# TD BANK FINANCIAL GROUP
# DESJARDINS INSTITUTIONAL INVESTOR LUNCHEON
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## PRESENTATION

**Michael Goldberg - Desjardins Securities - Analyst**

I'm Michael Goldberg, Financial Services Analyst at Desjardins Securities. My partners and I are pleased to welcome you in person and online to our meeting today with Ed Clark, CEO of Toronto Dominion Bank Financial Group -- TD Bank Financial Group.

The format for today's meeting will be as follows. First, Ed will provide a very brief update on TD. Then, Ed and I will have a fireside chat to cover some broad questions of interest, and then we'll open up the meeting for questions from the audience. We'll wrap up by 2 PM.

In preparing for the meeting, I looked back at my notes from the last similar meeting we held with Ed almost exactly two years ago. I ended my introduction of Ed that day with a few questions including the following. What's going to stop the slide of US house prices and employment? How much lower will both go, and how long will it take?

Well, here we are two years later. We've survived the financial crisis. New roles requiring more and higher-quality capital for banks have emerged, but the issues of US housing and employment remain a key uncertainty and continue to dominate the outlook for the banking industry. I'm sure that Ed's comments on these topics will be an important takeaway for us today.

Let me pass the mic on to Ed, and we'll get started.

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Okay. Well, I don't want to ruin the day, but I don't know for sure I've got any more insights into some of those questions than some people in this audience. I can be quick because obviously, I'll go to jail if I tell you anything more than I told you at the end of the -- on the quarter, analyst call. I'd say the reality is though that I don't think our outlook or view of the world has changed particularly since then either.

So, I think we're in a phase where last year I think things worked surprisingly well for us. And so, we -- if you take a look at what we told people going into that year versus what happened, in general things were much more positive than we had anticipated.

I don't think that's just a personality statement on our part, but I figure I think what happens clearly the housing market in Canada continues stronger. I think the amount of market share that we took both north of the border and south of the border was greater than what we had anticipated. So, the response of our competitors was different than what we thought.

PCLs cured faster than we thought they were going to cure. And so, I would say -- and our security dealers' earnings held up better than we had anticipated. Even though we were the one who were arguing they're going to get normalized, it took longer for them to normalize than we thought. So, we're coming off a year where we had a series of positive surprises.

I think looking forward to next year, at the risk of this sounding, well, every year you're Eeyore, I think there are lots of -- the headwinds are more evident. And so, I think -- I don't see -- the security dealers, I think they have come into a more normalized range. I don't think there's huge up there though. I think that we could easily go through some pretty tepid capital markets for the next year.

I think the economic mood is clearly gone a little bit south and so interest rates are evidently lower. As I've said all along, for us if you want to know the core business risk it's prolonged low-interest rates. If you're a deposit gatherer, that's a big risk for you. And so, I think those are negative events for us.

I think PCLs appear to continue to be cheering themselves; so I think that's a positive tailwind for us across our businesses. And I always remind people we're a balance sheet company that generates an income statement, versus most types of enterprises that are income statements that generate balance sheets.

And so, a lot of 2011 is locked in. It's really we're -- and we tend to focus less on the immediate term. So if you said, where my management team is focused today, is on 2012 not on 2011. There's things you do to manage through 2011. But a lot of forces are already in place for 2011.

The issue is what will happen now in 2012, and how do we get ahead of those issues. I think we're looking at a world built where we see revenue growth slowing down here for a while, made worse, obviously, in the case of the United States by regulatory changes that are negative and not positive for revenue growth.

Notwithstanding that, we've said to the market, since I took over, that we could deliver -- we could build a bank that wouldn't blow up every five to seven years which seems to be the pattern of the banking business. And that can -- over a period, consistently grow in earnings per share at 7% to 10% a year. We don't see any reason why we would have a different outlook as we look forward, notwithstanding the headwinds because we think we get paid to manage the headwinds.

So, why don't I stop there and open it up?

## QUESTION AND ANSWER

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**Michael Goldberg - Desjardins Securities - Analyst**

Let me, I guess get started with the one question that I think follows on what you were saying. It seemed to me for a long time that there's a connection between TD's focus on more stable businesses versus more volatile capital markets type business that may be tied to your dividend policy also.

Is there actually a connection, and if so, can you talk about the connection between your objective of growing -- growth through earnings stability as opposed to more volatile sources of earnings?

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**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Yes, I would say the normal connection that you might have or you might have had is well, if you have very stable earnings you could afford to have a dividend payout ratio that's higher and that you're more confident about or that you can anticipate earnings growth with more certainty.

I would say that doesn't -- that's not how we think of it. So, I think the way we tend to think of it is we believe that we can -- we have demonstrated that we can grow faster than our competition.

So the way we look at dividend policy is we go and say, what rate of growth do we think we're going to have, how do we self-finance ourselves because we don't believe we should be issuing shares to finance organic growth or therefore, what's the implied dividend payout ratio consistent with the higher gross rate?

That's why we have a dividend payout ratio that tends to be lower than other people because I think they say, well, I don't have the same growth prospects for you, and therefore, I can afford to have a higher dividend payout ratio and self-generate the capital. That's how we look at it.

Then the judgment that that would come is, I view dividends as virtually a debt liability, and so you want to make sure that you can afford to pay them. So you look and say, what do I think is a sustainable earnings and therefore, if I have this payout ratio then I should payout to make sure that I'm -- if my earnings grow then I should increase my dividends.

And we would say, because we're faster growth that over a long cycle, you'll get more dividends from us than higher-payout ratio, slower-growing companies because growth beats high-payout ratios over the long run.

Our attitude is that we -- what we've said to the marketplace at the end of the first quarter, we'll look at what we think the sustainable earnings are and if those justify, dividend payout, whatever that does, you can -- we will look at that and obviously be heavily guided by what our policy is.

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**Michael Goldberg - Desjardins Securities - Analyst**

In my introduction I talked about the housing market in the US and the employment in the US has continuing headwind. I want to talk a bit about how you see those evolving. What do you think it will take in order to get some relief on those fronts and how's TD adapting to those issues?

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**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Yes, so in terms of us specifically, I would say the housing debacle in the United States continues to create opportunities as opposed to problems. So, we don't have the foreclosure issue. The mortgages that we generate, we tend to keep on our balance sheet we service them ourselves, and so we don't have that sort of issue.

And the disruption in the mortgage market is clearly allowing us to grow our mortgage file faster at better rates, at higher FICO scores than a normal market probably would produce.

So as you know, we have an asset liability imbalance in the United States. We generate significantly more deposits than we do assets. Over the long run we want to close that gap, but we've been very prudent, say well, yes, but I don't want to blow myself up doing that. But we look at the mortgage product and say, we can have quite high FICO scores, quite good security in terms of the amount of pay down and quite good spreads. And so, we have been growing that file and are quite pleased with that.

So right now, the immediate effect is positive for us, but the broader effect is worrisome. It's not it will not be positive for us. It's hard to see, that clearly the United States has to deal with the mortgage problem. The housing market remains a huge overhang in the economy.

I think it's unrealistic to think that the United States can get through that overhang in less than five years, if you were lucky, and maybe longer which means that you have to have a prospect for economic growth that says you're not going to get a snapback recovery in the United States in that circumstance.

There's such an overhang in the economy that it represents -- to me it's going to be a slow economy and economic growth, and that clearly is the macro impact on us that's not good.

**Michael Goldberg - Desjardins Securities - Analyst**

And what about the situation in Canada? I guess you'd want to make the point that the conditions are different here, yet mortgage rates are at historically low levels. And as we were talking about at the table before we came up, at some point rates may go up. Does that ultimately create some additional headwinds in Canada?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Well, our sense is that the housing market is slowing down here. I mean, it's interesting, you get anecdotal evidence. Some here will say that's not true, but I would say our data says that it is true and that we have gone through an element of a mini-boom in the housing market here in Canada for two years.

The fact clearly is it has come down. And I think TD Economics just issued a report where, clearly, as an institution we are concerned that the rate of household debt to household income has gone up significantly where we are now matched to American rates. So you really wonder whether as a country we should be -- how much further do we want to go here in that. So, I think there is a generalized concern.

Again, I would say, do we worry about it in sense that we have an impending set of loan losses in the mortgage area that are significant? The answer's no. As you know, we buy insurance for about 65% of our file, and we were very careful on our standards. I don't think we see the problem as that. We worry a little bit more that the person who has a high-ratio mortgage, even in insured, you have to watch what their credit card debt is or car debt, and say does it spill over and things like that.

But again, we're not seeing that in our files. We're not seeing those issues. But, I think the main impact is going to be that the housing boom was a source of strength in the Canadian economy that you would hope, in a perfect world, as it starts to ease off, the US would have been coming back by now which is I think what people would have been hoping for.

And so, you start to be picking up export demands just when your domestic final demand was easing off. I think we now face the prospect that domestic demand might be coming down and export demand not picking up and that at a higher dollar, at the same time, making that even – further (inaudible).

So, I think it's all these general macro issues that are the big issues.  And you can outperform your competition but if you're in a slow-growth market, you're still going to grow slower than you would have gone in a --. It's better to lose market share in a fast-growth market than gain market share in slow-growth market, in terms of results.

**Michael Goldberg - Desjardins Securities - Analyst**

Are you becoming more pessimistic about the outlook?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

I would say -- I'm not sure I'm any more pessimistic than I'd say at the end of the quarter, but in the last quarter I was definitely signaling that we have become more pessimistic than we would have been six months ago.

It's hard to deny that the -- just look at the -- I just look at the five-year US Treasury. If you'd said to me a year ago, we'd be at 110 basis points for five-year Treasury rates, I would have said you're crazy and turned out I was crazy.

So, I think that has to tell you. I think there's clearly an element in which the bond market may not be as good an indicator as it used to be because it's being heavily influenced by governments, not just the US Federal Reserve but in this currency war that's goings on here. Every government is in there trying to play -- buy the other guys stuff to --.

And so, I think the market clearly isn't as good an indicator, but generally you look to the bond markets to tell you what's going to happen in the world and they're telling you the US is going to have slow growth for five years. They're telling you -- and they're more pessimistic now than they would have been a year ago.

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**Michael Goldberg - Desjardins Securities - Analyst**

Let me switch gears for a little bit. Assuming that an 8% tangible common equity ratio is adequate, I've recently estimated that TD has $3.4 billion surplus above that level.

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**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

You'll tell Oscar that, won't you?

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**Michael Goldberg - Desjardins Securities - Analyst**

Or about 22% above that level and by the end of 2012 I estimate that that surplus would increase to almost $10 billion, so you'd be 57% above that 8% level. So do you expect that pressure is going to intensify to explain what you're going to do with all that surplus capital?

First of all, do you believe that that's what's going to happen? Do you think pressure is going to intensify to explain what you're going to do with that surplus capital, and what will you do with the surplus capital?

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**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Why don't I tell you know rather than wait? I think the first thing is, I think all of the bank CEOs have found this is a very difficult question to answer, and I don't know what the right moral thing is.

We have, I'll call it, not snippets of knowledge, but we have an element of knowledge but we don't have perfect clarity yet of what these rules actually will mean for us. So, I think everybody is nervous. And we have said, how we going to go out in a coordinated fashion and tell the market exactly what these rules mean? What you don't want to do is go out and tell the market before you actually know what the rules mean, and then have to go back and so that you've actually --.

In one sense the market has a high degree of uncertainty, I think, about these rules, but at least we haven't created false certainty about it. There are still significant outstanding issues of what the actual capital requirements will be. But will not -- may not get -- we're hoping will get settled by the G-20, but there's even some of the statements that have come out that say -- that now it may take longer than the G-20 to settle these.

The obvious example -- we have a view of what should happen here, but it won't necessarily be the prevailing view is, are we a systemically important bank in the world. I think I'm not, but nothing in my strategy is trying to make us into that. And so, I'm saying well that's a nice academic discussion you're having about how to do that, but it's not obvious that there'll be no impact on us.

And I don't know that, and I can't get any insurance by anybody whether that -- they don't have that clarity either because there's a huge obvious debate and the numbers that are tossed around are quite large.

But even then, when you get to the rules where you think you have the rules this is a thousand details that you have to actually work out.  First, what the impact is and then equally important, what you're going to do in response to that impact. Because what we keep on saying to the regulators, don't think we'll stand still here.

We're driven by economic profit. I'm obsessed with economic profit. And if I'm not making economic profit on a product, then we're going to ask. And if I don't see it, that it can be sustainably repriced to make economic profit then we're either going to -- we'll exit that product. So, we have to either reprice it or exit it.

So, that's going to take us a while. Again, what I've said is I would hope by the end of the first quarter we can figure out collectively on the banks what disclosure we're going to have, where we are to fill this impact of what the ultimate impact is, but it is still a moving piece here.

I think there's no question. We've seen some of the disclosures publicly of other institutions I've -- brave them.  And so, there's no question that dealer -- in general, dealer capital is going up significantly.

In our case we've always carried more capital, than the dealer, than the regulatory capital requirements because we didn't believe -- our whole philosophy was that this was -- bad regulation is what led to this, and that these rules were ridiculous and we wouldn't run our dealer on the basis of that.

So, we assigned them way more capital. We assigned them liquidity premiums and made them buy entity optionality from us. So we ran our dealer that way, but there still will be some impact on our dealer as a result of these. So the rules will take our dealers capital up from where it is, but we don't know how much but less than for other people partly because we have less trading risk assets than other people and partly because we've already been assigned the dealer.

On the other hand, there will clearly be an impact on our retail commercial businesses where the government is moving the amount of capital you have to have to have a small business loan or commercial loan, up pretty dramatically. So, we have to then figure out what we will do in response to that.

So, that's a long-winded answer. I wish I could give you clarity, but I don't have it yet.  And I think anyone that tells you that they have it, has got a secret source and some piece  of information that nobody in the government of Canada has, certainly.

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**Michael Goldberg - Desjardins Securities - Analyst**

If there was the view that you had surplus capital and that this was going to evolve this way, how would you feel that your priorities would be in terms of the uses of that capital?

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**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Well, I think the obvious first thing to do is that we've been running a DRIP program. And so, I think if you've got yourself in a position where you clearly don't need any more capital, you're probably under a fair amount of pressure to say, why are you keeping your DRIP program operating?

If you want to speak about acquisitions as obviously, you know, what we've said is that the only kind of deals that we would look at right now in the US are smaller deals, either small, non-FDIC deals or FDIC deals.  And that until we have better view on the outlook for the economy and better deal on the regulatory front -- the US right now, an objective view would be that's a pretty hostile regulatory environment to try to operate in.

And until we see some -- until you get clarity as to how hostile it will be and what those impacts will be, I don't want to really have an order of magnitude increase in my investment in the United States.

As to other areas, we look at stuff and we haven't seen anything that's particularly attractive to us. So, there'll be a point at which I think we'd carry some excess capital so that if we want to do small deals we wouldn't have to raise capital, but if it turned out that we had huge amounts of capital then you'd obviously want to give it back to the shareholders.

Not through dividends -- to me -- my view is dividends are off sustainable earnings. We'd do it through buybacks, but certainly the first step would be turn off the DRIP.

**Michael Goldberg - Desjardins Securities - Analyst**

Okay. And with the recent foray by TD into European corporate trading within your international fixed-income business, does this mean that you're willing to increase the proportion of your revenue and earnings coming from capital markets related business?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

I don't think so. I wouldn't read anything --I think we're running a tightly-defined security strategy that will probably end up in the 15% of our earnings. If anything, our non-wholesale side earnings have tended to grow faster. I think in the next couple years will grow faster than our security dealers, because our security dealers coming off this abnormal period and again, and will get into a more steady state growth.

I don't see us as -- there's no big dramatic shift going to occur. We want to run a pure franchise strategy. A question that we ask ourselves is, why would we be in the security dealers at all -- in the security business at all given the strength of our retail and commercial franchise?

I think it's because we think it can -- the right security strategy can strengthen your retail and commercial strategy. And so, we think in Canada we moved to become a very traditional dealer -- I mean, the dealers of the 1980's, not the dealers of 1990's and 2000. And we're built around serving clients. That's the fundamental thrust is -- what do you have to do to serve our client base? And we think having the whole spectrum -- net adds to your franchise and we're looking at strategies in the US that we do exactly the same thing.

But it's a pretty plain-vanilla simple strategy, old-fashioned. What we used to do in dealers is go out, talk to clients and figure out how to facilitate their needs and serve them. That's the only strategy we're interested in running, constrained to say -- which we've said is we want to run a dealer that can never, itself, lose money. It cannot steal the earnings solidity of the rest of the bank.

Because I think the mistake the banks make around the world is they put these units together and then they essentially take risk by borrowing the risk properties of the other part. And then brilliant investors give the same PE for wholesale earnings as retail earnings. I don't get that, but that's what the larger banks -- I get that that's where the market ends up.

In my view, I don't want to do that game. And so, we said to our dealer, you must show us that in our worst case stressed scenario you cannot lose money. We didn't lose money when we went through this crisis and we won't lose money in the dealer going through the next crisis. That's the constraint we have on the dealer. But, we'll grow it opportunistically within those constraints, but it's very much a franchise play.

**Michael Goldberg - Desjardins Securities - Analyst**

So, there have been differences from bank to bank on how they fund their dealer operations; some using an average cost of funds and others more of a wholesale transfer price for funding the dealer.
Is that part of the reason why TD has never gotten into the same kind of mess -- just that you have used a wholesale transfer price rather than subsidizing the wholesale side with the low-cost funds that you generate in the retail commercial?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

So, there's two aspects. First off, we run the most conservative liquidity policy of -- it's probably not factual, but -- than any bank in the world. But we far exceed what these liquidity rules say -- far exceed them. And we have argued publicly that we can't understand -- I was saying at lunch, you have a mortgage crisis that leads to a liquidity crisis and you go through a whole reform thing and say, the only I'm not going to change is liquidity rules in the mortgage system in the United States.

So we sit there and say, what brought these banks down was lack of liquidity. And so, we -- but anyway, we start with a strong view that you should carry the right liquidity and you shouldn't mask that liquidity. So, if you want to have long-dated assets then you better have long-dated liabilities. Pretty simple old-fashioned way.

Then we've always run, throughout the bank, what you'd call a wholesale cost of fund transfer that says -- your auditors say, credit to the deposit gathering, but the alternative -- going to borrowing that money in the marketplace. That's the value of your deposit base. That's why we end up obviously, with a strong deposit base, and you want to charge all businesses, all optionality costs.

So if a mortgage has an embedded optionality in it, then they should buy from the Treasury, the cost of giving away that optionality. We believe that the benefit of that -- and then we don't take interest-rate risk at the center. So, we say lots of smart people in the world that know where interest rates are going. The one guy that I know that doesn't know where interest rates are going is me. And so, we're not going to take interest-rate risk in the Bank.

We think what that leads to is a way better understanding of where you make money and you don't -- and causes your system to price things accurately. So sending wrong market signals down into your organization, I think, wastes money -- wastes shareholder money in the end. You're just kidding yourself.

And so we think, yes, you might be able to make more money some years by doing the carry trade and doing all that, but what you're giving up is that your people who are actually executing your strategy, don't actually get the right price signals. So, give them the right signals. And so, that's why we don't end up having trouble in our dealer.

**Michael Goldberg - Desjardins Securities - Analyst**

I'm going to switch gears again and move to Canadian retail banking where conditions have now reached very competitive levels. What are some of the headwinds that you expect as a result?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

I'm not sure that we feel -- there's probably a little bit. I'd say in the commercial banking area, where over the last three or four years we have taken very large market share gains. So, we have moved ourselves up the ranks of where we are in the small business and commercial lending relative to the Big Five.

So that's probably the one area where we see the market now saying, okay, we're going to fight back. We didn't do it through pricing. We did it through, again, old-fashioned banking, calling and being available in a downturn where other people were nervous and pulling back. But, I think the market response has been we're going to get those customers and clients back through aggressive terms either on the risk side or on the price side.

We will not respond to the risk side, but we will respond to the price side. So, I would say there is pressure on that. There is an overall pressure in the market place. Obviously, as interest rates come down, our margins on deposits have been declining. We show that to you every quarter and our margins on lending have been growing, and I'm not sure there's any room to grow them anymore on the lending side.

I've always found that customers are smarter than bankers. They find when to go long and when to go short and what the product is that we have thinner margin on or that, and so you tend to get adverse shifts against you. So, I think what we've said is -- we've been running in the 290 range in NIM in TDCT, but there's just constant downward pressure in that.

But, I wouldn't want to characterize the market as a new period of hyper-competitive. I think there's just old, same -- there's a bunch of banks that every time they lose a point of market share view it as a strategic loss. As you know, TD Canada Trust has taken pretty dramatic shift of the game in Canada in market share in the past five or six years. And I think there's a feeling that they've got to stop us from doing that. I think that's what we're into, in a market where there'll be slower growth.

I think those are the two forces. But it's what Tim Hockey gets paid to do, right? To deal with that.

**Michael Goldberg - Desjardins Securities - Analyst**

Actually, one other retail question. Where there's a real dichotomy, strategically between the banks and their attitude towards dealing with mortgage brokers. Some of them completely avoid dealing with brokers, while some have found a way to originate both proprietary and also deal through brokers. Do you want to talk about TD's strategy on this issue?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Yes, I was listening to you and it'd be interesting to go and look at market share gains and losses over the last five years and say -- or we've done that. I'm not sure that it makes any difference. You have all these ideological debates about what the right way to do business is and then you turn out -- guys who are a winner using it one way, and guys who are losers using the other way.

Philosophically, we're the bank that says we're more convenient. So, we're open 50% longer. We've announced now that we're going to start having branches open on Sunday -- a select set of branches on Sunday. So we dominate the convenience space. And I think we have our own mortgage sales force and we use external brokers.

And our attitude is there are people that like to be served by brokers and mortgage sales force people, and the people who liked to be served in the branches. Our job is to give people what they want. Our job is to figure out how to make all of that work for us and we do.

But it's not -- it's not, maybe -- I don't think I can argue that it translates into -- we've had increases in our secured lending share, but I'm not sure they're any more than they are in all the other products that we've also had increases in. So, I'm not sure it's obvious that it's a better system, but it fits our culture of saying, why don't we adapt to the customer rather than they adapt to us?

**Michael Goldberg - Desjardins Securities - Analyst**

Okay, thank you, Ed. We've been going about half-an-hour now, and I think we'll now open the meeting to questions from the audience.

I hope that you came prepared. As we go through the Q&A, please identify yourself and your firm. So, who's going to kick it off? Sure.

**Maria Berlettano - J. Zechner Associates - Analyst**

Maria Berlettano, J. Zechner Associates. Regarding Tier 1 common and Michael sort of made an assumption about a minimum 8%. We know we've got this 7% coming and then there's going to be a buffer above that for too big to fail and counter cyclical. From your perspective, how would you size -- if you were advising us, how would size the buffer for too big to fail for Canadian Banks?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Well, I think that's the debate that's going on. And so, there is a proposal that the 7% become a 10% number for the systemically important global banks. I think if you want my -- where I think a reasonable position would be, so whether we come out there or not, is there's no way TD is a systemically important bank. And I think of us as a super-regional, is what we are.

Clearly, what was -- the banks that have the risk, the way I put it is if something happens to TD, is there immediately a financial crisis in France? That's what a systemically important bank is. And I think the answer is no. I mean, there might be a bad situation in Canada, but it isn't going to be suddenly mean -- whereas --. So who's connecting the worlds global capital market system in a way that if they go down, you set off this domino effect around the world? That's what they're trying to get at.

So, I don't know where they're going to come out on -- whether the number is three or two, or what the form of it is. There's a debate around, does it have to be common equity? You can see what the Swiss have done, and they've said that you can use contingent capital for that and not common equity. They've made it tax deductible, which obviously pushes it dramatically.

So, if you can get tax-deductible contingent capital that the markets will buy, then maybe that it's not a very costly imposition. I think the 7% will become -- have an element and there's a lot of discussion about this above floor that most banks will want to avoid piercing. Even if the regulator says, relax, we don't cut you off your bonus the moment they go through with that, so you can be relaxed with -- that's a joke. I think just -- people won't want to go near there.

So, I think you're going to find that just by the way Canada always does everything, there'll be a gradual consensus over what cushion would we operate to make sure we never get there. And I think that will be one of the arguments that Canada will advance, to say our banks are not -- they maybe important to Canada.

There obviously systemically important to Canada; they're not systemically important in the world. But relax, we're also carrying more. We're not just, barely, meeting the tests. We've never barely met any test. So, we already have lots of cushion in here in that context.

I also think what the notion they're getting at, which I agree is that it does matter what you're business mix is. And so, the Canadian banks are blessed with these incredibly powerful retail operations that provide stability of earnings. I've argued, unsuccessfully, that not enough credit is given to stability of earnings versus capital.

And so, the banks that survive a crisis are the banks that can recapitalize themselves. To recapitalize yourself you have to go to investors and say, I got a franchise here that's worth value and so give me some more equity against that franchise. That's the huge advantage of Canadian banks is that they have those core franchises that allow them, in a crisis, to recapitalize themselves. So, I think you can advance a whole set of arguments that we do -- when Basel III comes in, the Canadian banks will be pretty bulletproof financial institutions. They proved it when they didn't have Basel III, but when we're add -- when we add all this capital that we're going to add here, then they're going to be bulletproof -- pretty bulletproof.

**Unidentified Audience Member**

And all that to say 3%, 2%, 1%? What -- if you were to pin yourself on a number --

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Sure. It was, it was --

**Unidentified Audience Member**

I guess the question is, if you were to sort of give us a range -- a number range, quantify a range for Canadian banks being super-regionals, what number would you think is appropriate?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

What percentage? What we'll target on our --? Yes. I think that's, again, I think when we know what the rules are, we'll know how to answer that question. I know it's -- I think people keep on -- because we keep getting these things out of Basel and we keep getting these statements that have lots of detail in it, except there's 200 pages behind that detail.

And so, if every judgment call is more conservative, as you go through all that detail, then what we're going to be arguing with the regulator is -- you massively increase the amount of capital and you've changed all these details. So the real capital increase is this, if you want us to have a buffer on top of that, do you know what's going to have to happen to pricing for us to be able to run these businesses and earn a decent rate of return for our shareholders?

So I think that's all being -- that's what all the discussion is all about. I have to say, when I talk to colleagues around the world, we are truly blasting Canada by the degree of cooperation that goes on between the six banks, us being the Bank of Canada, and having this discussion. It doesn't mean that they do what we ask them to do, but it means that they make their decisions on it based on a fully informed basis.

So, they know exactly what the economic profit that we earn on a small business loan is and what happens to it after its repricing, whether they do this change versus that change. So, they know that. And so, they're making decisions on the basis of facts, not theory.

So it's a very impressive process, whereas other countries, because they run this conflict model, the regulators say, well, you'd lied to me if I asked you the question, so why don't I go ignorant and don't have that dialogue?

And the credit philosophy in the Bank of Canada is that they have the self-confidence to say, why don't I hear what you have to say and then I'll make up my own mind, what I want to do?

**Michael Goldberg - Desjardins Securities - Analyst**

In the back?

**Mamta Kohli - Picton Mahoney Asset Management - Analyst**

Mamta Kohli, Picton Mahoney. I just wanted to ask, when you look at your US acquisition strategy, have you changed your acquisition criteria versus when you purchased Commerce [Bank]? Like -- in terms of the required returns or the risks that you're willing to take on?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

So in terms of -- at the risk answering the question, which I refused to answer before. So when we bought the South, we used 8% tangible common equity or risk-weighted assets at the base of what capital we thought we'd probably have to put up to do it. So, we've been using that number for some time in our acquisitions. That's where we thought the regime would end up.

But I wouldn't -- on whether or not -- I'm not sure that we have become more conservative as a micro decision on risk. So, do I think -- that's why I think we still think we could do small deals or FDIC deals, where -- like when you're bidding on an FDIC deal, you're clearly have to have a view that you can value the assets and know what downside you're prepared to put up with before you have your catastrophe insurance kick in.

And I'm not sure that our -- if our credit people would say, if they looked at a deal today, it would be significantly different than what they would have said three months or four months ago. My -- so it's not the credit risk as -- when we did this South deal, and the call -- first call, I think I surprised some people when I said I'm not worried about the credit margin on the South deal, I'm worried about the interest rate environment. And so, it's the macroeconomic variables.

If you don't -- the economy doesn't grow, and interest rates stay low, then the value of a franchise is clearly less than if it's growing and interest rates are higher. Those are the issues that are -- that's the risk that we're talking about and that's the risk where you say, for the moment, I have no appetite to put big dollars in any deals in the world -- given the world's uncertainty right now. I'm happy to sit where I am.

As I say, if I can get little fill ins that I like, then clearly I think -- and when we look at them, we look at them on a depressed interest rate scenario basis. And so, if I can do that, then I'll do them, but that's where our risk appetite is.

**Unidentified Audience Member**

And then, how do you look at special [divies] versus share buybacks?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Well, as I said, on dividends, our policy is pretty simple. You tell me what my earnings are going to be for 2011, plug it into our model, convince me that it's right and so I'll be on the conservative end of picking that number. And I'll be probably on the conservative end of my pay-out ratio, but if those things cross over, then we'll probably adjust our dividend policy.

But again, I would say the over -- if you take a look at our history, and I always say, don't ask -- don't listen to what people say, just look what they do. We've been consistent applicants of that policy, but, I admit it, we tend to be, on average, to be average 40% even though our pay-out ratio is 35% to 45%, know that we tended to lag the world in recognizing that our earnings were growing. So, we tend to be in the more conservative end of that range and didn't average a full 40% over the -- over my tenure.

I think we will still be cautious here.  I want to see that the world gets its way through here. Because the worst thing you want to do is put your dividend up, not that we can -- it's not going to make any -- I mean, the capital drag is kind of irrelevant.

But when we signaled that we're moving the dividend up, we're signaling that we have a high degree of confidence that we can hit that earnings number.  And I don't -- that's what will govern us. And so, buybacks go back to well if we don't have an obvious use for the capital, we ought to give it away by buying back our shares.

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**Michael Goldberg - Desjardins Securities - Analyst**

I had a question up front here.

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**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Just shout.

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**Unidentified Audience Member**

Ed, in the Basel proposals, one of the things that it said about the time line that stretches out to 2018 is that countries that are able to adopt faster, should.  If any country in the world is able to, I assume its Canada.

In your view, will OSFI require the capital and liquidity requirements be met on a more, timely, manner than the Basel proposal?

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**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Yes.  So there are two aspects of the rules.  And that's why I'm sure lenders are saying their full impact is -- there's all these change in definitions of what counts as tangible common equity and then there's the changes in calculation of risk weighted assets and the capital that you have to hold against them.

I don't get any sense out of OSFI that the phase-in of the change in definitions that starts only in 2013 and goes to 2018, that there's any desire on their part that you would bring that forward and you have, as well, the implementation of the basket clause of what kicks those in.

So, I think that's a pretty internationally negotiated transition and an acceptance by OSFI that we negotiated a transition to get everybody on the same page at the same time and it would be unfair to suddenly say we're going to go faster than anyone else.

What there has been in, as you say, in the declaration, is two things.  One is that you ought to go faster than it can and that you ought not to go backward.  I think, which is probably the more binding test for Canada is to say if you're there you can't then use it up and then say, oh, I'll catch up later on.  And that's really over the first part.

We sort of divide the world into what's going to happen by the start of 2013 and that's more around you've got the market growth coming in at the end of 2011, then the other risk-weighted adjusted -- through asset adjustments are going to come in at the start of January 2013, and then you have a capital charge.

I think in effect, Canada, or most banks, would assume that we have to hit the 7% by January 1, 2013. There's no phase-in of the 7% for us as a country and so those -- that's that period.  And then you have the definitional changes, the deductions that will get phased in.

**Jill MacRae - J. Zechner Associates - Analyst**

Jill MacRae, J. Zechner Associates. TD Bank has long had a real focus on its retail financial services franchise, but now it really seems like the place to be, all the other Canadian banks are stepping up their efforts in this area.

How do you maintain your competitive advantage when everyone's putting basically more investment in trying to get into your sandbox?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

This is on the convenient service space, how do we keep our competitive advantage in that?

**Jill MacRae - J. Zechner Associates - Analyst**

Well, that one you have down, with the longer hours and things. But, how else do you differentiate yourself?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Right.

**Jill MacRae - J. Zechner Associates - Analyst**

Is in convenient service that you're going to ride to maintain and gain market share? Or, are there other competitive efforts you have to name?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Maybe I'm just getting old and not smart enough to think about it. But, I think in -- historically in this industry, it's been a world in which products are immediately replicated, prices are immediately matched and therefore it's only comfort -- customer care, which you actually win on the ground.

And so, I think convenience and service, I think there's probably a third element that those two words don't connote, which is advice, information, integrity, ability to actually get -- so as you move from the simpler products, which (inaudible) “I want to get in there and put my deposit and get out as fast as I can,” to “I want to borrow, will you help me get the best information about how I should borrow,” or “I want to invest.”

I think those are all the -- that's where the battle is fought. These are experienced brands and in the end, I can't imagine a product that we -- that some banks that do that we couldn't duplicate if we wanted to and we wouldn't match them on price. So, it is the experience.

I think the other battleground that's obviously going on now is channels. Can you -- what is the definition of convenience and service in the modern world? And different people are going at -- choosing, just as the same in your mortgage sales force, if you take the insurance space, we're the GEICO of Canada. So we've fairly gone down that model the same, let's use the direct channel as a way of doing it. And other people have gone down the sales force channel.

And so, there will be differences in the channel. But fundamentally, I -- this is a -- as I said, at the risk of sounding, oh you're getting old and you're in a rut here, I don't really see the fundamentals. This is an on-the-ground battle every day to give your customers a better experience when they come see you.

**Richard Fisher - AGF - Analyst**

Richard Fisher, AGF. I was interested just to hear your thoughts, based on a recent and similar conversation such as this you talked about growing the number of mortgages in your US business. You've got about, what --10% of mortgages for every deposit?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Yes.

**Richard Fisher - AGF - Analyst**

And I'm just wondering what you're seeing as far as an impediment from the GSEs currently? Are they taking business, the pricing? The conforming loans, obviously, have more -- just about doubled. And related to that, interested to get your perspective on GSE restructuring and when and if that might take place? Thanks.

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Do you want me to also do the world currency system and how to reform that too? So, I wouldn't -- our -- I'd say what the 10% is what the number is there that 10% of our households who have mortgages would have them with us and I'd say at a typical bank, that number would be about 40%. So, that's the prize.

The barrier is that we bought very simple banks, good banks at doing what they did, but what they were the deposit, simple, basic deposit gathering bank, checking account, pure savings, simple savings accounts, great service on that and I don't cross-sell you anything.

So you do not have, in our banking system, yet, a sophisticated sales culture and the culture that we would run in Canada is a service sales culture that says I'm actually helping you out here. I'm not trying to sell you a car that's going to -- the wheel's going to fall off the day you leave the parking lot.

I actually think that for clients and customers that we offer good products and great service, that's a service, not a sale. That's a shift in mentality that's quite significant. I did it at Canada Trust, did it at TD Canada Trust. We have to do it again in the US. And you have to take your people along that journey as if this is a good thing for the customer.

Probably a little easier in the US to say we've got a mortgage starved country, where people cannot get mortgages. It's extraordinary what's going on in the US. And so it is not, in my view, we can't say there is no demand. There is lots of demand for it. There's no -- there's not adequate supply. And so, it is a great service to a customer to say we will give you a mortgage.

So, I think we're at a time where we have a good -- to introduce this cultural shift that sales is not a dirty word, it's a good word. It's a good time to do that. But do we have the training and capability to do that? The answer is we're in a -- that's a journey. We're -- we've got to get people self-confident in that product.

So for them, for the first time in your life, to say would you be interested in having a mortgage? That's a whole new experience. And then when the person says yes, you go eek. I actually don't know anything about mortgages. And so, how do you deal with that? That's the journey we're at and so that's the constraint, not the competition.

**Richard Fisher - AGF - Analyst**

I guess where I was heading with the question was some of your competitors in the northeast, lately, you have been saying that with the GSE -- Fannie and Freddie conforming loans going -- bumping up towards jumbo and the -- essentially they've been taking the demand away from the banks and the thrifts and they've essentially priced them out of the market. And the -- they're basically just waiting until a restructuring occurs before they can actually start growing again.

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Right.

**Richard Fisher - AGF - Analyst**

This isn't the case for your bank?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

We don't -- I'm -- that's the first time I've ever heard that. So, no, we would say when we -- if we concentrate on our stores, they call them in the United States, and as soon as we get that store trained up, the mortgage volume explodes in it. And then, we go to the next store.

Obviously life teaches you. Every time a lending project grows -- product grows fast, you ought to pour all over it from a risk point of view and make sure you're not doing something stupid. And it helps that my ex-Chief Risk Officer is now the CEO of the bank. And he keeps on telling me, relax, we're all over this. And no, these are great products. There's just a lot of demand out there. And so, we've not found that.

**Julian Pope - Desjardins Securities - Analyst**

Julian Pope from Desjardins Securities. Sorry. I'm in the back of the room here. If we could just shift back to Basel III for a moment, I have a two-part question. First of all, you've mentioned phase-in of capital rules, which by their very nature constitute a phase-out of existing instruments, namely innovative instruments, that we've had in the past.

So my question is, the first point, is on contingent capital. It's Canada's proposal right now, before Basel, that contingent capital be adopted in the new world of Basel III. What form do you think that contingent capital will take in the Canadian context and do you think that the Canadian banks will adopt the issuance of contingent capital? Whatever form that might be?

So I know it's a tough question, but do you have an opinion?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Yes. I -- the short answer is, don't know. I think we're in the early days of trying to craft this out. I think it will -- I think, my guess, I want to keep modifying where I'm going -- we're in pure guess territory over here, no inside knowledge. But my guess will be that Canada's going to -- its position is quite public that we will continue to press and, given what the Swiss have done, say, well we want to have as an alternative is that you can use contingent capital.

And I think then the business challenge we have is that, well, the Swiss are prepared to make it tax deductible. Can we fit a tax deductible instrument into the Canadian tax system?

Heretofore, that has not been successful. And so I think it -- obviously from our point of view, it would be a good thing if we could, because I think it means that Canadian banks won't be burdened with as much comment to the extent to which you can substitute contingent capital for common.

But I'm not -- I mean, I'm -- so far it's never -- and as you know, I've spent ten years in Ottawa, so I know that these things are never as easy as businessmen think they are. But it would be desirous. So, I think it's there.

And then you have to get across them. I think we have to sit with a lot of investors and say, when is -- what are the terms that satisfy the government that doesn't mean you're terrified or the spread is so wide that we might as well just hold common equity. So, where's that middle ground?

You would have thought that Canadian banks would be the one banks that ought to be able to do it and maybe the Swiss would say, in the Swiss banks, we look like you too, for other reasons, in the sense that if you believe that, which I do, that Canadian banks were sufficiently capitalized before the Basel III.

So Basel III is now giving the investors another whole layer of security, pretty dramatic increased layer of security, to protect that, that they should be pretty confident that that contingent capital shouldn't be called upon and therefore won't command a huge extra spread in order to take it to what is now a tail risk or remote possibility. But, you never know until you sit down in the capital markets and actually have that discussion.

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**Julian Pope - Desjardins Securities - Analyst**

And just as a follow-up then, going back to innovative instruments, your bank, fortunately or unfortunately, is one of the banks in Canada, not all of them, that have what's called newer generation innovative tier one instruments outstanding, which have a par redemption call attached to them, should there be a regulatory change.

When Ted Price, the Assistant Superintendent of OSFI was in town ten days ago, he talked to a crowd of 400 people and when asked about what constitutes, in your opinion, Mr. Price, a regulatory event? He said, I don't know.

You have mentioned Jan 1, '13 and many people have mentioned Jan 1, '13 as a sort of a key date. Do you view any loss of capital treatment in those securities as a regulatory event? Or, have you sought opinion on that legal or otherwise?

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**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

I'm sure my lawyers are going to be just freaking out here. I guess what we had hoped for and we had thought was going to happen was a kind of cliff vesting here that they would have grandfathered it for a period of time rather than have a sliding scale.

And even though, in a sense, you could say ultimately I represent the shareholders, not the bondholders, and as long as they get their money back, I do think a responsible person says no. I don't think you should burn bondholders and you want to try to find a fair allocation.

And so, we have been advocates of a period of vesting that said maybe it's not nirvana land, but if you're going to have this event, have it where you would have recouped some of the money. So we were disappointed with this, even though in theory it's better off for our shareholders to stick it to them. Right?

And so, I think we're still hoping. We're still lobbying to say is this reversible or not? I think if it's not reversible, then it's going to be hard to argue that it wasn't right at the start. Because the lawyers are all saying, that clearly an event has occurred here, and so I think the -- but I would hope that we could find a way to avoid that.  And so --

**Unidentified Audience Member**

(inaudible question - microphone inaccessible)

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Yes.  So this has been probably the biggest surprise to us, because I think we were afraid that kind of after you went through the housing that you then were going to have now a commercial building crisis and haven't seen it.  And so, I think that accounts for the speed that we're going faster and resolving these issues.  And so it -- I don't know that I fully understand why.

And if you had a worry, if you get -- if you're a pessimist on the US and you say, well, you're just delayed and eventually this will get up. But we're still -- our broad experience in the United States is that we've been getting where the input of non-performers is matched by the output and the output occurs because you're restructuring, people are putting more equity in and people are willing to put more equity in.

And we haven't seen a collapse in prices or values on our books.  And I just hope that goes for another few more years. But we haven't seen -- I can't tell you we've seen any signs that the fundamental conditions have worsened in the United States.

**Maria Berlettano - J. Zechner Associates - Analyst**

Maria Berlettano, J. Zechner Associates.  A lot has been said about the quality of capital.  But not a lot has been said about the quality of reserves.  And going through the '07, '08, '09 period, there was quite a difference among the Canadian banks in regards to the composition of reserves, specifics versus generals.

And the differences of, specifically, with respect to the specific reserves to gross non-performing ratio, sent different signals to different analysts and caused some to think that you should pay more close attention to it.  Other analysts were of the view that that you had to look at the total level of reserves.

From your perspective, how do you -- how would you evaluate the composition of reserves and how does your organization determine how that composition should look?  And I'm going to throw one more thing out there.  To what extent is some of -- have implied that the level of general reserves is more tied to calibrating your regulatory capital than it is to looking at the credit risk in your portfolios?

**Ed Clark - TD Bank Financial Group - President & Chief Executive Officer**

Yes.  So our reserving policy, I have to get into the details of the US versus Canada.  So I don't know if people want to go to sleep for ten minutes here, and I'll do that, but I'll try to do a quick summary.  I would say you would be surprised how mechanical our reserving process is.  And so I think the world that I grew up in and the world today is a pretty different world.

I mean, I think, historically, one might have said how much reserves?  My gut is telling me, I want to be conservative or I don't want to be conservative. I'd say, today, it's -- you have to have a process that's pretty locked down and mechanical.

So if you take -- start with the US, because the way you reserve in Canada and the US is completely different.  So in the US, what we have is a very systematic process, where people are evaluating every loan, they're risk weighting every loan and they are checked by internal audit on that and then they are checked again, in our case, by the OCC and the Federal Reserve and then soon by the FDIC.

So you have a whole series of regulators checking you, how have your risk-ranked that loan?  And that produces a formula of how much GAs you have to put -- general allowances that you have to put against that loan.

And so, there is not a lot of room for you to improvise in that and say I don't want to put up the GAs or not. You shouldn't have a lot of room to do that. I think in all these systems, it's probably a little  easier to lean against being conservative, but it's certainly not easy to lean against not being conservative, given the scrutiny that it goes through.

So that's what produces the GA and, then again, even write-offs are pretty mechanical of whether or not you're doing charge-offs against that or not.

On our securities portfolio, what makes our numbers there unusual is that when we bought that portfolio, we wrote that portfolio down.  And so the numbers look -- I mean, we wrote it down at the time to where we thought we had lots of cushion.  We subsequently put some more when we transferred how it was carried from an accounting point of view.  We put some more reserves against it.

But, we're really running that portfolio where we've taken the losses that we -- all the embedded losses into that portfolio and then some. And so, the numbers are going to look wonky. And as we have a covered loan portfolio come in from our FDIC deals, the numbers are going to look wonky again.

Because, again, we wrote that down to where we said for them and the South -- when we took over the South, we said we will self-insure catastrophe risk when we write them down, where we believe it's not possible or highly unlikely that losses could be greater than this.  Why don't we just take it up front?

So you're up your capital hit, but you don't have, then, loan losses.  And I'd say that's pretty typical if you look at what's happened at BB&T and Colonial or JPMorgan or WaMu or Wells Fargo or Wachovia. There's generally reversals goes on after you do the acquisition.

In Canada, GAs are really a form of -- another form of capital.  And that's why we treat them as item of note.  We say when we add them, we don't put them through our normal P&L or adjusted P&L.  When we release them, we don't put them through our adjusted P&L.  This is just another cushion.

Again, all very mechanical.  I mean, the numbers -- we roll through the numbers.  There's a formula.  You can't change the formula once you lock in the formula and it kicks out a number. And it doesn't necessarily kick it out the quarter that you'd like to have it, but in a sense, we're telling the market “ignore it.”  It's just a balance sheet adjustment.

Then the loan loss provisions, which we do loan loss provisions versus GAs, are probably slightly more subjective in Canada than they would be in the US.  Again, formula-driven, but I'd say more room because there you're not only providing for your charge-offs, you're providing for what you're -- you see as your projected loss.

And I think you can see in all Canadian banks, we will get through this crisis and have only nominal commercial losses in the entire crisis in Canada because we had reversals of equals added on, which says well, in the end, we didn't guess very well.  We would guess conservatively, and I think we're not atypical.

I think we're not different from other banks.  We tend to say, well, if you give me discretion, I'm going to be more conservative.  And so, we've tended to provide more conservatively.

**Michael Goldberg - Desjardins Securities - Analyst**

I don't see any more questions. And we're coming up to about ten to two. So on behalf of my partners at Desjardins Securities, and our audience today, I want to thank you, Ed, for your timely insightful comments.

I also want to thank your investor relations people and my colleagues at Desjardins for their help in organizing this meeting and I look forward to doing this again with you and wish you and TD continued success. Thanks also to all of you for taking the time to come today. The meetings concluded.