Bank Financial Group
Investor Relations

TD Bank Financial Group (TDBFG)

Supplemental Financial Information: Q4/08 Guide to Reader

Page 1 - Highlights

Page 1 lines 3, 6 – What is the segment contribution to the change in year-over-year operating leverage?

The weaker performance in Wholesale Banking accounted for approximately 82% of the negative operating leverage this quarter. Corporate Banking accounted for most of the remaining change.

Page 1 line 28 – The Tier 1 capital ratio on Oct. 31/08 was 9.8%, but on Nov. 20 a pro forma Tier 1 capital ratio of 9.1% as of Nov. 1/08 was disclosed. What happened to cause the decrease?

Due to Basel II regulations[1], on Nov. 1/08, 50% of the Bank's investment in unconsolidated subsidiaries, which includes our investment in TD Ameritrade, moved from Tier 2 to Tier 1. This accounted for approximately a 150bps negative change in the Bank's Tier 1 capital ratio, to 8.3%. We also announced certain capital-raising initiatives during the quarter, which included preferred shares, innovative Tier 1 and common shares through our dividend reinvestment plan. Including these on a pro forma basis as of Nov. 1/08 brought the Bank's pro forma Tier 1 capital ratio to 9.1%.

Page 2 – Shareholder Value

Page 2 line 10 – Why did the effective tax rate decline to 2% this quarter?

The reported effective tax rate was lower primarily due to benefits from certain funding structures, a non-taxable transaction booked in the quarter, and a deemed dividend transaction with a tax benefit. Adjusting for items of note, the adjusted effective tax rate for the quarter was 18.3%.

Page 3 – Adjustment for Items of Note

Page 3 lines 2, 18 – Why did you reverse your Enron litigation reserve in this quarter? What is the amount remaining in the reserve?

The Enron contingent liability for which the Bank established a reserve was re-evaluated in light of the favourable evolution of case law in similar securities class actions. We therefore decided to reverse $477 million (US$396 million) of the reserve. This equated to $0.40/share in the current quarter.
The amount currently in the reserve is $20 million (US$17 million). Given the uncertainties of the timing and outcome of the securities litigation, the Bank will continue to assess evolving case law as it relates to the Bank's Enron reserve to determine if it should be further reduced.

Page 4 – Segmented Results Summary

Page 4 lines 13, 14 – The Total Retail/Wholesale Banking net income mix was 128%/(28)% this quarter. What is your desired mix?

The desired mix is 85%/15% under normal market conditions. However, given the current weak capital markets environment, it is reasonable to expect a lower portion of earnings from Wholesale.

[1] For more information on Basel II, see the document titled "Guide to Basel II", posted at *td.com/investor.*

Page 5 - Canadian Personal and Commercial Banking

Page 5 line 4 - What is driving the steady increase in provisions for credit losses each quarter in fiscal 2008?

There was an increase in personal lending provisions, particularly in the unsecured lines of credit and indirect auto loans. This mainly reflected credit quality challenges and volume growth. There was also an increase in credit card provisions, which was mainly attributable to portfolio growth.

Page 5 line 5 – Why did non-interest expenses increase 7.9% year-over-year?

The increase in expenses from Q4/07 was impacted largely by the inclusion of the U.S. credit cards and insurance businesses, which began in Q3 of this year. Certain initiatives undertaken by the segment such as the opening of new branches and extended hours also contributed to the increase. Canadian Personal & Commercial Banking opened 30 new branches in 2008. In Q4/08, the Bank incurred a one-time charge relating to the termination of the Truncation and Electronic Cheque Presentment (TECP) initiative by the Canadian Payments Association, which also accounted for part of the year-over-year change in expenses.

Page 5 line 20 – Why did the margin on average earnings assets decrease 9bps from last quarter, to 2.89%?

The 9bps decrease was driven by a lower prime/BA spread, higher liquidity premiums, and other miscellaneous factors.

Page 6 – Wealth Management

Page 6 – lines 3, 4 – Why was operating leverage negative this quarter?

Operating leverage was negative mainly due to revenue challenges experienced as a result of current market conditions and continued investment in the business. Expenses were up partially due to the continued investment in growing the sales force, partially offset by lower variable expenses due to weaker results. The addition of the U.S. wealth businesses, which began in Q3 of this year, also had a negative impact.

Page 7 – U.S. Personal and Commercial Banking

Page 7 line 4 – Is $75 million per quarter still a reasonable run rate for provisions for credit losses in 2009?

It is difficult to predict provision levels in this environment. However, we believe prudence dictates higher provisioning levels to further cushion the segment in a downturn. We envision provisions for credit losses could be in the US$100 million to US$125 million range in the coming quarters. This increase should be more than offset by a favourable C$/US$ exchange rate.

Page 7 line 20 - Why did the US P&C margin drop 11bps from the previous quarter?

The current quarter's margin of 3.81% fell 11bps over the prior quarter primarily due to compression on deposit spreads – a reflection of an adjustment to the pricing strategy in response to competition in the mid-Atlantic region. The various margin compression challenges were partially offset by solid growth in the commercial loan book.

Page 8 – Wholesale Banking

Page 8 line 2 – Why did other income decrease to $(578) million in Q4/08?

The main reason for the negative income in Wholesale Banking this quarter was trading losses in the Credit Products Group. Due to severe dislocation in the credit markets, the widening in the pricing relationship between asset and credit protection markets, or "basis", negatively impacted credit trading-related revenues. The dramatic absence of liquidity in global credit markets in September and October produced an unprecedented widening of the basis, causing losses in Wholesale Banking in the 4th quarter.

Page 8 line 12 – Did any of the losses this quarter relate to structured products?

No. We exited our structured products group in 2005. The relevant assets pertain to our Credit Products Group.

Page 8 line 16 – Why did risk-weighted assets increase $12 billion from the previous year and $8 billion from the previous quarter?

A year-over-year comparison is not practical, as the measurement of risk-weighted assets changed on Nov. 1/07 with the implementation of Basel II. The quarter-over-quarter increase was primarily due to an increase in new asset growth in corporate lending, and the reclassification of certain assets from trading to available-for-sale. Volatile markets also caused an increase in over-the-counter derivatives and market risk.

Page 9 – Corporate Segment

Page 9 line 15 – Why did Corporate Segment incur a net adjusted loss of $(153) million this quarter?

The loss in Corporate Segment was largely due to illiquid markets, which contributed to losses on securitizations and negative carry on some of our investments. We earned a negative carry because of our decision to hold safer, yet lower yielding investments given the uncertain financial markets in September and October. This is an accounting loss, not an economic loss.

Page 11 – Other Income

Page 11 line 18 – Why did other income increase from $150 million last quarter to $355 million this quarter?

Much of the increase in this line item was due to the mark-to-market of credit default swaps held in the Wholesale Segment. The bonds held in Credit Products Group were moved to available-for-sale, with the corresponding gains or losses to be recognized in income only when sold externally. The hedges on this portfolio, however, remained in the trading book, and as a result were required to be mark-to-market, with changes in fair value flowing through the income statement. This increase totaled $141 million this quarter and was identified as an item of note. The change in fair value of credit default swaps hedging the corporate loan book is also included in this line. This quarter, the amount was $96 million vs. $34 million last quarter. This, too, was identified as an item of note.

Page 12 – Non-interest expenses

Page 12, line 22 – Why did other expenses decrease from $193 million last quarter to $(249) million this quarter?

As noted above, this quarter we decided to reverse $477 million of the Enron litigation reserve. This is booked as a contra-expense since the initial recognition of the reserve was booked as an expense.

Page 13 – Balance Sheet

Page 13 line 3 – Why did trading securities decline from $73.7 billion last quarter to $53.1 billion this quarter?

The decrease was partially due to the reclassification of certain debt securities to the available-for-sale category. There was also a volume decrease, specifically in equity securities and government and other issuers' debt. Market movement also accounted for part of the decrease, as equity markets have experienced extreme volatility in the last quarter.

Page 13 line 5 – Why did available-for-sale securities increase from $60.2 billion last quarter to $75.1 billion this quarter?

As noted above, there was a reclassification of certain debt securities from trading to available-for-sale, as the Bank no longer intends to trade these securities. Also, as equity markets declined, our interest in more secure investments, such as government issues or guaranteed issues, increased.