TD BANK GROUP
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Peter Routledge

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PRESENTATION

Peter Routledge - *National Bank Financial - Analyst*

All right. We'll get back going here. We'll just let a few folks wander in to settle down. I'm joined here next by Bharat Masrani, and Bharat is the Group Head of US P&C Banking for TD Bank, America's Most Convenient Bank. He's President and CEO of that institution.

He began his career at TD over 23 years ago and is -- started, I guess in 1987 as a commercial lending trainee. Prior to his role in the U.S. he served as Vice Chair and Chief Risk Officer of TD Bank Financial Group, a position he held from May 2003.

During his tenure with TD he's been a Senior Vice President and Chief Executive Officer of TD Waterhouse Investor Services in Europe, Senior Vice President of Corporate Finance and Co-head in Europe, a Vice President and Country Head for India, and a Vice President and Head of Corporate Banking in Canada, so a very varied international career.

And Bharat, before we begin may I remind you and our listeners that you may make forward-looking statements that represent management's views as of today. And these statements are meant to assist listeners in understanding the Company's financial position, objectives, priorities and anticipated financial performance and may not be appropriate for other uses or purposes.

Actual results could differ materially from what is discussed, and listeners should consult the Company's regulatory findings for the risk factors underlying these statements, which are filed with the Securities and Exchanges and on TD's website. So Bharat, thank you for joining us.

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

Thank you.

Peter Routledge - *National Bank Financial - Analyst*

Bharat, just to start, what key messages would you like investors to take away from today's session?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

Well, Peter, when you were describing my career there I said, "What does this mean? I can't keep a job in the bank." No, but thank you for having me. It's great to see you again, great to be here. I think I was here a couple of years ago and great to see a lot of familiar faces in the crowd as well.

So what are my key messages? My key message is that TD Bank, America's Most Convenient Bank, is now among the top 10 banks in the United States. Its value proposition is centered around service and convenience. We are America's most convenient bank. We consistently outgrow the market. We have continued our growth trajectory in the U.S. through the great recession and through the financial crisis. And from my perspective our progress has been steady, and I expect us to show good progress in the coming timeframe.

Peter Routledge - *National Bank Financial - Analyst*

Okay. Well, as you mention, TD really is a -- what I consider to be anyway -- a super regional in the U.S. in terms of your share of the overall market and particularly on the East Coast. A lot of observers have commented we're at the front end of a consolidation wave in U.S. banking. So I'd like to get your view on that and you're number seven, at least as I measure it, on the list of leading U.S. deposit takers. Do you need to -- does your national banking -- national, pardon me, ranking matter or are you focused more where you stand on your target geographies?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

Yes, so I think this applies everywhere, but particularly in the United States. Banking is quite local so I mean national rankings are interesting. It's good sport to look at where you stand nationally, but what matters is your scale and ranking within the markets you compete in.

And like I said, banking is quite local to the extent that in many markets that we operate it is at the county level so national rankings really don't matter. It's whether we have sufficient scale in the markets where we operate and so currently I think we do. Where we don't we have an organic growth capability which I feel is fairly unique that we are able to get into a market and open new stores and take share and in fact have a more of a sustainable organic franchise.

As far as consolidation, your original, your first part of your question, yes. There has been a lot of consolidation, the 7,800 banks or 8,000 depending on who you ask in the United States. And I'm sure that will continue as markets evolve.

Peter Routledge - *National Bank Financial - Analyst*

Yes. What, I mean invariably when a larger name comes up in the media as a potential target, TD comes up as a potential acquirer. That's no surprise. Can you talk about TD's approach to the larger transformational deals? Is that something really that's in TD's you know, current horizon?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

In a large transformational deal, I guess it's all definitional, but I'd say if you look at the U.S. market, and I think I've said this previously, I think Ed has said this as well, that we are quite disciplined. We have to be satisfied that the macro picture is manageable, that there is sufficient amount of transparency and visibility on asset values.

There's lots going on in the U.S. right now that is not overly friendly to banks, regulatory reform, political pressures, a lot of reorganizing, restructuring going on. So a lot of uncertainties around that. So I'd say for a large transformational type of a deal we need to be satisfied that all those issues that I talked about are manageable. And frankly, that there is greater transparency and visibility on asset values. We don't see that currently.

Frankly, from my perspective, Peter, I don't stay up nights thinking about what's the next bank we buy. We've got a fantastic franchise. We operate that franchise and we are growing it every quarter, and I feel very comfortable where we are. We don't have to do any deals.

Peter Routledge - *National Bank Financial - Analyst*

When you look at either you're evaluating your own current business or you're looking at acquisition targets, do you focus more on the left or the right-hand side of the balance sheet?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

So I think this is leading to the Chrysler Financial question, so if you look at our U.S. franchise, we do generate a tremendous amount of deposits, core deposits, low cost deposits from the bank's perspective, which is great because it comes with transaction accounts. It gives us relationship with customers. It allows us to have more customers every day than what we had yesterday.

But we also find ourselves where the asset side of our balance sheet is not as big as our deposit side. So we have been outgrowing the asset side of our balance sheet, but we do have a lot of room to grow. So where we are able to find entities like Chrysler Financial, which is in the auto finance business, it's an asset class that is very attractive. It has performed remarkably well through this recession. And this is not -- shouldn't be surprising.

The headline sounds interesting that in the U.S. people are quite willing to give up their homes but not their cars. And there's a good reason for that because if you don't have a car then it's tough to get to your job, et cetera. So it's a very attractive asset class. It's well tried out, and we have good experience in Canada. We have a smallish business in the U.S. And with that platform it gives us an opportunity to build up our asset side of our balance sheet.

Peter Routledge - *National Bank Financial - Analyst*

How do the yields compare on a car loan, say, versus a mortgage loan?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

Car loans are compelling yields. It does not carry the same type of risks as a mortgage would. Car loans are relatively short in duration. They do not have the convexity risk that you have in mortgages. As many of you know U.S. mortgages you can have a 30-year fixed term. It can be prepaid without any penalty or refinanced without any penalty whereas a car loan you don't have those structural issues, so very attractive from our perspective.

Peter Routledge - *National Bank Financial - Analyst*

Right. Just wondering, thinking about -- you're due to integrate Chrysler later this year and then you'll have the challenge of restarting the origination platform. Maybe that's going to be a challenge, but maybe talk about if you could some of the competitive advantages you think TD has in that effort?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

So firstly the platform itself, it wasn't too long ago where this was the same platform that was originating a substantial amount of business. It is a proven platform over many, many years. And it has the management team, the processes and frankly, the back end technology infrastructure that is necessary in order to effectively manage this type of business. So we're very happy that it has all those features and frankly one other great attribute it its ability to sign up dealers. And we've been quite happy. I mean dealers are not close so whatever we see we are happy as to how it's progressing.

So what advantages does TD bring? I think firstly we know the business well. I think TD has shown over many, many years that we can be in that business. We can grow it profitably. We can manage the risks well, and so I think that would be a useful attribute. I think our brand positioning in the U.S. should be very helpful. I think our funding advantages are set. We have great advantage. We don't have funding issues like perhaps some other institutions might.

And frankly, we provide the service models as well that the bank is famous for so I think when you combine all that we do bring quite a lot to the table. But here the part that is particularly attractive for us is that we do acquire a management team as well, a management team that has proven that it can not only run this business well but that it can grow it profitably.

Peter Routledge - *National Bank Financial - Analyst*

Right. Just staying on the funding advantage, is that your major source of value in terms of TD's U.S. franchise? And is that what's behind TD's fairly intense focus on service and convenience at the retail branch level?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

Service in my view, the only sustainable competitive advantage one can derive in our business is through service and convenience. We are not a type of business where you can create a competitive advantage either through offering or products or pricing. Yes, you might be able to do that for a while but frankly, those attributes are generally replicated in a matter of months or seconds sometimes. So the only sustainable position is that. And in our minds that is a position that we have in Canada. We've had that over many, many years. If you look at TD Canada Trust nobody -- I might be biased because I am a TD banker, we do do very well on the service and convenience part of our value proposition.

If you look in the U.S. we do the same. We are America's Most Convenient Bank. We make it convenient not only with respect to hours. We make it convenient if you have a pet we'll make banking convenient for you. If you have children we'll make banking more convenient for you. If it's raining outside we'll make it more convenient for you. So we have this unique proposition that allows us to grow, that allows us to have more customers every day. And when you have that and the model attracts the core checking accounts you'll always have that funding advantage because you're attracting the core deposit accounts that you can cross sell to, that create transactions for you and provides you with stable funding.

Peter Routledge - *National Bank Financial - Analyst*

Okay. Well, speaking of cross sell your -- you continue to gather relationships at the branch level, and you have the TD Ameritrade product set, which I know you're busy incorporating into your value proposition for the bank. Can you give us an update on that?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

So firstly I'd say it's, again, maybe I've said this word too many times, but it is a unique opportunity for us. There are not many institutions in the U.S. that has a world-class, online brokering capability like TD Ameritrade has. It is the largest online company for trades in the world. And we have a sizeable bank that is on the East Coast of the United States so we do have those two characteristics that are relatively unique.

And if you look at our legacy on the banking side in the U.S., when we acquired a couple of these institutions they did have what I'd call small financial advisory businesses, which was low end brokerage-type of entities that were not of scale. And frankly, did not have a compelling sort of value proposition for our customers.

So what did we do? We in fact reorganized and shut those businesses down because we -- our view was that the TD Ameritrade offering is far more compelling for that set of customers. And so we shut it down and started a whole new program with TD Ameritrade where we now refer customers to TD Ameritrade, and I'm very happy to report that that is going quite well. In fact, last quarter we had most of our stores in the U.S. now referring clients to TD Ameritrade. So that's going quite well for us and for TD Ameritrade, obviously.

And we also started to manufacture certain banking-type of products for TD Ameritrade clients, some savings offerings, some CDs as well. So I think we are starting to see more co-operation, more compelling offerings for our respective customer base, which should be a good thing for the bank.

Peter Routledge - *National Bank Financial - Analyst*

Okay. Thanks. So I'll open up for questions from the floor if we have anyone?

Unidentified Participant

Yes, my question is on the U.S. operations, the ROE, not talking about TD Ameritrade here but traditional banking operations so they've improved. They're now at -- the ROE, I think, is now in the high single digit. So can it reach one day the ROE of your Canadian operation? And what are your levers to improve that ROE?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

Yes. Great question and I get asked this at every conference I attend. Without a doubt if you look back at our history we did enter the United States by acquiring institutions and there's goodwill attached to that. But I think more important from my perspective is, you know are we growing our franchise? Because when we grow our franchise the amount of capital we have attached to that growth is what we call operating capital, and I think we've talked about this previously. And returns on that operating capital are above 20%.

So as long as we are growing our franchise our returns should improve. And so yes, my view is that our returns will show progress over time. And frankly, when I look at the history of TD whenever we have entered new businesses or bought major other institutions, we started on that path and then we have consistently shown that over the years we're able to take those franchises and outgrow the market. And as long as we are able to do that I feel confident that our returns will continue to show progress.

The question will we match our Canadian business? I think we have a great business in Canada. My job is to continue to show progress in our returns in the U.S., and I think that comes through growth.

Peter Routledge - *National Bank Financial - Analyst*

Do we have any others? Okay, we'll come back to maybe a question on some risks or concerns that I've heard from investors in TD's U.S. business, first is in commercial real estate. You have a reasonably sizeable commercial real estate portfolio, and we've seen rather significant peak-to-trough corrections in just the value of commercial real estate, 40% in the U.S., 36% on the U.S. East Coast. So how's this all going to play out just generally as an industry and then how do you see that playing out with TD? Are we into an elevated period of charge offs at TD just in that asset class as a consequence?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

So I think commercial real estate or real estate generally has been in the part of the great recession, I guess, for the last three years or so. But I think, Peter, to put all of real estate in one category is probably not appropriate. I think there are pockets of the commercial real estate business that are more distressed than others. So for example, is for-sale residential real estate really distressed? And the answer is yes.

Fortunately for my bank we were not big players in that traditionally as a bank it has not been a big part of our risk appetite. And yes, so we did see some distress through that segment over the past three years, and we did take some losses. And we talked about it previously in various earnings calls.

But there are other aspects of real estate that have shown quite good stability. I think income producing properties have shown well. I think if you are in some of the major metro markets such as metro New York there appears to be stability. In fact, values in certain segments are going up so I think when we talk about real estate we have to get quite granular as to what makes sense, what doesn't. In our case we did talk a lot as to what's in our portfolio at our investor day last year, and I'd urge people if they have an interest to look at that.

Yes, it is a segment that one has to worry about, but in our case I think we've shown that not only have we managed this book through the great recession, but the legacy institutions that we acquired did have conservative risk appetites. The risk management was quite good. You add TD to the mix. TD, as many of you know, we have a conservative way of managing this risk. So with that combination you've seen the results through this market.

As to the future, I think one of the good things for our institution has been that whenever we've done deals we -- in our legacy book as well, firstly it's in our footprint. We did not do any subprime. These were real estate deals that were originated by our bankers. We did not buy anybody else's books. And our underwriting was in a manner where in many cases, in a lot of cases, we had outside support for the real estate book we have. And the result is what you see now. So yes, I worry about it. I've been in lending for many years. I know it can be unforgiving if you get it wrong, but I like the position that we have relative to perhaps some other banks.

Peter Routledge - *National Bank Financial - Analyst*

Maybe just on interest rate risk, we're entering into a period of perhaps a rising -- or entering into a rising rate environment. And the last time that happened we did see some U.S. banks with large securities portfolios feel real squeezed in terms of net interest margin. You talk about TD does have a large securities book. Can you talk about how you're positioned for that?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

Yes. So again, I think one of the key features of TD's risk appetite is our lack of appetite for interest rate risk. We manage quite a matched book. It's not a type of risk that the bank finds attractive. We think over a cycle or through a rate cycle there just isn't enough of a return to take those types of risks. And frankly, I'm not sure that I should be positioning the bank with a lightning bolt at 4 o'clock in the morning as to where the rates are going to go and take position.

So as a bank we have got very limited appetite for that type of risk. We manage it in a very narrow band and in fact our, what I call earnings value at risk, I think in your previous role you know all these terms that we use, is very -- quite small relative to the size of the bank. So I don't worry about it. I think it is not as big an issue for us. We do try and match durations on these types of investments we have. And while rates have some impact, obviously it does -- you manage it through a cycle but it's not something that I stay up at night for.

Peter Routledge - *National Bank Financial - Analyst*

I'll just go back to the audience one more time and see if there's any questions. Okay. Well, I'm going to come back and ask you about the deposit base, which is a core, if I can use it, asset of the bank. So I guess the first thing that jumps out at me about the deposit base is the rather significant increase in deposits sourced from TD Ameritrade, really over the past two years.

To what extent is the run up in these deposits due to traders re-allocating their cash balances to TD as opposed to getting out or staying out of the market? Put differently, if equity markets continue to perform as well as they have, do you see the potential for any outflow of these deposits?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

Well, obviously I let my friend Fred Tomczyk, the CEO of TD Ameritrade give you all the details, but from a big picture, general perspective I'd say that these deposits have been remarkably sticky over many, many years. I think these deposits, the type of clients Ameritrade has is less sensitive on cash returns and more sensitive on what they do generally with their investments.

And frankly, equity markets have had a good run and you've seen consistency in those deposits with us. So and then lastly I'd make the point that TD Ameritrade as well has done remarkably well in attracting assets through its franchise and whenever you attract assets a portion of it is in cash. So when you combine all that you see good growth in those deposits and frankly consistency in those deposits. So no, if past is any guide here we are seeing a remarkable amount of stability in that deposit base.

Peter Routledge - *National Bank Financial - Analyst*

And I guess just the other question just on the deposit base, there's approximately $10 billion in deposits sourced from state and local governments in the Northeast. Just wondering does the cost pressures on state and local governments and the potential for deficits, which are -- I guess states can't run deficits -- is there a potential that you have just a deposit runoff from that segment of your business?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

So firstly I'd say that we've been quite disciplined in managing that particular segment. We believe that it's not a part of our core strategy just to attract hot money for our deposit base. We like to make sure that our deposit growth is coming from the core part of our franchise. And so where we have those types of deposits for the most part we have a deeper relationship with those municipalities.

A lot of these deposits are sort of when tax revenues come up and they come in and they get spent after six months or whatever. So it's not the type of deposits you would think for a lot of them. So no, I know states are running -- are distressed from their financial perspective, but given our model, given our type of relationships we have I don't see a particular risk to us. And we've not been growing that book substantially for the reasons you outlined, and we know that it's key that we continue to support our key relationships in that particular segment.

Peter Routledge - *National Bank Financial - Analyst*

Okay, just maybe one final question or series of questions just on your organic loan growth. We've talked about the Chrysler opportunity. We talked about commercial real estate. But we've seen pretty healthy organic growth really throughout 2010. And I presume we'll continue to see that into 2011, particularly from residential mortgages and commercial and industrial lending. Can you provide some context on the bank's efforts to bulk up its origination capability in these areas? What's driving that growth?

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

So let's take mortgages first, Peter. When you look back when we acquired two of the main banks that we bought, Banknorth and Commerce, neither of these institutions had a large mortgage business as such. In fact, one of the institutions had subcontracted mortgages to a third party. So we were keen that we build out a new platform, what we call for home loans. It was an important part of the business because we have a fantastic franchise, as I mentioned earlier, that is focused on service and convenience, but a lot of our customers had mortgages elsewhere.

So we wanted to become America's Most Convenient Bank for mortgages as well for our own key clients. So we built out a new platform. We put out new products for our stores to sell and what we found was that whenever we have a mortgage with a customer we have about five products with that customer. When we don't have a mortgage with that customer or a particular customer we have approximately two products per that customer.

So it's turned out to be more of a relationship account. Over this crisis I think what it has shown is that it's less commodity. It's more a relationship-type of a product, so very attractive from that perspective. And so we are doing mortgages. From a risk perspective these are terrific mortgages. They are within our client base. This gets generated through our stores. And frankly, given the momentum we've created we've essentially doubled our book in the last two, two and a half years. We started from a small base.

So I'm very happy with our progress there. It is an asset class that is attractive, especially if you're staying within your core client base where you're able to manage the risk and frankly cross sell other services, which we've been able to do.

On the commercial side of the business, again, we were able to outgrow the market. I think if you look at certain statistics since the recession started in late '07 until about the middle of 2010, we outgrew by 20 odd percent, our book grew by about 20%, 23%. I won't have the exact number there, but it's around that kind of quantum, whereas the top banks in the U.S. reduced their lending by 4% or 5%. So we were able to outgrow through that cycle as well. And that's been our model, right, when we open new stores or we go to a new market, not only do we get retail customers but we as well, part of our model is to deliver the whole bank. And we grow the commercial side of the house as well.

So I'm very happy with our growth numbers, especially considering what's been going on in the market. It's turned out to be very attractive to us. It's been a tool with which we have acquired new clients, so I see our journey on that continuing. I think with the acquisition of Chrysler Financial it gives us another leg, another asset class in which we are relatively small in the U.S. compared to our business in Canada, and Chrysler gives us that opportunity. So I think I see loan growth to be a key focus -- or a continued focus for the bank.

Peter Routledge - *National Bank Financial - Analyst*

All right. Well, we're just about out of time so I'll thank you very much for spending the time with us and wish you all the best.

Bharat Masrani - *Toronto Dominion Bank - Group Head, US P&C Banking*

Thanks, very much. Thank you. I appreciate it.