1. OVERVIEW

General Information on Basel can be found on the Canadian Bankers Association website at www.cba.ca. Choose "Issues", "Standards, Rules and Guidelines" and "Basel Capital Framework" to view presentations on this subject.

Effective November 1, 2007, TD Bank Financial Group ("TD Bank" or "TD") implemented the Basel II framework for calculating capital adequacy. The third pillar of the Basel II framework ("Pillar 3") describes the public disclosure requirements. As a result of Pillar 3, a number of disclosure changes and new disclosures will be implemented throughout fiscal 2008. The purpose of this document is to familiarize readers with the new disclosures and to provide answers to anticipated questions.

Approaches to Basel II

For Credit Risk, TD Bank has implemented the Advanced Internal Ratings Based ("AIRB") approach for all material portfolios. TD Banknorth, a wholly-owned subsidiary based in the U.S., is primarily using the Standardized Approach.

For Operational Risk, TD Bank is using the Standardized Approach, and TD Banknorth is using the Basic Indicator Approach.

For Market Risk, TD Bank is using the Internal Models Approach.

Key Differences

Many elements of capital remain the same under Basel II compared to Basel I.

The key differences between the two frameworks are:

- Treatment of substantial investments and investments in insurance subsidiaries
  - Goodwill/intangibles on insurance subsidiaries are now deducted from Tier 1 capital.
  - Beginning in fiscal 2009, 50% of TD's investment in TD Ameritrade will be deducted from Tier 1 capital, while the other 50% will remain as a Tier 2 deduction. The entire amount is currently deducted from Tier 2 capital.

- New deductions from Tier 1 and Tier 2 capital
  - The most significant change is the treatment of Allowance for Credit Losses. Any shortfall between Allowance (Specific and General) and Expected Losses under AIRB must be deducted equally from Tier 1 and Tier 2 capital under Basel II. Only the portion of the General Allowance allocated to the Standardized portfolio may be included in Tier 2 capital versus all of the General Allowance under Basel I.
  - There are also several changes relating to the treatment of securitization exposures. These changes are not material to TD's capital position.

Specific differences between the two frameworks are described in question #6.

Location of Information

Pillar 3 tables are published in any of three locations: Management's Discussion and Analysis ("MD&A"), Notes to Consolidated Financial Statements ("Notes"), and the Supplemental Financial Information package ("Supp-pack"). The following information may assist with locating desired material:

1. Where disclosures satisfy a CICA 3862 or 1535 requirement, they are located in the Notes or are cross-referenced from the Notes to the MD&A.
2. Where disclosures represent minimal changes to existing disclosures, or tables moved from annual to quarterly disclosure basis, they remain in their existing disclosure location.
3. The remaining disclosure is included in either the MD&A or the Supp-pack.

2. BASEL II vs. BASEL I

Under Basel II, TD's Tier 1 Capital ratio is up 70bps, Total Capital ratio is up 90bps and Risk-Weighted Assets ("RWA") are down $17 billion.

Capital

Q1/08 ($ millions)	Tier 1 Capital	RWA	Tier 1 Capital Ratio
Basel II	15,888	145,900	10.9%
Basel I	16,614	163,230	10.2%
Difference	**(726)**	**(17,330)**	**70bps**
	Total Capital	RWA	Total Capital Ratio
Basel II	22,014	145,900	15.1%
Basel I	23,117	163,230	14.2%
Difference	**(1,103)**	**(17,330)**	**90bps**

RWA

Q1/08 ($ millions)	Credit Risk	Market Risk	Operational Risk	Total RWA
Basel II	121,460	4,088	20,352	145,900
Basel I	159,142	4,088	not applicable	163,230
Difference	**(37,682)**	**0**	**20,352**	**(17,330)**

3. QUESTIONS & ANSWERS

1. Referring to page 14 lines 1-8 of the Supp-pack, how does the "Banking Book Equities" table differ from what was previously disclosed?

   Lines 1-7 are new disclosures required under Pillar 3 and provide a more detailed breakdown of the Unrealized gains (losses). There is no change in methodology; all numbers on line 8 reconcile with previously-disclosed figures.

2. Referring to page 14 lines 1-2 of the Supp-pack, why are there unrealized gains if the Balance Sheet value equals the fair value?

   The Unrealized gain (loss) shown on line 2 refers to the difference between the original cost of the equities and the current fair value. Publicly-traded equities on line 1 are recorded on the Balance Sheet at their fair value while the Unrealized gain (loss) flows through Other comprehensive income.

   Privately held equities are shown on two lines because they are carried on the Balance Sheet at cost. Therefore the Unrealized gain (loss) on line 5 represents the difference between lines 3 and 4.

3. Referring to page 17 of the Supp-pack, what is the difference between "Gross Impaired Loans by Business Unit Location" (lines 14-17) and "Gross Impaired Loans by Country of Ultimate Risk" (lines 18-28)?

   Differences between the two results when a loan is booked in one country (i.e. U.S.) but guaranteed by an entity in another country (i.e. Canada).

   Business Unit Location is based on the geographic location of the TD Bank unit responsible for booking and managing the loan.

   Country of Ultimate Risk represents the country of residence of the borrower, or in the case where a guarantee exists, the country of residence of the guarantor.

   Note that the ending balance is the same under each scenario (lines 17 and 28).

4. Referring to page 23 lines 1-7 of the Supp-pack,

   What is included in each counterparty type?

   a) *Retail: individuals, certain small businesses*
   b) *Corporate: wholesale and commercial customers, certain small businesses*
   c) *Sovereign: governments, central banks, certain public sector entities*
   d) *Bank: banks, securities firms*

What is included in each of the 3 sub-types under "Retail" on lines 1-3?

a) *Residential secured: individual mortgages, home equity lines of credit*
b) *Qualifying revolving retail: individual credit cards, unsecured lines of credit and overdraft protection products*
c) *Other retail: personal loans, student lines of credit, small business banking credit products*

Why do the counterparty types on page 23 lines 1-6 not align with the financial reporting asset classes on page 13 lines 10-14?

As per the Basel II requirements, we categorize banking book exposures by counterparty type, each having different underlying risk characteristics. These differ from financial reporting asset classes which are based on accounting guidelines. For example, under Basel II, certain small businesses are treated as Retail, while others are treated as Corporate, depending on the size of the exposure and/or how the exposure is managed.

5. Why does the "Drawn" number on page 23 line 7 of the Supp-pack not reconcile with total loans on page 13?

All of the drawn exposures on page 23 of the Supp-pack are included in the Balance Sheet on page 13. The Retail exposures can be closely mapped to a small number of accounts. The non-Retail exposures cannot be mapped directly using publicly-disclosed information.

The Retail drawn exposures on page 23 lines 1-3 of the Supp-pack can be closely mapped to page 13 using the following categories: all of Residential mortgages (line 10), Consumer instalment and other personal (line 11), Credit cards (line 12), and a portion of Business and government (line 13).

The non-Retail loans cannot be mapped between the two pages using publicly-disclosed information as there are a number of adjustments involving portions of various accounts.

6. Referring to page 24 of the Supp-pack, what are the main differences between Basel I and Basel II calculations, and what are their impacts on the Bank's Tier 1 capital ratio?

a) *Methodology Changes: increases the Tier 1 capital ratio by approximately 260bps under Basel II*
This refers to the different risk-weightings assigned to each of our credit risks, which reduced RWA. For example, the reduction of Residential secured RWA (includes residential mortgages and home equity lines of credit) was approximately 160bps.

b) *New Components to Basel II RWA: decreases the Tier 1 capital ratio by approximately 170bps*
This refers to the addition of Operational Risk and the 6% scale factor on AIRB portfolios, which increased the Bank's RWA. (See #8 for more details on the scale factor).

c) *Capital Treatment: decreases the Tier 1 capital ratio by approximately 40bps under Basel II*
This is mainly comprised of the change in treatment of Goodwill & Intangible Assets of insurance subsidiaries and the addition of the shortfall in allowance.

d) *<u>Other: increases the Tier 1 capital ratio by approximately 20bps under Basel II</u>*
This mainly refers to the treatment of Off-Balance Sheet items which consist primarily of the Bank's estimate of exposure at default (EAD) on undrawn commitments and certain repo-style transactions.

7. Referring to page 24 lines 14 and 21 of the Supp-pack, how is the "50% shortfall in allowance" derived?

   The shortfall under Basel II is a <u>regulatory calculation</u>. The methodology is prescriptive and builds in possible, but not necessarily probable, assumptions. Examples could include downturns in the economy, sectors that experience particular challenges, among other items.

   Our current general allowance methodologies are in accordance with GAAP and approved by OSFI. We believe the existing allowance reported on the Balance sheet is adequate and we are comfortable with our current allocation.

8. Referring to page 25 line 14 of the Supp-pack, what does "Adjustment to IRB RWA for scaling factor" refer to?

   In order to overlay some conservatism on the RWA calculation, the regulators introduced a 6% scaling factor which is applied to the total AIRB credit risk RWA. This has the effect of increasing TD's credit risk RWA by $4.6 billion, thereby reducing the Tier 1 and Total capital ratios.

9. Referring to page 25 line 15 of the Supp-pack, what is included in "Other assets not included in standardized or IRB approaches"?

   This includes substantial investments (i.e. TD Ameritrade), deconsolidated subsidiaries (i.e. insurance subsidiaries), land/buildings/equipment and goodwill/intangibles.

10. Referring to page 25 lines 18 and 19 of the Supp-pack, how is operational risk RWA calculated under the Standardized approach? How does this differ from the Basic Indicator approach?

    Operational risk capital is calculated based on the Bank's gross income using a 3-year rolling average.

    The Standardized approach calculates the capital charge by assigning average gross income to 8 categories and assigning a percentage between 12% and 18% to each income category.

    The Basic Indicator approach assigns a factor of 15% to the average gross income.

    Once the Operational risk is calculated, the resultant capital charge is multiplied by 12.5 to arrive at RWA.

11. Referring to page 25 line 17 and page 26 line 11 of the Supp-pack, why is market risk RWA the same under Basel I and Basel II?

    There are currently no changes in the methodology for calculating market risk RWA between Basel I and Basel II. However, implementing Basel II enabled us to assess and strengthen our internal processes related to market risk.