TD BANK FINANCIAL GROUP
Q3 2010 EARNINGS CONFERENCE CALL
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2010 Report to Shareholders under the headings “Business Outlook”; and for the Corporate segment in the report under the heading “Outlook”.

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PRESENTATION

Mushtak Najarali - ***Toronto-Dominion Bank - VP, Investor Relations***

Good afternoon and welcome to the TD Bank Financial Group 2010 Third Quarter investor presentation. My name is Mushtak Najarali and I'm Vice President of Investor Relations for the Bank. We'll begin today's presentation with strategic remarks from Ed Clark, the Bank's CEO. After which Colleen Johnston, the Bank's CFO, will present our third quarter operating results. Mark Chauvin, Chief Risk Officer will then offer comments on credit quality. After that, we'll entertain questions from those present in the room today and also from prequalified analysts and investors on the phone. Also with us to answer your questions today are Bob Dorrance, Group Head Wholesale Banking, Bernie Dorval, Group Head Insurance and Global Development. Bill Hatanaka, Group Head, Wealth Management. Tim Hockey, Group Head Canadian Banking and Bharat Masrani, Group Head, US P&C Banking. As in the past, we'll try to keep this call to about an hour with Ed, Colleen and Mark's comments taking up about half that time.

With that, please turn to slide two. At this time, I'd like to caution our listeners by stating the following on behalf of those speaking today. We note that this presentation contains forward-looking statements and there are risks that actual results could differ materially from what is discussed. Any forward-looking statements contained in this presentation represent the views of management only. As of the date hereof, and are presented for the purpose of assisting the Bank’s shareholders and analysts in understanding the Bank's financial position, objectives, priorities and anticipated financial performance as at and for the periods ended on the dates presented and may not be appropriate for other purposes. Certain material factors or assumptions were applied in making these forward-looking statements. For additional information on these material factors and assumptions that could cause actual results to differ please see our Q3 2010 MD&A and our 2009 annual report, which can be found on our website at TD.com. We also refer you to our press release regarding the agreement to acquire The South Financial Group Incorporated as well as TD's and South Financial’s filings with the SEC.

Also, parts of this presentation relating to South Financial transaction are addressed in the prospectus proxy statement filed with the SEC. We urge you to read it as it has important information. Information about the participants in the solicitation is also contained in our annual report and proxy circular filed with the SEC and in South Financial’s proxy statement for annual meeting filed with the SEC. With that, please let me turn the presentation over to Ed.

Ed Clark - ***Toronto-Dominion Bank - President and CEO***

Thanks Mushtak, and thanks and welcome everybody for showing up this afternoon. So Colleen's going to be up shortly to discuss the third quarter results in detail. But I thought I'd start off by talking about our performance and then given you a sense of where we see ourselves going for the end of 2010 and then into 2011.

For me, this was a great quarter. Our focus on high quality, reliable, lower risk retail businesses proved out our consistent strategy that we can grow without going out the risk curve. Total adjusted retail earnings hit a new high of 1.3 billion dollars, up 21% year-over-year. That's really impressive growth, considering that only two years ago we were talking about quarterly retail earnings trying to break through the billion dollar mark. Our Canadian retail banking operations set an earnings record for the third straight quarter and our US personal and commercial banking earnings also were a record, they're at the highest level since we entered the United States. This growth helped offset the predicted continuing normalization in our wholesale results and an elevated corporate loss. You'll get some more detail from Colleen in a few minutes.

Our balance sheet remains very strong. The Tier one capital ratio hit another high at 12.5%, while our risk weighted assets remained relatively stable. It probably won't surprise you that our strong performance was again led by our Canadian and personal **-** Commercial and Personal Bank with earnings grew 24% year-over-year. The continued strength of the housing market drove strong volumes in real estate lending and business deposits also became a very good source of growth. As was the story last quarter, the tailwind of improving credit led to lower PCLs this quarter.

TD Canada Trust has been an unbelievable growth story. Over the past decade, this franchise has done a wonderful job growing deposits, lending to consumers and serving Canadians with an ever-growing branch network.. Our commitment to be the leader in Customer Service has consistently been the core of our approach and our customers are clearly impressed. In July, we were ranked number one in customer satisfaction in Canada by JD Power for the fifth consecutive year. And just last week we received a Synovate award for excellence in Customer Service for the sixth year in a row. This unwavering commitment to be the clear leader in Customer Service has been vital in growing the franchise. Let me put this in perspective. TD Canada Trust delivered more earnings this quarter than the combined earnings of both TD and Canada Trust in the Personal and Commercial Banking space for all of 2000. An unbelievable growth story. Congratulations to Tim and the entire TD Canada Trust team on these phenomenal achievements.

I also want to comment on our insurance business which has been operating under some challenging conditions over the last year or so. We've now seen improvement in the environment as well as solid policy growth. This has led to better results and positions us well moving into 2011. Wealth Management saw earnings increase 23% over last year, and that marks the sixth consecutive quarter of improving profits. This business continues to successfully deepen relationships with both TD Canada Trust customers and TD Waterhouse clients. That's helping us to drive strong client engagement, growth in new accounts and strong asset growth. This momentum has allowed us to become the number two seller of long-term mutual funds this fiscal year.

Wholesale earnings continued to normalize as we have been indicating. You'll recall that last year we received unsustainable market activity and positive valuation adjustments, given a broad rebound following the financial crisis. Today we're generally seeing softer capital market activity and earnings declined 45% versus last year. But while earnings are down, Wholesale still delivered a solid contribution in line with our medium term target for this business. And the team continues to do a great job, building out our client-driven franchise dealer model which we will believe will be a good source of sustainable profit growth.

In the United States, we're very pleased with how TD Bank, America's Most Convenient Bank, is performing. At our recent U.S. Investor Day we outlined our three-year road map to a $1.6 billion U.S. earnings target. We're making good progress towards that number. This quarter we delivered a very strong quarter that saw adjusted earnings grow 30% in U.S. dollars over last year. Revenue rose 17% year-over-year, thanks to broad-based growth across all businesses. Credit losses continued to decline. Our organic growth focus remains a key driver of success. We continue to see growth in both deposit and lending volumes and we continue to open new stores.

We committed to providing you with an update on the expected impact of Reg E and Colleen's going to speak to that later. But let me make a comment here. There was a clear shift in how banking will be paid for in the United States. We're seeing less reliance on overdraft fees and we're heading to a more packaged approach. Now, this is similar to Canada's model. It's one we know well and it works effectively for our customers and for our shareholders. However, with this shift, it's likely that we're going to see slower revenue growth for the next few quarters as we absorb the impact of these changes and we reposition our product suite to offset the lost revenue from Reg E. Overall, I'm quite pleased with the performance of our U.S. franchise, including the performance of the three FDIC-assisted acquisitions in Florida that we completed earlier this year. We also continue to work towards completing our offer to purchase The South Financial Group. That deal remains subject to shareholder and regulatory approvals. When we receive these approvals, we now expect closing about September 30.

In terms of our outlook, it's clear that this year has been one of significant growth for us, thanks to an improving economic environment in Canada, great success in our retail banking franchises and improving PCLs. With that said, there are a few factors that give us reason for caution as we finish this year and head into 2011. We had hoped that the global economic recovery would have been stronger and we would see upward pressure on interest rates. We've clearly not seen that. I do think it's important to keep the pace of the economic recovery in some perspective. The U.S. has suffered quite a severe balance sheet recession, affecting the net worth of millions of Americans. It is unrealistic to believe that we will have a snapback recovery. What we really are learning is how it feels to have a tepid recovery with slow employment growth. Turns out it doesn't feel good and confidence remains fragile. This makes it particularly difficult for policy makers. They must on the one hand make clear that they understand the recovery is fragile and they are willing to act. However, to be fair, it isn't that easy given that the risk that any commentary could cause an overreaction in the markets and could lead to, in fact, a renewed lack of confidence in the recovery.

In Canada, we had an income induced recession and have bounced back nicely because of the strength of the housing market led by low interest rates and a strong banking system. However, it shouldn't surprise us if growth slows in Canada as the weakness in the U.S. recovery combines with the slowdown in the Canadian housing market. So, slower economic growth and persistently low interest rates makes things tougher for us. But we like our business mix. We have a proven track record of adjusting to changing environments. We built up great volume momentum and we have the tailwind of declining PCLs to help us navigate through this challenging period. Throughout the recession we were focused on keeping our model intact and we continued to invest for the future. And we're certainly going to continue to make strategic investments in our franchises. That said, given the potential for slower revenue growth in the short-term, we are going to be very pragmatic in managing our expenses.

On the capital front, the recently released annex on revised capital reform is a move in the right direction but we need to remember that reforms will have an impact. And that's why it's important that they find the right balance and continue to drive -- help drive economic growth. This reform includes a complicated set of changes with many moving parts and we are at the halfway point of the negotiations. While I know the market craves certainty, certainly we would love certainty, it's still too early to say precisely where this will come out. What is clear is that the world is moving to higher capital levels and we support this position. We need a world where all players have sufficient capital and liquidity to support the risks that they are taking. At the same time, officials seem sensitive to the need to phase in changes in order to minimize the impact on the economy. The good news is that all Canadian banks have strong balance sheets going into the crisis and so while the proposed changes will require us to hold more capital, we're all going to be ready to address the reforms when they're implemented.

Next, let me say a few words about dividends. I know this is a topic that's on investors' minds. I think it's fair to say that we're going to have to wait and see the full scope and impact of capital reforms before we make any definite plans. However, we're hoping that by the first quarter we'll be in the position to do that, in the context of the Board's outlook on earnings and the Bank's dividend policy we should be able to provide you with some guidance. The bottom line is that we've built a profitable and growing business that has shown resilience through some of the toughest market conditions on record. That's what makes us confident about our future. Over the last five years, we've delivered average adjusted earnings per share growth in the 7% to 10% range, despite holding higher capital. And while the global economy remains fragile, we're confident that we'll be able to operate in that range over the medium term.

With that, let me wrap up. TD's delivered a great quarter. We had another record quarter by Canada's Personal and Commercial bank which is well positioned even as we prepare for more moderate levels of revenue growth to continue to grow profits. Wealth earnings continued to gain momentum but the risk of weaker equity markets and continued low rates makes us cautious. Our Wholesale business is normalizing but it continues to deliver in line with our expectations and our US retail bank is performing excellently and we're excited about its future. We will navigate through the challenges posed by the U.S. economy and regulatory reform. I'm confident when we close the books on 2010, we're going to look back on a very successful year and we're going to look forward to a very promising 2011. Now let me hand it over to Colleen.

Colleen Johnston *- Toronto-Dominion Bank - Chief Financial Officer*

Thanks, Ed and good afternoon. Let's start on slide four. Q3 2010 highlights. Total Bank adjusted net income of 1.3 billion, up 6% from last quarter and flat compared to our Q3 2009 performance. Adjusted diluted earnings per share for the quarter, $1.43, up 5% over last quarter and down 3% over last year. Excluding the impact of foreign exchange translation, EPS was flat to last year. The key take-away from this quarter was the exceptional performance of our retail businesses which contributed 1.3 billion in Q3, a new record, up 21% from last year. You'll note that both our Canadian and U.S. retail businesses delivered double-digit growth, compared to last year. TD Canada Trust delivered another record quarter and our US P&C numbers hit a new high.

Credit continued to improve across the board with our provision for credit losses at the lowest level since Q4 of 2008. The Wholesale Bank delivered in line with our expectations. Net income of $179 million, down 45% over Q3 of '09 and down 19% from last quarter. The Corporate Segment loss increased by 76 million compared to last year. Higher retail earnings and the improving credit environment allowed us to earn through the impact of normalizing wholesale earnings and a higher than expected corporate segment loss. Tier one capital ratio, 12.5%, up 50 basis points from last quarter, and that was mainly due to share issuance and retained earnings growth.

Let's turn to slide five. Reported net income of $1.177 billion or $1.29 per share, adjusted net income of $1.3 billion, or $1.43 per share. The difference between reported and adjusted results was due to four items of note that you've seen before. The U.S. integration and restructuring charges this quarter relate to our FDIC-assisted Florida acquisitions.

Please turn to slide six. Canadian P&C. Net income of $841 million, up 24% from last year and up 11% from last quarter. It was yet another quarter of new records. Record net income, record revenue, record efficiency, and record customer satisfaction.

Highlights. Revenue up 8% over last year due mainly to strong volume growth in Canadian Banking. Compared to last year, average lending volume grew by $25 billion or 11%, with 80% of that growth coming from Real Estate Secured Lending. Mortgage originations have softened considerably in July and we expect single digit growth and outstanding volumes for 2011. However, we remain well-positioned to navigate through a period of slower growth since we've had strong volume expansion in the past few quarters. Deposits grew by 13 billion or 7% driven by $10 billion of core deposit growth, up 19%, and strong business deposit growth, while term deposit balances declined. Revenues increased 5% sequentially, largely due to volume growth and day count. Insurance revenues were up from last quarter as a result of robust client and premium revenue growth. With strong policy growth and more favorable conditions for insurance, the outlook is positive and momentum continues to build in this business.

Provision for credit losses. $236 million, down 19% from last year, and 8% from last quarter, due mainly to better credit conditions resulting from an improving economic environment. Business banking loan losses were 14 million this quarter, down 36%, with a net recovery experienced in commercial loan losses. Expenses up 4% from last year, primarily due to higher employee compensation and higher project costs. Expenses were up 3% sequentially, mainly due to higher employee compensation. Compared to last year, margin was down four basis points to 292. The benefit of the HELOC repricing was more than offset by lower mortgage brokerage fees and lower deposit margins as a result of sustained low interest rates. The margin was stable compared to last quarter. Looking ahead, we expect continued strong performance from TD Canada Trust. While volume growth will slow, positive operating leverage, lower PCL loss rates and declining tax rates will help drive our results. Overall, another exceptional quarter for TD Canada Trust.

Let's turn to slide seven. Wealth Management. Global Wealth Management which excludes TD Ameritrade, net income of 117 million, up 23% from last year and up 5% sequentially. We have seen improving performance in this business for a sixth straight quarter. Year-over-year, higher earnings were driven by higher asset levels, volume growth and margin improvement.

Let's go through the highlights. Revenues of 616 million increased 54 million or 10% from the prior year, primarily due to strong growth in the advice based and mutual fund businesses combined with increased net interest margin. This was partially offset by lower trade volumes, lower commissions per trade in discount brokerage in Canada, along with lower U.S. revenue due to the restructuring of the financial advisory business. Expenses of 447 million increased 5% from last year, mainly due to higher variable compensation and higher mutual fund trailers, partially offset by lower U.S. wealth expenses due to the reduction of staffing levels. Expenses were down 1% compared to last quarter. TD Ameritrade contributed CAD62 million to TD this quarter, down 9% from last year and up 11% from last quarter. The year-over-year decrease was primarily due to a stronger Canadian dollar, and lower ownership. Interest offset by higher core earnings at TD Ameritrade. On the whole, a very solid performance from wealth.

Please turn to slide eight. The U.S. Personal and Commercial Bank. In U.S. dollars, adjusted net income, 276 million for the quarter, up 30% from last year and up 15% sequentially. This marked the highest adjusted net income and ROIC, return on invested capital, to date from our U.S. P&C business. The U.S. P&C segment had a strong performance despite the lingering headwinds in the U.S. economy. The operating returns in this business continued to improve and were over 27% this quarter.

Highlights. Revenues of almost 1.2 billion. Excluding the impact of the FDIC-assisted Florida acquisitions, revenue was up 15% compared to last year, driven by broad-based growth across all businesses and categories including strong retail fee growth. Revenue was flat compared to last quarter mainly due to lower prepayment activity on loans and securities, partly offset by higher product volumes and spreads. In terms of volume, we continue to see good deposit growth including TD Ameritrade sweep and FDIC-assisted Florida acquisitions, total deposits were are up 5% versus last year and up slightly over last quarter. Lending volumes were up 5% compared to last year and up slightly over 2% compared to last quarter. This compares with declining lending volumes for U.S. peer banks.

Expenses. Excluding the impact of the FDIC-assisted Florida acquisitions, adjusted expenses were up 12% year-over-year, due to new store openings, new store expenses, implementation of Regulation E, investments in infrastructure and advertising campaigns, partially offset by commerce integration synergies. Compared to last quarter, expenses were up 2%. Provision for credit losses down 23% compared to last year and down 22% sequentially. Mark will talk more about this shortly but we continue to see signs of improvement in the credit environment.

Margin. Down 12 basis points over last quarter. Improvement in underlying product margins was more than offset by the impact of changes in asset mix and slower prepayment activity on loans and securities.

Regulation E. You've seen the update today in our shareholder report. We had promised you an update on our expected impact from Reg E. Based on our current estimates and taking mitigation strategies into account, Reg E will impact our revenues by approximately US $40 million to $50 million per quarter. This estimate was included in the US$1.6 billion three-year target we shared with you during our U.S. Investor Day back in June. We continue to believe that this impact will be manageable given the expected declines in PCLs as the credit cycle improves over the next few quarters. On the whole, a very good performance in the U.S. P&C given tough market conditions.

Slide nine, Wholesale Bank. Net income of 179 million, down 45% from last year and down 19% from last quarter. As expected, wholesale earnings continued to normalize this quarter. Compared to last year, the decrease was due to lower fixed income, credit and currency trading, partly offset by improved equity trading and investment portfolio gains. In the third quarter last year, results were very strong as financial markets staged a dramatic recovery, resulting in improved asset values and market liquidity. Revenues for the quarter decreased 133 million or 19% compared with the prior quarter, primarily due to reduced trading in the fixed income and credit businesses. Equity trading activity also declined as did equity issuance.

Provision for credit losses. The net recovery in the quarter was 16 million, compared with PCL of 32 million in the third quarter last year. Recoveries of previously recorded provisions in the current quarter were partially offset by the cost of CDS protection.

Expenses. Compared to last year, expenses were down 1%, mainly due to lower variable compensation, partially offset by higher operating costs from investment in risk and controls infrastructure. Overall, a solid performance from Wholesale with a return on invested capital of 23%.

Please turn to slide 10. Corporate segment. On an adjusted basis, the corporate segment posted a loss of 182 million, compared with a loss of 106 million last year. About half of the increase was due to tax related items including a charge of 27 million this quarter, related to prior year audits. Last quarter I talked about a corporate segment loss of 100 million to 150 million, and clearly we've exceeded the top end of that range. This was due to the tax charge in the quarter. To recap from last quarter, the Corporate Segment consists of unallocated corporate support costs which are control related, some unallocated tax benefits and various other costs and benefits related to treasury, liquidity, capital and balance sheet management. We have a well-defined set of principles that guide what gets allocated to the segments and what stays in corporate segment and those principles have been consistently applied over the period we're looking at. There are various structural reasons that the loss has grown including the growth of the bank and the current low interest rate environment.

For 2011 we are looking to address the size of the corporate segment loss by revisiting our reporting principles and possibly allocating more costs out to our businesses and reassessing our management reporting and transfer pricing methodologies. We expect to introduce some changes in Q1 of next year and at that time we'll let you know the nature of the changes and the relative impact on each of our businesses. While corporate segment results are inherently difficult to predict, you can expect the loss for the fourth quarter to remain at elevated levels.

Capital. At the end of Q3 our Tier one capital ratio was 12.5% compared to 12% at the end of last quarter. The increase was primarily the result of strong earnings and a common share issuance of 250 million for prudent capital management in advance of closing the proposed acquisition of The South Financial Group. This transaction is subject to approval by the shareholders of South Financial and certain remaining regulatory authorities. The shareholders meeting will be held on September 28, 2010 and assuming the necessary approvals are in place, the transaction is expected to close shortly thereafter. Tier one capital will be impacted by about 60 basis points at the close of the South transaction. With that, I'll hand it over to Mark.

Mark Chauvin *- Toronto Dominion Bank - Chief Risk Officer*

Thank you, Colleen. Please turn to slide 12. Given improving credit trends, I'll limit my comments to highlights of our credit performance followed by an update on our debt securities portfolio. We have moved the detailed credit slide to the appendix where we'll continue to provide them in future quarters. Overall credit performance continued to stabilize during the quarter. Gross impaired loans were down slightly and new impaired loan formations were flat relative to Q2 for both the Canadian and the U.S. portfolios. PCL's reduced further during the quarter. Total PCL was down 77 million or 18% representing the lowest level since the fourth quarter of 2008. We expect to see further declines in 2011. General allowances for the Canadian portfolios remained constant in Q3, while U.S. general allowance increased slightly excluding the debt securities portfolio. Future changes in general allowances will be the function of credit performance and volume growth. These results are consistent with what we would expect to see at this stage of the credit cycle.

With respect to the individual segments, I'd highlight that credit performance in the Canadian Personal and Commercial and Wholesale portfolio remains very strong. In the U.S. P&C, while the portfolio continues to stabilize, our outlook is cautious. In the U.S. personal portfolio, default and loss rates were in line with expectations. Overall, performance in the U.S. commercial portfolio held steady. Both default rates and loss rates in the residential commercial real estate portfolio declined during the quarter. New formations in this portfolio were down 50%. As expected, the default rate continued to rise in the nonresidential commercial real estate portfolio while the loss rate maintained a slight upward trend. Defaults in the commercial and industrial portfolios stabilized on a US dollar basis. At the same time, we saw strong growth in the commercial and industrial portfolio, over 1 billion in new originations, primarily in the government and health and social services segment. Assuming we don't experience a renewed economic deterioration, we expect to see continued improvement across our credit portfolios in 2011.

Lastly, I'd like to comment on the performance of our debt securities portfolio. We acquired this portfolio as part of the Commerce Bank Corp. acquisition in March 2008. It comprised mainly of mortgage backed securities that were purchased at a substantial discount to par value. You'll note that fair value of the portfolio now exceeds book value. Each quarter we calculate the expected loss on the portfolio and assess the adequacy of our allowance. Although impaired loans grew during the quarter, the increase was in line with our original expectations. As a result, we didn't increase the total allowance on the portfolio and we remain comfortable that we're adequately provisioned. Now I'll turn the presentation back to Mushtak.

Mushtak Najarali ***- Toronto-Dominion Bank - VP, Investor Relations***

Great. Thanks, Mark. We're asking those participating in the Q&A portion of the meeting to ask one question and then please re-queue. For those participating in person, if I can please ask you to state your name and your firm before asking your question that would be much appreciated. Before we end the call today, I will ask Ed to offer some final remarks. With that, let's get started, perhaps we can start in the room first.

QUESTION AND ANSWER

Michael Goldberg ***- Desjardins Securities - Analyst***

Michael Goldberg, Desjardins Securities. I'd like to get a little more color on the cost and mitigation initiatives that you're taking with respect to Regulation E.

Bharat Masrani ***- Toronto Dominion Bank - Group Head U.S. Personal and Commercial Banking***

Michael, the Investor Day we did say that we will provide guidance and we talked a bit about the various initiatives that are going on in the U.S. Firstly, we did embark on an initiative to make sure we give choices to our clients, whomever wanted to opt in and that has gone reasonably well from my perspective. Secondly, as we move forward, we will be repositioning our current product suite to offset these headwinds that we talked about. And as we transition towards that, I feel relatively comfortable that we've got the PCL tailwinds to offset as well over the short term. Over the long term, I see this being offset totally with repositioning of our products, which has already started and which is where the whole industry in the United States is going.

Michael Goldberg ***- Desjardins Securities - Analyst***

Is it reasonable to expect that the trajectory of the impact will be that you have more of an impact -- that there's more of a negative impact at first, but as the benefit of the actions that you take to mitigate gain traction, that the impact starts to get smaller?

Bharat Masrani - ***Toronto Dominion Bank - Group Head U.S. Personal and Commercial Banking***

That's a reasonable way of looking at it.

Mushtak Najarali - ***Toronto-Dominion Bank - VP, Investor Relations***

Next question in the room?

Andre-Phillip Hardy, - ***RBC Capital Markets - Analyst***

Bob, you just made a 23% ROIC in what was a pretty horrendous quarter except for credit. Your target as far as I know was 20. How does it get worse?

Ed Clark - ***Toronto-Dominion Bank - President and CEO***

He thinks you've been sand-bagging everybody.

Bob Dorrance - ***Toronto Dominion Bank - Group Head Wholesale Banking***

How does it get worse? I guess the -- how it could get worse is just the levels of activity in the market as well as market direction and volatility would continue to deteriorate, so if market direction and market tone continued to deteriorate, they were pretty bad already during the quarter, that it's a possibility that returns on capital could go down in the business. I think returns could also go down and might likely go down next year as a function of capital having to go up. Clearly, the capital market risk capital will increase in 2011. I think, yet to know how the industry responds to that, whether it can offset the pressure of having higher capital levels. I think it was a very difficult quarter for the Wholesale businesses and also I think we did reasonably well in the quarter but it was a grind quarter and it would deteriorate for the reasons that I just gave. I'd caution that it's a difficult business to forecast. If we could forecast the markets, we probably could be perhaps a bit more precise. Good question, Andre.

Andre-Phillip Hardy, - ***RBC Capital Markets - Analyst***

Although is it fair to say the quarter ended on a much better tone than it started?

Bob Dorrance - ***Toronto Dominion Bank - Group Head Wholesale Banking***

Yes, May was a difficult month.

Andre-Phillip Hardy, - ***RBC Capital Markets - Analyst***

Thank you.

Bob Dorrance - *Toronto Dominion Bank - Group Head Wholesale Banking*

That's not saying much.

Mushtak Najarali - *Toronto-Dominion Bank - VP, Investor Relations*

Thanks. Next question, John.

John Reucassel - *BMO Capital Markets - Analyst*

John Reucassel, BMO Capital Markets. Tim, a question for you, just on the domestic market. If you comment, you had some of your peers out there talking about price competition and what that means for spreads next year. Could you talk a bit about that, where you are coming down on that and then maybe talk about your efficiency ratio up 46.2%, in a slower top line growth environment, is that a new sustainable threshold for TDCT?

Tim Hockey - *Toronto Dominion Bank - Group Head Canadian Personal and Commercial Banking*

Thanks, John. We would see that the price competition is notably in this market around Real Estate Secured Lending, given the time of year that we're in. And I would say on the commercial front as well. However, when we look forward, the combination of both price competition as well as the yield curve and our expected margins, we see on both deposits and loans, it's actually going to be fairly offsetting, call it, and so we don't actually -- we see maybe a few basis points drifting down over the next few quarters, but not dramatic. And when we -- sorry, what was the second part of the question?

John Reucassel - *BMO Capital Markets - Analyst*

Just on the productivity or efficiency ratio.

Tim Hockey - *Toronto Dominion Bank - Group Head Canadian Banking*

Well, our expectation even with a slowing in revenue growth is that our -- you know our paradigm. Our paradigm is when our revenue growth flows, then we bring our expenses in**.** and so, clearly we look out and we see, ok, we're probably not going to have the same level of revenue growth that we've been able to achieve in 2010 and so as a result we're starting to curtail our expenses. So we expect to be able to bring that down and if we're able to have an operating leveraged gap then we expect that mathematically we'll continue to get operating efficiency ratio lowering.

Mushtak Najarali - *Toronto-Dominion Bank - VP, Investor Relations*

Thanks Tim. Next question in the room. Darko.

Darko Mihelic - ***Cormark Securities - Analyst***

It's Darko Mihelic from Cormark Securities. Maybe just back to Bharat, with respect to the impact of Reg E, if we think of it as being $40 to $50 million per quarter, I think you mentioned that you had PCLs sort of in hand to help bridge, but maybe can you help me understand, you had also bridged for us how you get to $1.6 billion actually in that bridge you had mentioned that you expect $300 million from normalized PCLs to get you to the 1.6 billion. Can you tell us where would this 40 - 50 million impact, would that all be offset with organic growth? So, in other words, the way to think of your organic growth of $250 million, do I add $150 to that and think about $400 million of organic growth on a base of 900? Is that where the offset is to the $40 to $50 million quarter hit? Is that the way to think of it?

Bharat Masrani - ***Toronto Dominion Bank - Group Head U.S. Personal and Commercial Banking***

No, I would not think of it that way, Darko. If you look at organic growth, and perhaps we should have done a better job of explaining ourselves. I see organic growth as taking market share and bringing new customers into the franchise. I see the Reg E mitigation as repositioning our current product suite available in the United States and I see a difference between the two. So as we reposition our product suite, I would expect the Reg E offsets to come from current products to our current franchise. That's the way I would describe it. So the math gets you to the same level but I would not classify our mitigation strategies and the offset that we get as part of the organic growth because that is bringing new customers and taking share over time as we open new stores, as we take share in the markets we are in. Does that help you explain?

Ed Clark - ***Toronto-Dominion Bank - President and CEO***

Maybe I could just add. I think what I was trying to say in my remarks is you had a banking system that said we could provide you with free banking and we'll have 15% of the banking population pay to provide free banking to the 85% who aren't paying anything. I think that model is not going to exist in the United States as we go forward. It may be that there will be still some revenue from overdraft fees but clearly what we should do is move to a system, much more the way Canada does, where people say I'm going to pay for basic banking services and so I think you're going to see the non-overdraft fee structure move to sort of say people should carry the weight of their own banking and this will take a few years to, I think evolve, but I think you can see signs already in the market that that's where the market players are moving.

Darko Mihelic - ***Cormark Securities - Analyst***

Ok, I mean, so just thinking of this simply, if we have that impact from Reg E, you would have had higher than 1.6 billion. You would have had presumably 1.75 billion or something like that. I'm just wondering -- that's where I was getting at. Somewhere --

Bharat Masrani - ***Toronto Dominion Bank - Group Head U.S. Personal and Commercial Banking***

If the Reg E impact was not there then perhaps the model of 15% of customers paying for free checking may have continued. This is an offset against that model where we move more towards packaged products, similar to what Tim has in Canada, the Canadian banking system has and you probably have seen initiatives by various major players in the United States towards that end. A lot of these new packages are being introduced at the end of the year, early next year. So that’s the way I would look at it -

this is a transition to more of a packaged type of product where customers who have been getting services or subsidized by a small segment of the population will no longer be subsidized.

Mushtak Najarali *- Toronto-Dominion Bank - VP, Investor Relations*

Thanks Bharat. Operator, do we have any calls on the phone? Any questions on the phone?

Operator

Yes, sir. Our first question comes from the line of Steve Theriault with Bank of America-Merrill Lynch. Please go ahead.

Steve Theriault *- BofA Merrill Lynch - Analyst*

Thanks. A question for Ed. Ed, you touched on expenses in your comments. And I don't think we've heard commentary along those lines in a while. Can you highlight any specific areas you're looking at? Is this just a notion at this point or are there initiatives you're beginning to put in place to position the Bank for a lower growth environment?

Ed Clark *- Toronto-Dominion Bank - President and CEO*

I think I really pick up Tim's comment. I think it's across the board. We've been very, very disciplined all the way through to manage our expenses relative to our revenues. A couple of years ago we took I think a different view than many people in the market and said this is actually a disruptive market and we're going to see unusual revenue growth and we ought to take advantage of this both by satisfying the needs of many clients to grow and lend to them, but at the same time to invest heavily in projects and use some of that revenue growth to build ourselves more volume for the future. As we look out, you'd say both in Canada and the -- I don't think -- I'd like to believe that there could have 17% year-over-year revenue growth forever but I don't think that's a very realistic position and I think in Tim's business as well, we see downward forces on the revenue growth. So I think we're starting with saying we should mitigate that and that means we've got to go back to our expenses and make sure they grow in line. We also have a large number of projects that we're doing that are investing for the future. We're heavily focused that you don't rob tomorrow's future to make today, yourself look good. That's the format we've run - I've run for 20 years. We're not going to change now. That doesn't mean that you don't look at those projects and say we got the right pace and we implement them well. Let's make sure if dollars are scarce that they're all being well-used. There's nothing in particular we're targeting. I think you're going to find, it's just being as I say practical in managing well, my revenue's not going to grow as fast, my expenses aren't going to grow as fast.

Steve Theriault *- BofA Merrill Lynch - Analyst*

Thank you.

Mushtak Najarali *- Toronto-Dominion Bank - VP, Investor Relations*

Thank you, Ed. Operator we'll take the next question on the phone.

Operator

Our next question comes from the line of Mario Mendonca with Canaccord Genuity, please go ahead.

Mario Mendonca ***- Canaccord Genuity - Analyst***

Colleen, could you clarify something. When you were talking about the retail segment I think you referred to a lower tax rate. Perhaps I misunderstood you?

Colleen Johnston ***- Toronto-Dominion Bank - Chief Financial Officer***

What I was talking about there, Mario, is just the fact that the Canadian tax rates are coming down. In fact, if you look at the scheduled rate reductions over the next several years you're looking at that statutory rate coming down from sort of the 30% mark to 25% rate. That was a comment I made in relation to TD Canada Trust that we do expect certainly into next year at least to see a declining tax rate in Canada. That was my reference.

Mario Mendonca ***- Canaccord Genuity - Analyst***

And you think that was meaningful enough, or you think those reductions -

Colleen Johnston ***- Toronto-Dominion Bank - Chief Financial Officer***

One of several factors that are going to create ongoing positive momentum in TD Canada Trust. We expect to see continued good growth, not at the levels that we've seen this year. TD Canada Trust bottom line year-to-date is up 25% versus last year, but wanted to reinforce that we'll still have reasonable volume growth. Probably, I won't say for Tim but probably more like single digit type growth tailwind of improving PCLs and then, the tax rate being a factor as well.

Mario Mendonca ***- Canaccord Genuity - Analyst***

So you could see the tax rate in your particular retail segment down about 500 basis points.

Colleen Johnston ***- Toronto-Dominion Bank - Chief Financial Officer***

No. It will be down slightly next year. That's the ultimate scheduled rate reductions. And I think it remains to be seen whether all of those take place given some of the fiscal challenges that all governments are facing but we probably expect to see those rates come down slightly into next year.

Mario Mendonca ***- Canaccord Genuity - Analyst***

Thanks for the clarification. Ed, you suggested -- you stated that banks would have to get used to operating with higher capital. You're certainly not suggesting, I suppose, that the Bank would have to raise capital. So, what are you suggesting in saying that? That clearly buybacks are off the table for a while or dividend increases to the extent there are dividend increases will be modest? Is that essentially what you're getting at?

Ed Clark - ***Toronto-Dominion Bank - President and CEO***

Could I dock that question by saying you're getting two questions in under the guise of a point of clarification and a question.

Mario Mendonca - ***Canaccord Genuity - Analyst***

You're absolutely right.

Ed Clark - ***Toronto-Dominion Bank - President and CEO***

[LAUGHTER] I think we don't want to get drawn into too detailed a discussion about how the capital rules are going to get implemented because the point I was trying to make is we're halfway through this process. It's an incredibly complicated set. I know the analysts and I understand where you're trying to model all this out, but I'm telling you it's very complicated. You don't know the total insides of our balance sheet, its very hard to get exact, precise numbers and the timing, exact timing of what get phased in when and the calibration level of what you're trying to achieve, haven't been agreed to and so there's no public document around those things. There are discussions that are going on but they are still going on. So it's hard to be precise. I think what -- if you ask what the mood in the banking industry, the mood in the banking industry is yes, that it would be unlikely that we would end up with a regime that any Canadian bank would have to raise capital to meet the capital test, but I don't know the insides of my competitors balance sheets either, but I would say the mood would be no, they're not going to be severe enough that we would actually have to go around and raise capital but the question of how much capital gets liberated and when is certainly something that I think only a brave CEO would talk about and I'm not that brave.

Mario Mendonca - ***Canaccord Genuity - Analyst***

That's helpful. Thank you.

Operator

Our next question comes from the line of Gabriel Dechaine with Credit Suisse. Please go ahead.

Gabriel Dechaine - ***Credit Suisse - Analyst***

Just to follow up on that capital theme, would it be wrong of me to read between the lines and say that you're being bearish on the outlook for dividend increases or cautionary, I should say? And then on the U.S. business, are you seeing any -- the deposit growth seems to be something you emphasized. Is there any thoughts towards taking your foot off the gas there? Because the deposit market isn't competitive at all in the U.S. and loan growth, it was positive, but it's still not going like gangbusters. So from a margin perspective, it might be suboptimal to be accelerating deposit growth at this stage. And then notwithstanding that comment, the lending was positive. Is that a clean number? So the 2% sequential growth, we're not -- that's the period end so it's not the averages that would have included part of the acquisitions from last quarter.

Ed Clark - ***Toronto-Dominion Bank - President and CEO***

Let me just do the dividend. No, I wouldn't read into my comments as being bearish. I think if I can go back, we did a very clear view, maybe not the normal view, but it's the normal view for us. Dividends are set by sustainable income. If you have a capital problem, raise capital, if you have too much capital, buy back shares but don't confuse the two and so our dividend policy says we should be operating between 35% and 45%. I think obviously where you operate in that range depends on your confidence level of what the economic environment going forward, if there were -- you saw yourself under pressure, you would probably want to be in the lower end of the range rather than the higher end of the range on capital but fundamentally you should be driving your dividend range to say if we earn more our dividends will grow. And as you know, I've taken a position, we did not, like some banks, move our dividend range here. We've been consistent all the way along. And we've always said to our investors, you will have great dividend growth, not because we're moving the range, but because we're going to outgrow people in terms of earnings. So what I think we're saying is we would hope by the end of the first quarter that we would all know the capital rules and we would all know whether we have surplus capital or not or what the rules governing, if we have surplus capital, what we can and can't do, how much buffers you have to have and I think by the end of the first quarter hopefully we'll have enough clarity of where we see earnings growth then we can look and say what does our dividend tell us to do. We're confident enough that those set of events will unfold that we'll be able to say okay this is what our dividend policy tells us we're going to do on dividends.

Bharat Masrani - ***Toronto Dominion Bank - Group Head U.S. Personal and Commercial Banking***

On the issue of the U.S. and deposit growth, I think a general comment is valid. Obviously with low interest rate environment, there is huge pressure on deposits. But on the other hand, the mix of deposits - we are growing, I'm very comfortable with where we are taking this. We are not chasing hot money. If you look at our mix, yes, we've had some run-off in government deposits and that has been a conscious strategy because of spread issues there and sometimes lack of ability to cross-sell other services.

But having said that, there's nothing wrong with core deposits. There's absolutely nothing wrong with DDA balances in the low rate environment. We continue to open new stores. Our organic growth engine is performing well. So the bottom line is, I feel that we are growing our deposits in a prudent and disciplined manner.

On the loan side, we've seen very good growth in our mortgage business. Now, mind you, we started at a very low base, so the growth is to be expected. At the Investor Day, I did talk about the fact that we had rebuilt our mortgage platform. It is now available Maine to Florida and the refinance activity we are a net beneficiary of that because we started from a low base. We also have good momentum going on the HELOC side. We made few product innovations. We've introduced products that are unique to certain markets and these are all coming in at fantastic credit quality. The mortgage business right now, if you have the capacity to do it, is a good business to be in.

On the commercial side, we are seeing some momentum as well. Again, our model when we go into new markets, when we open new stores, it does come cross-selling the loan product as well. So we're seeing good momentum. Yes, the growth on a macro basis is tepid. But we've been able at least over the past quarter or two, see some good growth and so I'm cautiously optimistic that we will continue with the type of growth you've seen before.

Mushtak Najarali - ***Toronto-Dominion Bank - VP, Investor Relations***

Thank you, Bharat.

Gabriel Dechaine *- Credit Suisse - Analyst*

Thank you very much.

Mushtak Najarali *- Toronto-Dominion Bank - VP, Investor Relations*

We only have time for a few more calls. So, operator, can we take the next call on the phone please.

Operator

Next question comes from the line of Cheryl Pate with Morgan Stanley. Please go ahead.

Cheryl Pate *- Morgan Stanley - Analyst*

Good afternoon. Question for Bharat. I just wanted to talk a little bit more about the loan growth and as you're growing the mortgage business, albeit at a smaller base, how should we think about that in relation to the net interest margin going forward in terms of sort of a bit of mix shift in a continued low rate environment and I guess there were a couple of reasons for the compression we saw this quarter, but how should we think about that over the next several quarters?

Bharat Masrani *- Toronto Dominion Bank - Group Head U.S. Personal and Commercial Banking*

Firstly, on the mortgage side, although the rates are very attractive, you know, the spreads are attractive as well. So we are finding that it's a good business to be in. It provides good economic returns to the Bank. But most importantly as we talked at the Investor Day, it is turning out to be more of an anchor product for relationships than what people might have thought previously. We in our business see when we have a mortgage client we have approximately four products we sell to that client. When we do not have a mortgage with the client we have less than two. So I would say that it is a conscious strategy. It's a key product for us. And frankly, it is quickly moving towards what Tim has seen in Canada, where mortgages do become the anchor relationship for many of our clients.

With respect to margins, Cheryl, Colleen talked about the reasons why you see volatility in that number. From a core perspective, I'm quite comfortable that on a core basis, we see margins being stable. Yes, there are pockets of irrational competition. Like I said, there are certain businesses on the deposit side like government banking or the CD business in certain markets, but generally speaking on a core basis, I find margins at least for now to be relatively stable and I would stick to the type of numbers I was talking about at Investor Day. I think we talked about the next year they should be within the 350 to 370 range.

Mushtak Najarali *- Toronto-Dominion Bank - VP, Investor Relations*

So we're running close to our time here. Operator, if we could take one last question from the call, from the line, please.

Operator

Our next question comes from the line of Sumit Malhotra with Macquarie Capital Markets. Please go ahead.

Sumit Malhotra - ***Macquarie Capital Markets - Analyst***

Good afternoon, thanks for taking my call. A two-part question related to market sense of revenue. First for Bob Dorrance. Bob, when I look at 300 million in trading revenue this quarter in what is certainly called a difficult quarter, it still looks a lot better than the average run rate from the pre 2009-2010 period. Given the investments you've made in this business over time, do you think this 300 million is a reasonable run rate? I don't want to talk too much about direct guidance but is there still normalization to be done based on what you saw this quarter or is this a reasonable performance in your mind from what we can expect going forward?

Bob Dorrance - ***Toronto Dominion Bank - Group Head Wholesale Banking***

I'd say that prior to the 2008 period, that 300 million in revenue was kind of the run rate where we were for the couple years prior thereto, so that was 300 a quarter in terms of trading revenue and I would say that we have greater earnings power now or we've made investments in the trading businesses that I think could produce a higher rate, go forward basis in a more normalized market.

Sumit Malhotra - ***Macquarie Capital Markets - Analyst***

Ok, short and sweet. That's great. The second part of it is for Bill Hatanaka. Bill, if I go back to the Wealth Management Investor Day, which I believe was in April, feels like a long time ago, market-wise. I think the numbers highlighted from that session was that you felt the segment could deliver a record earnings performance in 2011. Since then, clearly equity markets have weakened. I think the time line for interest rate hikes or the magnitude of interest rate hikes that we were expecting has probably been pushed out in terms of timing and flows have softened. Do you still think you can deliver a record in 2011?

Bill Hatanaka - ***Toronto-Dominion Bank - Group Head Wealth Management***

We're definitely working towards it. [LAUGHTER] The serious answer is that we are - we think that these markets are - the economy is relatively constructive given our Canadian bias at this point in time. If interest rates stay stable to rising slightly and the economy is stable enough to make sure that the equity markets are relatively strong, we're confident that we can reach that goal.

Sumit Malhotra - ***Macquarie Capital Markets - Analyst***

Thanks for your time.

Mushtak Najarali - ***Toronto-Dominion Bank - VP, Investor Relations***

Thanks, Bill. With that, we'll end our Q&A. I know there's still some questions for the folks in the room and I promise the IR folks will follow up with you. With that let me turn it back to Ed for his final remarks. Thank you.

Ed Clark - ***Toronto-Dominion Bank - President and CEO***

Let me start by thanking everyone for bidding up targeted plan numbers for 2011 for each of the participants today. That was extremely helpful and I've noted the numbers that they've given you. Anyway, a quick summary. For us this is a great quarter. I think it really does show the power of our business model. We've been saying for some time that we're going to see wholesale earnings normalize. They did, and yet I would say when you step back and look at what we got in this kind of quarter in our wholesale, not bad. In fact, pretty good. And I think we've still got room to grow those as we continue to invest in the franchise-driven part of our dealer. But equally I think we've shown the power of what our Personal and Commercial strategies and Wealth strategies are on both sides of the border and I think we're going to continue to see good earnings growth in both of those.

Obviously, the economic environment as a number of you noted, today, does the world feel as good as it did three or four months ago, no it doesn't feel as good as it did three or four months ago. We now have to say we're going to have a lower interest rate environment than you might have thought three or four months ago. I think the Canadian economy you might be a little less optimistic on the growth rates on the Canadian economy. And I think you're getting to a realization in the marketplace on how long and slow the recovery in the U.S. is going to be. I guess what we've learned in business is, that's what we get paid to deal with. Our job is to figure out how you adjust to those changing environments and continue to deliver value for the shareholders. We set a consistent target. We try to grow earnings per share 7% to 10% on a consistent basis without going out of the risk curve and we look forward to the next few years to say we can continue to do that in that environment. Thank you very much.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your line.