Q2 2004
EARNINGS CONFERENCE CALL

CORPORATE PARTICIPANTS

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

PRESENTATION

Dan Marinangeli - EVP & CFO

Slide 1: Q2 2004 Conference Call

Welcome to the TD Bank Financial Group's second 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 presentation, 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 us an overview of the quarter's results. Following Ed's remarks I will cover our operating performance in more depth. Also present to answer your questions today are Bob Dorrance - Chairman & CEO of TD Securities; Andrea Rosen - President of TD Canada Trust; Bill Hatanaka, EVP of Wealth Management; and Bharat Masrani, EVP of Risk Management.

Slide 2: Forward-Looking Statements

This presentation may contain forward-looking statements and we draw your attention to the slides concerning forward-looking statements at the beginning of our formal presentation.

Now I'll turn things over to Ed.

Ed Clark - President & CEO

Slide 3: Q2 2004 Strategic Overview

Thanks Dan. Good afternoon everyone. Thank you for joining us to discuss our latest quarterly results.

Well, we had another great quarter. I think many of you may recall that last quarter we weren't confident that the strong earnings performance that we did see in the first quarter could be sustained for the balance of the year. The good news is that the business did not slow as much as we thought it would and we delivered earnings per share before amortization of intangibles of 90 cents this quarter. This result includes a number of items that Dan will elaborate on which reduced earnings by 3 cents a share. Adjusting for these items, earnings per share on a comparable basis were up 35 percent from last year and down just 1 percent from last quarter despite a fewer number of days in the second quarter.

This quarter also saw a release of pre-tax $200 million of sectorals and $60 million in generals. As you are aware, we have established models for determining whether our sectorals or 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 United States 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 course is Enron, where we believe we have 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.

Now, I am very 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 in reserve releases sufficient to absorb them and still produce excellent results. However, recent action by some banks and as we have come to appreciate more the difficult litigation atmosphere in the United States have caused us to think it is prudent to act now.

Obviously there is also 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 acknowledges that even in hindsight our situation is not a black and white case. Let me again state the facts. We were not a tier one bank to Enron. Indeed, we were not even the most senior of the tier two 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, as you know, I do have a strong view that it is always best to deal with issues promptly, prudently, and decisively rather than sitting back and hoping that somehow the problem will go 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.

Now let me turn to the great business results for this quarter and comment briefly on what we were able to accomplish. In terms of 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 percent, and tangible common equity as a percentage of risk-weighted assets is up 70 basis points to 8 percent. These results reflect our high ROE earnings capability and our capital discipline. We are very pleased with the strength of our balance sheet.

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, 2004 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 the new models. At the same time, we have also made real reductions in our market risk. Combined, I think you'll 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 clearly significantly smaller.

Our personal commercial business had another solid quarter, with excellent results in a broad range of products. Year-over-year net income increased 16.7 percent while revenue was up 7.2 percent. The revenue growth is a reflection of the success we have seen from recent acquisitions, plus our targeted growth opportunities. One such growth opportunity where we are seeing success is our insurance business. This quarter our revenue from insurance jumped 29 percent from the first quarter and 47 percent from last year with TD Meloche Monnex driving the majority of the increase.

However, with strong revenue growth comes expense growth. The restructuring expenses for both Laurentian Bank branches and the Canadian personal property and casualty operations of Liberty Mutual Group are being expensed as we incur them. In doing so, expenses from these acquisitions will approximately equal revenue for this quarter and next. While both revenue and expense growth this quarter were higher than was likely expected, it does not reflect 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 also like to comment on the topic that appears to be fueling current discussions: higher interest rates and their impact on 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 up 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 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 percent and net income up 266 percent.

In Canada we benefited from stronger capital markets and renewed investor interest. Year-to-date we are number two in the industry in net sales of total long-term mutual funds. TD Waterhouse, our global discount brokerage business, despite seeing a 6.5 percent decline in trades per day and an $18 million increase in marketing expense, had only a $10 million decrease in net income from the last quarter. The increase in marketing is part of our plan to organically grow TD Waterhouse in the United States. With respect to trading volumes, we have 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 the third quarter.

The other trend occurring in the United States is one we have been anticipating for some time, further price competition. We have always viewed ourselves direct to 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 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 a platform on which we can grow our scalable and profitable advice-based channel and should begin to show benefits mid to late 2005.

Turning now to the wholesale bank, we had another excellent quarter with return on capital of over 27 percent. Our domestic wholesale franchise continues to grow its market presence and produce excellent results. This combined with strong trading produced earnings well above our target levels and above the second quarter of 2003. This quarter net income was up 7.1 percent and revenue rose 21.5 percent over the quarter last year.

We have broadened our focus for the wholesale businesses as we continue to see significant growth opportunities in expanding our scope in Canada. We are investing in people and resources necessary to focus on additional sectors and to enhance our underdeveloped equity and M&A areas. In addition, we've 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 favorable to us in the second half of the year than the first. This could affect our wealth management and our wholesale results. We will also continue to have expenses for both Laurentian and Liberty Mutual where profit benefits will be realized more in 2005 than 2004. On the other hand, we do have a very focused management team that knows what it wants to do, and so far has exceeded expectations in terms of performance for both revenue and profits. I am delighted by our performance in the first half of the year.

I'm now going to hand it over to Dan so he can go over the numbers in detail.

Dan Marinangeli - EVP & CFO

Slide 4: Q2 2004 Operating Performance

As an overview, a lot of this Ed has covered, but I will go over it again because it’s fun and it's good stuff, and they are good results.

Slide 5: Q2 2004 Overview

EPS on a reported basis, that is a GAAP basis, is 74 cents per share. Before the amortization of intangibles on a diluted basis, it's 90 cents a share.

Segmented results are very strong across the board. Personal & commercial banking is up 17 percent to $357 million. Wealth management is $106 million, up from a loss last year and down slightly from the $115 million last quarter they reported. Wholesale banking is $167 million, down slightly from $181 million last quarter and up from a loss, last year. Total PCL expense shows the reversal of the sectorals as well as the reversal of $67 million worth of general reserves and that nets against the actual PCL taken in the P&C bank of $75 million. That nets to a minus $192 million.

As Ed mentioned we took a $300 million contingent litigation provision, that is $300 million pre-tax. Share buyback 5.7 million shares. And the capital ratios as mentioned, very strong this quarter, up from last quarter.

Slide 6: Q2 2004 Earnings Reconciliation

When you reconcile our reported earnings, our GAAP basis earnings, to the earnings before the amortization of intangibles, you have only of course the amortization itself as a reconciling item. It was $107 million and 16 cents per share.

Slide 7: Q2 2004 Items of Note

Probably a little more interesting is the quantification on a per share basis after-tax on the items of note. These items are listed here. We have spoken about most of them. The sectoral release was 20 cents a share plus to the earnings. The general allowance release, six cents plus. We also got some interest on a tax refund this quarter, $31 million pre-tax, $20 million post tax, and 3 cents per share.

On the negative side, the contingent litigation provision was a drag against earnings of 29 cents per share. Our AcG-13 impact -- you will recall that this is the marking to market of the credit default swaps without the corresponding marking of the accrual loans-- that was also a loss of 3 cents per share, as again corporate credit spreads moved in.

If you wanted to adjust for these items and add these items back to our base earnings of 90 cents per share that would be 90 cents plus 3 cents equals 93 cents.

Slide 8: Q2 2004 Personal & Commercial Banking

Personal and commercial banking -- fantastic results.

Slide 9: Total Revenue and Net Interest Margin

The earnings of $357 million is the best second quarter earnings that the P&C bank has ever shown. In fact, if you adjust for the number of days in the quarter, it adds about $10 million back to the earnings, so you get the best quarterly result in the history of TD Canada Trust.

But it's a continuation of a trend and that trend is declining margins. We saw another six basis points come off our margins this quarter. About a third was attributable to each of: low rates, stiff competition, and the mix of products that our customers choose.

We had revenue growth of 7 percent this quarter, higher than we have seen in previous quarters. About half of that relates to the TD Meloche Monnex business. So exceptionally strong revenue growth in the P&C insurance business, that includes Liberty. We also had about one percent of that 7 percent growth year-over-year represented by the Laurentian branches. So those items were a majority when taken as a whole, a majority of the earnings growth. When you exclude them, the base is a little less than 3 percent.

Slide 10: Net Interest Margin

Looking at the split of margins, continued results here really except that our loans, our money-out business, is a little bit better than last quarter, up 2 basis points, a reversal of a previous trend. But the net interest margin on deposits, the money-in business, continues to go down, reflecting competition as well as the very low interest rate environment. Deposits here are the issue. They're down 7 basis points from 184 last quarter to 177 this quarter.

Slide 11: Provision For Credit Loss

Provision for credit losses is a very low number this quarter. In fact, this is the lowest credit loss number that TD Canada Trust has ever reported: $87 million. There is a $12 million effect for the securitization of some of these loans, and that comes out in the corporate segment and reported at the consolidated level at $75 million. New formations this quarter were extremely low. We formed only 157 new non-performing loans in the retail bank as compared to 228 last quarter and 221 last year. The small business and commercial components of the PCL was virtually non-existent as a very small amount of credit losses were offset almost totally by reversals of previously allowed for accounts.

Slide 12: Total Expenses and Efficiency Ratio

Moving on to our total expenses and the efficiency ratio, expenses were up $57 million year-over-year or about 6.7 percent. Again that is caused by the acquisitions that I mentioned before, being Liberty and the Laurentian branches.

We also had significant growth in the other P&C businesses within TD Meloche Monnex as well. If you exclude the acquisitions from this quarter's efficiency ratio, you get a 58.7 efficiency ratio, and that is 100 basis points lower than last year, but still 1.4 percentage points or 140 basis points higher than last quarter. There are a couple of things that have affected that. One is less days. It does have an impact on the efficiency ratio. It has more of an impact on revenue than expenses, but it does tend to make the efficiency ratio worse and we estimate that to be about 40 basis points.

The Liberty acquisition is about 30 basis points, which closed on April 1. We also had some higher development spending in the second quarter and we had a relatively high expense base relating to real estate secured loan originations, which make up the balance or make up most of the difference.

Slide 13: Net Income and Return on Invested Capital

Finally, net income of $357 million, representing a 20 percent return on invested capital. That is again the best return on invested capital figure that we reported in TD Canada Trust -- exceptionally strong results. The economic profit number at $190 million is quite comparable to what we earned in the first quarter, up considerably from the same quarter last year.

Slide 14: Volume and Market Share: Real Estate Secured Loans and Other Personal Loans

Moving on to volume and market share data, starting with personal loans and real estate secured lending.

We had good volume growth this quarter over last year, 8.5 percent, that excludes any impact from the Laurentian branches. On a market share basis we had year-over-year market share increases -- this is through February of 2004 the most recent data we have -- of 11 basis points. The Laurentian effect on the market share though is 34 basis points. So net of the Laurentian effect, we have a decline of 23 basis points.

Looking at personal deposits, on the core side, they were exceptionally strong growth year-over-year at 10.4 percent.

Slide 15: Volume and Market Share: Personal Deposits

On the term side, we saw a decline year-over-year of 2.4 percent. On the market share statistics on core, again we're up six basis points through March year-over-year, but Laurentian represents 17 basis points. So we are net down 11 basis points. On the term side, we actually had a decline in market share of 7 basis points and Laurentian was 59 basis points. So the actual decline, excluding Laurentian, was a fairly large 66 basis points.

Slide 16: Volume and Market Share: Business Loans and Deposits

Business loans and deposits. Good growth in business deposits, 8.9 percent. There is no Laurentian impact in these numbers. On the business loan side, a continuing decline. We did notice though towards the end of the quarter that the decline in business loans actually reversed slightly, so it may not be a trend, but it's the start of something, perhaps.

On market share, small business loans year-over-year to December, the most recent data, down 7 basis points, and commercial loans year-over-year down 19 basis points.

Slide 17: Q2 2004 Wealth Management

So if we can we move on to wealth management.

Slide 18: Total Revenue and Expenses

We had, perhaps surprisingly I think, pretty good revenue growth over the first quarter, up about 5 percent to $708 million. It's up 47 percent year-over-year, perhaps not as surprising.

There are a number of impacts that are playing here. There is the impact in the case of TD Waterhouse of fewer trades per day. You'll see on one of the future slides that that is the case, but it is almost totally offset by the fact there are more trading days in the second quarter than there is in the first quarter. So the actual impact of trades is not very significant.

That was offset by higher margin loans, NII on margin loans. We saw the Canadian dollar weaken this quarter versus last quarter compared to the U.S. dollar. So we had a lift in the revenue numbers as the U.S. dollars got translated into Canadian. That was about 1 percent of the 5 percent quarter-over-quarter gain.

On the expense side, there were $544 million worth of expenses. Those are up 9 percent from the last quarter, about half of that, almost half of that represents higher marketing spend as well as we had RRSP season expenses. There was significant growth in financial planners in Canada, some higher severance costs, and again the effect of the foreign exchange impact on U.S. dollar denominated expenses.

Slide 19: Net Income and Return on Invested Capital

Looking at the net impact, i.e. net income after-tax of $106 million, $74 million of that was TD Waterhouse, down $10 million from last quarter. That can be explained almost totally by the higher marketing spend on an after-tax basis.

In terms of the other wealth management businesses here in Canada, pretty stable from the previous month -- or previous quarter – up slightly to $32 million, up from $31 million. And on a return on invested capital metric, 15.3 percent, down slightly from the 16 percent last quarter.

Slide 20: TD Waterhouse

Looking at some of the TD Waterhouse operational statistics, new accounts, online too: 119,000 new accounts, up 41 percent over last year and up substantially from the first quarter as well. Trades per day, as I mentioned, are down slightly from 135,000 last quarter, down to 126,000 this quarter.

Margin loans up about 12 percent, 12.4 percent from $6 billion to $6.7 billion this quarter and that had the impact on NII that I mentioned before. Marketing spend is up to $46 million, up $18 million over last quarter, about $10 million or $11 million on an after-tax basis. Margin before marketing expenses is exactly the same this quarter versus last quarter and customer assets up slightly.

Slide 21: Mutual Funds – Total Industry

Market share of mutual funds in Canada - fantastic volume growth – at 18.6 percent. As Ed mentioned we were the second best fund company in terms of net sales so far this calendar year.

Our market share reflects that, and when it comes to long-term share, we're up 31 basis points year-over-year. Our total market share, total funds, including short-term money market funds, is down slightly year-over-year. Our weighted-average fee reflects the higher proportion of our funds under the long-term and is up about 2.5 basis points this quarter over last quarter.

Slide 22: Q2 2004 Wholesale Banking

Finally, the wholesale banking business, TD Securities – a solid result, down slightly from a remarkably strong first quarter.

Slide 23: Total Revenue and Expenses

Revenue was down 5 percent from $620 million last quarter, down to $587 million this quarter but up a very strong 21 percent over the same quarter last year.

We had excellent results from our institutional equities business, our credit products business, and we had fairly high security gains recorded in this business as well. We had lower results from the equity options business in Chicago. As we have mentioned to you before, we are winding down our convertible arbitrage business and that has had an impact on revenues and profitability as well as risk-weighted assets, I might add.

Expenses are down 2.6 percent. I think to be fair here, I should mention that we did have a fairly small reversal of a previously recorded restructuring charge for the Chicago options business of $7 million this quarter. That did bring our expenses down slightly. If we had not had that reversal, expenses would have been just about flat quarter-over-quarter. That represents basically our build out of the risk management infrastructure and processing infrastructure within TD Securities.

Slide 24: Portfolio

Looking at our core portfolio, it continues to decline, down 44 percent on a net basis. Net drawn basis over last year same period was down to $4.9 billion.

We have listed on this slide for the first time, the actual amount of credit protection purchased that has been netted against the drawn part of the loans. When you buy credit protection you generally buy it against exposure. So it's not just the drawn part but the total exposure. We increased our credit protection this quarter to $5.5 billion, $1.2 billion of it nets against the drawn component. We have 61 percent of this portfolio as investment-grade. Because of that, I think we didn't have to recognize any actual PCL this quarter. But we did record a $10 million amortization of the credit protection that we have in place and our run rate for credit protection is now up to about $12 million per quarter. So you can expect a higher level next quarter.

Slide 25: Net Income and Return on Invested Capital

Looking at net income and return on invested capital on the next slide. Net income at $167 million is down slightly from last quarter. The after-tax effect of that reversal is about $4 million, so it's been bonused slightly by that reversal this quarter. The economic profit at $85 million is down about $9 million from an exceptionally strong result last quarter.

Slides 26 and 27: Market Risk

Looking at our market risk results, our VaR calculation declined over the period. You can see that the actual trading results were positive in the vast majority of the days in the quarter. In fact, when you look at the histogram of the trading results, you can see that there were only four loss days in the quarter.

Slide 28: Q2 2004 Corporate

Moving on to the corporate segment, the decomposition of important items in corporate.

Slide 29: Decomposition of Certain Items

We have talked about most of these: the tax refund, the AcG-13 effect, the non-core lending portfolio including the sectoral release, and the $300 million pre-tax reserve. That number would have been $26 million profit before those two items. That is a little higher than we have been running in the non-core portfolio. It reflects a small amount of security gains and the reversal of write-downs in previous periods of about $15 million, so it's been bonused by about $20 million pre-tax.

General allowance release, we have talked about that. We had a small securitization gain this quarter, unallocated corporate expenses on an after-tax basis and other, virtually zero.

Slide 30: Non-Core Lending Portfolio

Looking at the non-core lending portfolio, we are going to have to change the scale on these graphs. They are getting so small it is almost impossible to read the numbers. Let me help you out. It is $2.6 million in outstanding drawn exposure, $1.8 million of that is non-investment grade. We reduced our drawn amounts by $700 million this quarter, almost all of that was in the non investment-grade category.

Slide 31: Non-Core Lending Portfolio

Lastly, our non-core actual credit losses are listed on this slide. You can see that the previous quarters we have been using sectorals to cover specific loan losses. This quarter we had a slightly different result. We actually had recovery of loan losses added back to the sectoral. There are two components here. We had $67 million in actual recoveries relating to previously written off accounts, and $61 million negative use of specifics, representing both the gain on loan sales for impaired accounts and for the reduction in specific allowance required on some other accounts not yet sold. So the credit losses in this part of the business would have been minus $128 million this quarter had we not added them back to the sectoral reserves.

That is the end of my formal presentation. We can now take questions.

QUESTION AND ANSWER

Heather Wolf, Merrill Lynch

Can you tell us why you made so much money at TD Meloche Monnex and why you didn't make so much money in equity trading?

Ed Clark - President & CEO

Did not make so much money where?

Heather Wolf, Merrill Lynch

In equity trading.

Ed Clark - President & CEO

In the case of TD Meloche Monnex, it is basically -- we have a formula. We are direct insurers versus agents and because we are very selective in terms of our customer base, we operate on the cost side about 10 points less than do the competition and we tend to have better underwriting results. The net effect of that is that we are highly price competitive so we tend to be able to offer a package that is better than the competition.

When you have an environment in which prices are going up, and moving up rapidly, people become much more price sensitive. They are much more inclined to think about switching than in environments in which prices are going down. So our basic model is to call people a month before their car insurance or house insurance renews and say would you like a bid from us, and that is an environment which people will tend to shift. So we get substantial, as you can see, revenue growth in that period because people will switch to a lower-cost alternative. Given our good underwriting results, we make a lot of money when we do that.

Heather Wolf, Merrill Lynch

Do you think prices will continue to go up and they'll continue to see --?

Ed Clark - President & CEO

No, I think we are now going to head into an environment -- because all of the provinces have put through some such measures to take some of the pressure off the cost side and in return have asked the industry to start cutting prices to reflect those cost reductions. I think we could see a shift in the environment here where prices are cut and if that does occur, you might expect the TD Meloche Monnex model to slow down. It's inherently a better model, so even in bad times, we took market share – that being falling prices. We always took market share from the competition, but we won't take any kind of extraordinary market share that we have been taking in the last six months if we start to get price reduction.

Bob Dorrance - Chairman & CEO, TD Securities

On the equity trading side -- with a caveat that it's a quarterly number and it's quite volatile -- the primary reason that it did not do well in the quarter is that, as Dan alluded to, we are winding down our exposure to the convertible arbitrage trading business. With that wind down in exposure we had no profits coming out of the business in the quarter, and some small losses in terms of exiting. Going forward, we intend to participate in that business but not in the format in which we were previously.

Heather Wolf, Merrill Lynch

So we should not expect what we saw in this quarter to be the ongoing run rate?

Bob Dorrance - Chairman & CEO, TD Securities

I think what we intend to do is build out that amongst other businesses in the arbitrage business. I would not use that as a run rate and I wouldn't necessarily use the previous quarter as a run rate either.

Heather Wolf, Merrill Lynch

Thank you.

Michael Goldberg, Desjardins Securities

Question about TD Waterhouse and the marketing spend there. What are you trying to achieve with that marketing spend? What results are you seeing? And beyond that, have you seen or developed any ideas as to how you can build on the franchise that you have in TD Waterhouse, particularly in the U.S.?

Ed Clark - President & CEO

Well, we think we have some ideas on how to build the franchise. We actually think that the basic model that we have is inherently, again like TD Meloche Monnex, is in the right spot in that industry. We think there are two growth opportunities in the U.S. today both built around what we call full-service refugees. They are people who haven't been satisfied with full-service. They don't think that for the price that they're paying they're getting additional value-added and they tend to go to two places. They tend to go to independent financial advisers or they tend to go to the discount brokerage direct offering.

In the case of the independent financial advisers, there are really three major players in that field: ourselves, Fidelity, and Schwab. We have been growing our salesforce, and our growth rate in that space is probably approximately twice the rate of Schwab. That is a good space for us to grow and that space itself is growing quite rapidly as people move from the full-service brokerage to the independent financial advisers.

The other place is to come directly. Again our experience would be that those people would tend to go to places that have branches and have a style of service. The refugees from full-service brokers aren't your active trader sort, so they will tend to go to exactly the business proposition that TD Waterhouse is offering. Our marketing, if you watch some of our ads, is pretty well directly focused on exactly that customer base.

You can see it in our new account openings that they are up. We can see it in our transfer-in data that we're getting transfers-in from exactly where we want. The assets that the customers come in with are higher, and the trades they do initially are more frequent. We like that. We like what we're doing there. We just have to execute that strategy.

We have though, as I said in my remarks, seen trades per day falling off here. So as we go forward into this quarter and next, you will see us pull back somewhat on the marketing dollars in response to fairly significant declines in trades per day that are occurring now. If the market comes back, we will move it back up but we will adjust that number to mitigate some of the effects of slower trades per day.

Ian deVerteuil, BMO Nesbitt Burns

Two questions. First, with respect to the supplemental information on page 16 on capital, you mentioned in your comments that OSFI is giving you phased, I think the term is phased, implementation of your new model for establishing interest rate risk. The market risk number is down to $11 billion. Based on the phase-in, where do you think it's going?

Dan Marinangeli - EVP & CFO

The phase-in occurs over the next year or so, a year or two, Ian. I think it would be fair to say that if we started the year at about a $16 billion risk-weighted asset for market risk figure, that it wouldn't be usual or it wouldn't be unrealistic to be at about half of that say by the end of this year. Now there are going to be factors there of course, which we have trouble predicting, but if everything else stays about the same, then the impact of the phase-in will be about that.

Ian deVerteuil, BMO Nesbitt Burns

The second question relates to the contingent liability for legal matters. In dealing with your auditors when you put this in, how do you get your hands around quantifying this number? With other banks, say it's tough to quantify. What parameters do you use to come up with $300 million?

Ed Clark - President & CEO

I think it's important to say on this that is not a simple area. The fact that you have some banks taking it and some banks not taking it, I think, reflects the fact that you get different responses to the situation. You shouldn't throw stones one way or the other. This is a complex issue as to how to do it. The factors that you have to take into account are not just what you think the objective situation. Some people will take into account litigation strategy, and some people will take into account where they are in the chain. And so for us in particular, because as I indicated we're probably at the bottom of this totem pole, you could say it was even more difficult for us.

Weighing against that is a strong disposition that I have that I like strong balance sheets. I want balance sheets that say, I thought about the contingent problems that I'm going to have and I have reserved against those contingent problems. So, I think you go through an exercise that you say, in different scenarios – you obviously look at somebody like Citicorp and what they did. And you say, well, if they did that and they're there and they're in that part of the totem pole and I think I'm in that type -- what's a prudent number that would make sure that I was fully reserved against this contingent liability. I think you just have to work your way through those; but I respect the fact that other people could come to different judgments about what the appropriate action would be.

Quentin Broad, CIBC World Markets

Just to follow on that, Ed, and then I'll branch out. But from an insurance perspective, do you not back into any corporate E&O?

Ed Clark - President & CEO

The simple answer is no. We have not carried that insurance and then it is not clear if we did carry it that it would, at the end of the day, actually cover it. So I think the answer is no to both of them.

Quentin Broad, CIBC World Markets

And then I guess for Bill. In terms of methodically building out advisory capabilities on the wealth side, could you just give us a sense of what's been happening in terms of the build currently? What are your thoughts for the rest of 2004 and into 2005? I think Ed may have suggested that '05 is where you start to see the kick in both in terms of spend and acquisition of advisers?

Bill Hatanaka - EVP Wealth Management

As you know we've been going through a very methodical revamp of our investment advice offering. In process right now we have a significant build out of the infrastructure around it. In particular we've been focusing on the managed product service and solutions side. We've been building our technological capability. We've been putting into place training and practice management programs for our new investment advisers and ultimately for our veteran investment advisers as well to take them up to the next level. We've been making investments in build outs of larger premises and flagship branches in larger cities throughout Canada. And we've been revamping things like our senior management team, our investment advisor compensation, and our branch manager compensation.

Basically it’s a fairly significant and fairly aggressive evolution of our investment advice business. Our investment advisers throughout the piece I believe have been fair-minded about the transition and I believe that our investment advice network will be larger and of even higher quality at the end of this fiscal year.

Quentin Broad, CIBC World Markets

Are there any numbers as to the cost of the build out? What do the numbers look like?

Bill Hatanaka - EVP of Wealth Management

The client facing advisers that we've stated for the investment advice side would be a net increase of 25 investment advisers. So we expect to end the year net plus 25 investment advisers at the end of fiscal 2004.

Ed Clark - President & CEO

Should we go to the phone?

Operator

James Keating, RBC Capital Markets.

James Keating, RBC Capital Markets

Thank you. I have two quick questions. I think both are for Ed.

One is an addendum to the commentary about the insurance and I think one of the other levers you have been planning to pull on in the retail area is the small business banking. Maybe, correct me if I'm wrong, but I'm wondering if you could give us an update as to what the objectives and initiatives are there if that indeed is an opportunity for building out your product offering?

And Ed, also maybe just as well, you've been a very good predictor on spreads, however, your commentary on retail spreads this quarter -- I wasn't completely clear on. I think you were indicating that under a measured environment you hope to see some relief. Are you thinking about relief in terms of less absolute decline or do you think we're due for stabilization and maybe a pick-up in retail spreads going forward for any reason?

Ed Clark - President & CEO

I'll let Andrea deal with the spread issue. Why don't I just comment on the small business because I know that some of you are struggling with how to get a good revenue number for us. I think – we'll probably going as a long run proposition -- don't know what will happen from quarter-to-quarter but – we will always surprise you on the strength of our revenue side.

I think the origin of that is that people, when they look at us, don't appreciate our weaknesses. So I want to emphasize some of the areas of weakness that we actually see are opportunities. We have a set of businesses whether it's credit cards, small business, commercial, insurance, or wealth management on the advice side, where we are under penetrated in the market relative to the other major players in that market space in Canada. Yet we're sitting on a distribution system, a customer base, a brand, and technology that allows us to in fact leverage that strength to, in a sense, fill in the gaps.

Our strategy isn't actually a very complicated strategy. If you have 21 percent of the personal business with people and you have the best branch network and a lot of personal people are small business people, you can just gradually leverage that situation up and grow your market share in small business.

As you know, since the merger -- despite the fact that you're generally challenged in market share during mergers -- we've had a substantial increase in our market share in small business. We've achieved that by just doing the obvious, which is to exploit the relationships that we have on the personal front to develop better relationships on the small business front. That does obviously mean that you have to improve your tools, and you have to train your people. I mean there are a whole set of operational steps to do but what you're going to see us do is systematically find every place where we're under leveraging an already strong market position on one side to leverage it on the other side. That obviously also reflects the fact that we run the place in an integrated fashion. People know to help out their partners grow their businesses because they're all compensated on how we do in total as opposed to how we do in a particular business and so that gives us an ability to actually leverage those points.

Andrea Rosen – President, TD Canada Trust

On the margin question, as Ed said at the outset, on balance we think a rise in interest rates will improve the margins we receive on our core checking account deposits because we can invest at a higher rate. But it's unclear how soon rates will rise and how fast and we think sitting here that it's unlikely that we'll get a significant impact from rising rates in the next quarter in terms of the margins.

What is the big unknown, to answer your question, Jamie, on what do we think of in terms of margins going forward, is the impact from competitive pressures. And that's really a function of how the industry continues to juggle between trying to achieve market share gains and protect profitability. So, I think from our standpoint we're going to defend our customers. We will keep an eye out on our competitors and if pricing wars are very aggressive, we'll be aggressive too.

James Keating, RBC Capital Markets

Can I squeeze one more in just for Bob? Great quarter it looked like on the underwriting side. Can you give us any color as to what your underwriting revenues look like underlying within your numbers and what your pipeline looks like, Bob?

Bob Dorrance - Chairman & CEO, TD Securities

Sure. I think probably similar to other banks that have released, I think we have a very good pipeline on the equity underwriting side. Obviously, the markets have not been as cooperative more recently but there certainly is a good backup of business to be done with markets settling down and cooperating. I think certainly the income trust side this week was a good example, probably more than $1 billion of underwriting done in 24 hours as that market settled down. So the pipeline is good in all areas, but we just need a little bit more or less volatile markets.

James Keating, RBC Capital Markets

Roughly speaking, how much underwriting revenue did TD do this quarter?

Dan Marinangeli - EVP & CFO

I don't actually have the breakout with me here. I wasn't anticipating the question. We will get back to you on that or we'll post the answer to that question on our website, I think.

James Keating, RBC Capital Markets

Thanks.

Operator

Rob Wessel from National Bank Financial.

Rob Wessel, National Bank Financial

Good afternoon. I have a couple of easy questions. The first one I have is, will you disclose the net income of the insurance businesses -- or the insurance business, excuse me -- embedded within retail and say this quarter, last quarter and a year ago?

Ed Clark - President & CEO

You know, we debate this constantly. There is a variety of disclosures that go on across our bank competitors on how much they break out their businesses. And so I guess we are reluctant at this stage. The segmentation we use is the organizational segmentation that we have within the organization, and if we start breaking out insurance and TD Meloche Monnex, then why not credit cards and then, in fact, why don't we break out all the businesses, which all of you would love. When you bring your other four competitors doing that, I will probably follow suit with them, but I don't think we will lead the charge here.

Rob Wessel, National Bank Financial

Fair enough.

Second question I have relates to P&C banking provisions, which are normal. I know and I respect the fact that you don't like to give guidance for reasons, which I think are quite understandable. But can you at least comment or give a sense for whether or not you believe that the $87 million or $90 million range would be normal, or should be in and around that? TD has run well ahead of that in a fairly good environment for credit quality on the retail side for many quarters before that, so I guess I am just wondering, do you think this $87 million is sustainable?

Andrea Rosen – President, TD Canada Trust

In a word, we're probably not. It is a record low for the P&C bank, and this is seasonally a very good quarter in terms of PCLs. Also on the personal side and in small business and commercial, we are probably at or near cyclical lows in terms of PCLs. So it is hard to see how this would be sustained. On the other hand, we had a good collections quarter, and that is because we focused on collections. We were a little bit concerned about the trend, and we are continuing to invest on the collection side. So I think we will do reasonably well in terms of controlling -- if this is not sustainable -- the uptick.

I would say on balance, I'm pretty comfortable with the overall credit quality in the portfolio. We've spoken before about the reduction in our personal unsecured lending business, the fact that we've slowed our intake of credit on that business because of our concerns about credit quality, given our credit systems. Clearly, that is impacting our PCLs as well. We would hope that would be the impact, and it is. So I would say I'm comfortable about the general level of credit quality, but I don't think the $87 million is a number you should plug into your model for next quarter.

Rob Wessel, National Bank Financial

Last question I have pertains to the investor presentation, slide 24, in the wholesale banking side with respect to the PCL and credit protection expense at the bottom right. I guess the question is, is that net of protection sold, and if it is not, can you give a sense for how much protection, sort of what your credit protection sold levels are or how much revenues you've been generating from that?

Bob Dorrance - Chairman & CEO, TD Securities

We haven't sold any credit protection.

Rob Wessel, National Bank Financial

Okay, great. Thank you very much.

Operator

Trevor Bateman from CIBC World Markets.

Trevor Bateman, CIBC World Markets

Good afternoon. I just have a follow-on question to an earlier one about risk-weighted assets. It relates to your financial statement note disclosure number 10 on variable interest entities. Your disclosure now seems more definitive in terms of what assets may be coming back onto your balance sheet. I think you identified $6 billion of multi-seller conduits. Has OFSI granted relief, or CDIC granted relief, in terms of those assets coming back on?

Dan Marinangeli - EVP & CFO

No, they have not. But we do have a number of plans in place that will allow us to restructure those conduits so that we don't end up with the same degree of assets back on our balance sheet as that note might imply. In fact, when you look at all of those items, I think the impact is much more likely to be quite nominal by the beginning of next year.

Trevor Bateman, CIBC World Markets

I've not picked it up, but perhaps is there any developments from OFSI?

Dan Marinangeli - EVP & CFO

Not on that particular issue. There are some other issues that they have given us grandfathering status relating to the capital structure of the bank – so we don't have to worry about the pref shares being unconsolidated. They will be okay. But there is nothing really in terms of the new VIE rules, no.

Trevor Bateman, CIBC World Markets

Okay. Thank you very much.

Operator

There are no further questions on the phone lines. Please continue.

Ed Clark - President & CEO

Ian?

Ian deVerteuil, BMO Nesbitt Burns

Two questions. Slide 31 of the slide deck -- the movement of allowances between the sectoral and the specific. I understand the $67 million recovery item, but how do you take something out of the specifics and put it into sectoral? What is the rationale for that?

Dan Marinangeli - EVP & CFO

There are really two things that happened that impacted that number, $61 million. You can sell a loan that's impaired and that has had an allowance against it, and you can sell it for more than the net book of that loan. When you do that, you end up reversing some of the allowance back into the sectoral.

The second way you can get more sectoral is you can look at a loan and let's say it is not impaired – sorry, it is impaired – but it has an allowance against it and something has happened in the market that would lead you to believe that that loan doesn't need as large an allowance as that. In that case, you would adjust the allowance and perhaps reverse some into sectorals. We would have that going on all the time, Ian, and in the previous quarters that would have been net against those cases where the specifics would have to be increased and drawn out of sectorals and be applied against loans. So now we haven't had any of those, and we're having reversals instead.

Ian deVerteuil, BMO Nesbitt Burns

But why wouldn't this just come into income? I understand how it --.

Ed Clark - President & CEO

Because you would shoot us if we did.

Ian deVerteuil, BMO Nesbitt Burns

The sectoral was taken at a certain level to fatten back up the sectoral --?

Dan Marinangeli - EVP & CFO

In fact, I could make the argument that we have indeed taken it into income. We've looked at the sectoral balance at the end of the period and have determined through our methodology that it was $200 million too high. Part of the reason it was $200 million too high was because we reversed the $128 million back into that sectoral prior to the end of the quarter. So I think at the end, you get the same result, but you've got to keep your sectoral balance at the right amount at the end of the period.

Ian deVerteuil, BMO Nesbitt Burns

The second question is a big picture one, I promise. When you look at the TD Bank with Tier 1 capital ratio at 11.9 percent, $400 million in unrealized securities gains, $200 million in sectoral allowances, and $300 million in litigation reserves, it looks as if you've built a fairly big buffer against all sorts of events that could happen.

Ed Clark - President & CEO

Reasonable contingencies.

Ian deVerteuil, BMO Nesbitt Burns

Very reasonable contingencies. What happens next? You're still committed on the buyback to keep the buyback at the dilution coming off the DRIP program. What else -- why aren't you stepping that up more as you move forward here? Are we going to see risk-weighted start to climb again? Where do you see the capital going?

Ed Clark - President & CEO

Well, I guess I have the fault that I do exactly what I told you I was going to do, so I'm going to give you exactly the same answer. I said this year, we are in a -- we had capital restoration to build up ourselves where we have strategic flexibility. We've got two goals to do that, and then secondly, prove to you that we could actually earn the money and have the revenue growth that we thought these operating businesses can do. And so that is what we are focused on. I think in light of all the things that are going on, I'm not going to -- the money doesn't disappear; it just stays on the balance sheet. And so we're going to take our time and make sure that there aren't strategic opportunities for that money before we would up our buyback program and give it back.

Michael and then Heather.

Michael Goldberg, Desjardins Securities

I have a question for Andrea. Core deposit market share seems to have gone down in the second quarter, and yet the personal core is up $4 billion or 7 percent. And it seems to me that in looking at some of the other banks where I've seen numbers, this is more than I have seen elsewhere. Am I missing something?

Andrea Rosen – President, TD Canada Trust

I can't speak to the numbers as they compare to the other banks just yet because I haven't looked at those numbers, but I would say that TD Canada Trust seems to have a seasonal pattern that is specific to TD Canada Trust of losing market share during this quarter. We are not sure exactly what to attribute this to. The nature of our customers, how they use their checking accounts, paying taxes, whatever. But this was a Canada Trust phenomenon, I understand, and also a TD phenomenon, so the two together have made this a very clear seasonal dip. So we perceive this as a seasonal dip, not something that is a reflection on the strength of the franchise.

Michael Goldberg, Desjardins Securities

But in spite of this apparent dip, as I said, just in the quarter alone, you are up 7 percent, and on a year-over-year basis, even though this includes Laurentian -- actually, Laurentian had minimal savings and checking deposits -- you were up about 15 percent.

Ed Clark - President & CEO

Why don't we try to come back here since we all use the same data. It is always amazing how much energy is put having market share to the streets when we've all got the same data source. So why don't we come back and lay out the data for the other banks and see if we can answer the question of what is driving those numbers.

Heather and then Steve.

Heather Wolf, Merrill Lynch

Just following up on the margin discussion, can you define moderate rate increases, and at what point or how much tightening do we have to see before it does start to impact volume growth?

Ed Clark - President & CEO

I think the assumption that we're making is there is a reasonable possibility that the bank rate would move 25 basis points in June, that that is a possibility. And so that, in a sense, for the period in which we're talking about for this quarter, that is the only impact that is going to occur, and that that 25 basis points won't have a noticeable effect on volumes. I think you would need, obviously, significant multiples of that to start to have a real change in the marketplace.

Heather Wolf, Merrill Lynch

So if the market is right and the Central Bank is tightened by -- I think they're still saying 250 basis points – your tune might change a little?

Ed Clark - President & CEO

Ask us then. I mean, I don't think we know this as a science. I think it is what else is going on in there – I think there is a real debate as to what happens to longer rates when the market starts doing the Fed. If the banks kind of follow suit and start to move short-term rates, do market rates follow that operative, they say, well, now they are attacking the problems I can relax. I think there's a lot that goes into that, so I don't think they hire us for economists up here. Any other questions on the telephone?

Operator

There are no questions on the phone lines.

Ed Clark - President & CEO

Terrific. Well, I think we'll call it a day. Thank you.