TD Bank Financial Group
Investor Relations

TD BANK FINANCIAL GROUP
UBS GLOBAL FINANCIAL SERVICES CONFERENCE
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CORPORATE PARTICIPANT

Ed Clark TD Bank Financial Group - President and CEO

CONFERENCE PARTICIPANT

Peter Rozenberg UBS - Analyst

PRESENTATION

Peter Rozenberg - UBS - Analyst

Thank you. We'll start. TD Bank is one of the few large North American banks that has not taken any write-downs due to the global credit crunch. And in a market where it is difficult to differentiate, TD also boasts 50% more branch hours than its competitors. We are very pleased to introduce Ed Clark, President and CEO of TD Bank Financial Group, which now includes the newly acquired TD Commerce Bank in the U.S.

Ed Clark - TD Bank Financial Group - President and CEO

Thank you. I'm delighted to be here. We have the chance to tell our story. It's frankly the same story I've been telling for the last five years, so if you're expecting something different, I would hate to disappoint you.

It's a pretty simple story. I think we know how to build franchises. We know how to build franchises that will grow the revenue faster than the competition. We know how to operate franchises, which in our terms means that we grow our expenses inside our revenue growth, while constantly investing for the future. And our whole management team has a very simple philosophy.

We believe that banks are phenomenal investment opportunities for shareholders if only the management of banks would not blow them up every five to seven years by doing dumb things. And so we decided, as a management team, why don't we just run a bank that doesn't blow itself up every five to seven years? And we've successfully done that.

I'm supposed to give you this big warning about forward-looking statements. I would say, though, that we are in our quiet period. So our earnings are going to be out in the next couple of weeks, so it's obviously a particularly important period to be careful. We have the advantage that we have put a fair amount of information out in the public and recently we had an investor meeting around TD Commerce. And so it makes it a little easier for me to talk about what we're doing, but I won't obviously say anything that's not already in the public domain.

So what is the TD Bank Financial Group? Well obviously we're a 150-year-old bank that's anchored in Canada and I'll get into it. But have an incredibly strong franchise in Canada that's had a terrific track record of producing the growth.

Secondly we have a focus on finding the lower risk areas that earn better rates of return and we do that by, in fact, conscious decisions to shift the risk profile of the organization. In 1999, 55% of the earnings of the TD Bank came from wholesale. This year, about 15% will come from wholesale, and next year less than 15% will come from wholesale. But I would say, equally important is what we do in each of our businesses to remove things like tail risk, so that, in fact, we don't get those surprises that so disappoint shareholders.

Third, we believe that you can outgrow your competition if you have the right business models and we have the record to, in fact, prove that we're able to do that. And what, finally, we have taken our strengths in Canada and in a very targeted way say what are the things that we do better, and can we bring those models to the United States and produce sustainable growing franchises in the United States, even in the current economic and business environment? We believe that we'll demonstrate to the market the answer to that question is yes.

In terms of overall size, to a certain extent, the rest of the world has shrunk down to us, but we have also grown off to them. We do not believe that we face a scale issue and so we are in the top ten of North American banks. That's important because if you have an ability to organically grow your business, which we do, at superior rates to your competition and you do not face scale limitations, you don't have to do acquisitions. And I'd say that's where we are in terms of the market. We may do acquisitions, but they're going to be acquisitions that were shareholder friendly and consistent with our strategy.

Okay. So what's our basic business model? Well these are the things that we hammer away internally. We're franchise builders. Now what does it mean to be a franchise builder? In simple terms, when I say internally, is explain to me why you win the ties. If we put a branch on a corner with three other banks, why will we always take more than 25% of the business in that corner? And that's what we do and how we set about to do that.

The other thing I'd say is can I walk away and go to Antarctica for two weeks and come back and have the institution have made a lot more money in the last -- in the two weeks? That's what a franchise does. You build into the organization an ability to outcompete all the time, you win the ties and you build and embed into it, which I'll get there, risk management that are not dependent on having the hero at the top who makes the right decision, but in fact is culturally bettering the organization.

Secondly, we believe that most banks focus internally, they start at the center and they work out, rather than start with the customer and work in. And that is a fundamental difference in organizations. And so if you build your organization around the customer and work in, you end up in quite a different space. And how do you do that?

Well you have to do it in lots of ways, but for us, every week we phone 8,000 customers and ask them how we did and we tie every single person in the organization, wherever they are, to the pay of what those customers say about how they did, starting with my pay. So as I say, when I go into the branches, I say you set my pay, I don't set your pay. But I'm not going to be very happy if I don't get paid this year.

And that gets the organization to realize it's what that person on the front line does that actually makes the difference. Everybody in head office is a kept person. Everybody in head office is overhead. The only people who make money are the people who actually deal with customers and clients.

Third, we have a deep philosophy that says you can grow faster than the competition without going out the risk curve. It's easy to grow if you just go out the risk curve. The real trick is to build in the capability to grow without going out the risk curve. And we embed that philosophy constantly within the organization. We hate tail risk.

We think tail risk is, in fact, the big destructor of shareholder value. If you take credit for the earnings that you get on taking it for three or four years it looks like a free good and inevitably is not a free good. But you don't tell the shareholders that it's not a free good until you have these one-time write offs, which you tell them to ignore, and then you'll get back on the growth trail.

We don't believe in that philosophy and we systematically take out tail risk, which means we buy credit protection, don't manufacture it. We buy catastrophe insurance in our insurance operations. We believe that fundamentally you have to be operators and you have to reward people who are operators. And that means that they have to find ways to constantly improve their expenses, but not through short-term fire drills, but through fundamental reengineering of processes.

We also believe that, almost in every case, we are reengineering our processes properly to reduce costs, to actually reduce risk and to improve customer service. And finally, you don't get rewarded for stealing from the future. You have to show that you're investing and you'll do your business plans in the future and meeting your short-term earnings targets.

So what is our mix of business? As I mentioned, we'll get into the biggest source of, obviously, profit for the bank as TD Canada Trust, our personal and commercial bank in Canada, and we'll get into its track record. We've also built alongside it a great wealth management business. Its earnings have grown about 26% a year for the last five years, primarily built on our ability to take customers out of the retail network and transfer them to the wealth management network and we've invested heavily in building out the advisory side of that network.

You can see that we have, obviously, now, a growing U.S. personal and commercial business. And we're going to -- I'll get into what we're doing there as well as TD Ameritrade, and then I've mentioned that we've substantially changed what we did in TD Securities, and I'll get into that as well.

One thing that's worth mentioning is we also have a view on dividends. We resisted the market's pressure on us to, in fact, move up our pay-out ratio. We do dividends as a fixed charge and we had a philosophical view that when you're growing your earnings rapidly anyway and you grow your dividends in line with your earnings, you don't need to double up by also increasing the pay out ratio. It does mean, though, that when you go into years of slower growth, you have some room to move it up and in our case we actually are operating slightly below our targeted pay out ratio.

This is just a simple graph that shows what's happened to earnings in the first quarter. You can see even if you ignore the write-downs, as if the write-downs don't matter, we outgrew our competition in terms of our earnings growth per share in the first quarter and obviously if, in fact, you take those into account, it's a dramatic difference.

Again, the decision to do that was a conscious decision for us. Every one of the products that, in fact, hurt people at one point or other because we inherited -- we had a legacy here, we inherit them, and we got out of them. We explicitly took a view that the tail risk involved in them weren't worth the risk. And in terms of the asset-backed paper crisis in Canada, that was a product that we looked at, not only did we decide not to underwrite it, but we refused to allow our system to sell a single dollar to a single client or customer in the bank.

Let me just talk briefly about our retail business. You can see it's a spectacular business every year. And the way we measure market share is the way that, I think, is relevant for the shareholders because it's hard to get, if you take a look at these statistics, it's hard to find really true numbers. The one number, as you know, is the accountants sign off on, well how much revenue do you have in the segments?

And every year we gain on the revenue side and the numbers, if I put up the profit numbers, would be about the same. So we have moved our revenue shares from approximately 21% in 2002 to 24% and we moved our profit share similarly from about 21% to 24% in the context of the Canadian market, where the five banks dominate, that's really a remarkable business story.

So where does that put us? Well, it puts us in the one, two position in most products. But the most important thing for us is that we own, in Canada, the convenience and service space. So we have 50% longer hours than does our competition and whether you use J.D. Power or Synovate, every year we win the award as clearly far and away offering the best service for our customers.

That's the business model that we believe we can bring to the United States and as I mentioned earlier, the shareholders make lots of money. Our retail businesses in Canada, compounded are growing their earnings about 16% a year of the last five years.

That's a number which we told the market will slow down. Canada will be affected by the U.S. recession. This will pull growth rates and we would expect that number to come into the 7% to 10% range this year and maybe even slightly slower next year, as the recession bites. But it's a remarkable earnings growth story.

As I say, I think probably what has distinguished us most is the transformation within TD Securities. TD Securities has partly shrunk in size because of, in fact, the retail side has grown so quickly, that's why we got part of the shift in the business mix. But it's also conscious decisions within TD Securities as we systematically went through that business and took out the tail risk, what I call the tail risk businesses, and substituted for them a lot of energy and investment in growing the franchise businesses.

So if you want to think of TD fundamentally, it's a business where both now in Canada and the United States, we have a huge powerful engine in our personal and commercial banks that own a place in the market that can't be easily duplicated. It takes market share continuously from its competitors and then, because we run an integrated model, we hang off that an ability to grow things like small business, commercial insurance, wealth management and indeed franchise plays on the wholesale side of the business.

So the more controversial thing of what we're doing is taking that strength in Canada and going into the United States. And I think people worry about two things about our strategy in the United States. I think historically people have told me that Americans don't care about service or convenience, they only care about price. I think that's -- I don't agree with that and I think the Commerce proves that that's not a view of, in fact, what is true in the United States. We believe that in urban markets in particular, convenience and service is a huge distinguisher and you can take continuous market share if you own that space.

But what they do worry about, the United States, is, in fact, that the United States is going or is in a recession and therefore we're going to take significant loan losses as a result of our entry into the United States. And secondly, that we're going to mess up the integration of Commerce, that it's a unique brand and that we're culturally insensitive and that we'll blow this model up.

Let me address both of those things. There's no question, if the U.S. continues on a downward trend, it's hard to believe you can be in the banking business in the United States and not affect it. We've already signaled to the marketplace, but notwithstanding the fact that we've had no significant increase in our NPLs, we would intend to increase our loan loss provisions.

We're running at about 129% of provisions to loans right now, reserves for loans for now. We're going to move our provisioning up about 50%, reduce $75 million a quarter, even if our NPLs don't go up, because we believe we should be anticipating further deterioration in the United States.

Notwithstanding that, we had previously, when we did the acquisition, announced that we would earn $700 million in the U.S. P&C banking this year and $1.2 billion next year. We reconfirmed those numbers, but raised the $700 million to $750 million this year and we reconfirmed that the $1.2 billion was a minimum number that we would have for 2009.

We're quite confident that we can, in fact, absorb significant increase in provisions and still make our earnings targets because, in fact, we had made sure that Banknorth's balance sheet was quite strong and that we were very conservative in our lending. So the same philosophy that drove us out of structured products, that said -- and we took the position we do on E*Trade loan book, we took the same view in Banknorth in terms of what’s its lending activities. And when we look at Commerce, what we did find is that the $17 billion of loans were, in our view, quite conservatively underwritten. So we're quite pleased with the credit standards.

As to the integration, I think it's probably hard for people outside us to understand how much we are believers in the convenience service model. We built that model in Canada, it's an incredibly successful model and so the last thing we'd do is go into the Commerce and blow up something because we bought the Commerce to get that model.

We think we can improve that model because we make more money off the deposit base because of our ability to cross-sell and understand where margins are, but we will not destroy the WOW! factor that is the essence of what we bought. I think we get it. And indeed, I think if you talked to the Commerce employees today, they know that we get it and they're enthusiastically endorsing the change because, in fact, they can see that we can do more with the WOW! than they were in the model as they had it.

Clearly for us, the trick will be now to tie all this together to make sure that the TD Bank can bring what it can bring to the table. We're creating a North American bank, we're leveraging our strengths. To give you an example of that, the glass house operating our technology for Banknorth is now in Canada and we get also in a sense they get a world-class systems center, leveraging off the strengths of things that we already have in place.

We think, in terms of things like insurance and wealth management, we'll run those on a North American basis, so that they will, in fact, get our capabilities there, our ability to know how to cross-sell. We've already started in the Commerce, doing cross-sell and the results are frankly spectacular, beyond anything that we ever thought possible. And we're going to be knitting together TD Ameritrade to, in fact, use that solid customer base that Commerce has in places that are very attractive for TD Ameritrade, to cross-sell to the Ameritrade.

So I'll leave a little time for questions and, I mean, a very simple story. We've got a great franchise in Canada that continues to be the best retail franchise in Canada, far and away. We will continue to take market share because it has actually a better model. We're highly focused on how you grow, without going out on the risk curve, as I say, take out the tail risk, take out the mistakes. Banking is a wonderful business to be in if you just don't blow yourself up every five to seven years.

We've proven that in terms of our performance in Canada, in terms of our growth rates and we will prove it to people in the United States, because what we're building is a unique model in the United States that owns the convenience and service space. At that point, I'll end and take any questions.

QUESTION AND ANSWER

Unidentified Audience Member

Ed, you talked about U.S. credit environment. Could you comment on the Canadian PCLs credit environment, if you're seeing any credit situations spill over from the U.S. and what do you think in terms of that?

Ed Clark ***- TD Bank Financial Group - President and CEO***

Yes. We haven't seen any spill over, so we keep waiting, if it does. Clearly the place that we're worried about is Ontario. The West, in Canada, remains on fire. And indeed, parts of the East is on fire in Canada. So it's Ontario, which exports about 40% of its GNP, where the risk is, and yet at the same time, employment stayed up.

Canada's continued to have employment growth and so we're just not seeing increases in PCLs. Indeed, the kind of lead indicator for us is that we have a very small subprime auto business, where you think you'd start to see the first indicators and we're not seeing it. So we're waiting for this to happen. That's why I'm -- in our projections, we're assuming that there will be a slowdown, there will be higher PCLs, but I can show you no evidence that would say that is true.

Unidentified Audience Member

Yes. I had a question regards to your -- given the current success with TD Ameritrade and Banknorth and Commerce, would you continue also further fill ins in that, I guess, the northeast geographic region? The currency, frankly, is very strong right now and I would think that a bank such as yours would have a great opportunity.

Ed Clark *- TD Bank Financial Group - President and CEO*

Yes. I think at some point in, probably - in 2009, we'd look at it. I think we would like to button down the operational model of Commerce and make sure that it's working. Frankly, I'd like to see our earnings from Commerce start to float through my income statement because, like every CEO in the world, I think my stock is undervalued. But in my particular case, I'm being valued as if I had the blow-ups that everyone else did. And so -- but I didn't.

And I think that's because people are worried about the earnings, whether this Commerce thing is for real or not. And I think the only way the market's going to get over that is for me to actually post like $750 million in earnings and that $1.2 billion. And then when they see it, they'll do the math, they'll say 2009 looks pretty terrific for you. And so I wouldn't want to have to, given our capital levels - we couldn't do a major acquisition without using our shares. And so I wouldn't want to do them without seeing some improvement in our share price.

But I guess the other thing that informs my decision is that I like to buy things when the knife's bounced off the floor rather than before it goes down, and so I really would like to see this play out in the U.S. and I think we're going to move from financial crisis, that was a bank liquidity, capital markets crisis, to now a world that's more traditional credit problem crisis.

And so we'd like to see a little bit more data about how far that is going before we would move. So we don't need to do anything. I think there are absence of buyers versus sellers and so I think patience here is probably the right stance for the moment.

Unidentified Audience Member

I mean, just as we look forward, wondering if you could give some insights into where you think the next tail risks are?

Ed Clark *- TD Bank Financial Group - President and CEO*

The next what? Sorry?

Unidentified Audience Member

Tail risks.

Ed Clark *- TD Bank Financial Group - President and CEO*

Tail risk? Where's the next tail risk?

Unidentified Audience Member

Yes.

Ed Clark ***- TD Bank Financial Group - President and CEO***

I'm not -- I don't want hold myself out that I'm some genius that sees ahead. I mean, I actually think that all the risks that brought the financial services down were well known risks. Much debated. And that anyone that sat down and studied these products could see that it was pretty obvious.

So I don't think this took -- I think the history of banking, that's what's so frustrating is that these are all fairly obvious things. And so I'd said the only thing that I thought wasn't obvious or wasn't certainly obvious to me, and I don't think I found many people that said it was, is that you could have the extensiveness of this and therefore you could have the entire financial system in the world tied up in a liquidity crisis.

But I think when you actually looked at those products, if anybody spends some time looking at the math of the products, it was pretty obvious that they had huge tail risk and they were all or nothing structures and as soon as the parameters moved beyond a very limited range, the thing blew up.

So I don't think we're sitting on tons of unknown risk, is what I would say. I think we're -- we have to grind our way through the consequences of this and I think -- my own view is that people are ascribing to the markets, today, TD Bank, senior debt, we're paying 100 basis points more than we were paying a year or two ago. AAA rated, missed all the drama, and we're paying 100 basis more. So why is that?

I don't think it's because people don't trust that we're going to pay them back the money. I think there's a supply-demand imbalance for bank funding because you've taken out a lot of ways in which banks finance, the traditional ways that people offload it themselves, and that's coming back on balance sheet. And banks have had to go out in the world and raise more funds than they've ever had to raise before. And there's a lot of deleveraging going on and a lot of reintermediation going on.

So I think that's just going to take time to work its way through. And I think what we don't know is how long that will, and then how much contraction there will be in the economy because banks forced with that kind of funding, and the cost of that funding, simply won't lend as much money.

So if you said, what am I worried about? I'm worried about how do you figure out how all of that affects the real economy and then the real economy does impact us, because we're not -- we haven't exited the real economy. So I can say I don't have any write-downs because I don't have anything to write down, but I do have lots of loans and if the real economy goes south, then I'm going to be impacted. So I don't think it's some mystery new drama out there. I think it's -- we are morphing, frankly, into an old-style credit problem and the good news is that bankers have dealt with those before.

Unidentified Audience Member

Along those lines, do you worry about the current commodity boom? Because, I mean, Canada's economy is somewhat dependent upon natural resources, which could be one of the reasons why you're still strong and no write offs. I mean, how do you feel about that?

Ed Clark ***- TD Bank Financial Group - President and CEO***

Yes. I think we definitely worry about that in terms of our lending standards out West, we lend against dramatically lower prices. We assume dramatically lower prices in terms of our actual loans than the current prices are. And we are definitely, if you take a look, the oil service business and the gas service business in Alberta has been a business that we want to watch very carefully today.

And what's interesting is that, despite the fact that the West is booming, it's the only place in Canada starting to show housing price softness. Because in fact, it is the one place in Canada where housing prices went up too fast. And so, yes, the answer is, I think you have to, today, a banker should assume that the world financial system is overinflating commodity prices and where there may have been some real trends, you should assume that it's overinflated today, from a banking point of view.

Unidentified Audience Member

Just a quick -- you had a chart on your Canada P&C revenue performance versus peers. And two questions. Just generally, could you give a couple of examples why you think you have that advantage? And secondly, given the slowdown that you're seeing in Canada coming, why would you think -- or do you think that advantage and persistence is so wide?

Ed Clark ***- TD Bank Financial Group - President and CEO***

Yes. And again the -- what I've said continuously is nobody can outperform continuously the way we have. And so it has to come down. And I think as other banks, I think you're going to see a big shift across the globe, where a lot of bankers are going to say, well I've had as much fun in this business as I'd want to have and now I'm going to go focus on retail for a while. And so that does mean we're going to go into a more competitive environment.

One of the reasons -- the core reason why we outperform is that, as I say, if we put four bank branches on a corner, we will take more than 25% of the business. Why? Well we're open 50% longer hours and we give better service. And so that's just a pretty compelling proposition.

So we know that we take the core banking relationships, we grow faster, about 1% faster than our competition just because when people start to open up their bank accounts, why don't you go to a bank that's open at eight o'clock at night that's friendly? But we have a second factor that's been, I think, equally important for us mathematically, and that is that we are -- we have a set of under-penetrated businesses.

So we don't have our natural market share in things like small business, we don't have it in commercial, we didn't have it in credit cards, we didn't have it in wealth advisory services. And those, as I've said, I've mentioned the wealth management, we've been growing it at earnings of 26% a year for five years in a row. In the case of small business, we get about 50 to 70 basis points of market share shift every year.

Because one of the things that we've learned is that convenience and service is worth a lot more to small business people than it is actually the individual consumers. They are the ones who value it most and so it lets us take market share.

Unidentified Audience Member

Thank you very much.

Ed Clark ***- TD Bank Financial Group - President and CEO***

I've got to get out of here. Thank you for your attention.