

TO OUR SHAREHOLDERS

An Interview with President and CEO Ed Clark



2008 was a pretty good year for TD Bank Financial Group despite some of the toughest market conditions we've ever seen. We had excellent performance in retail in both Canada and the U.S. That's a fantastic anchor for our bank and we're focused on growing from there.

IN 2008, THE GLOBAL FINANCIAL SYSTEM EXPERIENCED ITS WORST CRISIS IN DECADES. HOW DID TDBFG PERFORM?

In a year when many financial institutions did not survive, and when others lost billions, we ended up in a pretty good position, thanks to the strength and resilience of our franchise. Having said that, we went into 2008 saying it would be a tough year. That turned out to be the case – TD Bank Financial Group didn't meet its growth targets. Clearly our Wholesale Bank earnings were negatively impacted by the illiquidity in the markets – especially in our fourth quarter. But against this backdrop of incredibly tough economic and market conditions, we obviously did a lot of things right.

TDBFG's retail business was the engine of our earnings – both north and south of the border. We said our goal was to get close to \$4 billion in retail adjusted earnings in 2008 – and we delivered.

We ranked highest in customer satisfaction among the big five retail banks in Canada by J.D. Power and Associates for the third year in a row. We also ranked highest in customer satisfaction in the U.S. for retail banking in the Mid-Atlantic region. And Synovate said we were the best bank for customer service in Canada for the 4th year in a row. These recognitions help explain how our Canadian retail business revenue growth has outperformed our Canadian peers on average by more than 50% over the last six years.

2008 was also about building the first truly North American bank. The TD shield became even more visible to millions of people in the United States as we launched our U.S. retail brand "TD Bank, America's Most Convenient Bank". We also made history as the only bank with more than 1,000 retail locations on each side of the Canada/U.S. border. Our investment in TD Ameritrade also delivered as the business posted its 6th straight year of record earnings.

By just about any key measure, we are now a top 10 North American bank. *Barron's* Magazine, in its 2008 list of Top 500 companies, scored us the highest of all the banks in North America. All of us at TDBFG are very proud of our North American standing – as we are of the fact that we're one of only seven publicly traded banks on the New York Stock Exchange that has a Triple-A rating from Moody's.

HOW DID TDBFG AVOID THE PROBLEMS THAT SO MANY OTHER BANKS ARE FACING?

A lot of it comes down to strategic decisions we have made, largely around the way we manage risk. This has allowed us to grow our earnings consistently, while avoiding the major mishaps that destroy shareholder value.

One of those decisions involved getting out of the structured products business in 2005. We just didn't like the risk embedded in all those complex, financially engineered investment vehicles. We also didn't think it was wise to put our clients into asset-backed products – so we refused to sell them.

Another decision was to avoid sub-prime lending in the U.S. Our approach is to lend in our local markets to people we know and who we're confident can pay us back. That's meant we have only made loans to creditworthy people in areas of the country that have largely avoided the housing collapse and are relatively stronger economically. As a result of our footprint, conservative lending practices and strong credit culture, our reserves far exceed our credit losses.

We also made the decision to shift our business mix to focus on our retail business, which delivers a consistent, reliable and steady stream of revenues. Over 90% of our total adjusted earnings come from our North American retail operations. We also adopted a lower-risk wholesale strategy that delivers good earnings, while focusing only on areas where the risk/reward trade-off is clear. No one in the wholesale business has enjoyed 2008 – including us. We've always said we wouldn't be able to completely outrun the effects of the financial crisis. But since it began, we have been able to deliver a 5% return on invested capital – a reasonable performance in an incredibly tough operating environment.

At the same time we built up substantial cash reserves so we could keep growing our business in the event that we had to face the kind of liquidity crisis that the world is currently experiencing.

WERE THERE ANY DEVELOPMENTS THAT DISAPPOINTED YOU IN 2008?

Yes, we had some missteps. First, we did not foresee the extent of the financial crisis and, in particular, the series of financial collapses in the latter part of the year. This led to significant mark-to-market losses in our credit trading business. We were making adjustments to our portfolio but, in hindsight, we should have exited these positions sooner. The good news is that the downside was relatively small and manageable for our Wholesale Bank. In fact, TD Securities was profitable this year – something that very few wholesale banks around the world are able to say.

We also had a mispricing incident in June that led to an after-tax loss of \$65 million. Although this represented a little less than 2% of our 2008 adjusted earnings, this incident simply does not reflect who we are and how we operate. We took swift action to make sure this kind of incident doesn't happen again.

I'd say we were also disappointed with our stock price. No one at TD felt worse than me about the value of our stock price this year. Because of the financial crisis and gloomy economic reports, investors got out of bank holdings in droves. That included TD and led to much of the decline we saw in 2008.

GIVEN THE UNCERTAINTY IN FINANCIAL MARKETS AND A SLUMPING GLOBAL ECONOMY, HOW DO WE KNOW TDBFG'S SUCCESS IS SUSTAINABLE?

The answer to that rests in our strategy and our different business model. We are committed to being the better bank. What sets us apart is not just what we do, but how we do it.

First, we build powerful franchises that work together, following the same principles, for the good of the whole bank. We focus on their organic growth – understanding our competitive advantage so TD businesses grow their natural market share.

Second, our job every day is to WOW! our customers and clients. We have a clear brand that speaks to the legendary customer service experience we promise to deliver. We're committed to understanding our customers' and clients' needs, owning their problems and finding the right solutions. It isn't enough to just talk about this. You have to measure and reinforce it. In 2008 we asked 7,600 customers per week for feedback on how we were doing, and we took action on what they said.

Over the past 5 years, we have opened approximately 40% more branches than any other major Canadian bank. And we extended our hours to be open 50% longer than our Canadian competitors. It's the same story in the U.S. We're open 50% longer than the norm of our major U.S. competitors.

Third, our growth is based on risk that we can understand and measure. We continue to be a North American leader in maximizing our return on every dollar of risk we take.

Fourth, we focus on operating with excellence. That means getting the job done every day better than our competitors. To do that, we know we need great people. That's why making TD a great place to work is so important. We want to be an employer of choice in Canada and the U.S. So we were very proud to be named this year as one of Canada's Top 100 employers by *Maclean's* magazine and one of Canada's 50 best workplaces in *The Globe and Mail*.

Lastly, we constantly invest for the future. It's important for us to make decisions today that will ensure TD can grow in the years to come. We certainly can't predict what's going to happen in the market, but based on how we run our business, we believe TD is one of the best positioned banks in the world.

THE CURRENT MARKET TURMOIL PRESENTS FINANCIAL INSTITUTIONS WITH SOME GOOD BUYING OPPORTUNITIES. WILL TDBFG MAKE ANY ACQUISITIONS IN 2009?

We have always said that if we see an opportunity that's consistent with our growth strategy, meets our risk requirements and can be arranged in a shareholder-friendly way, we will seriously consider it.

But the reality is we don't need to make an acquisition to grow our business. That's the benefit of running our business model, which is really an organic growth machine. Nor do we need to rely on good economic times. We have a proven track record of growing market share in Canada and the U.S. by delivering a better banking experience than our competitors. When you combine our unique business model with our strong balance sheet and cash reserves, we are extremely well positioned for further growth.

WHAT ARE TDBFG'S PRIORITIES FOR 2009?

Looking ahead, 2009 will continue to test us. The reality is we're facing a slow growth environment and it's going to be tough. But if 2008 showed us anything, it's that we have the right strategy and we're going to stick with it.

Within TD Canada Trust and TD Wealth Management in Canada we remain focused on widening our competitive edge. TD Insurance will tap deeper into the bank's client base by offering industry leading expertise and solutions. With our Wholesale Bank we will solidify our position as a top 3 dealer in Canada.

In the U.S., our aim is to have an organic growth machine that consistently outgrows its peers. That's what we've done in Canada – so we're going to exploit that powerful retail banking platform and ensure our U.S. business benefits from it. Our U.S. integration remains on track and obviously that remains a top priority for us.

Being the most convenient bank also means being integrated so we leverage the power of all our franchises. We will cross-sell and deepen relationships in all our channels.

Lastly, we'll continue to be a leader in customer convenience and service – mobilizing our entire enterprise around that. 2009 will be about WOWing our customers and clients across North America every single day.

This is a tall order. But I know we have the expertise and people to make it happen. I couldn't be more proud of the team at TD. They're not just smart – they have a winning attitude and a true passion for turning ordinary transactions into extraordinary experiences for our customers and clients. I want to thank them most sincerely for the incredible job they do.

We're doing everything right to be a model for the North American financial services industry. We have a growth oriented, customer focused, integrated bank that owns the brand position of North America's most convenient bank. We *will* keep building the better bank, every day.



Ed Clark
President and Chief Executive Officer