TD Bank Group (TD)

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Supplemental Financial Information: Q2/2011 Guide to Reader

Page 1 - Highlights

Page 1 line 23 – Why are the average number of diluted common shares outstanding up vs. last year?

The average number of diluted common shares increased to 888 million from 869 million last year due to the dilutive impact of DRIP (8 million), stock option plans (7 million) and the issuance of shares in 2010 (3.5 million).

Page 2 – Shareholder Value

Page 2 line 2 – What caused the year-over-year change in economic profit?

Economic profit decreased $88 million from the first quarter this year but increased $266 million or 133% from the second quarter last year. The quarterly decrease was driven by lower earnings in Corporate and Wholesale. The yearly increase was driven by higher earnings in all Retail segments, a lower loss in Corporate and a decrease in the rate charged for capital by 1%. It was partially offset by higher invested capital.

Page 2 line 19 – What was the total market return on common shareholders' investment?

Total shareholder return was 12.2% for the 12 months ending April 30, 2011, placing third of the 5 Canadian peers but above the peer average of 8.5% for the same period.

Page 5 - Canadian Personal and Commercial Banking

Page 5 lines 3, 5 - What was the year-over-year operating leverage in Q2/11?

Operating leverage was -1.2%: revenue increased 2.3% year-over-year, while expenses increased 3.5%. However, excluding the impact of segment transfers, operating leverage was flat.

Canadian Personal and Commercial Banking revenue is derived from personal banking, business banking, and insurance. Revenue for the quarter was $2,576 million, an increase of $58 million, or ~2% compared with the second quarter last year. This was driven by strong volume growth in loans (8%) and deposits (7%) in Canadian Banking although the pace of growth is slowing. In particular, real estate secured lending slowed due to consumer deleveraging and insurance revenue slowed due to higher weather-related claims.

Non-interest expenses for the quarter were $1,229 million, an increase of $42 million, or 3.5%, compared with the second quarter last year, primarily due to higher employee related costs, technology spend and business growth.

Page 5 line 4 – Why did the Provision for credit losses (PCL) in the Canadian P&C segment decrease $65 million from the same quarter, last year?

PCL's of $191m were down $65 million or 25% year over year due to the transfer of U.S. Cards, which reduced PCL's by $15 million and improved credit quality across all products as the economic outlook has improved. PCL's are at their lowest levels since 2008.

Page 6 – Wealth Management

Page 6 line 8 – Why was the contribution from TD Ameritrade up from last year?

The Bank's reported investment in TD Ameritrade generated net income for the quarter of $57 million, an increase of $1 million, or 2%, compared with the second quarter last year mainly due to higher operating earnings. For its second quarter ended March 31, 2011, TD Ameritrade reported net income of US$172 million, an increase of ~US$9 million, or 5.5%, compared with the second quarter last year. For more information on TD Ameritrade's results, go to *www.amtd.com/investors*.

Page 6 line 16/17 – Why did the assets under administration and assets under management increase compared to last year?

Assets under administration of $248 billion as at April 30, 2011, increased by $34 billion, or 16%, from April 30, 2010. Assets under management of $190 billion as at April 30, 2011 increased by $15 billion, or 9%, from April 30, 2010. This increase was driven by higher equity markets and client asset growth.

Page 7 – U.S. Personal & Commercial Banking

Page 7 line 12 – What were the main reasons for the significant increase in Net Income (Loss) compared to the same quarter last year?

U.S. Personal and Commercial Banking net income, in Canadian dollar terms, for the quarter was $303 million, an increase of $58 million, or 24%, on a reported basis, and $319 million, an increase of $74 million, or 30%, on an adjusted basis, compared with the second quarter last year. In U.S. dollar terms, the net income for the quarter was $315 million, an increase of $74 million, or 31%, on a reported basis, and $331 million, an increase of $90 million, or 37%, on an adjusted basis, compared with the second quarter last year. Acquisitions and U.S cards added US$29 million to earnings, including US$11 million associated with the one month results of Chrysler Financial. As well, a favorable tax item of US$34 million an organic growth of $27 million all favorably impacted the quarter.

Compared with the same period last year, the strengthening of the Canadian dollar against the U.S. dollar decreased the reported and adjusted net income by $17 and $18 million each for the current quarter.

Page 8 line 6 – Why did the U.S. P&C PCL increase over the prior year?

PCL of $176 million was up $14 million or 9% from second quarter last year. PCL in our loan book excluding recently acquired loans in the South Financial and FDIC-assisted acquisitions was $126 million for the quarter, down $36 million or 22% compared to last year. Acquisition accounting and segment transfers added a total of $50 million to PCL this quarter with the CMO portfolio adding only $3 million. Gross impaired formation on loans other than the recently acquired loans and the CMO portfolio was at its lowest level since 2008.

Page 9 – Wholesale Banking Segment

Page 9 line 21 – What were the main reasons for the significant decrease in Net Income (Loss) compared to the same quarter last year?

Wholesale Banking net income for the quarter was $180 million, a decrease of $40 million, or 18%, compared with the second quarter last year. This reflected weaker trading revenue, partially offset by a favorable tax item. Earnings were at the lower end of the expected range of $175-225 million. Q2/11 had a lower level of client activity as investors were sidelined by natural disasters in Asia, politics in the Middle East and sovereign concerns in Europe.

Page 10 – Corporate Segment

Page 10 line 14 – What are the main reasons for the increase in Net Income – Adjusted - from $(159) million in Q4/10 to $(102) million this quarter?

Corporate segment's reported net loss for the quarter was $205 million, compared with a reported net loss of $217 million in Q2/10. Adjusted net loss for the quarter was $102 million, compared with an adjusted net loss of $159 million in Q2/10. The lower adjusted net loss was primarily attributable to favorable change in losses from Treasury related activities such as decrease in liquidity management costs, favorable changes in valuation methodologies and foreign exchange hedge gains. This was offset however by lower securitization gains and higher net corporate expenses.

Non-Agency CMO Portfolio Investor Overview

May 2011

Q&A: Non-agency CMO Portfolio
As of April 30, 2011

Introduction

This Q&A on the non-agency CMO portfolio is prepared in response to continued investor and analyst interest in this portfolio. As of April 30, 2011, we are comfortable with the overall quality of this portfolio and the overall level of provisions because:

- Impairment accounting tends to make the Gross Impaired Loan (GIL) balances look bigger than our true economic exposure.
- Fair value of this portfolio currently exceeds book value.
- We are comfortable that our estimate of losses at the portfolio level will not exceed the discount taken at the time of acquisition plus any allowances established subsequently.[1]

Question 1: How did TD come to acquire this portfolio and what kind of investments are in this portfolio?

The non-agency CMO portfolio was purchased as part of the Commerce Bancorp acquisition in 2008 and is collateralized with primarily Alt-A and Prime Jumbo mortgages, most of which are prepayable fixed rate mortgages. As at April 30, 2011, there are approximately 200 securities remaining in the portfolio. The expected cash flow patterns of securities within the portfolio can vary depending on the performance of the underlying mortgage pool and the level of seniority of TD's holdings. When TD holds senior tranches in the securities, it entitles TD to receive cash flows ahead of the investors in junior tranches.

Question 2: What are Alt-A and Prime Jumbo mortgages and why do you label the portfolio 'non-agency'?

Alt-A, short for Alternative A-paper, is a type of U.S. mortgage that is considered riskier than A-paper, or "prime", and less risky than "subprime", the riskiest category. Typically Alt-A mortgages are characterized by borrowers with less than full documentation, lower credit scores, and/or higher loan-to-value ratios.

Prime Jumbo is a type of U.S. mortgage where the balance is larger than what the Federal National Mortgage Association, known as Fannie Mae, and the Federal Home Loan Mortgage Corporation, known as Freddie Mac, can buy or guarantee.

Non-agency CMO refers to the those CMOs whose collateral (in TD's case, Alt-A and Prime Jumbo mortgages) are not eligible for insurance by government sponsored enterprises such as Fannie Mae or Freddie Mac.

Question 3: How is this portfolio classified on your books?

This portfolio was originally classified as available-for-sale (AFS) debt securities and carried at fair value (FV), with changes in FV recorded in other comprehensive income. If there was a decrease in FV that was considered other than temporary, a write down to FV would have been required through P&L.

A change in Canadian GAAP, retroactive to Nov. 1, 2008, allowed AFS debt securities which were not quoted in an active market to be classified as loans to reflect the fact that these securities carried more of the characteristics of loans. During the financial crisis, markets for non-agency CMO securities became inactive and qualified the portfolio for reclassification to loans at their amortized cost. The portfolio follows the accounting for acquired loans.

1 Forward-looking statements such as this are made pursuant to the "safe harbour" provisions of, and are intended to be forward-looking statements under, applicable Canadian and U.S. securities legislation, including the U.S. Private Securities Litigation Reform Act of 1995. By their very nature, these statements require the Bank to make assumptions and are subject to inherent risks and uncertainties, general and specific. Especially in light of the uncertainty related to the financial, economic and regulatory environments, such risks and uncertainties – many of which are beyond the Bank's control and the effects of which can be difficult to predict – may cause actual results to differ materially from the expectation expressed in this forward-looking statements. The material assumptions underlying this forward-looking statement are set out in the response to Question 7 and 8 of this deck. This forward-looking statement represents the views of management only as of the date hereof and is presented for the purpose of assisting the Bank's investors and analysts in understanding why the Bank is comfortable with the overall quality of this portfolio and the level of provisions, and may not be appropriate for other purposes. The Bank does not undertake to update any forward-looking statements that may be made from time to time by or on its behalf, except as required under applicable securities legislation.

Q&A: Non-agency CMO Portfolio
As of April 30, 2011 (cont'd)

Question 4: What has been the history of this portfolio since it was acquired by TD?

See below for a timeline of the history of the portfolio. Book value has been declining due to normal course run off and sale.

Accounting Treatment
● = Classification as AFS securities
● = Classification as loans

Mar 2008
AFS security
Book Value (BV) = $10.7B USD
FV = $9.2B USD
Purchase Discount = $1.5B USD

Nov 2008
Retroactive reclassification to Loans and established General Allowance (GA) of $256MM USD

Oct 2009
Loans
BV net of Specific Allowance (SA) and GA = $6.7B USD
FV = $6.7B USD
Unrealized loss = negligible
Some securities were impaired for the first time

Q2/Q3 2010
More securities are identified as impaired. Certain securities were sold with a small net gain.

Oct 2010
Loans
BV net of SA and GA = $4.3B USD
FV = $4.7B USD
Unrealized gain = $0.4B USD

Apr 2011
Loans
BV net of SA and GA = $3.6B USD
FV = $3.9B USD
Unrealized gain = $0.3B USD

Question 5: How does the accounting work? Why is there volatility in Net Interest Income (NII) and Provision for Credit Loss (PCL) from quarter to quarter?

When acquired, the non-agency CMO portfolio was marked at fair value which reflected a discount to par. The purchase discount represents additional protection available before TD suffers an economic loss. The discount was both liquidity and credit related. The credit portion represents management's estimate, on a security by security basis, of cash flows that are NOT expected to be collected over the remaining life of the portfolio. This is also referred to as expected loss (EL) and is present valued. If the initial EL estimate turns out to be exactly as predicted, there should not be any subsequent impact to P&L. The purchase discount also reflects other market related factors which are expected to be recovered through NII if held to maturity. NII is recognized at a constant yield which was fixed on acquisition, using the effective interest rate method.

Management's estimate for EL may not be 100% precise for every security in the portfolio. Some securities may perform better than expected and some worse than expected. The impact to P&L is different depending on how securities perform compared to original expectations. For example,

Cash flow expectations increase (favorable) vs. original expectation → record the increase in NII

Cash flow expectations decrease (unfavorable) vs. original expectation → record the increase in PCL and the security is considered impaired

This can lead to significant P&L volatility quarter over quarter.

A number of factors can cause changes to the timing or amount of cash flows compared to original expectations. For example:
1) Mortgage prepayment speed: if interest rates decline, mortgage holders may choose to prepay their existing mortgages and refinance at a lower rate. This changes the timing of cash flows causing cash flows to be received earlier than expected.
2) Delays in the home foreclosure process: if there is a delay, homes cannot be foreclosed, sold and proceeds returned to investors. This changes the timing of cash flows causing cash flows to be received later than expected.

Q&A: Non-agency CMO Portfolio
As of April 30, 2011 (cont'd)

Question 6: How do you assess the portfolio for impairment?

The EL that was estimated by management upon acquisition (mentioned in Question 5) is updated quarterly. If the current EL exceeds the acquisition EL plus any allowance established subsequently, then an additional allowance may be required, leading to additional PCL. Recognizing the complexity of the portfolio and significant judgment required in the impairment process, a range approach is used.

SA and GA are used to record any required allowance, a similar concept to loans originated by the Bank. SA is recorded when losses are identifiable at the individual security level. GA is recorded at the pool level for losses that have occurred but cannot be individually identified. As time elapses and losses are specifically identified, GA is released while the SA is increased and the net impact to P&L is expected to be minimal.

<u>Unlike</u> loans originated by the Bank, in addition to any allowances established subsequent to acquisition, the non-agency CMO portfolio also has the remaining purchase discount serving as additional protection before TD suffers an economic loss.

Question 7: What are the main drivers of impairment?

Probability of default (PD) on the underlying mortgages and severity of loss if default occurs are 2 main drivers of impairment.
Example of factors impacting PD: slower GDP growth, higher unemployment → PD of mortgage holders increases → EL generally increases
Example of factors impacting loss severity: declining housing prices → loss upon foreclosure increases → EL generally increases

Question 8: If housing prices in the U.S. increase or decrease, how do we expect EL to be impacted?

Drivers of impairment for the portfolio, such as housing prices, do not necessarily have a linear relationship to EL. The determination of impairment requires significant judgment for several reasons:

- TD's non-agency CMO portfolio has over 200 individual securities, each collaterized with mortgages from different geographic regions. Each security may also differ in maturity, coupon, and seniority of tranches held by TD. Therefore, each security's performance could be impacted differently by the same change in any of the drivers.
- EL is estimated over the life of the portfolio. The long maturity of the underlying mortgages, which could be up to 25 years in some cases, makes the determination of inputs to the model much more difficult.
- Specifically related to housing prices, an index such as the S&P Case-Schiller Home Price Index in the U.S. is watched closely by the analyst and investor community. Because this index represents a national average, the change in housing price observed may not reflect the change in prices of houses underlying the mortgages in TD's portfolio.

Question 9: Why is the GIL balance for this portfolio increasing?

Impairment accounting for acquired loans tends to make the GIL balance look bigger than our true economic exposure. Generally, when the current EL of the CMO security exceeds its acquisition EL, even by a small amount, the book value of the entire CMO security is classified as impaired. GIL disclosures however, do not capture any favourable developments in EL and hence reflects only negative news.

While increases in GIL seem to indicate otherwise, the incremental risk at the time of impairment is the increase in the EL and not the entire book value of the CMO security.

Q&A: Non-agency CMO Portfolio
As of April 30, 2011 (cont'd)

Question 10: When I look at the coverage ratio (Allowance / GIL) for this portfolio, why is it low compared to your other loan books?

Acquired loan portfolios are not directly comparable to loans that have been originated by TD. In addition to having set aside both GA and SA, the purchase discount on acquired loans represents additional protection available before suffering a real economic loss. The purchase discount is not recognized on our balance sheet as part of the allowance thus causing the coverage ratio to look artificially low. As discussed in Question 9, the method of impairing the portfolio tends to make the GIL balance look bigger than our true economic exposure.

Question 11: Given the issues associated with the portfolio, have you considered selling it?

We are constantly evaluating the economics of the portfolio and the Bank continues to earn a reasonable return on this portfolio. Of note, the Bank sold a portion of the portfolio in 2010 at a small gain.

Question 12: What is the capital treatment of this portfolio?

Under current capital rules, this portfolio is treated under the securitization capital framework. Each non-agency CMO security has an external rating. For ratings above BB- (inclusive), a risk weight is assigned. For ratings below BB-, the securities are 50% deducted from Tier 1 capital and 50% deducted from Tier 2 capital. Subsequent to acquiring the portfolio, we re-securitized a portion of the portfolio to better reflect the purchase discount as loss absorption of future unexpected losses. The net capital benefit of the re-securitization transaction is reflected in the changes in risk weighted asset and in the securitization deductions from Tier 1 and Tier 2 capital.

Investor Relations Contacts

Phone:
416-308-9030
or 1-866-486-4826

Email:
tdir@td.com

Website:
www.td.com/investor

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