



**Q2 2004**  
**Strategic Overview**  
*(Check Against Delivery)*

***Ed Clark, President & CEO***

- Good afternoon everyone. Thank you for joining us to discuss our latest quarterly results.
- We had another great quarter.
- You may recall that last quarter we weren't confident that the strong earnings performance we saw in the first quarter could be sustained for the balance of the year. The good news is that business did not slow as much as we thought it would and we delivered EPS before the amortization of intangibles of \$0.90 this quarter. This result includes a number of items that Dan will elaborate on, which reduced earnings by \$0.03. Adjusting for these items, earnings per share on a comparable basis were up 35% from last year and down just 1% from last quarter despite fewer days in Q2.
- This quarter also saw a release of pre-tax \$200 million of sectorals and \$67 million of generals. As you are aware, we have established models for determining whether our sectorals and our general reserves are sufficient or in excess. The continued marked improvement in credit markets combined with our successful efforts to reduce the non-core bank assets resulted in this quarter's release.
- While the credit environment improved, the litigation climate in the U.S. appears to have deteriorated significantly. It has become clear that companies are prepared to settle even in situations where they believe they have no liability. In many cases we are jointly involved in these matters, with the negotiations determined by the larger players. In the non-core bank we have some situations, the most notable of which is Enron, where we believe we acted within the law, but we are faced nevertheless with potential litigation.

- We therefore decided to increase our litigation reserves by \$300 million pre-tax. Similar to the sectoral reserves, we will disclose any reversals to allow for differentiation from our ongoing earnings.
- I'm aware that increasing litigation reserves at this time risks shifting the focus away from the excellent ongoing operating performance of the bank, even if we have operating profits and reserve releases sufficient to absorb them and still produce excellent results. However, recent actions by some banks and, as we have come to appreciate more, the difficult litigation atmosphere in the U.S., have caused us to think it is prudent to act now.
- Obviously there is a risk in taking this litigation provision of being perceived as admitting culpability, which is not the case. As I've indicated before, the Enron examiner's report acknowledged that even in hindsight our situation is not a black and white case. Let me again state the facts. We were not a tier 1 bank to Enron. Indeed we were not even the most senior of the tier 2 banks. We did not develop financial structures. We simply financed structures developed by Enron with other leading and reputable financial institutions with their auditor's approval.
- But I have a strong view that it's best to deal with issues promptly, prudently and decisively, rather than sitting back and hoping the problem goes away. So, we've decided to put this problem behind us in a financial sense, and at the same time prepare ourselves for a vigorous defense to make sure that we do everything possible not to use any of these reserves.
- Let me now turn to the great business results for the quarter and comment briefly on what we were able to accomplish.
- In terms of our capital, despite buying back \$263 million worth of shares, we continue to accumulate capital at a rapid pace. Our Tier 1 capital ratio is up one full percentage point this quarter to 11.9% and tangible common equity as a percentage of risk-weighted assets is up 70 basis points to 8.0%. These results reflect our high ROE earnings capability and our capital discipline.

- As you will recall, the objective of the share repurchase, which we started at the beginning of March, is to offset the dilution of our dividend reinvestment program and the exercise of stock options in 2004. Our total repurchase as at May 26 is 7.3 million shares, which we expect, will substantially meet our objective for the year.
- Our capital ratios were also helped this quarter by a \$5 billion reduction in market risk-weighted assets. As you know, we have been in discussions with OSFI on our market risk-weighted asset calculation and have begun to phase-in some of the benefits of our new models. At the same time, we have also made real reductions in our market risk. Combined, I think you will see over time that the difference between our market risk and that of our competitors is not as great as some have perceived, while our lending risk is significantly smaller.
- Our personal and commercial business had another solid quarter with excellent results across a broad range of products. Year-over-year net income increased 16.7% while revenue was up 7.2%. The revenue growth is a reflection of the success we are seeing from recent acquisitions and growth opportunities. One such growth opportunity where we are seeing success is our insurance business. This quarter our revenue from insurance jumped 29% from Q1 and 47% from last year, with TD Meloche Monnex driving the majority of the increase.
- However, with P&C's strong revenue growth, comes expense growth. The restructuring expenses for both the Laurentian bank branches and the Canadian personal property and casualty operations of Liberty Mutual Group, are being expensed as we incur them. In so doing, expenses from these acquisitions will approximately equal revenue for this quarter and next. So while both revenue and expense growth this quarter were higher than was likely expected, it reflects neither a shift in our strategy from our tough cost stance nor a change in the dynamics of our personal banking business. Our efforts to improve productivity and service through process re-engineering will continue particularly as we look for ways to offset margin compression.

- I would like to comment on the topic that appears to be fueling current discussion: higher interest rates and their impact on the banks. Our view is that rising short-term rates in response to a strong economic environment is not in itself adverse. We would expect a moderate rise in short-term interest rates to have a positive impact by providing some margin relief on core deposits and a minimal adverse effect on volumes initially. As long as interest rates do not fundamentally change the economic environment or set off another round of severe price competition, we view a mild gradual increase in interest rates as positive. Larger increases might well affect these caveats. However, at this point, our forecast for the balance of 2004 is for a continuation of moderate margin compression given we don't expect to see sharp increases in short-term rates in the next quarter. Further, we believe the competitive environment will remain fierce and we intend to defend our market position.
- Our wealth management business also experienced another solid quarter. This segment has grown considerably since last year with revenue up 47% and net income up 266%.
- In Canada, we benefited from stronger capital markets and renewed investor interest. Year-to-date, we are #2 in the industry in net sales of total long-term mutual funds. TD Waterhouse, our global discount brokerage business, despite seeing a 6.5% decline in trades per day and an \$18 million increase in marketing expenses had only a \$10 million decrease in net income from last quarter. The increase in marketing is part of our plan to organically grow TD Waterhouse in the U.S. With respect to trading volumes, we've seen them decline for three consecutive months and given the uncertainty of current capital markets, this trend may continue in May and for the balance of Q3.
- The other trend occurring in the U.S. is one we have been anticipating - price competition. We have always viewed our self-directed brokerage offering to be a great value proposition for our customers and we will continue to be competitive and responsive to market dynamics. While this business has a volatile revenue stream, we are comfortable with the volatility. As I have said before, I like this industry and I

like our position. We are in the sweet spot in terms of growth in this business over the long-term in the United States.

- This quarter's results also reflect the fact that this is a year of investment as we methodically build our advisory infrastructure and capabilities, another under-penetrated growth area for us. This investment will give us the platform on which we can grow a scalable and profitable advice-based channel, and should begin to show benefits mid to late 2005.
- Turning now to wholesale banking, we had another excellent quarter, with a return on capital of over 27%. Our domestic wholesale franchise continued to grow its market presence and produce excellent results. This, combined with strong trading, produced earnings well above our target levels and above Q2 2003. This quarter, net income was up 7.1% and revenue rose 21.5% over the same quarter last year.
- We have broadened our focus for the wholesale business as we continue to see significant growth opportunities in expanding our scope in Canada. We are investing in the people and resources necessary to focus on additional sectors and to enhance our underdeveloped equity and M&A areas. In addition, we have applied more resources to investment banking and are now focused on developing essential corporate relationships. We are confident that our transformation of this business and these opportunities will help us deliver high economic returns to our shareholders and is the right strategy for us.
- So what do I see for the remainder of the year? I believe going forward that the capital markets environment may well be less favourable to us in the second half of the year versus the first. This could affect our wealth management and wholesale results. We will also continue to have expenses for both Laurentian and Liberty Mutual, where profit benefits will be realized more in 2005. On the other hand, we do have a very focused team that knows what it wants to do and so far has exceeded expectations in terms of performance. I am delighted by our performance in the first half of the year.
- I will now hand things over to Dan so he can go over our quarterly numbers with you in detail.