Q4 2009
Strategic Overview
(Check Against Delivery)
Ed Clark, President and CEO

- Thank you, Tim, and thanks everyone for joining us this afternoon.

- Colleen will be up shortly to describe in detail how we did in Q4 and the year overall.

- Before I turn it over to her – and on a more personal note – we've had some inquiries about my absence from a couple of recent analyst conferences which I'd normally attend. I've had a recurring back problem for some years. For those of you who have dealt with the issue of having surgery to correct back problems, there's always a question of whether and when to do so. Since, as you know, I intend to stick around for a number of years, postponing surgery until I retired wasn't an option. So when I decided I would eventually need surgery – I concluded I'd do it right away. The bank's in great shape and I have an unbelievable team capable of running the place without me. The surgery was a total success and I'm feeling great. Thanks for your concern.

- On that note, let's move back to business. Let me provide some comments on our 2009 performance and then talk about some of the factors I see impacting us in 2010 and beyond.

Remarkable year, beat expectations

- All in, we had a remarkably good year despite some exceptionally tough market conditions at the start. Given how the world felt at the end of last year, who would have thought we'd be here announcing a record year. By almost every measure, our performance surpassed our own expectations.

- I thought we were well-positioned for a tough environment, but the resilience and adaptability shown by all areas of the Bank was even better than I'd expected.

- Of course all of our success is underpinned by people. You can have the best strategy in the world, but it means nothing without a talented team that can execute that strategy. And so before going any further I'd like to thank our 74,000 employees for all their hard work during a year in which they faced unprecedented challenges – I'm extremely proud of what they've delivered.

- And what is it they delivered?

- Record adjusted earnings of $4.7 billion – even though our loan loss provisions more than doubled - and adjusted earnings per share growth of 10% - despite our share issuance last December.

- A balance sheet that's incredibly strong with Tier 1 capital at 11.3% with over 75% of it in Tangible Common Equity. And an adjusted return on risk weighted assets that's one of the best in the industry at 2.27%.

- The best customer service in North America as shown by our JD Power and Synovate wins.

- And during 2009, more evidence of being great operators – a record low efficiency ratio of 50% in TD Canada Trust, 24 new branches in Canada and 33 new stores in the US. Another 75 client facing advisors in Wealth and 155 new business bankers in Canada. And, of course, the successful integration of our 2 U.S. banks.

- In 2009, we demonstrated that with the right strategy and dedicated employees there are ways strong businesses can perform even in a tough economy.

Segment review

- Let me comment on each of our businesses. Once again, we had an excellent performance in retail in Canada and the United States. We hit almost $4 billion in adjusted retail earnings for the second year in a row. That's a fantastic foundation for our bank – and you'll see us grow those earnings from here.

- In Canada, TD Canada Trust continues to deliver great results in spite of the challenging environment, driven by our consistent focus on offering unparalleled convenience and legendary customer service. And as you heard at our investor session in October, we continue to take market share.

- Turning to our Wealth and Wholesale businesses, they've both been helped by improving market conditions.

- In Wealth, robust trading volumes continue to help offset the effects of low nominal interest rates and the resulting margin compression. And we're beginning to feel the positive effects of the equity market rebound in our asset based businesses.

- In Wholesale, the unprecedented market conditions of the past two years have validated our strategy. We've built a dealer focused on franchise businesses that is designed to be profitable even in adverse market conditions.

- After a tough 2008, who would have guessed that TD Securities would post the kind of record-breaking year we've seen in 2009 – all while reducing risk and further focusing on our franchises.

- With the changes we implemented this year in Wholesale, I think we've reached the point where no further significant strategic adjustments should be required.

We feel we've built the dealer model of the future – one that's less vulnerable to changes in regulatory capital requirements.

- In U.S. P&C, after more than a year and a half of incredibly hard work, we've completed the integration of Commerce and TD Banknorth, achieving our goal of uniting our U.S. operations under one brand from Maine to Florida.

- Steve will comment in more detail in a moment, but this was an enormously complex and demanding integration and the team delivered to the highest possible standard on hundreds and hundreds of projects. However, we did experience delays in overnight processing shortly after integration weekend.

- We know these delays impacted our customers – and for that, we're truly sorry.

- However, I'm pleased with how we responded. We came together as one organisation that worked incredibly hard to identify the problem and come up with a solution – and worked hard to make things right for our customers.

- Our reaction to the batch delays will only reinforce our leadership in convenience and service. However, changes from conversion and the batch delays heightened customer reaction and we tend to see those reactions immediately in our customer surveys. But, our Customer WOW! Index today has bounced back from where it was after conversion weekend and we continue to see improvement in this metric.

- I just want to say that I am truly WOW-ed by the outstanding job done by Bharat, his team, and everyone else involved in making the integration a great success.

U.S.

- I've been asked by investors – "are you pleased with where you are in the US?"

- Steve will review our progress shortly but let me say that I'm very pleased with our business model – today, we are actually operating a better bank in the US. Our fundamental business strategies are delivering and we have an organic growth engine, a strong deposit base, a growing loan book and significant cross-sell opportunities.

- Combined with our ownership position in TD Ameritrade - which has been a huge financial and strategic success – our prospects for growth in the US are excellent.

- But it is important to acknowledge that we aren't earning our cost of capital in our US P&C business. And frankly, a long recession and a slow recovery will not help.

- A lot's happened since we announced the Commerce acquisition in October 2007. Back then, we thought we could earn $1.2 billion in 2009. We're coming in at just over $900mm in adjusted earnings which isn't bad when you compare our performance to other major US banks.

- But, clearly we didn't anticipate the severity of the downturn that was to come. On a pre-provision basis, we think we've delivered pretty much in line with our expectations.

- And considering our business model is one that leverages convenience and service to drive deposit growth, it's much harder to deliver earnings from that deposit base in a very low nominal rate environment.

- But we see upside when the headwinds of low margins and higher PCL's begin to ease. So, overall, we think we've got a 2 year delay in getting our ROIC up to our cost of capital.

Outlook

- On that note, let's move on to our outlook.

- At the beginning of 2009, I said that the recession was like a valley – we didn't know how wide or deep it was, but we needed to get across it with our business model intact and momentum on our side.

- We're confident that our business model will survive the downturn – what we're wrestling with now is how long the recovery will take and what that means for us. We want to ensure we continue to deliver growth - so our attention is focused on how we build on our momentum coming out of 2009.

- For a deposit-rich, retail-focused bank like TD, there are four key factors that will determine our earnings growth from here –

- One, PCL's,

- Two, the level of nominal interest rates,

- Three, normalisation in the capital markets

- And four, our rate of organic growth which is driven by consumer and business confidence and underlying GDP growth in Canada and the US.

- Let me briefly touch on each one of those factors.

- On PCL's for loans, we think they'll increase in 2010 as unemployment continues to rise. We see them peaking first in our Canadian personal unsecured businesses. In Canadian commercial, as in previous recessions, these losses will likely lag and we expect increases from the extremely low levels they're at now. But we see them peaking at levels well below those seen in previous recessions.

- In the US, we expect they'll continue to increase from here, but at a much slower rate peaking by the end of 2010 and then in 2011 gradually trailing off.

- Before I move on, let me address another topic. Earlier this week a report was published highlighting that the loan portfolio disclosure in our US regulatory filings differed from that in our financial disclosures – this isn't new news. Our financial disclosure provides what we consider to be a more accurate representation of the risks within the portfolio. In addition to our Commercial Real Estate portfolio, our Commercial and Industrial portfolio includes loans that have real estate as collateral. We insist on such back up collateral as a secondary measure of risk conservatism. We primarily lend however, on the basis of the business and the real estate collateral is often in turn dependent on the success of the business. As a result, we classify according to the industry of the borrower since we believe this provides a superior indication of the credit risk. This practice is consistent with that followed by many industry participants.

- Moving to interest rates, in some ways the very thing fuelling results in Wholesale – very low interest rates – is hurting our retail businesses.

- Given that fact, we see 2010 as something of a transition year in our mix of earnings as we start to see rate increases. We think they'll come in the latter part of 2010 which means there won't be a material impact on our retail results until 2011.

- Given the unpredictable and extremely competitive nature of the capital markets, forward looking observations about our Wholesale bank are difficult. However, after such an extraordinary year we would expect Wholesale earnings to start moving back down to a more normalized level, but if rates stay low and volatility persists, we could see a continuation of above average returns. And stronger markets mean the tailwind of higher asset values should help our wealth management businesses.

- Moving to organic growth, we still think we'll see growth in 2010, but at a pace that's in line with recovering but slower-growing economies in both Canada and the US.

- So that means continued new volume growth, but slowing from where we are today. And we still have the tailwind of strong organic growth from 2009 - business "on the books" that will drive earnings in 2010.

- And we'll see a negative impact on the Canadian dollar earnings of our U.S. operations, as long as we see a higher value of the Canadian dollar.

- You might think on balance this paints a pretty gray picture of the year ahead. It certainly identifies our challenges. But at the same time, I don't want to overstate those challenges. Two lessons we've learned from the past year are - first - you can have positive surprises in challenging times and - second - you can figure out ways to outperform.

- We're entering 2010 in a very strong capital position. And that's a great place to be as governments and regulators around the world review capital requirements.

- We believe it's prudent to maintain strong capital ratios given this kind of environment. The truth is no one really knows where these rule changes will come out. But there is a real risk that they will require higher capital levels, and different definitions of capital. TD and the other Canadian banks are going into these changes in a position of absolute strength. And we'll likely be less impacted by any changes compared to other banks in the rest of the world.

- We've also got that solid foundation of retail earnings that I mentioned earlier. So, as we go into 2010, we'll continue to work hard to grow revenues and keep expenses well-contained. Then we should see the positive effects of our embedded earnings from PCL declines and interest rate increases come through starting in 2011.

Compensation

- Finally, I think it's appropriate to say a few words about compensation. All of us have been sensitized to the importance of ensuring that our compensation plans reward behaviour which adds value for our shareholders over the long term and avoids excessive risk. While compensation plans matter, strategy matters even more.

- As you know, TD's business strategy has been relentlessly focused on taking out tail risk and resisting market pressures to meet short-term earnings expectations which involve sacrificing long term value or incurring excessive risks.

- Nevertheless, it's important that compensation plans are aligned to strategy and reinforce the desired behaviour. Our compensation plans already rewarded appropriate behaviour by requiring large equity holdings by executives, paying a significant proportion of variable compensation in equity and requiring the CEO to hold his required equity for 2 years post-retirement.

- As a result of the financial crisis, we have undertaken a thorough review of our plans and had discussions with some of our major shareholders. This review has resulted in some fine tuning which we'll outline in this year's proxy circular. The key changes we made were designed to ensure we are fully compliant with the Financial Stability Board guidelines and more explicitly factor in risks taken when determining compensation awards.

- As for the level of compensation at TD, the cost of senior management has steadily declined over time as a percent of adjusted earnings and revenues. If we look at incentive compensation the same way, it has also declined. Incentive compensation growth this year reflects the spring-back in Wholesale earnings and the full year inclusion of Commerce. As a percent of adjusted earnings and revenues, it has fallen by over 10% compared to last year.

Closing

- So, overall, how am I feeling about 2010? Although I'm feeling pretty good about TD, we still see some significant headwinds that demand a certain amount of caution.

- The market has bounced back more strongly than we would have thought, but we think underlying economic conditions will remain lacklustre for the foreseeable future.

- And we know that many of our customers will face hardships as a result. As we've said before, we intend to stick by our customers and clients in the tough times.

- Against that backdrop, however, we believe TD still has enormous earnings potential, which we'll see later in 2010 and into 2011. We <u>are</u> emerging from the financial crisis and resulting economic recession with our business model intact and momentum on our side.

- On that note, I'll turn things over to Colleen.

Overall Call Closing

- Let me wrap up with the four key messages I hope you'll take away from today's meeting.

- One – Almost $4 billion in adjusted retail earnings per year in both 2008 and 2009. That's $4 billion dollars of consistent, high-quality earnings.

- Two – Our Canadian franchise delivered unbelievable performance once again and is very well positioned for when economic conditions improve.

- Three – Wholesale had an incredible year while reducing risk. We believe we have the dealer model of the future.

- Four – It's been a milestone year for U.S. P&C, and we see great prospects in the years to come but it's going to be a pretty tough 2010.

Thanks and have a great day.

Caution regarding forward-looking statements

From time to time, the Bank makes written and oral forward-looking statements, including in this document, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission (SEC), and in other communications, including to analysts, investors, representatives of the media and others. All such statements are made pursuant to the "safe harbour" provisions of the U.S. Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation. Forward-looking statements include, among others, statements regarding the Bank's objectives and targets for 2010 and beyond and the strategies to achieve them, the outlook for the Bank's business lines, and the Bank's anticipated financial performance. The forward-looking information contained in this document is presented for the purpose of assisting our shareholders and analysts to understand our financial position as at and for the periods ended on the dates presented and our strategic priorities and objectives, and may not be appropriate for other purposes. The economic assumptions for 2010 for the Bank are set out in the Bank's 2009 Management's Discussion and Analysis (MD&A) under the heading "Economic Summary and Outlook" and for each of our business segments, under the heading "Business Outlook and Focus for 2010." Forward-looking statements are typically identified by words such as "will", "should", "believe", "expect", "anticipate", "intend", "estimate", "plan", "may" and "could". By their very nature, these statements require us to make assumptions and are subject to inherent risks and uncertainties, general and specific. Especially in light of the current financial and economic environment, such risks and uncertainties 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 and the effects of which can be difficult to predict – 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 2009 MD&A and in other regulatory filings made in Canada and with the SEC; general business and economic conditions in Canada, the U.S. and other countries in which the Bank conducts business, as well as the effect of changes in monetary and economic policies and in the foreign exchange rates for currencies of those jurisdictions; competition in markets in which the Bank operates, from established competitors and new entrants; defaults by other financial institutions; the accuracy and completeness of information we receive on customers and counterparties; the development and introduction of new products and services and new distribution channels; the Bank's ability to execute its strategies, including its integration, growth and acquisition strategies, and those of its subsidiaries internationally; changes in accounting policies 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 competition for funding; the Bank's ability to attract, develop and retain key executives; reliance on third parties to provide components of the Bank's business infrastructure and to successfully and reliably deliver our products and services; the failure of third parties to comply with their obligations to the Bank or its affiliates relating to the care and control of information; technological changes; the use of new technologies in unprecedented ways to defraud the Bank or its customers and the organized efforts of increasingly sophisticated parties who direct their attempts to defraud the Bank or its customers through many channels; legislative and regulatory developments including changes in tax laws; unexpected judicial or regulatory proceedings or outcomes; 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; international conflicts and terrorism; acts of God, such as earthquakes; the effects of disease, illness or other public health emergencies; and the effects of disruptions to public infrastructure, such as transportation, communication, power or water supply. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's businesses, financial results, financial condition or liquidity. The preceding list is not exhaustive of all possible risk factors and other factors could also adversely affect the Bank's results. For more information, please see the Risk Factors and Management section of the Bank's 2009 MD&A. All such factors should be considered carefully when making decisions with respect to the Bank and undue reliance should not be placed on the Bank's forward-looking statements. Any forward-looking information or statements contained in this document represent the views of management only as of the date hereof. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on our behalf, except as required under applicable securities legislation.