Q2 2005
Strategic Overview
(Check Against Delivery)

Ed Clark, President and CEO

- Good afternoon and thank you for joining us to discuss our second quarter results.
- We had another good performance this quarter with all our business segments having a solid performance, including our new US Personal and Commercial segment – TD Banknorth. EPS before the amortization of intangibles was $0.99. Dan will take you through the numbers in detail but I want to point out that this result includes $0.03 gain from a recovery of specific loan losses previously provided under sectoral provisions and $0.05 gain from accounting guideline 13. It also includes a $0.06 loss from restructuring charges which includes a tax charge from an internal corporate reorganization and a restructuring charge in the Wholesale Bank and a $0.03 one-time drag from consolidating TD Banknorth with a one-month lag resulting in a net figure of $1.00.
- Dan will take you through the impact of TD Banknorth on our earnings this quarter, including why the lagged reporting produces a one-time hit of 3 cents per share. More importantly for you will be the question as to how TD Banknorth is doing. Those of you who listened into Bill's analyst call at the end of the first quarter for TD Banknorth will know the answer—they are right on track. Equally important, Dan will show you the expected accretion before the amortization of intangibles for TD Banknorth going forward. And, as Bill indicated on his call, there are opportunities for acquisitions—the issue will be finding the right deal at the right price.
- So with that let me take you briefly through each of our other business segments.
- Last quarter, we indicated that our results in our Canadian personal & commercial segment had established a new level of earnings for our P&C segment. This quarter's results continued that view with earnings from Q2 equal to Q1 once you take into account three less days in Q2.

- When you step back, P&C has again delivered excellent performance with double digit net income growth before the amortization of intangibles of 16% year-over-year, a remarkable and consistent performance sustained over the last couple years.

- Again this performance is broad based, with solid volume growth in:

  → real estate secured lending;

  → personal savings deposits and business deposits; and

  → insurance, with Meloche Monnex continuing to benefit from strong volumes and low claims experience.

- Last quarter we indicated margins appeared to have stabilized but that we were unlikely to get the benefit of higher interest rates for some time. This quarter we actually experienced a 7 basis point margin compression, as a result of faster growth in lower margin product categories and a shift in mix within categories. This shift is occurring with both personal and small business customers moving to lower margin guaranteed investment products. This preference shift may in part be our customers' response to the diminished likelihood of rates moving higher.

- As we look out over the year we have a similar set of worries as we have mentioned in the previous quarters:

  → The Canadian economy may be slowing

  → There is likely to be a further decline in margins from customer preference shift, but not to the same extent as this quarter

  → The credit cycle will turn and have an impact on small business and commercial PCLs.

  → We cannot expect Meloche Monnex to continue to grow at the same pace; over the policy renewal cycle, we will see the effects of price reductions taking hold and we should see a gradual return to a more normal claims experience, although our current experience is more positive than expected.

→ Also this is the last quarter where, on a year-over-year, basis there is a revenue pick-up from the acquisition of the personal lines of the property and casualty insurer Liberty Mutual, which closed in the April last year.

- But, despite these worries, our outlook hasn't changed. We see earnings continuing at these levels which should translate into double digit earnings growth close to the mid-teens on a full year-over-year basis in 2005.

- Turning to wealth management, on the Canadian side we are very pleased with the steady progress we are making. We have a strategy to grow our advice and asset based businesses and we are right on track. Indeed, this quarter we offset the decline in the Canadian discount brokerage business with improved profits from these other businesses.

- Net income outside of discount brokerage continued to meet our expectations growing 43% year over year off of a low base and 13% quarter over quarter. While this performance is in part a continuation of the strong underlying trends from last quarter with robust mutual fund sales, it also reflects our improved ability to grow assets under administration in our advice channels.

- Mutual fund sales were again very strong both in our own channels and external distribution channels driven in part by market recognition of our strong Investment Management performance. Long term net sales were a record $1.6 billion in the quarter and we are number #2 year to date - another excellent result.

- While our advice based channels will require a consistent spend investment, we believe we are entering the stage where, with the base infrastructure in place, our on-going investment is now directed more and more toward revenue generating activities.

- However, when we look forward to the second half of the year, with a slow start to May in trades per day and a spreading of the weakness to our advice channels, we anticipate some falling off in Wealth Management income from this quarter.

- In the U.S, discount brokerage was once again this quarter able to largely offset the revenue decline from lower trades per day and lower commission per trade with growth in other non-commission revenue. The contribution of this business year over year was hurt by the appreciation of the Canadian dollar. Although it is getting more difficult to offset any further decline in commission based revenue in this manner, net income in Q3 and Q4 will be helped by much lower marketing spend during the rest of the year.

- Before moving on to our wholesale segment I thought it would be appropriate to re-iterate our view on the discount brokerage industry in the U.S., given the recent press coverage. As I have said, for a number of years, I like this industry and I like our position in it.
- As you are aware, we previously explored opportunities for consolidation in the U.S. for one specific reason – there are significant and mutually advantageous economics of putting two discount brokers together and we cannot ignore the value creation for our shareholders. Consolidation, however, has proved so far elusive. We will continue to follow our organic growth strategies and will take advantage of consolidation opportunities, but only those meeting our clear criteria.
- Turning now to Wholesale, as you know, we have quite successfully built up our Global Derivatives business over the last 7 to 8 years by concentrating on market segments where we can compete effectively - this is and will continue to be a successful strategy for TD.
- There are parts of the structured derivatives product areas that have become more challenging. Margins have compressed and risk infrastructure requirements have multiplied.
- Our view is that this shift in economics is permanent in nature and therefore no longer allows us to have a viable niche strategy compatible with a bank our size.
- We have committed to only stay in businesses for the long term where the risk/reward is appropriate and our competitive advantage is sustainable and so we have made the difficult decision to close parts of our structured products business outside Canada.
- We want to be clear that we continue to have a very profitable and growing Global Derivatives business. The sub-segments we are closing have not been significant profit generators to us in recent years. Indeed, in some cases we have lost money

because our operating costs absorbed so much of the revenue potential. Over the medium term, our global derivatives business will be stronger and more profitable.

- This decision to restructure was finalized late in the quarter so as you can appreciate we are still quantifying the total restructuring charge that will be incurred but we expect the bulk of the restructuring can be accrued by the end of the third quarter with a the possibility of minor amounts in Q4 and Q1 next year. This quarter we accrued $21MM.

- The repositioning in our global business does not affect our Canadian business which has stayed on strategy to grow.

- Looking at this quarter's performance for our wholesale business, revenue is improved significantly from both the previous quarter and previous year as equity trading and institutional equity sales were particularly robust.

- Net income is up from than last quarter and excluding the restructuring, matches last year's strong performance. ROIC for the segment, at 25%, continues to be well above our target range. However, the capital markets weakened in April and continued weak in May. We are not optimistic that we will avoid the seasonal pattern we have seen in recent years when the second half is weaker than the first.

- Our loan portfolio remains comparatively small and we continue to be comfortable with its diversity and investment quality. Again this quarter we had no impaired loan formations despite the weakening credit environment. You will also note that we had a gain on our purchased credit protection. We have in previous quarters suggested that you ignore those losses in assessing our on-going earnings. We would also take the position that you should ignore gains. We are not forecasting any meaningful loan losses in 2005.

- In conclusion this is looking like it will turn out to be a good year. We are pleased with how the Bank is positioned and the way the team is consistently executing on our stated strategy. However, if trades per day turn do not around significantly or the capital markets rebound in the second half of the year, we currently expect that the second half of the year will turn out to be weaker than the first half of the year, although still better than the second half of last year.

- With that I will turn it over to Dan.