Bank Financial Group
Investor Relations

TD BANK FINANCIAL GROUP
MORGAN STANLEY U.S. FINANCIALS 2010 CONFERENCE
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CORPORATE PARTICIPANTS

Ed Clark	President & CEO, TD Bank Financial Group

MORGAN STANLEY PARTICIPANTS

Cheryl Pate	Morgan Stanley – Security Analyst

PRESENTATION

Cheryl Pate – *Morgan Stanley – Security Analyst*

Okay, good morning. We are going to start off our next presentation. We have TD Bank here. TD is the first truly North American bank with sizeable operations on both sides of the border.

TD is the sixth largest bank in North America by branches with approximately 1,100 branches in Canada, and just over 1,000 in the US, primarily in the Northeast and Mid-Atlantic regions. TD has been ranked number one Canadian bank for customer service and satisfaction by both J.D. Power and Synovate for the past four years.

And TD operates in five different business segments: Canadian Personal and Commercial Banking, US Personal and Commercial Banking, Wealth Management, Insurance, and Wholesale Banking. For the year ended 2009, TD earned $4.7 billion, a net income on total assets of 557 billion.

So, with us here today we have Ed Clark, the President and Chief Executive Officer of TD, a position he has held since December of 2002. Prior to his appointment, he was President and Chief Operating Officer for the bank, following TD's acquisition of Canada Trust in February, 2000. Ed joined TD as Chairman and CEO of TD Canada Trust, overseeing the integration of the TD and Canada Trust retail organizations, and has been President, sorry, and was President and CEO of Canada Trust prior to that merger.

So we are going to change up the format a little bit for this presentation. It is going to be a directed Q&A format. And as such, I will just note that all important disclosures, including personal holdings and disclosures and Morgan Stanley disclosures appear on the Morgan Stanley public website at www.morganstanley.com/resetresearchdisclosure. Welcome.

Ed Clark - *TD Bank Financial Group – President & CEO*

Thank you.

Cheryl Pate – *Morgan Stanley – Security Analyst*

Thank you for coming.

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

Great to be here.

QUESTION AND ANSWER

Cheryl Pate – *Morgan Stanley – Security Analyst*

So, I thought we would open up with a broader question on the near term and longer term outlook for TD. TD is a lower risk, retail-focused franchise. Maybe we can talk about your best opportunities you see going forward, by geography, by segment.

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

Okay. I guess I am required before I say that to say we have just completed our first quarter. So I won't tell you anything new, so I don't know why you bother staying and listening to me. But it will be -- not allowed to disclose anything that I haven't previously disclosed.

As I've said before, we see 2010 as a bit of a transition year. I think, probably, I think all of you will hear the same message from all the Canadian banks as coming off of 2009 where there were two core surprises for us on the positive side. And that's the fundamental strength of the Canadian economy, and particularly, the housing market.

And in our case, that fundamental strength has been helped by the fact that we've gained market share in the small business and commercial area, as well as on the personal area. So, we compounded and it's in that advantage, and, secondly, obviously the strength on the wholesale side where simple, straightforward franchise strategies turned out to be a very profitable position to be in, in the market.

I think we see 2010 as, fundamentally, that positive. Those two positives are -- remain continuing, again, slightly surprising is how powerful that is. And that represents, maybe, 75% of our earnings. And then you have the US, the 25% of the earnings, where I'd say the world remains a continued challenged world.

So I think we haven't -- I don't' think we have a particularly, radically different view than most people, that for 2010, I think the US banks have still a way to go to work their way through their issues. We don't see a rapid rebound in the economy. And so, we think it is going to be a -- 2010 will remain a struggle, and we've indicated to the marketplace that we're going to continue to provide at, not dramatically higher levels, but we are going to continue to provide very high levels, and continue to add reserves.

I think what's interesting is that then when you look beyond 2011, then, you know, I think you can get some pretty widely different views of what's going to happen. I think loan losses has, essentially, and for us you have to understand that we don't basically have corporate loan losses, so we had cleaned that portfolio out in 2002. So it is not a significant factor for us.

Amazingly, we really haven't had any in Canada, of commercial loan losses yet. We said we're going to see some, but they will be pretty insignificant. So it is all in Canada, around the personal file, and we've indicated to the market that we see that flattening out and going down, starting to decline, certainly by mid 2010, and maybe earlier. So, pretty dramatic improvement there. And so, despite the fact that we've had already pretty good growth in our personal and commercial bank, I think we're going to see growth accelerating here to 2010, and then even more as the personal PCLs come down.

We don't think that there will be as big a spring back on the interest rate front because while we've been able to take, while we've had to suffer through a significant drop in the deposit margins in Canada, we've been able to reprice and offset those with asset re-pricing, and we have a balanced, essentially, a balanced portfolio in Canada. I think -- my personal belief is that as we go through and interest rates comes up, which you would then expect to see for the deposit margins growing, you won't – you'll also see downward pressure on assets.

Canada runs a very competitive market. And so, banks tend to, stupidly maybe, but the reality is, give back to the consumer what they're gaining on the deposit side. So if you look at the way we run, we run 290, 300 basis points margins, and that number doesn't move a whole lot, partly because we also totally hedge all our interest rate risk. We buy all our options. We don't do the carry trade.

And so, we run a pretty steady safe world. Quite a contrast in the US, where we're long deposits, so short assets and so that effect alone -- secondly, we haven't, we don't, hasn't been as much re-pricing on the asset side. So I think as interest rates move up, both for ourselves and TD Ameritrade, you're going to see quite a – you'll see quite a spring back in the earnings picture. And, later than in Canada, you'll see PCLs starting to decline, and they have grown more rapidly in the United States. So there's probably way more spring back, but the spring back is probably an 2011, 2012 event -- in the United States.

Cheryl Pate – *Morgan Stanley – Security Analyst*

Okay, maybe turning to the Canadian personal business for just a moment. Are there any areas where you would like to gain some share in any particular product or geography?

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

Yes. So what you'll find about us is we give the same answer every year. So for those who are bored with that answer, we had a very simple strategy. We own the convenience service space, so we know that in the core business we can take market share every single year because you can't compete on price. You can't compete on innovation because people can match.

The only thing that matters is customer experience, and we have better branches located in better places. And we give better service and we're open longer hours. But we have a set of under developed areas, where for historical reasons we weren't as big in commercial, we weren't as big in small business, we weren't as big in credit cards. We didn't have as developed a retail brokerage system and wealth management.

And, in the insurance space, if you don't think of us as a bank, but as an insurance company, we were smaller in insurance than the bigger insurance companies. And all of those are high growth areas for us, so we take the kind of core franchise. You take market share. That is why, over the last five years, we have been able to grow our revenue about 50% faster in Canada than the other four big Canadian banks. That is pretty -- and we do it every single year. And we will do it again in 2010. That is pretty remarkable, and it's a combination of taking market share in the core business, but then adding on these underpenetrated businesses.

So we have had remarkable growth in small business and commercial share. We're now the number one direct insurance in property and casualty insurance. So we're the GEICO of Canada. And so, we went from being a small player to the number one player. And so, each of these areas, we just have focused strategies to grow them.

Cheryl Pate – *Morgan Stanley – Security Analyst*

Well, you clearly do have the customer service model on both sides of the border. And it has been a huge differentiator and competitive advantage. Why do you think your peers haven't followed down that path?

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

Well, it's a question in the sense it's been a question for me. But I have been in this business for, unfortunately, 20 years, or fortunately, depending on your point of view. And so, I think it -- my conclusion has been -- because you keep wondering why they don't, is that they, like a lot of integrated -- why doesn't everyone imitate GEICO in the Insurance business?

It -- these models that are superior business models turn out to have more complexity, and what actually makes them all hold together, than I think is understood. And so, in our case, if you go for, like, we're open in Canada 59% longer hours. When we open 59% longer hours, that means you've got to have a lot more people, and you've [got] a lot more part time people, which means you actually have to have educational systems and tool systems that you can take people, and have them come into the branch and instantly be up to scratch, even though the world is always changing, than if you run shorter hours, same people been there for 25 years.

So what we find is that there's just, implicitly, a lot of barriers. But if you want to take one step towards this model, you have to do everything else. And that is a cultural barrier, but real business barrier that people end up saying, it's not worth the effort. And I know, in the case of TD, because they tried when I was at Canada Trust to take the position from us.

Eventually, Charlie Bailey said all I was doing was highlighting to the market the superiority of your model, and not getting any of the brand effect. And so, that did not seem -- in the end, we gave up and said it's not a space that we can actually [own], you own that space in the customer's mind. So I think what you're seeing in the Canadian banks is that they tried [offer], going to slightly different spaces because no one goes – if you ask consumers. I will give you an example.

It was 1976 that Canada Trust went to 8 to 8 six days straight. Now we have not used that advertising slogan in 20 years. And if we do research, people can still cite it. That is what Canada Trust stands for, 8 to 8, six days straight. So that is a hard brand to knock off is what I think the answer is.

Cheryl Pate – *Morgan Stanley – Security Analyst*

Right. Maybe we will turn to the US operations for a minute.

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

Oh, come on. Why don't we just stay away from them? Nobody is interested in that.

Cheryl Pate – *Morgan Stanley – Security Analyst*

Recently, you completed the conversion of Commerce into TD Bank, America's Most Convenient Bank. How do you think about the outlook, going forward, as you alluded to very strong on the deposit side? The loans, historically, have been a smaller component and coupled with securities. How do we turn that around and grow some loans in a difficult environment, and --

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

Yes. I think that to be honest, is difficult. I think if I could step back and say, I think we are not as discouraged as the market is about our US entry, but I understand why in the sense that we look at it and say, you know, we had an 18% operating in ROE in our US subsidiary, in the worst downturn since the Great Depression.

If that's the worst you're ever going to do as an operating subsidiary that is not bad. And so, we look at the business and say, these acquisitions have turned out – absent – I think you could say, well, it is like

Mrs. Lincoln, if I would ever do anything that mattered to her. But absent the downturn, these things are operationally working exactly right.

So the real issue is, okay, when do you think the US economy is going to turn? How fast are these PCLs going to come up? Can commercial loans grow again? These are the core issues that every bank is dealing with, and the answer is I don't have any more insight than you all on that.

We have said that the PCLs -- we don't see them peaking until the end of 2010. And we think this is going to be a gradual not a drop off. We're not seeing commercial growth, loan growth right now. So, Mr. Obama may want to tell the world to go lend more. We have been trying to lend more.

We are the only, of the top 10 banks, in the last year to actually grow our lending book. But we're finding even us with our aggressive attitude, are not able to get loans out because there is not the demand out there. We are seeing lots of personal lending on the mortgage side. That -- and we are now doing Canadian style mortgages in terms of credit quality. And so, we like that business.

But the reality is that this is going to be, I think, slow growth for us. For us, we can live with that because we are a deposit gatherer. And we can make money on the deposit side, given our capital structure. So, we're going -- we have 35 branches. We grew -- 7% of all new stores in the United States by US banks were originated by TD Bank in the United States. One in three in the last five years, branches in Canadian banking was originated by TD.

So we have a pretty simple strategy. Dominate the new growth. If you have got high IRR, put the investment in there, and eventually, the economy will turn.

Cheryl Pate – *Morgan Stanley – Security Analyst*

I will turn to the question that is probably on a lot of investors' minds. What is your appetite for acquisitions to supplement growth, in the US franchise in particular?

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

Yes. So, I think, I haven't really, again, changed my mind as that -- when I look at the US base case, I say that base case is not so, it is pretty tepid in terms of what the economic outlook is. And it has no room for accidents.

And so, you have to say that the bias is that it could be worse, rather than better still. And so, by large acquisitions if you're saying 80, $100 billion asset acquisitions, unassisted, we do not have much appetite for that in 2010, and it would be unlikely in 2010. I could be standing up a year from now and saying something different. But, unless the environment changes, I don't see taking on that asset risk.

And I don't need to do it because I can continue to grow without it. But we have said, all along, we're interested in FDIC deals and we're interested in small deals, which I define as under $10 billion, where we think we can kind of self insure the catastrophe risk by writing down the assets sufficiently that we don't think there is much left in catastrophe risk. And they're small enough that, with our balance sheet, we could take the hit if we were wrong.

That's a territory. And I think in 2009, we were dealing with the merger, and so, I don't -- we were cautious in looking at things. And so, we didn't end up making acquisitions. I think we have a better shot in 2010 because the Company now is operating as one Company, and I think it's got its organization where it now can handle us adding a few entities to it.

Cheryl Pate – ***Morgan Stanley – Security Analyst***

Any preference for geography? I know you have a small presence in Florida, mostly concentrated in the Northeast, Mid-Atlantic, where we would expect fewer opportunities out of the FDIC, particularly of any size.

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

think, by and large, the way we look at it is that, in our market in the sense of the Northeast and the Mid-Atlantic, that's where you put the new branches because that's where you get instant payback, and that takes a year or so, but the fact is you have tremendous growth because you already have the market and air covered for those. So we really see acquisitions, these small acquisitions, as a way to extend our geography.

And you kind of have the irony is that your FDIC sales of branches that, all the areas that people used to pay a premium to get into. And so, they are actually, from -- if you are a deposit gatherer specialist, which is what we are, these are actually -- there's still deposits in Florida. There's still deposits in Arizona. There's still deposits in Washington and Oregon.

And if your business is you can grab their deposits better than anyone else, they're all attractive ways. And I would say the FDIC gives us a low premium way of entering in. So we see it as an extension, a market extension, rather than infill, because I don't think there will be any.

Cheryl Pate – ***Morgan Stanley – Security Analyst***

Right. Maybe we can take a little bit of time to talk about the commercial real estate exposure in the US, roughly $13 billion portfolio, but quite well diversified, maybe loss expectations, the trends you are seeing in the different types of real estate.

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

So, we keep reading about this tsunami. I guess all I can say is we can't see it for us. That doesn't mean that if there was a real tsunami in the US it wouldn't hurt us. I do not see how you miss it.

But, we, the nature of our portfolio, how we originated it, where it is, we're just not seeing this at all. And so, I always worry. So we keep going back over and over and over, are we missing something? But I don't see it.

Cheryl Pate – ***Morgan Stanley – Security Analyst***

Maybe turning to the regulatory front for a minute.

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

We'll stay in the US for this evening.

Cheryl Pate – ***Morgan Stanley – Security Analyst***

I guess I would start with a couple of the proposals out there would seem to include TD as a foreign operations in the US --

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

Yes.

Cheryl Pate – ***Morgan Stanley – Security Analyst***

-- things such as the TARP tax that you, like, which obviously, you never took TARP. You talk about how that impacts TD.

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

Yes. So, in some sense it is preposterous to say to the Canadian government we want you to guarantee the Canadian banks. If they get into trouble, they're your problem. But if they do operate in the United States, we want to tax them in case our banks get into trouble. So, I think, in a sense on the safeness of it, it does not really make sense.

I think it may well be that these will get sorted out, either in Congress or in the rest of the world where you will say, well, either you decide that you're not going to look to us for guarantees, or you back out of our tax territory. So, I guess that one I'm not too fussed with. As a general statement, I think the world has to accept, the banking world has to accept that something really bad did happen.

And so, if you keep starting to say, no, nothing bad happened, then I think you don't get any progress on that. And I think that is the frustration on the political regulatory side is do you not get that a really bad thing happened? I guess what I would like to see the world focus is to say, well, what happened? And why don't we try to correct what happened?

And I think there's a kind of consensus around the wholesale security dealers. You changed the rules in the 1990s to allow them to massively leverage up. So you had a huge incentive to take assets that would have gone on your balance sheet at 100% risk rating, and put them on their trading desk at 10 to 20% risk rating. And that was a very bad thing and had a very bad consequence to it.

Secondly, for whatever reason, governments around the world, or regulators around the world allowed people to have very different capital rules. And so, the Canadian banks were extremely well capitalized both in level and quality of the capital, and frankly, many, many banks around the world just simply didn't have enough capital for the risks they were going to take.

And third, the US had a mortgage system that was unbelievably dysfunctional, and blew up not just in the United States housing market, but ended up contributing to the blowup of financial services around the world. I guess what I would say is, why don't we focus our energy on solving those three problems?

And we're now seeing the beginning of lots of other ideas of things we could do change the world, which may itself not be bad things to do, but aren't going to solve the world. And if we could just get the world to have adequate capital for banks, right leverage ratios in the wholesale dealer, not the overall banks, because I worry about leverage tests in the overall banks, and solve the US mortgage problem, we would have done the things that we should have been doing out of this.

Cheryl Pate – ***Morgan Stanley – Security Analyst***

That leads me right into my next question, and your views on the Basel III proposals, and in particularly, the leverage ratio for the Canadian banks, in particular, who have had an assets to capital leverage ratio that they have held to --

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

Right.

Cheryl Pate – ***Morgan Stanley – Security Analyst***

-- and was one of the reasons why you did well during the crisis, on a relative basis.

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

Right. So, just to maybe make one comment, I think what has surprised me is there's an under focus on what the trading rules that are going to come into effect at the end of 2010, what they will do in the capital they're going to require the industry to put up to meet them. And all these other rules, which aren't going to come for another two years, and we don't know what they're going to be, a lot of focus on that, rather than to say, we're already going to see a pretty significant change.

And so, I think one of the things that, again, politicians say, well, nothing's changed. And I say, well, nothing has changed because nothing has changed. You have not changed any of rules yet, so why would you expect behavior to change?

I think we will start to see changes when these rules start to come in on the trading impact. And so, in some sense it is a shame they didn't come in earlier, because I think we would have had some of the things that irritate politicians to have changed.

On the negative side, I think the real risk is that people conclude that because there was too much leverage in the dealer, we ought to have a leverage test for the overall banks because that's the way to solve this problem, without recognizing that the US leverage rule is part of the reason why its mortgage business blew up. And the fundamental reason why Canadian banks -- and I have said this publicly, I would love to say it was unbelievably good banking management and some people might say unbelievably good regulatory management.

But fundamentally, it was the structure of the Canadian industry that saved the Canadian banks. And that's because we have huge mortgage books that we hold, which means that we won't let the housing prices happen because I bear the cost of it. So we, in fact, by holding the assets, ensure that we have discipline in underwriting.

But, secondly, it means every year we go in, where we already have a set of income that's already built in for next year, which I always say, what Canadian banks are -- and we're the extreme version of a Canadian bank, is they are a balance sheet company that generates an income statement, rather than an income company that has to reproduce its balance sheet every year. So we've already locked in our 2010 growth. And so, that's already locked.

We're worried about 2011, not 2010. And it is that stability of earnings that allowed Canadian banks, who -- some of the Canadian banks did have real problems on their security there. We didn't, but some of them did. But they were able to survive because of that.

So, I do worry that in trying to say, well, there's too much leverage in the wholesale, they'll end up with a rule, a leverage rule that actually destroys the Canadian mortgage system, which would be the ultimate of ironies, that the one system that worked because it had it, we ended up changing. That was the only rule we ended up changing, and it blows it up.

Cheryl Pate – *Morgan Stanley – Security Analyst*

Right. Maybe just one last question from me, and then I will open it up for a couple before we move to the breakout. Turning to the TD Ameritrade, and I think this was probably one of the more onerous things in the Basel III proposals, is the capital treatment.

Right now, you have a 50% deduction, moving to 100%. How does that change your view on the investment and how you would think about that, going forward?

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

Yes. So, it doesn't really change our view on the investment. When we went in it, we realized this treatment, and we always looked at it and said, would we do this if it was 100% deduction? So, I think it's -- I always put it simply as, do you believe that 10 years from now or 15 years from now, online space is going to be less important or more important?

And so, I think having 45% interest in the number one online broker in the world is not a bad place. And so, we would never give up that 45%. And so, when we look at it from a capital point of view, assuming that these rules do go ahead and I'd put this in a category of hardly the cause.

Our ownership of Ameritrade is not the cause of the world financial crisis, so I do not know why you'd race around and put that as your number [one] priority. But suppose that's what people end up doing. We can -- we generate enough capital, have enough capital that we can absorb that.

Cheryl Pate – *Morgan Stanley – Security Analyst*

Okay. So, if there are any questions in the audience, so, we could probably take one or two before we move upstairs.

Unidentified Audience Member

How do you think the branch profitability as a key metric? How do you think about branch profitability, and which key metrics are you focused on when you expand?

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

Yes, so --

Unidentified Audience Member

Do you see them as loss leaders, effectively, on a standalone basis?

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

Yes. We don't see it as a loss leader at all. I guess, the business miracle that we have is that if we go to a corner and we see three bank branches, and we put ours as the fourth place, we know we can come back five years from now and we will have more than 25% marketshare of that corner.

A great thing about the United States is you can -- they actually, competitors have to tell you how much they have. So you exactly what your numbers are going to be, and it's astounding how fast we can get to that 25%. So, the IRR on new branches are phenomenal, ultimately phenomenal numbers for us.

They do represent an earnings drag, and so, in the end, every one you do it is going to cost you money in the first couple of years. And that's what the essence of our model is. So, as I go back and say, like in Canada, over the last five years, we've outgrown on the revenue basis by 50%.

But we didn't outgrow in the profit basis by 50% because we use that revenue advantage. We also outgrew by expenses, by not quite 50%. So we say, just get yourself in this growth model where you're growing more revenue. If you're originating one in three branches, you're asymptomatically going to approach a market share that is pretty dramatic over time.

And so, we just say just relentlessly take your revenue advantage, reinvest it, in neither reducing your costs, which we look at our expense ratio just steadily goes down every year, or grow branches. And so, we can afford to grow branches – it's another part of the model that is hard for competitors. If you haven't been on that positive treadmill, it is hard to get into the branch growth business because you have not got the revenue from having grown the branches five years ago or three years ago to pay for new ones.

That's the model we're going to running in the United States. We will do 35 branches every year. Every one of those have great IRRs, but you have to take your earnings hit to, essentially, run those models.

Cheryl Pate – *Morgan Stanley – Security Analyst*

We have about 30 seconds, so we could do one more quick one.

Unidentified Audience Member

How do you (inaudible question - microphone inaccessible). Where is the loans on the other side that --

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

Yes.

Unidentified Audience Member

How do you --

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

Yes. So the question is how do -- what do we do with all these deposits. Because from a regulatory capital point of view, we're not in the US regime that says you have to put up capital whether you buy Treasury bills or CDO squares, it is the same amount of capital. That's what is so pernicious about the US system that drives all US banks out the risk curve.

We're in a rule where we're, essentially, are constrained as risk-weighted assets. So, it lets us occupy a whole space of dramatically lower risks, dramatically lower spreads, spaces, and so, to reinvest that. And so, when FDIC debt comes along, and I can get 100 basis points over, as we did in the crisis, I'd buy that til the cows come home because I don't have to put up capital against it.

And I get 100 basis points over Treasuries. And so, you'll see that we have a big investment portfolio of extremely low risk, low return. And that flows directly from the capital structure regulatory regime that we have.

Cheryl Pate – *Morgan Stanley – Security Analyst*

Okay, great. We are going to move to the Kennedy One breakout room upstairs for some more Q&A.