**TD Bank Financial Group**
Investor Relations

# TD BANK FINANCIAL GROUP
# SCOTIA CAPITAL'S FINANCIALS SUMMIT
# TUESDAY, SEPTEMBER 9, 2008

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## CORPORATE PARTICIPANTS

Ed Clark — President & CEO, TD Bank Financial Group

## CONFERENCE CALL PARTICIPANTS

Kevin Choquette — Scotia Capital - Analyst

## PRESENTATION

**Kevin Choquette - Scotia Capital - Analyst**

Our next speaker this morning is Ed Clark, President and CEO of TD [Bank] Financial Group. Mr. Clark was appointed to this position December 2002. He joined Canada Trust in 1991 and was appointed President and CEO of CT in 1994. Upon the merger of TD and Canada Trust in February 2000, Ed became Chairman and CEO of TD Canada Trust and subsequently President and COO of TD Bank Financial Group.

Ed has held senior positions in the federal government from 1974 to 1984 and senior management positions at Merrill Lynch and Morgan Financial from '84 to 1991. TD has moved up to the seventh-largest bank in North America in terms of market cap. Ed?

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**Ed Clark - TD Bank Financial Group - President and CEO**

Thank you, Kevin. So while you folks read that, I thought I might comment just briefly on sort of how I saw the economic environment today, okay? And how I'm feeling about things, because I think usually when I meet with investors, that's really what they want to know, is how is management actually feeling. And I would say that I'm actually feeling pretty good.

I think in terms of our organization, I feel pretty good. On the other hand, whether it's a psychological condition or a market condition, I'm also feeling still quite nervous and I'm nervous really about two things. I know people think that we've got through the financial services crisis and we're now into the economic slowdown stage, but I would have to say I am nervous that we haven't made it all the way through the financial services crisis, and then secondly -- I'll comment on that. And then, secondly, I don't know the depth of the slowdown that we're still facing.

So on the first question, why am I nervous despite the fact that people seem to have worked their way through and taken lots of write-downs? I'm nervous because a large number of banks around the world grew their asset side dramatically more than they grew their deposit side, and particularly when you take into account the amount of off-balance sheet financing they did and the implicit asset growth was there.

I know in theory in economics -- I was originally trained as an economist -- that all money is fungible, and so if they're not financing themselves through securitization, then they ought to just be able to go to the marketplace and those same investors will now buy their paper. But I think life teaches you that these major shifts are hard to actually affect.

And clearly, they are coming about at a higher cost, and so there's clearly the cost of financing banks have gone up and you just worry, given the extent of that -- I think it is, when you actually do the numbers, how much refinancing has to go on financial services and how many institutions have to really fundamentally position themselves, how they finance themselves, that this is accident prone.

So until we actually get through in the markets, re-digest that now they're going to be funding the banks directly, rather than indirectly, I'm going to stay nervous, even though we as an institution are not one that's directly impacted, because of our very strong deposit base.

And, secondly, people keep on saying, well, the housing prices in the United States are falling less quickly. Isn't this wonderful news? I look at it and say, until they stop falling, we do not know the depth to which they will pull down the U.S. economy. Clearly, the rescue of Fannie Mae and Freddie Mac is a huge positive for, I think, the whole situation. It was an obvious, it had to get done.

There's a whole series of obvious, it seems to me, since the start of this crisis, of things that had to be corrected. It was high on the list, and it does give the U.S. government a direct-drive instrument to go in there and move more volumes into the mortgage market and bring the prices of mortgages down, and so I think that's positive.

But, as I say, until we actually get through and see this market stabilize, it's a brave person that says I can call the bottom and can call the ultimate -- how bad a recession this is. So why am I feeling pretty good? Well, I'm feeling pretty good because, in a sense, if you go back in time, for those of you who've seen this presentation ad nauseam, we were kind of built for the downturn. We built for the accident, to avoid the accident.

I think we've proven that out in the case of TD Securities and we've proven it out in terms of our retail businesses, both north of the border and south of the border, that in fact you can, even in this, which has got to go down as one of the most severe downturns, you can still be a growth company in the middle of all this.

And so I'm feeling pretty good that the moves we took turned out to be the right move, but I'm nervous, because one of the things you learn is that you always have to keep anticipating where the next problem is. So I'm going to go through my presentation fairly quickly because I think most of you know what we're trying to do.

We are trying to be a leading North American bank. We actually believe that we can take our business model south of the border. We actually believe that we can get North American synergies, and therefore, when, we are one of the seventh-largest bank in North America, we can act like a North American entity and take on any of the large banks and successfully, in fact, compete against them and have organic growth.

Secondly, we do have a bias towards the retail side. We're probably about 90% retail now, 10% wholesale, and within our wholesale dealer, we've moved to a franchise play and a play that says let's take out the high-risk option play and in fact have a pretty solid set of earnings.

Clearly, we have strong Canadian operations. I believe that if you want to go abroad, make sure you that you secure your home base first, and I think I can show you that we continue to have an amazingly strong Canadian franchise. And we actually do believe there's an enormous opportunity in the United States. I'll come back to this later.

We don't actually expect investors to invest on the base of it. I think they're show-me, but I think the potential that we're seeing on the United States is huge. But at the end of the day we're an operational company and this is all about actually doing what we say we're going to do and making sure we're going to pull it off. That will determine our success.

So our Canadian franchise, you know we own the service and convenience base in the United States. Each year, we win the service awards and, in fact, the gap between ourselves and our competition is actually widening. I was asked earlier today, well, what is it that causes this? Is it your extended hours? Which is it? Is it the fact that you grow more branches? Is it you did [more] better service? I think retail brands are a whole set of things, of integrated strategy that produces a different brand in the marketplace and each of those elements lift themselves up.

We are a believer in constantly reinvesting. You won't see us decide one year we're not going to build branches, the next year we'll build a bunch of branches, or some may have our expenditures go down one year and then up the next year. We think that one of our competitive advantages, the fact that I've given the same speech for the last 20 years. And everybody in the front line knows what we're about. We just keep on every year relentlessly pursuing this strategy.

So far, year to date, we've built about 40% of the branches that were opened up in Canada this year. We like our market position and, I guess, on the credit side, what's interesting, I'd say there's an element which we're a little lucky, so if you're not good, be lucky. One of our frustrations is that our commercial side hasn't grown as fast. We've been working at that for the last few years, but that takes time.

There's a lot of lead time to take market share. We're now starting to get some traction in it, but I think as we hit this downturn, the fact that we have a very old, stable customer base that's been with us and the portfolio has been stable for a long period of time here, is going to turn out in terms of our loan losses to be a positive.

And then secondly, as you are aware, a few years ago we introduced a new scoring system on the unsecured lending side on our retail side. We didn't do that 100% successfully. That created a fair amount of problems. That has the implication for us -- two things that have come out of that is one is our running rate of PCLs in retail have been unusually elevated. So you have simply the math that as that problem, which we're in the process of -- we're now seeing the effects of our cures coming in.

That's coming down. It means that, in fact, going into next year, we have declining PCLs in a fundamental sense, and so we actually have some natural mathematical offset if in fact there's a rise in the retail side. But, secondly, my management team has spent the last two or three years worrying about unsecured lending in Canada and I think that will turn out to be a good thing.

Well, you know the track record, tremendous earnings growth in TDCT. And I would say we're looking for another very good year. I don't think we're going to do 14%, but we'll still have very solid earnings growth this year, really an amazing track record. In terms of wealth management, we're believers in investing here quite strongly.

We've been building out our advice side. We continue to add 130 net advisers, again, this year. We're also investing -- probably the market hasn't been quite as much aware of that. We have been investing in discount brokerage in the sense that we're taking an aggressive price stand to make sure that we are first in class in terms of pricing.

This has obviously had a major impact on our revenue because of the amount which we cut prices over the past year, and in our results we've absorbed that. We think in terms of long-run positioning, that will turn out to be a good thing. TD Ameritrade has really had just a tremendous year. They've actually got the synergies out that they did with the Waterhouse merger, but now more importantly they've shifted to become an asset gatherer and really you're going to I think hear tomorrow from Fred Tomczyk. He's done just a spectacular job and it's obviously been very positive from our point of view.

Again, we had a tremendous run over the last five years in terms of wealth management, earnings growth. This year will be a bit of a pause. TD Ameritrade will still have some strong growth, offset to a certain extent by probably slightly negative earnings growth in the wealth management area.

We've been positioned in the sense that -- as well as you can be in wealth management and these capital markets that the discount brokerage business has held up, but we're suffering the same effects as everyone else on both net asset values falling and direct in terms of our discretionary investment, the impact on.

You put it all together in terms of the Canadian scene, every year we take market share and revenue. I always say you can have all the market share statistics in the end, but if they don't translate into revenue they don't really mean a whole lot. And so, again this year, we're taking market share and revenue.

We are not taking market share this year so far, it seems, in the profit side, so we'd be about even with our competition on the profit side, and that reflects a decision that we announced over a year ago that this was going to be an investment year for us. And so we've had very rapid increases in expenses as we rolled in the extended hours and a number of investments into our distribution system.

That simply reflects our philosophy, and our philosophy is just keep on investing, keep on investing. We do have an efficiency ratio as you know, in TDCT that's now dropped below 50%. And so going forward I don't think we're going to keep the 3% gap. I think that gap will be narrower, but next year you'll see the restoration of a gap.

Probably obviously I think clearly from the market's point of view our entry into the United States has been a big financial bet and some people would wonder whether that's the place you want to be, given all the difficulties that are going on in the United States.

Obviously, we were pleased with the first sort of consolidated earnings picture that we could present to you, better than what we had originally estimated. We feel comfortable that we can maintain that pace and we are also comfortable in that pace right now. We're running at a rate of about $1.1 billion of earnings for this year and we've said we could step that up to $1.2 billion next year. We're comfortable, we remain comfortable, with those kinds of numbers.

What for us is obviously the exciting thing is that we own service and convenience space in the United States as well, and actually all our experiments tell us that that space is more valued to Americans than it is to Canadians. There's more opportunity as a result of owning that space. And the most exciting thing, but not something I can translate into numbers for you, is the potential cross-sale capabilities that I think we can introduce in the United States and taking that core franchise and working it better.

To me, if I worry about the United States, I worry about something different than the market, so I'll talk a little about what the market worries about and then I'll talk about what I worry about. The market's worried about loan losses. The market's worrying about investment writedowns. To be honest, that's not where I spend a lot of my energy. I'm not sure the market fully absorbs the fact that when we did the acquisition, we wrote down the investment portfolio and so we are quite confident that the investment portfolio has been written down well below its intrinsic value.

In terms of loan losses, we looked at the loan losses that we thought would come with a kind of 1991 recession in the northeastern United States, and we're providing at those rates at 75 million a quarter. We think those are quite adequate and as you know they're well in excess of our writeoffs. And so that's not the part. We can always get hit worse, but not in my view, substantially more than the kind of numbers that we're looking at. Clearly, it's more the business challenge of growth.

We bought into the United States because we wanted to turn it into a growth entity, so the negative issue in terms of our U.S. strategy is obviously on the deposit side. The funding crisis that I talked about earlier is rolling into our competition, and they clearly are pricing CDs at above the cost of funds and they're doing it because they have to. They have to get the money.

And so we have been working to try to figure out how to actually have the right nuanced strategy to that. We don't want to do crazy things. On the other hand, we don't want to lose our customer base.

The good news is that on the lending side we're seeing great volume growth. We're seeing -- as frankly we are seeing in Canada -- good-quality clients crossing the street and saying I'm nervous my bank will not have the money to fund my growth. You look like you got through this all right. Can I get you to fund some of my growth?

And so we're winning business at wider spread, better terms and clients that we've worked for years to try to get and are now coming to us. Just to give you a sense of the difference in terms of loan losses, clearly, the Northeast is different from the rest of the United States in what's actually going on and we're different within the Northeast from what, in fact, the average institution is facing right across the board.

They reflect, as I talked about in our analyst meeting, our kind of triple play of, in fact, what did we lend, how did we lend, where did we lend. Each of these elements of things that we were very conscious going into this because we had a view, as you know, several years ago what was going to happen in the United States, and we built our institution to, in fact, deal with that.

Now, notwithstanding the fact that the results have been weak in our wholesale banking area, we're actually quite pleased with our wholesale banking. It did what we said we were going to do, and that's a very simple thing, which is a franchise play, built around exploiting in Canada, and now we're building it out in the United States, where we have an ability to win business because we can win the ties and build off of our franchise in the area in which we're operating, at the same time systematically going through and saying we want to take the tail risk out of the dealer.

And so if you had asked for a better test of whether you actually had taken the tail risk out, it's hard to imagine one that would have been better than the test that we'd just gone through.

And so from our point of view, when you actually peer through the results, what in fact we've been able to continue to grow our franchise play, continue to keep our position in the marketplace on the core things that matter to us. And we've indicated to the market, we're still in the same place, that we see ourselves as a 15% to 20% ROIC business and that means approximately $500 million to $600 million of earnings as a kind of running rate for TD Securities.

Let me just show you, though, the reason why it feels so bad is where we were. And we will have absorbed this year approximately a $400 million decline in our earnings in TD Securities. That's a pretty dramatic hit and so the fact that we're ending up in a pause year in our earnings per share is not surprising if you have a decline in one of your businesses of $400 million.

Why did we have that decline? Well, there's a number of things that are working their way through here. First off, in those historical numbers, we had very good security gains. We don't see the security gains coming this year, and nor do we see them returning quickly to the levels that we had previously. As I have indicated, we don't use our security gains as an earnings management tool.

We actually see it as a business in which we're trying to maximize the value, and so my instructions to the people that run that area is if you don't think this is a good market to be selling and taking security gains, even though we obviously have significant numbers of security gains, don't take them, because your job -- you're going to be in a sense measured on whether or not you've maximized the value of our position.

Secondly, we're obviously impacted, like everybody else, by the slowdown in the capital markets area, and that's speeding through our dealer. In our case, I think we are differently positioned than some of the other banks. We have a more significant basis trade on in our credit derivative area. We bought cash instruments and protected them with credit derivatives. That's a trade that's gone against us and that's been bleeding through our results. And obviously, we've been marking to market our BCE obligation.

And so all of those have in fact weighed down our results, but when you peer through it, I'm actually happy to where the dealer is positioned and happy with how we're going into next year. Overall, we like what's happened to our overall earnings. Whether you do it and ignore the writeoffs or not ignore the writeoffs, we're very pleased with how we've been positioned.

This is the graph that we use internally, and so I thought I might as well show it to you. And I think one of the interesting things for investors is that the Canadian banks are actually now increasingly differentiating themselves. I say this all the time and I mean it, as a Canadian, I hope all five of these strategies work out. I think this is a good thing for Canada, not a bad thing, but there are obviously quite significant differences. The market seems to want to take and ignore the one-time writeoffs, so we've done that.

We've not done that with ourselves because frankly that's not our belief. We believed that if you made money on it going in, then you ought to take it in ordinary earnings on the way out, so we haven't adjusted ours for a mispricing. If you did that, then our earnings would be closer to $1.2 billion in the quarter, and the wholesale side, which I do think is a better representation, would be about 10%.

So I think if you want to think of it, but clearly what you have is our retail earnings north and south of the border are about the same size as the Royal's retail earnings, and the major difference is obviously on the size of the wholesale operation. And in the case of the Bank in Nova Scotia, actually our surprise to me, our international operations are, if you take the U.S. as our equivalent to international, are both the same size as the Bank of Nova Scotia, and the Bank of Nova Scotia and ourselves earn about the same amount of money, but slightly different composition between wholesale and retail in Canada and abroad.

So I think it's -- to me this is an exciting difference for investors. We are each running our own strategy and at the end of the day you have to pick the strategy that you like. And so what is our strategy? Well, pretty simple. We are a growth company. We want to grow every year. We invest every year. We don't change our mind about our strategies every year and we want to grow without going out the risk curve. This is pretty fundamental.

People have asked, well, where does that put you in the sense of acquisitions? I would say my view is to be extremely cautious today. We are not a hedge fund. We are franchise builders. I don't know what the value of retail assets or commercial assets are in the United States today, and so I'm not keen to try to find out by buying some and looking at them. And so I think for us we are in pause. Obviously, that's made more clear, true, because we won't have completed the conversion of the Commerce Bank until the fall of 2009.

I'd say the only thing that might change our mind would be small acquisitions where we can do deals where we're not taking significant asset risk that are infills into where we are operating today. But, for the moment, we would like to see housing prices stabilize and the market clarify, in a sense for us, as to how deep this U.S. recession is. And then, frankly, for us, as opposed to other people, we actually do have critical mass in our markets in the United States. We have an ability. We're growing 25 new branches a year. We took that down from 50.

While we're in the process of doing the conversion, we'll step it back up to 50 once we clear that, and so when you can grow 50 new branches a year, then you have to ask yourself all the time, which is what we do is, well, is it not better just to add more branches and grow faster organically than in fact to make acquisitions. And so we have a pretty tough test when we look at acquisitions in this market.

We're going to continue to emphasize operational excellence. In the end of the day, everyone knows everyone else's strategy. It's the whether you actually do your strategy. As I said, I think you'll see the reintroduction of some sort of expense gap in 2009 in TDCT, but nothing like the 3%, because once you drop below 50% I think there's just not room.

And we want to keep on investing, and in the United States we will be getting the synergies out. On the other hand, we will be stepping up our new branch expansion and we believe that's a good investment for the shareholders. In fact, we think it's very hard to beat the investment that we get, the rate of return that we get on those new branches.

And we'll continue to be focused on, in fact, getting a much better rate of return for every dollar of risk that we take. That's essential to our strategy. So we hope in the end we'll deliver on our promise. In fact, I can promise you that we'll deliver on our promise. We're going to create a North American bank. We're going to continue our huge strength on the retail side, now both in Canada and the United States and we'll continue to be disciplined in doing what we said we're going to do.

I'll pause here and take any questions. But the really -- Rick's in the back, and so I'm going to let him take them.

## QUESTION AND ANSWER

**Kevin Choquette - Scotia Capital - Analyst**

Questions?

**Unidentified Audience Member**

You seem to have a more cautious outlook than the previous CEOs that we've heard, and so I have a couple of questions to ask you. First, in the U.S., you've got that -- you have exposures to the HELOC segment. How do you expect that to -- first of all, how well reserved are you for that portfolio? Is it a line of business that you're still focused on? Are there certain retail lending lines that you're looking at diminishing or deemphasizing as a result of your cautious approach? That's my first question.

The second question is a question that I asked one of the previous speakers, and that is there seems to be a little bit of a change in mindset among essential bankers around the world. There's some chatter about the Bank of England eliminating the special liquidity scheme. The European Central Bank has tightened its collateral requirements.

Do you view that as being potentially catastrophic or potentially dangerous for the industry? How does that affect your funding strategy, your contingent liquidity planning and also your attitude toward counterparty risk, as you have exposures to the European and British banks and other banks around the world?

**Ed Clark - TD Bank Financial Group - President and CEO**

Okay, a lot of good questions. Since I don't know what everyone else says, I'm not sure I can exactly describe why I'm more cautious, but my caution doesn't stem from our actual results, and so I think one of the anomalies that we've faced all along is that my brain says one thing and my company tells me another thing, and so we're getting still spectacular numbers in our Canadian operations and we're not seeing the loan losses in our U.S. operations and we're getting growth in our U.S. operations, and so you say, put these two worlds together.

So my caution is more coming when I step back and I say do I believe that you can refinance the whole financial services industry? And to the extent to which we have, without strains and stresses, I don't believe it. So I'll answer your second question in a sense first.

I would caution central bank governors, don't declare victory here. I think there's still lots of room for accidents here and I'd rather them worry, be as nervous as I am as they go through here, because we don't need an accident here.

I think we're doing all the right things, I think it is getting better. But I think it will in the end raise the cost of funding for banks, probably for a considerable period of time, in order to affect, in a sense, where the funding is coming from.

In terms of our own HELOC portfolio, as you know, about one-third of it is first lien, only two-thirds of it is second lien. The big thing, I think, whenever we've done fairly quite intensive analysis of why are our results so much better than everyone else's? And it really does come back to who what and where is that in the end of the day we didn't do out-of-market lending.

We didn't use commissioned sales. We know everybody that we lent to as a customer of ours has deposit accounts with us. They have good Beacon scores and all those things. And so in the end of the day, when you look at that and say you're in the northeastern United States, where it has been less impacted. And all of those things mean we're just not getting the hits that everyone else has.

And I think we've gone through a fairly detailed exercise where we say if we correct for all those factors, mathematically, you can explain probably 75% of the difference in our performance, but 25% actually does come down to how good were your credit standards in the branch when you were making those loans. So we're not seeing the loan losses. That's been one of the anomalies for us.

**Kevin Choquette - Scotia Capital - Analyst**

Time for one more question, in the front.

**Unidentified Audience Member**

Thanks. It's really just a reiteration of a question that I asked earlier to a previous speaker. Can you speak to your view on deleveraging by the investment banks in Europe and North America, how long that goes on how that affects your view of the credit markets and the financial markets overall? Also, with Lehman down so much today, what would a potential sale of Lehman or even more stress there by a major investment bank affect the system?

**Ed Clark - TD Bank Financial Group - President and CEO**

So I guess what I'm saying is, I think you've got a tremendous amount of either people that have to deleverage themselves or they have to borrow a whole lot and it ended up banks around the world are doing both of those, which means they're getting constant downward pressure on asset prices and they're getting widening spreads, or a lot of pressure on spreads, for financial institutions.

In a sense, I guess I'm enough of an economist that I believe at the end of the day the markets will cure this and they'll work their way through it, but we shouldn't kid ourselves that that also probably means that people will try to lend a little less.

Right now, we're the beneficiary of that, because I say people are walking across the street and saying, well, you look -- as you know in the United States, we've got way more deposits than we have assets. And so people walk across and say you're my kind of bank right now. You don’t have a problem and you need to do loans.

But you have to worry about what that does to the economic situation in the United States, that if, in fact, all the banks do that does that mean it slows it down and then that ultimately will come back on us? So that's why all I'm really saying is stay nervous. I think to declare victory just because you saved Fannie Mae and Freddie Mac seems to me a little bit of euphoria, and so I think everybody should stay vigilant, because we are restructuring the financial services industry in the next two or three years.

**Kevin Choquette - Scotia Capital - Analyst**

Great. On that note, I'd like to thank Ed and TD Bank and wish you the best. Thank you.