TD BANK GROUP

NATIONAL BANK FINANCIAL CANADIAN FINANCIAL SERVICES CONFERENCE

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FIRESIDE CHAT

Peter Routledge – National Bank Financial – Analyst

Welcome back, everyone. I'm here today with Mike Pedersen, who is the Group Head of Wealth Management, Insurance and Corporate Shared Services for TD Bank Group. Mike is responsible for TD's wealth and insurance business, as well as the Bank's corporate shared services, which includes IT, real estate, strategic sourcing, etc. Prior to joining TD in July 2007, Mike worked in London, where he worked for Barclays and was responsible for Barclays Global Private Bank. And then before joining Barclays, Mike spent 12 years at CIBC, where he held senior executive roles in retail and business banking.

So, thanks, Mike, for joining us.

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

Thank you.

Peter Routledge – National Bank Financial– Analyst

I also understand you had a tangle with a ski hill in Wyoming and you came anyway. Appreciate you making the extra effort.

Mike Pedersen – Group Head, Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

A tangle I lost.

Peter Routledge – National Bank Financial – Analyst

All right, so we'll kick off with -- just what are the key messages you'd like investors to take away from today's session?

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

Okay, I'll maybe just say a few words to start. So, just at the TD level, we were very happy with our first quarter -- 9% adjusted earnings growth. We had record results in every single retail business, including the two I'm responsible for. Strong capital numbers, dividend increase and so on. So, a very strong start to the year and possibly quite -- a little bit stronger than what we thought it might be, so that's encouraging.

If I switch to my areas of responsibility, I'll just say a few words about both Wealth and Insurance. So, in the Wealth business I'd say I'm very, very happy with how things are going. If you look back to 2010, as we came out of the crisis, since then we've grown earnings by an average of 15%, 16%. The first quarter this year we were up 15%, and what's particularly gratifying about this is that we have had a big headwind in our direct investing or online brokerage business during the last year and a half. So, just to put that into perspective, in 2012 our trading volumes were down by 24% compared to 2011, and that's really how we make our money.

In the first quarter of this year, it was down 13% compared to the first quarter last year, so this was the biggest profit contributor and more than half the profits in Wealth as recently as 2.5 years ago. So, this is a big deal and so we've overcome those headwinds by basically doing two things -- really robust asset growth driven by referrals from TDCT, and then secondly expense management. So, we've had excellent inflows of money for the last six, seven, eight quarters and we've managed expenses well.

To put that into perspective, last year -- we don't disclose this, but I'll share it with you anyway -- in our wealth business, our year-over-year expenses for down year over year. So, we are investing in productivity and we feel we can continue to do that. And so I don't think the dynamics will change much going forward. I think we're going to continue in the short term to have a difficult trading environment in direct investing, but I think we'll more than compensate for that by focusing on asset growth, fee income, our advice businesses and expense management.

So, I like what's going on in the Wealth business right now. And if we got trading volumes back or got rates back so that we'd get a big lift in direct investing, that would obviously make it even better. Other great things in the Wealth business -- we're gaining share in either every one or every one but one of our categories; I can't remember the last numbers. So, across the business gaining share against our competitors.

Our client experience numbers are rising very significantly, both the ones we measure internally and the ones that JD Power measures. So, just a whole bunch of good stuff going on in the wealth business and the principal thing is the partnership between Wealth and the rest of the Bank. That's also happening in the US, where we have launched a wealth strategy as well. And we announced this morning that we've closed Epoch, which is an asset management purchase that we made, in part to strengthen our US wealth offers. So, good performance right now and we're investing in the US, which should be a source of growth in the more medium-term, so I feel good about Wealth.

Insurance, there are some similarities. If you look back, it's been very profitable and the profits have grown well over the last couple of years. You saw in the first quarter we grew profits by 10% year over year. We're also seeing great volumes in terms of premiums; we're seeing market share gains in the general insurance business; we're seeing our client experience scores rising in insurance and so on and so on.

We like this business at TD. We think that putting the TD brand in front of it makes a big difference and disproportionately attracts TD clients to the business. We like our distribution model, which is direct and no brokers, and we like our focus on the Affinity business where we have roughly 60% share in Canada because we like the profitability dynamics and the risk dynamics.

The one caveat I would give you about the insurance business right now -- and some of you would have been here yesterday and heard from some of our insurance competitors -- is that it does seem to me that, compared to a couple of years ago, or frankly even six months ago, that there is more uncertainty in this industry right now than there was at those times.

And just to give you a few examples -- if you woke up in Toronto this morning as I did, you would have woken up to headlines that predicted that the Liberal government in Ontario will decrease insurance rates for auto insurance customers in Canada. That's at the behest of the NDP, who are calling for that. And we'll see what happens, but I do think it's possible that the Liberal government, given the political circumstances that pervade in Ontario, may do something on auto insurance in Ontario.

Hopefully it will be well thought out in terms of the combination of levers they use, because there are some underlying factors in auto insurance in Ontario that are driving prices up high, such as fraud, and it's those things that we need to attack and hopefully they also, whatever they do, phase it in over an appropriate period of time. But that is clearly an uncertainty that didn't exist a little while ago.

Another uncertainty is just the cycle -- the stage of the claims cycle that we're in pertaining particularly to the reforms that were introduced in Ontario a couple of years ago. And you saw us take a reserve increase in the fourth quarter of last year that was related to bodily injury claims activity in Ontario. And we think that it may take another year or two before all of the changes in the whole system resulting from those legislative amendments end up vetting themselves in. So that's uncertainty for the industry going forward.

There are two others; one is weather-related claims. Climatologists agree about -- disagree about causes and so on, but few of them would say that there haven't been more storms and more severe storms around the world and in Canada the last three or four years. Maybe it's temporary, maybe it'll change this year, but at least it represents an uncertainty. And in the last few years, it's driven up costs for us and our competitors and it's driven up the cost of reinsuring against that risk, so on balance it's a negative risk.

And then the last uncertainty I'll put on the table is that housing has slowed in Canada. And by virtue of that, mortgage and line of credit volumes have slowed and because we write creditor insurance on those products, those volumes are also going to slow and have been slowing. I don't know what will happen with that going forward; that might moderate; it might improve again, but it's certainly an uncertainty that wasn't at the forefront of our thinking a couple of years ago.

So, it just feels like one of these times in this industry where it's tough to look ahead two or four or six quarters and be able to predict what's going to happen. But, again, we like the business. We still think this is a business that, as we've said before, over the medium-term can deliver double-digit earnings growth for the Bank. And I'll stop there, Peter.

Peter Routledge – National Bank Financial– Analyst

All right. So, before you came up here, we did have a talk on the US -- very bullish talk on the US. And TD has identified, in their Wealth Management Group, the high-net-worth segment in the US -- that's $1 million and more in investible assets -- as a key target. I wonder if you could maybe dive down a little bit deeper into your approach to the competitive space, which I imagine is quite challenging. And then talk about how the Epoch transaction fits into the broader strategy.

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

Okay. I hope I can remember all the parts to that question. So, at a simple level, what we're trying to replicate here is something similar to what we have done in Canada, which is to leverage the client base that exists in our retail and commercial bank in the US, as we have done in Canada. And it's a particularly good client base in the US, because our stores -- as we call them in the US -- are located in urban, high-growth areas. For example, we have 100 in New York City. So, markets like New York City, Boston, Philadelphia, Miami are wealthy and fast growing. There's a lot of money in our client base and we think we can attract some of that to our wealth offers.

As is the case in Canada, I will not tell you that we have some whiz-bang product advantage over JP Morgan or over Citi or over PNC. What I would tell you is that we're counting on the fact that we can leverage the same advantages that we've proven out in Canada, in the US. And those advantages are basically our focus on the client experience, which we have proven exists across our businesses by winning all the JD Power awards, etc. Last year our private investment advice business in Canada was the highest scoring JD Power bank -- amongst the banks.

So even in the Wealth space, we're proving we can do this. So, that's the first advantage. The second advantage is just the simple fact that we know how to refer clients from retail and commercial into our wealth business. In Canada, Tim Hockey and I are joined at the hip on this. We co-chair all the efforts to make this happen. We co-manage these efforts and we send a clear signal to both his folks and my folks that we want it to happen. And it's working, as you can see in our results.

In the first quarter, our referrals from TDCT were up by 25%. Even good as it was, it's still getting better and there is still upside. We think we can do the same thing in the US and we think we have more opportunity because, while in Canada our penetration in TDCT is about 25%, in the US it's 3%, because we haven't had a compelling wealth offer up until now. So, what we've done is we've basically from scratch rebuilt a wealth offering.

We have finished building the platform. We have the products in place. We will launch the complete offer next month. We've been hiring people. So, starting this year, we should be competing on an even footing against the other private banks in New York City, but with a TD client experience and with the benefit of having the referral opportunities from retail and commercial banking in the US. And I have the same relationship with Bharat down there as I do with Tim. I'm confident this will work well.

Epoch is a key piece of this puzzle. I'd be lying if I said that we didn't start the process around Epoch before we started the US wealth strategy. So, even without the US wealth strategy, we were looking for US and global equities capability, because we felt our institutional and retail clients in Canada would eventually want those things, and it was a gap for us in our asset management business. But the fact that we started the US wealth business makes it even more compelling, because it gives us a bit of a story that might differentiate us.

It gives us proprietary, in-house product capability that the other competitors don't have. And Epoch's story around focusing on free cash flow and shareholder yield, on dividends, on buybacks, on debt paydowns, etc., is a unique story that I think will resonate with wealthy Americans for at least part of their investment portfolio, particularly given that it's backed by TD. And particularly given that they are already happy with the service they're getting from TD, either in commercial banking or in retail banking.

Epoch closed this morning, by the way. We press released it. We're getting about CAD26 billion in AUMs from that acquisition. It's all gone as well as I hoped so far. So, the job now is to help their business get even stronger than it was with TD's backing and then to leverage their capability into our US wealth offer and into our Canadian institutional and retail offers.

Peter Routledge – National Bank Financial– Analyst

Just one follow-up and then we'll go to the audience. There are some key Epoch employees. What conditions or arrangements do you have in place to retain them over the next few years?

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

All the Epoch employees are key. There are three things in place and we've been public about this, because people's fear is always with asset management purchases that you lose the people. The first one is that every single employee has a retention mechanism in place. And for the lowest level employee, it's 18 months and then it goes up to five years. But every single employee is covered, and it's meaningful.

The second component is that there are employment contracts in place for the top six individuals. Those are the people we deemed most critical from either a management and leadership point of view or an investment philosophy point of view. Those are five year contracts.

And then the third element is that the top people who had significant shareholdings in Epoch that got paid out by virtue of our purchase, must and have invested their -- 30% of their proceeds in Epoch product alongside the client and can't get it out for three years. So, those are the formal retention mechanisms. I think those are important and interesting, but I think the most important thing is that we don't screw Epoch up.

So, we are operating it on a fairly hands-off basis. We're obviously introducing the minimum regulatory and risk controls that we have to have in place, but the current management team is going to continue to run it. The investment philosophies will stay in place. The comp system will stay in place. We're basically letting this very successful company continue to grow with our assistance, as opposed to believing that a big bank can somehow come in there and improve things.

QUESTION AND ANSWER

Peter Routledge – National Bank Financial– Analyst

We'll go out to the audience. Do we have any questions for Mike at this time? Right here in front.

Unidentified Participant

Thank you. I was just curious, in terms of Harbor Capital, how much would you say that contributes to the bottom line of Wealth? And do you have an equivalent of that, or plan on having an equivalent to that in the United States?

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

I do not know the answer to your question because Harbor Capital, which was purchased years ago, has, in many respects, been infused into the business. So, I don't see, on a month-to-month basis, Harbor Capital numbers, but it was not a large acquisition and in the context of the CAD600 million plus we earn in wealth, it's not huge contributor. Sorry, I didn't catch the second part of your question.

Unidentified Participant

In the U.S.

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

In the US, okay. So, first of all, we're not focused on the ultra-high-net-worth segment in the US. We're very specifically focused on what we call the high-net-worth segment, which is between $1 million and $10 million. The ultra-high-net-worth segment is not as profitable; it's more hotly contested; it's tougher to build the proposition. For TD, I think the sweet spot is that $1 million and $10 million, where our data shows us we have tons of clients in the retail and commercial client base, and where you don't have family offices and consultants advising and so on. So, that's the market we're going after.

The answer to your question is simple and it is negligible because, while we were making money in the US, we're in the heavy investment phase right now. The US profits right now are negligible, but obviously the belief is that in a relatively short period of time that will start to change. And because it is a new initiative that the growth curve will be quite nice.

Nevertheless, if you ask me, would it ever be a huge part of wealth? I think the way it works is that I expect the Canadian wealth business to grow at a very nice clip, so the US growth, starting from essentially nothing, would have to grow at an extraordinary clip to ever become a big part of the overall wealth business. So, absent years down the road, acquisitions, etc., I'd be very happy if in 4 or 5 years it was 15% of wealth earnings.

Part of the strategy here is just to broaden our franchise in the US and add Wealth to everything else we do down there so that we have a deeper engagement with every part of the footprint than just being in banking.

Unidentified Participant

Just wanted to make sure if what you are describing includes TD Waterhouse, and if not, how their operation fits into what you are doing?

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

Yes, it's a good question. I don't even know what your question means, because TD Waterhouse used to mean a whole bunch of different things. It's a brand that exists for our discount brokerage operation, although we've changed that to Direct Investing in the last little while. Our private investment advice business, which is brokers, that's TD Waterhouse as well.

So, what I've been discussing is everything that's in Wealth, so it's all our advice businesses, our financial planning business, and our brokers. It's the sales into the branches. It's the mutual fund business, it's the institutional asset management business, it's private banking, it's discretionary, it's everything we do in Wealth in Canada. Going forward, we'll divide that into two brands. One is Direct Investing, to focus very clearly on the do-it-yourself online brokerage segment, and all the rest, all the advice stuff will be called TD Wealth.

Unidentified Participant

(Inaudible - microphone inaccessible)

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

That's TD Ameritrade.

Unidentified Participant

(Inaudible - microphone inaccessible)

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

Yes, so that's TD Ameritrade. So, we only owned 46%, 47% of that.

Unidentified Participant

(Inaudible - microphone inaccessible)

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

Well, it's in my business segment, but all that's reflected is the minority interest, the equity pickup that we get every quarter. Because we're minority owners, I don't have any management oversight over that business. It's an arm's-length relationship. Somebody who works for me is on the Board of TD Ameritrade; Ed Clark is on the Board of TD Ameritrade, etc., but we're not majority owners of that business and it operates on an arm's-length basis.

Peter Routledge – National Bank Financial– Analyst

Any more questions at the moment? Okay. We'll come back to this side of the border and talk about Canada. Part of the investor day last year where we talked about wealth management, you let us know there are 2000 face-to-face advisors for TD in Canada. And I'd always, rightly or wrongly, associated TD with pioneering direct investing.

And so the first question is, in Canada, how does the more recent emphasis -- and maybe it's not so recent, given you have 2000 people -- but how does the emphasis on advice now, both complement and conflict with your direct investment strategy?

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

Okay, so maybe just 10 seconds of history. It's true that historically TD has primarily played through direct investing, and that's why we've got 46% market share or whatever in Canada.

About 10 years ago, my predecessor began to build the advice businesses. So brokers, financial planners, bankers and so on. That was very successful and up until I got involved, it got up to -- close to 2000. And the way it breaks down is it's roughly 750 brokers or investment advisors as we call them, roughly 750 financial planners who are focused on branches, and then the rest is private bankers, discretionary fund managers, trust and estate specialists and so on.

So, up until 2.5 years ago, in order to build those advice sales forces, we weren't as focused on the direct investing business as we could have been. That resulted in pretty constant market share losses for about five years. You might argue we were using that business and the proceeds from it to build the advice capability. But the thinking was, with the demographics, a bank like us needs advice sales forces, given the demographics -- retirees and so on.

So, when I took over 2.5 years ago, I was in a very fortunate position because we had this really strong direct investing position and now 2000 advisors. What we tweaked was that we decided to slow down the growth of those advisor sales forces because we wanted to strengthen the infrastructure, the products, all the stuff -- the tools and technology that the advisors needed, so that we were leading in class in that stuff.

And we also said, at this point we can afford to reinvest in direct investing and, lo and behold, since that quarter, literally, we have gained market share in direct investing. So, now we have the nice situation where we are by far the leader in direct investing. Things are tough right now but I think they'll come back. And on the advice side we're seeing fantastic growth.

If you took out the direct investing from the wealth business, in the first quarter, rather than showing 15% earnings growth, it would've been in the 20s. So, in terms of comparing what some of the other banks are doing.

Peter Routledge – National Bank Financial – Analyst

So, I presume some of this advice -- the leads for some of this advice business come in through the branches. And you've said that -- or in your earlier public statements, you said that 25% of TD Canada Trust branches are generating about 50% of wealth management's referrals. So, what explains the differences in productivity across the branches? Is it demographics and geography? Or is it -- are there some other operational factors that drive it?

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

So, it's all those things. There are branches that happen to be located in wealthy areas; there are branches that happen to have a disproportionate amount of baby boomers and seniors. But there are also branches that happen to sit in a region where there has been a focus on money in as opposed to money out.

I would say that our referrals have increased a lot since then. We're still seeing a picture that's not dissimilar, we're getting way more referrals. But it's changing a bit right now. And the reason it's changing is because the housing market has slowed down. And there just isn't the opportunity in the credit flows as there was, so the branches are focusing more on the money in than on the money out, as you would expect.

Peter Routledge – National Bank Financial– Analyst

Any other - ?

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

But I might just add that one thing that's really important to understand about TD's wealth strategy -- all we do is try to get our TD customers. We aren't focused on getting customers from the other banks. We aren't focused on getting customers from other places. We do get some just because of our presence, but our whole strategy is harvesting TD's existing customer base. I've just learned over the years that that's a lot easier than to try to steal customers away from others. So, that's really important to understand.

Peter Routledge – National Bank Financial– Analyst

Okay. Any other questions out here? Staying in Canada but thinking about your insurance business, you talked about the auto business in Canada. Potentially some regulatory headwinds. Also in auto and home insurance, we have seen some consolidation in the sector. TD hasn't participated, I don't think. Would TD ever consider becoming a consolidator in the P&C -- auto and home insurance and why or why not?

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

I don't think so. I have no interest in acquisitions in wealth. Epoch was the exception to the rule. I don't like the economics of wealth acquisitions and I don't like acquiring distribution and I worry about attrition. And so, in general, we're not going to do that in the wealth business. In insurance, same story, different reasons. There, it's a risk issue.

If you look at our risk appetite statement, to call it something, in insurance. We don't want long tail product; we don't want that risk. We've seen what it's done to the industry. We don't want brokers; we don't want equity investment portfolios; and we want direct distribution. So, if you go through all of the potentially available targets and sift out the ones that don't use brokers, don't have the long tail product risk, are culturally incompatible with us, it gets to be a very, very small list.

Our view is that we have proven we can grow this business organically, quite quickly. I think that's friendlier for shareholders and I think you'll see that that will be our focus going forward.

Peter Routledge – National Bank Financial– Analyst

One potential direct insurance distribution channel would be your branches, which is impossible right now. So, what is your view on the likelihood that, maybe in the next couple of years, or maybe there's a change in government, you could get the opportunity to sell your products through your branch network, much like your credit union competitors do right now?

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

I think the chances of that are extremely small and probably more accurate to say not a snowball's chance in hell.

Peter Routledge – National Bank Financial– Analyst

Even with a change in government?

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

No, I don't see it, I don't see it. Obviously, it's our view that it would increase competition; that clients would benefit; that product innovation would benefit; that it would be good for Canada and Canadians, but I think the political dynamics in Canada over the last 2 plus decades have been very strongly -- leaning toward not allowing this. I do not see a scenario in the near- to medium-term where that changes. And we're not counting or hoping or relying on it whatsoever. We think our business model can work in the current environment and that's what we're focused on doing.

Peter Routledge – National Bank Financial– Analyst

Okay. I have one last question here but I'll go check the audience first. Yes, we have one back here.

Unidentified Participant

The question concerns the perception of TD in the United States. Have you done any research or market research to show how the Americans view the TD bank?

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

We have and they view us very positively. We have excellent brand equity in the US now and an excellent reputation in the US. We do not get a sense that there is concern about foreign banks from a customer point of view. I think, potentially, the crisis and the focus on the US banking sector has been helpful in that regard. But I don't think we're worried that, moving forward, if we continue to present the consumer in the United States with a better experience, more convenience, I think we will continue to grow in the United States.

And I think our American constituents, whether they are political or otherwise, get the contribution that TD is making to the American economy by virtue of our 1300 plus branches, our call centers, our headquarters in the US, all the operations we have in the US. We are a major employer in the United States, around 25,000 people. We're viewed as providing a good service and we're viewed as being an excellent corporate citizen, because we engage deeply with the communities that we're in. So, we're very pleased with how we've been received so far, very pleased with how our brand is resonating and how our reputation is viewed in the US, and we think that can continue.

Peter Routledge – National Bank Financial– Analyst

We have time for one more.

Unidentified Participant

A question on insurance distribution. I believe that the direct channel has gained share over the past few years. Just curious if that is still the case and do you see that reaching a plateau and what kind of level -- are we far from that plateau?

And, secondly, maybe on the online – is online important and has it created a difference in terms of the competitiveness, because it's probably easier to shop and compare?

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

Yes, so definitely. As I've shared before in investor presentations, the direct channels in insurance are growing much faster than both the captive and brokerage channels and that is continuing and I think it will continue. And particularly for the products that we're in, which is home and auto, term life and so on.

Once you are into things like more complicated products for wealthier customers, I think it's a different story, but that's not our market. We are going after the average Canadian family or the average Canadian with those kinds of products, and direct distribution is a fantastic distribution strategy in that respect. Sorry, the second part of your question?

Unidentified Participant

Online?

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

Yes, so that's a very interesting question. We're investing heavily in creating more capability in online distribution and insurance in all kinds of ways, but what we're actually finding so far is that, typically, customers will do parts of the process online and then just before they're ready to buy, they'll call our call center. So, that still seems to be important. I do think, though, that you project five years forward, the demographics moving and people getting more experience, we'll get beyond that. But right now that final step is a phone call with an agent.

Peter Routledge – National Bank Financial– Analyst

Okay, well thank you for coming up. We're at the end of our time and appreciate you coming.

Mike Pedersen – Group Head, Wealth Management, Insurance and Corporate Shared Services, TD Bank Group

Thank you for having me. Thank you very much, everyone, for listening.