TD BANK GROUP
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PRESENTATION

Kevin Choquette – Scotia Capital Markets - Analyst

Our next speaker this morning is Ed Clark, President and CEO of TD Financial Group. Mr. Clark was appointed to this position December 2002. He joined Canada Trust in 1991 and was appointed President and CEO of Canada Trust in 1994. Upon the merger of TD and Canada Trust in 2000, Ed became Chairman and CEO of TD Canada Trust and, subsequently, President and CEO of TD Bank Financial Group. Ed has held senior positions in the federal government from 1974 to 1984 and senior management positions at Merrill Lynch and Morgan Financial from 1984 to 1991. In 2010, Ed was appointed to the Order of Canada.

Ed Clark – TD Bank Group – Group President & CEO

Thank you, and thank you for taking the time to be here. I'm going to try to keep my remarks actually fairly short since, I think, most of you have seen many of these – and you'll see too many of them before the day is out. We'll try to open up as much time for questions.

But honestly, from our point of view, it was a record quarter. So we had a very good quarter. We are quite pleased with where we are. I think as many of you would know, we started the year and said we're going to have to work very hard to get in our 7% to 10% earnings per share growth which is our, sort of, medium-term target. I think it now looks like and – well, this can always change but I think it now looks like we clearly will get into that target and so we're quite pleased with that.

I mentioned on the call, really our story on customer service is a pretty staggering story. J.D. Power has never given this award to any other bank in Canada but TD and they would tell you they've never seen that situation where one institution in one industry in one country takes it year in, year out. So it's kind of a remarkable story.

On the capital front, we're right where we wanted to be. We've set out – we wanted to be between 7.5% and 8% by the end of the year and we're right on track to, in essence, meet the goals that we set ourselves.

Clearly, if there was any news in the quarter, it was the change in the dividend range. We moved that range from 35% - 45% to 40% - 50%, really the biggest back and they're in the line with the rest of the industry. I would caution people not to read too much into that. There's not some great story here. I think personally you could say – one investor I was joking with said to me, "Would you actually ever listen to your investors?"

And so I think what I was finding myself is that the argument of why we were at one range and the rest of the industry is another range when we actually had a more stable mix of business in terms of earnings. We have a more stable mix of business in terms of capital and we are in a higher rate of return of risk-weighted assets and, therefore, we can grow regulatory capital faster than everyone else. So what's the message that you ended up having a ratio that's different than everyone else.

And so, it seemed to me that was their arguments were winning the day with me and so we decided to make the change. It obviously gives us greater flexibility in a world that we're looking forward to and we are going to clearly move instead of – for the next while, and so growing our earnings or dividends at the same rate of our earnings will grow them obviously faster than our earnings.

I think, as you can see, we have been trying to grow them in line with our earnings, but historically, we are pretty conservative in our outlook. That bank has its own brand in terms of optimism and conservatism, we're clearly at one end of the spectrum here. And it has led to a sense that we always undershoot in fact our payout ratio. And so this gives us room to be a little bit more aggressive in moving the dividend up because we clearly have to make up some ground from the dividend payout.

I think you're going to hear lots from all the banks on productivity, and I think that reflects just a fundamental shift that I think we, as bank operators, are coming to grips with and probably you as investors have come to grips with is that interest rates not only are down, and they're down I think significantly even in the last year. I was surprised on the call when someone said we seem to be talking about interest rates a lot. And I said, "Well, look at what's happened in the last year in interest rates." And I think pessimism about how long they're going to stay down, or how much they will ever climb back up again.

So certainly in terms of our organization, you said what's a core driving issue, is we have to look at our cost structure and assume that interest rates never return to the levels that they were before. And so when you built your business models, you built them on one interest rate structure and you have to now build them in another interest rate structure. And that means that you simply have to find ways to deliver the same service and more with less. And that's got to be a theme that permeates a whole organization.

This is not such a new concept to us. I guess one of the points, and you'll see it in some of the other graphs, is it's not like we haven't been doing this. As you know we have a fairly simple model of invest, invest, invest and then you build on the fruits of that investment. And we've been doing this on the cost side. But clearly if you said – if you looked at the balance of the organization, more energy is going and saying, we have to change the cost structure more rapidly because of the effects of interest rates.

In terms of core business strategy, you're not going to find much change from what I've been talking about for the last 10 years. We are a retail North American bank that has a low risk business model. And because it works on very simple strategies but these simple strategies work, we tend to outgrow and take market share wherever we operate. And we're entirely focused on building franchises and having strategies that you could walk across the organization and talk to anybody in the organization that they would understand. And as I say, a fairly simple model that says, "Look ahead and get ahead," because we don't like knee-jerk reactions, changing flavors of the day. We like to have sort of steady models that everybody in the bank can get behind.

So, let me just quickly run through the businesses. TD Canada Trust, I mean, obviously a terrific run. If you look here, you can really see what they've been working on at efficiency all the way through. So even though they're a fantastic growth engine, they are also fantastic cost managers. And so, today they are clearly the lowest cost producer in this industry and that is a competitive advantage. But I think if Tim were up here giving it, you're going to see that number continue to go down, although it gets harder to have that number go down in a slower revenue growth than in a faster revenue growth area.

I think obviously the story, 14% earnings per share growth on average, 50% greater than the industry average, pretty dramatic business story in Canada. Dramatic shift in market share – of the market share that matters, which is profits. That's pretty terrific. I think the question on investors' mind is, is this coming to an end, and is this gap going to now narrow, and is TD Canada Trust continue to in fact be the leader?

And so I think, inevitably, when things go down and grow slower, which we believe – we've been saying for some time that the Canadian market will grow slower. The Canadian consumer cannot constantly leverage themselves up, and so we had a pretty classic leverage-driven expansion in Canada that aids the banks. You're going to see slower growth.

I wouldn't read too much into the numbers on residential from this quarter. Undoubtedly, there's no question that we implemented the OSFI rules faster and more directly than everyone else did. That is our style. Once we say, "Well, Frank, if you want those things, let's just get this done and get this over with." I think this will come back in the next quarter or so. And so I'm not too worried about that.

I think we have still though the main engines to outperform. Clearly, we're still taking significant market share in the business; so we moved from fifth place to second place in the business sector. MBNA has been very helpful this year, but I think it will continue to be a growth engine for us because we're clearly now got a more sophisticated credit card machine.

And we're still very strong in the auto lending business, the business where we're, I think, clearly a major player in Canada. So I think there's enough instruments combined with a focus to keep the efficiency ratio declining that you will see that TD Canada Trust will continue to outperform.

Wealth and Insurance, as you know, we've had this set of underpenetrated business in commercial business, small business, credit cards now with MBNA. Insurance and Wealth, both are actually performing quite well this year. Wealth is performing well in a pretty adverse condition so trades per day are clearly weak right now. The investor is on the sidelines but we've had – what is amazing is despite that we see that in Ameritrade as well as in Canada is that we continue to accumulate assets very rapidly. So we're taking asset market share even while the consumers or the investors are sitting on the sidelines, isn't that active. That makes it a tough environment to grow earnings but I think it positions you well, if there's any change in conditions, to continue to do very well.

And the Insurance business, a very simple model, we have creditor insurance like everyone else. Very much tied to what's happening on your residential mortgage business or your credit card business and the credit card business with the acquisition of MBNA has clearly helped our insurance earnings this year. But the core, the property and casualty business is a business where it's a very simple model.

Direct insurers beat brokerage insurance every year in market share and we're the number one – overwhelmingly the number one direct insurers and we own the affinity market. We're clearly the number one player in affinity market and that's a very good insurance market.

U.S. personal and commercial, we actually like the core earnings. People seem to be a little fussed this quarter by the fact that the NIM had come down. They weren't as exuberant about it going up last quarter. I think we really just gave back last quarter's rise and I think what we're telling you is there is volatility because of the accounting issues that are there. But if you look through to the core business and say "we like the core business", we're growing deposits about 9% annually and we're growing lending about 14%. This is a pretty solid foundations.

Unfortunately, there are two significant headwinds. You know about Reg E and Durbin, they cost us about CAD400 million in pre-tax earnings. Now interest rates have fallen and that's another several CAD100 million so those are the two forces. There are obviously expense pressures that come as a result of the regulatory environment that the United States is operating. I think as you just saw through that, the fact that we still are committed to CAD1.6 billion target in 2013 despite absorbing that CAD400 million and those several hundred million dollars, I think is a testament to how strong, in fact, the actual business model is and we like that business model. We take market share every year and we're going to continue to pursue that business model.

Wholesale business, we, in a sense, were an earlier adopter, I'd have to say, we were vocal before people had heard the term. So as you know we moved out of all that stuff in the mid-2000. It turned out to be a good decision in case you didn't get them right and so it was a good decision. And we really said, "Let's build it here or build around a franchise model and let's build a dealer that's integrated in its strategy and business model with the rest of the bank." Given that we're 90% non-wholesale and only 10% wholesale, you really can't run a wholesale strategy that's culturally or strategically lined in a different way than the rest of the bank.

And that's what we've been doing and we've been – we set out in 2005 to say we're going to be a top three dealer in Canada. We've done that. We're quite pleased with where we are there. We're starting to build out in the United States in a much more modest way obviously than in Canada because I don't think we'll ever be a money-center bank. We don't want to be a money-center bank but there is just lots of – very high actually - the highest ROE businesses are the most simple and mundane of the businesses in the wholesale side and they are the things that we can leverage - our very strong brand. We've been quite struck with how powerful our brand has become in the United States and so you don't generally think of a bank riding, a wholesale bank riding on a retail brand, but in the United States that's clearly possible. And so we believe that there's good opportunities there. And we have – what we want is sort of basic steady growth and sensible ROEs in a company that's operating around building great franchises.

So in summary, you know what we are. We clearly have the environment, the three big headwinds that we've talked about. We have lower interest rates, they affect us on both sides of the border. We have slowing loan growth in Canada. But I just caution people to say that doesn't mean no growth, it just means the heady days have double digit loan growth, I think, are going away, perhaps not – so far not in the business community but certainly in the personal community. And we clearly have a demanding regulatory environment and that does put expense pressure on us and does cause your whole system to operate a little less efficiently than you would like. The question is can you ride through that and still do 7% to 10% earnings growth? I think our answer is, yes, that's what you pay us to do and that's what we're focused on doing.

It obviously involves some rotation of our earnings and you can see that already in the results. And it does mean that you have to keep working and saying relentlessly, every year, you have to change the cost structure of the bank. Don't do it through fire drills, do it the way you do everything else. Look ahead, get ahead, invest, and I think you can deliver to the shareholders what they're looking for. With that, I'll pause and take questions.

QUESTION AND ANSWER

Kevin Choquette – Scotia Capital Markets - Analyst

Questions? At the back there. There is a mic there, sorry.

Unidentified Participant

Thank you. Do you have any aspirations outside North America? What are they?

Ed Clark – TD Bank Group – Group President & CEO

Outside the U.S.? Yeah, North America? I would say modest. We – I would say internally. Even though we're – in terms of Canadian market, we dominate or have the largest market share and are new to Canada, so in one sense, we'd be the natural person to go outside of Canada. But I'm not sure I've yet in my own mind defined what are our competitive advantage is and like it isn't a discovery that China is growing faster than the United States and there's a couple of other banks that have figured that out. And so what is it that we would bring to that model that would be different?

And so we haven't found really profitable spaces there that we would say would drag us away from the opportunity that we have in the United States. And I think that's our difficulty if that's what it is, it's not a bad difficulty to have, is that we can plunk a branch down in New York and come back five years later and have CAD100 million deposit base and have taken market share in the corner and own more than 25% of a market. And every branch we do that, actually, is increasing and outperforming the previous branches that we did that.

And the U.S. market that we're operating in is 1.5 times the size of Canada. And so it's always tempting to say, well, if you can just keep doing 9%, 14% growth deposits to loans, why would you break that formula to go off into some area where you've got 100 banks competing for the same thing and where you're not obviously distinguished. So we haven't found those. It doesn't mean we're not cognizant of the fact that the world is shifting. It clearly is shifting, but we haven't found something there that we would say we clearly have a competitive edge.

Kevin Choquette – Scotia Capital Markets - Analyst

Questions? Just on the U.S., Ed, do you have the structure to take advantage of the major C&I loan growth that seems to be happening in the U.S. this year, of models setup for C&I?

Ed Clark – TD Bank Group – Group President & CEO

Yes. So, I mean, in a sense there's been a pretty dramatic – if you said the banks that we bought were banks that were more traditional thrifts or super-thrifts if you want to call them that, and so they would have been commercial real estate lenders. You'll see that that now our business growth is C&I growth. And so I think what we do bring with them is that we are a relatively sophisticated bank to be owning those banks and we're shifting that business mix, but that is where the growth is. And the pure real estate lending has dramatically reduced. So the irony or one of the things that we monitor is what's the riskiness of our lending in the U.S. Through growth, we've actually taken the riskiness down significantly because we moved to a more diversified lending base.

Kevin Choquette – Scotia Capital Markets - Analyst

Thank you. Question? Here in the front.

Unidentified Participant

Hi. I'm just curious, could you flush out the statement that you implemented OSFI Guideline B-20 ahead of your peers and just speak to maybe some of the, I guess, more material business adjustments that were made there?

And on a somewhat related topic, could you speak to some of the headwinds that are being speculated in terms of U.S. house and finance reform and how that might impact your business in the space, because I know you've been capturing a lot of good market share in the resi mortgage book down there.

Ed Clark – TD Bank Group – Group President & CEO

So the two questions, what was the first?

Kevin Choquette – Scotia Capital Markets - Analyst

Why TD was more aggressive in adopting Basel III than some of your competitors. What was it that – why did you do to do it?

Ed Clark – TD Bank Group – Group President & CEO

Okay. And then on the mortgage that was in...

Kevin Choquette – Scotia Capital Markets - Analyst

Mortgage reform in the U.S. with Fannie and Freddie, how that might impact your business.

Ed Clark – TD Bank Group – Group President & CEO

So in a sense of what – long before Basel III, I think what you're referring to is we looked at the dealer and we ran the dealer differently than other people. We assigned to the dealer what we thought the right amount of capital for the dealer was, and that turned out to be about twice Basel II capital. It turned out to be slightly less than what Basel III now requires.

But we always ran the dealer by saying even if the regulations would let you get away with that amount of capital, we don't want to run a dealer that way. We always assign them full liquidity premiums. There are lots of banks even today who are just struggling to introduce liquidity premiums. But we said we're going to charge you the cost as if you were a standalone entity and you had to raise the cash, and if you want to have long dated assets then you're going to have long dated funding for it.

And we imposed a risk regime, appetite regime with them that said under stress tests you must prove to us that you would not lose money in the worst case scenario. And we didn't think – know that 2009 was going to actually test that out, but it did test it out and we didn't lose money in the dealer. So we got there under our own thing because we wanted to build a dealer that was part of what the overall bank image, which was let's get rid of tail risk, let's have steady state earnings growth, and why do banks have to blow up every 7 years to 10 years. They don't have to blow up. They choose to blow up because they choose to take risks that look good in the short run and are bad in the long run.

That's what just got us there – as it happened when they introduced the Basel rules the results were pretty close to what we had got there. So it wasn't as if we adopted Basel any faster than anyone else, it just was less transformative for us because we'd already chased out many of the activities which I think Basel III will chase out. And I do think – what astounded me was how late the industry has been in sort of saying they still believe to the end that maybe they're going to escape Basel III, and so there is still a lot of transformation going on within dealers around the world. As they figure out a lot of this activity what they're doing is not economic under Basel III. Well, if they'd had the right capital models, they would have discovered that multiple years ago.

I don't think the reforms – if there are – were a tendency in Fannie Mae and Freddie Mac in the United States is probably positive for us, because I think there is an overwhelming desire to slim the roles of both sides of the house of those institutions. And so I think for someone like us that's growing our book that's probably a good thing. In truth, I'm not sure that we can grow our book any faster than we're growing it now. So we're growing it at about 30% a year, our mortgage book. I think that's a number that we're comfortable with. I think if we suddenly started to grow at 50%, 60%, I think we would put the brakes on it. And in fact, we do actually monitor the price, and if we look like we're getting too many volumes, we just crank up our pricing a little in line there with our margins.

So we like the fact that we – we're obviously benefiting from the fact that we weren't in the business and you have super growth when you're starting from a small base. But this is a product that has a long life that we can grow that business, I would say, for the next 5 to 10 years at super growth rates, just how small a market share. Because we know that what we have in the U.S., we've inherited in the U.S., is a fantastic customer base that had a very narrow relationship with us, and so you can get discouraged by that. I get a fantastic opportunity because every time we ask those customers do they want another product, they say yes. They love this thing; they just never thought they could get mortgages or credit cards or even savings accounts with us. So we found that it's incredible; the crossover ratios are absolutely incredible. The barrier to going faster is you have to have the capability in the branches to sell properly and you don't want to go too fast on that, and so we're pacing ourselves.

Kevin Choquette – Scotia Capital Markets - Analyst

And do you hold 30-year mortgages on your balance sheet in the U.S.?

Ed Clark – TD Bank Group – Group President & CEO

Yes, we still hold our mortgages. We don't rule out. We obviously want to keep the servicing because we want to keep control of the mortgages. But so far we've been able to basically dynamically hedge the interest rate risk. It helps; we tend to in our pricing tilt the pricing to favor 15-year ARMs. There is still – about half our mortgages are 15-year. And we have ARMs, and then of the fixed, 15-year would be as equal to the 30-year. But so far, we're comfortable that we're not at the limits of our hedging techniques to hedge the interest rate risk.

Kevin Choquette – Scotia Capital Markets - Analyst

Thank you. Questions? Maybe just on growth rates; you showed in your slide 7% to 10% growth expectations going forward. And if you look at the banking industry over the last 40, 50 years it's been 9% and they acquired the investment dealers in the late 1980s, and the trust companies in the early 1990s, and consumers have added a tremendous amount of debt, and homeownerships has gone up. So do you think that the efficiencies of the Canadian banking models are going to offset some of those other things in order that you can still do sort of 7% to 10%?

Ed Clark – TD Bank Group – Group President & CEO

I think that's our job to try to figure out how to do that, but I agree with you. I mean, I guess our message has been that there has to be an expectation reduction of what you can do and that clearly the Canadian Banking system benefit from a long run of leveraging up society. And it's not realistic; we're 13% EPS growth since I took over. I always say, well, if that went on, then eventually we're – TD has the GNP of Canada, right? And that's not going to be the outcome.

So, you know this has to slow down and grow. The banking system shouldn't really grow that much faster than nominal GNP. And if you think we're in a world, which I believe we're in, up 2% - 2.5% real growth and a couple of percentage points inflation growth, you're in a 4.5% - 5%. It may be because of things like wealth or that's where having underpenetrated businesses help you. So if you haven't been as big a player in wealth, we've kept – we're about 20% of our income now is in wealth.

Insurance is another whole thing where you add that. Having a U.S. where we can grow – we don't have actually any physical limit to the growth because we're an irrelevant part of the U.S. GNP. So you can super grow. I think finding some super growth areas, means that if your core business is growing at 4.5%, 5% can you nudge yourself up to 7% to 8%? And I think that's our job to figure out how to do it. But that's how you have to do it. You have to have some underpenetrated business that grow the top up what I think is the underlying growth of your industry. And then it doesn't hurt to take market share every year from someone.

Kevin Choquette – Scotia Capital Markets - Analyst

Thank you. On that, I'd like to thank Ed and TD Bank.

Ed Clark – TD Bank Group – Group President & CEO

Thanks very much. Thank you.