

Q1 2004 EARNINGS CONFERENCE CALL

CORPORATE PARTICIPANTS

Ed Clark	President & CEO
Dan Marinangeli	EVP & CFO
Bob Dorrance	Chairman & CEO, TD Securities
Bharat Masarani	EVP, Risk Management
Andrea Rosen	President, TD Canada Trust

PRESENTATION

Dan Marinangeli, EVP & CFO

Welcome to the TD Bank Financial Group's first-quarter 2004 investor presentation. My name is Dan Marinangeli, and I'm the CFO of the Bank. This meeting is being webcast in audio and video as well as a telephone conference call. After the formal presentations, we will entertain questions from those present, as well as pre-qualified analysts and investors on the phones. Those viewing the webcast will be able to e-mail us questions.

With us today is Ed Clark, the Bank's CEO, who will give a strategic overview of the quarter. Following Ed's remarks I will cover our operating performance in more depth. Also present to answer your questions are Bob Dorrance, Chairman and CEO of TD Securities; Andrea Rosen, President of TD Canada Trust; and Bharat Masrani, EVP of Risk Management. This presentation may contain forward-looking statements and we draw your attention to the slide concerning forward-looking statements at the beginning of our formal presentation.

Ed Clark – President & CEO

Thanks Dan. Good afternoon, everyone. I know this is a very busy day, with three major banks reporting, so Dan and I are going to try to keep our remarks brief to leave time for questions and to let you get onto your next conference call.

This quarter we reported EPS before amortization of intangibles of \$1.15. This result includes a sectoral provision of release of \$200 million, which added 20 cents 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 is going to go into this in more detail, but the net impact of these items would be to reduce earnings before amortization of intangibles by 21 cents a share. On a comparable basis, after adjustments, earnings per share are up 34 percent year-over-year and 17 percent 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 2 cent 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 shareholder value of TD Bank. We're 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 the non-core in our corporate segment to clearly separate sustainable and non-sustainable earnings streams, had an exceptional quarter.

Net income improved over 40 percent from last quarter and added about 8 cents to the earnings per share. Our wholesale results bare out our comments of 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, our loans and BAs are down 40 percent 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 doing even a little better and a little faster than we originally anticipated.

I know some were skeptical about our wholesale strategy. We too recognize that reducing wholesale risk-weighted assets from \$62 billion in 2002 to \$41 billion in 2004 risks some unintended fallout. We've emphasized that this reduction was focused on non-Canadian corporations, where we were unlikely to be long-term strategic partners. We've 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. Our rate of return on invested capital this quarter was 27.9 percent.

Our focus is on economic profit. And over the long run, our return on invested capital should be 18 to 20 percent in this business. When all is going well, returns should be higher. Should the environment worsen, returns naturally will be less.

Turning to our personal & commercial bank, another great quarter with excellent results across a broad range of products. I want to point out that this quarter's performance was helped to the tune of about 2 cents a share by a single commercial loan reversal.

However, even adjusting for this reversal, the personal & commercial bank had a record quarter. As you'll 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 that we did not expect any earnings pick up in 2004 from lower PCL's. 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 in the third quarter. 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 percent annual compound earnings growth over the period 2003, 2004 and 2005. This would now appear to be too conservative, considering the start we had to this year and the 14 percent growth we achieved last year.

On the other hand, we do not view this quarter's 16 percent 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 United States, as you are aware, we ended our discussions with E*Trade and our now focused entirely on aggressively growing this business organically. We like our strategic position. We will grow by extending our advantage and branches and in the independent financial adviser market, as well as aggressively marketing to our targeted customer base.

We increased our marketing spend from last quarter by 50 percent to \$28 million this quarter. Our total spend for 2004 is expected to be higher than the \$95 million we spent in 2003. This, from our point of view, is money well invested with each dollar being NPV positive.

This quarter was also strong in our domestic wealth management businesses, particularly discount brokerage. We're benefiting from stronger capital markets, the RRSP season and renewed investor interest. Strategically, though, we are staying the course, viewing 2004 as the 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 our 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 a capital front, again a good quarter. Our Tier One capital ratio stands at 10.9 percent, and our tangible common equity as a percent of risk-weighted assets is at 7.3 percent.

In conclusion, it was 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.

Dan will now go into the quarterly numbers in detail.

Dan Marinangeli - EVP & CFO

The overview of the first quarter 2004, on a reported basis, earnings per share was 88 cents fully diluted, earnings before the amortization of intangibles was \$1.15, as Ed mentioned. We had previously referred to that particular number as cash earnings. We have decided to be a little more precise and a little more correct, in fact, and refer to that now as earnings simply before the identified intangible amortization.

Economic profit was \$376 million. That includes \$130 million relating to the sectoral reversal, or \$246 million without the sectoral reversal. That is up \$76 million from last year, and up \$210 million from last quarter.

Our dividend increased 2 cents a share, as Ed mentioned. The segment results, he's gone through -- I won't go through them again. All business units are performing well.

PCL expense was \$(104) million, reflecting the \$200 million sectoral reversal, as well as a \$96 million actual credit loss in TD Canada Trust.

Capital ratios, Ed has already mentioned.

Reconciling our earnings this quarter is pretty simple. We simply only have the difference between the \$1.15 and the 88 cents reported earnings is only represented by the amortization of intangibles after-tax.

There are some other items that we've referred to, and suggest that you might want to take these into account when looking at the sustainability of earnings.

We had a complex tax effect this quarter. The delay or the cancellation of the tax rate reductions in Ontario had two effects on the Bank's tax rate. One is on the amortization of identifieds, and that increased the tax related to that, and therefore increased the amortization by \$69 million. On the other side of the ledger, on a pre-amortization basis, it decreased our tax rate by \$17 million, or 3 cents a share.

Two other items Ed mentioned -- accounting guideline 13 was a loss on an after-tax basis of \$13 million, or 2 cents a share. And the sectoral provision release, as we mentioned, was 20 cents per share addition. So when you work your way through all of those items, on a pre-amortization basis, you get about 94 cents a share, up 34 percent year-over-year, 17 percent over last quarter.

Moving on to the personal & commercial banking business, revenue was up 4 percent year-over-year. The Laurentian Bank Branch purchase represents about 1 percent of that, or \$17 million. If you exclude that, we're up 3 percent year-over-year. Margins down 4 basis points, and that again as Ed mentioned is a slowing of the margin decline.

When you look at the components of our margin, you can see that the lending products margin is down 2 basis points while the deposit products margin is actually up 1 basis point this quarter, and that's a reversal of a previous trend. We would likely see, if interest rates stay as they are or continue to decline, we will likely see a further decline in margin for core deposits, so we would see a reversal of that trend we saw this quarter.

Provision for credit losses, you can see at \$106 million, that's before the effect of securitization, which was \$10 million. Only \$1 million worth of commercial loan losses -- obviously, not a sustainable rate -- and that does reflect a reversal in the commercial portfolio. So, if you look back over the last four quarters, in fact, you would forecast our loan loss provisions in total for the retail bank to be somewhat higher than the average of the last four quarters in 2003.

On the expense side, the expenses are virtually flat year-over-year and quarter-over-quarter when you exclude the impact of the Laurentian branches, which was about \$15 million. We're up \$4 million year-over-year, but down \$4 million quarter-over-quarter. And the efficiency rate improved slightly this quarter from last quarter to 58.0 percent.

So the end result of all of this is that we ended up with \$359 million worth of profit in TD Canada Trust. That's up 16 percent year-over-year, and our return on invested capital was almost at 20 percent. Economic profit is \$191 million, and that's up 29 percent over the same quarter last year.

Looking at market share data, first, looking at real estate secured loans and other personal loans. You can see that year-over-year our market share is up 12 basis points. If you exclude the impact of the Laurentian branch purchase earlier this year that caused an increase of 36 basis points, so when you net that out our actual market share is down by 24 basis points year-over-year.

The volume growth numbers listed here at 8.2 percent year-over-year, exclude the impact of the Laurentian purchase. So that's core growth based on the inherent business that we had prior to purchasing the Laurentian branches.

Looking at personal deposits, the core market share was up 31 basis points year-over-year. Laurentian represents 19 basis points. So net prior to Laurentian we're still up 12 basis points. On the terms side we're down 16 basis points, and Laurentian represented 60 basis points. So, in effect, we're down 76 basis points year-over-year.

The volume growth numbers, again, exclude the impact of Laurentian. On the core side you can see quite healthy growth of 9 percent while on the term side, we see a small decline in volumes representing again the fairly large drop in market share.

Moving onto business loans and deposits, Laurentian is not a factor here, so it need not be excluded as it was never included. Small business market share is flat year-over-year on the loan side; and the commercial side market share is down 47 basis points.

We saw good volume growth on the deposit side, 7.7 percent, but on the loan side, again, there was a decline from the previous year. We've seen very weak demand for commercial loan volumes.

Moving onto the wealth business, we saw very good results here as well. Total revenue in the wealth management businesses was \$675 million. That's up 19 percent as it relates to TD Waterhouse and up 15 percent as it relates to the other wealth businesses in this segment.

If you look at expenses, they're up less than revenue. So when you look at the net income of the two various businesses here -- being TD Waterhouse at \$84 million, up from \$77 million last quarter, and only \$11 million last year and the rest of our Wealth management business is up 15 percent over \$27 million last year.

Return on invested capital at 16.2 percent is a modern-day record, I think, at least going back for three or four years. And that's caused a substantial improvement in the economic profit of this business from a \$(65) million last year to \$29 million this year. That's a swing of \$94 million.

Looking at the operating statistics for TD Waterhouse. Again, strong on virtually all metrics. Active accounts up considerably after a three or four quarter decline to 3.241 million accounts. New accounts, up as well to 95,000 accounts. Trades per day, 135,000 versus only 94,000 last year and 111,000 last quarter.

Marketing spend, as Ed mentioned, is up quite substantially this quarter over last quarter, but still down from the spend in the first quarter of last year. We would expect that marketing spend amount to go up quite substantially next quarter, and stay above the current level for the balance of the year.

The margin before marketing expenses and taxes of 35.4 percent is an improvement over last quarter, and again, demonstrates the operating leverage that's inherent in this business model. I would expect that if our volumes continue to increase that that margin should also improve. Customer assets are up both through new accounts and through market activity.

Looking at market share of mutual funds. The total market share for total funds are down 14 basis points, whereas the long-term market share is up 29 basis points. There's a special item that happened in the last month, there was a transfer of some group RSP funds out our funds into other funds, and that had a 14 basis point effect on the market share for that particular period. So in reality, our total market share -- if you exclude that impact -- would be flat year-over-year, and the long-term market share would be up about 43 basis points.

Moving onto the wholesale banking business -- I'm becoming quite repetitious here -- this business is doing quite well as well. I want to apologize for the repetition. It's great, for a change.

Total revenue was \$620 million. That's up from \$590 million last year, but up very substantially from the \$501 million we recorded in the fourth quarter. We also demonstrated positive operating leverage in this business, where the expenses are up by a quite less of a percentage than the revenue. So that's had a very market increase in the efficiency ratio relating to the wholesale business.

However, we're still seeing very weak demand for corporate lending. You'll recall that most of this core portfolio resides in Canada. It stands at \$5.8 billion at the end of the first quarter -- that is net of credit protection. Credit protection is about \$2.8 billion or \$2.9 billion. About 62 percent of the portfolio is investment grade.

You'll note that we changed the presentation of our credit loss numbers within the wholesale segment this quarter. We decided to record the accrual costs of credit protection as a credit cost. So you'll see in the

packages that we reported \$7 million of credit losses this quarter -- it really relates to simply the amortization of the credit protection that we purchased. There were no actual PCL's recorded in the wholesale bank.

Net income was \$181 million, and we saw a very high return on invested capital, 27.9 million percent. Obviously not a sustainable return, given the longer-term expectations for this business. Economic profit doubled from \$47 million to \$94 million. Fantastic results.

Moving onto some risk measures, our VAR usage was fairly constant during the quarter and averaged about \$15 million. If you look very closely at that chart, you may be able to find one day of total trading losses. It's hard to see, but if you look at the next chart, you can see there is one that had a slight loss. In fact, it was hardly a loss, but there was one day where losses were indeed reported.

Moving onto the corporate segment. We enhanced disclosure this quarter. For the first time, we have broken out the components. I see Ian DeVerteuil smiling because he was the one who really wanted this. We have broken out the components of what actually makes up the corporate segment, and that's after-tax. So, you can see the impact of the accounting guideline 13, loss on an after-tax basis -- \$13 million. The \$17 million of tax recovery relating to our deferred tax receivables. The non-core lending portfolio was \$141 million profit, \$130 million of that represented the reversal of sectoral provisions.

We had a small securitization gain relating to the retail business. We don't allocate all of our overhead expenses to business units. We have a policy that we leave some in the corporate center. It relates mostly to executive expenses, and some other overhead type expenses.

And then we have "other". Other is made up of a series of things, it's mostly the difference between the segment level tax rates and the consolidated bank tax rates. You'll appreciate that we try to allocate taxes to the business units to reflect the actual tax that relates to their various mix of businesses. You'll also appreciate that at the consolidated level there are things that go on in a tax nature which therefore don't get allocated to the business units. There are pluses and minuses in that category and this is simply the net of those items.

I'm sorry, I forgot to flip the slide.

Looking at the non-core lending portfolio -- down to \$3.3 billion, that's a \$900 million reduction from the previous quarter. And most of that reduction was in non-investment grade loans.

If you wanted to calculate the actual credit usage, or the actual amount of credit loss that was reported this quarter, you'll see that it is \$32 million. That represents the actual \$64 million transfer from sectoral to specifics, offset by a \$32 million recovery of previous written off loans. Our sectoral balance is at \$316 million at the end of the quarter, and the coverage ratios are approximately the same as they were in the previous quarter end.

That concludes my presentation, and we can take questions now.

QUESTION AND ANSWER

Ian DeVerteuil, BMO Nesbitt Burns

Page 13, non-interest expenses. First, just a little thank you for presenting the data left to right as opposed to right to left.

Ed Clark – President & CEO

That was probably the most debated issue.

Ian DeVerteuil, BMO Nesbitt Burns

When I look at things like the general occupancy and equipment costs, they seemed to be down a lot in the quarter. I would have thought with the Laurentian branches being brought on in the quarter it would've gone the other way. Can you comment on that?

Dan Marinangeli – EVP & CFO

Sure. We effectively had some reclassifications of expenses this year, and it relates to the outsourcing arrangement that we announced near the end of last year with IBM, our network services outsourcing arrangement. So you see that on the equipment side, in particular, you see a substantial reduction in expenses. That's offset to a large degree by line 22, which is other, and that's where the IBM expenses go.

We also had, in equipment other, you recall that we wrote off some software last quarter in Q4, so that was a high quarter to start with. So, virtually all of those items, Ian, are reflections simply of the different business model, and therefore the recording of expenses on different lines.

Ian DeVerteuil, BMO Nesbitt Burns

And the occupancy cost, is that net of ex-Wal-Mart plus Laurentian?

Dan Marinangeli – EVP & CFO

Wal-Mart branches are out, that's the major difference. There are some other Laurentian branches in. We also transferred some expenses to IBM on the restructuring of the arrangement as well.

Heather Wolf, Merrill Lynch

Could we get a little detail on what strategies were in place to drive the fixed income trading revenues? And would you be willing to give us your prediction for what the fixed income markets might look like for the rest of the year?

Bob Dorrance - Chairman & CEO of TD Securities

I'll start with the latter and say no.

The fixed income side was the more difficult to trade in the quarter, in the sense that from a straight trading perspective, there wasn't a lot of movement. There was a lot of anticipation that went on as to how rates might move but they didn't, sort of in the long end.

At this quarter last year, we had a very strong fixed income trading market and trading market. This quarter of this year was okay, but it wasn't for the driver in terms of Delta quarter-over-quarter. We had better trading markets in the equity and credit markets. Those really were the drivers of the trading line and the better profitability in the quarter.

Quentin Broad, CIBC World Markets

A couple questions, more strategically, for Andrea, just in the retail markets. Could you give us a sense of what you're seeing competition-wise? Obviously some of your market shares are still under pressure. How are you positioning the retail bank against what you're seeing out there in terms of competition, both on the deposit side, core deposit side, and personal lending?

Andrea Rosen - President of TD Canada Trust

The most intense area where we're feeling competitive pressures is in the term deposit area. I would say that's been particularly intense over the last six weeks, two months, given it is RRSP season. And so you would expect that competition would heat up, since this is an important part of the business cycle for that product.

I think it's interesting that market share continues to be gained by players other than the non-five banks in that sector, in that segment of the marketplace. I think that will continue.

I think that there's going to be some pressure just on growth in the term market, just period, if equity markets continue to be good because investment will shift out of term into mutual funds and other things. As a result, you expect some continued pressure on the competitive area there. But, I've been reading all of your reports, pre-reports, and everything else and I think everyone's feeling the impact of margin compression. When everyone feels the impact of margin compression, usually they start holding the line on pricing a little bit more intensely than they would otherwise. So I'm hopeful that that's the case.

Quentin Broad, CIBC World Markets

I guess, strategically, are you there yet? Are you holding your line on pricing?

Andrea Rosen - President of TD Canada Trust

On term, our decline in market share, if you look through our decline in market share this quarter versus last quarter, it's heavily weighted, because of our decline in market share in term. Primarily that decline in market share occurred because on that seesaw between maintaining margins and trying to get market share, we leaned into maintaining margins.

Now, we've become a little bit more aggressive in pricing in the last month or so but our bias is to maintain margins. We don't want to see market share decline to the point where we think it's bad overall for the business. This is a particularly important part of the market, of that industry, the term industry, for us. So we've become more aggressive.

On core, I think -- core, we're doing well in core, and we're pushing core. Strategically growing checking accounts is an important, strategic initiative for us. Our market share in core deposits is good, and our volume growth is 9.1 percent year-on-year. So I think that strategy is working.

On the lending side, I think the big issue there for us is unsecured consumer lending, where again we've lost market share. We have talked about this before. We've been losing market share in unsecured personal lending because we deliberately slowed our intake as we worked to re-engineer our credit adjudication processes. We want to be comfortable that we have the credit dynamics right before we push our foot on the accelerator in that segment. But it's good. Margins are good in that business, and strategically, we expect to be growing our share in that market as soon as we have the right systems in place.

Michael Goldberg, Desjardins Securities

You say that you'll be increasing your marketing spend in TD Waterhouse, and keeping it higher over the balance of the year. Could you give us some idea of -- just looking at the increase over the past quarter - is it going to be substantially higher than the \$28 million that you had in this quarter?

Ed Clark - President & CEO

There's a seasonal pattern, so next quarter is a big season and then we tend to go off and then we go back up again in the fall. I think if you actually took this quarter's running rate by four, you'd probably get to the kind of number, but it won't look like that over the pattern it will be up next quarter then down and back up.

Michael Goldberg, Desjardins Securities

I'm also wondering, given the strength in average trades per day and margin lending in TD Waterhouse, why the wealth management pre-tax increase seems to be relatively small. I know that there is the increase in marketing spend. Is there anything else that's going on in there?

Dan Marinangeli, EVP & CFO

The actual pre-marketing margin is up by a couple percentage points from last quarter. So, we're doing okay, I think. There are some things to consider, though. Although trades per day are up quite a lot, the total number of days in the quarter are less than you think. So because of the Thanksgiving and the Christmas vacation days in the quarter, you end up with much less effect of the average number of trades per day. In my slide, I gave the actual number of trades, and they were up by quite a lot less than the average trades per day.

If you look at revenue itself, you'll see the impact of foreign exchange. The US dollar was weaker in the first quarter versus the fourth quarter, on average. And there were some other things that came into play relating to inactivity fees. You can imagine that if inactivity decreases, then inactivity fees also decrease. So they did have a somewhat of a dampening effect on the total revenue. Not so much on profits, but on revenue anyway.

Ed Clark – President & CEO

Let's go to the phones. Are there any questions from the phones?

Operator

Jim Bantis, Credit Suisse First Boston.

Jim Bantis, Credit Suisse First Boston

Congratulations on an exceptional quarter. Two questions. One, regarding TD Waterhouse. Looking for some feedback from the management -- with the business under strategic review, and now that that door has been closed, did the operations lose market share? Did they feel they were kind of behind the eight ball in terms of customers? Or is this quarter indicative of the fact that the customer base was not really affected going through the transitional issues?

And the second question relates to the commercial loan market in Ontario. If management could address the trends in terms of the bank's market share, or concerns in terms of the portfolio regarding the currency, that would be great.

Ed Clark – President & CEO

In terms of TD Waterhouse, if you take a look at what's been happening on our trades per day versus E*Trade or Ameritrade or Schwab, you don't really see much going on here. It doesn't seem to have affected the business. I'm not naïve. I can't believe that somewhere in somebody's mind, every time if you read the newspaper, you were reading about them. And probably, I would say, the potential was probably greatest on the IFA business, where you have more knowledgeable big players, and where they're going to move books across, we want to have stability if they're going to start moving their customer bases.

On the other hand, the IFA business has been a great business for us, and we actually have been growing market share in that business. So we maybe didn't grow the market share as fast as we might have grown it absent these rumors, but it doesn't really seem to have affected the underlying numbers.

On the commercial loan book, our commercial loan book continues to shrink. We think, primarily, because the market isn't that strong. But we're not totally happy at the rate of growth in our commercial loan book. We designated both small business and commercial areas as a place that we would like to see faster growth. We're doing a number of things to have more intensive efforts than that. I think that might be, if you go back to my opening remarks, that might be an area where there was collateral damage relative to our wholesale strategy. Somehow, people may have thought, for example, if you weren't willing to lend to telecom enterprises in Portugal, you weren't going to lend to Canadian commercial enterprises.

And so, I think we probably have a little of a job to do to say, this – we were exiting a non-Canadian lending strategy that we weren't comfortable with it. It had nothing to do with not wanting to grow our mid-market and small-business area. We are going to be aggressively stepping up our efforts there.

Operator

Jamie Keating, RBC Capital Markets.

Jamie Keating, RBC Capital Markets

Two quick questions. One is just a follow on TD Waterhouse momentum. Curious if, Dan, or perhaps Ed, you could let us know how the January month looked relative to the prior two months, to understand what pace of acceleration we might have seen through the quarter and what the exit volumes might have been. Can you comment at all on what we're seeing so far in February?

Also curious, if I can, just to add on to Quentin Broad's question regarding retail margin. This may be for Andrea, maybe for Ed. Spreads going forward -- if rates do eventually go up, if they do start to go back up, could you postulate what happens here to margins from a mix perspective? Should we be worried about customer preference taking off some of the potential for margin improvement if they lock in or anything?

Ed Clark – President & CEO

On TD Waterhouse, do you want us just to talk about the trades per day and what we have disclosed?

Dan Marinangeli – EVP & CFO

The trades per day, I think we disclosed the earlier this week or late last week. That's public knowledge.

The trades per day did tick up very dramatically in January and then they have eased off, somewhat, in this current month. I think if you look at the actual disclosure, which I didn't bring with me, I think you'd end up with a conclusion that, although not as strong as maybe we ended the last quarter, somewhere in the range of what the average might be. At this point, we're just waiting to see what happens.

Ed Clark – President & CEO

Do you want to try the second question Andrea?

Andrea Rosen - President of TD Canada Trust

I think rates going up will certainly help our core business. Because we're short core and that helps.

How that counterbalances or not, a customer preferences to shift into fixed rate lending products, I can't guess. And we're already seeing the impact on our portfolio with tighter margins in terms of an increased amount of fixed rate mortgages and HELOCs. So I think there's a balance there. I think on balance for us, given our mix of businesses, rates going up would be somewhat positive. Ed, do you want to add this-?

Ed Clark – President & CEO

No.

Operator

Susan Cohen, Dundee Securities.

Susan Cohen, Dundee Securities

You've highlighted the provision for credit losses has been very close to zero in the wholesale bank for the past five quarters. Can you give us any kind of guidance on when this kind of streak might run out? And what a normalized level might look like in your new wholesale bank?

Bob Dorrance – Chairman & CEO of TD Securities

I think it's hard to forecast when it might run out, Susan, but I'm pretty sure that it will run out. So we're still -- we're still anticipating --

Ed Clark – President & CEO

You can't imagine what we pay him for this kind of thing.

Bob Dorrance – Chairman & CEO of TD Securities

See what happens when it runs out.

So, we're fully anticipating that the credit cycle is still alive and well. With respect to what one might look at, vis-a-vis, a normalized loss ratio, I guess what we said last year is that we would attempt to budget that based on a combination of specific PCL's and credit mitigation charges. The combination thereof, somewhere in the order of 100 basis points, is perhaps a number you might start at. But we have a much different portfolio than we have had historically, so it's really, really difficult to say how this is going to play out over the next number of years. But internally, it's kind of a guideline that we would look at, is the combined ratio of mitigation and PCL type of number that one might throw into a plan.

Susan Cohen, Dundee Securities

Thank you very much.

Operator

Darko Milhelic, Research Capital.

Darko Milhelic, Research Capital

A couple questions here. Firstly with respect to TD Waterhouse again, you mentioned, Ed, that you were considering growing it organically. I wonder if you could provide a little of color as to how aggressively you want to grow it? and how? I guess the tag-on question to that is historically TD Waterhouse has always grown by acquisition. Would you rule out growing it by acquisition?

Ed Clark – President & CEO

Let me take the last one first. The answer to that would be no. I think in a sense the E*Trade discussion said we think that consolidation is a critical element in this, and that we want to participate if there's opportunity. So I think we wouldn't rule it out. We don't have anything on the horizon but if something came up, I think we would look at that aggressively.

In terms of how fast we could actually change the growth rate through organic measures, there really are two things -- I guess three -- things that I think we can do. One is, upping our marketing dollars, which I said we intend to do. And then you have to go back and say -- what have we been trying to do over the last couple of years? We're in effect trying to take marketing from an art to a science. So we understand, I think, better today what our target segment is -- both in terms of their demographics and their investor preferences, and also geographically.

We've been refining our marketing strategy to say what hits the hot button of the segment group that we're after. We are developing our models so that we actually know the NPV on the market spend by blacking out certain regions and going stronger in other regions and starting to get where we have real metrics to know how to optimize the spending.

And I would say -- we're not at end of game there, but we're a lot more sophisticated in that than we were. That's why we're confident that we can do something now, and our current ad programs are making a difference. They are evidently pulling in new customers, and exactly the kind of customers that we want.

The second measure that we're working at is -- I think for a while now, both ourselves and Schwab, haven't been moving on new branch growth. We would like to bring the same scientific approach to branch expansion that we've always had here in Canada into the United States. We are believers that branches make a difference in the quality of the customers that we get, that they're a partial explanation of the fact that ourselves and Schwab have so much higher assets per customer than E*Trade and Ameritrade.

What we want to do is bring the same sort of skill set that we brought on marketing to bring it to branch expansion, which is to really understand the NPV of expanding branches, and which branch locations work better and how to go after that.

So, as I indicated, we are going to be opening new branches, we're going to open three new branches this year. We might increase that number as we get confidence that we actually know how to make these things happen, then we'll do that.

And then the third is, relative to the independent financial advisers, there's Fidelity, ourselves and Schwab that are the players in that field. That's a more conventional game of making sure you got the right platform, which we do. We have a best in class platform then following it up with aggressive sales forces. So we're growing our sales force in that sphere.

I think a lot of people like the fact that we're not competing with them on the advice side, and so, as a place to be for many of the independents they prefer to actually come to us, because they don't see us as coming to a potential competitor. And so we want to exploit that advantage.

We haven't got, frankly, the metrics down in a way that I would be comfortable saying -- okay, I can push all these buttons and get this extra growth. Each of these strategies work on an individual basis, but how far we will push them, and we're going to work on through the year. But they do give us the opportunity to accelerate that growth beyond the kind of natural growth that TD Waterhouse would have in any kind of market context.

Darko Milhelic, Research Capital

Thanks very much.

Operator

Trevor Bateman, CIBC World Markets.

Trevor Bateman, CIBC World Markets

A question from the fixed income perspective, and that relates to Tier 1 capital. Wondering what TD Bank views as the outcome of current industry work with OSFI to come up with alternative forms of Tier 1 or innovative Tier 1, and perhaps a qualifying pref share in light of the recent advisory? Do think new securities will come out and replace those, or do think they're lost permanently?

Dan Marinangeli - EVP & CFO

In fact, we don't intend to lose any of them. OSFI has given us a grandfather treatment for the current capital we have on our balance sheet. Obviously, new capital will have to be structured differently.

Trevor Bateman, CIBC World Markets

Right, I expect the industry is working toward that. Is that a reasonable expectation that new forms of securities will come out in the future?

Dan Marinangeli - EVP & CFO

I'm not sure if that's really a relevant question relating to the Bank's financial results this quarter. Maybe Bob can give you a hint as to what we might be doing. He says no.

Trevor Bateman, CIBC World Markets

Great.

Operator

Rob Wessel, National Bank Financial.

Rob Wessel, National Bank Financial

I just actually have a couple very quick questions. The first is, can you give some more detail on the financial contribution of the Laurentian branches? Both on sort of a steady-state contribution and sort with or without any integration charges?

Andrea Rosen - President of TD Canada Trust

What we said was that \$17 million in revenue and \$15 million in expenses this quarter can be attributed to the Laurentian branches. We recently announced that we're going to be merging about 52 of the 57 branches we've bought. And that we would do that in July. We have told all the customers and the employees that.

In terms of steady-state, well let me talk about the impact this year. We said at the outset that we thought this would be modestly accretive, less than a cent in 2004, and we continue to believe that. Going forward, we said something in the range of 3.5 cents a share accretive. So, there's a reasonable amount of capitalized expenses, and there are restructuring expenses. Those we will run through this year. You're seeing some impact of that in the \$15 million expense running-rate that we told you about for the quarter. But those will run out by the end of the year. Then a residual amount, maybe \$4 million in ongoing expenses related to the Laurentian branches going forward.

Rob Wessel, National Bank Financial

Can you give us a hint over, maybe, the last couple quarters what sort of trends -- or actually, I guess, Bob, what sort of trends we've seen -- not only in the absolute levels of VAR, but what's being utilized? Is that trending up? Your trading is doing extremely well. Is part of that because you're taking a bit more risk? Or is it just because you're more adept at the risk you're taking?

Bob Dorrance – Chairman & CEO of TD Securities

I think the VAR has been pretty stable over the last year. And I think that reflects that the risk has also been stable. There are various places that we've taken risk change as markets change. But from the perspective of the dealer overall, I think VAR is stable and trending lower, and has the potential to do that over the next year, year or two.

Rob Wessel, National Bank Financial

Actually, I have one follow-up for Dan. Your tax rate was just a little bit lower than we've seen in the past. Is that primarily because of a lot of the adjustments and accounting stuff that we've seen? Can we still think about 31 or 30 percent as a good reasonable number?

Dan Marinangeli - EVP & CFO

We did something else this quarter, we stopped recording TEB at the consolidated level so when you look at the consolidated level, that's the actual tax rate.

It's actually a little bit higher than it was in Q4, and I would say, again -- if you exclude the impact of the increased tax on the amortization -- if you exclude that, we're around 29.5 percent I think. That is down from last quarter, and I will say that the current quarter's tax rate might be a little higher than you might expect it otherwise.

Rob Wessel, National Bank Financial

That's excellent. Thank you very much.

Ed Clark – President & CEO

Any more questions on the phone?

Operator

Sachin Kewalramani, Morgan Stanley.

Sachin Kewalramani, Morgan Stanley

I have a quick question on your securities book on your balance sheet. That's up a lot from \$79 billion, I think, to \$103 billion this quarter and the investment securities portion of that is also up substantially. Can you give us some color on what the strategy is there?

Dan Marinangeli – EVP & CFO

Actually, the figure that's a little out of sequence is the fourth quarter number. So, I mean, if you look at Q1, Q2, and Q3 last year, they really aren't much different than what we're seeing now. There's really no strategy, other than to manage the bank's balance sheet in terms of risk-weighted assets and so forth.

Sachin Kewalramani, Morgan Stanley

So is this just reinvesting some excess surplus funds that you have and generate some spread income?

Dan Marinangeli - EVP & CFO

No, they're trading-related assets, so it's not as if we have excess funds. That wouldn't be very useful term in a bank. There are trading strategies, and other activities that we enter into, which really have impacts on the balance sheet amounts.

Sachin Kewalramani, Morgan Stanley

Even the increase in the investment securities book, which is -- it looks like it's government securities and U.S. Treasuries.

Dan Marinangeli – EVP & CFO

Yes, I think you could use that number more for the average for the year, and think of the end of the fourth quarter as being the anomaly.

Sachin Kewalramani, Morgan Stanley

Thanks.

Ed Clark – President & CEO

Back to the floor, we will go to Ian and then Quentin.

Ian deVerteuil, BMO Nesbitt Burns

Questions related to the capital, Page 16 of the supplemental package. The market risk number is up again, and is still very high. What's the progress on getting some of your models approved? Also, in relation to capital, you still have the DRIP operating and you're buying back shares. How do think about the excess capital? I know you bumped the dividend again here but is there any plan to -- I think you talked about maybe doing share buybacks to offset the DRIP?

Dan Marinangeli – EVP & CFO

We did announce last month that we would be buying shares back to offset the DRIP. We have not started that yet, it's our intention to do that as soon as we can. As soon as we get TSX approval -- we expect that any day. And we would expect to be in the market shortly thereafter.

We recognize that we're somewhat awash in capital, and that the rational thing to do would be to rein that in somewhat.

Our market risk capital did go up a little bit this quarter, and again it does relate to the higher trading activity that we had and the higher securities balances we had on our balance sheet. We are making

progress towards getting approval of our models, and we would be the first ones to tell you when that happens. But again, we are getting closer to that day it's fair to say.

Ed Clark - President & CEO

I guess the only other thing on the buyback, is that we are also attempting to neutralize the impact of options so we don't have an increase as a result of that.

Quentin Broad, CIBC World Markets

Just with respect to the comment about being "awash" in capital, and to put a finer point on your TD Waterhouse comment -- that you would be interested in playing on the consolidation side. I mean, it shouldn't surprise anybody when Schwab says -- if you were interested, they'd be interested in hearing about it. So, what does that mean? Does that mean you're in the market, prepared to -- and perhaps aggressively? Or you're more of a recipient -- if things were to come to you, of course you would look at them? Just, I guess, posture to the market as it pertains to that business.

And then strategically, obviously you've done a lot of things really well to get the bank back on rails. What do you see out in front of you? Are there any things that are still looming or is it now just continuous daily execution type of thing?

Ed Clark - President & CEO

Why don't I start on the capital. I think it's fair to say, we're at 7.3 percent. We were at, only 18 months ago, we were at 5 percent. We're still not, at 7.3 percent, if you're comparing to the other banks, we're not at the high end of this. So I think, to be fair, to be realistic about where we are, we have had a long journey back up here. There has been pretty substantial progress in a very short period of time but the fact is we had to go from 5 percent to 7.3 percent to get into the game. So I would say -- we're just into the game.

I think our attitude is relative to TD Waterhouse is that we have an advantage and that this is not a sort of unknown world. All the actors know all the actors. It's a relatively small space, and defined space. I think people know that we're prepared to be aggressive and we do all the obvious things like talking to people. If an opportunity arises, I would be very surprised if someone decided they wanted to sell that they wouldn't pick up the phone and call us. Certainly our experience heretofore has been that.

As to your more general question, there's just no question in my mind. Everybody has their biases, and my bias is -- keep your strategies simple and narrowly focused, make sure your entire management team buys into your paradigm. In our case, it's an economic profit paradigm. And execute and you can do wonderful things for the shareholder.

Whenever we do our strategic planning, and we look ahead three or four years, all the bold moves don't constitute anything like what you could add by just running your businesses better. And so I think my management team's job is to just run businesses better.

I think we can call it a day and let you get onto your bigger assignment for the afternoon.