on the task force decision, the Government of Canada rejected a few proposed mergers in 1998, including two pairs of leading Canadian banks: Royal Bank of Canada (RBC) with the Bank of Montreal (BMO), and Toronto-Dominion (TD) Bank with the Canadian Imperial Bank of Commerce (CIBC). The Canadian government decided to modify the existing framework by including guidelines for a review of merger proposals of major banks. The revised merger review policy, outlined in the task force's 1999 report "Reforming Canada's Financial Services Sector: a framework for the Future," (www. fin.Gc.ca/Finserv/Docs/Finservrept.E.pdf June 25, 1999), applied to mergers among banks with shareholders' equity over $5 billion. The formal review process for large banks consists of three phases: an examination, decision and remedies stage.

The review process begins when bank apply to the regulatory agencies for permission to consolidate. The banks are required to prepare a Public Interest Impact Assessment (PIIA), which must provide information on the costs and benefits of the proposed transaction as well as its impact on the financial services sector. The PIIA is then evaluated by the finance committee on the public interest issues that are raised by the proposed merger. Concurrent with these hearings, the Competition Bureau and OSFI in Canada conduct their respective reviews of the transaction from the market composition and soundness of the financial system viewpoints. The federal government requires more merger participants to undergo a detailed public interest review process, costs and benefits to consumers.

"One of the most significant developments in Canada in the past two decades has been the gradual reduction of government regulations involvement in financial systems.

The government intervention usually taken the form of regulation, the simplification or elimination of regulations is called deregulation. The form of regulation includes interest rate regulation, restriction on type of financial activities, restriction on entry, restrictions on ownership, and restrictions on international financial transactions/movements of funds" (Siklos, Pierre L., 2004, p.7).

In addition, the following Bank Act amendments are made by historical viewpoints and chronologically set up their impact on banking business performance. In 1954, the Bank Act amendments allowed banks to enter and compete for household loans. In 1967, the amendments further enhanced competitive pressures by eliminating the 6% ceiling on interest rates; banks were permitted to finance residential mortgages; and deposit insurance for banks and trust mortgage loan companies were introduced.

Despite these reforms, banks were prohibited from owning trust companies and a 10% ownership limit was imposed on shares of banks. In 1980, the Bank amendments allowed foreign banks to establish subsidiaries in Canada (the aggregate size restrictions were removed in 1989 for US banks as part of the Canada-United States of America Free Trade Agreement and in 1994 Mexican banks became part of NAFTA, and in 1995 the rest of the foreign bank subsidiaries were included in this amendment). The Canadian Payments Associations (CPA) Act was passed and the CPA took over cheque clearing from banks.

In 1987, restrictions that kept banks out of the securities industry were eliminated. From June 1987, there were no limits on investments in securities firms by Canadian Financial Institutions, and non-residents were permitted to own up to 50% of a securities firm (100% from 1998) (Group of Ten: January 25, 2001).

Once an application and all supporting documents are provided, the review process enters the negotiation stage if the concerns are considered to be negotiable. The Competition Bureau and OSFI, in coordination with the Department of Finance negotiate the overall set of soundness, competition and other public interest remedies with the merger applicants. The merger proceeds only upon agreement among the participants on all terms and conditions that reflect those remedies, subject to the final approval by the Minister of Finance.

Stated Purpose of the TD/CT Merger

The stated purposes of the TD Bank/Canada Trust merger were to gain cost efficiencies and an increased market share for the merging corporations without substantially harming the various interests involved in both the TD Bank and Canada Trust. The main question of this study is whether these purposes have been achieved as a result of the merger, in terms of the component questions outlined in Chapter--I.

Pre-Merger Tax Return for both Institutions (TD Bank and Canada Trust)

Based on the component question #1 (See in Chapter--I), the combined financial statements of both financial institutes (TD Bank/Canada Trust) indicate that the merger between the TD Bank and Canada Trust was a profitable endeavor, as reflected by a comparison of tax-return data filed before and after the merger.

Tax returns are one of the most significant issues for merging companies, as they indicate whether the merger was profitable or not. In this research study, the researcher compared combined tax-return for both TD Bank and Canada Trust (CT) prior to the merger to that of TD Canada Trust merger as several years. This data shows that, according to the differentiation, result of the merger was a profitable endeavor. Table 2 also explicitly shows the commingle tax paid to Canadian federal and provincial governments based on corporate total sales revenues between the pre- and post-merger.

Taxes on Gross Revenue

Taxes must be paid to the government every year by both business corporations and individuals who are living and doing businesses in Canada. For this research study, a basic appreciation of the tax environment is essential in order to evaluate corporate gross incomes based on the total sales revenues. The areas of tax paid or returns that are particularly pertinent to financial decision-making include the following:

a) the taxation of corporate income;

b) expenses and deductions allowed in determining taxable income;

c) the taxation of individual income, including dividends and interest received;

d) the taxation of business capital gains.

In Canada, both the federal and provincial governments levy taxes on individuals and corporations, with provincial tax rates varying by province. Both the levies are to be considered, for it is the combined tax bill that is relevant in deriving after-tax cash flows, because the Income Tax Act (R.S.C, 1952, C.148) stipulates different treatments for public, private and individuals who control private corporations. In most industrialized Western countries, the tax rate on corporate income is close to 50%. In Canada, the combined federal and provincial tax levied on corporate income follows this pattern and is generally under 50%.

"Taxes are computed by applying tax rates to taxable income. In this research study, bank merger that influences the calculation of taxable income, and in particular some of the more important expenses, and deductions that can be claimed against gross income, thereby reducing a firm's taxable income" (Lusztig, et al., 1988, pp.58-61).

The merger between TD Bank and Canada Trust took place in 2000 in Canada. For convenience, the investigator collected data connected with the merger for five years prior to the merger date (1995-1999). Similarly, to study the changes after the merger, the researcher collected data relevant to the merger for five years after the date of the merger (2000-2004). Data collected for the five years before and after the merger provided enough opportunities to examine the bank's situations immediately before and immediately after the merger. Some supplementary tables containing data from 2005 to 2009 were also deliberately included to verify the conclusions.

Table 2. Combined of TD Bank and Canada Trust Tax Return Data on Average (1995-1999) and year-over-year $m.

Fiscal Year 1995-1999	TD Bank Tax Paid $m	Canada Trust Tax Paid $m	Total Tax Paid (TD &CT) $m	Mean Tax paid $m
1995	769	148	917	
1996	829	103	932	
1997	1,106	107	1,213	1,132
1998	983	105	1,088	
1999	1,357	152	1,509	
Total	5,044	615	5,659	
Average	1,009	123	1,132	

Source: Corporate annual reports

Table 3. Comparison of TD Bank's post-merger Average (2000-2004) of Tax Return Data and year-over-year $m.

Fiscal year 2000-2004	TD Canada Trust Tax paid $m	Total Tax Paid $m	Mean Tax paid $m
2000	901*		
2001	626		
2002	355*	4,763	953
2003	1,387		
2004	1,494		
Total	4,763		
Average	953		

Source: Tables 2 and 3 are developed from the corporate annual reports.

* Indicate the TD Bank Tax paid in 2000 and 2002 is a significant outlier due to the 9/11 attack on the World Trade Centre in New York.

Tables 2 & 3 summarize the comparison of tax return data filed before and after the merger of the two financial institutions. Based on its gross revenues, Canada Trust paid $123 million in average income tax per year prior to merger. Similarly, the TD Bank paid taxes of average amount $1,009 million per year prior to merger. On the other hand, in 1999 prior to the merger TD bank paid $1,357 million in taxes and Canada Trust paid $152 million. Prior to merger, the two institutions paid Canadian governments at both provincial and federal levels $1,132 million in taxes, but after the merger in 2000, the TD Canada Trust paid only $953 million in taxes.

This indicates that after the merger TD Canada Trust saved $179 million, or approximately 16%, on its average income tax payment. Individually, TD Bank paid $1,357 million in taxes in 1999 and paid $901 million in 2000 after the merger, which means TD Bank saved approximately 34%. Therefore, this merger was profitable due to huge savings in tax payments. Normally, merged entities receive benefits on tax payments after a merger due to increase expenses, including restructuring costs. Based on this, it is clear that TD Canada Trust saved a huge amount of money as anticipated.

Table 4. Comparison of TD Bank's pre-merger Average (1995-1999) Tax Return with percentage (%) rate

Fiscal Year 1995-1999	**Net Income $m**	**Income Tax Paid $m**	**Percentage (%) of tax rate**
1995	**1,241**	**447**	**36%**
1996	**1,410**	**496**	**35%**
1997	**1,729**	**641**	**37%**
1998	**1,732**	**661**	**38%**
1999	**4,127**	**1,099**	**27%**

Source: corporate annual reports from 1995-1999

Table 5. Comparison of TD Bank's post-merger Average (2000-2004) Tax Return with percentage (%) rate

Fiscal year 2000-2004	**Net Income $m**	**Income Tax Paid $m**	**Percentage (%)**
2000	**1,540**	**305**	**19.8%**
2001	**1,462**	**(155)**	**-11%**
2002	**967**	**(406)**	**-42%**
2003	**1,490**	**322**	**21.6%**
2004	**3,205**	**803**	**25%**

Tables 4 and 5 include tax return data from before and after the merger that indicate TD Bank paid $1,099 million in taxes for 1999, at a 27% rate. Similarly, after the merger TD Bank for 2000 paid $305 million in taxes, at a 19.8% rate. This makes it clear that TD Bank saved $794 million.

Effect on the Merging Banks' Gross Revenues, Costs and Expenses

Gross Revenue

Gross revenue is the sum of all revenue streams before the application of expenses, loans and income taxes during a specific period. Revenue streams include interest income, earnings from trading activities, brokerage fees, mutual fund management fees, income from securities loans and other revenues (investment and securities services), credit fees, net investment securities gains, trading income, service charges, card services and insurance.

Non-Interest Income

By definition, non-interest income includes all streams of income other than interest income. Non-interest income includes credit fees, trading income, card services and insurance.

Interest Income

By definition, the interest income is generated by monies secured in three generalized sources: loans, securities and deposits with banks. A secure long-term fixed income investment will generate interest income. "Canadian investors understand that fixed income investments are an integral part of every well-balanced portfolio. They provide safety of principal, regular interest income and the potential to generate capital gains"(http://www.tdcanadatrust.com/products-service/investing/fixedincome/about-fixed-income-investmentes).

Table 6. Comparison of pre-merger Gross Revenue in both Financial Institutions: TD Bank and Canada Trust (1995-1999) $m.

Fiscal Year 1995 - 1999	TD Bank Interest Income $m	Canada Trust Interest Income $m	Sub Total Interest Income $m	TD Bank Non-Interest Income $m	Canada Trust Non-Interest Income $	Sub total Non-Interest Income $m	Grand Total: Interest + Non-Interest Income $m	Mean Gross Revenue $m
1995	7,409	3,925	11,334	1,299	1,327	2,626	13,960	
1996	7,360	3,779	11,139	1,608	1,608	3,216	14,355	
1997	7,826	2,802	10,628	2,650	685	3,335	13,963	15,728
1998	9,997	2,877	12,874	3,197	742	3,939	16,813	
1999	10,874	3,021	13,895	4,809	844	5,653	19,548	
Total	43,466	16,404	59,870	13,563	5,206	18,769	78,639	

Source: Corporate annual reports.

The Canadian economy remained at its strongest through the end of 2000. After expanding by a hefty 4.5% in 1999, the economy grew at an annualized rate of about 5% in the first three quarters of 2000 with growth above 3% in the fourth quarter. The unemployment rate dropped below the 7% threshold, which had not happened at any time during 1980s to 1990s. TD Bank management expected the Canadian economy to shift to a more moderate growth path of about 3% in 2001.

TD Canada Trust had outstanding results in 2000, with growth in revenues, market share and operating income. The integration of Canada Trust continued on schedule while the TD Bank maintained strong business and earning momentum. It seemed the bank anticipated the retail banking business would continue to have solid results over the next year (2001) due to integrating the retail distribution channels and focusing on being in the forefront of new banking initiatives like electronic banking and e-commerce without reducing customer service.

Table 7. Comparison of TD Bank's post-merger Average (2000-2004) Gross Revenue $m.

Fiscal Year 2000 -2004	TD Canada Trust- Interest Income $m	TD Canada Trust- Non-Interest Income $m	Total Gross Revenues $m	Mean Gross Revenue $m
2000	13,675	6,400	20,075	
2001	14,471	6,447	20,918	
2002	11,751	4,929	16,680	17,863
2003	11,202	4,424	15,626	
2004	11,132	4,883	16,015	
Total	62,231	27,083	89,314	

Source: Corporate annual reports.

Tables 6 and 7 summarize the gross revenues before and after the merger of TD Bank and the Canada Trust. It was clear that the interest income of TD Bank and TD Canada Trust basically comprised the following four products: loans, dividends from securities, interest on securities, and deposits with other banks. Canada Trust had nine financial products that provided investment income: short-term notes, securities, mortgages, loan secured by real estate, consumer and collateral loans, credit card loans, equipment leases, and net real estate investment properties.

The author compared TD Bank's pre-merger (1999) gross revenues for both interest income and non-interest income, which amounted to $15,683 million and the post-merger 2000 amount $20,075 million. It showed increased revenue of $4,392 million. This increased amount of 22% indicated the company was moving forward, continuing to date.

The customer base was considerably larger due to a combination of two financial institutions and their goodwill and reputation. Simply and unsurprisingly, more customers brought more sales revenues. This merger results shows that the management of TD Canada Trust was very active and sincere in handling the merger. As a result, the business rightly anticipated better performance and continued success from 2009 onwards.

"**Cost** is the value that must be paid to acquire goods or services and value is defined as one of or a confirmation of money, time and labor, and/or, the amount paid or charged for something (i.e., price/the loss or penalty incurred in gaining something) (The Canadian Securities Courses, vol.1 Gls.4, 2000)." In business, cost is usually a monetary valuation of: (i) effort, (ii) material, (iii) resources, (iv) time & utilities consumed, (v) risks incurred, and (vi) opportunity forgone in production and delivery of a good or service. All expenses are cost, but not all costs (incurred in acquisition of an income-generating asset) are expenses (http://www.businessdictionary.com/definition/cost.html).

Direct Cost or Variable Cost

In the financial industry, the direct costs or variable costs are mainly interest expenses, which include several products such as deposits, subordinated notes, and debentures. Interest costs are the total interest incurred over the entire term of a loan or credit facility, i.e., fee paid for using other people's money. To the borrower, it is the cost of renting money, to the lender, it is the income from renting (lending) it out (http://www.business dictionary.com/definition/interest).

Basically, there are two different types of costs: (i) fixed cost/overhead expense / non-interest expense, (ii) variable cost/direct cost/interest expense. In this study, overall expenses include fixed costs and direct costs. The main fixed costs are staffing, including salaries and staff benefits; occupancy, including depreciation; equipment including depreciation; and restructuring costs.

Table 8. Combined of TD Bank and Canada Trust pre-merger (1995-1999) Direct Cost $m.

Fiscal Year 1995-1999	TD Bank-Interest Expense $m	CT-Interest Expense $m	Total-Interest Expense $m	Mean Interest Expense $m
1995	4,869	2,751	7,619	
1996	4,855	2,488	7,343	
1997	5,004	1,832	6,836	8,087
1998	7,056	1,829	8,885	
1999	7,898	1,857	9,750	
Total	29,676	10,757	40,433	
Average	5,935	2,151	8,087	

Source: Corporate annual reports

Table 9. Comparison of TD Bank's post-merger (2000-2004) Direct Cost $m.

Fiscal Year (2000-2004)	TD Canada Trust: Interest Expense $m	Mean Interest Expense $m
2000	9,750	
2001	10,080	
2002	6,451	7,411
2003	5,586	
2004	5,189	
Total	37,056	

Source: Corporate annual reports

Tables 8 and 9 show the interest costs on pre-and post-merger performance. All direct costs are shown. TD Bank's pre-merger (1999) costs were $7,898 million and on average amounted to $5,935 million, and the post-merger costs on average amounted to $7,411 million and after merger (2000) totaled $9,750 million. Based on analytical results, it is clear that TD Bank's pre-merger direct costs (1999) on average amounted to $8,087 million and post-merger (2000) direct costs amounted to $9,750 million but on average totaled $7,411 million.

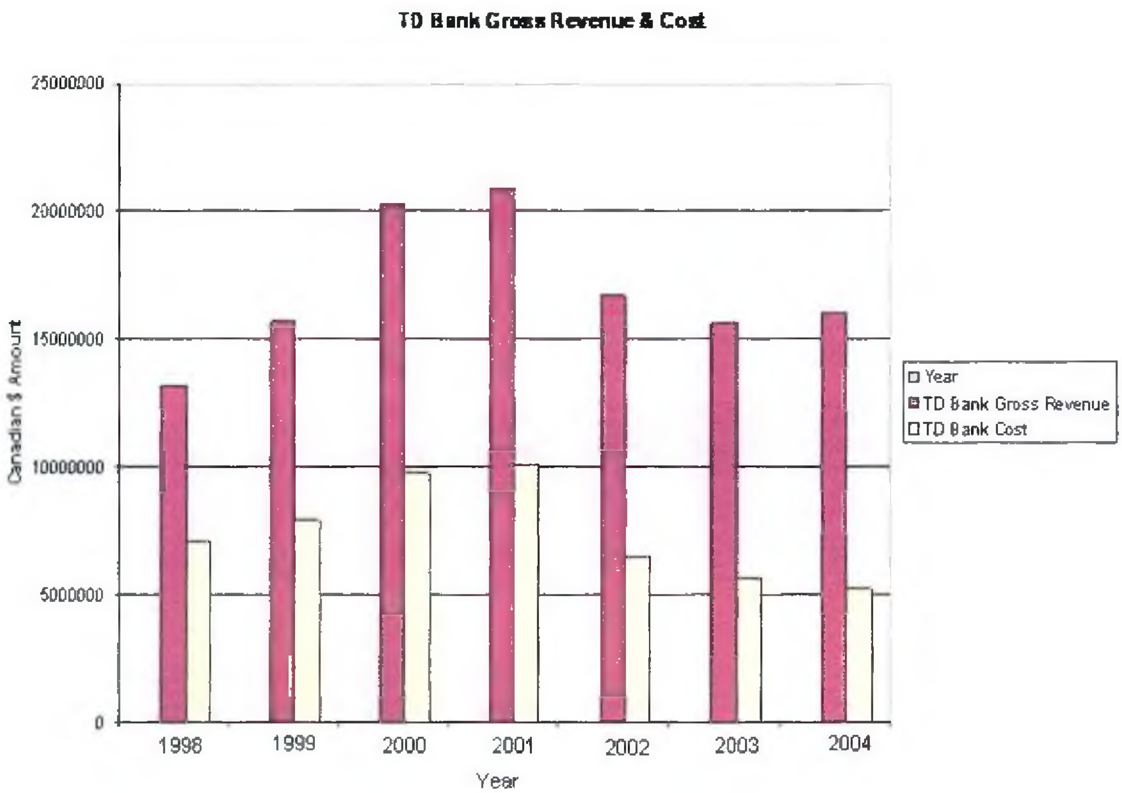

Figure 1: Comparison of pre-and post-merger gross revenue and cost of TD Bank (1998-2004)

Overhead Expense/Fixed Expense/Non-Interest Expense

Overhead expense/fixed expense is non-interest expense/operating expense, the TD Bank includes the product items: salaries, staff benefits, occupancy (including depreciation), equipment (including depreciation), amortization of tangible assets, and restructuring costs, expenses, and obligations.

As outlined in the guidelines by the Competition Bureau, TD Bank's management showed the onus of demonstrating efficiencies that would result from the merger. TD Bank estimated that the merger would result in annual cost savings of at least 10% of non-interest expenses of the combined financial institutions, and while it is difficult to quantify efficiencies, it seems reasonable that the proposed merger would produce cost savings. Efficiency gains from a bank merger may arise through greater scale of economies or rationalization in banking operations.

However, potential efficiency may not be realized in all mergers. Research indicates that about half of large bank mergers reduce costs, while half realize no change in costs, or incur increased costs. Efficiencies would outweigh the anti-competitive impact of a merger, and the Competition Act can provide an exception to allow the merger to proceed (Competition Bureau, 2000).

"Bank mergers can increase worth by reducing costs or increasing revenues. Cost reduction may be a greater achievement when merging banks have geographic overlap. It is the opinion of merging banks that overlap elimination can result in cost savings approximately 30% due to reduction of non-interest expenses" (Houston, et al., 2001, pp. 285-331).

Expense

Expenses are the charges incurred in doing one's job including the expense of a trip or causes of spending. Generally, overhead expenses are absorbed by references to its most casual factor. A rate based on direct material cost is likely to be applicable as a separate secondary overhead rate for applying materials-related overhead expenses. The main justification for its use will therefore be circumstances where the labor and equipment needed for the handling of materials form a major part of the overhead. The method is easily understood and simple to use but time factors are completely ignored.

Thus, apart from its application as a primary rate to certain special department or as a secondary rate, it cannot normally give satisfactory results if time is the causal factor. It is possible that the value of materials used per clock hour is uniform. In such a case, the value of material used would bear some direct relationship to manufacturing time. However, apart from the use of this base means of applying material-related costs, the use of a blanket rate or a departmental rate to absorb manufacturing overhead expenses has little to commend it (Hart, 1973, p.55).

Table 10. Comparison of TD Bank's pre-merger (1995-1999) Overhead/Fixed Expense $m.

Fiscal Year 1995-1999	TD Overhead Expense $m	CT Overhead Expense $m	Total Overhead Expense $m	Mean Overhead Expense $m
1995	1,809	1,151	2,960	
1996	1,972	1,274	3,246	
1997	2,409	1,372	3,781	3,939
1998	2,846	1,285	4,131	
1999	3,751	1,326	5,077	
Total	12,287	6,408	19,695	

Source: TD Bank annual reports

Table 11. Comparison of TD Bank's post-merger (2000-2004) Overhead /Fixed Expense $m.

Fiscal Year 2000-2004	TD Canada Trust Overhead Expense $m	Total Overhead Expense $m	Mean Overhead Expense $m
2000	4,933		
2001	5,195		
2002	5,830	27,857	5,591
2003	5,780		
2004	6,219		
Total	27,957		

Source: Corporate annual reports

Table 10 summarizes the pre-merger corporate overhead expense of TD Bank includes the products items: salaries and staff benefits; occupancy, including depreciation equipment, including depreciation. Similarly, the overhead expense of TD Canada Trust includes the products items: salaries and employee benefits, premises, computers, furniture and equipment, communications, advisory and product fees, capital taxes, deposit insurance. TD Bank and Canada Trust's overhead pre-merger expenses amounted to $5,077 million. Canada Trust's overhead expense in 1999 amounted to $1,326 million and the overhead expenses of TD Bank in 1999 amounted to $3,751 million.

Table 11 summarizes of the overhead expense of TD Canada Trust amounted to $4,933 million (in fiscal year 2000) which includes the following items: salaries and staff benefits; occupancy, including depreciation; equipment, including depreciation; amortization of tangible assets, and restructuring costs. The pre- and post-merger of TD Bank non-interest expenses approximately increased 5.59%. This amount is less than the predicted commitments to Competition Bureau by TD Bank management due to less than 2% lay-offs and the huge restructuring costs were involved. TD Bank management claimed to Competition Bureau, the merger will results in 10% decrease in non-interest expenses between TD Bank and Canada Trust.

Table 12. Comparison of TD Bank's pre-merger (1995-1999) Cost Efficiency Ratio (%).

Fiscal Year 1995 -1999	Gross Revenue (Interest + Non-Interest Income) $m	Direct Cost (Interest Expense) $m	Overhead Expense (Non-Interest Expense) $m	Total Cost $m	Cost Efficiency Ratio = Total Cost Divided by Total Asset.
1995	8,708	4,868	1,809	6,677	0.766766192 or 76.6%
1996	8,963	4,855	1,972	6,827	0.761262265 or 76.1%
1997	10,476	5,004	2,409	7,413	0.707617411or 70.7%
1998	13,194	7,056	2,846	9,902	0.750492648 or 75.0%
1999	15,683	7,898	3,251	11,144	0.710578333 or 71.0%
Total	57,029	29,676	12,287	41,963	0.735818618 or 73.5%

Source: Corporate Published Annual Reports.

Table 13. Comparison of TD Bank's post-merger (2000-2004) Cost Efficiency Ratio (%).

Fiscal Year 2000-2004	Gross Revenue (Interest + Non-Interest Income) $m	Direct Cost (Interest Expense) $m	Overhead Expense (Non-Interest Expense) $m	Total Cost $m	Cost Efficiency Ratio = Total Cost divided by Total Asset $m
2000	20,075	9,750	4,933	14,683	0.73140722 or 73.1%
2001	20,918	10,080	5,195	15,275	0.73023233 or 73.0%
2002	16,680	6,451	5,830	12,281	0.736270983or 73.6%
2003	15,626	5,586	5,780	11,366	0.727377447or 72.7%
2004	16,015	5,189	6,219	11,408	0.71233218or 71.2%
Total	89,314	37,056	27,957	65,013	0.72791499 or72.7%

Source: Corporate Published Annual Reports

Tables 12 and 13 include corporate gross revenues and costs, including direct costs and overhead expenses. In 1999, TD Bank had total gross revenue of $15,683 million and costs totaling $11,144 million. Therefore, the cost-efficiency ratio for TD in 1999 was 0.710578333 or 71.0%. The post-merger 2000 gross revenue was $20,075 million and the total cost was $14,683 million. Therefore, the post-merger cost efficiency ratio in 2000 was 0.731407222 or 73.1%.

Supplementary Table 14. Comparison of TD Bank's post-merger Cost Efficiency Ratio (%) from 2005-2009 based on Gross Revenue, Direct Cost and Overhead Expense $m.

Fiscal Year 2005 – 2009	Gross Revenue (Interest + Non-Interest Income) $m	Direct Cost (Interest Expense) $m	Overhead Expense (Non-Interest Expense) $m	Total Cost $m	Cost Efficiency Ratio = Total Cost divided by Total Asset
2005	16,667	6,768	4,782	11,550	0.69293614 or 69.2%
2006	25,673	9,198	8,727	17,925	0.698264339 or 69.8%
2007	25,209	10,928	7,975	18,903	0.749851431 or 74.9%
2008	25,721	11,052	7,502	18,554	0.72135609 or 72.1%
2009	27,832	12,584	8,902	20,486	0.736059212 or 73.6%
Total	121,102	49,530	37,888	87,418	0.721854304 or 72.1%

Table 14 shows the year-over-year (2005-2009) overall financial performance of TD Canada Trust. TD Canada Trust was progressing significantly in its business performance. The gross revenue of TD Canada Trust in 2005 was slightly increased but in the following years gross revenues increased tremendously. Similarly, total costs varied year over year from 2005 to 2009. The cost efficiency ratios were varied based on the gross revenues and total costs. Therefore, it is clearly identified that until 2009, TD Canada Trust progressed at a steady growth rate.

Effects on the Merging Banks' Corporate Culture and Market Share

Corporate Business Cultures in General

The business culture of any corporation is generally the result of one, two or possible three individuals and their passions toward life i.e. how do you treat others. One such individual for TD Bank was Allen Lambert, Chairman and CEO from 1960 to 1978.

William Thorsell said on behalf of Lambert that "for those who build, it is not a question of whether a legacy remains, but what its quality is." Allen Lambert believed in value of customer service and embracing technological innovation. Lambert understood that the bank needed to have educated, trained and happy employees. He also used the bank to promote the Canadian art.

Why is Business Culture Important to TD Bank's Merger?

Business culture was one of the most important factors of TD Bank's merger with Canada Trust. The CSI is one of the most important and dynamic aspects of business cultures that transferred to the new bank after the merger in 2000. This is because TD Bank had no systematic customer satisfaction index but Canada Trust was first in CSI in Canada prior to the merger with Toronto-Dominion Bank. TD Bank paid attention to Canada Trust's customer service satisfaction index and decided to integrate with Canada Trust. After the merger, TD Bank was able to adjust its identity and developed business tools such as the Canada Trust Services Model (CTSM).

Canada Trust reported that it's CSI improved by 2.4% points after the merger, exceeding the objective by 1.4%. Significant increases in satisfaction were noted in branches, in Easy Line automated service, on Easy Web and in business banking.

With TD Canada Trust, TD had an opportunity to building a better banking experience through the added advantages of automated teller machine (ATM) network and a larger branch network as well as access to the best financial products and services in Canada. The combined expertise of TD Bank and the Canada Trust provided a wonderful chance to build a better bank for Canadians who were looking for a truly comfortable banking experience (Canada Trust annual report, 1999).

Corporate Cultures of Toronto-Dominion (TD) Bank – How does it Relate to the Merger?

A business culture is how a specific company treats their employees and customers, and is achieved through the application of a company's guidelines. Based on business policy, every company has a business culture. In the case of TD Bank, the organization was lacking a good customer service, so TD Bank searched for a business with higher level customer service to improve its own customer service.

Because of this, TD Bank's management thought that a merger with Canada Trust was a very good opportunity. After the merger, TD Bank achieved their goal with a large number of customers and increase in market share, occupying the second position in retail market share in comparison with other Schedules-I banks in Canada.

As a general statement of company business culture, a company should have a strong sense of purpose and operate on principles that outline how the company should be run. As an example, a company should recognize statutory holidays and be committed to the advancement and promotion of women, aboriginal people, the physically challenged.

TD Bank's business culture was a traditional business culture that sought to compete with all other Schedules-I banks in Canada through significant cost savings. Based on this situation, Toronto-Dominion Bank, referred to as TD Bank, made several times its decision to merge with other institutes as its cultural tendency. In 2000, TD Bank merged with CT Financial Services Inc. This was the largest transaction in Canadian history, and one that propelled TD Bank to the forefront in retail business/financial services.

With new global giants offering a range of financial services, the goal for TD was to set a course through a changing landscape and setting itself up to generate a profitable growth as a competitive and world-class financial institution. Hypothetically, TD Bank's management realized that a larger business would improve its market capitalization. Therefore, TD Bank seriously looked for an opportunity to integrate with other banks in Canada. In 1998, the Government of Canada denied TD Bank's planned merger with the Canadian Imperial Bank of Commerce (CIBC), an attempt that indicated that TD was keenly focused on seeking new opportunities to improve shareholder value and achieve greater scope and scale in business.

TD Bank's participation in charitable work was limited due to merger between TD Bank and the Canada Trust; it was possible by the TD Canada Trust to implement a policy of sponsoring charities in many different charitable organizations. TD Canada Trust raises the public perception of the bank's good-will with increased charitable donations. This good-will became part of TD Canada Trust's business culture and was a direct result of the merger.

TD Bank recognized that the merger helped shape itself as a major employer and as an actively involved member of communities for the many Canadians. The Bank also realized that it's important to contribute to the future prosperity of the community, economic environments and the vitality of Canadian society. As a major financial institution in Canada, TD Bank adopted integrated policies and possessed expertise in disciplines such as banking and finance, technology, e-business, security and privacy.

After the merger, TD Bank plays an active role in society and plays the part of a good corporate citizen. It also maintains leadership by collaborating with civic leaders on issues by participating in public discussion on the crucial challenges facing the country and by sharing with others the knowledge and ideas that have been fostered within the organization (TD Bank Financial Group: accountability report, 2002, p.2).

"Takeover activity has been stimulated by the inflation in costs of expansion by acquiring firms as compared with market prices frequently prevailing below fair 'real' values for takeover candidates, that situation make it more economic to acquire such existing firms rather than expand and build extra capacity by the acquiring firms" (Woefel, Charles J. 1994, 'Encyclopedia of Banking and Finance,' p. 742).

Due to merger, the TD Bank was able to extend their charitable donations to communities because the merger with Canada Trust necessitated more cultural involvement such as charitable donations. Smartly, TD Bank created this opportunity by giving to communities where TD Bank operates. This is important for TD Bank's customers and employees, and these donations are focused primarily on children's health welfare, safety and education. Student financial assistance is an area of particular focus. For this reason, a substantial portion of donations have been designated to establish the

TD Bank Financial Group Bursary at Universities across the country (TD Bank Financial Group: 144th annual report, 1999, p.7).

Communities are a major recipient of TD Banks' corporate donations, as are employee-initiated activities and contributions. In addition to corporate giving programs, TD employees contribute generously to their communities through donations to TD Bank's caring and sharing Hope-Fund, which raised $1.5 million in 1999. At the same time, employees at all levels of TD Bank are encouraged to contribute their time and talents through volunteer activities in the communities where the bank operates (TD Bank Financial Group: 144th annual report, 1999, p.7).

Corporate Business Cultures of Canada Trust (CT)

Canada Trust was one of Canada's most successful and highly respected retail financial services organizations, renowned as a customer service powerhouse. Canada Trust has long been regarded as a jewel in Canadian financial services, with close to 4 millions customers, 435 branches, a workforce of 14,000 and $41 billion in personal deposits. TD Bank's purchase price of $8 billion represents full and fair value for Canada Trust while offering long-term value and growth potential to TD Bank shareholders (TD Bank Financial Group: annual report, 1999).

With TD Bank retail operations combined as TD Canada Trust, the new organization became first among Canadian banks in number of retail customers, number of electronic banking customers and market share of personal loans and deposits. Canada Trust also leads the industry in both customer service and natural fund advice. More importantly, the Canada Trust (CT) has the scale and scope to remain a leader in developing new products, technologies, services and delivery channels. This will create future growth as it is not just a Canadian leader but a North American one as well (TD Bank Financial Group: 144th annual report, 1999, p.3).

Regulatory Environment in Canada Trust Business Cultures

Canada Trust Co… was primarily governed by the Federal Act, which provides the necessary powers to carry out business as a chartered bank. The Federal Act applies corporate governance, capital, and liquidity and investment standards to the operations of regulated companies, and restricts transactions between regulated companies and related parties such as officers, directors, shareholders and affiliates.

In addition, Canada Deposit Insurance Corporation (CDIC) requires adherence to its eight standards of sound business and financial practices. This program requires a well-defined program of policies and procedures as well as a sound product program that is followed on a consistent basis (CT annual report, 1996, p. 42).

The common share dividend policy of Canada Trust prior to the acquisition of all of the common shares of Canada Trust Financial Inc., by the Toronto-Dominion Bank, was to pay approximately 40% of the prior year's net earnings available to common shareholders on a fully diluted per-share basis. In addition to regular dividends, Canada Trust Co…. made a special common share dividend payment of $120 million in December 1999.

Business Cultures of TD Canada Trust (TD Bank/Canada Trust)

In terms of bringing new ideas, new products and technology to the financial market, TD Bank and Canada Trust were working separately to increase the number of customers in different banking products in the Canadian financial or banking industry.

TD Bank led the category discount brokerage, whereas Canada Trust has set the standard excellence in the Canadian retail banking industry. Canada Trust had limited services and was small in size but had a very good reputation among all stakeholders due to its excellent business culture and customer service.

Given its size, it was hard Canada Trust to compete with foreign banks. Additionally, both parties agreed to acquire all stocks and shares from Canada Trust. In general, the differences in organizational cultures could have an impact on the relative efficiency levels measured among the two businesses and the efficiency gains expected from the integration efforts of the two companies' separate product lines, facilities and distribution channels. As an example, a firm operating under unfavorable conditions may appear more inefficient than its peers in more advantaged cultural environments (Vela, 2005, p.2).

TD Canada Trust maneuvered seamlessly in 2001 through the marketing minefield of the biggest merger in Canadian financial services history. It then grew the market share by delivering on its simple, customer-focused brand promise. Immediately after the merger of TD Bank and Canada Trust, a few customers were not satisfied due to problems with their daily transactions. This is because the integrated business culture had created many difficulties compared to TD Bank's previous business cultures. TD Bank's management noted the problem and publicly apologized. The quick apology and responsive customer service transformed a major crisis into a minor issue that quickly disappeared from the headlines. It was another marketing feat for the team at TD Canada Trust, one that worked only because the bank stayed true to its brand promise throughout the integration: "banking can be this comfortable."

Indeed, in 2001 TD Bank introduced a new brand that appealed to millions of unsure and potentially hostile customers who had experienced an unwelcome takeover. A through employee marketing strategy brought TD Canada Trust to a level of customer service unmatched by any other big Canadian bank in 2001, a feat doubly impressive considering that for part of the year, marketers were juggling three different brands- Canada Trust, TD Bank and TD Canada Trust – in four different regions. Yet they pulled off a highly personalized direct mail campaign that was unprecedented in size and scope, and launched a simple, straightforward campaign (TD Bank Financial Group: TD Bank's annual report, 2001).

TD Bank move to take over Canada Trust was a sign the former TD Bank had seen the marketing light. Armstrong, team leader of TD Bank, said, "The TD Bank Chair and Chief Executive Officer, Charles Baillie had understood that the competitive differentiator in banking industry was going to be the banking experience, not product. "And so he bought into that when he bought Canada Trust, said that it is adopting the Canada Trust Services Model (CTSM). The Canada Trust had differentiated itself from the big five banks year ago by offering strong customer service index" for instance, extended banking hours, TD Canada Trust followed this suit after merger between TD Bank and the Canada Trust" (TD Bank's annual report, 2001).

Richard, M. Thomson, Assistant Vice President of TD Bank said, "CIBC bank had an aim to take up the mantle of Canada Trust and position itself as the responsive bank for Canadians." However, he added, referring to the extended hours that Canada Trust brought to TD Bank, "The question I have is, where's the 8 to 8" (TD Bank annual report, 1999)?

"Clearly, just prior to the merger, Canada Trust customer service approach was working strongly because; Canada Trust was losing customers at a rate of 2% less than TD Bank. By merging the best of both financial industry, it would be possible to leap ahead of the competition in growth (measured by new customer account deposits) by 60%, specifically, pairing Canada Trust lower customer less rate (8%), with the TD Bank higher customer acquisition rate (13%), resulting growth rate of 5% would be ahead of Big Canadian Banks" (TD Bank's annual report, 1999).

TD Canada Trust did have a major upset to contend with. In the summer (2001), the bank eliminated a product called Canada Trust Power Line, which allowed Canada Trust customers to place their MasterCard purchases against a personal line of credit with a much lower interest rate. The situation likely put a dip in the TD Canada Trust's overnight customer satisfaction index (CSI), despite the apology and alternate offer that followed from TD Canada Trust. However, there were also dips in the CSI after every wave of integration. Yet each time the CSI bounced back. In fact, by the end of 2001, TD Canada Trust was not losing any customers, but it was attracting new ones.

The new TD Canada Trust marketing department was tailored after Canada Trust. It's now centralized and fact-based (testing and building activities based on measurement), and relies heavily on the Customer Satisfaction Index. This index involves daily phone calls more than 1000 customers to inquire about their same-day banking experience or banking transaction with the bank (Young, Lesley, 2002, pp. 1-7).

"Leadership is very critical but it is also a matter of pride and dignity that the TD Bank was recognized in 1999 as one of three major North American corporations to win the Catalyst Award for exemplary initiatives to advance women into leadership. It was the goal to ensure that all TD Bank people-including the exceptional workforce joining with Canada Trust – have the opportunity to reach full potential. Pursuing this goal, it was the key to the ongoing growth, leadership and success of TD Bank merger in Canada." With the completion of the Canada Trust acquisition, a major challenge in the year ahead was integration. Having worked closely with senior executives at Canada Trust, TD Bank had both a comprehensive integration plan and a strong joint management team. The main focus of this plan was to integrate administrative functions rapidly in order to achieve the cost savings that had already been committed (TD Bank annual report, 1999, pp.4-5).

Customers were a critical focus during integration, and the key priority was to make the transition as seamless as possible. As an intermediate step, TD Bank began to extend the hours of service at TD Bank branches across Canada, moving toward the Canada Trust Services Model (CTSM).

Toronto-Dominion (TD) Bank has frozen service charges charges at current levels and TD Bank eliminated the interbank fee for ATM cash withdrawals. Having brought together two outstanding service organizations, it was TD Bank's aim that to be recognized as the premier financial services enterprise in Canada (TD Bank Financial Group: 144th annual report, 1999, pp. 4-5).

TD Bank management provided a charitable giving program that places a priority on children in order to make a difference for the long-term at the needs of children and to support health and education. Cash donations, gift in kind and charitable sponsorships were all ways in which TD is a strong community spirit. Each year, thousands of employees across the organization actively volunteer their time and talents to support many worthwhile causes. TD Bank still strongly follows this policy.

TD Friends of the Environmental Foundation (TDFEF)

The TD Friends of the Environmental Foundation (TDFEF) is one of TD's flagship community programs and it is one of the top corporate foundations in Canada by both the number of grants provided each year and their total dollar value. It is a unique non-profit organization in which customers, employees and the bank work together to donate time and money to support the efforts of Canadians dedicated to protecting and understanding the environment.

TD Canada Trust Scholarships for Outstanding Community Leadership

One of the largest and most prestigious of its kind in Canada, this scholarship program recognizes high school and CEGEP students entering university or college based on their outstanding community leadership as well as their excellent academic performance. Each TD Canada Trust scholarship is valued at $50,000 and includes full tuition for up to four years of study, and an addition $3,500 per year toward living expenses and guaranteed summer employment (TD Bank accountability report, 2002).

In the first annual accountability report of 2002, TD Bank was pleased to provide important information for all community stakeholders, including customers, employees, shareholders and communities, because TD Bank was doing business with them, vigorously promoting and supporting the needs of each in building long-term relationships and success.

TD Canada Trust strives to create value for shareholders, offer diverse and accessible financial services for customers, provide rewarding careers for employees, demonstrate exemplary ethical standards and improve the quality of life in communities. Many TD Bank activities target longer term needs that must be addressed now to ensure success tomorrow. This is particularly true of the community giving programs that emphasize TD Bank's investment in the future of children and the environment.

"As a beneficiary of and contribute to Canadian society, TD Bank has a natural interest in the community's wellbeing. It is recognized that the company has the ability, and a responsibility to step forward to help support the social, cultural, economic and environmental enrichment of the community and its members" (TD Bank accountability report, 2002, pp.3-12).

After the acquisition of Canada Trust by the TD Bank, the new organization has been steadfastly committed to building a better bank. An important enhancement is the adoption of the Canada Trust Services Model, which emphasizes putting customers first. The integration of TD Bank and Canada Trust was the result of nearly two years of careful planning. The achievement was largely due to the hard work and commitment demonstrated by employees, all of whom went above and beyond the call of duty to ensure that service was delivered on to customers. While customers and employees experienced the challenges of creating a new organization, the largest of its kind in

Canada's history, it is now well-positioned to offer a truly better banking experience (TD Bank accountability report, 2002, p.1).

Market Share

According to Carlton Neal, market share in strategic management and marketing is the percentage or proportion of the total available market or market segment that is being serviced by a company. It can be expressed as a company's sales revenue (from that market) divided by the total sales revenue available in that market. It can also be expressed as a company's unit sales volume (in a market) divided by the total volume of units sold in that market. It is generally necessary to commission market research (generally desk/secondary research, although sometimes primary research) to estimate the total market size and a company's market share. TD Bank's total market share before the merger was 14.32% and post-merger it was 17.14%.

Increasing marketability is one of the most important objectives in business. The main advantage of using market share is that it abstracts from industry-wide macro-environmental variables such as the state of the economy, or changes in tax policy. According to the national environment, the respective share of different companies changes and hence this causes changes in the share market value. Potential reasons for this include political ups and downs, disasters, and large events in the public sphere.

Market Share Ingredients

In Canada, the Competition Bureau is concerned with Toronto-Dominion Bank and Canada Trust's (CT) local markets. The Competition Bureau identified the personal and business transaction accounts in each local market that are the core of most banking relationships for consumers and businesses. The Competition Bureau considered the following categories of the products in retail market share: personal loans and line of credit, and residential mortgages. Similarly, the commercial market share included small and medium-sized business operating loans, loans to governments and securities purchased under resale agreements http://www.Competition Bureau.gc.ca/internet/index.ctm.

According to the Competition Bureau, the following proportions are stipulated for financial industry mergers:

- if the personal or business transaction account is 45% or over, the local geographic market will experience substantially lessened competition.
- if the personal or business transaction accounts is between 35%, or 45%, or if any of certain categories — personal loans and line of credit, residential mortgages, small or medium sized business operating loans – is 35% or greater, the local geographic market will experience substantially lessened competition.
- if personal or business transaction accounts and any of certain categories — personal loans and lines of credit, residential mortgages, small or medium sized businesses operating loans – is below 35%, there will not be a substantial lessening of competition.

"The Bank merger guidelines indicates that the post-merger market share is high that is a necessary condition by which the post-merger exists to justify a conclusion that a merger is likely to prevent or lessen competition substantially. The Competition Bureau also provides that the merger will not be challenged on the basis of concerns relating to the independent exercise of market power where the post-merger market share accounted for by the four largest firms in the market that would be less than 65%; and the post-merger market share of the merged entity would be less than 10%"(Competition Bureau, June 2003, p.3).

In 1999, Canada Trust attempted to increase market shares in personal financial services, primarily in the areas of wealth management, demand deposits and insurance, and attempted to hold market shares in lending. In addition, to forward business, the company tried to increase market share in demand deposits and insurance, and to exceed expectations with an increase in lending market share.

Before the merger with TD Bank, Canada Trust showed that its market share decreased in some products, including wealth management and mutual funds. This decrease in the market share is reflective of increased competition within the wealth management business overall, and with the arrival of new delivery channel in the place of the market (CT Financial Services 1999, p.6).

Table15. Comparison of TD Bank's pre-merger Market Share percentage (%) of Canadian Schedule-I banks (fiscal year ended 1999).

Name of Banks (Schedule-I Bank)	Total Retail Market Share $m	(%) of Retail Market Share	Total Commercial Market Share $m	(%) of Commercial Market Share	Grand Total Market Share (retail+ commercial) $m	(%) of Grand Total Market Share
Toronto-Dominion Bank	51,926	14.81%	61,267	15.57%	113,193	15.22%
Royal Bank of Canada	87,163	24.86%	77,948	19.82%	165,111	22.20%
Bank of Montreal	56,261	16.05%	83,088	21.12%	139,349	18.74%
CIBC Bank in Canada	71,145	20.29%	65,205	16.58%	136,350	18.33%
Bank of Nova Scotia	64,257	18.33%	81,602	20.74%	145,859	19.61%
National Bank of Canada	19,726	5.62%	24,165	6.14%	43,891	5.9%
Total	350,478	99.96%	393,275	99.97%	743,753	100%

Source: Annual Reports of all Schedule-I banks in Canada

In table 15, the researcher gathered data from the several Schedules-I banks in Canada to identify the differentiation of market share (%) in Canada. Based on financial data, the researcher compared several different banks' outputs in both pre- and post-merger. A few different products items were isolated and included in market share calculations: residential mortgages, consumer installment and personal loans, line of credits and credit card loans. Similarly, the commercial market shares include loans to business and governments and securities purchased under resale agreements.

Table 16. Comparison of pre-merger Market Share (%) (1995-1999) on Average of Schedule-I banks

Name of Banks (Schedule-I Banks)	Five Years Average of Retail Market Share $m	(%) of Retail Market Share	Five Years Average of Commercial Market Share $m	(%) of Commercial Market Share	Grand Total: Retail + Commercial Market Share $m	(%) of Grand Total of Market Share
Toronto – Dominion Bank	43,669	14.26%	50,645	14.38%	94,314.80	14.32%
Royal Bank of Canada	76,080	24.84%	71,119.80	20.19%	147, 200	22.36%
Bank of Montreal	49,985	16.32%	65,025.20	18.46%	115,010.40	17.47%
CIBC Bank	62,166.20	20.30%	73,428.80	20.85%	135,595	20.59%
Bank of Nova Scotia	55,838	18.23%	68,651.40	19.49%	124,489.40	18.91%
National Bank of Canada	18,546.20	6.06%	23,306.60	6.62%	41,852.40	6.36%
Total	306,284.40	100%	352,176.80	99.99%	658,462.40	100%

Source: Corporate annual financial statements (balance sheets) of Schedule-I banks in Canada

Table 17. Comparison of TD Bank's post-merger Market Share percentage (%) of Canadian Schedule-I banks (fiscal year ended 2000).

Name of Banks	Retail Market Share $m	(%) of Retail Market Share	Commercial Market Share $m	(%) of Commercial Market Share	Grand Total Market Share (Retail + Commercial) $m.	(%) of Grand Total Market Share
Toronto-Dominion Bank	79,276	19.94%	57,319	14.35%	136,595	17.14%
Royal Bank of Canada	95,669	24.06%	78,849	19.73%	174.518	21.90%
Bank of Montreal	56,930	14.32%	74.414	18.63%	131,344	16.48%
Canadian Imperial Bank of Commerce	78,415	19.77%	61,552	15.41%	139.967	17.58%
Bank of Nova Scotia	67,698	17.03%	99,205	24.83%	166,903	20.94%
National Bank of Canada	18,630	4.69%	28,109	7.04%	46,739	5.86%
Total	396,618	99.81%	399,448	99.99%	796,066	100%

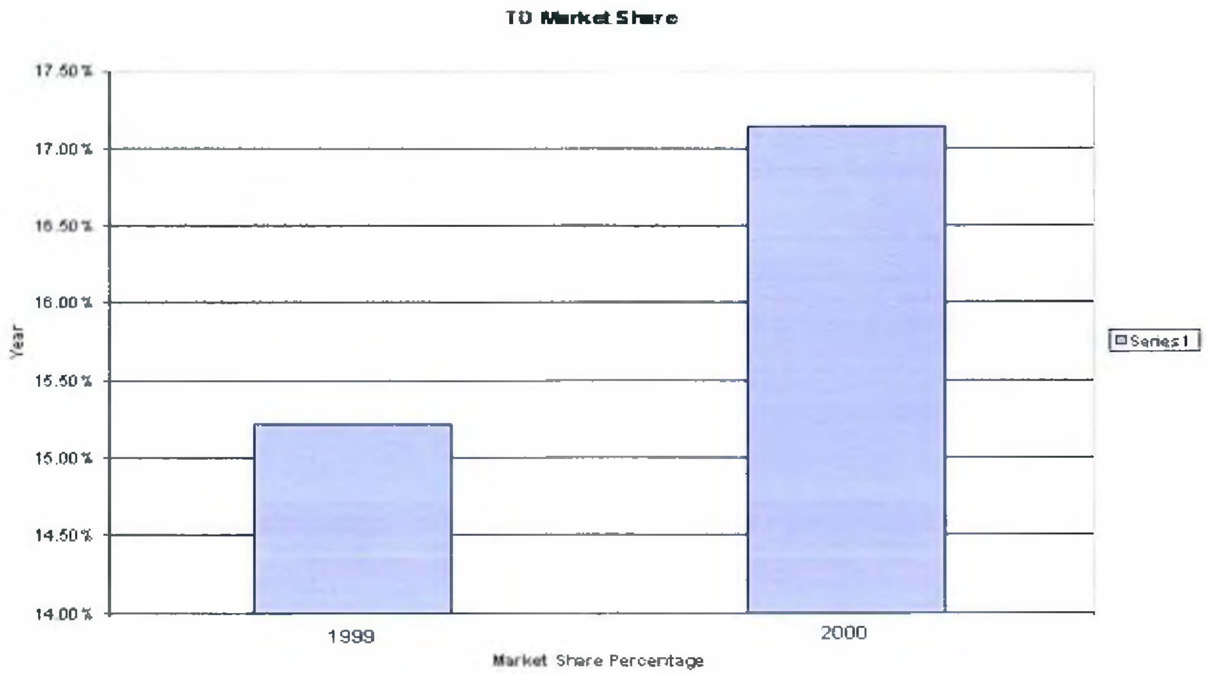

Figure 2: Comparison of TD Bank's Market Share (%) with other Canadian Schedule-1 banks in between pre-merger (1999) and post-merger (2000).

Table 18. Comparison of post-merger Market Share (%) of 2000-2004 on Average of Schedule-I banks.

Name of Banks	Five Years Average of Retail Market Share $m	(%) of Retail Market Share	Five Years Average of Commercial Market Share $m	(%) of Commercial Market Share	Grand Total: Retail + Commercial Market Share $m	(%) of Grand Total Market Share
Toronto Dominion Bank	89,783.80	19.24%	63,556.20	15.61%	153,340	17.55%
Royal Bank of Canada	110,511.40	23.68%	92,983.60	22.83%	203,495	23.23%
Bank of Montreal	70,664	15.14%	71,315.40	17.51%	141,979.40	16.21%
CIBC Bank	94,736.80	20.30%	59,738.80	14.67%	154,475.60	17.66%
Bank of Nova Scotia	81,312.20	17.43%	94,844.60	23.29%	176,156.80	20.11%
National Bank of Canada	19,625.40	4.21%	24,818.60	6.09%	44,444	5.09%
Total	466,634	100%	407,257	100%	873,891	99.98%

Source: Corporate Financial Statements (balance sheets) of Schedule-I banks in Canada.

Summary: Did the Expected Cost Savings and Business Advantages Materialize?

Cost Savings Performed Based upon Quantitative Data

Based on tables 8 and 9, the quantitative data analysis indicated that the average corporate interest cost prior to the merger in TD/CT (1995-1999) was $8,087 million per year (table-8, p.66). The post-merger interest cost for TD Canada Trust (2000-2004) on average was $7,411 million per year (table-9.p.66). Therefore, the company had post-merger savings of $676 million or 8.36% per year.

The year-over-year figures show that TD Bank had total costs of $7,898 million in 1999 (table-8, p.66) and $9,750 million in 2000 (table-9 p.66). Cost increased immediately after merger by $1,852 million. Based on this data, the cost was incidentally increased by $1,852 million or 19%, after merger but on average costs decreased by about 8.36%.

Perhaps the costs increased in the first year after the merger because of additional costs incurred including restructuring activities and other obligations to retain staff (less than 2% were laid-off). In the second year, costs totaled $9,750 million and in 2001 totaled $10,080 million. Therefore, costs increased by ($10,080-$9,750) $330 million per year. The explanation for this increase is that the restructuring costs were not yet completed. In the third year, 2002, TD Bank had total costs of $6,451 million; the corresponding cost of the bank in 2001 was $10,080 million. Therefore, costs decreased by ($10,080-$6,451) $3,629 million. In 2003, TD had total costs of $5,830 million and in 2002 TD had total costs of $6,451 million. This means costs decreased by ($6,451-$5,586) $865 million. In 2004, the TD Bank had total costs of $5,189 million, but on the other hand, in 2003, TD had total costs of $5,586 million. So, costs decreased by ($5,586 - $5,189) $397 million. Data indicates that after the merger, the company gradually saved money. In other words, TD Bank achieved their goal of increasing market share.

In the first two years after the merger, there were increased costs due to huge restructuring efforts and obligations to various staff members. After the initial two years, the TD Bank was able to substantially reduce costs. Therefore, the company established a strategy how to save money that leads to a greater output.

Based on the effects of in-market mergers on prices and quantities under imperfect competition, the merger has two effects: first, it enlarges the market share of the merged firms, which increases market power; second, it may lead to efficiency gains in terms of a reduction in the costs of the merged firms. The first leads to upward pressure on prices. Since each firm involved in the merger internalizes the effect of a change in its price on the demand of all other merged firms, it charges a higher markup than before the merger.

"The second effect tends to reduce prices in order to change the customer base. Thus, whether a merger leads to price increases and consequently reductions in quantities depends on the relative importance of the internalization effect increase in market power and the potential efficiency gains" (Perry and Porter, 1985, pp. 219-27).

"Cost saving is the amount of money saved as a result of changes to plans or policies that reduce the expense associated with a business activity. Cost savings may also refer to the changes that generated the savings recorded. Identify cost savings opportunities can help a business to increase profits, by reducing outflows" (http://investorwords.com /16295/cost_saving.hml).

Business Advantages

Prior to the merger of TD Bank, the quantitative data indicated that the retail market share of TD Bank was 14.26%. It occupied the fifth position after Royal Bank of Canada, Bank of Nova Scotia, Canadian Imperial Bank of Commerce and Bank of Montreal. Its commercial market share was 15.22%. TD's five-year pre-merger average of retail market share was 14.26%, its commercial market share was 14.38%, and its combined market share was 14.32%. In both market shares, TD Bank occupied the fifth position.

The post-merger performance in retail market share (2000) of TD Canada Trust was 19.94%. TD Canada Trust occupied the second position among all Schedules-I banks in Canada. The commercial market share of TD Canada Trust in 2000 was 14.35%, occupying the fifth position. The TD Bank post-merger (2000-2004) retail market share, was 19.24% on average and the commercial market share was 15.61% (fourth position), and the retail plus commercial market share was 17.55% on average for five years (fourth position). The researcher confirmed that TD Bank's performance based on market share, in comparison with all other Schedules-I banks, was not excellent but the TD Bank business was anticipated to increase after merger with the CT. TD Bank became a bigger bank with increased market share and increased customer base, along with substantial cost savings.

A Modern History of Big Five Banks in Canada

Royal Bank has always been the largest bank in Canada by a significant margin. Up until the late 1990s, CIBC was the second largest, followed by Bank of Montreal, Bank of Nova Scotia and TD Bank. During the late 1990s and beyond, this ranking changed due to several reorganizations. Royal Bank acquired Royal Trust, then the second-largest trust in Canada, in 1993, while Scotia purchased National Trust in 1997. As Scotia Bank found no merger partners among the other banks in the big five group, it instead expanded its international operations and passed the Bank of Montreal in size.

TD Bank merged with Canada Trust, which was for a long time the largest trust in Canada, thus vaulting TD Bank temporarily to the number two spot. While there were no major changes to Bank of Montreal, CIBC's unsuccessful foray into the US market led it to shed its assets there, dropping it to the number five spot.

The term "Big Six" is frequently used to denote these banks. The Big Six also includes the National Bank of Canada, since historically the bank had a network of over 650 branches. Over the years, more than 200 of them were closed, and the majority of their operations have been focused in the province of Quebec.

In Canada, there are five banks classified as Schedule-I banks that are operating under government charter. The banks' shares are widely held; with any entity allowed to hold a maximum of 20%.The Big Five (5) Banks dominate the banking industry and are operationally headquartered in Toronto.

These banks are listed in order of market capitalization on the TSX (largest to smallest, as of December 31st, 2009) with their current corporate brand names and corporate profiles based on their 2009 annual reports in billions of dollars.

Table19. Competitive Financial performance of Five Big (5) Schedule-I banks in Canada based on market capitalizations in 2009 and also based on corporate annual reports (billions of Canadian dollars).

Name of Banks	Headquarters	Assets (billions C$)	Deposits (billions C$)	Capitalization (billions C$)	Branches (Canada)	Employees (Full-time)
Royal Bank of Canada	Toronto	655	398.20	75.50	1,197	71,186
TD Canada Trust	Toronto	557.20	391.00	56.70	1,116	65,930
Bank of Nova Scotia	Toronto	496.50	350.40	48.80	1,019	67,802
Bank of Montreal	Toronto	388.50	236.20	31.00	900	36,173
CIBC Bank	Toronto	335.90	223.10	26.20	1,072	41,941

Source: Big Five (5) Banks Financial Statements: annual reports.2009

Hypothetical Assumptions for Corporate Cost Savings

Canada Trust was one of the last trust company in Canada. It was doing good business in terms of reputation and customer base and relations. On the other hand, TD Bank was one of the largest banks in Canada. However, a good customer relation was lacking. TD Bank saw it as an opportunity in combining complementary resources. These two firms each had what the other needed and so TD Bank decided to merge with Canada Trust.

TD Bank was in the category of a mature financial industry. It generated substantial cash revenues but had few profitable opportunities. It had three options to use the surplus funds: (a) distribute the surplus cash to shareholders by increasing its dividend payment; (b) repurchase its own shares from the shareholders; (c) purchase someone else's shares.

TD Bank chose the last option because its energetic managers were reluctant to adopt a policy of their firm's decline. It was in a situation with a surplus of cash and shortage of good investment opportunities. Similarly, Canada Trust had excess cash but was not thinking of utilizing its extra money. TD Bank wanted to capture Canada Trust's cash flow to make sure it was not frittered away with negative present value (NPV). Finally, the merger was the best realization of substantial gains or substantial cost savings to be acquired firm's stockholders of Canada Trust is either erroneous or it calls for an explanation.

"The author had done his study on examining why Canadian banking industry pursues economic growth through acquisition or takeover, one of the primary conclusions was cost savings. These cost savings in turn could be passed on to customers, used to provide better services, or make the bank better overall" (Beitz and Gauthier et al., 2003, p.26).

As outlined in guidelines by the Competition Bureau, the onus of demonstrating efficiencies rests with the bank. TD Bank and Canada Trust claimed that cost savings would result if they were permitted to merge. The bank estimated that the merger will result in annual savings approximately 10% of the non-interest expenses of the combined financial institutions. While it was difficult to quantify efficiencies before the merger, it seems reasonable that the proposed merger would produce cost savings. Efficiency gains from a bank merger may arise through a greater scale of economies or rationalization in banking operations. However, the potential efficiency may not be realized in all mergers.

Research also indicates that about half of large bank mergers reduce costs, while half don't reduce or even incur increased costs. Thus, it is unclear the extent to which the claimed efficiencies would be realized. When it is likely that the efficiencies would outweigh the anti-competitive impact of a merger, the Competition Act can provide an exception to allow the merger to proceed (Competition Bureau, 1998, p.34).

"In order to fully understand merger efficiency gains between the TD Bank and Canada Trust merger, it is important to distinguish among merger related concepts, including cost reductions related to savings realized from closing branches, consolidating redundant operations and cutting excess overhead expenses. Gains in efficiency from mergers are realized in two ways, either by improving the quality of management or achieving economies of scale. The change (gains or losses) in management and scale efficiencies are uncovered by comparing the pre- and post-merger performance of the consolidating branches" (Vela, 2005, p. 65).

Table 20. Comparison of Cost Savings of TD Bank and Canada Trust (1995-1999) with an Analysis of Cost Efficiency Ratio (%).

Fiscal Year 1995-1999	TD's Total Cost $m	CT's Total Cost $m	Grand Total Cost $m	TD's Total Income $m	CT's Total Income $m	Grand Total Income $m	Cost Efficiency Ratio Cost Divided by Income
1995	6,677	3,902	10,579	8,708	5,252	13,960	0.757808022 or 75.8%
1996	6,827	3,762	10,589	8,974	5,387	14,361	0.733441961 or 73.3%
1997	8,413	3,204	11,617	10,476	3,487	13,963	0.83198453 or 83.2%
1998	9,902	3,114	13,016	13,194	3,619	16,813	0.774162850 or 77.4%
1999	11,144	3,183	14,327	15,683	3,865	19,548	0.732913853 or 73.2%
Total	41,963	17,165	59,128	57,029	22,270	79,299	0.745633614 or 74.6%
Mean	8,392.60	3,433	11,825.60	11,405.80	4,454	15,859.80	0.755957885 or 75.5%

Source: Corporate financial statements of annual reports.

Table 21: Comparison of TD Bank's post-merger Average (2000-2004) Cost Savings data $m.

Fiscal Year 2000-2004	Total Interest Expense $m	Total Overhead Expense $m	Grand Total Expense $m	Total Interest Income $m	Total Non-Interest Income $m	Grand Total Income $m	Cost Efficiency Ratio: Cost Divided by Income
2000	9,750	4,833	14,583	13,695	6,400	20,095	0.725702911 / 72.5%
2001	10,080	5,195	15,275	14,471	6,447	20,918	0.730232335/73.0%
2002	6,451	5,830	12,281	11,751	4,929	16,680	0.736270983/73.6%
2003	5,586	5,780	11,366	11,202	4,424	15,626	0.727377447/72.7%
2004	5,189	6,219	11,408	11,132	4,883	16,015	0.71233218/71.2%
Total	37,376	27,957	64,913	62,251	27,083	89,334	0.731497861/73.1%
Mean	7,475	5,591	12,983	12,450	5,417	17,867	0.726632637/72.6%

Source: Corporate financial statements of annual reports.

Overhead Expenses/Fixed Expenses/Non-Interest Expenses

The non-interest expenses included all operating and overhead expenses product items: salaries and employment benefits, unemployment tax, insurance, operation and maintenance of facilities, equipment, furniture, and vehicle.

With the addition of the Canada Trust mutual fund family in 2000, mutual fund management fees rose 75% to $452 million from $258 million in 1999. Income from loan securitization was more than doubled to $236 million in 2000, up $142 million from 1999, reflecting the addition of Canada Trust's securitized loans and net loan securitization transactions amounting to $6.3 billion during the year. The insurance revenues more than tripled to $198 million, primarily due to the addition of Canada Trust (TD Bank Annual Report, 2000, "Management Discussion and Analysis of Operating Performance" p. 17).

TD Bank non-interest expenses rose $1,799 million or up 40% to $6,307 million in 2000 after the merger. The addition of Canada Trust accounted for approximately 22% of the rise in expenses, with much of the remaining 18% related to salaries and staff benefits, which increased $358 million (TD Bank annual report, 2000, p.17).

Excluding Canada Trust, salaries and staff benefits accounted for 8% of the 18% underlying expense growth. Approximately 5% of this 8% is reflected in an increase in staff support due to both higher business activity and international expansion into new markets. The remaining 3% was mostly attributed to higher incentive compensation.

Investing in technology and branding drove the increases in equipment costs up $69 million bank-wide, accounting for 1.5% of the 18% increase in expenses excluding Canada Trust. The marketing and business development costs raised $112 million bank-wide, accounting for a further 2.5% of the 18% increase in expenses excluding Canada Trust.

A significant portion of expenses are fixed in nature and don't vary directly, at least in the short term, with fluctuations in revenues or securities trading volumes. In the event of a sustained downturn in the stock market, although management could be adversely impacted, brokerage revenues could decline without corresponding costs (Competition Bureau, 1998, p.7).

Merger Impact on Business Advantages

"TD Canada Trust reported modest 2% growth in case basis earnings for 2002 following strong growth in earnings during 2001. This was a year of transition following the completion of the conversion of TD Bank and Canada Trust in August 2001. Growth in cash basis expenses was limited to 1% in 2002 compared with the prior year" (TD Bank Financial Group: high light of corporate annual report, 2002).

Bank's Customer Base

TD previously had significantly outperformed its peer group in the online delivery of wealth management and banking products and services, making TD Bank a leader in the development of e-commerce and placing it in the top five financial services firms as measured by the number of online customer accounts. It was poised to be within the top three with the Canada Trust acquisition.

Reflecting its strategy of investing in the future of financial services, TD Bank entered 2000 as a leader in online delivery in Canada. By pursuing the opportunity to acquire Canada Trust in 2000, TD Bank had taken a quantum leap in retail banking in Canada and was moving to the forefront by most key measures. Canada Trust was one of Canada's most successful and highly respected retail financial services organizations, renowned as a customer service powerhouse. Canada Trust had been regarded as a jewel in Canadian financial services, with close to four (4) million customers (TD Bank annual report, 1999, pp. 4-8).

With the acquisition of Canada Trust, TD Canada Trust served about 10 million retail and electronic banking customers across Canada. It worked hard to keep all of its customers and attract new ones by delivering outstanding customer services, by using technology to integrate the products and services it offered, and building a strong lineup of banking products and services through discount brokerage services.

With most non-retail banking aspects of the integration completed successfully, TD Canada Trust focused on ensuring a successful combination of the two branch networks. By the fall of 2001, all TD Canada Trust branches offered paperless banking. Its net income increased by 37% in 2000 to $2,018 million when measured on an operating cash basis. While TD Bank's purchase of Canada Trust Financial Services Inc., drove this increase, all of its business delivered solid results. The operating cash basis earnings per share in 2000 were $3.16 compared to $2.39 in 1999. The operating cash basis return on total common equity was 18%, up from 16.7% in 1999. These measures excluded items that were not considered part of its normal operations.

In 2000, TD Bank excluded one-time restructuring costs of $271 million after tax relating to its acquisition of Canada Trust. Net interest income on a tax equivalent basis (TEB) increased $631 million or 20% over 1999 to $3,084 million. The rise in net interest income was fueled by a 20% growth in average earning assets due largely to addition of Canada Trust. Average loan balances in 2000 grew 28% to $114.4 billion from $89.7 billion in 1999. This led to a 34% increase in loan interest revenues to $8,606 million from $6,438 million in 1999. Average deposits climbed 33% to $189.4 billion in 2000 from $142 billion in 1999.

Most of the growth was generated by personal deposits acquired through the purchase of Canada Trust. Interest expense on deposits rose correspondingly to $8,794 million, up 41% or $2,540 million from the previous year. In 2000, TD Canada Trust's overall margin declined 7 basis points to 1.6%. Margins at TD Canada Trust showed solid year-over-year growth, increasing 18 basis points to 3.87% from 3.69% in 1999. Other income was up $2,308 million or 56% to $6,400 million 2000 from $4,092 million in 1999 after excluding the previous year's gains of $1,122 million on the sale of Knight/Tri-mark shares.

In 2000, total revenue reached $10,204 million, an increase of 41.6% over 1999. Through the end of 2000, the Canadian economy remained in its strongest and most well-balanced expansion in more than a decade. After expanding by a hefty 4.5% in 1999, the economy grew at an annualized clip of about 5% in the first three quarters of 2000 with growth likely above 3% in the fourth quarter. In 2000, TD Canada Trust paid $296 million in income taxes and $406 million in taxes based on GST and PST (TD Bank Financial Group: Corporate annual report, 2000).

Brand Building after the Merger of TD Bank and Canada Trust

Building a brand after a merger or acquisition is more challenging because the new brand may scare away customers. The bank's new identity of TD Canada Trust combined two existing brands, both of which boasted high market values.

Within a short time, the bank established brand awareness and acceptance, and increased its number of customers. The TD Canada Trust management team went out and conducted in-depth, one-on-one customer interviews to see what customers wanted. The team created and implemented what they believed was the most attractive brand strategy and developed TD Canada Trust's positioning around the country.

TD Canada Trust's branding strategy did not involve comparing the two institution brands in search of common trait. Instead, it focused on creating a new image based on the results of its customer research. The management team's main focus was to tell customers specifically what was going to impact them personally as individual customers. TD Bank produced a merger conversion booklet that went out to four (4) million Canada Trust customers who were going to be converted to the TD system. There were four million versions of this booklet because each customer received a customized communication. It was an extremely costly action (Marjo, April 2003, p.32).

Table 22. Statistical Figures based on TD Bank's pre-merger average (1995-1999) customer benefits.

Fiscal Year 1995-1999	Average No. of Bank Accounts	No. of Common Shares(thousands)	No. of Retail Bank Outlets	No. of Green Machine	No. of Retail Brokerage Office	No.of Employees
1995	70,000	301.403	955	1,966	54	25,413
1996	72,000	302,703	953	1,991	157	26.815
1997	74,000	296,946	919	2,038	198	28,001
1998	75,000	297,119	922	2,124	254	29,236
1999	70,000	620,343	918	2,164	269	30,636
Total	361,000	1818514	4,667	10,283	932	140,101
Average	72,200	363,703	933	2,057	186	28,020

Source: Corporate annual reports

Table 23. Statistical Figures based on TD Bank's post-merger average (2000-2004) customer benefits

Fiscal Year 2000-2004	Average No. of Bank Accounts	No. of Common Shares (thousands)	No. of Retail Bank Outlets	No. of Green Machine	No. of Retail Brokerage Office	No. of Employee
2000	11,000,000	622,616	1,355	2,836	292	44,798
2001	17,000,000	628,451	1,294	2,777	284	45,565
2002	16,000, 000	645,399	1,178	2,608	283	44,470
2003	11,000, 000	656,261	1,093	2,638	270	45,538
2004	11,000,000	655,902	1,034	2,407	256	42,843
Total	66,000,000	3,208,629	5,954	13,266	1,385	223,442
Average	13,200,000	641,726	1,191	2,653	277	44,688

Source: Corporate annually published reports.

Tables 22 & 23 summarize the pre- and post-merger customer benefits. A comparison of these two tables shows that customer benefits after the merger were increased significantly.

Highlights of the TD Canada Trust Merger

The corporate highlights of TD Canada Trust in 2000 indicated that (i) the company was achieving a new high in customer satisfaction as measured by its retail branch customer satisfaction index (CSI) following the resolution of key post-conversion integration issues; (ii) the company met its branch merger targets by completing 146 branch mergers in the year and 238 mergers since the acquisition of Canada Trust. When the merger program was 91% completed, significant expense synergies were achieved while increasing average branch hours; (iii) the company built a better bank by investing in systems and processes to support TD's customer service model while maintaining a tight control on expenses.

TD Canada Trust provides a range of financial services and products to about 10,000,000 million persons, small business and commercial customers across Canada through 1,093 branches, 2,638 ATMs ....via telephone, the web and wireless devices. TD Canada Trust provides lending, deposits, savings and investment products to Canadian businesses, cash management and treasury services. It also provides a full range of products, services and access channels to U.S personal and business customers (http://www.fpinfomart.ca/doc/doc).

Due to the merger of TD Bank and Canada Trust, this research study identified three things that were changed, namely cost efficiency, market share and stakeholders' benefits. Immediately after the merger, the cost/income ratio dropped significantly (13%). The post merger TD's market share rose to 17.14% (4^{th} position) from 14.32% (5^{th} position). Also, dividend increased to \$1.36 per share from \$0.81 per share.

Table 24. Comparison of TD Bank's pre- and post-merger business advantages in Canada.

Name of product	Toronto-Dominion Bank (Pre-merger 1999)	TD Canada Trust (Post-merger 2000)
No. of Common Shares (thousands)	620.343	622,616
Market Capitalization (millions of dollars)	20,937	26,119
Number of Employees	30,636	44,798
Number of Retail Bank Outlet	918	1,355
Number of ATM	2,164	2,836
Cash Return on Common Shareholder Equity	34.8%	18%
Efficiency Ratio	62.6%	61.8%
Net Interest Rate Margin	1.70%	1.63%
Common Dividend Payment Ratio (cash basis)	30.3%	29.2%
Dividend Yield	2.1%	2.3%
Price Earnings Ratio (cash basis)	14.1%	13.3%

Source: A statistical review: corporate performance ratio, TD Bank's annual report, and 2000

Table 24 shows the comparison of TD Bank's pre- and post-merger business advantages (annual report of TD Canada Trust 2000, pp. 74-76). After the merger of TD Bank and Canada Trust, TD Canada Trust did well in all the above items except in efficiency ratio, common dividend payment ratio and price earnings ratio.

By definition,

$$\text{a. Cost Efficiency Ratio} = \frac{\text{Total Cost}}{\text{Total Asset}}$$

$$\text{b. Common Dividend Payment Ratio} = \frac{\text{Net Earnings} - \text{Preferred Dividend}}{\text{Shareholders' Equity} - \text{Preferred Share}}$$

$$\text{c. Price Earnings Ratio} = \frac{\text{Market Value per Share}}{\text{Earnings per Share (EPS)}}$$

Immediately after the merger, the company went through a transition period. During this time, many changes occurred such as branch closures, branch mergers, integrated employment set-up, and a top management shuffle. These changes required huge expenses. Therefore, total cost increased during the merger period. This explains why the efficiency ratio reduced by 0.8%. During the merger, the company intentionally reduced dividend payments to common shareholders, which is why the common dividend payment ratio reduced by 1.1%. When news of the merger was announced in the market, the market value per share decreased temporarily due to uncertainty about the future of the merger, which is why the price earnings ratio decreased by 0.8% per share.

Opinions of the Merging Banks

W. Edmund Clark, President and Chief Operating Officer of Canada Trust Financial Services Inc., said in a speech that the "TD Bank acquisition of Canada Trust is a case in point. The merger of Canada Trust with TD Bank retail arm was about more than cost savings, it was about extending a successful business model and preserving customer-centric brand." W. Edmund Clark (born 1947) is currently the President and Chief Executive Officer of TD Bank Financial Group (also known as Toronto-Dominion Bank), roles he has held since December 20, 2002.

After the merger of Toronto-Dominion Bank and Canada Trust, the technological platform of Canada Trust was integrated as one technological platform. This unique operation was a positive indication of greater fiscal efficiency after the merger. The rationale of the management class of TD Canada Trust was that it was necessary for the two companies to combine and became larger in order to effectively compete with other international banks. The two companies also asserted that the merger would result in significant cost savings, and introducing the Canada Trust Service Model across the Toronto-Dominion branch network would force other large financial institutions to follow suit and became more competitive.

After the merger, TD Canada Trust gradually implemented a uniform technological platform for all its branches. TD Bank's merger with CT's branches that operate in the same geographical market presented an opportunity to realize significant cost savings and improvements in efficiency.

An important issue was cross-selling Canada Trust Services to TD Bank corporate customers and adopting Canada Trust's customer-centric approach to retail banking which consists of improving the quality of services, establishing a solid market presence and building a well recognized brand. TD Bank and Canada Trust assumed the merger could garner social gains, after the merger of TD Bank and Canada Trust; the potential social gains were to enhance internal efficiency and, presumably, the ability to expand (http://www.td.com/communicate/speeches/25nov02.jst).

Charles Baillie, Chairman and Chief Executive Officer, and William T. Brock, Deputy Chairman had discussed the need to reposition their organization in the retail banking business in the context of an increasingly competitive market place. Pursuing the opportunity to acquire Canada Trust in 1999 allowed them to take a quantum leap in retail banking in Canada.

TD Canada Trust had an opportunity to building a better banking experience through the added advantages of the automated teller machine (ATM) network and a larger branch network, as well as access to the best financial products and services in Canada (in the opinion of the president). The combined expertise of TD Bank and

Canada Trust provide a wonderful chance to build a better bank for Canadians who have been looking for a truly comfortable banking experience (Canada Trust annual report, 1999).

With new global giants offering stiff competition over a range of financial services, the goal for the bank has been to set a course through a changing landscape by repositioning TD Bank and generating profitable growth as a competitive world-class financial institute.

Canada Trust had been regarded as a jewel in Canadian Financial services, offering long-term value and growth potential to shareholders. The retail operations combined as TD Canada Trust vaulted the new bank to first among Canadian banks in number of retail customers, number of electronic banking customers and market share of personal loans and deposits, also leading the industry in both customer service and mutual fund advice. It is very important to speak about the scale and scope that remain as a leader to develop a new product, technologies, services and delivery channels which will create a platform for future growth.

TD has been able to enhance returns to shareholders by increasing the proportion of TD Bank's capital employed in retail businesses from less than 50% of total capital to over 60%.TD Bank's achievements in 1999 are due to leadership throughout the organization. TD Bank employees have risen to enormous challenges in developing new businesses, retaining and learning new jobs, and responding to sweeping changes at a very rapid pace.

According to the schedule outlined before the merger, the executive of TD bank and its subsidiaries expressed in annual reports that the merger would have positive. Management expected these positive results carry on for years. The merger with Canada

Trust was a part of TD Bank's plan to present itself as one of North America's big banks. Notwithstanding the effort required to merge the two financial institutions, TD Bank management has announced that it received significant positive reviews about its moves in electronic banking.

Management maintained this leadership in electronic banking through quick integration of Canada Trust's branches into TD's network. From 2002 to 2009, all Schedule-I banks in Canada, including Royal Bank of Canada, Canadian Imperial Bank of Commerce, National Bank of Canada, Scotia Bank, Bank of Montreal and TD Canada Trust Bank, offered the following electronic banking facilities to serve their customers: automated teller machines, internet banking, telephone banking, and mobile banking.

The former TD Bank acknowledged that Canada Trust was the premier financial institution in Canada for customer interaction. They incorporated this culture of customer satisfaction into all of their operations. Based on the president's opinion, TD Canada Trust represented an unparalleled opportunity to continue a unique approach to retail banking while building a brand new presence in the North American retail financial services market. It launched the leading personal financial services organization in Canada that will be number one in many areas, including, customer service, mutual fund and investment advice, branch presence in major national markets, and personal loans and deposits (Canada Trust annual report, 1999).

Based on TD Bank's forwarding business performance, TD Bank can help shape positive futures for many Canadians through day-to-day activities as a financial services provider, as a major employer, and as an actively involved member of communities. Management teams also realize that it's important to contribute to the future prosperity of the communities, the economic environments in which they operate, and the vitality of Canadian society. As a major financial institution in Canada, TD Canada Trust is in a fortunate position to lead the Canadian banking sector.

In depth of experience and resources at TD disposal, and possess expertise in obvious disciplines such as banking and finance but also in areas like technology, e-business, security and privacy. This means that the Bank can play an active role in the society as a good corporate citizen.

TD Bank takes responsibility as a leader by collaborating with civic leaders and community groups to address economic development issues. It also lends its voice to public discussions on the crucial challenges facing the country and shares the knowledge and ideas fostered within the organization with others (TD Bank accountability report, 2002, p.2).

Extent to Which Merger Benefits May Have Been Passed on to Customers

Reduced Customer's Fees

Superior customer service has been a prime tenet of TD Canada Trust since its formation in 2000. "Once the dust settled from the merger, we took a hard look at our credit world in terms of what was working and what was not," explains Louise Nicholsen, AVP Credit Infrastructure at TD Canada Trust. "We discovered that we had a lot of inefficient processes and a complex operating environment requiring multiple handoffs departments," said Nicholsen.

With so many handoffs, 22% of TD Canada Trust's applications had to be re-keyed at some point, negatively impacting error rates and turnaround times. In addition, the bank had numerous systems in place that performed the same function.

It also had insufficient management reporting and was, in some cases, tracking workflow on a mutual basis. After a high-level assessment of its current status and future requirements, TD Canada Trust began implementing a new customer-level decision solution. To link credit strategies across the lifecycle, the bank integrated Fair Issac's TRIAD adaptive control system for customer management with Capstone Decision Manager for originations, resulting in increased new unsecured credit volume by 60%, better managed provisions for credit loss, significantly boosted the automated decision rates and increased efficiencies (http://www.fairsaac.com?NR/exeres).

a)Implemented Reduced Bank's Customer Fees

With the completion of the Canada Trust acquisition, TD Bank had a major challenge in the year ahead due to integration. TD Bank was working closely to reduce customer's fees with a goal of creating a successful business endeavor in Canada as well as all over the world.

b) Extended Hours of Operation

TD Canada Trust markets itself as having longer hours than any other major banks. Since late 2007, most branches are open 8-6, Monday to Wednesday (some branches till 8 pm), 8-8 on Thursday and Friday, and 8-4 on Saturday. Some exceptions are made for low-traffic branches, and all branches are closed on Sundays and most statutory holidays (http://en.wikipedia.org/wiki/TD_ Canada_ Trust).

c) Customer Services

TD Bank serves customers through its network of more than 1,000 retail banking and investment outlets, as well as through its electronic banking services, including TD Bank Access, which includes telephone banking, the Green Machine network, PC banking, web banking and INTERAC direct payment. TD Bank provides a broad array of products and services, including wealth management, credit cards, personal deposits and loans as well as business banking services (TD Bank Financial Group: 143rd annual report, 1998, 'Corporate profile' p.1).

"In 1999, Canada Trust succeeded in improving customer satisfaction index by 2.4% percentage points over the prior year, exceeding corporate objective by 1.4 % percentage points. The continuing effort to improve customer service at all points of contact has been successful during the year. Significant increases in satisfaction were noted in the retail business through company Easy Line Automated Service, Easy Web and Business Banking. During the year 1999, the Canada Trust was continued to measure customers experience with customer satisfaction index on a timely basis ensuring immediate response, where action was required" (CT Financial Services 1999 annual report, p.6).

Effect of the Merger on Affected Groups (Stakeholders)

Introduction

Mergers (amalgamations) differ from acquisitions (takeovers) in several regards. One primary difference is the mean by which the individual companies are dissolved in the process of creating the new corporate entity. One of the goals of this dissertation is to examine the impact of a merger on the various interest groups involved in the merger. These include the banks' top management, shareholders, employees, the government, customers, the general public and communities across Canada.

TD Bank's corporate responsibility report 2003, formerly called an accountability report, was published in March 2003 and detailed its yearly community, social, economic, and environmental performance and ongoing activities and commitments. The report was designed for and organized around major corporate stakeholders: customers, employees, shareholders, community partners and the environment. All federally regulated financial institutions in Canada with equity greater than $1billion are required to produce annual public accountability and responsibility statements describing their contribution to the Canadian economy and society, including taxes paid, charitable donations, and small business financing activities.

Bank Mergers in Canada

"Bank mergers are a pertinent issue in the Canadian Financial Services industry, when a merger successfully passes through the merger review process, it affects a variety of different groups: the government, the chartered bank, top management of the company, and most importantly the general public, bank employees, bank shareholders and bank customers and communities" (Task Force on the Future of the Canadian Services Sector, 1998, p.8).

Executive Management of Toronto-Dominion (TD) Bank and Canada Trust (CT)

In 1999, (prior to the merger), the Board of Directors formed four different committees: (a) Audit and Risk Management Committee, (b) Corporate Governance Committee, (c) Executive Committee, (d) Management Resources Committee (TD Bank Financial Group: 144th annual report, 1999, corporate governance, p.75). During 1999, Canada Trust had five standing committees, all of which complied with the guidelines' recommendation that board committees should generally be composed of outside directors (i.e., non-management), a majority of whom are unrelated to the company. The only committee of the board is the Audit and Risk Management Committee, composed of the five outside, unrelated directors. Canada Trust had six committees managing organizational activities: (a) Audit and Risk Management Committee, (b) Conduct Review and Environmental Stewardship Committee, (c) Executive Committee, (d) Human Resources Committee, (e) I Ad hoc Committee and Task Forces and Advisory Councils (Canada Trust Co. Mortgage Company 1999, pp. 64-65).

Executive Management of TD Canada Trust

In 2000, the Board of Directors and TD Bank management established corporate governance practices that were appropriate for one of the world's leading financial institutions. The Board of Directors is responsible for overseeing management and business affairs and makes all major policy decisions for TD. The Board of Directors established four major committees: (a) Audit and Risk Management Committee, (b)

Corporate Governance Committee, (c) Executive Committee, (d) Management Resources Committee.

CEO-Chief Executive Officer

Charles Baillie was the Chairman and Chief Executive Officer of TD Bank in 1999, and W. Edmund Clark was the President and Chief Executive Officer of CT Financial Services, Canada Trust Co. and Canada Trust Company in 1999. The Executive Committee of the Board of Directors of TD Canada Trust was increasingly more effective in discussing all matters in full board meeting. Baillie became the Chair of the Executive Committee and Clark became a member of the Executive Committee. There were eight additional members of the executive committee.

This new leadership managed the TD/CT merger by planning carefully, proceeding in stages and being flexible. Communication was also important to keep branches informed of approaches and changes. Branch conversions were completed in waves, with Saskatchewan, Manitoba, Quebec and northwest Ontario converted by early 2000. The rest of Ontario was switched over on the August civic holiday.

Conversion involved transitioning branches onto the same technology platform and integrating a new product, which required an intensive training program. Conversion leaders visited branches a few weeks before and performed role playing games with employees. The goal was to have the wrinkles ironed out within three weeks of conversion so branches could return to business as usual (Jennings, Ryan, July 2001, p. 17).

Bank Employees

The TD Bank's employees are more effective employees and more successful family and community members. That's why TD Bank offers ways to help employees manage their priorities, whether it's spending time with family, recreational activities, volunteering in their communities or pursuing personal and professional development. Post-merger, TD Canada Trust Bank arranged a variety of flexible work schedules, including flexible start/end times, reduced work hours, job partnerships, compressed work weeks, gradual returns to work and telecommunicating.

Employees can request paid and unpaid time away based on leaves of absence from work to address a variety of circumstances. Leaves range from short-term for a convocation or citizenship ceremony, for example, to longer-term compassionate care, which provides up to eight weeks' absence from work without pay to provide care or support to a family member who is gravely ill. TD's childcare leave is a leading and comprehensive policy. There is no distinction based on whether an employee is a mother or father or whether he or she is a birth or adoptive parent. All employees are eligible for the same childcare benefits, which include up to 52 weeks off and a six-week income supplement. Pre-merger, TD Bank's employees could arrange with their managers to receive paid time off to volunteer in the community during regular work hours (TD Bank Financial Group: corporate responsibility report).

TD Bank, a great place to work for its employees and more opportunities were available after the merger, e.g., pension plans and other benefits. That's what makes TD Bank a great place to work. After all, it is important to attracts top people and convince them want to stay (www.td.com/corporateresponsibilty/crr2008/employees).

Based on the corporate goal of becoming a leading North American financial services company, it is essential to attract and retain the very best people. That means TD Bank offers employees rewarding roles in a supportive environment and promotes them in a workplace that reflects the diversity of society. This is very important, as standing behind employees means helping them prepare for tomorrow, whether they are considering their career objectives or changing family obligations. TD Bank is committed to diversity in the workplace by designing policies and initiatives to promote diversity and equal opportunity for all employees, building a culture that respects and fosters unique talents and perspectives.

The Bank is a recognized leader in promoting the advancement of women in the areas of career development, succession planning and flexibility. Among its achievements is offering the Catalyst Award, which recognizes exemplary initiatives in promoting women in positions of leadership. The Bank also established processes to identify high-potential female employees for senior management roles. The company supports the advancement of women, including Women in Capital Markets (WCM), a volunteer organization that promotes the entry, development and advancement of women in capital markets.

During 2002, the organization launched a Workplace Accommodation Program (WAP) to remove barriers and provide all employees with a means to request assistance such as modification to their work station or specialized equipment. Based on the company's business culture, they also participate in career fairs and recruitment programs such as the jobs Market Career Fair for persons with disability (sponsored by Human Resource Development Canada).

The TD Bank management supports the Ability Edge Program, in partnership with Career Edge and the Canadian Bankers Association, to recruit disabled people for internship placements throughout the Bank. They are continually engaged with numerous organizations serving persons with disabilities, including Opportunities 45, the Canadian Paraplegic Association, and the Canadian National Institute for the Blind, Partner Vision and Line 1000.

Employees need to balance busy careers and lives. They want to feel confident that they'll be able to make choices to effectively manage their obligations today and in the future. Below are highlights of the many flexible arrangements available to help work or life balance offered by TD?

- Flextime option gives employees the ability to work a regularly scheduled number of hours each week that is less than the standard 37.5 hours.
- Flex hours and weeks provide staff with the flexibility to determine their hours of work and days off depending on their personal obligations.
- Flex job allows employees to share a full-time position with a colleague while flex place provides the option of working at a location other than their regular work place, including their home, for all or part of the week.
- Flex return lets people gradually return to normal duties from childcare leave.
- Employees may choose from several leaves of absence options in the event they need to take time away from work to attend to a personal matter, including family care, education, personal wellbeing or community service.

TD Bank provides many resources and programs to offer support feedback and recognition by helping employees overcome challenges at home or at work, by listening and responding to their ideas to build healthy work environment, and by rewarding their achievements.

TD Bank conducts a company-wide employee survey twice a year to collect feedback about things that matter to employee. Data from the survey, which measures leadership, work/life satisfaction, recognition for performance and team work, are collected and tabulated by an outside firm to ensure confidentiality. Through the use of this data, enhancements to workplace practices and programs are made (TD Bank Financial Group: corporate responsibility report, 2003).

In 2001, the merger of TD Bank and Canada Trust was almost complete and employees were satisfied with working in a new organization. The Bankers' Report Card indicated that the firm's front-line workers rated it the best place to work. Still, this was more than a year before the full integration of TD Bank and Canada Trust was completed and the results once the merger was almost complete any one's guess. Mergers are initially greeted by chaos, technology headaches, product nightmares and cranky staff.

TD Canada Trust employees gave the newly integrated bank top scores in eight of 16 categories and tied for the highest average score with the Bank of Montreal, which came first in six categories. This made TD/CT the winner based on survey results.

Due to the adaptation of new technology in the TD/CT merger, Canada Trust branches and employees were more affected than TD Bank workers because they were introduced to a whole new set of products and processes. Canada Trust employees also got a couple of practice days a TD Bank branch before they converted to front-end technology.

Part of the strategy is to use what's called a plaid process, which brought TD Bank and Canada Trust employees together so they could lean on one another if they need clarification in a particular situation. This was more important on the sales side because there are many different types of transactions, whereas tellers became pretty comfortable after about three weeks because they do so many similar tasks.

TD Bank also surveyed its employees before and after integration to check what they called an integration pulse. The Investment Executive survey showed that while the transition was going more smoothly than anyone would have thought, nothing was perfect. With the conversion, the computer systems were horrible and the policies that were implemented were really bad. There was uncertainty over what lay ahead, and employees' greatest fear was that they may loss of their particular corporate culture (Jennings, Ryan, July 2001, p.17).

Impact of Merger on the TD Bank's Business

In February 2000, Toronto-Dominion (TD) Bank initiated Canada Trust into its operations. The combined retail banking division, now known as TD Canada Trust, is currently the largest bank in Canada in terms of deposits and the national market with over 1200 branches. In an effort to create a single, consistent brand across the country, the conversion of the two organizations was completed in August 2001. More specifically, 435 Canada Trust branches were converted to TD Canada Trust systems, 896 branches re-branded to TD Canada Trust and 2,524 ATMs were converted or re-branded. The physical mergers of branches began in July of 2001 in the Atlantic region and all mergers across Canada were completed by October 2003.

As of October 31, 2001, TD was Canada's second largest bank in terms of market capitalization with more than $288 billion Canadian dollars in assets, up $23 billion or 9% from the previous year. TD Bank's common stock is listed on the Toronto Stock Exchange, the London Stock Exchange, the New York Stock Exchange and the Tokyo Stock Exchange. TD Bank is also a global leader in online financial services sectors (TD Bank annual report: management's discussion and analysis operating performance 2001, pp. 20-86).

Mergers can present many challenges for financial institution and new competition emerges as domestic markets are opened by trade agreements and technology. This competition will benefit consumers but forces existing institutions to rethink their strategic directions. As a task force report made clear, many different strategies have been followed in Canada, one of which is consolidation through mergers. Merger always seeks ways to build on strengths and offers tremendous opportunity for those who merge successful (Report of the Task Force, 1998, p.5).

Branch closure is one of the most important parts of a merger, especially in the bank/financial industry. A firm can save money through the layoffs of employees and reduced rental costs and other fixed costs. The creation of new technology as part of a merger may mean that customers could become frustrated at the declining quality of service. For example, call centers and ATMs have come to the traditional face-to-face banking, yet consumers still overwhelmingly express their desire to have quality personal customer service. In a survey in 1999, 70% of people were not comfortable with banking services offered over the Internet (Finance Sector Union, Social Obligation of Australia's Finance Sector).

Change to the banking industry has meant a shift away from traditional face-to-face banking. This is also problem for individuals, who are not comfortable with new electronic means of banking, especially people who cannot find any information or education regarding these changes. In addition, elder and disabled people face particular problems when forced to rely on ATM machines for their bank services. People from non-English-speaking backgrounds and/or people without access to education regarding new services are adversely affected as branches close and fees and job cuts increase. Bank staff must learn to cope with increased stress and a complaint from customers, which in turn is distracts them from delivering quality customer services (Hand, 2001).

Customers Affected by the Merger

Mergers threaten to hurt at least some customers in three ways. First, post-merger staffing cuts may displace officers whose favor the customer had previously cultivated. Surviving loan officers are unlikely to be aware of every important contact a customer has previously had with previous employees. Second, in eliminating a competitor, a merger may curtail some customers' bargaining power. Lastly, enhanced governments guarantee shifts risk to the customer in its capacity as a taxpayer.

Bank merger announcements reduce the equity value of small publicly traded firms that are target customers. To be consistent with the hypothesized joint effect of large market mergers on the competitive pressure of customer bargaining power, the decline increases with the size of the target bank. In addition, the stock prices of relationship customers of the acquiring bank increase (Karaceski, Ongena, and Smith, 2005).

Between 2000 and 2002, TD/CT merged 230 branches with one criterion – that merging branches were within two kilometers of each other. To assist in the merger, TD/CT utilized a customer satisfaction index (CSI). The CSI is structured to assist in identifying customer needs, issues affecting customers, and interpreting answers given to the survey. If the CSI is used properly, the bank will be able to identify positive or negative issues and can compensate employees based on the results. The bank carried out the survey and focus group with employees to identify both efficiencies and deficiencies. They intend to continue this process to build upon their current success (TD Bank Financial Group: 146th annual report, 2001, p.9).

At the time of the merger, customers could either remain customer of the merged financial institutions or to take their business elsewhere. One factor in choosing was the credit card being offered. The new bank offered VISA, but Canada Trust customers were issued MasterCard. To continue using MasterCard required customers to switch to a financial institution that offered MasterCard (CT Financial Service 1999 annual report, p.6).

TD Canada Trust did have a major upset to contend during the merger. During summer the bank eliminated a product called Canada Trust Power Line, which allowed Canada Trust customers to place their MasterCard purchases against a personal line of credit with a much lower interest rate. The situation likely put a dip in the TD Canada Trust overnight customer satisfaction index (CSI). But there were also dips in the CSI after every wave of integration. The TD Canada Trust marketing department was also tailored after Canada Trust. It's centralized and fact based, and relies heavily on the "Customer Satisfaction Index." This index involves daily phone calls at least to 1000 customers to inquire after their same day experience with the bank (Young, Lesley, 2002, p.1-7 or file"//F:\delivery.htm).

Canada Trust's hallmark has always been its dedication to customer service. An Account Manager with Canada Trust in Ontario, Tomezyk said, "We evaluate customers based on a client's need, not the bank's interest." He said, "The merger has cut into that focus, although the effect has been minimal". However, he said, "Here are still gaps in customer service levels and we need to make improvements. Clients do not like change, and a merger is difficult for them. To measure the affect on customers, TD/CT conducted phone surveys following branch conversion. There was a dip in the first month for customer service and it took about eight weeks in Atlantic Canada to recover. The west also dipped but revered as well." Tomezyk said, "TD Bank bought us and you really have to give it credit because it wanted to adopt Canada Trust retail banking models, and then picked up what TD Bank did well" (Jennings, Ryan, July 2001, p.17).

Bank Customers

TD Bank is dedicated to making financial services a truly comfortable experience for millions of customers in Canada. With TD Bank's dynamic service, more than 10 million customers are highly satisfied with their diverse financial needs.

Pre-Merger Effect on TD Bank's Customer Benefits

Due to increased competition and new technologies, TD Bank management worked hard to reposition itself in the banking business and to make it easier and more convenient for customers to bank while reducing costs, enhancing service levels and transforming branches into sales and service centers. This strategy is vital, because while branches are expensive delivery channels for basic transactions, they provide effective distribution channels for high-value financial products and services to customers (TD Bank Financial Group: 143rd annual report, 1998, p.4).

TD Canada Trust provides a range of financial products and services to personal customers, including telephone banking, web banking, insurance, and access to more than 2,800 automated banking machines. In addition, TD Bank provides lending, cash management and treasury services, and business planning support to Canadian Businesses.

With a focus on e-commerce, TD Bank is already a leader among financial services firms, offering fully integrated wireless banking and brokerage services to customers.TD Bank e-commerce strategies affect the entire organization and ultimately meet the goal to delivering a fully integrated range of products channel, including online, telephone and in person.

The ultimate goal of the merger was to bring two branch networks together to build a better bank for customers. All TD Canada Trust branches offer paperless banking, which means that deposit and withdrawal slips are a thing of the past. TD Canada Trust remains focused on customers through extensive customer research to make sure everything is designed to make banking services as comfortable as possible.

The bank kept daily track of customer satisfaction through the TD Canada Trust customer satisfaction index (CSI). The bank talks to over 850 branch customers everyday and uses the information it receives from these conversations to constantly improve the level of service provided to customers. Online banking is part of a larger movement that allows customers to receive all products and services through any channel: at a branch, online, or over the telephone. This integration of services makes it easier and more comfortable for customers to do business and helps to deliver on the promise of outstanding customer service.

"The acquisition of Canada Trust by the TD Bank was performed in 2000 that has been committed by the TD Bank management to building a better bank. An important enhancement included the adoption of the Canada Trust customer service model, which emphasizes putting customers first. To provide a comfortable banking experience for all customers that would create a stronger organization – a leader in many services, delivery channels, and even hours of service" (TD Bank corporate accountability reports, 2002, p. 21).

TD Bank adopted the highest standard of protection to customers by using numerous external codes of conduct developed jointly with other financial institutions and industry organizations. These included the Canadian Code for Consumer Debit Card Services, which outlines industry obligations and the rights of consumers when using their debit card, and the principles of Consumer Protection for Electronic Commerce, which sets a framework to guide businesses, consumers and governments involved in commerce through various networks, including the Internet.

The code of conduct for relations with small businesses is included in the brochure of small business banking commitments and is available at all branches. TD Bank has committed to improving services for those who would not otherwise have easy accesses to financial services, including seniors, people with disabilities, those with modest incomes and new arrivals to Canada (TD Bank corporate accountability report, 2002, p.24).

Communicating Integration Commitments

At the beginning of the merger, following commitments were made to all customers through newspaper ads and customer letters.

- To update customers regularly as the integration proceeded and notify them personally in writing and in advance of any merger-related changes to their accounts or branch service.
- To respect the good standing of customers of the two organizations.
- To build a better bank by extending branch hours, freezing service fees for a certain period of time and improving automated banking machines access for all customers.
- To treat all employees with dignity, respect and fairness because they are the key to delivering customer satisfaction.

During 2002, the Bank performed a crucial final step in integrating TD Bank and Canada Trust by completing branch consolidations. All customers were notified personally and in writing at least 120 days in advance of any location closure. This was a dynamic task that required hard work to reduce the impact of branch consolidations on customers and employees. When two branches with different operating hours merged, the new branch adopted the longer hours of operation. While some staffing reductions resulted from branch integration, the overall impact was minimized through natural attrition and managing hiring levels in advance of consolidation. Employees who lost positions were provided with a severance package that exceeded industry standards.

By the end of 2002, the TD Bank had successfully eliminated the vast majority of customer service obstacles. Recently, all employees were asked to identify additional processes that require attention to solving issues going forward. Here are a few of the process improvements completed during 2002:

- Enhancements to branch-to-branch banking capabilities so customers can more easily perform routine banking transactions or make mortgage and loan payments at any TD Canada Trust branch.
- Streamlining many processes, making it more efficient and comfortable for customers to obtain a loan or mortgage, purchase creditor protection, pay a bill, open a safety deposit box or purchase American dollars investments.
- Enhance training and online support tools for front-line employees to allow them to assist customers more quickly and efficiently.

Corporate Shareholders

The merger of Canada Trust and TD Bank was undoubtedly in shareholders' interest (TD Bank Financial Group-Executive Speeches, pp. 10-11). In the financial/banking industry, there are two different categories of shareholders, common shareholders and preferred shareholders.

Common Shareholders

The combination of strategy and people produced the best financial results of TD Bank's history. The share capital of TD Bank consists of an unlimited number of Class A first preferred shares, without par value, issue able in series, and an unlimited number of common shares without par value. The average number of common shares outstanding (thousands) in 1999 was 599,331 and the earnings per share (excluding good-will expenses) was \$4.98 (table-25, p.132). This dividend per common share was \$0.72. On July 31, 1999, TD Bank paid a stock dividend of one common share on each of its issued and outstanding common shares (TD Bank annual report, 1999).

CT Financial Services achieved an increase in common share net earnings of 18% to \$346 million for the year ended December 31, 1999. The fourth quarter earnings of 1999 were \$89 million, an increase of 27% over the fourth quarter of 1998. The optimized return on common shareholders' equity for the full year was 18.2%, excluding the impact of excess capital held for redeployment. On a comparable basis, the result for 1998 was 16.1%. For the fourth quarter in 1999, the return was 18.4% compared to 14.8% for the previous year. The reported return on average common shareholders' equity including excess capital was 12.6% for 1997 compared to 11.5% in 1998 (Canada Trust annual report, 1999).

In 2000, the average number of outstanding common shares (thousands) of TD Canada Trust was 621,585. The earnings per share (excluding good-will) were \$0.92. The common dividends per common share of \$572 million were retained as retained earnings of the company. The bank is prohibited by the Bank Act from declaring any dividend on its preferred or common shares if there are reasonable grounds for believing that the bank is, or the payment would cause the bank to be, in contravention of the capital adequacy and liquidity regulations.

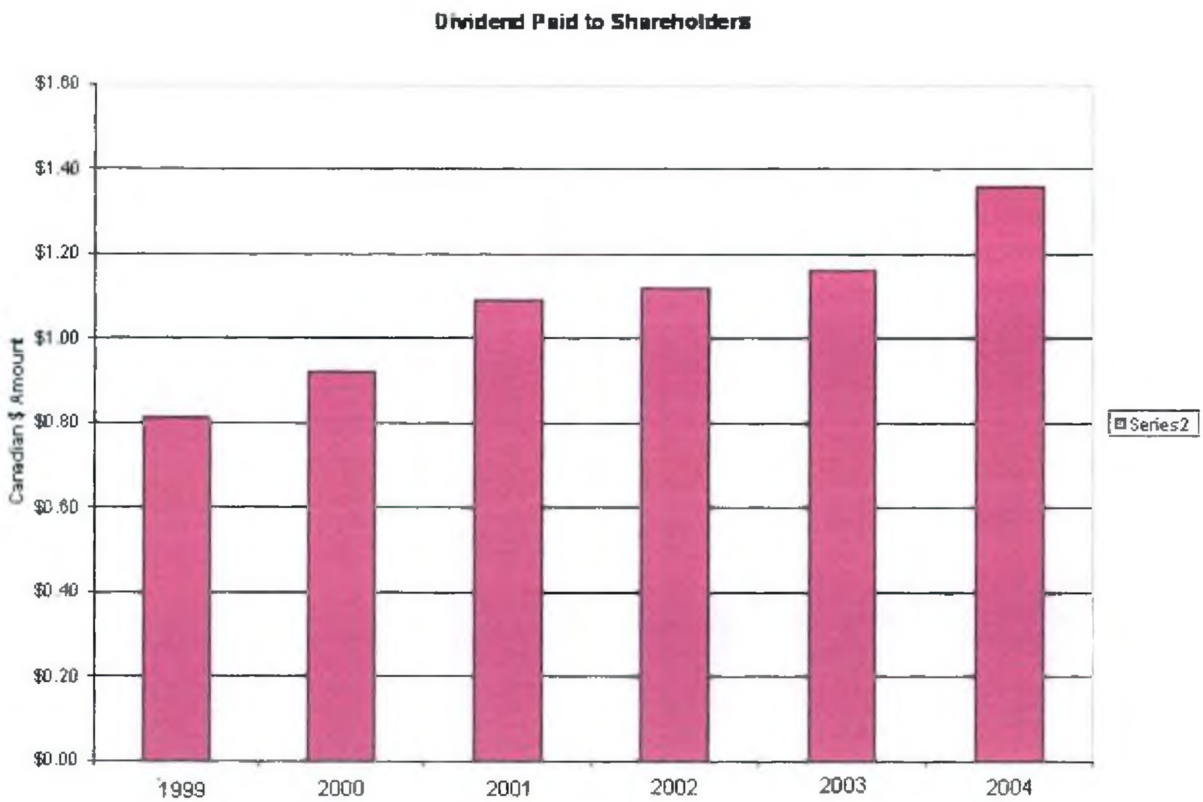

Figure 3: TD Bank's pre-and post-merger Dividend Paid (1999-2004) for Shareholders' Benefits.

"Depending on a top 20 rating in the 2002, the corporate governance practices by the Globe and Mail – newspaper report on business, October 7, 2002, the TD Bank authority was committed to fixed shareholder's right for their compensation practices and how they can handle the shareholder rights issues and disclosure practices" (Globe and Mail-Report on Business, October 7, 2002).

The accountability report provides highlights of governance practices and policies, regarding the clarity, accuracy and completeness of disclosure. The Board of Directors is responsible for overseeing the bank's business and affairs on behalf of its shareholders. To maintain full transparency and accountability to shareholders, the Board approved the bank's disclosure policy, which establishes the principles and procedures for the disclosure of material information about the bank as well as all major reports to shareholders.

The Board of Directors provides continuously to shareholder's the utmost confidence in corporate governance practices, and the integrity of financial reporting. In addition, the following step is included: the TD Bank was committed to reporting to all shareholders based on the first Canadian bank response about stock options awards as a compensations expense, in response to the introduction of the new Canadian standard on stock-based compensation.

Executive compensation is a topic of intense interest as shareholders assess the effectiveness of management and ensure that all shareholders are fully apprised on this issue. The Management Proxy Circular provided full information regarding annual compensation to specified executives, including salary, bonus and equity compensation.

Preferred Shareholders

Preferred stocks take priority over common stocks in regard to dividends payment for shareholders. Dividends may not be paid on common stock unless the dividend is paid on all preferred stock. The dividend rate on preferred stock is usually fixed at time of issue. In 1998, TD Bank management commitment to increase shareholders' value and that was reflected in their strategic vision to invest in the future financial services industry.

To achieve this vision, TD Bank management executed three core strategies: investing in the wealth management business, repositioning retail banking and completing the portfolio of TD Bank securities. This focus helped to achieve record earnings of $3.62 per share for 1998. A strong performance during the rest of the year allowed an increase in dividends paid to common shareholders of $1.32 per share, up 18% from 1997. To fulfill the commitment of shareholder value, it was paramount for TD to address changes to the financial services landscape. Its earnings per share were $3.62 in 1998, up from $3.54 in 1997, and the dividends per share rose to $1.12 to $1.32 for 1998. The strong performance of TD bank's shares over these years reflected the bank's ongoing commitment to building shareholder value (TD Bank Financial Group: 143rd annual report, 1998, p.1).

TD Bank moved quickly with the integration of Canada Trust Financial Services Inc. to adopt the highly successful Canada Trust customer service model. The capitalizing on its strengths and building an ever-stronger competitive platform was possible for increasing shareholder's value (TD Bank annual report, 2000, p.13).

In the financial industry, there is tough competition between the seven major banks in Canada. Based on this situation, TD Bank looked for an opportunity to capture more market share and became a leader in the financial market place and developed an economy of scale of financial efficiency. Economies of scales are enjoyed when the average unit of cost of production goes down as production increases. Hypothetically, it is possible to achieve economies of scale by spreading fixed costs over a large volume of production. Therefore, an economy of scale was developed in the merger of TD Bank and Canada Trust for the following items: earning per share, price per share, price earning ratio, number of shares, total earnings, total market value, and current earning per dollar in stock.

Table 25. Statistical Review of TD Bank's pre-merger (1995-1999) Shareholder Benefits.

Fiscal Year 1995-1999	Earnings Per Share (EPS)	Price Per Share (PPS)	Price Earnings Ratio (PER)	No. of Common Shares (thousands)	Total Earnings	Total Market Value $m	Current Earnings =Total Earnings Divided by Total Market Value
1995	2.51	23.75	0.11	301,403	756522	7158321	0.105684210
1996	2.95	22.72	0.13	302,703	892974	6877412	0.129841549
1997	3.54	34.82	0.10	296,946	1051189	10339660	0.101665709
1998	3.62	28.45	0.13	297,119	1075571	8453036	0.127240773
1999	4.98	26.77	0.19	620,343	3089308	16606582	0.186029137

Source: 10-yr. statistical review of TD Bank's annual reports 2000

Table 26. Statistical Review of TD Bank's post-merger (2000-2004) Shareholder Benefits.

Fiscal Year	Earnings Per Share (EPS)	Price Per Share (PPS)	Price Earnings Ratio (PER)	No. of Common Shares (thousands)	Total Earnings	Total Market Value	Current Earnings = Total Earnings Divided by Total Market Value
2000	1.56	29.00	0.053	622,616	969673	18025965	0.05379307
2001	2.07	25.74	0.080	627,047	1297987	16140190	0.08041958
2002	-0.25	21.65	-0.012	641,046	-16026	13878646	-0.001154734
2003	1.52	33.42	0.045	649.80	988	21716	0.045481747
2004	3.41	41.68	0.081	654.50	2232	27280	0.081813819

Tables 25 and 26 summarize the results based on corporate economic efficiencies. It compares shareholder benefits prior to and after the merger between Toronto-Dominion (TD) Bank and Canada Trust (CT).

Table 27. Statistical Review of TD Bank's post-merger Shareholders' benefits from 2005 to 2009.

Fiscal Year 2005-2009	Earnings Per Share (EPS)	Price Per Share (PPS)	Price Earnings Ratio (PER)	No. of Common Shares Outstanding (thousands)	Total Earnings	Total Market Value	Current Earnings = Total Earnings Divided by Total Market Value
2005	3.22	43.86	13.66	711,812	2292034.64	31220074	0.073415413
2006	6.39	48.98	14.0	717,415	4584281.85	3513898.6	0.1304614154
2007	5.53	55.70	12.4	717,814	3969511.42	39982239.8	0.099281867
2008	4.92	65.10	11.6	810,121	3985795.32	52738877.1	0.075576036
2009	5.89	67.05	13.4	811,131	4777561.59	5438633.6	0.878448887

Source: TD Bank annual reports (2005 – 2009)

Table 27 summarizes the shareholder's benefits based on earnings per share, price per share, price earnings ratio and the number of common shares from 2005 to 2009.

TD Bank's Involvement in the Community

TD Bank lends its support to a variety of worthy causes that promote arts and cultures, improve social services and strengthen civic institutions. TD Canada Trust is proud of its employees who embrace these causes and consistently apply incredible energy and creativity to bring relief, laughter and support to the communities in which they live and work.

Through TD Bank grants as part of the Medical Excellence Program, TD helps attract and retain health care professionals by providing funding for research, education and career development for doctors, nurses and caregivers. As an example, $350,000 donation to the Waterloo Region Hospitals Foundation of Kitchener-Waterloo, Ontario provided funds for post-doctoral fellowships and education grants for local nurses and other health care professionals (TD corporate accountability report, 2002, pp. 15 -17).

Employees from TD Life Group helped make the holidays more comfortable for families sheltered at Toronto's Scott Mission (a non-profit organization) by creating the TD Life Group Tree of Warmth. Team members decorated a tree with donated hats, scarves and socks and delivered it to the busy community hostel. Employees of TD Canada Trust in Charlottetown, Prince Edward Island, collected and donated food to a breakfast program at a school located in the poorest area of town. The staff volunteered to work in the breakfast program, serving 60-90 kids a day, and also canvassed for winter clothing donations for children.

TD Canada Trust branches in Winnipeg, Manitoba teamed up with a local radio station to sponsor their 19th annual fundraiser to collect toys and donations in support of the Christmas Cheer Board. Employees publicized the toy drive by holding a toy box decorating challenge in each branch and then built a mountain of donated toys during the campaign, which harvested $30,500 in donations and 3,420 gift items. In Halifax, Nova Scotia, the employees of TD Canada Trust rallied to collect and donate a van full of food as well as cash donations to the food bank.

TD Canada Trust's investment in communities is important because the TD Community Giving Program supports to 100s of charities and non-profit organizations across Canada. In 2000, TD Bank contributed $18.6 million to local and national charitable programs. TD is committed to giving a minimum of 1% of its annual domestic pre-tax profits to Canadian charities (TD Bank annual report, 2000, p.14).

When the Canada Trust merged with TD Bank business, it inherited its flagship community programs: FEF (Friends of the Environmental Foundation) and the Canada Trust Scholarships for Outstanding Community Leadership. TD Bank combined the community giving programs Canadian Children's Book Week and the Children's Miracle Network with Canada Trust community programs.

In 2000, TD Bank received a Thanks a Million award from the United Way of Canada for contributing $1 million or more. At the same time, the United Way received $2.5 million from TD Banks' employees and approximately $2 million in corporate donations from TD Bank. TD Bank employees throw their support behind the United Way with payroll deductions and fundraising activities as walk-a-thons, runs and auctions.

Communities in which the Merged Bank Operates

TD Friends of the Environmental Foundation (TDFEF)

"The TD Friends of the Environmental Foundation (TDFEF) is a national organization, formed by TD Bank Financial Group, with a grassroots focus that funds local projects dedicated to preserving the environment. We work with Canadians who are committed to protecting the environment in their own community and across the country. Since its inception in 1990, the TD Friends of the Environmental Foundation has provided more than $53,000,000+ to support over 19,000+ grassroots environmental projects in communities across Canada. And every year TD Bank Financial Group contributes an additional $1 million to TDFEF" (http://www.fef.td.com/about.jsp).

Canadian Children's Book Week

Canadian Children's Book Week was created with the Canadian Children's Book Centre. TD Canadian Children's Book Week is a program that promotes reading across the country. During the Book Week, TD Bank gave a storybook called Nicholas at the Library by Hazel Hutchins and Ruth Ohi to 407,000 grade 1 students in Canada.

Children Miracle Network (CMN)

TD Bank promotes the health of children and is a major sponsor of the Children's Miracle Network, a network of hospitals serving over two million children across Canada. Since 1995, TD Bank customers and employees have raised over $4 million for Canadian CMN Hospitals.

Scholarships for Outstanding Community Leadership

Each year, TD Canada Trust is proud to honor 20 of Canada's exceptional high school students with a scholarship based on their outstanding community leadership. Each TD Canada Trust Scholarship is valued at $50,000 and includes full tuition fees for up to four years of study as well as $3,500 per year toward living expenses and guaranteed summer employment at TD Canada Trust. Community groups are aware that they can apply to TD for either cash or product donations to assist in their community efforts (TD Bank annual report, 2000).

In 2000, TD Bank gave $47 million to charities worldwide. Building and maintaining strong communities, TD Bank is committed to continue to provide charitable donations in Canada and worldwide. Every year, TD Bank's management champions causes. It is important to TD's employees, customers, clients and communities.

Children's Hospital Fund

Beginning in 1990, TD Bank has been a passionate and long-time supporter of children's hospitals, which play a critical role in caring for the special needs for sick and injured children. That's why TD Bank management created the TD Bank Children's Hospital Fund for top medical facilities and foundations across Canada linked through the Children's Miracle Network, which serves more than 2.6 million children each year. All funds raised go directly to local Children's Miracle Network member hospitals for the purchase of life-saving equipment, patient services and medical research.

Following on this commitment, TD Bank has dedicated additional resources to the mental wellbeing of children through the creation and promotion of TD Bank Think First for Kids, TD Bank Think First for families, TD Think First at Home. These programs help health care professionals deliver stress management workshops to families and help educate students to think first before engagement in unsafe behavior (TD Bank Financial Group:corporateccountabilityreporand/www.td.com/corporateresponsibility/crr2008/communit).

A wide variety of local, regional and national charitable organizations are working tirelessly to address immediate and longer-term needs in their communities to ensure a lasting, positive impact on children health, children's education and literacy, and the environment.

Environment

In 2003, TD Bank's corporate responsibility report demonstrated that they can help safeguard the environment as a charitable donor; as a consumer of finished products, suppliers and energy resources; and as a major leader. Environmental sustainability is a serious matters and taking care of the environment is a fundamental activity for many TD Bank groups, including the Friends of the Environmental Foundation (FEF), which makes a difference by sponsoring and promoting community-based projects, research and education in support of the environment.

Immigrant Achieved Success

TD Bank's management recognizes the huge potential of skilled new immigrants and challenge many of them face in getting jobs that reflect their experience. That's why TD Bank management has been a leading supporter of the Toronto Region Immigrant Employment Council's Mentoring Partnership since it started in 2005. Since then, TD Bank employees have been involved in more than 500 mentorships with new immigrants. The program has proven so successful that in 2009 TD Bank provided funding and mentors to help take the idea to other cities across Canada (http://www.td.com/ar2009/our_commitment/index.jep).

TD Bank Volunteer for the Community Individual

TD Bank is committed to making a meaningful and positive contribution to the individuals, families, businesses and communities within the marketplace. TD Bank serves on boards, works with neighborhood groups and donates thousands of hours of volunteer time to numerous civic and non-profit organizations. This community spirit and involvement embodies the very core of the corporate citizenship philosophy (http://www.tdbank.com/community /our_community.html).

Competition Bureau required that 13 branches of Toronto-Dominion Bank and Canada Trust be sold in three Southern Ontario communities. TD/CT is a caring company, which is defined as a company that's donates a minimum 1% of its annual domestic pretax profits. As of 2001, TD/CT had four main programs: TD Friends of the Environmental Foundation, TD Canadian Children's Book Week, Children's Miracle Network and TD Canada Trust Scholarships for Outstanding Community Leadership (CT Financial Services annual report, 1999, p.27). In addition to the four national programs, the bank participates in many local, regional and national children's programs through direct donations, sponsorships, gifts-in-kind and employee volunteers (TD Bank Financial Group: 146th annual report, 2001, pp. 13-15).

In 2000, TD Bank integrated the two national community programs of Canada Trust: Friends in Environmental Foundation and Canada Trust Scholarship. These two programs are actively involved in supporting the environments and post-doctoral fellowships (TD Bank Financial Group: 145th annual report, 2000, p.14).

Canadians

TD Bank's accountability report in 2002 was filed as the required public accountability statement. This report represented activities undertaken in the 2002 fiscal year from November 1, 2001 to October 31, 2002. Management was pleased to provide important information for all community stakeholders, including customers, employees, shareholders and the communities in order to vigorously promote and support the needs of all stakeholders to build a long-term relationships and success. As a beneficiary of and contributor to Canadian society, the company has the ability and a responsibility to step up to help support the social, cultural, economic and environmental enrichment of communities and its members, and can help shape positive futures for many Canadians through its day-to-day activities as a financial services provider, as a major employer and as an actively involved member of the communities.

On October 8, 2002, TD Bank organized and sponsored the TD Forum on Canada's Standard of Living to encourage tangible, practical participation by the private and public sectors in the debate on Canada's economic future. Canadians were invited to submit their ideas to protect and enhance distinct facets of Canadian culture, including the health care system, education and cities. Forum moderator and former premier Bob Rae noted that Canada's future depends on co-operation by diverse groups at events like the TD Forum (TD Bank's corporate accountability report, 2002, pp.1-3).

After the merger, the TD Bank management recognized a fundamental part of Canada's economic landscape, both a supplier and a purchaser of products and services. As a financial services provider, TD Canada Trust contribute to community development, job creation, and the wellbeing of society overall through the loans and investments.

Beyond these activities, the TD Bank merger economically benefits to Canadians. TD Bank consistently demonstrates a commitment to society by addressing urban sustainability and contributing to public discussions on the crucial challenges of affordable housing. This includes reaching out to communities that have sustained economic hardships as a result of natural disasters and other crises (TD corporate responsibility report, 2003).

Running a profitable enterprise is the principal goal of any business, but the TD Bank also operates in ways that balance and integrate the needs of all stakeholders and yield broader benefits for society, both in the short and long terms.TD Banks interacts with stakeholders in many ways, including through one-on-one dialogue, written communications and survey, among other methods (TD Bank's corporate responsibility report, 2003).

Table 28. Stakeholders

Stakeholders	Comprises	Focuses
All Canadians	Governments, customers, business owner and suppliers	Contributing to long-term national and community economic development
Communities	Charities, not-for-profit organizations, and community partners and members	Helping to build a bright future for communities, especially children and youth through donations and employee volunteerism
Environment	Organizations dedicated to environmental issues, all Canadians and the environment	Contributing to the welfare of the planet through responsible business practices and financial support of organizations focused on environmental protection
Customers	Retail/wholesale, businesses, governments and not-for-profit organizations	Delivering satisfaction by providing an exceptional service experience and a product range that meet customers' present and future needs
Employees	Employees within Canada and abroad, across all affiliates	Contributing to satisfaction with meaningful jobs and flexible, supportive programs that allow employees to thrive professionally
Shareholders	Retail and Institutional	Maximizing long-term shareholders value with the right business strategies and leadership in corporate governance

Source: TD Bank's corporate responsibility report 2003 and www. td.com/crr

The component question (i) (See in Chapter--I, p.6) was approved by the University Dissertation Committee. This study showed that the TD Bank was able to produce anticipated cost savings and financial gains due to the merger between TD Bank and Canada Trust. Just prior to the merger in 1999, TD Bank's total income was $78,639 million and total costs were $65,013 million. Therefore, the cost-income ratio was 17.33%.

After the merger in 2000, TD Canada Trust's total income amounted to $20,075 million and the total costs were $17,863 million. This means cost-income ratio was 11.02%. Tables 7, 8 and 9 show the results of cost savings immediately after the merger. In the following years, costs were reduced even more. Before the merger in 1999, the total taxes paid by TD Bank were $1,509 million and immediately after merger, the total taxes paid were $901 million. Therefore, there were savings $608 million or 40% in income tax payment. This study proved that due to the merger, TD Canada Trust realized the anticipated cost savings, leading to financial gains in income taxes.

Summary of Chapter III

In this chapter, three things were discussed: a brief history of merging banks (TD/CT), the purpose of the merger, and the effect of the merger in terms of tax return, gross revenues, fixed costs, variable costs, customer base, market capitalization, market share, cost savings and expenses, business cultures and business advantage. The effect of this merger was discussed in areas including cost saving or cost efficiency, market share and stakeholders benefits. It was shown quantitatively that due to this merger, corporate costs were reduced substantially and the market share after the merger was increased with in comparison with all other Schedule-I banks in Canada.

Chapter IV

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

SUMMARY

This dissertation examines the merger of TD Bank and Canada Trust in 2000 and determines whether it resulted in the anticipated cost savings, and whether these savings were passed on to the bank's customers and how stakeholders were affected. It is an in-depth case study. The statement of research problems is a vital part of the dissertation.

This study might assist banks in Canada and abroad in their evaluation of the benefits and detriments in pursuit of mergers and joint ventures. The purpose of the study is to determine whether the predicted economic advantages, which include reduced costs, increased revenues and greater market share, were actually achieved by the merger.

The main question of this study includes cost efficiency, corporate market share and stakeholder benefits. The second subtopic of the main question is market share. The calculation of market share is based on the requirements of Competition Bureau.

According to the Competition Bureau in Canada, personal line of credits, personal loans, consumer installment and residential mortgages make up the retail market share. Commercial market share includes small and medium-sized business operating loans, loans to the governments, and securities purchased under resale agreements. To compare market shares, the researcher divided all sales volume of Schedule-I banks in Canada by the total volume of sales for each bank and multiplied by one hundred.

The next sub-topic is stakeholder benefits. Stakeholders are considered to be corporate customers, employees, shareholders, the general public and the communities in which the bank operates. This study also researched the effect of the merger on goals.

The dissertation verified nine component questions and their support of the main question. To do so, this research study examined empirical data and analyzed it using qualitative and quantitative research methods.

This study was limited by the scarcity of resources and relevant documents. This may partially be due to the scarcity of successful mergers based on worldwide merger statistics, which indicate that only 25% of financial industry mergers are successful (Marks and Mirvis et al., 1998).

This was possible to obtain relevant information for the completion of the dissertation through a series of research reviews. The information was gathered as part of a vital planner used broadly how to complete this. The review of relevant literature examined different topics and sub-topics.

The dissertation examined why the financial/banking industry favors mergers. The reasons are as follows (i) diversification, (ii) economies of scale, (iii) potential tax shields, (iv) competitiveness in global markets, (v) surplus cash, (vi) synergy, (vii) growth opportunities, (ix) integrated cost reduction, (x) tax free routes, and (xi) bigger in size resulted in reduced cost.

Mergers in Canada must follow the government policy (Public Interest Impact Assessment-PIIA) that is intended to protect public interest. The federal government requires merger participants to undergo a detailed public interest review process that includes examining costs and benefits to consumers. The author investigated how the general public benefited or was penalized through this merger (TD/CT).

Culture is one of the important factors of business. The business owner/management must be a knowledgeable about business culture when attempting to integrate with other business cultures. A merger is an ongoing process to become bigger with a significant increase in the number of customers. Organizational cultures are outlined as: (a) power cultures, (b) role cultures, (c) task/achievement cultures, (d) personal/support cultures.

Mergers/acquisitions are a business marriage between two or more organizations, verified by the author as (i) open marriages, (ii) traditional or redesign marriages, (iii) modern or collaborative marriages. In addition, more cultural signs of merger syndrome are including organizational fits and acquisitions performance, the impact of corporate cultures compatibility and culture fits.

Mergers may be identified either as successes or failures based on the pre- and post-merger market share as per the attached research studies in the appendix. If the post-merger market share falls below the pre-merger market share then a merger is a failure. A merger is successful if the market share goes up. Other factors of successful mergers include corporate gross revenues, direct costs and overhead or fixed expenses. It should be remembered that a merger increases market share compared to other businesses. The Government of Canada does not encourage anti-competitive endeavors.

The Bank of Toronto and the Dominion Bank were established in the province of Ontario in 1855 and in 1871 respectively. In 1955, the Bank of Toronto and the Dominion Bank became the Toronto-Dominion Bank through an amalgamation. The

Toronto-Dominion (TD) Bank continued to grow and took advantage of the opportunity offered by two federal laws – the Bank Act 1967 and the Bank Act 1987. The Bank Act of 1967 ushered in a period of change for the Canadian financial scene, as banks were permitted for the first time to charge more than 6% interest on loans. The Bank Act 1987 allowed for the deregulation of existing bank barriers and banks moved into the brokerage business. TD Bank recognized the benefits of the trust business when it absorbed Central Guaranty Trust in 1992, after which it operated as TD Bank and Trust.

Canada Trust was originally known as the Huron and Erie Loan and Savings Company. It began operations in 1864. On February 1, 2000, TD Bank acquired all of the common shares of Canada Trust (CT). The total consideration in respect of this purchase amounted to $7,998 billion, paid in cash. This merger was approved by the Competition Bureau and the Minister of Finance in January. TD Bank was one of the top three online financial services firms in the world and has became a global multi-channel e-commerce company.

The merger with Canada Trust was the largest financial services merger ever completed in Canada. The President of Canada Trust said, "Canada Trust brought hundreds of branches, thousands of employees and millions of customers so that the TD Bank is the second largest bank in Canada, being the leader in retail business (TD Bank annual report, 2001, p.4).

The Task Force of the Government of Canada in 1997 provided recommendations on a basic framework and process for financial sector mergers but excluding mergers among Schedule-I banks in Canada. Based on the Task Force's conclusions, the government rejected several proposed mergers in 1998, including two pairs of leading Canadian Schedule-I banks (Royal Bank of Canada with Bank of Montreal, Toronto-

Dominion Bank with Canadian Imperial Bank of Commerce). In 1997, the Canadian government revised the merger policy among Schedule-I banks, which applies to mergers among banks with shareholder equity over $5 billion.

In terms of income tax returns, TD Bank and Canada Trust together paid taxes at a pre-merger of $1,132 million. Similarly, after the merger TD Bank paid taxes, including both federal and provincial taxes at an average of $953 million. So, it is clear that the TD Bank saved money on tax payments based on gross revenues.

The author has examined corporate gross revenues, costs and expenses, and compared ratio of total gross revenues with costs and expenses. The corporate cost savings were recorded after the merger and this data was placed in Tables 6 and 7. The gross revenues of both institutes (TD/CT) were $15,728 million on average. Individually, TD Bank earned $10,874 million in interest income and $4,809 million in non-interest income before the merger. Similarly, Canada Trust earned $3,021 million in interest income and $844 million in non-interest income before the merger.

Data indicates that the post-merger performance of TD Bank was $13,675 million in interest income and $6,400 million in non-interest income. The five-year post-merger average for the bank was gross revenue of $17,863 million. In a comparison of pre-merger income with post-merger income, TD Bank's business is running well with a significant increase in gross revenues.

In the tables 8 & 9, the corporate interest expenses of both financial institutes (TD Bank and Canada Trust), the data indicate the combine interest expenses amounted to $9,750 million. TD Bank and Canada Trust had separate interest expenses of $7,898 million and $1,857 million, respectively. After the merger, TD Canada Trust had interest expenses of $9,750 million. The five-year average expense amounted to $7,411 million.

Tables 10 and 11 include overhead expenses or non-interest expenses of TD Bank which amounted to $3,751 million, and the Canada Trust which amounted to $1,326 million in 1999. The five-year average of overhead expenses of both TD/CT amounted to $3,939 million. TD Canada Trust had overhead expenses in 2000 amounted to $4,933 million and a five-year average of $5,591 million. In a comparison of pre- and post-merger non-interest expenses, TD Canada Trust had reduced its non-interest expense by 5.59%, which exceeded their commitments of less than 10% to Canadian Competition Bureau before the merger of TD Bank and Canada Trust (CT).

It was significant that after the merger, the new organization laid off only less than 2% of its employees. Normally, after large financial industry mergers, the new company must reduce a significant number of jobs because of bank branch closures as well restructuring costs. However, in this case, a significant reduction of bank employees did not occur.

TD Bank kept employees from both financial institutes because they were experienced, trained and familiar with the TD Canada Trust business culture, employees from both institutions adjusted easily to the new culture as well as to the use of new innovative technology.

The Canadian government was happy because it did not need to pay unemployment insurance benefits. Employees were also happy because they were able to continue to build their careers and financial gains. Similarly, in 2000, TD Canada Trust's overhead expense amounted to $4,933 million and on average from 2000 to 2004 they were $5,571 million. Comparing the pre-and post-merger totals, TD Canada Trust had excess overhead expenses/non-interest expenses of 6% because the bank laid-off less than 2% of its employees and added more restructuring costs and other expenses. However, the TD Bank claimed to the Competition Bureau that the non-interest expenses would be reduced after the merger by less than 10%.

Allen Lambert, Chairman and Chief Executive Officer of TD Bank, believed that business culture was how you treated others. TD Bank had no customer satisfaction index before the merger, so it adopted Canada Trust's CSI. Based on Canada Trust reports, the customer satisfaction Index (CSI) was improved by 2.4% point over 1999, exceeding the objective of 1.4% point. Significant increases in satisfaction were noted through the addition of Easy Line automated service, Easy Web and in business banking.

After the merger, TD Canada Trust had an opportunity to building a better banking experience through an automated teller machine (ATM) network and larger branch network as well as offering the best financial products and services in Canada. The combined expertise of TD Bank and the Canada Trust have provided a wonderful chance to build the better bank for Canadians, who have been looking for a truly comfortable banking experience. In 1968, women were encouraged to move into management roles of TD Bank and the first female bank manager was appointed.

Giving to the communities where TD Bank operates is important for the bank's customers and employees. These donations to the community are focused primarily on children's health welfare, safety and education. A substantial portion of donation has been designated to establish the TD Bank Financial Group Bursary at universities across the country. Communities are a major recipient of TD Bank's corporate donations as well as employee-initiated activities and contributions. In addition to corporate giving programs, TD Bank employees contribute generously to their communities through their donations to TD's Caring and Sharing Hope Fund, which raised $1.5 million in 1999.

Based on their business cultural policy, Canada Trust Co.... and Canada Trust were fully integrated for operating purposes, and carry on their business under the name Canada Trust. Canada Trust's business culture was based on its regulatory environment. The Canada Trust Co... was primarily governed by the Federal Act, which provides the necessary powers to carry out business as a chartered bank. The Federal Act applies through corporate governance, capital, liquidity, and investment standards to the operations of the regulated companies and restricts transactions between regulated companies and related parties such as officers, directors, shareholders and affiliates.

The common share dividend policy of Canada Trust, prior to the acquisition of all of the common shares of Canada Trust Financial Services Inc. by the Toronto-Dominion Bank (TD), the common share dividend policy of Canada Trust was to pay approximately 40% of the prior year's net earnings available to common shareholders on a fully diluted per share basis.

Before the merger, TD Bank was a leading discount brokerage; whereas Canada Trust had been setting the standard of excellence in the Canadian retail banking industry. Canada Trust had limited services and was small in size but had very good reputation among all stakeholders due to their excellence in business culture, especially in customer service.

Allen (1994) suggests that the true cultural integration takes between three to seven years after a merger. With the TD Canada Trust merger, which seemed to occur overnight, a phenomenon that has been proven through a research study of the merger?

As a smaller business, Canada Trust had difficulty in competing with foreign banks in Canada. Under a mutual understanding of both parties, TD Bank agreed to acquire all stocks and shares from Canada Trust. A. Charles Baillie, TD Bank's Chair, understood that the competitive differentiator in the banking industry was going to be the banking experience, not the product. Therefore, he insisted that TD adopt the Canada Trust Services Model (CTSM). Canada Trust had differentiated itself from the big five banks years ago by offering strong customer service.

In the summer of 2001, TD Canada Trust eliminated a product called Canada Trust Power Line, which allowed Canada Trust customers to place their MasterCard purchases against a personal line of credit with a much lower interest rate. The situation likely put a dip in TD Canada Trust overnight customer satisfaction, despite an apology and alternate offer to the customers. However, by the end of 2001, TD Canada Trust was not losing customers; it was attracting more new ones.

The new TD Canada Trust marketing department was tailored after Canada Trust, as it's centralized and fact-based and relies heavily on the customer satisfaction index. This index involves daily phone calls to more than 1000 customers to inquire about their same-day banking experience.

In 1999, TD was one of the three North American corporations to win the Catalyst Award. The goal was to ensure that all TD Bank employees, including the exceptional workforce that was part of Canada Trust, have the opportunity to reach full potential.

Customers were a critical focus during the merger and one key priority was to make the transition as seamless as possible. As an intermediate step, TD Bank extended the hours of operational services at TD Bank branches across Canada.

Toronto-Dominion (TD) Bank froze service charges changes and eliminated the inter-bank fee for ATM cash withdrawals. It also adopted or included the Canada Trust Friends of the Environmental Foundation (FEF) and Scholarship for Outstanding Community Leadership in its portfolio of charitable work.

Tables 12 and 13 include the pre-merger (1999) and post-merger (2000) market share (%) of Schedule-I banks in Canada, including TD, RBC, BMO and Nova Scotia, CIBC and National Bank of Canada. The researcher calculated the market shares of Schedule-I banks on the basis of the total revenues of all banks both prior to and after the merger. Findings indicated that TD Bank occupied the 5th position of retail and commercial market share in 1999, while after the merger; TD Bank occupied the 2nd position of retail market share.

In 2000 and 2001, the new bank had huge restructuring costs and lay off less than 2% of its new workers. After this, however, from 2002-2004, TD has saved huge amounts of money, and this research study indicated that TD Bank's expenses in 2002 and 2003 were reduced significantly because the bank adjusted its expenses as a result of increased gross revenues.

TD Bank and Canada Trust merger achieved management's stated goals. Until 2004, TD Bank made continuous progress, as evidenced in its many media and corporate annual reports. TD Bank's market capitalization increased significantly in comparison with other Schedule-I banks in Canada.

TD Bank and Canada Trust complemented each other, as Canada Trust had a strong cash flow and TD Bank had much surplus cash. Based on these resources, Canada Trust and TD Bank benefited from the merger in 2000 and created more opportunities for the stakeholders who were directly or indirectly involved.

In terms of reputation, customer base and customer relations, Canada Trust were successful. TD Bank, meanwhile, was one of the largest banks in Canada but lacked good customer relation. Therefore, TD Bank saw the merger as an opportunity to combine complementary resources that would lead to cost savings and increased profit.

TD Bank predicted cost savings would result from the merger, estimating annual cost savings of less than 10% of the non-interest expenses of the combined financial institutions. In practice, TD Canada Trust fulfilled this prediction by exceeding the non-interest expenses.

The merger benefits have been passed on to customers through reduced fees, extended banking hours and improved customer service activities in telephone banking, the Green Machine network, pc banking, web banking and debit direct payment. In addition, significant increases in satisfaction were noted in the retail business through the Easy Line automated service, Easy Web and business banking.

The aim of this paper was to examine the impact of the merger on the various groups of people affected. The company's top management, employees, customers, shareholders, the general public and communities across Canada were affected by the merger.

In this study, the researcher intended to compare the effect on the top management of TD Bank and Canada Trust. TD Canada Trust's benefits for employees include a work place accommodation program, participation in career fairs and job market career fairs for people with disabilities. TD Canada Trust also offers many flexible arrangements available to help employees' work/life balance, including the following:

- Flex time gives employees the ability to work a regularly scheduled number of hours each week that is less than the standard 37.5 hours.
- Flex hours and flex week.
- Flex job, which allows employees to share a full-time position with a colleague.
- Flex return to normal duties after parental leave.
- Employees may choose from several leaves of absence options.

Since 2000, TD Canada Trust is the largest bank in Canada in terms of deposits across the national market. The merger of two organizations created a single, consistent brand across the country, 435 Canada Trust branches re-branded to TD Canada Trust branches, 896 branches re-branched to TD Canada Trust and 2,524 ATMs were converted or re-branded.

The physical mergers of branches began in July of 2001 in the Atlantic region and all mergers across Canada were completed in October 2003. Merger of TD Bank and Canada Trust presented many challenges to the new financial institution as new sources of competition emerged when domestic markets were opened to the world by trade agreements and by new technology. This competition benefited consumers but forced existing institution to rethink their strategies.

The merger threatened to hurt at least some customers in three ways: post-merger stuffing cuts can displace particular officers who had working relationships with existing customers, mergers can reduce competition and customer bargaining power, and an enhanced government guarantee would shift risk to taxpayers. Due to an increase in competition and new technologies, TD Bank has worked hard to reposition its business to make it easier and more convenient for customers while reducing costs, enhancing service levels and transforming branches into sales and service centers.

After the merger, TD Bank adopted the Canada Trust Customer Service Model, which emphasizes putting customer first. The following commitments have been made to all customers through newspaper ads and customer letter. TD Canada Trust has promised to:

- Update customers regularly as the integration proceeded and notify them personally in writing and in advance of any merger-related changes to their accounts or branch services.
- Respect the good standing of customers.
- Create a better bank by extending branch hours and freezing service fees for a certain period of time.
- Treat all employees with dignity, respect and fairness.

Whenever two branches were consolidated in a single location, all customers were notified personally and in writing at least 120 days in advance of the location closure. This reduced the impact of branch closures on customers and employees.

When two branches with different operating hours merged, the new branch adopted the longer hours of operation. While some staffing reductions resulted from branch integration, it was minimized through natural attrition and managing hiring levels in advance of consolidation. Employees who lost positions were provided a severance package that exceeded industry standards.

By the end of 2002, TD Bank had successfully eliminated the vast majority of customer service obstacles. The following were a few of the process improvements completed during 2002:

- Enhancements to branch-to-branch banking capabilities.
- Streamlining many processes.
- Enhances training policies and online support tools for frontline employees to allow them to assist customers more quickly and efficiently.

The TD Bank wanted to take opportunity to create stronger economic efficiencies. An economy of scales is enjoyed when the average unit cost of production goes down as production increases. Hypothetically, it is possible to achieve economies of scale by spreading fixed costs over a large volume of production.

Economies of scale was easily created in the horizontal merger of TD Bank and Canada Trust on the following items: earnings per share, price per share, price earnings ratio, number of shares, total earnings, total market value, and current earnings per dollar in stock.

TD Banks' grants for medical excellence program help attract and retain health care professionals by providing funding for research, education and career development for doctors, nurses and caregivers.

Employees from TD Life Group help make the holidays more comfortable for families sheltered at Toronto's Scott Mission by creating the TD Life Group Tree of

Warmth. Employees in Charlottetown, Prince Edward Island collected and donated food to a breakfast program at a school located in the poorest area of town. The staff volunteered to work the breakfast program, serving 60-90 kids a day, and also canvassed for winter clothing donations for the children.

TD Canada Trust branches in Winnipeg, Manitoba teamed up with a local radio station to sponsor their 19^{th} annual fundraiser to collect toys and donations in support of the Christmas Cheer Board. In addition to these and other programs, TD Bank continuously invests in communities, supporting 100's of charities and non-profit organizations across Canada. In 2000, TD Bank contributed $18.6 million (TD Bank annual report, 2000, p.14) to local and national charitable programs.

TD Bank is a caring company that has committed to giving a minimum of 1% of its annual domestic pre-tax profits to Canadian charities. When Canada Trust merged with TD Bank, it inherited the flagship community programs FEF and the Canada Trust Scholarship for Outstanding Community Leadership. TD Bank also had its own community giving programs: TD Canadian Children's Book Week and the Children's Miracle Network Hospitals.

In 2000, TD Bank received a Thank a Million award from the United Way of Canada for contributing $1 million. The United Way received $2.5 million from TD Bank's employees giving program and approximately $2 million from TD Bank corporate donations.

TD Bank's management recognized the huge potential of skilled new immigrants and the challenge many of them face in getting jobs reflect their experience. That's why

TD has been leading supporters of the Toronto Region Immigrant Employment Council's Mentoring Partnership since it started in 2005.

On October 8, 2002, TD Bank organized and sponsored the TD Forum on Canada's Standard of Living to encourage tangible, practical participation by the private and public sectors debate on Canada's economic future. Canadians were invited to submit their ideas to protect and enhance distinct facets of Canadian culture, including the health care system, education and cities. Forum moderator and former premier Bob Rae noted diverse groups at the event (TD accountability report, 2002, pp.1-3).

TD Bank's merger with Canada Trust created economic benefits of Canadians. TD Bank management demonstrated a commitment to the future of society by supporting urban sustainability and public housing; communities have sustained economic hardships as a result of natural disasters and other crises (TD corporate responsibility report, 2003).

CONCLUSIONS

Both TD Bank and Canada Trust made the decision to merge with a mutual understanding and based upon their unique existing resources; Canada Trust had a large cash flow and TD Bank had huge amounts of surplus cash. This study has demonstrated that this merger proved to be beneficial for the organizations and their various stakeholders.

TD Bank lacked Canada Trust's excellent business culture and set about adopting Canada Trust's customer satisfaction index. After the merger in 2000, TD Bank had outstanding results, with growth in revenues, market share and operating income. The merger helped the bank maintain strong business and earning momentum. The operating cash basis earnings per share in 2000 were $3.16 compared to $2.39 in 1999, the operating cash basis return on total common equity was 18%, up from 16.7% in 1999, and the net interest income on a tax equivalent basis (TEB) increased by $631 million to $3,804 million, 20%, in 2000 as a result of increased net interest income. There was also a 26% growth in average earnings assets due largely to the addition of Canada Trust's resources (TD Bank Financial Group: 145th annual report, 2000, pp. 15-27).

In October 2001, TD Bank was Canada's second-largest bank in terms of market capitalization with more than $288 billion in assets, an increase of $23 billion or 9% from 2000. The integration of Canada Trust did not hinder TD Bank from maintaining strong business and earnings momentum. It seemed that TD Bank anticipated solid results over in 2001 due to integrated retail distribution channels and focusing on being the forefront of new banking initiatives like electronic banking and e-commerce, as well as focusing on customer service. TD Bank was familiar with mergers, and how to adjust to a new culture and overcome critical business situations. TD Bank's merger with Canada Trust proved resistant to conflict and resulted in a successful business endeavor.

In summer 2001, TD Bank eliminated a product called Canada Trust Power Line that allowed Canada Trust customers to place their MasterCard purchases against a personal line of credit with a much lower interest rate. This likely put a dip in the TD Canada Trust overnight customer satisfaction index. TD Bank successfully integrated the TD Green Line family of No-Load Mutual Funds and the Canada Trust Mutual Funds family. Financial industry merger should follow the TD Bank business policy of diverse vision before merging. This will result in substantial cost savings.

This research study was a case study on the topic of the financial merger between TD Bank and Canada Trust in 2000. This merger created an innovative model to increase the number of customers in different banking products available in the Canadian financial/banking industry.

Based on their financial activities, TD led in discount brokerage, whereas Canada Trust set the standard of excellence for Canadian retail banking services. Canada Trust had a very good reputation amongst all stakeholders due to their excellent business culture of customer service.

TD Bank integrated CT's retail distribution channels of new banking initiatives like electronic banking and e-commerce while always focusing on customer service and adopting Canada Trust's customer service model. Toronto-Dominion Bank froze service charge changes and also eliminated the inter-bank fee for ATM cash withdrawals. It was TD Bank's aim to be recognized as the premier financial services enterprise in Canada (TD Bank annual report, 1999, p.3).

With the integration of the Canada Trust mutual fund family, mutual fund management fees fro the new bank rose 75% to $452 million from $258 million in 1999. Income from loan securitization more than doubled to $236 million in 2000, up $142 million from 1999, reflecting the addition of Canada Trust's securitized loans and net loan securitization transactions amounting to $6.3 billion during the year. Insurance revenues more than tripled to $198 million, primarily due to the merger with Canada Trust.

Based on financial statements, TD Bank and Canada Trust paid $1,132 million in taxes on average from 1995 to 1999.TD Bank paid $1,357 million in taxes in 1999 and Canada Trust paid $152 million in taxes. Post-merger, TD Canada Trust paid $953 million in taxes on average from 2000 to 2004, and, separately TD Bank paid $901 million in taxes in 2000. Therefore, it's clear that TD Bank saved substantial amount of money, approximately 37%, in their post-merger tax return.

TD Bank's gross revenue in 1999 amounted to $17,863 million and the post-merger gross revenue amounted to $20,075 million. The comparison of pre-merger gross revenues with post-merger gross revenues indicated an 11.02% post-merger increase in 2000. The corporate post-merger variable costs in 2000 were $7,411 million on average, while they were $8,087 million before the merger. This means TD Bank decreased its direct costs by 8.36% in 2000.

The common share dividend policy of Canada Trust, prior to the acquisition of all common shares of Canada Trust Financial by Toronto-Dominion Bank, was to pay approximately 40% of the prior year's net earnings available to common shareholders on a fully diluted per share basis. In addition to regular dividends, Canada Trust Company made a special common share dividend payment of $120 million in December, 1999.

TD recognized the benefits of trust business when it absorbed Central Guaranty Trust in 1992. The management of TD Bank carefully studied the feasibility of a merger between TD Bank and Canada Trust. TD Bank was doing good business even before the merger but it was lacking proper customer service. Meanwhile, Canada Trust possessed a stronger customer service index and was a leader in customer service in the financial market. Immediately after the merger, TD Canada Trust became number one in customer service, a position it held for 3 years in a row. In this manner, TD turned a weakness into strength.

This research study has proved through in-depth investigation of cost efficiency, market shares and stakeholder benefits that the merger was a successful endeavor, and can be used as a model for future mergers in the financial industry (as well as other industries). Generally, a merger leads to massive layoffs and divestiture of bank branches. However, this particular merger was different, and TD Canada Trust was committed to providing severance packages to all laid off employees that covered up to 18 months and provided job opportunities whenever available.

TD Canada Trust is now the second-largest bank in Canada and is extending its businesses in the United States and other countries. The researcher believes that "One plus One equal One," in that the resulting 'one' is stronger than the previous ones, and this is clearly the case with the merger in question. Prior to the merger in 1999, the cost-income ratio of TD Bank was 85%. In 2000, immediately after the merger, the cost-income ratio was dropped to 72%. In 1999, TD's market share was 14.32% (5^{th} position).

In 2000, TD's market share rose to 17.14% (4th position). According to research and documentation, in 1999, a dividend of $0.81 was declared per share. However, after the merger in 2000, the dividend increased to $1.36 per share.

Finally, the investigator consumed that the number of customers are significantly increasing in TD Canada Trust because of the competitive advantages of TD Canada Trust services. TD Canada Trust already created very good reputation. These changes were possible due to a merger between TD Bank and Canada Trust and their businesses are vigorously extending in Canada, U.S.A. and other parts of the world. A traditional proverb states, "The maximum number of sales with minimum profits is equivalent to a greater output." This proverb is very true in the case of TD Canada Trust after the merger in 2000, Canada.

Expectation of TD Bank's Merger in Original Planner

On August 4, 1999, Charles Baillie, Chairman and CEO, Toronto-Dominion (TD) Bank, conducted an interview with CTV and stated that TD needed scale that was available by taking over Canada Trust. It seemed to be a six-billion dollar deal and could cost 2,900 jobs (Canada AM-CTV Television Network, August 4, 1999, p.2).

More than 275 branches will be closed throughout Canada in places where there were more than one branch covering the same territory. Canada Trust has become a leader in innovation in many ways and in the original planner; both TD Bank and Canada Trust were planning to offer innovations to customers of both institutions. Canada Trust had been underutilizing small business loans and discount brokerage, whereas TD Bank was very active in those products. According to the original planner, these products were offered in all branches.

TD Bank Chairman Charles Baillie said in a release on November 18, 1999 that "Our business has demonstrated tremendous momentum in the growth areas of financial services and we are well positioned for the century." In a new wire of October 1999, President and CEO, Ed Clark said that the takeover of Canada Trust by TD Bank reflects a highly focused strategy. "It is a combination of focus on financial services while building a brand that's built around service" Clark said (Stevenson, James, Toronto, November 18, 1999)

CT financial earnings for the quarter ended September 30, 1999 increased to $89 million, up 23.6% from $72 million a year earlier. The return on equity was a respectable 17.8% yearly, and per share earnings growth was expected to exceed the company's stated objective of 10%. At the same time, TD topped the sector with a 36% profit gain over the previous year and a 21.4% return on equity (Stevenson, James., Toronto, October 19, 1999, pp. 2-3).

TD Bank's post-merger Accomplishments

To acquire CT, TD Bank spent $8 billion and laid-off less than 2% of its employees. Charles Baillie added "we do feel real responsibility to the employees, and we are offering to all employees of CT and TD guaranteed compensation for the next 18 months starting from today. Our severance package is well above any standard and its well above what either CT or TD has offered in the past. Job losses were below 2,900 estimates. Within three years TD Canada trust retrained most of the laid off workers and recruited more new employees and created more jobs.

Less than 250 branches were closed because of the merger. In addition, new company management emerged. Ed Clark became the new Chairman and CEO of TD Canada Trust because he was to lead the retail work. New management was planning to be very innovative. The first innovation was to open new branches, and the second innovation was to install many more automated teller machines (ATM) across the country. The third innovation was to institute the longer hours of 8:00 am to 8:00 pm, five days a week.

After the merger, all branches of TD Canada Trust offered more services and products, as TD Canada Trust became the second-largest bank in Canada with the combined strengths of Canada Trust's retail branch network and TD's discount brokerage and advancement in banking technology. Considering all the aspects of the merger, it can be concluded that the merger between TD Bank and Canada Trust was overwhelmingly successful event. This was affirmed by the Financial Planner of TD Canada Trust in 2010 explained that in general the merger was proved to be successful. They have successfully kept cost under control, and are now leading the market share" (direct communication).

Since the merger, TD Canada Trust became the number 1 bank in Canada in retail deposits. This was only possible because of higher cost efficiency. TD now funds local projects dedicated to preserving environment. "Since 1990, with your help, the TD Friends of the Environmental Foundation has provided more than $53,000,000+ to support over 19,000+ grassroots environmental projects in communities across Canada. And every year TD Bank Financial Group contributes an additional $1 million to

TDFEF." (http://www.fef.td/about.jsp). TD's higher cost efficiency is demonstrated by the fact that it is able to make generous donations to external organizations.

According to Prof. Laurence D. Booth, Department of Finance (merger specialist) at the University of Toronto, TD was facing some problems prior to acquisition of CT. One of them was the Minister of Finance's veto of a previous merger among big banks. Another problem was over banking in Canada which is too many branches given the development of ATMs and limited opportunities in corporate, governments and investments banking. Different banks adopted different strategies. TD adopted the acquisition of CT; Scotia Bank adopted foreign banks strategy and Royal Bank purchased U.S. operations. TD annual reports indicate that TD's retail banking is consistently by far the most profitable whether risk adjusted or not. Canada Trust was a low-risk growth for TD.

This research work studied the merger of TD and CT and showed that this merger was a highly profitable endeavor having significant cost efficiency. The researcher devoted approximately thousands of hours to collect, arranges, analyze and interpret, and put in written form (Thesis). This work seems to be enormous but the researcher tackles it with enthusiasm, energy and honesty apart from investing a lot of money. If the findings proved to be valuable to any quarter, such as future researchers, university students, any financial institutions and any research organization, the researcher will feel fulfilled.

The merger between TD Bank and CT was a very significant event in Canada. This merger can be considered as a model of a successful merger in the financial/business world. The researcher cordially invites everyone to read the dissertation and view the minute details of the merger.

RECOMMENDATIONS

There is no activity more dramatic or controversial in the world of corporate finance than the combining of two firms. Mergers and acquisitions make headlines in the financial press and can be a source of scandal.

The reasons for financial managers to commit to mergers include business survival, avoiding financial distress, beating competitors, maximizing sales or market shares, minimizing costs, maximizing profits, and maintaining steady earnings growth. This dissertation only focused on three aspects of the TD Bank and Canada Trust merger: cost efficiency, market share and stakeholder benefits.

Recommendations will be made in two parts

Part-I: Recommendations connected with the exhaustive studies of cost efficiency, market share and stakeholder benefits.

Part-II: Recommendations related to other issues such as avoiding financial distress, beating competitors, and maintaining steady earnings growth.

Part-I

Recommendations regarding cost efficiency

It is frequently claimed that a merger may produce greater operating revenues via improved marketing. Further research regarding the potential for improvements might be conducted by TD Canada Trust or any other organization or individual in the following three areas:

(a) media programming and advertising efforts, especially if current efforts are proving ineffective;

(b) distribution network, especially if the existing one is weak;

© unbalanced product mix.

One basic reason to merge is that a combined firm may operate more effectively than two separate firms. This greater operating efficiency can manifest itself in several different ways, including economies of scale, economies of vertical integration, complementary resources, and evidence of market power. Economies of scale, evidence of market power and tax gains were thoroughly studied, but more studies on vertical integration may be done.

Recommendations regarding market share

One firm may choose to acquire or merger with another firm in order to increase its market share and power. In theory, such mergers are controlled by law. However, in practice, horizontal mergers are more common in Canada than in the United States due to Canada's weaker legal restrictions. Too many mergers may limit competition, and further studies may be done on how the merger of TD Canada Trust might have limited market competition.

Recommendations regarding stakeholder benefits

The most important evidence of a merger, financial gain, is measured in terms of return to shareholders. Because mergers can create the appearance of growth in earnings per share, the earnings per share after the merger of TD Canada Trust were studied in detail. Further research may be done with regards to the diversification of assets, which is commonly seen as a benefit to a merger. Of particular interest for study is how TD Canada Trust invested in more than one asset to reduce the risk of asset allocation.

Part –II

Recommendations regarding avoiding financial distresses

"The unsuccessful business enterprise has been defined in numerous ways in an attempt to depict the formal process confronting the firm and to categorize the economic problems involved. Four generic terms that are commonly found in the literature are failure, insolvency, default, and bankruptcy" (Altman, Edward I et al., 2006, p.3). Further research focusing upon the possibilities of failure, insolvency, default and bankruptcy may be conducted on the merger of TD Canada Trust.

Recommendations regarding beating competitors

Apart from TD Canada Trust, there are five other big banks in Canada, and they serve as competition to TD Canada Trust. The common operating and procedural themes advocated by these five banks may be studied and compared with the strategies used by TD Canada Trust. Brochures from each of these five banks may reveal information regarding strategy, positioning, products; services, target groups and key staff, and these topics may be studied further in order to gain more insight into the merger of TD Canada Trust.

Recommendations regarding maintaining steady earnings growth

"Creating steady earnings growth through mergers and acquisitions are among many [of the] strategies firm use. Most executives will be involved at least in the analysis of potential candidates or the consideration of various overtures. A merger or acquisition becomes a comprehensive application of how to make value happen" [Tim, Koller et. al., 2006, "Valuation Work Book: Step-by-Step Exercises and Tests to Help You Master Valuation" 4th edition, Mc Kinsey and Company Inc., John Willey and Sons Inc., p.48]. This dissertation examined the earnings of TD Canada Trust from 2000 to 2004. Further research may be done from 2005 to 2009.

Recommendations regarding business culture

Culture is the pattern of norms, value, beliefs and attitudes that influence an individual or group's behavior within an organization. The business cultures of TD Bank and Canada Trust were similar and complementary, and there were no signs of conflict between them. After the merger, the two businesses integrated together seamlessly. Further research may be conducted examining how the business culture of TD Canada Trust evolved after the merger.

General Recommendations

The merger between TD Bank and Canada Trust was a very important event in Canada's financial market. Within a few years after the merger, new streamlined policies were put in place by TD Canada Trust, and these policies should be studies by both academic institutions and businesses. Furthermore, this shift in the policies should be used as a marker for success. Additional research on these policies is recommended.

In the merger of TD Bank and Canada Trust, three factors were studied in depth: cost efficiency, market shares and stakeholder benefits. Additional research may be developed to examine other factors/ideas involved and/or derived from the merger such as business cultures and international competitors. Finally, to anyone who chooses to apply the information, policies and ideas examined and discussed in this dissertation in order to conduct a future merger, the author wishes much success in carrying out the merger.

APPENDIX-A

Corporate Cost Efficiency

Cost efficiency is defined as ability to minimize costs for a given output vector and measured by the ratio or fraction of total costs to total assets. The total cost is the sum of interest expenses and general operating or overhead expenses (dividend payments are excluded). Outputs are a flow of banking services associated with a substantial labor or physical capital expenditure.

There are two bank outputs: one is loans to customers (loans to non-bank and loans to other banks) and the second output is deposits. Two input prices are labor and physical capital. The following is the simple calculation to estimate cost efficiency: total cost divided by total assets; the level of outputs includes total loans divided by total assets plus total deposits divided by total assets. Similarly, input prices include overhead expenses divided by total assets plus fixed assets divided by total assets.

This research study analyzed the cost efficiency in the financial industry. Efficient cost varying with service analysis is used to reveal the actual cost efficiency in banking. Data is collected from the annual reports from 1995 to 2004 of TD Bank, Canada Trust and TD Canada Trust.

Table 29. Comparison of TD Bank's pre-and post-merger (1999-2004) financial statements (available on the website: http://www.fpinfomart.ca/doc/docprintphp? Key = as we as FP nfomart.ca – FP Historical Reports).

Fiscal Year	Total Assets $m	Total Loans $m	Total Deposits $m	Net Interest Income $m	Net Income $m	Earnings per Share $	Dividend Declared $	High Stock Price $	Low Stock Price $
2004	311,027	145,812	206,893	5,943	2,310	3.41	1.36	50	40.00
2003	273,532	135,533	182,880	5,616	1,076	1.52	1.16	44.30	28.00
2002	278,040	135,687	189,190	5,300	(76)	(0.25)	1.12	46.03	25.00
2001	287,838	139,878	193,914	4,391	1,383	2.07	1.09	45.55	35.00
2000	264,818	134,695	185,808	3,605	1,425	1.56	0.92	46.65	33.00
1999	214,417	87,485	140,386	2,981	682	1.36	0.81	37.50	33.00

Source: FP Historical Reports of TD Bank available in the website: http://www. Fpfomart.ca/doc/docprintphp.

Table 29 summarizes the comparison of TD Bank's pre-merger (1999) and post-merger (2000-2004) historical reports. The data includes year-over-year corporate total assets, loans, deposits, corporate net interest income, earnings per share, dividend for shareholders, and stock prices. Total assets increased post-merger by 19%, loans increased 35%, total deposits increased 24%, net interest income increased 17%, net income decreased 29%, however, in 2004, net income increased by 13%, earnings per share increased 13%, shareholders dividend increased 12%, higher rate of stock price increased 20% and the lower rate of stock price decreased 0.82%.

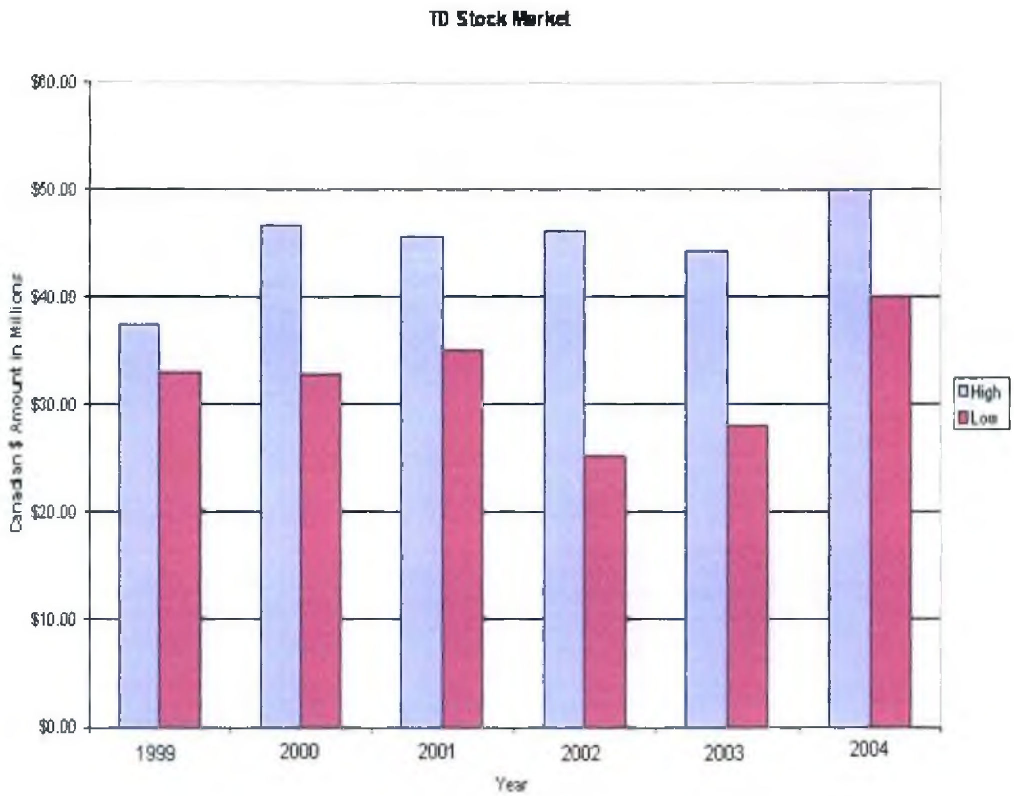

Figure 4: Comparison of TD Bank's Stock Price (1999-2004)

APPENDIX-B

Merger and Public Regulations

Mega mergers in the banking industry provide important public policy tradeoffs between potential cost efficiency gains from consolidation and potential social efficiency losses from a greater exercise of market power. These conditions are directly related to the cost efficiencies of both banks.

"The potential cost savings from bank mergers may justify relaxation of the used antitrust concerns, savings as high as 30% of the operating expenses of the merged institution have been projected for some of the largest mergers. These improvements in cost efficiency could save real resources, add to bank capital, and result in more favorable prices for consumers and greater output. It has been argued that the potential social benefits of these improvements in cost efficiency may offset any potential social costs of the higher prices and lower output levels due to increase market concentration" (U.S Department of Justice and Federal Trade Commission, Horizontal Merger Guidelines, April 2, 1992).

"The HHI is a statistical measure of market concentration in the Department of Justice's Merger Guidelines. The HHI for a given market is calculated by squaring each individual competitor's share of total deposits within the market and then summering squared market share products. E.g., the HHI for a market with a single competitor would be: 100_{sq} =10,000 units. For a market with five competitors with equal market share, the HHI would be: $20^2 + 20^2 + 20^2 + 20^2 + 20^2 = 2{,}000$ units (FDIC: Law, Regulations, Related Acts, 2003).

Cost. Consolidation enables costs to be lowered if scale or scope of economies can be achieved. Larger institutions may be more efficient if redundant facilities and personnel are eliminated. Moreover, costs may be lowered if one bank can offer several products at a lower cost than separate banks each providing individual products. Cost efficiency may also be improved through merger activity if the management of the merging institution is more skilled at holding down expenses for any level of activity than that of the target (Kenneth, 1996).

Corporate efficiency improvements after a merger are discussed by Lichtenberg (1992) through an examination of the factors of production for seven years before and after a merger. He observed that immediately before a merger, the total productivity of the factors of production of the targeted corporation was significantly lower than that of other corporations.

"However, this gap narrowed considerably overtime with the result that seven years after the mergers, the differences in productivity between firms that had merged taken and those had not, were insignificant. These increases in productivity were partly due to a reduction in total employment. Lichtenberg also studied employment that was expressly related to research and development and concluded that there were no significant differences. Finally, his results confirmed that the market share of corporations that have been taken over declines after the merger is made" (Lichtenberg, 1992).

Table 30. Comparison of TD Bank's pre-merger (1995-1999) financial earnings statements based on total revenue and total cost $m.

Fiscal Year 1995 – 1999	Total Assets $m	Total Loans $m	Total Deposits $m	Interest Income $m	Interest Expense $m	Net Income $m	Non-Interest Income $m	Total Income (net + non –interest) $m	Non-Interest Expense $m	Net Income $m
1995	108,806	72,687	81,131	7,409	4.868	2,541	1,299	3,840	1,809	2,031
1996	125,644	85,454	87,563	7,360	4,855	2,505	1,608	4,113	1,972	2,141
1997	163,852	79,702	110,626	7,826	5,004	2,822	2,650	5,472	2,409	3,063
1998	181,831	84,926	120,677	9,997	7,056	2,941	3,197	6,138	2,846	3,299
1999	214,417	87,485	140386	10,874	7,893	2,981	4,809	7,790	3,251	4,539
Total	794,550	410,254	540,383	43,466	29,676	13,790	13,563	27,353	12,287	15,066

Source: Corporate annually published annual reports

Table 30 summarizes corporate earnings statements with financial products such as corporate total assets, loans, deposit, interest income, interest expense, non-interest income, non-interest expense and net income. The data indicates that TD Bank gradually increased financial earnings from1995 to 1999 (pre-merger).

Table 31. Comparison of Canada Trust's (CT) pre-merger (1995-1999) financial earnings statements based on total revenue and total cost $m.

Fiscal Year 1995-1999	Total Assets $m	Total Loans $m	Total Deposit $m	Interest Income $m	Interest Expense $m	Net Income $m	Non-Interest Income $m	Total Income (net + non) $m	Overhead Expense $m	Net Income $m
1995	51,916	39,589	44,557	3,925	2,751	1,174	1,327	2,501	1,151	1,350
1996	54,963	44,048	45,952	3,779	2,488	1,291	1,608	2,899	1,274	1,625
1997	46,703	45,138	43,488	2,802	1,832	970	685	1,655	1,372	283
1998	45,176	44,463	40,766	2,877	1,829	1,048	742	1,790	1,285	505
1999	50,401	46,720	45,410	3,021	1,857	1,164	844	2,008	1,326	682
Total	249,159	219,958	220,173	16,404	10,757	5,647	5,206	10,853	6,408	4,420

Source: Corporate annually published financial statements

Table 31 summarizes the major financial products of Canada Trust from 1995 to 1999. The data indicates a little variation in year-over-year financial transactions. The data shows that overall financial gains occurred from 1995 to 1999. Therefore, it was clearly identified that the Canada Trust was also doing good business until its merger with TD Bank.

Table 32. Comparison of TD Bank's post-merger (2000-2004) financial earnings statements based on total revenue and total cost $m.

Fiscal Year 2000-2004	Total Assets $m	Total Loans $m	Total Deposit $m	Interest Income $m	Interest Expense $m	Net Income $m	Non-Interest Income $m	Total Income (net + interest) $m	Non – Interest Expense $m	Net Income $m
2000	264.818	134.695	185.808	13,675	9,750	3,925	6,400	10.325	4.933	5.392
2001	287.838	139.878	193.914	14.471	10,080	4,391	6.447	10.838	5.195	5.643
2002	278,040	135.687	189,190	11,751	6,451	5,300	4.929	10.229	5,830	4,399
2003	273,532	135,533	182.880	11,202	5.586	5,616	4,424	10.040	5.780	4,260
2004	311.027	145.812	206.893	11,132	5.189	5,943	4,883	10.826	6.219	4.607
Total	141,526	691,605	958.685	62,231	37,376	24.855	27,083	51.938	27,957	23.981

Source: Corporate annually published financial statements.

Table 32 indicates that due to the merger in 2000, TD Bank's net income amounted to $5,392 million. On the other hand, TD Bank's pre-merger net income amounted to $4,420 million. A comparison of both incomes means the TD Bank's post-merger net income increased by 18.03%.

Merged Bank's Customer Benefit

After the merger of TD Bank and Canada Trust, all customers have benefited from an increased level of service. This includes an increase in banking hours, a large branch network that has been of particular benefit to Canada Trust customer, and branch banking, which means that customers are able to do any transaction at any branch. TD Canada Trust's merger demonstrated that it was possible to have a merger that is customer-centric and considers the needs of communities served and of employees (Competition Bureau reports, 2006, p.6).

APPENDIX- C

Market Share

Market Share is one criterion to measure a business's success or failure. Loss of market share is an indicator of, at best, failure, and at worst, the restriction of output associated with the monopolistic exploitation of markets. Market share considerations bear heavily on the success of mergers and diversity among industries. Some researchers have focused on mergers' failure rate or post-merger share values to evaluate the success of mergers (Ravenscraft and Scherer, 1987).

In another study, the researchers have focused on the post-merger performance of market share. If post-merger market share changes are to be used to measure success, a standard of comparison is required. In a static world, a measure of success for a merger might be pre-merger market share. This would be inappropriate. The appropriate standard of comparison for merger success is growth and decline.

In a world where firms are growing and declining, the companies involved in a merger might also be expected to grow or decline. If mergers were randomly distributed across size classes, maintenance of market share might also be a reasonable criterion (Mueller, 1985). Large firms tended to lose market share and small firms tended to gain it (Baldwin and Gorecki et al., 1990).

Changes of Market Shares Due to a Merger

The success of mergers can be measured not just in terms of the continued existence of the merged entity but also in terms of market share changes subsequent to merger. Of equal interest is the post-merger success of the merged companies in the terms of market share. It should be noted that market share changes lead to anti-competitive behavior.

In a horizontal merger, decreases in supply are used as evidence of the exploitation of monopolistic power. Market share may also be of interest where monopoly power is not predicted to emerge from the merger.

For diversified merger, examination of market share is only used to gauge the success of a merger, and loss in market share is seen as partial evidence of management control loss. The mergers in the United States that lost market share as 'blatantly inconsistent' with any persistent efficiency gain from merger (Caves and Richard, 1987).

Market share is an indirect measure of performance. It is not easy to interpret changes in market share by themselves. A decline in market share is indicative of failure, but it is suggestive of anti-competitive accommodation. Therefore, several evaluations have examined the effect of mergers on productivity as a proxy for cost decreasing effects of a merger (Newbould 1970; Cowling et al., 1980). This issue is examined for Canada by following the performance of mergers in both short- and long-term business, including short-run analysis used in yearly data and long-run analysis.

Market Share is a very important feature of the business merger between TD Bank and Canada Trust in 2000, because it could identify the merger's success or failure. Data has been collected from corporate financial annual statements and analyzed to compare TD Canada Trust's market share (%) with other Schedule-I banks in Canada. The results obtained through statistical analysis are shown in Chapter–III.

Analytical Framework or Specifications of Model Market Share Analysis

Market Share analysis is inherently more complex than other sales analyses for a single product/brand simply because one is required to take the competitive factors into account. Who is interested in analyzing market share for some products or brands with a framework model that is more applicable as a modern tool? There are various models of the market and competition, the most prominent of which is called a multiplicative competitive interaction (MCI) model or an attractive model.

In most cases, market share means share of the actual sales either in quantity sold or dollar volume for a product in a given period and in a given geographical area. Market share in those situations should be taken as the sales performance of a product class in the market rather than a collection of buyers for the product. This concept of market share may be more explicitly stated in the following manner.

$$Si = \frac{Q_i}{Q} \qquad \text{...(i)}$$

Where,

Si = the market share of firm i

Qi = the sale (quantity sold or dollar volume) of firm i's product

Q = the total sale (quantity sold or dollar volume) for the market

$$Q=\sum_{J=1}^{m}=Qi \qquad \text{...(ii)}$$

m = the number of competing firms (Cooper and Nakanishi, 1988, p. 18). This formula is used to calculate market share in Tables numbered 15-18 (See in Chapter–III).

What is DBRS?

DBRS is a full-service credit rating agency established in 1976 that is headquartered in Toronto and covers entire world. This agency is privately owned and operated without affiliation with any financial institutions. DBRS is respected for its independence and is recognized as an international organization that provides timely and comprehensive rating opinions to the world's capital market. DBRS offers in-depth credit analysis of financial institutions, and government issues. DBRS's extensive coverage of structured finance and securitization has solidified its standing as a leading provider of comprehensive in-depth credit analysis.

For more than 37 years, DBRS has been the leading rating agency in Canada. This market position provides DBRS with the credit knowledge and expertise that has permitted rating service abroad. DBRS is committed to contributing more opinion diversity among rating agencies with a strong focus on timely, transparent and qualitative analysis. It takes cultural specifies and dynamics of each local market into account. DBRS believes in direct and logical analytical methodology. Values are based on several core principles:

- Maintain a stable and constant rating philosophy.
- Provide timely and in-depth research.
- Ensure all analysis is accessible (http://www.dbrs.com /intnlweb/jsp/common/infoPage.faces).

APPENDIX-D

Merger Impact on Corporate Shareholders

Shareholders' Returns

Shareholders' return or investment through the merger of TD Bank and CT has been exhaustively studied. Pre- and post-merger has been collected for TD Bank, Canada Trust and TD Canada Trust. The data indicated increased shareholder benefits from this merger. This study noted several benefits based on shareholders' returns as follows:

Types of Shareholder

Generally, there are two different categories of shareholders: preferred and common shareholders. In the case of preferred shareholders, they have no liabilities based on their investments whether the company makes money or not. They have a fixed income based on the company investment policy. On the other hand, common shareholders are more responsible because they are the part of the company's ownership. Their income mainly depends on company profits. If the company is doing well then common shareholders will be benefited by earnings more dividends payments as well as retaining earnings. Similarly, if the company's not doing well then common shareholders will not get any dividends payments.

Return on Common Stock Equity (ROCSE)

Return on common stock equity is calculated by dividing the net income or earning after taxes minus preferred dividends by the shareholders' equity minus the value of any preferred stock. For firms with no preferred stock, return on common stock equity is identical to return on equity (compare profitability ratio). A firm's return on common stock equity is a measure of how well management serves shareholder interest. It is computed as:

ROCSE = Earnings after taxes minus preferred dividends which are divided by shareholders' equity minus preferred stock.

$$\text{Return on Common Stock Equity} = \frac{\text{Net Earnings} - \text{Preferred Dividend}}{\text{Shareholders' Equity} - \text{Preferred Stock}}$$

Its value is the result of both the firm's operating performance and the leverage afforded by the use of debt and preferred shares in the capital structure (Luzztig et al., 1988, p.828).

With high level of merger activity that has occurred in the 1990s, it is obvious that the banking industry believes that acquiring banks across stateliness is an attractive and beneficial proposition. Whether this activity benefits the stockholders of the participating banks, however, is unclear. Previous interstate banks merger studies have produced mixed results. In a summary of bank merger and acquisition studies from 1980-1993, reports that event studies in general have found that shareholders of target banks gain, but evidence regarding returns to bidding banks has been inconsistent (Rhoades, 1994).

APPENDIX-E

TD Bank Merger versus Stakeholders' Value

TD Canada Trust strives to create shareholder value, offers diverse and accessible financial services for customers, provides rewarding careers for employees, demonstrates exemplary ethical standards and improves the quality of life in communities. Many activities of TD Canada Trust have targeted longer term needs that must be addressed now to ensure success tomorrow. This is particularly true of the Community Giving Programs that emphasize TD Canada Trust's investing in the future of children and the environment.

Regulatory Impact on Shareholders' Benefits

The following are the main components of shareholder's obligations: (i) compensation to shareholders, (ii) premium, and (iii) an equal treatments of shareholders benefit.

(i)Compensation. A shareholder may have standing to sue or act on the basis of a contract rather than statute where the corporation is bound by a unanimous shareholders or pooling agreement. The basic features of a shareholder agreement include restrictions on the directors to act without consultation and approval of the shareholders in a number of areas which statutorily would otherwise fall to the executive discretion of the directors, such as hiring employees, determining salaries and benefits, and declaring dividends. The shareholder agreement usually contains an exit strategy for shareholders in the form of a spot gun clause, permitting any shareholder to forcibly buy out or be sold out by another shareholder.

(ii) Premium. A fundamental principle of the takeover process is that premium prices arising from bids must be available to all shareholders. This is known as the offer-to-all rule, which is subject to certain exemptions, such as "normal course" bids where significant shareholders can add to their holdings up to a maximum annual percentage.

(iii)Equal Treatment of Shareholders. There is a general premise that in matter affecting the control of public security issuers, transactions are to be made on the basis of equal treatment of the same class of security holders. Aside from its democratic feel, the equality of treatment is based on a number of desired effects:

- Equal opportunity for shareholders to participate in the benefits of a transaction.
- Confidence in the public nature of capital markets.
- Fairness, which promotes stability and continuity of investment.
- Credibility of management in future transactions.
- Incentive to new investors (Lazar, & Petra, 2006, pp. 65-91).

APPENDIX-F

Customer Satisfaction Index

The Customer Satisfaction Index (CSI) is one of the most important business cultures that transferred from Canada Trust to the TD Bank business cultures. According to Canada Trust report, the CSI was improved by 2.4% in 1999 over the prior year, exceeding the goal by 1.4%. Significant increases in satisfaction were noted in the branches, in Easy Line automated service, on Easy Web and in business banking.

With TD Canada Trust, TD Bank had an opportunity to building a better banking experience through the added advantages such as an automated teller machine (ATM) network and larger branch network as well as access to the best financial products and services in Canada. The combined expertise of TD Bank and Canada Trust has given the new bank a wonderful chance to build a better bank for Canadians, who have been looking for a truly comfortable banking experience (Canada Trust annual report, 1999).

As a general definition of CSI, the company uses a chart indicating the number of responses to a series of questions. To calculate, one can take a total number of 60 responses to 60 questions. Each question has four responses: Extremely, Likely Somewhat, Very Likely and Not at All.

The question # 1 responded that the 5 for Extremely, 14 for Likely Somewhat and 40 for Very Likely, and the one for Not at All, the question # 2 responded that the 25 for Extremely, 15 for Likely Somewhat and 18 for Very Likely, and the two for Not at All, the question # 3 responded the 38 for Extremely, 10 for Likely Somewhat, and 10 for Very Likely, and the two (2) for Not at All, the question # 4 responded the 35 for Extremely, 15 for Likely Somewhat, 8 for Very Likely, and 2 for Not at All. Finally, the question # 5 responded the 5 for Extremely, 25 for Likely Somewhat and 28 for Very Likely, and the two (2) for Not at All.

Customer Satisfaction Index (CSI) Questionnaire of TD Bank

1. Were you satisfied with your transaction today with TD/CT Bank? Extremely/Likely Somewhat/Very Likely/Not at All

2. Are you satisfied with TD/CT Bank's hours of operation? Extremely/Likely Somewhat/Very Likely/Not at All

3. How do you feel overall about your dealing with TD/CT Bank? Extremely/Likely Somewhat/Very Likely/Not at All

4. What is your opinion about the 7 days a week service of TD/CT Bank? Extremely/Likely Somewhat/Very Likely/Not at All

5. What is your opinion about post-merger business culture? Extremely/Likely Somewhat/Very Likely/Not at All

6. Are you satisfied with TD's weekend operation? Extremely/Likely Somewhat/ Very Likely/Not at All

7. How satisfied are you with the 8 am to 8 pm banking operation hours? Extremely/Likely Somewhat/Very Likely/Not at All

8. How satisfied are you with TD/CT Bank automated teller machine? Extremely/Likely Somewhat/Very Likely/Not at All

9. How do you feel about TD/CT Bank Easy Line telephone operation? Extremely/Likely Somewhat/ Very Likely/Not at All

10. Are you satisfied with TD's web banking transactions? Extremely/Likely Somewhat/Very Likely/Not at All

11. How satisfied are you with face to face banking transaction experience with a teller? Extremely/Likely Somewhat/Very Likely/Not at All

12. How satisfied are you with TD's personal service? Extremely/Likely Somewhat/Very Likely/Not at All

13. How satisfied are you with other TD/CT services? Extremely//Likely Somewhat/Very Likely/Not at All

14. Are you satisfied with the quality of TD home mortgage services with community people? Extremely/Likely Somewhat/Very Likely/Not at All

15. What is your evaluation about TD community engagement? Extremely/Likely Somewhat/Very Likely/Not at All

16. Are you satisfied with the TD/CT Bank service charge? Extremely/Likely Somewhat/Very Likely/ Not at All

17. Do TD's service meet your banking needs? Extremely/Likely Somewhat/Very Likely/Not at All

18. Are you satisfied with daily phone calls to customers based on transaction? Extremely/Likely Somewhat/Very Likely/Not at All

19. Do you notice the post-merger of TD/CT performance? Extremely/ Likely Somewhat/Very Likely/ Not at All

20. Are you satisfied with the extension of the hours of operation at TD/CT Bank branches across Canada as part of Canada Trust Service Model? Extremely/Likely Somewhat/Very Likely/Not at All

21. Are you satisfied with frozen service charges at the current level and TD/CT Bank eliminated the inter-bank fee for ATM Cash withdrawals? Extremely/Likely Somewhat/Very Likely/Not at All

22. Are you satisfied with the charitable giving program for children health and education? Extremely/Likely Somewhat/Very Likely/Not at All

23. Are you satisfied with cash donation, gift in-kind and charitable sponsorships to be a strong community spirit? Extremely/Likely Somewhat/Very Likely/Not at All

24. Are you satisfied with 1000 employees across the organization actively volunteering their spending time and talents to support many worthwhile causes? Extremely/Likely Somewhat/Very Likely/ Not at All

25. How satisfied are you with the TD Friends of the Environmental Foundation as one of the flagship community programs? Extremely/Likely Somewhat/Very Likely/Not at All

26. Are you satisfied with TD Canada Trust Scholarship ($50,000) for outstanding community leadership? Extremely/Likely Somewhat/ Very Likely/Not at All

27. Are you satisfied that the TD/CT Bank is pleased to provide important information for all community stakeholders? Extremely/Likely Somewhat/Very Likely/Not at All

28. Are you satisfied that the TD Canada Trust Bank strives to create value for shareholders, offers diverse and accessible financial services for customers, provides rewarding careers for employees demonstrate exemplary ethical standards and improve the quality of life in the community? Extremely/Likely Somewhat/Very Likely/Not at All

29. Are you satisfied TD/CT Bank's natural interest in the community's wellbeing? Extremely/Likely Somewhat/Very Likely/Not at All

30. Are you satisfied that the TD Bank has the ability, and a responsibility, to step forward to help support the social, cultural, economic and environmental enrichment of the community and its members? Extremely/Likely Somewhat/Very Likely/Not at All

31. Are you satisfied that TD/CT Bank adopted Canada Trust service model, which emphasizes putting customer first? Extremely/Likely Somewhat/Very Likely/Not at All

32. Are you satisfied with TD/CT market power? Extremely/Likely Somewhat/Very Likely/Not at All

33. Are you satisfied with TD's monopoly business manner? Extremely/Likely Somewhat/Very Likely/ Not at All

34. How satisfied are you with TD/CT Bank financial products? Extremely/Likely Somewhat/Very Likely/ Not at All

35. Are you satisfied with post-merger mixed culture through adaptation of employees? Extremely/Likely Somewhat/Very Likely/Not at All

36. How satisfied are you with TD automobile insurance rate? Extremely/Likely Somewhat/Very Likely/Not at All

37. Does TD succeed in identifying the customers' needs? Extremely/Likely Somewhat/Very Likely/Not at All

38. Are you satisfied with TD line of credit, personal loans and/or credit card loans? Extremely/Likely Somewhat/Very Likely/Not at All

39. How successful is TD in finding a solution to customers' problems? Extremely/Likely Somewhat/Very Likely/Not at All

40. Is TD friendly in business connections? Extremely/Likely Somewhat/Very Likely/Not at All

41. Are you satisfied with TD Canada Trust branches paperless banking offered by the fall of 2001? Extremely/Likely Somewhat/Very Likely/ Not at All

42. Are you satisfied with the building of a brand new company? Extremely/Likely Somewhat/Very Likely/ Not at All

43. Are you satisfied with the merger conversion booklet that went out to 4 million Canada Trust customers? Extremely/Likely Somewhat/Very Likely/Not at All

44. Are you satisfied that TD Canada Trust provides a range of financial services and products to 10,000,000 million personal, small business and commercial customers across Canada? Extremely/ Likely Somewhat/Very Likely/ Not at All

45. Are you satisfied that TD Bank reduced customer fees in many products of services? Extremely/Likely Somewhat/Very Likely/Not at All

46. Are you satisfied with a longer hour than any other major bank, since late 2007 most branches are open 8-6 Monday to Wednesday (some till 8 p.m), 8-8 Thursday and Friday, and 8 – 4 pm on Saturday and Sunday 12-4 pm? Extremely/Likely Somewhat/Very Likely/Not at All

47. Are you satisfied with TD electronic banking services such as TD Bank Access, which includes telephone banking, the green machine network, PC banking, Web banking and Interact direct payment? Extremely/Likely Somewhat/Very Likely/Not at All

48. Are you satisfied with TD retail business through the company easy line automated service, easy web and business banking? Extremely/Likely Somewhat/Very Likely/Not at All

49. Are you satisfied that the TD Bank support the Ability Edge Program to recruit disabled persons for Internship Placements across the Bank? Extremely/Likely Somewhat/Very Likely/Not at All

50. Are you satisfied with ATM machine services? Extremely/Likely Somewhat/ Very Likely/Not at All

51. Are you satisfied that TD/CT Bank e-commerce strategies created a goal to deliver a fully integrated range of products channel such as on line, on the telephone or in person? Extremely/Likely Somewhat/Very Likely/Not at All

52. Are you satisfied that TD/CT Bank is keeping daily track of Customer Satisfaction through TD Canada Trust Customer Satisfaction Index? Extremely/Likely Somewhat/Very Likely/Not at All

53. Are you satisfied that TD Bank has the Canadian Code for Consumer Debit Card services? Extremely/ Likely Somewhat/Very Likely/Not at All

54. Are you satisfied with the respect which brought the two organizations together? Extremely/ Likely Somewhat/Very Likely/Not at All

55. Are you satisfied that the TD/CT Bank had successfully eliminated the vast majority of customer service obstacles? Extremely/Likely Somewhat/Very Likely/Not at All

56. Are you satisfied with TD/CT Bank shareholders' benefits? Extremely/Likely Somewhat/Very Likely/Not at All

57. Are you satisfied that families are sheltered at Toronto's Scott Mission by creating the TD Life Group Tree of Warmth? Extremely/Likely Somewhat/Very Likely/Not at All

58. Are you satisfied that the TD/CT Bank is an Imagine Caring Company which committed to giving a minimum of 1% of its annual domestic pre-tax profits to Canadian charities? Extremely/Likely Somewhat/Very Likely/Not at All

59. Are you satisfied with TD/CT Bank branch closure accommodation? Extremely/Likely Somewhat/ Very Likely/Not at All

60. How satisfied are you with TD/CT Bank opening account in comparison with other banks? Extremely/ Likely Somewhat/Very Likely/Not at All

APPENDIX-G

Authorization Letter from TD Canada Trust Legal Department

TD Bank Financial Group

Legal Department
P.O. Box 1, Toronto-Dominion Centre
Toronto, Ontario M5K 1A2

Facsimile no (416) 982-6166
Telephone no (416) 982-2471

Wilf Friedrich
Senior Counsel

January 14, 2003

Regular Mail

Mr. Mohammed A. Quader
540 Dundas Street East
Apartment 112
Toronto, Ontario M5A 2B3

Dear Mr. Quader:

Further to your telephone request, we hereby consent to your use of "TD Canada Trust" in your dissertation on "The Effects of Mergers on the Capital Structure of TD Canada Trust".

Yours very truly,

Wilf Friedrich

WF gbg

[illegible] COMM [illegible] letters Mohammed Quader [illegible]

Modified Title

Researcher applied to TD Bank Financial Group for authorization in January, 2003 to do research on the merger of TD Bank and Canada Trust. At that time, my advisor suggested the title "The Effects of Merger on the Capital Structures of TD Canada Trust." But later on, the Advisor Dr. Antonin Smrcka modified the title to "Toronto-Dominion Bank and Canada Trust Corporate Merger: A Case Study." The title was modified to include other aspects of the merger.

Direct Communications from Senior Officers of TD Canada Trust

Jeff Keay,
Senior Manager,
External Communication Department of TD Bank

In 2005, Jeff Keay commented that in order to continue business growth and to compete globally, it was necessary to generate greater cost efficiencies through the incorporation of better business models, cultures, tools and technologies to obtain significant cost savings.

Charles Baillie,
Chairman and CEO
Toronto Dominion Bank
Canada

Charles Baillie had understood the competitive differentiator in the banking industry was going to be the banking experience, not the product. So he bought into that when he bought Canada Trust adapting Canada Trust services model.

Kevin Wright, Chief Competition Transactions,
Ministry of Finance,
Ottawa, Canada

In February 2000, the Toronto-Dominion Bank had initiated the integration of CT into its operations. The combined retail banking division now known as TD Canada Trust, is currently the largest bank in Canada in terms of deposits and spent national with over 1200 branches. The researcher communicated with Mr. Kevin Wright in August, 2005, about the research work on the merger of Toronto-Dominion Bank and Canada Trust (CT). He commented that this type of research work will be preserved in the Ministry of Finance as a white paper.

Prof. Dr. Laurence D. Booth
Professor of Finance
University of Toronto

Professor Laurence D. Booth was fully aware of the progress of the research on "TD Bank and Canada Trust Corporate Merger: A Case Study." He sent several e-mails to the researcher from time to time giving valuable advice and tips on this merger. He asked the researcher to indicate the profitability of different bank's strategies (such as TD's discount brokerage). He indicated that TD's retail operation was consistently by far the retail banks whether risk adjusted or not. Canada Trust was a source of low risk growth for TD.

Certificate of Achievement

Joseph L. Rotman School of Management
University of Toronto

Professor Laurence Booth,
CIT Chair in Structured Finance

Rotman

TO	Mahmuod Quader
FROM	Laurence Booth,
RE:	Ph.d. Dissertation
DATE:	April 18, 2011

Mahmoud came to my office several times between 2005 and the present to ask questions about the purchase of Canada Trust by the TD Bank. This was while he was writing his thesis, which I understand he has successfully defended and for which he will be awarded a Ph.d degree on April 20, 2011.

Mahmoud has worked hard on this work and it was enjoyable discussing the issues with him.

Laurence D. Booth

Joseph L. Rotman School of Management
University of Toronto

105 St. George Street
Toronto, Ontario, Canada M5S 3E6
Telephone (416) 978-6311
Facsimile (416) 971-3048
E-mail booth@rotman.utoronto.ca
Web www.rotman.utoronto.ca/~booth

Legal Authorization of Researcher's Name Change

Ontario CANADA

CHANGE OF NAME
CHANGEMENT DE NOM

Form 35A — Formule 35A
Vital Statistics Act - Loi sur l'état civil

C0233593

Birthplace / Lieu de naissance

OLD/VIEUX: QUADER, MOHAMMED ABDUL

NEW/NOUVEAU: QUADER, MAHMUOD ABDUL

PAKISTAN

Date of registration - Date d'enregistrement

SEPTEMBER 30, 2010

Registration number - Numéro d'enregistrement

2010-05-008196

Judith M Hartman
(Deputy Registrar General)

HSTakhar
(Registrar General)

Researcher's Message

The researcher would like to invite all readers of the dissertation to read it thoroughly. The researcher spent a lot of time and efforts to compile and interpret the data collected from many different sources on the merger of TD Bank and Canada Trust in 2000. He compiled the data for 10 years, five years before and five years after the merger, as well as additional data from 2005 to 2009, which gives a comprehensive view of the effects of the merger.

Three things mainly were studied in-depth apart from other materials including cost efficiency, market share and stakeholder's benefits both before and after the merger. TD Bank management had promised the Canadian Competition Bureau that the non-interest expenses of the merger would be reduced to less than 10% after the merger and kept their word.

In most mergers, a large number of both organizations' employees are generally laid-off. But in the case of TD and CT merger, only 2% employees were laid-off. After the merger, the numbers of customers are increasing steadily every year. The merger was so smooth that the customers did not realize any change during merger at all.

The merger between TD Bank and CT was a very important event in Canada. This merger can be considered as a model of a successful merger in the financial world. The researcher cordially invites everyone to read the dissertation and view the minute details of the merger. For more information, contact:

Mahmuod A. Quader

E-mail: qufin@yahoo.com

Editor's Letter

January 25, 2012

To whom it may concern,

I am writing this letter to affirm that Mr. Quader contracted my firm, Reword Communications, to perform a technical edit on his PhD thesis on the subject of the bank merger between TD Bank and Canada Trust. I was the editor for this project and I provided Mr. Quader with an edited version of his thesis in August 2011.

If you have any questions regarding the scope of my work for Mr. Quader, my professional qualifications, or anything else to do with this matter, you may contact me at 416-800-9257 or andrew@reword.ca.

Sincerely,

Andrew Faulkner,
Senior Editor
Reword Communications

2100 Bloor St. W, Suite 6213
Toronto, Ontario M6S 5A5

TD Canada Trust Tower in Downtown, Toronto

The Toronto-Dominion Centre

TD Canada Trust Tower; one of the towers in downtown Toronto that houses the corporate offices of TDBFG

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AUTOBIOGRAPHY

Throughout most of his childhood, Mahmuod A. Quader kept himself busy with education, agricultural production activities and social work. This provided him many fond memories, made available several creative and thought-provoking endeavors, allowed him to develop an interest in learning new things, and encouraged him to explore and create new ideas in agro-based components that can benefit society. Additionally, since early life, he has devotedly said his prayers to God and has never enjoyed drinking or smoking.

Upon completing both primary and high school education from public school in Bangladesh, he successfully enrolled in Agricultural Sciences in Bangladesh Agricultural University, Bangladesh. During university life, he involved himself with many other extra-curricular activities such as sports, rotary club activities and social activities while maintaining excellent academic records. After obtaining his university degree in agricultural sciences, he entered into professional service as an agro-based components researcher at the Agricultural Research Organization in Bangladesh. He also pursued his Master's degree in Pharmaceutical Sciences in BAU, focusing on a way to introduce low cost indigenous herbal medicinal drugs to small and medium sized farmers in Bangladesh.

Both his graduate study research and his research on agro-based components along with his experience and skill provided Mahmuod with the incentive to become involved with the Cockrel Exchange Program where he was able to change the genetic characteristics of local chickens through cross-breeding with hybrid chickens. Findings showed a 20% production increase of chicken meat and eggs as well as more disease-resistant chickens. In 1990, an article based on his research study was published in the Farming Systems Research – Extension Journal at the Michigan State University. At the invitation of Michigan State University, he delivered lectures on his research work. Additional articles exploring how to control internal infection using medicinal plants that were available locally were published as a poster at the College of Agriculture and Economics, University of Arkansas, U.S.A., in 1989.

Mahmuod's intention was to continue his studies in Biotechnology as a graduate student at City University of New York upon completion of his Master's degree in pharmaceutical sciences in Bangladesh. However, due to his relocations to the United States, he lost his opportunity in complete his pharmaceutical degree in Bangladesh. Mahmuod responded to his challenge by enrolling himself as a graduate research student in Biotechnology at City University of New York. Furthermore, he procured a business-oriented job in New York as a management trainee at Ralph's Discount City of New York. This job proved to be very helpful, valuable and supportive to his creating and understanding a new life steeped in a new culture. It also served to encourage him to learn more about general business, management strategies and theories, and financial activities and practices.

The practical business experience he obtained, while in New York, gave him the dynamic opportunity to elaborate on his knowledge and ideas concerning business. Immediately before completing his degree in Biotechnology, Mahmuod earned his Master of Business Administration degree with a 3.8 GPA from the American Century University. The university faculty advisor encouraged him to continue his studies and to obtain a PhD in Business Administration focusing on Financial Economics.

Immediately after completing his Master's degree, Mahmuod moved to Canada as an immigrant with a permanent residence. With the permission of American Century University's faculty advisor as well as the permission from the legal department of the Toronto-Dominion Bank in Canada, he continued collecting data and research and searching for all relevant resources to writing a PhD dissertation based on the Toronto-Dominion Bank merger with Canada Trust in 2000. His primary investigation focused on how Toronto-Dominion Bank had substantial cost savings, and increased market shares and stakeholders' benefits through the merger. Subsequently, his research identified many factors which proved that the merger was dynamic, adaptive and innovative within both the business culture as well as the community at large.

In May 2011, Mahmuod was awarded a PhD degree in Business Administration specializing in Financial Economics (financial industry merger) by American Century University with the help of Prof. Dr. Laurence D. Booth, Dept. of Finance from the University of Toronto. He intends to return to his previous studies in the fields of Biotechnology and Genetic Engineering at Brock University in Niagara Falls. Ultimately, Mahmuod hopes to merge these fields together with his own knowledge, ideas, skills and experiences in order to create a business practice or technical innovation that will benefit all human beings, especially those people still living in poverty and with diseases. Mahmuod firmly believes that everybody has the right to live a decent life.

Currently, Mahmuod works as a Financial Allocation Management Consultant in TCRC. He supervises all staff members and financial activities such as fund raising, bank transactions, bank reconciliation, rent calculation, invoices, and accounts receivable. He resides in Toronto with his wife, Rokeya Sharif, a medical practitioner, and two children, nine-year-old daughter, Rubaiyat, a talented student and his eleven-year-old son, Raghib, a gifted student. They are the two biggest sources of pleasure in his life.