Q2 2009
Strategic Overview
(Check Against Delivery)
Ed Clark, President and CEO

- Thanks Tim and good afternoon everyone.

- At the risk of appearing to jump on board the current wave of optimism, we're here today feeling more positive about the world than we have for the past few quarters. And we're feeling quite good about our Q2 results.

- Overall – even in a quarter with fewer days, we saw a solid contribution from each of our major businesses. We had very strong results from Wholesale complementing our retail earnings that came in at almost $1 billion on an adjusted basis. We continued to grow our already strong capital base and were prudent managers of Risk Weighted Assets – even as we grew our lending to our customers and clients.

Q2 Segment Results

- Let me make a few comments about each of our major businesses.

- Starting with Wholesale, we continue to be very pleased with the evolution of this business. We've made major reductions in our Risk Weighted Assets as we've tightened our focus on franchise operations that support our clients. At the same time, we delivered excellent earnings despite losses taken in our public equity investment portfolio. We've made the strategic decision to exit this portfolio to further tighten our focus on our core franchise businesses.

- Those businesses had a robust first half of the year – as we suspect is true for most wholesale banks – with our interest rate and foreign exchange trading areas leading the way. Current conditions are quite favourable but, as is often the case in this business, it's hard to be precise about the future. We continue to be surprised at the strength we're seeing in this business. Our position as a triple A counterparty is allowing us to grow in challenging economic circumstances.

- Moving to Canadian retail, we earned $589 million in TD Canada Trust, about the same as last quarter – an excellent performance given the short quarter. We saw an increase in PCLs that was offset by good revenue growth reflecting continued volume growth in both lending and deposits. We've had some success repricing lending volumes and restoring margins.

- There is a reasonable chance that this may be a rare recession where we actually grow volumes through the downturn as we continue to fill the gaps left by those who have exited the lending market.

- What's happening to us in auto lending gives you an idea about the dynamics at work. Previously, this was a market where we were not a significant player. This year, we expect to lend against 200,000 new and used cars. So we're growing quickly here and gaining market share – an excellent example of the lower risk, profitable growth market dislocation produces.

- It's also another example of how TD and other Canadian banks have stepped up their lending efforts to ensure Canadians have access to credit. You will have noticed that TDCT's lending volumes grew this quarter up over 11% from last year – clear evidence we continue to lend.

- Our Wealth business continues to perform well given the environment. While we've felt the impact of margin pressure as a result of low nominal interest rates, we've seen spectacular online brokerage volumes globally and continued new asset growth. In the US, for example, TD Ameritrade is currently growing net new retail assets faster than its largest competitor.

- In U.S. retail, we're also very pleased with the results. In the face of continued economic stresses and margin pressure, we're growing deposits and loans. As you'd expect, we're still quite cautious on the U.S. economic environment – the worst we've seen in a long time – and so our PCLs have increased as we build reserves prudently. We remain a positive outlier in non-performers.

- On lending, we have a simple approach – Don't make bad loans in good times, but continue to make good loans in bad times. So while we are expecting to have increasing loan losses, we'll continue to be a positive outlier and gain market share. We have the capacity to do this because we didn't make the kind of bad loans others did during the good times.

- In a moment Bharat will take you through how pleased we are with the integration so far. And, we're thrilled to have won the J.D. Power award again. Winning this honour in the midst of the Commerce integration is an enormous achievement.

- There can be no debate – our people deliver the best customer service in North America!

- When we acquired Commerce we said it was a strategic fit and a superior value creation opportunity through accelerated organic growth.

- Well, I think it's fair to say at this point that the Commerce deal is delivering on its promise – The integration's going exceptionally well; the teams are coming together; and the organic growth machine is powering de novo growth. We're very pleased with the power of our consolidated U.S. retail franchise.

Earning Through the Great Recession

- Having said all that, we're realistic. We're going to face a challenging economic environment going forward. We have come through the Liquidity Crisis and the Great Financial Panic into what might be the Great Recession. There remains a lot of uncertainty around the duration of the downturn and the strength of the subsequent recovery. But fears that the economy could spin uncontrollably downward or that further catastrophic events could hit the financial sector seem to have gone away. Consumer and investor sentiment appears to have stabilised.

- Of course, credit losses lag what's happening in the real economy. And the unemployment rate – a key driver of those losses – has not yet peaked, despite the good news on the jobs front in Canada in April. So going forward it's reasonable to expect that our provisions for credit losses will continue to increase in both Canada and the US.

- However, possible credit losses must be looked at in the context of our capital strength and ongoing earnings power. That earnings power means we can absorb or – as you've seen this quarter – earn through those losses. I stress this because I still believe that the market often underestimates the value of earnings and the value of consistent, high quality earnings. Our retail businesses have an underlying earnings stability and ability to grow that is a source of hidden capital strength.

- We also had an excellent quarter in terms of capital. We've ended the quarter in a strong capital position with a Tier 1 ratio of 10.9%, with about 75% of that in Tangible Common Equity.

Optimistic About Opportunities Ahead

- So, let me step back and offer some overall comments on our earnings performance. We're actually doing better at this point in the cycle than I would have thought possible a few quarters ago because our volumes continue to grow – for both deposits and loans. And if we can sustain this growth through the downturn, that creates a significant tailwind that can offset increasing PCLs. As I mentioned, we've also been surprised by the earnings strength of our core wholesale franchises.

- The other major headwind we've discussed is spread compression, given low nominal interest rates. Offsetting that is some success in Canada re-pricing our book. But we see continued pressure in the US.

- For 2009, we've said that we'll need to work hard to reach the same earnings per share that we hit in 2008. I'd say that's still our base case but we're a little bit ahead of where we thought we would be. We're still cautious as we face the possibility of further cyclical credit losses but clearly the balance of probabilities has shifted toward having a reasonable shot at – at least equaling last year's results.

- I think there is even room for more optimism as you look forward and ask the question, "What will TD look like when it exits this recessionary valley?". Well, the market's way of answering that question is to evaluate pre-provision earnings. We have tremendous potential upside in our earnings when PCLs normalise. And, importantly – we're not sitting still. We're continuing to grow and invest to ensure we emerge from the valley with momentum.

- In fact, we see opportunities in every one of our businesses as we continue to grow the top line. At TDCT we're growing customers, deposits and lending in spite of a slowing economy, and that builds in earnings for future years. As I've said many times, we're a balance sheet that generates an income statement – so growth this year tends to lock in earnings growth for next year. For TD Insurance, we've gained share every year. In Wealth, our net new client assets and client growth have remained strong. TD Securities focus on profitable franchise businesses is proving to have even greater profit potential than we thought. And our risk reduction strategy has moved even faster than anticipated. At TD Bank, America's Most Convenient Bank, we're very happy with the results from a team focused on accelerating our growth by leveraging the power of the TD brand.

Conclusion

- What I've learned over the past year or so is that the key elements of our business philosophy that allowed us to escape many of the severe market issues will also be a huge advantage for us as we navigate and eventually exit the recession. As some financial institutions are forced to re-engineer their core business models, our strategy remains intact: To run a retail-centered and customer-focused North American franchise that's supported by a focus on liquidity, conservative risk management and convenience and service for our customers and clients.

- With that, let me turn it over to Colleen.

Overall Call Closing

- Let me wrap up with the three key points I hope you'll take away from today's call:

- First – We're feeling good about all our businesses – they're holding up well and we see opportunities in every one of them.

- Second – We do expect rising PCLs, but our earnings power and capital strength are powerful offsets – we can in fact earn through a recession and gain market share.

- And third – Our outlook: We'll still have to work hard to match last year's level of earnings per share but there are some early signs we have a chance to equal those results. And more importantly, we're feeling very good about our long-term prospects, as we have made and will continue to make investments that will return significant rewards to our shareholders as markets recover.

- Thanks for your time.

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The forward-looking information contained in this document is presented for the purpose of assisting our shareholders and analysts in understanding our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives, and may not be appropriate for other purposes. The economic assumptions for 2009 for the Bank are set out in the Bank's 2008 Annual Report under the heading "Economic Summary and Outlook" and for each of our business segments, under the heading "Business Outlook and Focus for 2009." Forward-looking statements are typically identified by words such as "will", "should", "believe", "expect", "anticipate", "intend", "estimate", "plan", "may" and "could". By their very nature, these statements require us to make assumptions and are subject to inherent risks and uncertainties, general and specific. 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