Bank Financial Group
Investor Relations

TD BANK FINANCIAL GROUP
Q4 2008 EARNINGS CONFERENCE CALL
THURSDAY, DECEMBER 4, 2008

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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 2008 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 existing and the introduction of new monetary and economic policies 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; defaults by other financial institutions in Canada, the U.S. and other countries; 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 (including future accounting changes) and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; changes to our credit ratings; global capital market activity; increased funding costs for credit due to market illiquidity and increased competition for funding; 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. 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PRESENTATION

Tim Thompson - TD Bank Financial Group - SVP - IR

Good afternoon and welcome to the TD Bank Financial Group's fourth-quarter 2008 investor presentation. My name is Tim Thompson and I am head of Investor Relations at the Bank.

When considering our fourth-quarter results, please reference this presentation along with our preannouncement materials from November 20. We will begin today's presentation with strategic remarks from Ed Clark, the Bank's CEO, after which Colleen Johnston, the Bank's CFO, will present our fourth-quarter operating performance. Bharat Masrani, Group Head of US P&C Banking, will then provide a business update and comments on our integration initiatives in the US P&C Segment. Mark Chauvin, Chief Risk Officer, will then offer comments on credit quality. After that, we will entertain questions from those present and from prequalified analyst and investors on the phone.

Also present today to answer your questions are Bob Dorrance, Group Head Wholesale Bank; Bernie Dorval, Group Head Global Insurance; Bill Hatanaka, Group head Wealth Management; and Tim Hockey, Group Head Canadian P&C Banking. As in the past, we are trying to keep the call to about 1 hour with Ed, Colleen and Bharat, and Mark's comments taking up about half of that time.

Please turn to Page 2. We know that this presentation contains forward-looking statements and actual results could differ materially from what is discussed. These statements are presented for the purpose of assisting our shareholders and analysts in understanding our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives. It may not be appropriate for other purposes. Certain material factors or assumptions were applied in making these statements. For additional information, we refer you to our Q4 2008 and annual MD&A. These documents include a description of factors that could cause actual results to differ and can be found on our Web site at TD.com.

Let me turn the presentation over to Ed.

Ed Clark - TD Bank Financial Group - President and CEO

Thanks, Tim. Welcome, everyone, and thank you for joining us this afternoon. Before I turn it over to Colleen, I would like to try to provide you with some comments on our 2008 performance and then talk about some of the factors that I see impacting us in 2009.

All in, I think we have actually had a pretty good year despite some of the toughest markets certainly I have ever seen. We have had excellent performance in retail in both Canada and in the United States. We said we would try to hit $4 billion in retail earnings in 2008 and we did. That is a fantastic earnings anchor for the Bank and we are focused on growing that number in the future.

Even though TD Securities had a tough year and a particularly tough fourth quarter, even including the credit losses and the earnings they will have earned of 5% greater return since the start of the global financial turmoil -- quite remarkable when you compare to other wholesale banks around the world.

Let me comment on that turmoil. Canadian banks have fared relatively well over the past year. For TD, we had positioned ourselves sometime ago to reflect a more conservative approach to risk and that did pay off, but we still felt the collateral impacts. At the end of 2008, we feel we have emerged slightly bruised but stronger.

We dealt with the issues in TD Securities head-on. We took a cautious view and raised common equity capital, giving us an extra layer of security and our investors additional peace of mind against ongoing market turbulence. We still have very large capacity to issue preferred shares. These actions, plus the stability of our premium retail earnings mix, allow us to comfortably move our focus back to running our businesses.

When will this turmoil end? The truth is no one knows. Given the size and scope of government intervention around the world, we would expect to see signs of stabilization in the near-term. While these interventions are positive moves, unfortunately that doesn't mean that we are likely to avoid a recession in North America.

The real question is how deep will that recession be? It appears the United States is already in recession and we believe the U.S. slowdown is spilling over into Canada. The strong Canadian dollar has weakened recently, which should help Canadian exporters, but weaker commodity prices will hurt, especially in the West. There is, obviously, considerable uncertainty surrounding the North American automakers, which could in turn hit Ontario hard.

A key part of the solution to the problem lies where the crisis began, in the U.S. housing market. We need price stability in that market and the start of a recovery there before we can begin to see any light at the end of the tunnel. Unfortunately, this may take some time.

As the economy turns down, understandably there is concern that banks not overreact by unduly restricting credit. We recognize this concern and have emphasized, both within the Bank and with our customers and clients, we will work prudently with them through these troubled times. Indeed, we have said clearly that we are open to business and want to use the current market dislocation to gain market share, all of the time of course ensuring we stay within our lending standards. In our materials release today, we have included charts on our overall lending as well as a specific look at commercial lending. Both charts underscore our point.

Our lending at TD Canada Trust, Personal and Commercial, has continued to grow through each quarter of 2008, despite a general slowdown in credit growth. Our small-business in commercial lending has increased, moving up from a growth rate of 7% to 10% to 14% to 15% in recent quarters, well above the average growth rate of such lending.

There is, across the world, a general reintermediation going on putting bigger burdens on banks. At the same time in Canada, foreign banks are withdrawing from the Canadian market, replacing a larger burden on the large domestic Canadian banks. At TD, we are rising to that need, applying credit to our clients. This does mean, however, that credit growth will not -- this does not mean, however, that credit growth will not slow in 2009 as businesses become more cautious about their expansions.

What does all of this mean for us at TD? As you know, we like to operate simple strategies in a consistent way over the long-term. We don't want to make knee-jerk decisions in reaction to every piece of news or market event. On the other hand, we also have to recognize that there are significant headwinds that we are going to have to contend with.

In our U.S. and Canadian retail operations, we feel we have good momentum and have pretty stable businesses. We still see volume growth but we see that slowing from where we are today.

Margin compression will continue to be an issue. Our cost of borrowing has gone up. Deposit rates have not fallen as we have in fact lowered lending rates. There will be a period of adjustment as we try to pass on cost increases and hopefully as well borrowing costs ease.

Clearly, a recession means higher PCLs, but in Canada the increase should be measured as the year moves along. In the U.S., given the tougher economic environment there, we expect to increase provisions from the current levels during the first quarter to ensure that we keep on building sufficient reserves. In Canada, our insurance business is countercyclical but will be affected over time as housing lenders slows.

Finally, with respect our U.S. operations, we would expect to see the benefits of a successful integration and the substantial impact on the Canadian dollar earnings of the lower value of the Canadian dollar. Our Canadian Wealth Management operations start the year with a significant headwind of lower asset values. On the other hand, our client base continues to grow and our online brokerage transactions remain very high. These two factors are also true for TD Ameritrade, which continues to perform very well. TD Ameritrade, however, will be affected if in fact interest rates continue to fall.

As to our wholesale bank, forward-looking observations are particularly difficult but coming off of a year when our wholesale operations, excluding the drag of our credit trading businesses, actually performed very well despite the market pressures. Next year, there hopefully will be substantially less drag from the credit trading business. On the other hand, overall franchise activity may be quiet and the markets may offer less opportunity for trading profits in foreign exchange and fixed income.

There is some risk of further write-downs in our head office portfolio, depending on the evolution of the stock market. Despite these many headwinds, we will continue to pursue our organic growth strategy, but we're going to do so at a more measured pace that is in line with the slowing economy.

For example, this year, we opened 30 new branches in Canada. Next year, that number will likely be closer to 20.

We will continue to add to our client-facing advisors in Wealth, up 80 for 2009 compared to 130 in 2008. In the U.S., we will keep our branch opening steady, adding about 30 new branches there.

On expenses, we do not believe in fire drills but we also understand the need to be cautious. We will continue to actively manage our expenses, as we have been doing, with a focused approach from areas where we can create sustainable cost advantage but not at the expense of our strategic initiatives. We are also going to continue to leverage our North American scale to drive savings and gain synergies where it makes sense to do so.

Overall, how am I feeling about 2009? Obviously, we're in a very uncertain economic environment. It is not the environment where one can provide much guidance. Although I am feeling pretty good about TD, the lack of visibility on the economic environment does call for caution.

On the other hand, I do think it is very important in these times to keep things in perspective. We have a strategy and we have a competitive advantage and position in the marketplace that will help us weather this storm. I know our teams are focused on delivering growth despite all of these headwinds.

Against the background of what I think has to be characterized as an exaggerated move of pessimism in the equity markets, TD still has enormous earnings potential. We are going to have the full-year impact of Commerce in 2009, coupled with the stability in earnings momentum of our Canadian Personal and Commercial bank. It is realistic to expect that we will see a reasonable increase in absolute earnings in 2009 and an increase in earnings per share.

On that note, I will hand things over to Colleen.

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

Thanks, Ed, and good afternoon. Let me a first take you through the full year 2008 before we address the fourth quarter.

We continued our great performance in Canadian retail, which was up 5% to $2.9 billion, a new record. Our U.S. retail earnings were up 77% versus last year. We closed our acquisition of Commerce Bancorp and delivered US P&C earnings of $806 million, well ahead of our target of $750 million. Earnings from TD Ameritrade were $289 million versus $261 million last year, up 11%. 2008 marked TD Ameritrade's sixth record year in a row.

As Ed mentioned, we achieved $4 billion in adjusted retail earnings this year, a great accomplishment. Wholesale earnings in 2008 were $65 million, well below earnings of $824 million last year.

As you heard on November 20, we were unable to completely avoid the consequences of operating in illiquid markets. Corporate segment losses were $251 million on an adjusted basis. Most of these losses came in Q4 as a result of liquidity related losses.

Adjusted EPS was $4.88 for the year, down 15%.

Please turn to Slide 5. So let's talk about the Q4 '08 highlights.

Total bank adjusted net income was $665 million, down 35% from last year. Adjusted diluted earnings per share of $0.79 represented a 44% decline from Q4 of 2007.

Our Canadian retail businesses were up 3% versus last year to $710 million for the quarter. Net income from our U.S. retail businesses, TD Bank and TD Ameritrade, was $336 million. This is the second quarter we are including Commerce earnings in our results.

Details on our wholesale net loss of $228 million and corporate segments loss of $153 million were discussed on November 20.

I will now give an overview of each business segment. Our regular quarterly slides can be found in the appendix. Please turn to Slide 6.

Canadian P&C reported net income of $600 million in Q4, up 5% from last year but down 7% from Q3. Revenue was $2.3 billion, a new record, up 6% from last year.

The main reasons for the increase were strong volume growth across most products and the transfer of the U.S. insurance and credit card businesses to the segment in Q3. In terms of volume, we saw 11% year-over-year growth in real estate secured lending, the best Q4 in history for term products and very strong commercial credit growth. The increase in revenue was partially offset by margin compression due to a flight to safety, a shift in asset mix, and continued competition for deposits. Other income increased due to deposit fees and credit card revenues.

Provisions for credit losses were up year-over-year primarily due to personal lending provisions reflecting volume growth, credit quality issues and the transfer of the U.S. business. Business banking provisions were $12 million for the quarter.

Expenses of just over $1.2 billion were up 8% over last year and up 6% versus last quarter. The increases in expenses from Q4 were the result of the U.S. business transfer and new initiative spend, primarily new branch openings. We added 30 new branches in 2008, plus related to the termination of an industry payments project were also expensed this quarter. Operating leverage was a negative 2 point gap in the quarter. If you adjust for the transfer of the US businesses and the canceled project, we had a positive 1 point of operating leverage.

Please turn to Slide 7. Our global wealth business, excluding TD Ameritrade, generated net income of $110 million, down 8% from Q4 '07 and 13% from last quarter. Total revenue of $591 million increased 2% from last year, primarily due to the transfer of the U.S. Wealth business to the segment in Q3. Excluding that transfer, revenue declined by 3%.

Online brokerage revenue was up year-over-year. Commissions increased due to higher average trades per day, partially offset by a decline in commissions per trade. Net interest income increased primarily due to higher deposit balances.

Mutual fund revenues declined due to lower market-driven asset levels and fund redemptions. Private investment advice revenue fell as market volatility impacted new-issue revenue and trading revenue.

Expenses of $428 million were up $29 million or 7% year-over-year. Excluding the impact of the US Wealth business, expenses were flat to the prior year. During 2008, Wealth Management achieved their target of adding 130 new client-facing advisors.

TD Ameritrade reported fourth-quarter earnings of USD 172 million, down USD 28 million or 14% versus last year. The Canadian $60 million contribution to our earnings was announced on October 23rd.

Please turn to Slide 8. US P&C delivered strong results this quarter, up from Q3 of '08, despite a tough banking environment in the US. Revenue for the quarter was USD 1 billion or $1.044 billion Canadian. The large increase year-over-year was primarily due to the inclusion of Commerce. On a quarter-over-quarter basis, revenue was down 1% in U.S. dollars.

For the quarter, asset growth was very strong with commercial asset growth of 5% and consumer growth of 4%. Deposits were relatively flat and, as expected, the margin declined due to competitive deposit pricing.

Provision for credit losses – $78 million Canadian or USD 75 million. This is in line with our previous guidance, and we continue to build reserves with net charge-offs of $39 million, up $5 million from last quarter. The net charge-off increase is equally split between consumer and commercial portfolios.

Fourth-quarter expenses in U.S. dollars were up slightly due to higher advertising spending.

A number of you have asked about the Commerce securities portfolio. As you know, we fair valued the portfolio on close and that fair value has declined significantly as at October 31, 2008, which is adjusted through other comprehensive income.

Investors have asked questions with respect to potential impairment. In the case of debt securities, the key test for impairment relates to credit risk whereas the fair value declines in our books since close relate almost entirely to liquidity issues. At the time we closed the Commerce transaction, we recognized that a portion of the fair value decrement was a result of future expected credit losses. We have been monitoring the actual losses relative to that estimate and to date, the portfolio has performed much better than our model.

There are various factors which could impact our impairment assessment. One such key factor is housing price decline. For example, housing prices would have to decline by another 15% in the United States before we'd be concerned about impairment charges.

Please turn to Slide 9. Overall wholesale had a loss of $228 million in Q4, as announced on November 20. Details were discussed on that date, so I will only summarize briefly here.

As you know, our credit trading group posted a loss of $350 million in Q4. That brings the remainder of wholesale in at $122 million. Remaining earnings reflected highly volatile trading markets and low levels of capital markets activity. Wholesale also benefited from favorable tax items in the quarter.

Market volatility contributed to significant increases in foreign exchange and interest rate trading revenues. Offsetting was increased mark-to-market losses on loan commitments, write-downs for other than temporary impairment in our head office investment portfolio, lower equity trading revenue and a decline in capital markets activity.

In terms of our BCE exposure, we are proceeding on the basis that the deal will close. Should it not close, the impact will be positive to our P&L and to capital.

Our risk-weighted assets currently include $3.5 billion related to BCE. Given that this is still a live deal, we're not disclosing our reserves. That said, you should note that the reserve is calculated net of fees and flex in the deal pricing.

Continuing market volatility and weak equity markets will continue to put pressure on wholesale earnings and risk-weighted assets. We expect the impact of credit trading to be relatively neutral to the P&L going forward.

Please turn to Slide 10. I thought I would introduce a new feature for this quarter addressing our Tier 1 capital ratio, given greater interest in capital in this environment. This slide shows you a continuity our Tier 1 ratio from Q3 to pro forma November 1. The pro forma adjusts for the impact of new equity issuance, which includes the full overallotment option after November 1 and the deduction related to Basel II treatment of our substantial investment, which now requires a 50% deduction from Tier 1 capital.

During the fourth quarter, we added substantially to our capital ratio through retained earnings growth and new issuance, which includes preferred shares, innovative Tier 1 and common shares through our dividend reinvestment plan. However, required capital also increased through risk-weighted asset growth. We grew risk weighted assets by $27 billion. About half of this was due to foreign exchange translation. The other half was largely due to new asset growth, not drawdowns, the transfer of credit trading assets to available for sale and market risk and volatility in the Wholesale bank.

Declines in credit quality had a minor impact on RWA in the quarter.

On the topic of foreign exchange, changes in our RWA are partly hedged through changes in OCI and partly through additional hedges we have in place to manage our capital ratios. Because of the one-month reporting lag for our U.S. businesses, it is impossible to perfectly hedge our capital ratios from an accounting standpoint because the hedges are marked on a current basis. For regulatory reporting purposes only, we have eliminated the one-month lag this quarter, which added about 10 basis points to our Tier 1 capital ratio.

For financial reporting purposes, we expect to eliminate the one-month lag for our U.S. P&C bank in 2009. This will not apply to our investment in TD Ameritrade. Our pro forma Tier 1 capital ratio puts us in a strong position as we head into 2009 and provides the extra layer of assurance that investors are seeking in these difficult markets.

Let me turn the presentation over to Bharat, who's going to talk about the US integration.

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Bank, N.A.

Thanks. Colleen, and good afternoon.

Before I get to the integration, let me give you an update on what is happening from a market perspective in the United States.

Loan growth during the quarter was strong. Many of our larger competitors are out of the market, and this has allowed us to selectively add relationships while improving both loan structures and spreads. On the deposit front, the environment remains both challenging and volatile as many of our major competitors continue to rely on retail deposits to fund their loan book and we see that likely to continue in the coming quarters.

On a linked-quarter basis, deposits were relatively flat, reflecting our strategy to not chase hot money while aggressively protecting our franchise customers. We continue to see strong growth in our maturing stores in the legacy Commerce footprint and are seeing positive response to our marketing campaigns in the rest of the footprint.

From an asset quality perspective, we're managing our commercial real estate portfolio carefully, particularly our for-sale real estate. Overall, loan portfolio -- overall, our loan portfolios are holding up relatively well. The key strengths of conservative underwriting, a diversified commercial portfolio, lending in footprint in a relatively stable geography has served to dampen the severity of the downturn. Having said that, increased unemployment, a further decline in home prices, as well as reduced economic activity, lead us to anticipate higher impaired loan formations in the coming quarters.

Although it is difficult to predict PCL levels in this environment, we believe that prudence dictates higher PCLs to further cushion us in a downturn. As such, we would envision that PCLs could be in the 100 million to 125 million dollar range in the coming quarters. This should be more than offset by a favorable exchange rate. I am pleased with how we have been able to navigate the difficult U.S. environment. We believe that we will continue to be a positive outlier going forward.

Let me turn my attention now to the integration. Please turn to Slide 12.

We continue to make significant progress and are meeting all of our commitments. We are coming together as one being, both from a regulatory perspective and, more importantly, from a brand perspective.

On November 1, we launched our new brand, TD Bank, America's Most Convenient Bank, in the mid-Atlantic, metro New York, D.C. and Florida markets and will extend the brand into New England in the second half of 2009. As part of our rebranding efforts, we changed signage at 615 stores and corporate offices, including more than 900 ATMs, over the course of a single weekend. We successfully piloted a multibank initiative which allowed us to consolidate 75 stores in overlapping markets nearly a year earlier in the systems conversion and have extended the pilot to 484 stores. We launched an initiative to upgrade the look and feel at 75 of our legacy TD Banknorth stores in the mid-Atlantic and have completed renovations at 63 of those locations, the balance to be completed in the first quarter of 2009.

We introduced extended hours at 288 of our stores in the TD Banknorth footprint and introduced live 24-7 call center support across our entire franchise.

From a cross-sales perspective, we have piloted several initiatives in the legacy Commerce footprint and the results have been promising. As one example, we introduced an iPod campaign in select markets and opened over 34,000 accounts.

In addition, we continue to open new stores as part of our de novo strategy. We have done all of those without losing focus on the most important thing, the customer. We continue to provide legendary customer service and won the J.D. Power award for customer service in the mid-Atlantic for the third year in a row. In addition, we were recently ranked number one by J.D. Power in overall small-business customer satisfaction nationally for the second year in a row. Lastly, we continue to be on track to achieve our $310 million in synergies for a successful systems conversion in the second half of 2009.

Please turn to Slide 13. As I mentioned earlier, we achieved a significant milestone with the launch of our brand, TD Bank, America's Most Convenient Bank. Customers of both organizations are now able to bank at any of our rebranded TD Bank stores in these markets and benefit from our legendary customer service, including seven-day banking, free penny arcade, coin-counting machines, hassle-free products and treats for kids and dogs.

In addition to rebranding our stores, we have launched a multi-million dollar television, print, online and in-store marketing campaign in these markets involving television celebrities Regis Philbin and Kelly Ripa, and the early results are promising. Overall, the brand launch has gone remarkably well and we're looking forward to extending the brand into New England in the second half of 2009.

Please turn to Slide 14. At the same time that we are implementing the integration and rebranding our stores, we have simultaneously introduced new products. For the past two weekends, we successfully launched a new suite of retail and small business deposit products, as well as consumer lending products in the TD Banknorth footprint. The new product suite mirrors our current offering in the legacy Commerce footprint and will facilitate our systems conversion in 2009.

We introduced our new TD branded credit card in the legacy Commerce footprint and offer the card to our best customers. Early results are promising but we are taking a cautious and conservative approach, given current market conditions.

We reintroduced mortgage originations in our TD Banknorth stores via a streamlined process. This allows us to both underwrite and service mortgages for our customers. Originations are well above forecast with excellent credit quality and strong loan-to-values.

Lastly, as part of our North American wealth management strategy, we introduced our Wealth brand, TD Wealth Management, to the U.S. market. It allows us to provide a broad suite of financial advisory and private client services to our customers.

Whether it is related to the integration or rebranding efforts or the introduction of new products, we are making excellent progress towards our goal of becoming one bank, America's Most Convenient Bank.

Let me now turn the presentation over to Mark.

Mark Chauvin - TD Bank Financial Group - EVP - Chief Risk Officer

Thank you, Bharat, and good afternoon. Please turn to Slide 15.

Gross impaired loans in the Canadian Personal and Commercial segment increased $68 million quarter-over-quarter. $45 million of the increase was in the real estate secured products, of which $35 million was in insured mortgages, thereby representing nominal risk of loss.

Modest increases occurred across all other retail products. Visa was the single-largest contributor at $12 million. The increase in retail gross impaired loans is attributed to higher delinquency rates and increased rates of bankruptcy resulting from weaker economic conditions.

Gross impaired loans in the U.S. Personal and Commercial segment increased $74 million, consisting of $60 million in volume growth and $14 million in currency translation due to a weaker Canadian dollar. Increased volumes are concentrated in commercial real estate and residential mortgages. Modest increases occurred across the balance of the portfolio with no significant trends evident. While the trend of gross impaired loans in the U.S. segment remains within our expectations, given the current economic conditions, I believe, as Bharat indicated earlier, that further increases are likely if economic conditions worsen.

Credit quality in the Wholesale segment remains strong with gross impaired loans largely confined to the merchant bank. The $14 million increase noted during the quarter is due to FX movements with no increase in impaired loans in the merchant bank or the wholesale bank during the quarter. While overall asset quality remains satisfactory, the portfolio is vulnerable to adverse changes to economic conditions in both the U.S. and Canada.

Please turn to Slide 16. Total PCL was stable quarter-over-quarter at 50 basis points as a percentage of total loans and acceptances. PCL increased slightly in the Canadian Personal and Commercial segment due to increased delinquency and bankruptcy rates. Nominal PCL rates continue to be experienced in the Canadian Commerce and wholesale credit portfolios. Although the U.S. segment PCL was stable quarter-over-quarter, the higher level of charge-offs was evident as economic conditions continue to worsen.

While total PCL remains within expected ranges, we continue to maintain a pessimistic view on both the Canadian and U.S. economy over the short-term. As a result, upward pressure in PCL is expected to continue through 2009 with higher provisions in future quarters considered likely.

Let me turn the presentation back to Tim.

Tim Thompson - TD Bank Financial Group - SVP - IR

Thanks, Mark. Let's move into the Q&A section. For those participating today, please ask one question at a time. Before ending the call, I will ask Ed to offer some final remarks on today's call. Let's get started. We will start here in the room. Ian?

QUESTION AND ANSWER

Ian de Verteuil - BMO Capital Markets - Analyst

Mark, the available for sale book and possible impairment - when you think about the AFS book can you talk me through what (inaudible) you used (inaudible). Is it by type of security? Is it (inaudible)?

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

I will start. Ian. So yes, it is -- we have done this on a security-by-security basis. But again, as I mentioned in my remarks, the key test is really the credit losses versus the model versus what we had assumed when we wrote the book down upon close. So as you know, at that time, we took it from the original book value to the fair value and embedded in that was an assumption around the amount of credit losses included in that decrement. So that is really the key test and it is managed on a security-by-security basis.

Ian de Verteuil - BMO Capital Markets - Analyst

When I look at your MD&A where you give a detailed breakdown of the AFS there were sort of three books here - non-agency, bonds reclassified from trading, and the asset-backed. How would you explain to me the mechanics of how you would establish what you need to actually run those books / take the writedowns?

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

Are you talking now strictly the Commerce securities?

Ian de Verteuil - BMO Capital Markets - Analyst

I am just thinking of the AFS book of $75 billion.

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

Are you talking about everything we reclassified?

Ian de Verteuil - BMO Capital Markets - Analyst

No. I'm just talking -- you list $75 billion as the size of your AFS portfolio, of which 8.4 were the non-agency CMO -- I'm just trying to pick the areas that I think may be at risk?

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

I have already talked about the Commerce securities portfolio. The other area that you would want to think about is our head office portfolio, which we have also indicated where we could have some further impairment because of declines in the equity markets. As you can see, a large part of the $75 billion is in fact in government guaranteed debt as well as mortgage-backed securities; a large portion of $75 billion is in that type of security.

Ian de Verteuil - BMO Capital Markets - Analyst

Your CBH -- you refer to it as a CBH portfolio, Colleen. That's these various pieces. You've talked about the asset-backed securities, CMOs (inaudible).

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

That is correct.

Mark Chauvin - TD Bank Financial Group - EVP - Chief Risk Officer

I could maybe comment on the CPG AFS book. In that particular book, we use the typical credit standards. We really -- it has to, in our view, be uncollectible before we would revert to an impaired test.

Really the fact that we have credit protection on almost well over 90% of the portfolio created limits (inaudible) it doesn't change it might not be impaired but limits any loss that (inaudible).

Ian de Verteuil - BMO Capital Markets - Analyst

Which book are you referring to now?

Mark Chauvin - TD Bank Financial Group - EVP - Chief Risk Officer

That would be really what the reclassification of what we transferred available for sale from the CPG book. That is about 7.4.

Michael Goldberg - Desjardins Securities - Analyst

By moving the bonds you were holding for the basis trade to available for sale, you've stopped the impact on earnings but not on value, as I would understand it. Is there anything you can do to stop that impact? I guess, more generally on this situation, given the experience that you have had, I guess the conclusion we can come to -- or it looks like you can come to is that there's hardly any kind of prop trade that looks like is appropriate with bank type leverage no matter how low-risk it appears to be. What I am wondering is how much prop trading impacted your trading revenue in 2007 and 2008?

Ed Clark - TD Bank Financial Group - President and CEO

Go for it Bob! That looks like a Bob question to me.

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

The first part of the question I didn't think it was mine but the second part would be. The prop trading the pure prop trading that we have in the dealer was primarily this credit trading business that we suffered losses in, in the second half of the year. I think the losses are described, Michael, and that would -- net-net from a pure prop trading perspective would be the majority of where we lost money. All of the other businesses have trading in them in both facilitation and trading for the capital. Some of those businesses I mentioned in a previous call did very well, particularly foreign exchange and fixed income. We did not fare so well in equity trading this year, but on a pure prop trading business, that is the credit trading business. If you look historically at that business, we've been in it since '97 and it would have represented on average as much as 10% of the revenue of the dealer in some years and some years less.

Michael Goldberg - Desjardins Securities - Analyst

To take a year when there was not as much unit volatility, 2007, how much would it have contributed that year?

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

I don't that number but it was less than 10%.

Michael Goldberg - Desjardins Securities - Analyst

Maybe you could get back to me with that. Just related to the first part of my question, it there anything you can do to mitigate the impact of these bonds that you still hold and the I guess hedges against them on your book value? Just describe (multiple speakers) going through AOCI?

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

Right. Just in describing the net impact of the move from trading to available for sale, so first of all, it was the fact that, as you have seen, we would have had trading losses in P&L of $561 million that were moved in effect to OCI, so that had a positive impact on capital. The negative is we had to then -- we had to add to our risk-weighted assets the amount related to those bonds. That was about $2.5 billion added into risk-weighted assets. The changes then going forward in OCI do not affect capital but to your point, the net change in the hedges does effect retained earnings; it affects earnings overall. So, really, there isn't any way of managing that. Clearly, we're taking it out of adjusted earnings but it will continue to affect our capital as that amount changes on a quarterly basis. I think that should be relatively minor. Michael, I don't see it as a big factor in our capital.

Michael Goldberg - Desjardins Securities - Analyst

Is there no impact of the bonds as their value changes even through OCI?

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

No (multiple speakers) not, not on debt securities. There is not any impact on capital on the reval.

Michael Goldberg - Desjardins Securities - Analyst

No, I don't mean on capital. I just mean on the absolute level of other comprehensive income. If their value changes, the unrealized gain, doesn't that go through OCI?

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

Yes, it does.

Michael Goldberg - Desjardins Securities - Analyst

So is there anything that you could do to mitigate that movement?

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

We're not really that concerned about that movement; it does not affect capital.

Tim Thompson - TD Bank Financial Group - SVP - IR

Let's go to the phones. First caller, please.

Operator

Jim Bantis, Credit Suisse.

Jim Bantis - Credit Suisse - Analyst

Hi. Two questions for Mark please -- looking at the PCL that has been described for the U.S. operations in 2009, that 100 million to 125 million per quarter range, what does that equate to in terms of a loss rate or PCL rate to loans? I'm trying to get the perspective of that level in 2009 versus the last deep recession in the US in the early 1990s just to see where we are in the cycle relative to that.

Also, we have got quite a sizable residential real estate book in the U.S., particularly when you include the non-residential of about $23 billion. I'm wondering if you can break that into buckets to give us some sense of why you have got some comfort with it or areas at risk? There's been a lot of discussion in your opening comments about housing prices. If you could just provide some color and some details regarding the whole real estate book, that would be helpful with respect to the U.S.

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Bank, N.A.

While Mark is doing that, let me just comment on your second part of your question. At our Investor Day in June, we had split our portfolios into various segments and our view was and continues to be that the portion that is at risk is what we would call for-sale real estate. At the time, that represented about 6% of our commercial loan book. That percentage has gone down since then because we had, in June had said that we will be very prudent and careful before expanding that particular segment.

In my mind, that is one part of our real estate book that is under pressure and we are watching it closely. As far as the concentration we have to that segment, it has gone down; it has not gone up.

With respect to the other portions of real estate, again I'm trying to go through my memory on what we disclosed in our June Investor Day. Most of those percentages still hold. The portfolio is relatively well diversified between income producing properties, owner occupied, et cetera. So, I think it is the for-sale real estate that is our greatest concern. That, I think, in absolute dollars, when I do the math, is approximately $1.7 billion, $1.8 billion.

Mark Chauvin - TD Bank Financial Group - EVP - Chief Risk Officer

So equating the run rate of 100 to 125 PCL a quarter to -- kind of basis points on the portfolio, recognizing it is a mix of commercial and retail but it would come out in the range of about 110 to about 130 basis points, depending on where you are in that range. I would say that is probably is in the range that you would have seen in the late '80s, early '90s for a typical commercial or commercial-focused community bank in the US.

Jim Bantis - Credit Suisse - Analyst

I got it. So that would be comparing to the peak levels during that recessionary period?

Mark Chauvin - TD Bank Financial Group - EVP - Chief Risk Officer

Pretty much, yes, in that range.

Jim Bantis - Credit Suisse - Analyst

I got it. Oh, that's great. I just want to go back to Bharat. You provided $1.8 billion with respect to that real estate for sale. What is the vintage on that in terms of how -- when was it originated loan to value?

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Bank, N.A.

I don't have that information. This has been -- both of the banks have been in that business for many years. I'm not suggesting that we are totally uncomfortable with the portfolio, but that is a portfolio that is under stress, given what you are hearing in the United States. That is the one we are watching. So I don't have the vintage numbers.

Jim Bantis - Credit Suisse - Analyst

I understand. I will follow back with Tim. Thanks.

Operator

John Aiken, Dundee Capital Markets.

John Aiken - Dundee Securities - Analyst

Good afternoon, Mark. I just wanted to clarify on the Canadian personal portfolio. You mentioned that the uptick in gross impaired related to real estate secured. Is that HELOC or is that actually mortgage?

Mark Chauvin - TD Bank Financial Group - EVP - Chief Risk Officer

It is insured mortgages but to be perfectly -- we could characterize -- I'm not sure if it is HELOC. It could be HELOCs that are insured, so I could get back to you with that information.

John Aiken - Dundee Securities - Analyst

Yes. I'm just taking a look at -- I mean, I think that you covered in your prepared commentary -- but just getting to the fact that the coverage on the impairments within the Personal has declined, and I have to assume that is because the Bank feels that this is fairly well-secured and losses are not overly likely.

Mark Chauvin - TD Bank Financial Group - EVP - Chief Risk Officer

Yes. Our growth was in the insured areas.

Operator

Robert Sedran, National Bank Financial.

Robert Sedran - National Bank Financial - Analyst

Hi, good afternoon. Just a quick point of clarification first, and I'm sure this is the case -- but the 100 million to 125 million is in US dollars I assume?

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Bank, N.A.

That is correct.

Robert Sedran - National Bank Financial - Analyst

Just I guess my question is considering how rapidly the currency has moved in your favor and how important a tailwind it seems to have become, have you given any thought to perhaps hedging the exposure or would it just be too expensive and not worth the effort? I mean the currency translation on the earnings front?

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

Yes, from an accounting standpoint, it is virtually impossible to effectively hedge your earnings, so we don't hedge earnings. We're not able to do that.

Operator

Mario Mendonca, Genuity Capital Markets.

Mario Mendonca - Genuity Capital Markets - Analyst

Good afternoon. I think, Colleen, you referred to a schedule where you provided greater detail on the available for-sale securities. Did I misinterpret that, because I've sort of flipped through everything and I can't really see it, so I need some help there. Was there some schedule?

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

I'll get you the exact reference, Mario. I'm being told it is Page 56.

Mario Mendonca - Genuity Capital Markets - Analyst

Okay. Sorry, there was just too much paper on the desk today. Let me ask something and forgive me if it is disclosed there already. What I'm trying to get a better handle of is, of that $75 billion, how much of that is -- an up-to-date number would be helpful here -- is the Alt-A in the US and how much of that is nonagency MBS?

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

Let me clarify. First of all, I think the first schedule you're looking for is actually on Page 97.

Mario Mendonca - Genuity Capital Markets - Analyst

Of the MD&A?

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

Yes. So that gives you the breakdown of available for sale into all of the various categories which -- or sorry, no. On Page 96 -- so that gives you the breakdown of our available for sale securities or a total of $75 billion.

Then Page 56 does give you then the breakdown of, on a cost basis as well as on a fair value basis in US dollars as of October 31, what the values are on any of our nonagency CMOs, so that includes the Alt-A as well as the jumbo. So to give you -- the Alt-As are $2.8 billion; that is fair value. The prime jumbos are $4.4 billion, so for total fair value of $7.2 billion as of October 31. As you know, our balance sheet goes to September 30 but because we had further declines in October, we did show the full amount.

Mario Mendonca - Genuity Capital Markets - Analyst

You referred to housing prices, U.S. housing prices dropping 15% before you would give some thought to impairing this portfolio, or several of the items in that $75 billion I think. Is there any other metric that you can point to such as any spreads you can point to or it is this so tightly tied to your perspective of credit losses that any sort of spreads that we would look at, these observable spreads, are not meaningful in your decision on whether to impair it or not?

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

You are correct in your interpretation that it really is the credit losses. Our assumptions on credit losses is very much the key driver because those spreads are reflecting a huge liquidity issue which are really not a factor in the valuation of debt securities in particular because we intend to hold these until they recover in value. So the key determinant is credit, the credit loss assumption.

Mario Mendonca - Genuity Capital Markets - Analyst

So it is not going to be helpful to us then, to follow these spreads? It is really losses?

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

Correct. You would be better to just follow what US housing prices are doing. So, as I say, we have disclosed the fact that, if we have got really another 15% decline in US housing prices before, we would be looking at impairment.

Mario Mendonca - Genuity Capital Markets - Analyst

So essentially double what they have done already?

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

Yes, a little less than that but yes roughly.

Operator

Brad Smith, Blackmont Capital.

Brad Smith - Blackmont Capital - Analyst

Thanks very much. Just a quick question and I think probably for you, Tim, with respect to the operating leverage in the Personal and Commercial Banking unit. I'm just wondering what your expectations for the coming year are. It seems that it's, in the quarter, has slipped into a negative territory. I imagine you are expecting that will recover. I am just wanting a little guidance for the full year on that. Maybe you could just talk a little bit about the margins in the quarter being down about 9 basis points. Is that mostly on the deposit side or would it also be some pressure on the lending side?

Tim Hockey - TD Bank Financial Group - President & CEO, TD Canada Trust

In operating leverage for 2009, we're absolutely expecting it to get back into positive territory. As Colleen said, there were a few items, two in particular, that actually negatively impacted us by 3 points that would have -- taken those out of the quarter would have put us back into positive territory this particular quarter.

Brad Smith - Blackmont Capital - Analyst

Would that leave you at sort of a run rate expectation?

Tim Hockey - TD Bank Financial Group - President & CEO, TD Canada Trust

I don't know that. Probably a little bumpy obviously, given low expectations on both margins impacting on the revenue side but certainly getting back into positive territory is the right thing to do.

On margin, shifting to that, clearly a drop of 9 basis points sequentially -- about half of that I think was due to prime BA and another few points was due to liquidity premiums. Our expectation is that will probably see another drop in Q1 based on what we are seeing to date and then actually a recovery towards the tail end of last year -- or next year rather.

You asked about deposits. While there is certainly competition for deposits, actually the margins increased on deposits overall. That is because we do get a credit of funds for the liquidity premiums that hurts us on the money-out side or the lending side.

Brad Smith - Blackmont Capital - Analyst

Terrific. Thanks very much.

Operator

Sumit Malhotra, Merrill Lynch.

Sumit Malhotra - Merrill Lynch - Analyst

Good afternoon. For Colleen, back to the Alt-A book and the AFS, you talked about the fact the experience on this book thus far has been much lower in terms of actual credit losses than you had modeled for. Is there anything tangible you can offer us in terms of how exactly this book is trending in terms of credit losses?

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

No, I'm not inclined to give you any more specifics except to say that, in terms of where we thought we would be, we are well within that model. In fact, our model was somewhat more conservative than the experience to date.

Sumit Malhotra - Merrill Lynch - Analyst

Okay, I will leave that one there. Maybe this one might be for Ed. There is a new slide in the presentation this quarter that shows the fact that commercial volumes for TD are seemingly still accelerating well. The industry is rolling over. Given your comments on the fact that Canada can't outrun what is happening in the U.S. and economic conditions are worsening, you've talked about in the past that this is an area in the portfolio that you have some concerns about how it would trend. How does that reconcile with volumes now accelerating to -- from the low teens or single digits to the mid teens in this kind of economic environment?

Ed Clark - TD Bank Financial Group - President and CEO

Well, I think the point that I will make and then I will adjust your issue is that obviously, in a social and political environment, there is concern whether Canadian banks are going to be there for clients in these tough times. So I think our point is we are there. The evidence is clear that we are there and that we are not shutting up shop saying we're just going to close up our credit. In fact, we're actually supplying credit and filling in for other people withdrawing from the market.

Obviously, in doing that, what you don't want to be getting is everyone else's problems and so at the same time, you are looking to make sure that you have good credit quality. As Bharat was pointing out in the United States, what we are actually finding is that we get better spreads and tighter terms in doing new loans than historically. So the market is adjusting to the scarcity of credit so that in fact we can actually uptick our quality and uptick our spreads while growing market share.

I think what is going on here is clearly, as you know, we have always been a little very, very, very conservative on making sure that we had lots of liquidity and so as a bank, we have lots of liquidity. So we are anxious to lend to good credits. I think that is the concern. No one, I think, at the political level is asking us to lend to bad credits. What they want to make sure is that we are continuing to lend to good credits and that is what we're doing.

Sumit Malhotra - Merrill Lynch - Analyst

The last question for Colleen -- in the past, you've given us a run rate for where you thought the corporate segment would trend. With that change in liquidity that I had talked about on the last call, it probably would be reasonable to a expect that higher loss rate there. Are you in a position to offer us something?

Ed Clark - TD Bank Financial Group - President and CEO

I'm very anxious to hear this answer.

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

No, I'm not going to give you new guidance on the corporate segment. But you're correct in saying that I think it is reasonable to think that the losses are going to go up on a go-forward basis. You did see losses on securitization in the fourth quarter, and that will likely continue, perhaps not at the level of Q4 but I think you will see that continue to a certain extent into 2009 as we continue to securitize and participate in the CMHC program in future tranches. So, I think you will see a number above the top end of the range that we have historically talked about, the -40 most definitely.

Tim Thompson - TD Bank Financial Group - SVP - IR

We're back in the room.

Ian de Verteuil - BMO Capital Markets - Analyst

Just a question for Ed. When you think about the bank that you have built in the United States, it must be frustrating to see that you have played the game well in terms of not overdoing it on the credit front, whereas it seems that everybody else, the worse the offender the more cheap the funding they get that you don't have access to. Do you think that the franchise and the investment you've put in, in the U.S., is negatively impacted by the fact that your peers seem to be able to get money from the U.S. government. The worse they are, the more they get, it seems.

Ed Clark - TD Bank Financial Group - President and CEO

I have to be careful here. The short answer to that question is no. I actually philosophically believe that piling up leverage into the capital structure and saying okay now in effect the TARP has added about 2 points to the Tier 1 capital ratios of the American banks. As CEO, if you take that and say this is real capital and I can go act like it is real capital, you're kidding yourself because all of that capital is going to have to be paid back. Just the same way as I think if you're using the government guarantee on your debt doing through your debt, all you're doing is rolling forward a problem that eventually you're going to have to get off the drug of government support.

So in the short run, you might think that the world is coming your way, but I like the discipline of having to go to the marketplace and raise the capital that you need to raise your businesses. I think you end up making more prudent investment decisions. So as you know, we have taken a position that there isn't a sufficient visibility on asset values in the United States to be making major acquisitions with lots of asset risk in it. It could be that we are being too conservative but right now, I don't -- if I'm missing opportunities because other people have TARP financing and they're prepared to take that asset risk, the truth is if, I had TARP financing, I still wouldn't take the asset risk. So, it is not impeding our competitive position at all in the United States right now and we are continuing to have great success with our organic growth and I'm comfortable with where we are.

Ian de Verteuil - BMO Capital Markets - Analyst

But doesn't the funding give them a competitive advantage to the extent you don't have it? I mean, the cost of funds is sort of a fundamental essence of running a banking business? Until we get everybody else off of the drug, don't they --?

Ed Clark - TD Bank Financial Group - President and CEO

Yes, I guess, though, I think rarely do you get something from somebody without giving something back to them. If you look around the world, I am not sure the banking system is going to be strengthened by having governments micromanage banks. I don't believe the politicians in the end will inject funds in the banks and then not say to them, well, we want to have some say of how you run the banks. So I don't believe in that model. I think it is much better to have the discipline of the private sector and I think Canada has shown that, in fact, the Canadian banks have fared very well and I think part of the reason it fared well is that Canadian bank CEOs across the board have in average been prudent and conservative. So I would pass on the short-term funding advantages of TARP financing to stay with this model.

Tim Thompson - TD Bank Financial Group - SVP - IR

One last question -- Michael?

Michael Goldberg - Desjardins Securities - Analyst

I haven't seen anything on this but can you just confirm for me that you have not had any benefit from lower value of any HFT liabilities? More generally speaking, what do you think of the approach of taking that value decline into earnings?

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

You're talking about trading deposits?

Michael Goldberg - Desjardins Securities - Analyst

I am talking about debentures or whatever where (multiple speakers).

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

Trading liability? No, we have not booked any gains or losses. Our trading liabilities are very short-term, so there was no need to adjust from the book value.

Michael Goldberg - Desjardins Securities - Analyst

Do you have any comments about what you think of the credibility of that approach to earnings?

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

I will be cautious in my remarks. I think, as long as it is appropriately disclosed and the market knows what those numbers are, I think there's some logic to the accounting actually, although any of the gains are somewhat fictional. But if you look at the symmetry of having to adjust both sides of the balance sheet, there is a logic there but I think, as I say, I think the key is disclosure.

Tim Thompson - TD Bank Financial Group - SVP - IR

A reminder to all participants -- any follow-up answers to questions posed today will be posted on the IR landing page at TD.com. Over to Ed just for some summary comments.

Ed Clark - TD Bank Financial Group - President and CEO

Well, I think, as a quick summary, I think it is important to put 2008 in perspective. Obviously, I think we are disappointed that our earnings were down, but I think, if you step back and look at what happened in the world and how we actually ended up performing, we're obviously had a great retail performance on both sides of the border.

As I indicated earlier, I look at TD Securities. We're obviously not happy with the results but in the context in which markets became completely illiquid for a period of months, I think they got through that period relatively well.

In terms of looking forward, obviously this is a very unusual environment. I don't think any one of us have operated in an environment where it is less clear which way the world was going. I think it is probably pretty clear, though, that the world is going to -- the economic environment is going to be tough. On the other hand, I could not, frankly, want to be in a better financial institution to go into that world. We still think that we can produce earnings growth in that context.

Tim Thompson - TD Bank Financial Group - SVP - IR

With that, we'll end today's meeting. Thanks for your time today.