

Q1 2004
Strategic Overview
(Check Against Delivery)

Ed Clark, President & CEO

- Good afternoon everyone. I am sure this is a very busy day for you, with three banks reporting, so Dan and I will be brief in order to leave time for any questions you may have and get you on to the next conference call.
- This quarter we reported EPS before the amortization of intangibles of \$1.15. This result includes a sectoral provision release of \$200MM, which added \$0.20 per share. Also in these results is the impact of implementing accounting guideline 13 and the impact of rising tax rates on our deferred tax assets and liabilities. Dan will go into more detail, but the net impact of these items is to reduce earnings before the amortization of intangibles by \$0.21 per share. On a comparable basis after the adjustments, earnings per share are up 34% year over year and 17% quarter over quarter – clearly a very good quarter.
- As a direct result of our strong earnings this quarter and what they mean for the full year, we also announced today a \$0.02 increase in our quarterly dividend. This increase is consistent with the strong underlying performance of each of our three main businesses. Each of our businesses is reinforcing the advantage of our disciplined approach to our operations, each is growing earnings and each is contributing to the shareholder value of TD.
- We are on strategy and our strategy is working.
- Certainly this quarter bodes well for the rest of the year but we recognize our performance was well above expectations and I want to temper any notion that we expect these results to be repeated throughout the year.
- Our wholesale bank, which you will note includes only our core business as we now report non-core in our Corporate segment to clearly separate sustainable and non-sustainable earnings, had an exceptional quarter. Net income improved over 40% from last quarter and added about \$0.08 to EPS.

- Our wholesale results bear out our comments at previous meetings that often the first half of the year is stronger in this business than the second half of the year and so we are certainly not looking for a repeat of this quarter's performance throughout the year.
- However, while there is continued weakness in demand for corporate credit in Canada, loans and BAs are down 40% from a year ago, our equity and credit businesses were particularly strong on a year over year basis. This is clear evidence of the success of our strategy. We're even doing a little better, a little faster than anticipated.
- I know some were skeptical about our wholesale strategy. We too recognized that reducing wholesale RWA from \$62 billion in 2002 to \$41 billion in 2004 risked some unintended fallout. We have emphasized that this reduction was focused on non-Canadian corporations where we were unlikely to be long-term strategic partners. We have managed this shift extremely well. We continue to be confident that growing our Canadian corporate and investor franchise is the right strategy for us. This, in combination with our global capital markets focus, will allow us to deliver superior economic returns to our shareholders. ROIC this quarter was 27.9%.
- Our focus is on economic profit and over the long run our return on invested capital should be 18% to 20%. When all is going well, returns should be higher. Should the environment worsen, returns naturally will be less.
- Turning to our personal and commercial bank: another great quarter with excellent results across a broad range on products. I want to point out that this quarter's performance was helped to the tune of about \$0.02 a share by a single commercial loan reversal. However, even adjusting for this reversal the personal and commercial bank had a record quarter.
- As you will see in Dan's slides, this loan reversal more than offset an unfavorable development with personal PCL's, particularly credit cards. Last quarter we indicated we did not expect any earnings pick-up in 2004 from lower PCLs. With this latest development we now see quarterly PCL expense going forward tracking modestly higher than last year's quarterly average.

- I commented last quarter that the rate at which our margin was declining appeared to be slowing. This quarter's margin decline was only 4 basis points from last quarter compared to an 8 basis point decline from Q3/03 to Q4/03. Going forward, we would continue to look for some compression primarily because declining interest rates will put pressure on core deposit margins. Our job is to manage our business to offset these margin pressures.
- Our original goal was to generate on average 10% annual compound earnings growth over 2003, 2004 and 2005. This would now appear too conservative considering the start we have had to this year and 14% growth achieved last year. On the other hand, we do not view this quarter's 16% year over year increase as a run rate for the year.
- Our wealth management business also had a great quarter. Discount brokerage again benefited from great operating leverage. In the U.S., as you are aware, we ended our discussions with E-Trade, and are now focused entirely on aggressively growing this business organically. We like our strategic position. We will grow by extending our advantage in branches and in the independent financial advisor market as well as aggressively marketing to our target customer base. We increased our marketing spend from last quarter by 50% to \$28 million this quarter. Our total spend for 2004 is expected to be higher than the \$95 million spent in 2003. This is money well invested with each dollar NPV positive.
- This quarter was also strong in our domestic wealth management businesses, particularly discount brokerage. We are benefiting from stronger capital markets, the RRSP season and renewed investor interest. Strategically, we are staying the course, viewing 2004 as a year of investment, as we methodically build our advisory infrastructure and capabilities. We expect the major benefits of this investment will begin to show in mid 2005.
- Finally a word about the non-core portfolio and capital. Again the performance of the non-core portfolio exceeded expectations. We have reduced the net drawn non-investment grade loans and BAs to \$2.4 billion and released a further \$200 million in sectorals. Our goal is to make the non-core portfolio virtually irrelevant from a valuation point of view by the end of this year.
- On the capital front, again a good quarter. Our Tier 1 stands at 10.9% and our tangible common equity as a percent of risk weighted assets is at 7.3%. Disciplined use of capital and strong earnings does wonders for these ratios.



- In conclusion, a tremendous start to the year. The rest of the year will probably be tougher, but assuming capital markets remain buoyant, the outlook for the year as a whole is quite positive.
- Now Dan will go into our quarterly numbers in detail.