Bank Financial Group
Investor Relations

TD BANK FINANCIAL GROUP
Q1 2008 EARNINGS CONFERENCE CALL
THURSDAY, FEBRUARY 28, 2008

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FORWARD-LOOKING INFORMATION

From time to time, the Bank makes written and oral forward-looking statements, including in this report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission (SEC), and in other communications. In addition, the Bank's senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others. All such statements are made pursuant to the "safe harbour" provisions of the U.S. Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation. Forward-looking statements include, among others, statements regarding the Bank's objectives and targets for 2008 and beyond, and strategies to achieve them, the outlook for the Bank's business lines, and the Bank's anticipated financial performance. The purpose of these statements is to provide management's view of these matters. The economic assumptions for 2008 for each of our business segments are set out in the 2007 Annual Report under the headings "Economic Outlook" and "Business Outlook and Focus for 2008", as updated in the subsequently filed quarterly Reports to Shareholders. Forward-looking statements are typically identified by words such as "will", "should", "believe", "expect", "anticipate", "intend", "estimate", "plan", "may" and "could". By their very nature, these statements require us to make assumptions and are subject to inherent risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements. Some of the factors – many of which are beyond our control – that could cause such differences include: credit, market (including equity and commodity), liquidity, interest rate, operational, reputational, insurance, strategic, foreign exchange, regulatory, legal and other risks discussed in the Bank's 2007 Annual Report and in other regulatory filings made in Canada and with the SEC; general business and economic conditions in Canada, the U.S. and other countries in which the Bank conducts business, as well as the effect of changes in monetary policy in those jurisdictions and changes in the foreign exchange rates for the currencies of those jurisdictions; the degree of competition in the markets in which the Bank operates, both from established competitors and new entrants; the accuracy and completeness of information the Bank receives on customers and counterparties; the development and introduction of new products and services in markets; developing new distribution channels and realizing increased revenue from these channels; the Bank's ability to execute its strategies, including its integration, growth and acquisition strategies and those of its subsidiaries, particularly in the U.S.; changes in accounting policies and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; the effect of applying future accounting changes; global capital market activity; the Bank's ability to attract and retain key executives; reliance on third parties to provide components of the Bank's business infrastructure; the failure of third parties to comply with their obligations to the Bank or its affiliates as such obligations relate to the handling of personal information; technological changes; the use of new technologies in unprecedented ways to defraud the Bank or its customers; legislative and regulatory developments; change in tax laws; unexpected judicial or regulatory proceedings; continued negative impact of the U.S. securities litigation environment; unexpected changes in consumer spending and saving habits; the adequacy of the Bank's risk management framework, including the risk that the Bank's risk management models do not take into account all relevant factors; the possible impact on the Bank's businesses of international conflicts and terrorism; acts of God, such as earthquakes; the effects of disease or illness on local, national or international economies; and the effects of disruptions to public infrastructure, such as transportation, communication, power or water supply**.** A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity. The preceding list is not exhaustive of all possible factors. Other factors could also adversely affect the Bank's results. For more information, see the discussion starting on page 59 of the Bank's 2007 Annual Report. All such factors should be considered carefully when making decisions with respect to the Bank, and undue reliance should not be placed on the Bank's forward-looking statements as they may not be suitable for other purposes. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf, except as required under applicable securities legislation.

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PRESENTATION

Tim Thompson - TD Bank Financial Group - SVP - IR

Good afternoon, and welcome to the TD Bank Financial Group's first-quarter of 2008 investor presentation. My name is Tim Thompson, and I'm Senior Vice President of Investor Relations at the bank.

We'll begin today's presentation with strategic remarks from Ed Clark, the bank's President and CEO, after which, Colleen Johnston, the bank's CFO, will present our first-quarter operating performance. We'll then entertain questions from those present, as well as prequalified analysts and investors on the phone.

Also present today to answer your questions are Bob Dorrance, Chairman and CEO of TD Securities; Bernie Dorval and Tim Hockey, Co-Chairs of TD Canada Trust; Bill Hatanaka, Chairman and CEO of TD Waterhouse; Bharat Masrani, President and CEO of TD Banknorth; and Mark Chauvin, Chief Risk Officer of TD Bank Financial Group.

I know that many of you have questions about the acquisition of Commerce Bancorp. Commerce held their fourth-quarter earnings call in January, and details about their earnings release can be found on their website. After the close of the transaction, assuming regulatory approval, we intend to hold a comprehensive post-close call. In the meantime, we're limited in terms of what we can say, so we'd ask that you focus your questions today on our Q1 results.

As many of you know, we have new disclosure this quarter from the implementation of Basel II. Colleen will be giving a high-level review later. We have posted a guide to Basel II on our website this morning. Please refer to that guide for more detail, and if you have additional questions, please contact the investor relations team.

We're sensitive to a busy day in Canadian bank reporting, so we're trying to keep the call to about 45 minutes today. Ed and Colleen's remarks will take up about 20 or 25 minutes of that time. As well we're asking investors and analysts participating in the question and answer portion of the call to ask one question at a time so that everybody has an opportunity to contribute. We certainly encourage you to requeue if you have more than one question.

Turning to page 2, we know that this presentation contains forward-looking statements, and actual results could differ materially from what is discussed. Certain material factors or assumptions were applied in making these statements. For additional information, we refer you to our Q1 2008 MD&A. This document includes a description of factors that could cause actual results to differ and can be found on our website, at TD.com. Over to Ed.

Ed Clark - TD Bank Financial Group - President and CEO

Thanks, Tim, and thank you for joining us today. Colleen is going to give you the details of how we did in the first quarter of 2008, but what I would like to do is share my perspective for where we are, what the outlook is for the bank, and how the current business and economic climate is impacting us.

Our first quarter of 2008 was, from my point of view, actually quite good even though we did have softer revenue growth. In fact, all of our businesses posted earnings growth versus the fourth quarter, and they did so in an operating environment that was definitely a lot tougher. Overall, our retail banking operations in both Canada and the United States did remarkably well. And TD Ameritrade continued to outperform. In fact, our retail businesses' earnings were C$941 million this quarter, up 19% year over year, or 12% if you adjust for the privatization of TD Banknorth. That is a pretty good start to the target which we talked about last quarter of closing in on C$4 billion of retail earnings in 2008.

Having said that, it's pretty hard to outrun markets. And both TD Securities and Canadian Wealth Management are areas that had to earn their way through some tough markets and negative investor sentiment. Even though within each of these businesses there were really some remarkable growth stories. We told you that we expect to grow our earnings by 7 to 10% on average over the medium-term, and that means by much more than that in good times and less in poor times. Well you've certainly seen the better times before with higher numbers in the past but now what you're seeing is that our businesses have to work hard to get to the 7 to 10% range. They're definitely going to be challenged to reach the lower end of that range this year, considering the dilution effect of the Commerce acquisition.

Even so, we are going to stick to our strategy that has brought us to where we are today. We build strong franchises for the long term. We're going to keep hammering away at building and investing to ensure that we have continued strength in the future. And at the same time, we will continue to watch expenses closely. This is something that leaders at TD do naturally, as soon as they anticipate tougher times ahead. We positioned ourselves to be able to dial back expenses if we have to. We're pushing hard to perform, taking advantage of the business levers that are within our control. But we're also realistic in understanding that the business and economic climate is tough, and that we will be impacted by it. But we're confident that TD will be a positive outlier in both Canada and the United States in 2008.

Let me talk about dividends. As you know, we have a philosophy that says dividends will grow in line with earnings. Last year, earnings growth actually outpaced dividend growth, meaning this year, we have room to grow dividends faster and move closer to the midpoint of our target payout ratio. Previous dividend increases combined with the C$0.02 increase we've just announced, mean that our dividend is on track to grow about 10% this fiscal year. This increase reflects our confidence in our ability to continue to grow earnings.

Let's move to our businesses, and I will comment on how they performed this quarter. For TD Canada Trust, the great story here is that this business continues to produce quite remarkable results, indeed above our expectations, given the tough operating environment that we have. Having our earnings grow by 10% is a result we feel very good about, and not to mention a 51% efficiency ratio. Yes, we're seeing revenue growth soften, but, clearly, our franchise remains strong. We continue to see very good volume growth. We're keeping our eye on expense growth but remain committed to reinvest in new branches, longer hours and in our underpenetrated businesses.

Canadian Wealth Management delivered a solid quarter, but clearly it was impacted by market declines. The decline in equity markets was offset by increases in new clients and assets under management, as well as record transaction levels in our discount brokerage operations.

Our Wholesale business also produced good numbers, when you consider that they have had to grind their way through some pretty tough market conditions. We saw contributions from our foreign exchange and interest rate trading businesses, offset by weaker credit and equity trading. Our franchise earnings held up well, but if the markets remain weak it will be hard to continue the kind of performance they had in the first quarter.

If you take a step backward and ask how we're positioned from an earnings perspective in our wholesale bank, we feel good. In tougher markets, like we're seeing today, we still believe we can make a 20% rate of return on capital. Yes, down from the 30% levels we saw last year, but still really a quite good result. And at the same time continue to run a business model that eliminates tail risk.

Turning to our U.S. operations, we were very pleased with TD Banknorth performance, especially in light of all the issues that U.S. banks are currently facing. It really stands out that TD Banknorth has been able to earn through a stronger Canadian dollar, up about 15% from last year. And we believe this is sustainable as long as exchange rate is at par or below.

We also continue to see TD Banknorth loan portfolios doing better than expected in light of the current environment. In fact PCLs were down quarter over quarter. We are seeing some early signs of weakness but nothing to suggest substantially bigger problems in the near term. Volume growth on the lending side remains very strong. Like others, we've been impacted by the wholesale funding issues of the large U.S.

banks who have turned aggressively to retail funding to fund their balance sheets. This has presented an unprecedented pricing challenge in our deposit market, putting pressure on both margins and deposit growth. Overall, I would say that if the U.S. economic environment worsens, because of the problems in the financial services sector, like everyone else, we won't be able to outrun the impacts. But, again, we should be a positive outlier given the steady progress that we made at TD Banknorth.

I am assuming the question on your mind is do we still think we can deliver earnings of C$700 million from our U.S. P&C segment this year? The answer is yes.

As for our investment in TD Ameritrade, it continues to do more than deliver for us. They generated record volumes while making impressive strides in their long-term asset gathering strategy. Particularly important, because as Joe Moglia has said, current levels of trades per day are not likely sustainable as fatigue sets in with the retail investors in a negative market.

In terms of the Commerce Bancorp deal, we're very pleased with the overwhelmingly positive outcome of the shareholder vote earlier this month. The next step now is regulatory approvals, which we expect by the end of the first calendar quarter. On behalf of everyone at TD, we're excited to welcome the Commerce employees after the deal closes. Together we're going to be in a unique position to create a North American bank that owns the convenience and service space.

In closing, as we look at the financial landscape, we haven't really advanced a whole lot in terms of having visibility about the future. I would have to acknowledge that since the first quarter, or last quarter, this quarter,- the market and economic sentiment has definitely worsened. No one really knows when the financial services industry is going to clear itself. But I believe that we are making some progress and the second half of the calendar year has a possibility of being much better. And if the markets do clear themselves, there is a possibility of some rebound in earnings as the negative effects of the current liquidity crisis on our different businesses unwinds.

On the other hand, there are recession concerns in the United States. We don't have much visibility on that either, because we don't actually see those effects in our numbers today. But I have to say in reading what everyone else is saying, a slowdown does look inevitable.

Indeed, when you put this altogether, there are a lot of uncertainties. Overall, we would expect to see much slower growth in the environment in 2002; we can't be much more optimistic than that because the world has adopted a more pessimistic view from a quarter ago, and this is clearly impacting consumer and investor confidence. While we can't predict the exact nature of the economic future, we do continue to strongly believe that TD will be a positive outlier in both Canada and the United States. All in, we consider that we're feeling very good about where we're positioned for 2008. On that note, I'll turn it over to Colleen.

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

Thanks, Ed. Let me take you through the quarter.

Please turn to slide 4. Let's start with the quarterly highlights. Total bank adjusted net income was C$1,060 billion, up 5% from last year. This translated to adjusted EPS of C$1.45, also up 5% from Q1 of 2007. Despite the increasingly tougher operating environment, all of our business segments posted higher profits on a sequential basis. Our Canadian retail businesses continued to perform well, increasing 9% versus last year to C$726 million for the quarter. Net income from our U.S. retail businesses, TD Banknorth and TD Ameritrade, was [C]$215 million, up 68% from last year. Combined, our total North American retail net income was [C]$941 million, up 19% from last year.

Our Wholesale net income of C$163 million was down 17% versus last year, as Q1 2007 delivered very strong results. We view the current quarter's result as a solid performance in a challenging environment.

The Corporate segment posted a loss of C$44 million on an adjusted basis, a swing of C$62 million or C$0.09 per share versus last year. Our capital ratios remain very strong, with our Tier 1 ratio under Basel II at 10.9%.

Toward the end of the presentation, I will provide some comments on our new Basel II disclosures.

On page 5, we see reported net income with C$970 million or C$1.33 per share, and adjusted net income was C$1,060 billion, or C$1.45 per share. Two of our items of note this quarter include the impact from the revaluation of deferred tax assets and liabilities as a result of the substantive enactment of federal tax rate reductions during the quarter.

First, amortization of intangibles. This was C$75 million this quarter or C$0.09 per share. This is a recurring item but this quarter it consists of the regular amortization number of C$95 million less C$20 million associated with the revaluation of the related deferred tax liability. Second, changes in fair value of credit default swaps hedging the corporate loan book. This was a gain of C$25 million or C$0.03 per share this quarter and was net of a provision for credit losses of C$17 million pretax. Third, other tax items, this is the negative impact of the scheduled reductions in the income tax rate associated with the revaluation of future tax assets and totaled C$20 million or C$0.03 per share. And fourth, provision for insurance claims. This relates to a recent court decision in Alberta. The government's legislation effectively capping minor injury insurance claims was held to be unconstitutional. The impact totaled C$20 million or C$0.03 per share.

Let's take a look at our businesses, starting with Canadian retail on page 7. We include a basic P&L for our Canadian retail business, which combines both Canadian P&C and Canadian wealth results. Combined net income growth was 9% year over year.

Turning to page 8, we show results for the Canadian personal and commercial bank, TD Canada Trust. Net income of C$598 million was a new record, up 10% from Q1 of 2007 and 5% from Q4 of '07.

On page 9, we show revenues for TDCT of C$2.1 billion, up 7% from last year. The increase was due to volume growth across most banking products and higher fee income. Strong volume growth drove the C$107 million or 8% year-over-year growth in net interest income. In terms of volume growth, real estate secured lending was up 10% while Visa cardholder was up 17%. On the business side, small-business deposits were up 7%, commercial deposits or up 7%, and total business loans were up 12%.

Other income was up C$30 million or 4% year over year, driven primarily by higher deposit transaction fees and service charges and foreign exchange. For the balance 2008, we expect to see revenue growth rates around the current level. Over time, revenue growth will benefit from increasing our leading position in branch hours, and new branches, marketing investments, improved cross sell and productivity gains.

On page 10, we show our net interest margin for the quarter at 2.98%, down 5 basis points from last year and last quarter. The decrease from Q4 was largely attributable to competitive deposit pricing pressure and changing portfolio mix as loan growth exceeded deposit growth. Compared with Q1 last year the squeeze in prime B/A spread was a major factor in the margin decline as was portfolio mix. Going forward, margins will continue to be vulnerable to higher funding costs and price competition for retail deposits. Given these trends, we expect a modest decline throughout 2008.

Turning to page 11, provision for credit losses increased C$34 million from last year to C$172 million, but was down C$4 million from last quarter. We're pleased that provisions were stable versus Q4 and that the rate of PCL growth has slowed. Personal banking provisions increased C$38 million year over year, primarily due to higher personal lending and credit card volumes and higher loss rates on credit cards. Continued upward pressure is expected. Business banking provision for credit losses decreased C$4 million from Q1 last year on higher net reversals and recoveries this quarter. Our business lending provision is likely to increase in future quarters as net recoveries are not expected to continue. If we see further weakening in certain sectors of the economy, we expect to see an increase in the currently low business banking formations during the second half of 2008.

There was a noticeable increase in gross impaired loans in the Canadian P&C segment this quarter. This increase was mainly due to a change in the definition of gross impaired loans for insured residential mortgages from 360 days to 90 days past the contractual due date. This aligns us with Basel II definitions. The related impact on specific allowances was insignificant.

Please turn to page 12. Expenses of C$1.1 billion were up 3% over last year, but down 2% quarter-over-quarter. At 51% our efficiency ratio improved by 170 basis points compared to last year. We achieved a 300 basis point gap between revenue and expense growth. The year-over-year increase in expenses was due largely to investments in future growth, longer hours and branch additions.

As we noted last quarter, we remain committed to investing for the future, including decisions to build more branches and further extend our hours. These decisions mean expense growth will be slightly higher in 2008 relative to last year. Maintaining our 300 basis point gap between revenue and expense growth will be a challenge in the current environment.

On page 13, we've listed our most recent retail market share data. You can see we continue to maintain a leadership position with respect to share, holding the number one or number two ranking across most product categories.

With respect to deposit volume growth and share, which has been weakening, our focus continues to be on growing a profitable deposit base and not on chasing unprofitable share at any cost. Due to the liquidity crunch, some banks appear to be aggressively pricing retail deposits because of challenges with wholesale funding. Share gains in small-business lending and other business loans were impressive.

Because of our large and stable retail deposit base we do not face the same funding challenges as our peers. However, we have increased customer rates to defend market share where it makes sense. We will continue to generate profitable deposit growth by delivering our convenience and service model.

Let's turn to Canadian Wealth Management on page 14, which excludes TD Ameritrade. This business generated net income of C$128 million, up 5% from last year, a solid quarter.

On page 15, total revenues of C$570 million were up 4% from last year on growth in mutual funds and the advice channels. Excluding the MER methodology change implemented part way through Q1 of '07, the increase is C$10 million or 2%. Mutual fund revenue increased mainly on 9% growth in assets under management. Revenues from the advice channels were up, reflecting our increasing sales presence and growth in assets under administration. Discount brokerage revenues were flat year over year as higher trade volumes, deposit and margin loan balances and improvements in spread were offset by a decrease in commissions per trade. Expense growth of 4%, or 1% excluding the mutual fund methodology change, was mainly revenue related. The longer-term outlook for Canadian wealth management's earnings remains positive, though challenges presented by market volatility may impact our discount brokerage, advice base and mutual fund businesses in the next quarter.

On page 16, we've included a few performance measures related to our Canadian wealth management business. As you can see, we've seen growth in both assets and advisers. Our assets under management of C$170 billion was up mainly on the addition of net new client assets and an increase in mutual fund assets managed for TD Ameritrade clients. Assets under administration totaled C$178 million at the end of the quarter. Excluding the impact of market declines, we're pleased with our asset gathering results.

With respect to mutual funds, recent market volatility has led to an industry-wide shift from long-term funds to money market funds as retail investors seek lower risk alternatives. Total mutual fund AUMs are up 6% year over year to C$55 billion.

For the fourth consecutive year, we're committed to adding 130 net new client-facing advisers with 15 added year to date. We continue to see growth in client-facing advisers as our value proposition resonates with both industry veterans and those professionals new to wealth management.

On page 18, we show our U.S. retail business, which consists of TD Banknorth and TD Ameritrade. Combined net income was up 68% from last year.

Next slide, here we see the contribution made by the U.S. P&C segment to TD Bank Financial Group in both Canadian dollars and U.S. dollars. First-quarter net income was C$127 million, up C$3 million from last quarter's result and up C$63 million from Q1 of '07. The sequential progress in earnings is impressive. In U.S. dollars, the quarter was up 9%. Versus the prior year, excluding the impact of higher ownership and the impact of the Canadian dollar, the improved bottom line was driven by higher operating earnings and lower merger-related costs.

Please turn to slide 20. U.S. P&C U.S. dollar revenue was $462 million this quarter, up 1% quarter over quarter and 9% year over year. Contributing to the year-over-year revenue improvement was volume growth, due largely to that Interchange acquisition, which more than offset a 7 basis points decrease in net interest margin. Revenue improved quarter over quarter due to strong commercial loan growth. The margin improvement of 14 basis points last quarter was the result of some nonrecurring items, as we stated at that time. Margins remain under pressure from stiff competition for high-quality loans and more recently deposits, as competitors who have had trouble with funding have sought to improve liquidity by raising funds in the retail market. Going forward, we see continued pressure on our margin due to sustained competitive pressure in the U.S.

We're seeing stronger commercial loan growth across our markets and across product categories. There are several reasons for this pullback by other Capital Markets players and lower interest rates. We're beginning to see spreads widen slightly and we're keeping a very close eye on credit and structure. This is made easier by more prudent lending standards on the part of our competitors. TD Banknorth has seen positive traction on its many initiatives to enhance the customer experience and drive organic growth, including longer hours, at 260 of its 585 branches, the launch of its new credit card and the implementation of a sales revenue system and customer experience index in the branch network.

Turning to slide 21, you can see U.S. dollar PCLs were down in the quarter, totaling $26 million versus $34 million last quarter. Despite lower PCLs, our coverage ratio improved again this quarter. Net impaired loans were down 4% quarter over quarter, and down 4 basis points to 72 basis points as a percentage of total loans. We remain cautiously optimistic regarding our overall asset quality but the portfolio is still vulnerable to any further weakening in the U.S. economy.

Please turn to slide 22. In U.S. dollars, non-interest expense was down $10 million from Q4 of '07. This improvement was mainly due to efficiency initiatives and timing of expenses. We continue to balance cost control in a challenging revenue environment with the requirement to invest for the future. We're definitely seeing the benefits of the major cost restructuring undertaken in 2007. We're pleased with our overall progress. Initiatives outlined in the June 2007 investor day are coming to fruition and in the context of some pretty tough market conditions. If the overall economic environment worsens, however, we will be negatively impacted, like everybody else.

Turning to U.S. Wealth Management, TD Ameritrade reported first-quarter earnings of $241 million U.S., EPS of $0.40 per share, net revenue of $642 million U.S., and average trades of 322,000. All records. Also of note, TD Ameritrade expenses decreased 4% to U.S. $285 million. despite higher volumes. This was due to lower clearing, execution and general operating expenses reflecting post-conversion synergy. TD's investment in Ameritrade generated net income of [C]$88 million, a 38% increase from [C]$64 million in the first quarter of last year. The increase was a triple to higher TD Ameritrade earnings, partially offset by higher TD funding cost allocation to the segment, and the impact of the stronger Canadian dollar. Quarter-over-quarter earnings increased [C]$13 million due to stronger TD Ameritrade earnings, partly offset by the stronger Canadian dollar. Recently released January trends show a 20% increase in trades per day from December, a very strong result.

Let's now turn our focus to the wholesale business. On slide 25 we see wholesale generated net income of C$163 million, down 17% from a very strong first quarter in 2007.

Let's look at the details on page 26. Wholesale revenue of C$608 million was down C$27 million, or 4% from last year. Trading revenue was down from a very strong first quarter in 2007 as strength in foreign exchange and interest rate trading, which benefited from market volatility and lower interest rates, was more than offset by continued weakness in vanilla credit products, due to credit spread widening as well as divergence in normal pricing relationships in bond, loan and credit default swap markets. Also, revenues in our equity businesses were down versus last year. Our non-trading domestic franchise revenue was up slightly from last year on higher M&A fees, partially offset by weaker syndications and underwriting revenue.

Investing revenue without the security gains increased from the prior year. There were three major items in net security gains. First, we had large realized gains on two merchant banking positions. Second, we had write-downs in our head office portfolio, primarily in U.S. bank stocks. And third, there was a securities loss related to a security we were uncomfortable holding in a mutual fund. We transferred it onto our books at a loss. As a result of realized gains and a general decline in the equity markets, our unrealized gains declined to C$902 million from C$1.2 billion last quarter.

Provision for credit losses of C$56 million included two specific provisions on merchant banking loans and the cost of credit protection. Despite higher investing revenue, the contribution from the business was relatively flat to last year due to higher credit losses in merchant banking and variable compensation costs associated with the merchant banking gains in the quarter. Expenses of C$321 million were up on inclusion of variable compensation for merchant banking, but overall decreased C$11 million or 3% year-over-year, mainly due to lower severance costs. You'll notice that we have not included the chart which referenced TD's limited exposure to certain products and structures of concern to our investors. We have no material change to report.

At Corporate, on an adjusted basis our Corporate segment posted a net loss of C$44 million this quarter compared to a net gain of C$18 million last year and a net loss of C$26 million last quarter. This result is in line with our target of minus C$20 to minus C$40 million per quarter. The year-over-year variance was primarily due to increased unallocated corporate expenses and an unfavorable tax item of C$22 million arising from prior-year audits. Our unallocated Corporate support costs were up due to timing and some nonrecurring items. Control costs are flat. Looking forward, we're pleased that we will see some major relief on the capital tax front from Ontario and B.C., as both provinces phase out this tax over the next few years.

Please turn to slide 29, Basel II. There's lots of new information in our disclosures with more to come as the year progresses. And we've started a process of posting answers to questions relating to Basel II on our website. As Tim mentioned, the IR team would be happy to answer any additional questions. I'd like to give a high-level review and provide you with some perspective on our results.

The implementation of Basel II represents a milestone for Canadian banks. At TD, we're proud to receive our advanced approval and also to be granted the 90% floor for required capital in Q1 of '08, having achieved four quarters of production quality data submissions to OSFI, our regulator. This multi-year commitment involves the tireless efforts of teams right across the bank, and they did a great job. We believe that we will be better risk managers as a result of the stronger processes and more risk sensitive approaches for measuring credit, market and operational risk under Basel II.

Let's review our results. Our Tier 1 ratio under Basel II is 10.9% for Q1, 70 basis points higher than under Basel I. The floor at 90% was not a constraint. Credit risk RWA declined by 24%, which added 225 basis points to our ratio. About 60% of this benefit came from real estate secured lending and 25% came for our wholesale and commercial banking books. The addition of operational risk RWA to the calculation took the benefit down by 136 basis points. Other net items, including changes to the definition of capital, took the ratio down by about another 19 basis points. In fiscal 2009, starting November 1, 2008 for us, we will deduct 50% of our TD Ameritrade investment from Tier 1. We estimate this will cost us about 150 basis points. We expect our Basel II ratio to be around 9% at the end of Q2, that's post-Commerce subject to regulatory approval, and comfortably above 8% on November 1 after the TD Ameritrade adjustment.

In conclusion, we had a solid quarter and a good start to the year. For Q1 2008 we delivered adjusted EPS growth of 5%. We've increased our quarterly dividend by C$0.02, or 3.5%. All of our businesses posted a decent quarter. All have good momentum and are focused on continued execution of their strategies as we progress through 2008. Now back to Tim with your questions.

Tim Thompson - TD Bank Financial Group - SVP - IR

Thanks Colleen. Let's start with questions. If we can start from the floor first. Michael?

QUESTION AND ANSWER

Michael Goldberg - Desjardins Securities

One of the things I noticed was that your business and government lending appears to be up quite strongly year over year, and quarter over quarter. And this seems to be evident in industry data also. Yet what we're hearing is credit crunch and pullback on lending, and we're seeing this in the surveys of senior credit officers. Can you give us some color on what's actually going on here?

Tim Thompson - TD Bank Financial Group - SVP - IR

And you're thinking of Canada?

Michael Goldberg – Desjardins Securities

Canada and U.S.

Tim Thompson - TD Bank Financial Group - SVP - IR

Sure. So why don't we start with Bob, and then we will go to Bernie, Bharat?

Bob Dorrance - TD Bank Financial Group - Chairman, CEO & President, TD Securities

I think the trend during 2007 and into '08 was -- the trend in 2007 and into '08 with respect to lending -- in the corporate side was M&A related. And the M&A activity may have slowed down, but it was certainly strong enough in the latter part of the year that there were still loan growth associated with -- corporate M&A., but we've seen growth in our balance sheet related to that. I do think that the level of loan growth in the institutional marketplaces basically slowed down dramatically, if not disappeared. But you're seeing loan growth in the banking business related to what I would call more strategic M&A, or intercorporate M&A, than financial M&A.

Bernie Dorval - TD Bank Financial Group - Co-Chair TD Canada Trust

In terms of small-business and commercial mid-market, we were trending about 9% year-over-year volume growth on the business loan side for the last two years. This quarter we've been at 12%, and really it's basically two things.

Number one is partly the result of investments that we have made to increase our visibility and capacity at the street level, so we're gaining market share. And you've got that in our market share statistics, so that's part of that. And I would say part of it is that it's a bit of an offset between the deposit growth and the loan growth, as our deposit growth, which we're running about 10% the last couple of years, have now gone down to 7%. So you can see that there is a bit of a different mix in terms of cash flow management in the portfolio of our customers. A little less deposit growth, a little more volume growth. It's more like utilization, a little more utilization of their operating lines, really.

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Banknorth

As far as U.S. goes, Michael, I'd make a couple of points. Firstly, given the issues you just noted, some of the players who were quite aggressive in the markets are no longer playing in this game. So that gives more opportunity for traditional banks, and obviously in our case, we will take advantage of that. So we see some growth from that particular issue.

As far as -- it is not surprising, given the point in the cycle to see your clients borrow more. It is quite normal through the cycles if you go through history that when there is a bit of turmoil, some clients just borrow more. You're just expanding on Bernie's point, that they hold less deposits and they are borrowing more because it's a business need.

And the last point I would make is that the Northeast of the U.S. appears to be a little stronger than the rest of the U.S. That gives us more opportunity as well. So it's a combination of events that have resulted in better loan growth than you might have expected.

Tim Thompson - TD Bank Financial Group - SVP - IR

Thanks, Bharat. Ian?

Ian de Verteuil - BMO Nesbitt Burns

The question relates to credit and provisioning in the TD Securities. It looked like very high formations, C$134 million, and then you also had in the comment on provisioning said there were two specific merchant banking names. So I see all of that; I would have also thought to have had [write] challenges against undrawn but connected lines, and you didn't have that. So maybe you could talk to those issues, and the accounting for that.

Mark Chauvin - TD Bank Financial Group – EVP, Risk Management and Chief Risk Officer

On the formation side it was three separate accounts, as outlined in the review. Two were in the merchant bank, and a third was in the wholesale bank. I wouldn't necessarily put the one in the wholesale bank as being economically driven as opposed to the outcome of a long saga, but it's been dealt with and it's totally contained within the quarter.

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Ian de Verteuil - BMO Nesbitt Burns

How does that relate to the 56 that you took, which is I think the 42 is to the two merchant banking positions.

Bob Dorrance - TD Bank Financial Group – Chairman, CEO & President, TD Securities

Right. So of the charge that we recorded, there's the provision for the two merchant banking positions. And then the balance is for the cost of action that we carry on the CDS portfolio that we have against the loan book. So the PCL recorded in the wholesale sector is basically the new charges against the merchant bank activities and the cost of production.

Ian de Verteuil - BMO Nesbitt Burns

So there's no other provision against undrawn committed facilities, and rationale for that?

Bob Dorrance - TD Bank Financial Group – Chairman, CEO & President, TD Securities

We didn't have any -- we did have one other corporate bank formation that we dealt with in the quarter in terms of exiting that position (multiple speakers)

Ian de Verteuil - BMO Nesbitt Burns

Shouldn't you be marking those to market, the undrawn committed --?

Mark Chauvin - TD Bank Financial Group – EVP, Risk Management and Chief Risk Officer

The two in the merchant bank were just term loans, so there was nothing undrawn. The other one -- when they default, you cancel your commitment for the undrawn automatically falls away.

Ian de Verteuil - BMO Nesbitt Burns

I'm talking about BCE.

Mark Chauvin - TD Bank Financial Group – EVP, Risk Management and Chief Risk Officer

Separate issue.

Bob Dorrance - TD Bank Financial Group – Chairman, CEO & President, TD Securities

That's a --

Ed Clark – TD Bank Financial Group - President and CEO

With us crowd, you can't be subtle. (multiple speakers)

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Bob Dorrance - TD Bank Financial Group – Chairman, CEO & President, TD Securities

With respect to BCE, I don't really talk about obviously individual names. I think as we've said previously, we mark loan underwriting commitments to market.

Ian de Verteuil - BMO Nesbitt Burns

Even though they are undrawn?

Bob Dorrance - TD Bank Financial Group – Chairman, CEO & President, TD Securities

Even though they are undrawn. But once we have a loan underwriting commitment, and we feel that there is a need to mark it to market, that's what we do. And obviously we are aware of where our market is, and we act accordingly.

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

And those amounts go through trading. (multiple speakers). When you see -- trading related income, it's in the credit and interest trading.

Ian de Verteuil - BMO Nesbitt Burns

So the 197 would include any write-downs on (multiple speakers)

Bob Dorrance - TD Bank Financial Group – Chairman, CEO & President, TD Securities

Any underwriting commitments that we -- (multiple speakers)

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

Correct. (multiple speakers).

Tim Thompson - TD Bank Financial Group - VP - IR

Let's move to the phones. Operator, first caller, please?

Operator

Jim Bantis, Credit Suisse.

Jim Bantis - Credit Suisse

Good afternoon. Just want to talk about Canadian retail banking. It looks like we're facing the new reality in the context of profitability metrics. We've gotten used to 15% growth rates in earnings and double-digit revenue growth. And we've seen a slowdown obviously this quarter. But listening to your comments, Ed, in particular, it sounds like this 10% growth rate growth rate that we achieved in earnings this quarter is going to tough to achieve going forward. Thinking of higher provisioning, investment spending and maybe a slowdown in volumes. Could you talk a little bit about that?

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Ed Clark - TD Bank Financial Group - President and CEO

I'm going to let Tim talk about that since he has to achieve it.

Tim Hockey - TD Bank Financial Group - Co-Chair, TD Canada Trust

Jim, I think you read the messaging right. Obviously it's a tough environment out there. The new reality, the fact is that the old reality we thought was unsustainable certainly for the length of time that it was, if you remember our objective between Bernie and I is double-digit earnings over time; we expect the able to fluctuate around the 10% market, in good times and in bad to do that over time. But I think anybody would believe that we're actually heading into one those times that we would tend to be below it as opposed to above it. So, yes, it's going to be a tougher environment.

Jim Bantis - Credit Suisse

Tim, when you think of some of those factors I just mentioned, should we be -- I guess looking back at your experience, should we see higher provisioning coming first, or is it slower volumes or is it a combination of the two?

Tim Hockey - TD Bank Financial Group - Co-Chair, TD Canada Trust

The biggest factor we've seen so far obviously is a decrease in the absolute revenue growth rate than we've achieved over the last little while. The revenue growth rate was nicely in the double-digit category, which gave us some room on the expense side. That's dropped down below that level to the high single digits.

Given the pressure that we've got currently on volume growth, notably on the deposit side that will continue to be under pressure. Everybody knows the story of the prime B/A spread compression in the last couple of quarters; that certainly was an impact this quarter. We see a little bit of relief right now currently, but given what the interest rate change that might be coming has in store, we're not sure whether that is sustainable, so I guess we're keeping our powder dry.

On the expense side, as we said, we actually had some increases in expenses, all for good, strategic reasons. We're quite pleased with the way we've maintained other expenses so we can continue to invest and keep that gap, but we're also realistic, saying that if revenue growth continues to be under pressure, it will be difficult to keep a 300 basis point operating leverage moving forward.

Jim Bantis - Credit Suisse

Can you remind how many branches you plan to open in the next two, three years?

Tim Hockey - TD Bank Financial Group - Co-Chair, TD Canada Trust

Just in the past quarter, we opened five. Our target this year is about 30. And we expect to go at that rate or a little lower depending on -- we've been on quite a streak for a number of years now as you know, so now we're wondering about making sure we don't just try to achieve a number as opposed to putting branches in the right places in growing communities.

Jim Bantis - Credit Suisse

Got it. Thanks very much.

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Operator

Brad Smith, Blackmont Capital.

Brad Smith - Blackmont Capital

Thanks very much. I just had a quick question with respect to the impaired loan development in the U.S. Looking at the gross impaired loan growth, and the formations that are disclosed in the sub-packet, strikes me that there was quite a substantial decline in the return to performing sold or otherwise the reductions that occurred there. Just wondering if there was something specific happening there that would cause it to drop as materially as it has from sort of trend levels. I mean, was there a drop in the amount of loans sold, or what would have caused that? Because basically we have an improvement in formations, and yet the overall impaired loan balance jumps quite substantially in the U.S.

Mark Chauvin - TD Bank Financial Group - EVP, Risk Management and Chief Risk Officer

It's Mark Chauvin. The increase -- and I think you're looking at on page 17 under "United States" line 15, that is the wholesale bank loans that I'd mentioned earlier. They're actually U.S. loans.

Brad Smith - Blackmont Capital

I'm looking at page 17, and I am looking at gross impaireds of 319 million, up from 244 million. And what I was saying was that I believe that the bulk of that increase is a function of a reduction in what you referred to as either return to performing, repaid or sold, which although they're not broken out, you can basically back into it because you have given us the formations in the U.S. P&C banking.

Mark Chauvin - TD Bank Financial Group - EVP, Risk Management and Chief Risk Officer

So --

Colleen Johnston – TD Bank Financial Group - Group Head Finance and CFO

Maybe just to help out here. I think what you're really asking is around the U.S. P&C?

Brad Smith - Blackmont Capital

Yes.

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

I think the more appropriate number to zero in on is the net impaireds at the bottom of the page, so then you're looking at the U.S. P&C on line 39. So the net impaireds are down in TD Banknorth as you can see quarter over quarter. I think as Mark is saying, in terms of the U.S. classification, that was more wholesale driven, so you see that in the gross formations up above.

Ed Clark - TD Bank Financial Group - President and CEO

The impaired loan formation and the loan losses that we're referring in the wholesale were U.S. So (multiple speakers) looking at the U.S. and assuming that it's P&C, it's actually wholesale.

Brad Smith - Blackmont Capital

Right, but if the opening balance of the gross -- I'm really kind of just focusing on the gross number here -- was 244 million going into the first quarter, and there was 87 million of formation, how we get to the 319 million was my question? It just seemed that there was a big falloff there in the recoveries, sales or repaids. I just wanted to confirm that. What would have caused that?

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

We have a position which is now off our books, it was credit protected. It's now gone.

Brad Smith - Blackmont Capital

How does it come off the books, though? That's what I'm just curious about.

Ed Clark - TD Bank Financial Group - President and CEO

If we have a loan that is credit protected, we package the credit protection with the loan and we sell the two of them off; that's what went on.

Brad Smith - Blackmont Capital

Okay. Thank you very much.

Operator

Mario Mendonca, Genuity Capital Markets.

Mario Mendonca - Genuity Capital Markets

Colleen, I just want you to clarify something your answer to Ian. When you're suggesting that any potential write-downs associated with the BCE, that exposure would go through trading, were you suggesting that that's where it will be, or where it was this quarter?

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

Let me start. We do mark to market all of our underwriting commitments, and that did affect revenue in the quarter; it was not a significant impact.

Mario Mendonca - Genuity Capital Markets

The more important impact presumably would be next quarter?

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Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

No, we fully marked to market those commitments, so we're current on that. We did have some charges in 2007.

Mario Mendonca - Genuity Capital Markets

I guess what I'm getting at is --

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

Third quarter in particular.

Mario Mendonca - Genuity Capital Markets

When the deal is completed, and the bank makes an attempt to syndicate it, is that not when we will see the more material effect?

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

When we mark to market, we factor in the cost to syndicate. So (multiple speakers). You have to take into account here, when you think about how we marked to market here, you have to take into account the fees that we have on the deal, the flex we have on the deal, and then we benchmark that against where possible comparables in the market and we do fully marked to market that. So as I say, we are current at the end of Q1.

Mario Mendonca - Genuity Capital Markets

My sense was you couldn't take into account any fees until the deal was closed, but I guess you're explaining that otherwise.

Colleen Johnston TD Bank Financial Group - Group Head Finance and CFO

Right.

Mario Mendonca - Genuity Capital Markets

Okay. The actual question I wanted to touch based on was -- U.S. P&C again, the expense reductions -- and I've sort of been paying attention to this for a while. I understand you were putting in some expense controls and advertising was lower and everything else, but it just seems odd how quickly those expenses are coming down in U.S. P&C, particularly in the context of the sort of increases we're seeing in the corporate expense line. I'm not suggesting anything sinister here, but it seems interesting how the expenses are just diving very quickly in U.S. P&C and the expenses in corporate are moving higher. Is there any allocation issue happening here?

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

Maybe I can start and then hand it over to Bharat to talk more about what's going on in the business. If you take this quarter versus the same quarter last year, there are a couple of items in last year; we had some larger merger-related costs related to the Interchange acquisition. Those would've been in the expense line. As you know, we changed a number of our methodologies as well, where now we do allocate some of the corporate support costs out of Banknorth, we allocate those into the Corporate segment, consistent with our other businesses. So you're not dealing with an exact apples-to-apples. But certainly sequentially you are, and I think overall the trend isn't as dramatic as it appears on that graph, but we are definitely seeing improvements in efficiency. Maybe I'll turn it over to Bharat to give you a sense of how that is all working.

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Banknorth

So last year in June, we outlined various initiatives at Banknorth. One of them was a major focus on expense reduction. In fact, I had gone out and said we were going to reduce our run rate of expenses by between 5 to 8%. So that's $50 to $80 million out of a base of about $1 billion. And we've not only met that target, we exceeded that. So I think the group has done a remarkable job in reducing those run rate of expenses. But having said that, we have invested some of the savings in the various initiatives that Colleen talked about, and that's yielding some positive results for us as well. So I would say that there is a genuine result in reducing expenses, and you're seeing the results of that.

Mario Mendonca - Genuity Capital Markets

And Colleen, just to clarify your point then, when you say that there's this -- part of it is allocation, but as Bharat just suggested, a good measure of it is genuine. When we look at the efficiency ratio in that segment declining from 61.5 to 52.7, is there any sort of rule of thumb you give us? Is two-thirds of that improvement genuine for lack of a better word and the rest allocations? Would that be fair?

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

If I was to take the core expenses, I would say about 300 basis points of the efficiency improvement would be on a core basis. And the rest of the impact would be the other items that I mentioned previously.

Mario Mendonca - Genuity Capital Markets

Got it, thank you.

Operator

Andre Hardy, RBC Capital Markets.

Andre Hardy - RBC Capital Markets

My question refers to retail in Canada. Can you talk about loss experience in VFC? And on the credit card side you are seeing higher loss rates; are you still convinced that's related to operational issues as opposed to a weakening consumer?

Tim Hockey - TD Bank Financial Group - Co-Chair, TD Canada Trust

It's Tim. VFC continues to be right on target and actually their loss rates are essentially flat. But their loss amounts are a bit commensurate with growth. So we're quite pleased there.

On the credit card side, in fact generally on PCLs, in the personal side in Canadian retail, the number is down sequentially in terms of quarter. There's no question that the changes we made in our credit adjudication systems last year are starting to take effect. It's too early to claim victory; as I say one-quarter does not a trend make. But we're quite comfortable with the changes. We're seeing, the cohort's age; we like what we see. We're making a few more tweaks based on some learning, but so far so good. The pig is very much moving through the pipeline.

Andre Hardy - RBC Capital Markets

Okay. And in small-business and commercial, are watchlists increasing much?

Bernie Dorval - TD Bank Financial Group - Co-Chair TD Canada Trust

In small business, what we are seeing is a slight deterioration in loss rates. I would say if you look at the actual bankruptcy statistics for the month of January, the bankruptcies are going up in small business across the country, so slight deterioration there.

On the commercial front, I would say we're seeing -- and you see that through the information, a little bit increased formation, although well within the range of what we've had two years ago. Last year was a really low year from that standpoint. We were fortunate again this quarter to have a significant amount of a reversal in recoveries. We don't expect that part to be as significant going forward, but we have said that a number of times. I think this time we may be right. So a little bit of an increase there. But still quite muted compared to what we would've expected at this stage of the economic cycle, really.

Andre Hardy - RBC Capital Markets

Thank you very much.

Operator

Robert Sedran, National Bank Financial.

Robert Sedran - National Bank Financial

Good afternoon. Bob, some merchant banks seemed to have picked up a lot of dust this quarter. Just wondering if you think in the current environment we're in a period where we can expect continued volatility from a number of the lines that it affects, or if you expect it to settle back down and not be quite so obvious next quarter?

Bob Dorrance - TD Bank Financial Group - Chairman, CEO & President, TD Securities

I do think that it was fairly noisy in the quarter and I think that we would probably not see -- necessarily see a repeat of that. You've got a combination of some very good gains, yet a variety of write-offs, including the PCLs. And in looking at our mezzanine book, we don't see the same concern in that regard. So would expect to see the PCL -- not expect to see the PCL recur; unlikely that we would have the size of growth gains that we had in the quarter as well. And some of the other write-offs are I think of a more non-recurring nature. So I think it will dampen down in terms of the variety of noise that went through the sector; still produced reasonably good results, and those results were similar to last year. Looking forward to that experience with less moving parts.

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Robert Sedran - National Bank Financial

Are you generally comfortable you think with the size of the portfolio right now?

Bob Dorrance - TD Bank Financial Group - Chairman, CEO & President, TD Securities

Yes, very much so.

Robert Sedran - National Bank Financial - Analyst

Thank you.

Tim Thompson – TD Bank Financial Group - SVP - IR

Is there one last question from the floor? Ian?

Ian de Verteuil - BMO Capital Markets

One of the things that concerns us all is the deterioration going on in the U.S. real estate market. Leaving aside your -- the direct consumer business and focusing on the 10 billion of real estate, whether through what you define as real estate services, how -- compared to three months ago, how do you feel about that book now versus how you did then? And it sort of comes in, backs into we would have thought more provisions this quarter.

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Banknorth

Obviously, there are pockets of weaknesses, Ian. For-sale real estate continues to weaken; that's one segment that is quite weak.

We have a healthy process, I would say every quarter to look at all of our positions. It goes through a particular framework to see whether we recognize or downgrade it adequately all our accounts, and I feel comfortable that we are recognizing the problems as they come along.

But as provisioning goes, I think Colleen commented -- made the point that our coverage in fact has improved, from how much in allowances we have versus in relation to loans. So I feel comfortable with that. But obviously you do have to be concerned about it because the news in the United States is not good. So we're watching it very carefully.

Our portfolio traditionally, the underwriting has probably been more conservative then perhaps the market, that is helping us now.

And like I mentioned earlier to one of the questions, the Northeast of the U.S. appears to be better off, relatively speaking, than the rest of the country. So those would be the combination of events, but am I more concerned than I was three months ago? Yes, I am. But do I think, and my numbers suggest that the world is not coming to an end. That's what the numbers would suggest. But we're watching it very carefully.

Tim Thompson - TD Bank Financial Group - SVP - IR

Before we end, I'm going to turn it over to Ed for some closing remarks.

Ed Clark - TD Bank Financial Group - President and CEO

Thank you for attending. I think we have some fairly simple -- four key messages. First, we actually had quite a good start to the year, and we're in a position to increase our dividends. Secondly, these were good results, in fact great results on our retail franchises, and they've given us a very good start towards that goal we set out of getting close to C$4 billion in retail earnings in 2008. We think the wholesale bank had a very positive quarter, given the tough market conditions. And I think the fundamental message that we always have is we're sticking to our strategy. We're going to continue to grow great franchises and constantly invest for the future. Thank you.

Tim Thompson - TD Bank Financial Group - SVP - IR

We're done now. Thank you. Good bye.

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