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Ihor Danyliuk
National Bank Financial - Managing Director and Head of Research

PRESENTATION

Ihor Danyliuk - National Bank Financial - Managing Director and Head of Research

Thanks, everyone. We are pleased to be joined next by Ed Clark, President and Chief Executive Officer of TD Bank. Prior to his current role, Ed was President and Chief Operating Officer of the bank, a role he took on following TD's acquisition in 2000 of Canada Trust where Ed was President and CEO. In addition to being on the Board of TD Bank, Ed also serves as a Director of TD Banknorth and of TD Ameritrade.

Welcome, Ed.

Ed Clark - Toronto Dominion Bank - President and CEO

So, I'm going to be relatively quick in terms of a formal presentation, since I think most of you know our story, and it's probably best just to get to the questions. And you'll have read that. So, I think basic and quick summary, what are we trying to be? We are trying to be the better bank. What do we mean by that? Really, it has two parts to it.

We're big fans of continuous improvement, so we believe that in general, we are able because of our positioning in the marketplace to outgrow on the revenue side and you ought to take that revenue and constantly reinvest it. And you reinvest it on two fronts. One is on growth, so that's why we grow more branches than everyone else, as an example and secondly, on process improvements so that you keep on driving your cost structure down.

You're aware of the fact that we're obviously attempting to be the first North American bank. And by that, we mean not a Canadian bank that owns a US bank, but a bank that actually operates and has the scale economies on a North American basis. The way I put it is that TD Bank today is about the same size as Wells Fargo was before it bought Wachovia. And we think that's a size that means that you're not scale challenged as long as, in fact, it can bring your full scale to the marketplace.

We're, obviously, retail focused. About 80% of our earnings come from retail. That will probably -- number will probably go up. It's hard for our wholesale business to grow as fast as our retail, given that we have opportunities to grow our retail side through acquisitions that don't exist on the wholesale side. Heavily focused on franchises, everybody in the organization knows that if they want to have a business plan, they have to describe why they win the tie. So, what is it that gives you a competitive advantage?

The obvious example is on retail. If you have branches in better locations that are open longer and give you better service, it's hard to see how you don't end up taking market share. And we know that whether it's Canada or the United States, if we put a branch in a corner, we will always have more than 25% of the business in that corner after five years.

I think the surprise for us is to learn that this business model is actually more powerful in urban United States than it is in Canada. Intuitively, that makes sense because there's more churn in the United States in the banking world. So, we do better among immigrant groups in Canada than we do in old Canada, if you want to put it that way. Every time where there's -- consumers are choosing for the first time, well, why wouldn't you go to a branch that gives you better service, better located and is open for longer hours? And so, it's a model. That's a simple example of how -- what we mean by franchises.

We also have, in a sense, changed our dealer to what we call the dealer model of the future. And so, we do believe that over time -- I think it will be a rocky road there, but I think regulatory authorities around the world have said the change that started in the mid-90s when the introduction of BAR, and the idea that you could hold huge amounts of securities on your balance sheet that were really loan substitutes and not have any capital against them because you had an exit in the marketplace and therefore, you could really do -- play a proprietary trading game and makes lots of profits.

That game will be driven eventually out of the dealers because of the consequence of it. And dealers will be driven back to sort of saying why aren't you actually serving real clients and customers? And we've already moved there. And so, we have taken our dealer -- long journey over the last 10 years, but exiting different areas, all the structured products and got our dealer where in a sense we think the world will be three or four years from now.

And finally, in terms of risk discipline, it's not an accident that we didn't have major write-downs in the downturn. We didn't do the ABCP program in Canada, we didn't have subprime lending in the United States, that we lent in territory that our loan offices and our US subsidiaries are dramatically better than anyone else's.

They're not -- they come out of a risk culture and a fundamental belief that we should eliminate tail risks wherever we can find and identify it, in that the banking business is actually a very, very good business if people would just not blow themselves up every six or seven years. And so, why don't you figure out what people do to blow themselves up six or seven years, and not do it.

It does mean that you have to sit in marketplaces, as we did in the US, for a couple of years and grow our loan book less quickly than the market. It did mean that you had to exit structured products in 2005 and 2006 and have analysts write that you're an idiot. You don't understand how these are the dreamland profits for the future. But in the end of the day, it means that when the bad times eventually do come, that you don't get rocked by it.

Don't have to spend a lot of time on that. This just, basically, we are a fifth to sixth, probably I'd say a sixth, will be the sixth largest bank in North America. It is hard to see how we get much bigger than that. There are four large US banks, and then there's Royal and ourselves. And so, it's not obvious that we'll ever be bigger than sixth. But we will become, over time, clearly in the top 10 just in our US operations in the US.

And we have certain other features which we do like, which is we give better service, so we win JD Power on both sides on the border. And we earn a much better rate of return for every dollar of risk we take. So, from a shareholder point of view and a customer point of view, we're number one in the two factors that actually matter.

In terms of what's happening in -- probably you're interested in -- I tend to be interested in two or three years out. You tend to be interested in one year out. What are the -- these are the four drivers that we've been identifying on each of the quarterly calls that will, in a sense, determine the outlook over the next couple of years. And so, in terms of loan losses, what we've said is that we believe that Canada has crested, certainly on the personal side, has crested and is coming down. We've been astounded. It is now possible that we may be in a situation that we'll get through this downturn and had no significant corporate or commercial loan losses.

We keep saying to the marketplace, that's hard to believe and at some point here, there'll be some commercial losses coming through. But they will not be deemed nothing like 1991 or, on the corporate side, nothing like 2002. So, I think what your -- the basic picture in Canada is you are going to have a pretty powerful force that will roll through all the way to 2011, 2012 of declining loan losses.

In the US, it's a different picture. We believe that that won't crest until the end of 2010. We could get lucky here. I think there's more risk that we'll get lucky than that we'll get unlucky. But we, basically, still think the US has got a fair number of problems that push their way through. So, you're not going to get the lift on your earnings until 2011 and 2012 when loan losses, we believe, will start coming down.

The other major factor is then interest rates. Again, you have different stories on different sides of the border. In Canada, we don't believe that the rise in interest rates, which generally help your deposit side, will have a major impact on our net interest margin because we believe there'll be competitive pressures that will cause the bigger spreads that exist today on the lending side to come down.

And so, if you take a look at our spread history, we're 290 to 300 basis points spread business in TD Canada Trust. And what happens -- what's happened over the past couple years is that the spread on deposits has fallen significantly, the spreads on lending has gone up, compensating each other out. You wind up, basically, [with] a balanced book in TD Canada Trust and we think those things will reverse when interest rises.

That's not true in the United States where we have more deposits than we have loan book. And our deposits -- our loan book is mainly a commercial loan book where the pattern doesn't follow this quite as sharply as in Canada. So, I think there is a not immaterial lift to TD Bank, America's Most Convenient Bank, as a result of rising interest rates.

That's also true in our wealth management in Canada, and our wealth management in the United States and our insurance business, all of which are pure deposit gatherers, so it would give you -- for TD Ameritrade, they have about $40 billion of deposits with us with which they get LIBOR minus 25. They earn about $600 million after tax. You can do the arithmetic, whatever you believe LIBOR is going to go up, it's a pretty powerful earnings force coming through to them when rates finally do move.

We have been saying for some time now that we believe that the capital market activity, the earnings kind of power of the security dealers and the banks is exaggerated and can't stay at these levels. I have to admit that we've said that every quarter, and every quarter we've been, oh, produced a number pretty close to the same as the last quarter.

We still think, like everybody who carries a stopwatch, that we'll be right eventually on this. And so, I do think you can see some in the marketplace. I think capital market activity is slowing down. And so, we still believe that this will normalize to a kind of 20% rate of return business. So, an offsetting force to improve earnings in our retail businesses. It will be a declining earnings, we believe, in our wholesale businesses.

And finally, organic growth -- we're seeing positive signs of organic growth in the United States. So, we think the United States has bottomed out and we're starting to see some momentum there, but not -- nothing like in Canada. Clearly, the surprise has been Canada. We made a principled decision at the end of 2007 that we were going to grow through this downturn. We're the only bank in the US in the top 10 to grow its loan book. Everyone else had declining loan books.

And obviously, you've seen the numbers in Canada where we grew our loan book 13% in 2009, double the industry average. That, obviously, because we're a balance sheet company and not an income statement company, you walk into 2010 with that end of year balance sheet, you've already booked big growth in 2010 already in your numbers. But that growth is continued in the first half of 2010.

We believe that the housing market will slow down in the second half of 2010 in Canada. I think we're getting, bringing forward loan growth there with -- because of people's fear that interest rates are going to rise and the introduction of HST in BC and Ontario. But we've already made -- built in our numbers, in effect, for 2010. So, the impact of that is going to be in 2011 and 2012 when, in fact, the loan losses should start to come down and you're going to get -- so, the impact on earnings will not be as significant as it is on volumes.

Everybody always asks me about the US, so I thought I might as well talk about the US. Now, we remain quite pleased with our US operation. I know people stew about it. But we look at it and say here's an entity that went through the worst downturn since the Great Depression, was obviously an extremely positive outlier in terms of loan losses, continues to grow and open new branches very successfully, has an operating ROE of 18% in the worst downturn possible, absorbing a quadrupling of its loan losses.

This is not a bad place to be, continues to have -- win JD Power in the middle of doing a merger. So -- and is facing in a world of 2011, 2012 that when those loan losses come off and interest rates move up, it has lot of earnings lift coming its way. So, we remain very positive on the experience.

In fact, I would say, in our view, if you look at the history of TD Canada Trust, TD Bank, America's Most Convenient Bank is outperforming TD Canada Trust at similar periods in terms of the integration. And I believe that when we look back 10 years from now, people will say this is as dramatic a move as when TD bought Canada Trust, in terms of transforming TD.

Notwithstanding that, when like -- when you go to a new country, you don't want to have the greatest downturn since the Great Depression hit you. And so, it's been a grind to get our way through. But I think we're through the base, the worst. 2009 was clearly the tough year, how to do the integration, how to face the toughest economic conditions. We've said to the marketplace we see sort of flat earnings in 2010 and then earnings picking up in 2011 and '12 as loan losses come down and interest rates move up.

So, in simple terms, what are we? A North American bank, heavily retail focused. We build franchise business and we have top discipline on the risk that means that we take unpopular decisions at the time that turn out to be good decisions in the long run.

So, why don't I stop there and open it up for questions.

QUESTION AND ANSWER

Ihor Danyliuk - National Bank Financial - Managing Director and Head of Research

I'll kick off the questions then. Can you tell us a little bit, or share with us what kind of opportunities you are seeing in the US in terms of acquisitions?

Ed Clark - Toronto Dominion Bank - President and CEO

Yes. So, our position in acquisitions, it's really been my position for six to nine months now, and hasn't really moved is we're prepared to do FDIC deals and we're prepared to do small, by which I define as $10 billion in assets or less, unassisted deals.

The FDIC deals tend to be -- are not in the Northeast so much. They're in the areas that were hot before, where people paid big premiums to get into them, so Florida, the South, Southern California, the Northwest. And we look at them as deals in which we have the opportunity to extend our franchise. And so, we're particularly interested in going down the East Coast at economically attractive ways in which you would normally not be able to do that because you don't have the economies of scale when you go into an area.

So, we will continue -- we bid on a number of situations, haven't won, probably haven't been as aggressive as perhaps we should have been. The market is clearly making those deals a little less economic than they were before, but we still think attractive deals. And so, we'll continue to bid and hopefully do a few.

Unidentified Speaker

So, you're -- you will be staying to the Eastern seaboard, or you will be looking outside of that for those opportunities to present themselves?

Ed Clark - Toronto Dominion Bank - President and CEO

Yes. So, I say our primary focus is the Eastern seaboard. If we -- a situation arose where we could get into a place that we thought was an interesting area for us in enough scale that we would say, okay, that could be another pod, we would do that. So, we're kind of traditional retailers. We like to be in the top five in an area. So, if we don't have a game plan to get into the top five, then it's not probably a good idea to go there. But if we thought we could, we didn't rule it out, but it is in the area of high focus right now for us.

Unidentified Audience Member

Ed, so roughly half your branches are now in the US, the other half in Canada.

Ed Clark - Toronto Dominion Bank - President and CEO

I don't have great hearing, so I'm not --

Unidentified Audience Member

Oh, I'm sorry. So, I started out by saying that roughly half your branches are now in Canada, the other half in the US.

Ed Clark - Toronto Dominion Bank - President and CEO

Yes.

Unidentified Audience Member

Given the regulatory differences and just generally the differences in market characteristics between these two markets, how exactly do you propose, or how exactly does TD exploit scale efficiencies to become a truly North American Bank, as opposed to a bank with scale in either Canada or the US?

Ed Clark - Toronto Dominion Bank - President and CEO

Right. Good, great question. So, what you have -- I mean the trick of this is that they are different markets. And so, they're not -- you can't go at it and say, okay, we're going to do everything exactly the same. But I would also say that if you operate in Quebec and you operate in British Columbia, if you said I did everything exactly the same, you probably wouldn't be too successful. So, what you want to try to figure out is how do you take your kind of guiding principles, which in our case, are heavy customer focus, and say when is it the same and when is it not?

And so, I will give you an example. As you know, we measure customer satisfaction every single day. And we reward everybody in the organization from me on down how those scores turn out. Well, that's true everywhere in the bank and you don't say, well, we don't do that in the States. We'll do it in Canada, we do it everywhere and because we find it is the same.

On the other hand, a mortgage market could be a very different market in the United States than the mortgage market in Canada. So, you have to adapt that. But it doesn't mean that your credit scoring techniques and infrastructure isn't, in the sense, similar. And so, you say, okay, what part of it works?

Score cards would be different, but score cards are already different in Canada for different areas. And so, you say "but I can build off that". So, we try to -- every place we can leverage ourselves, we do. And where we can't, we say, okay, you want to localize it. And I think having run a national bank we've already solved those problems nationally, I think we are learning better how to do it.

It does mean that in terms of our executives, we have a significant number of American executives in Canada so that we actually have people that are comfortable operating in that milieu and you say, well, that's what will work here and that won't work there.

Unidentified Audience Member

TD has seen rapid growth in its overall wealth management business. You've always been pretty good in your brokerage, online brokerage, both in Canada and in the US. You also have a very good mutual fund business in Canada. Could you please talk a little bit about the opportunity you see in your advice based businesses?

Ed Clark - Toronto Dominion Bank - President and CEO

This is online brokerage type, what?

Unidentified Audience Member

Advising.

Ed Clark - Toronto Dominion Bank - President and CEO

Yes. Advice business? So, we've been -- obviously, our strength has been in the online business. So, we're the world's online leader and that's been useful to us in terms of building, having an economies of scale platform. But our weakness clearly has been on the advice side. And so, we have really been in the last five years on a journey, both in building up our financial planners and building up our brokerage side. So, we have, now, in excess of 700 -- well, by the end of this year, about 750 brokers and we'll have about 700 financial planners.

So, I think it's been a long journey to build a model that works for us and seems compatible with our value system, and to get a scale that's sufficient. I think we're now hit that where we now have scale economies in both of those businesses. They're both profitable. The key advantage that I think we have on the wealth management side is that we have a terrific system and we haven't seen anyone whose numbers appear to be as good as ours at moving customers from the retail side into the wealth management side.

And that really comes out of our philosophy that's through the bank, which is just do the right thing for the customer and client, and we'll do the right thing for you in comp. And so, we move thousands and thousands of customers every year out of our retail into our wealth management. And within wealth management, we triage them into the right group where there is the high end. I think we're either number one or number two in fully discretionary wealth management. So, we just move them into what the right place for them.

Unidentified Audience Member

I'll ask a question with regards to the proposed bank tax in the US, Ed. Can you share with us your thoughts on the likelihood of this tax being implemented, as proposed, and the magnitude?

Ed Clark - Toronto Dominion Bank - President and CEO

The Obama tax?

Unidentified Audience Member

Yes.

Ed Clark - Toronto Dominion Bank - President and CEO

I don't think I have any more insights than anybody else on that, so that I think there's obviously lots of worldwide discussions whether to do that. Obviously, the Canadian government's taken a position that they are opposed to the tax.

I think the interesting dilemma that you have is that the origin of this tax is to say that the people that run into financial difficulties ought to pay for it. And if you take government aid, then you ought to pay back to the government. But at the same time, all governments around the world to say that the home country is responsible for their bank, so the US was responsible for an AIG unit in London, and the Royal Bank of Scotland is responsible for Citizens in the US.

So, Canadian banks say, well, the Canadian government is responsible for us and we didn't get any aid from them. Why are we being taxed by the Americans on that tax? So, I think those discussions are ongoing. I don't get too fussed by these things. I -- politics come and go and if you have a good business model, you'll work your way through.

Unidentified Audience Member

So, focusing again on the US, the integration I think of Commerce Bank was completed last, late last year. And it turns -- it seems that your efficiency ratios there are still in the high 50s, rather than the low 50s as you have them in Canada. Are there efficiencies to be gained from streamlining, maybe, your back office functions there? Or is it more a question of focusing on top line growth? For example, we know that Commerce Bank made -- was a very good deposit gatherer, but not necessarily great on their asset generation side.

Ed Clark - Toronto Dominion Bank - President and CEO

You could ask this sort --

Unidentified Audience Member

(inaudible question - microphone inaccessible).

Ed Clark - Toronto Dominion Bank - President and CEO

Oh, I would say that we would -- if you want -- I probably wouldn't put it that way, but it you want a crisp answer, go for revenue, not expenses. And so, in the end of the day, I think growth companies win in the long run. I think we have a track record. If you look at TD Canada Trust, we -- because we grow our revenues significantly faster than the other four banks, we also have more money to invest, both in lowering expenses and in continuing to grow. And so, it's not like at 47% efficiency ratio with a NIM under three. It's not like we’re doing so badly on an expense front.

But clearly, in the sense what makes TD Canada Trust different is it just grows faster than everyone else. I think the same is true in the United States is that what we want to do is just continue as we take market share, which we have been, from the competition. And I think in the case of Commerce, clearly, there's a whole set of expenses that were not fundamental to growth. And so, we've been chipping away at those and getting those out.

But if you want to invest in a company that says they are the toughest cost cutters, and they'll cut growth to cut costs, I wouldn't buy TD Bank. I'd buy -- I can give you some other suggestions. That is not us. I mean, we grow our way through. We grew our way through the downturn and we are going to grow our way through the upturn. And if we have super revenue growth, we will pour that revenue growth back into cost cutting measures and growth measures, and probably in a balanced way.

Unidentified Audience Member

Any chance that one day, banks in Canada will be allowed to be to merge?

Ed Clark - Toronto Dominion Bank - President and CEO

No. I would think that the financial crisis has probably -- I thought would have killed that question for all time. So, I think that's a dead issue.

Unidentified Audience Member

It's crazy to ask.

Ed Clark - Toronto Dominion Bank - President and CEO

I say it is -- I say yes. No, I think it's a dead issue, so.

Unidentified Audience Member

Did you change your name in US to Most Convenient Bank, and why?

Ed Clark - Toronto Dominion Bank - President and CEO

Did we?

Unidentified Speaker

Yes, and why.

Ed Clark - Toronto Dominion Bank - President and CEO

Oh yes. So, we originally were going to keep the Commerce name, and we ran into a court challenge. I think, as it turned out, like usual in business, bet on luck more than intelligence here and so, particularly in our case, probably. And so, we ended up being lucky because clearly, when we went into the downturn, being in the United States and having the TD Bank brand out there --being like in New York City, we're the only AAA-rated bank that people can bank with. And so, all over the Northeast we're the only AAA-rated bank that the average person can bank with.

That turned out -- in my experience, that was a non-factor for my whole career until two years ago. And it's not a non-factor today. It's not a non-factor for if you are non-for-profit organization. I mean, we are winning clients in the United States that have been with their bank, big, big banks in the US, for 100 years and are walking across the street for us because they see us as the bank of the future.

And so, I think if we had a name other than TD Bank, I'm not sure they'd be walking across the street. So, I think it's turned out fortuitously to be a great brand for us. And to be TD Bank, America's Most Convenient Bank is even a better brand.

Unidentified Audience Member

In your U.S. wholesale operations to which extent a competition coming back, and to which extent I think other wholesale operations, in addition to the fixed income can counter fixed income spread compression.

Ed Clark - Toronto Dominion Bank - President and CEO

In Canada, right, or in the whole marketplace? The whole marketplace, where do we see competition coming back in? This is the sort of question you asked Porter just before, like our spreads coming in and craziness in the marketplace. Is that --?

Unidentified Audience Member

Yes. The fixed income spreads are coming down and I'm wondering in the wholesale operations in the United States, to which extent competition is coming back into this marketplace?

Ed Clark - Toronto Dominion Bank - President and CEO

Yes, yes. So, I would say definitely. I mean, I would say when you look at our results, we -- I think a number of the Canadian banks, so we're not alone in this, but we clearly took big advantage of the downturn, so pretty unprecedented in Canada to have our growth rate in the personal commercial business be twice what our competitors is. So, that's taking advantage of the downturn a lot.

I think the fact that we were the only bank in the US, big bank in the US, to grow its lending book was taking advantage. I think if you look at TD Ameritrade, it took huge market share from Fidelity and Schwab in 2009. They pulled back. I think we have to accept that going into 2010, and as you roll into 2011, everywhere in the world the banks that were hurt are going to come back into the market and say, we're going to try to take some of that market share back from you, but we certainly are going -- not going to give to you away to you as easily as we did in the 2009 period. So, I totally accept that.

I think what we are trying to do, obviously, is say having got the momentum of taking advantage of that year, how do we keep rolling with that momentum and continue to make it more difficult for them to come back? But I think one would have to expect that it will not be as easy going forward as it was - not that it was - by truth to say easy for you to say, easy.

But it was obviously an easier environment to take market share in 2009 than it is going to be in 2010 and 2011. And I think in every market, whether it's Canadian personal and commercial markets, the wholesale market, the US discount brokerage market, or the US banking market, everywhere we go we see competitors saying, I'm no longer trying to survive, I'm now trying to regain my position. So, I agree with that.

Ihor Danyliuk - National Bank Financial - Managing Director and Head of Research

We'll have to end our questioning here. Thank you very much, Ed.