TD BANK GROUP
Q4 2012 EARNINGS CONFERENCE CALL
DECEMBER 6, 2012

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PRESENTATION

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Good afternoon, and welcome to TD Bank Group's Fourth Quarter 2012 Investor Presentation. My name is Rudy Sankovic. I'm Head of Investor Relations for the Bank.

We will begin today's presentation with remarks from Ed Clark, the Bank's CEO, after which Colleen Johnston, the Bank's CFO, will present our fourth quarter operating results. Mark Chauvin, Chief Risk Officer, will then offer comments on credit quality. Mike Pedersen, Group Head, Wealth, Insurance, and Corporate Shared Services will also discuss the acquisition of Epoch Investment Partners that we announced earlier today. After that, we will entertain questions from those present in the room and from prequalified analysts and investors on the phone. Also present today to answer your questions are Tim Hockey, Group Head, Canadian Banking, Auto Finance, and Credit Cards; Bharat Masrani, Group Head, U.S. P&C Banking, and Bob Dorrance, Group Head, Wholesale Banking.

Please turn to slide two. At this time, I'd like to caution our listeners that this presentation contains forward-looking statements, and there are risks that actual results could differ materially from what is discussed and that certain material factors or assumptions were applied in making these forward-looking statements. Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities, and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes. I would also like to remind listeners that the Bank utilizes non-GAAP financial measures to arrive at adjusted results to assess each of its businesses and to measure overall Bank performance. The Bank believes that adjusted results provide the reader with a better understanding of how management views the Bank's performance. Additional information on items of note, the Bank's reported results, and factors and assumptions related to forward-looking information are all available in our 2012 MD&A available on td.com.

And with that, let me turn the presentation over to Ed.

Ed Clark – TD Bank Group – Group President & CEO

Thanks, Rudy. And thanks, everyone, for joining us this afternoon. Now, Colleen's going to be up shortly to discuss our fourth quarter results. Let me start by sharing my thoughts on the year as a whole.

Fiscal 2012 was a very strong year for TD with all of our businesses delivering positive earnings growth despite a number of headwinds. Total earnings for the Bank were up by 10 percent. And EPS grew 8 percent, in line with our 7 to 10 percent medium-term objective. We also passed the $7 billion mark in earnings for the first time. We achieved these results by staying on strategy and doing what we said we were going to do.

Our Canadian and U.S. personal and commercial and banking businesses recorded strong loan growth and deposit growth throughout the year, though personal loan volumes in Canada have moderated in recent quarters. We also continue to focus on growth opportunities we've identified in auto lending and credit cards.

In particular, we announced our agreement to acquire Target's U.S. credit card portfolio, which we expect to close in the first half of next year, upon receipt of regulatory approvals. This acquisition will help us meet two key objectives. It supports our strategy of optimizing our North American balance sheet and in fact will accelerate our progress on closing our loan-deposit gap in the United States by a full year. It also significantly expands our North American credit card capabilities, building on last year's MBNA acquisition.

Our wealth business performed well in 2012, despite difficult markets. We maintained our leadership position in direct investing. We grew our advice-based business and gathered new assets at an impressive pace.

Insurance had a disappointing finish to the year, given the additional reserves we took in relation to unfavorable developments in prior-year Ontario auto claims. However, the business's core fundamentals remain quite strong.

Wholesale finished the year on a very strong note with all of our businesses performing well in choppy markets. We maintained our top three dealer status in Canada, which included achievements in a number of areas. To highlight just a few, we were number one in equity block trading, number one in syndications, number two in corporate debt underwriting, and number three in announced M&A. We also continued to grow our franchise fixed income and foreign exchange businesses.

In addition to these good results in our business segments, we met our objective for limiting our core expense growth across the Bank to 3 percent this year by getting more efficient at what we do and reinvesting the savings in additional productivity-enhancing measures.

We also raised our dividend twice, delivering an 11 percent increase to our shareholders and increasing our target payout range while continuing to build our Basel III capital position.

Let me now look ahead to 2013. We said last year, that we would have to work hard to reach the bottom end of the 7 to 10 percent range of adjusted EPS growth. And we did. We also said, though, that we thought it would be even tougher next year. And that is still my view.

The headwinds we're facing have not abated. In the last few months, consumer loan growth in Canada has slowed, and the housing market has cooled. We're already seeing the impact on our Canadian retail bank. Persistent worry about weakness in the global economy and continued concern about the fiscal situation in Europe and the United States are keeping interest rates low, putting more pressure on margins. And the regulatory bar keeps getting raised.

On the other hand, it's important to keep a balanced view of the outlook. Even in our base case in the countries that matter to us, Canada and the United States, GDP growth is in the 2 to 2.5 percent range. There's significant upside in the United States, both in the short and the medium term. The right fiscal deal with an appropriate balance of adjustment between short-term withdrawal of stimulus and longer-term actions to address structural issues could reduce the fiscal drag implied in current forecasts. And more importantly, it could unlock the burden of uncertainty weighing on business decisions. Better growth in the United States would obviously benefit Canada.

Let me tell you what I think this means for our businesses. In Canada, we'll continue to focus on building our domestic banking business, credit card, and auto finance businesses. But, even with strong growth in these areas, I would expect to see some earnings rotation away from Canadian personal and commercial banking as a whole next year.

Our wealth business should be a source of above-average growth. With the strong asset growth we've recorded, we are well positioned to benefit from an improvement in market conditions. And with today's announcement of our agreement with Epoch Investment Partners, we have taken an important step forward with our growth strategy for wealth. Mike will provide more color on the transaction shortly. But, let me take a moment to say how excited we are about bringing Epoch into the TD fold.

We have previously indicated we'd be interested in adding asset management capability in U.S. and in global equities. And that's precisely what this acquisition does. Epoch is a successful investment manager. And we are confident that we are getting good value for money. Epoch has a strong growth track record and a culture very similar to ours. This deal will strengthen TD's wealth management business in Canada and be a pillar of our developing U.S. wealth strategy.

On the insurance side, excluding the impact of additional reserves, our insurance business earned roughly $600 million this year. But, with reinsurance cost rising and the possibility of higher claims costs, we are currently looking at earnings growth in the 7 to 10 percent range next year relative to this year's $600 million run rate.

TD Bank, America's Most Convenient Bank, will be an important part of our story next year. We remain committed to our $1.6 billion earning target for fiscal 2013. And we are confident that we can get there by leveraging our service and convenience model to keep growing market share.

In wholesale, we're continuing to focus on delivering 15 to 20 percent returns, despite higher capital requirements, while further investing in building out our franchise model.

In addition to these ambitious plans for each of our business segments, we will maintain an unrelenting focus on lowering our costs while improving our operations. That's a must in today's economic environment. We are targeting core expense growth at or below our 2012 level, which will allow us to pursue positive operating leverage while continuing to invest strategically in our businesses. It means managing our expenses aggressively. But, we are going to do this in the TD way, by rethinking and reengineering our businesses in ways that both enhance the customer-employee experience and strengthen our resilience as an organization.

Before I hand things over to Colleen, let me comment on the fact that there's been a lot of media speculation lately about acquisitions in the banking sector. Now, normally, I would not respond to media speculation. But, this is a good opportunity for me to provide an update on TD's appetite for large acquisitions in the United States because, while there's been a lot of media speculation, we're not actually aware of anything big for sale in the United States.

When we look at our U.S. personal and commercial bank, we feel very comfortable with where we are today. With the scale we have in our footprint and our proven organic growth strategy, we are not compelled to make acquisitions. And we have made that point quite consistently. In 2012, we were also very clear that we did not want to do a large transaction. Our focus was tuck-in deals and asset portfolios. And we are still interested in those.

As we look ahead to 2013, we are seeing signs of improvement in the U.S. economy that make larger deals more feasible. However, given the position of strength that we are operating from today, any prospective transaction would have to satisfy several criteria, the most important of which is that the deal meet our financial hurdles and is supported by the market, particularly if significant equity financing is required. It would be a mistake to believe that we have a bias in favor of doing a large deal. We do not. Indeed, large deals contemplate a whole set of issues. And the thresholds to do one are obviously higher.

The good news is that we have choices, organic growth by itself, organic growth plus a series of smaller deals, or the option of opportunistically taking advantage of a larger deal that might arise that fits our core strategy. Our primary focus remains organic growth. We remain cautious on acquisitions and would only do a deal, large or small, if it fit our timing and our price. We don't intend to comment further on this subject.

To close, 2012 was a very good year for TD, reflecting consistent performance on our Canadian and U.S. retail businesses and a good result from our wholesale bank. Next year brings continued challenges. But, I am confident that we have all the tools and resources we need to overcome them and continue delivering sustainable earnings growth, given our proven business model, experienced management team, and tremendous people.

Let me finish with a word to them. I am very proud of the 85,000 people who make TD a better bank and whose dedication to meeting the needs of our customers and clients was recognized by JD Power and IPSOS again this year. You are the driving force behind our success. On behalf of the board and senior executive team, thank you for all your tremendous effort.

I would also like to make special mention of our employees in the United States who have worked tirelessly in recent weeks to support our customers and each other through the recovery of Superstorm Sandy. You have inspired all of us with your heroic actions.

With that, let me turn the call over to Colleen.

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Thanks, Ed. And good afternoon, everyone. Let me take you through our results. Please turn to slide four. And I'll start with a brief review of the full year.

2012 total bank adjusted net income was $7.1 billion, an increase of 10 percent from last year. And adjusted EPS was $7.42, up 8 percent year over year. Both results are new records for TD.
Earnings growth was solidly within the bank's 7 to 10 percent medium-term EPS growth objective, a good accomplishment, given the many headwinds we faced this year. In total, our retail businesses delivered adjusted earnings of $6.2 billion, up 10 percent from 2011, and represented 88 percent of total bank earnings.

TD Canada Trust had a good year, delivering $3.4 billion in adjusted earnings, up 12 percent over 2011, driven by good volume growth, the acquisition of MBNA, and higher fee income.

Wealth and insurance delivered good results, with earnings of $1.4 billion, up 4 percent. Higher fee-based revenue and wealth and solid premium growth in insurance were partially offset by higher claims in insurance.

U.S. P&C delivered a record year with over $1.4 billion in adjusted earnings U.S. dollars, up 10 percent as a result of strong loan and deposit volume growth and higher fee-based revenue, partially offset by higher expenses to support growth and the impacts of the Durbin Amendment. This 10 percent earnings growth was achieved despite the fact that the Durbin Amendment took 10 percent off the bottom line.

Wholesale banking had a good year, with earnings up 8 percent, as stronger results in core businesses were partially offset by lower security gains.

Adjusted operating leverage for 2012 was 2 percent. And we finished the year with a strong Basel III pro forma common equity Tier 1 ratio of 8.2 percent.

Overall, this was a strong year for TD.

Please turn to slide five. Looking to the quarter, our results were solid, with adjusted EPS of $1.83, up 5 percent year over year, and total bank adjusted net income of $1.8 billion, up 6 percent from last year.

Retail adjusted earnings of $1.5 billion were up 6 percent. And wholesale net income of $309 million was up 10 percent. The corporate segment loss was $29 million, overall a solid quarter and a strong finish to 2012.

Please turn to slide six. This next slide presents our reported and adjusted earnings this quarter, with the difference due to five items of note. This quarter includes a reserve related to Superstorm Sandy, which had a $37 million negative impact on earnings. The charge mainly reflects increased PCL on loans in the severely affected areas, plus a charge related to damages to our premises.

Please turn to slide seven. Canadian P&C had a solid quarter, with adjusted net income of $831 million, up 10 percent from last year. Adjusted operating leverage was 2 percent this quarter, with revenues up 12 percent compared to last year and expenses up 10 percent. The acquisition of MBNA added 10 percent to adjusted revenues, 8 percent to adjusted expenses, 23 basis points to NIM, and $91 million to PCL.

Loan and deposit growth were good this quarter, with the retail business generating good but slowing lending volume growth. Real estate secured lending volumes were up 6 percent versus last year, Auto lending was up 3 percent, and all other retail volumes, excluding MBNA, were down 2 percent. Retail deposits showed strong growth, up 10 percent. Business lending growth remains very strong, up 15 percent. And business deposit growth was up 10 percent.

Expense growth was elevated in the fourth quarter due to the timing of business investments, marketing initiatives, and employee-related costs.

Credit performance remains strong, with PCL and personal banking, excluding MBNA, up 1 percent, primarily due to adjustments related to certain past-due accounts. Excluding this item, personal credit quality was strong.

Excluding the impact of MBNA, margin was down 11 basis points compared to last year due to the low rate environment, competitive pricing, and portfolio mix. Margin was down three basis points sequentially. As noted previously, we expect margins to decline by a couple of basis points per quarter in 2013.

In Q1 2013, margins may be down by approximately seven basis points as the credit mark release from the MBNA portfolio, which was embedded in NII, will not recur in 2013.

Let me briefly comment on MBNA, which was a strong contributor to earnings growth this year. The deal significantly strengthened our market share, moving us from number five to number two. And earnings were ahead of our original expectations, helped primarily by much-better-than-expected credit quality. Integration costs have been higher than expected, with $150 to $200 million of additional expenses expected in 2013. These costs will be shown as an item of note. Integration is scheduled to be fully complete by mid-2014.

Please turn to slide eight. The wealth business had a good quarter, while the insurance business posted a disappointing performance. Wealth earnings were up 6 percent year over year. Higher fee-based revenue from asset growth and higher net interest income from improved net interest margins were partially offset by lower transaction revenues due to decreased trading volumes. Asset growth was strong, mainly due to net new client assets.

Insurance earnings were down 37 percent year over year. Revenue declined due to unfavorable prior-year claims development in the Ontario auto market and weather-related events, partially offset by premium growth and the inclusion of MBNA. The core fundamentals of the business remain strong.

Expenses across the segment were up 1 percent. The contribution from TD Ameritrade was lower this quarter, down 6 percent on lower TD Ameritrade earnings, partially offset by increased economic ownership and a weaker Canadian dollar.

Please turn to slide nine. U.S. P&C delivered strong adjusted net income of US$358 million for the quarter, up 23 percent from last year. The increase was primarily due to strong organic growth, lower effective tax rate, and gain on sales of securities, partially offset by the impact of the Durbin Amendment.

Average loans were up 16 percent year over year, including a 37 percent increase in residential mortgages and a 10 percent increase in business loans. And average deposits, excluding government deposits and TD Ameritrade IDAs, were up 7 percent.

NIM was 348 basis points, down 12 basis points versus last year, primarily due to the low-rate environment and strong growth in lower-margin products, especially mortgages.

We continue to remain comfortable with our previous NIM guidance of 350 to 375 basis points. Accounting noise will continue to create some bumpiness and occasionally cause us to fall outside of our range. We will continue to see deposit compression due to the low interest rate environment. But, our expectation is that loan growth will exceed deposit growth, thereby helping our NIMs. The target acquisition which we expect to close in the first half of calendar 2013 upon receipt of regulatory approvals, will increase our NIMs.

Total adjusted PCL was up 55 percent from last year, primarily due to new regulatory guidance on loans discharged in bankruptcies and timing in the acquired credit-impaired portfolio. The underlying credit quality of the loan portfolio continues to improve. Adjusted expenses were down 4 percent from elevated levels last year. During 2012, we opened 41 new stores, bringing us to 1,315 stores in the U.S.

Looking to next quarter, we are seeing some early softness in volumes and fee income associated with lower transaction levels in the aftermath of Superstorm Sandy.

Please turn to slide 10. Wholesale delivered a strong quarter in difficult markets with net income of $309 million, up 10 percent from a good quarter last year. The increase was due to higher trading-related revenue and improved underwriting and advisory fees and reduced expenses in core businesses, partially offset by lower securities gains in the investment portfolio. Total trading-related revenue in the quarter was strong at $316 million, which was in line with our normalized expectation of $300 million per quarter.

Noninterest expenses were down 5 percent compared to last year, due to lower infrastructure costs and legal provisions. Annualized ROE for the quarter was strong at 30.3 percent. We continue to target medium-term ROEs in the 15 to 20 percent range, despite higher capital requirements.

Please turn to slide 11. On an adjusted basis, the corporate segment posted a loss of $29 million in the quarter. Results were down from last year due to higher net corporate expenses, largely offset by the favorable impact of other items, including tax. The loss in corporate was below our guidance, due to positive treasury and hedging-related results.

I won't be providing a range for corporate segment going into 2013. As you've observed, the corporate segment is inherently difficult to predict. And the number can be somewhat volatile. Having said this, going forward, I expect the quarterly loss on average will exceed the average of 2012 but will likely come in below my prior guidance.

Please turn to slide 12. We continue to focus on slowing the rate of expense growth to position us for the revenue headwinds of the slow growth economy and the sustained low interest rate environment. Our focus is on initiatives that will permanently improve efficiency, making productivity a competitive advantage for TD.

At the all-bank level, Q4 adjusted expenses were up 8 percent versus Q3. This is consistent with the pattern of higher Q4 expenses seen in past years, which has been followed by a drop off in expenses in the first quarter of the next year. As mentioned in Q3, elevated expense levels in the fourth quarter were primarily due to business volume and seasonality, higher project and initiative spend, and marketing campaigns. Excluding expenses added by recent acquisitions and foreign exchange, adjusted expenses grew by 3 percent in 2012, in line with our target growth rate.

Next year, we're targeting a rate of expense growth at or below the rate of growth in 2012. In order to achieve this goal, all parts of TD are participating in our productivity agenda. And we're integrating expense best practices into their businesses. Key levers for 2013 will be lowering our cost from external vendors through sourcing and procurement, optimizing branch and store resources relative to volumes across our network, and process improvements that will make it easier to deliver a leading customer and employee experience.

Within the tighter expense framework, we continue to invest in our branch network, adding 65 new branches and stores this year, 24 in Canada and 41 in the United States. And we plan for higher project and initiative spend in 2013.

Please turn to slide 13. Looking at capital, our fourth quarter Tier 1 capital ratio was 12.6 percent. And our pro forma Basel III ratio was 8.2 percent. We are well positioned for the evolving regulatory environment. With that, I'll turn the presentation over to Mark.

Mark Chauvin – TD Bank Group – Group Head & Chief Risk Officer

Thank you, Colleen. And good afternoon, everyone.

Please turn to slide 14. As a reminder, the debt securities classified as loans and the acquired credit-impaired loan portfolios have been excluded from the credit slides.

Setting aside one-time items, which I will discuss in a minute, our Canadian credit quality remains strong, while the U.S. portfolio continues to improve.

There were three one-time items that have led to some noise this quarter.

First, our Canadian personal results reflect an adjustment related to past due HELOC accounts. The impact of the adjustment is a $162 million increase in gross impaired loans and a $22 million increase to PCL. With an average current loan to value of 53 percent, we expect ultimate losses on the newly impaired HELOC accounts to be minimal.

Secondly, in line with recent guidance from U.S. regulators, a small portion of our performing U.S. personal loans have been reclassified to nonperforming status. The change was made to reflect cases where a loan has been discharged through bankruptcy proceedings, but where our borrower continues to make payments. The regulatory guidance requires that we classify the loan as impaired and write it down to the value of its collateral, which is also consistent with accounting standards. The impact of the change was a $49 million increase to gross impaired loans and a $30 million increase to PCL. As these largely consist of long-standing loans that have always made their payments, we expect to recover a substantial portion of this amount as the loans continue to pay down.

Thirdly, in response to the devastation caused by Superstorm Sandy, we have taken a one-time provision of $54 million. This amount is not reflected in our credit slides but is listed as an item of note in the supplemental information package. Early indications are that our customers are well insured. And we think it's unlikely that this number will be exceeded.

In conclusion, we do not consider these events to be an early indicator of future challenges in our credit portfolios. Now, I'd like to turn the presentation over to Mike.

Mike Pedersen – ***TD Bank Group – Group Head, Wealth Management, Insurance, and Corporate Shared Services***

Thanks, Mark. We're on slide 15.

So, let me begin by reiterating that TD's wealth strategy is focused on organic growth, primarily by targeting existing TD customers in both our Canadian and U.S. retail and commercial banking businesses. But, as Ed said, we have said since last year that we would be interested in acquiring an asset management firm with strong U.S. and global equities capabilities. And Epoch provides us with deep global and U.S. equities expertise, which we think will be very important to our clients going forward. It's also highly complementary to TD's existing strengths in fixed income and Canadian securities.

Epoch has grown their AUMs every year since their inception, including right through the financial crisis. They have an extremely experienced management team, a highly disciplined investment process, and a proven track record of delivering strong risk-adjusted returns for their clients. So, the strategic rationale for this combination is simple. For TD, we immediately and significantly strengthen our U.S. wealth business.

And we also broaden our offer for both retail and institutional clients in Canada. For Epoch, it strengthens an already strong business model. But, maybe most importantly, we believe our cultures are strongly aligned.

From a financial perspective, the deal will enable both businesses to grow faster. We expect the transaction to have minimal earnings impact in 2013 and to be accretive in 2014. We plan to fund the purchase with cash. And we expect it to have minimal negative impact on our Basel III common equity Tier 1 capital ratio as well.

So, to sum up, we're extremely pleased with today's announcement. We believe it's great news for Epoch's clients, for TD's clients, and for our shareholders. Rudy?

QUESTION AND ANSWER

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Great. Thank you very much, Mike. We will now open it up for questions. To give everyone a chance to participate, please keep to one question and then re-queue if we have time. For those participating in person, can I ask you to identify your name and firm before asking your question? And before ending the call today, I will ask Ed to offer some final remarks. So, why don't we get started with questions from the room, please? John?

John Reucassel – BMO Capital Markets – Analyst

Sure. I'll start it off. John Reucassel, BMO Capital Markets. I know you don't want to answer questions on large acquisitions. So, I'm going to try and ask one anyway. When you say it has to meet strategic priorities, is that in the end market presumably? And how does that roll in, how do you view your investment in TD Ameritrade as part of helping to fund a large transaction? And then maybe tie in how you feel - you talk about the U.S. getting better. But, the regulatory environment seems to be uneven, to Tarullo's comments last week about solo capital, those type of things, could you put that in context, please?

Ed Clark – TD Bank Group – Group President & CEO

I guess just to repeat, in a sense, start with, and then I'll try to pick up your points. I think the point that we're making is that - we've made all along is, we do not need to acquire banks in order to grow in the United States because we have such a powerful organic growth model. And we've been growing branches, more than 40 new stores this year. And we've had 8 percent deposit growth this year, 16 percent loan growth. You don't take a machine like that and say, "Boy, you need to do something to get it to kick start it." We've got a fantastic machine. So, we don't need to do bank acquisitions.

A second point is at least we're not aware of any large bank that's for sale today. So, we're talking about a hypothetical situation. But, there has been so much media comment about it that you have to sit there and say, "Okay." I guess the question that, maybe we're hoisted on our own petard. We said clearly to the market what our focus was for 2012. I guess the question is perpetually that. So, for the next 10 years, are we saying we'll never do a large deal? And I think we said we get to get ourselves off that petard and say, "Clearly, if a large deal came up, it would be irresponsible to say, 'No matter what price, no matter what our situation, we would absolutely never look at it.'" But, what we are clearly saying is, "Large deals have a much higher threshold than any other deal because they involve a deal of complexity. And you have to be practical. A large deal requires some financing, depending on the size of the deal. And if the market doesn't like that, then you can't go do the deal. So, there's a practical limit that's put on by the market. But, I think we're trying to tell people, "Chill out a little here. There's nothing for sale. And we're not chasing large deals. And then we'll see when the world comes whether we look at it."

I think we would look at TD Ameritrade in a completely different way. We don't put the two together and say, we've always liked the TD Ameritrade space. I think it's obviously been a tough space over the last few years. The remarkable thing is how well TD Ameritrade is. It's growing its assets about twice as fast as its competitors. And so, it's been able to hold its earnings together because it's been able to grow its volumes and offset any margins. And so, , we think, when we look at that, that this is a pretty attractive option. And we don't know why - I wouldn't put the two together.

As to Tarullo, we wouldn't anticipate, we running our U.S. entities, whether they're TD Securities or TD Ameritrade or TD Bank, America's Most Convenient Bank, we capitalize them, on a fully implemented Basel III standard. And at this stage, certainly, we have no indication that, when they put these holding companies together, the rules for those will be significantly different than what a Basel III would lead you to do. And we're already capitalized to that.

Rudy Sankovic – TD Bank Group – SVP, Investor Relations

Next question, please. Thank you, John. Mike?

Michael Goldberg – Desjardins Securities – Analyst

Michael Goldberg, Desjardins Securities.

Just want to follow up on that question. I'm going to misbehave also. And then I have my own question. You said, Ed, that you have several criteria for anything big, including support from financial markets. How would in advance that you would have that support from financial markets if we didn't know what it was that you were planning to do, or is there some other thing that you're getting at that would give you that indication that you'd have that support?

Ed Clark – TD Bank Group – Group President & CEO

It's pretty sneaky ride in on a question that I wasn't going to answer and then say, "I'd like to ask one, too." But, I think the simple answer, no, there's nothing sneaky or complicated in this. I believe that we have the best leader of a security dealer, certainly in Canada, and one of the best in the world. And I think Bob can tell me exactly what kind of deal and price the market would support or not. You don't have to go out and test the market to find that answer. I think the answer will be fairly evident to us.

Michael Goldberg – Desjardins Securities – Analyst

Okay. Let me get to my original question. And it's about insurance and the weakness that you had this quarter. How much did higher claims, adverse development, and these factors in dollar terms actually impact the pretax contribution from insurance this quarter? And of that, how much of that was from claims? Of that, how much of that was from adverse development? And what gives you confidence that there won't be further adverse development?

Mike Pedersen – ***TD Bank Group – Group Head, Wealth Management, Insurance, and Corporate Shared Services***

I can try. The way we think about the year, Michael, is that insurance is a business with a fair bit of cyclicality. So, normalized earnings this year might've been around $600 million, so 150 a quarter. This obviously hit us in the fourth quarter. You can see from the numbers that the full-year impact of the adverse development compared to 2011 was about $131 million. And in terms of the quarter, it was probably roughly two-thirds adverse development and one-third the weather-related events. There were four big storms in August. That's more than we would normally expect. Three big storms in August, sorry, and Superstorm Sandy in the last bit of the year.

Michael Goldberg – Desjardins Securities – Analyst

You're confusing me in talking about two-thirds from this and one-third from that. Can you just give it to me in dollar terms?

Mike Pedersen – *TD Bank Group – Group Head, Wealth Management, Insurance, and Corporate Shared Services*

Well, we don't disclose the amount of the CATS and the severe weather events. So, I'd rather not do that. But, , if you think about the fourth quarter and think about it in normalized earnings terms of, say 150, think about the difference, two-thirds the impact, adverse development, one-third the impact, the severe weather events.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Good. Thanks, Michael. Next. Anyone else in the room? Okay. So, why don't we turn to the phones. Operator, could you start us off, please?

Operator

Your next question comes from the line of Steve Theriault from Bank of America. Please go ahead.

Steve Theriault *- Merrill Lynch Canada - Analyst*

Thanks very much. A question for Mike Pedersen or maybe for Ed on Epoch. Can you talk a little bit about how autonomous you expect Epoch to remain from TDAM? Also, how long do you have the key parties at Epoch locked up for, so to speak? And can you tell me what the mix of AUM is at Epoch, U.S. versus non-U.S.?

Mike Pedersen – *TD Bank Group – Group Head, Wealth Management, Insurance, and Corporate Shared Services*

On the question of autonomy, this is an extremely well-run business. It has been successful in growing, as I said, every year, including through the crisis, extremely experienced management team. In these types of acquisitions, what you're buying is the management team. So, we expect them to continue to run the business as they have, with the obvious caveat that they will do so within the framework of TD's governance and risk paradigms. They will work very closely with TD Asset Management.

There are some synergies that we will be able to realize. For example, we have some third-party advisory mandates that we are going to be able to bring in house. There are certain things that are being done inside TD Asset Management in Canada now that we will likely ultimately have Empire doing. So, I think the answer is that we're going to try to interfere as little as possible with the obviously successful formula that Epoch has.

Ed Clark – ***TD Bank Group – Group President & CEO***

Just to underscore what Mike said, I think, when you buy an asset like this, you want to leave it alone. I think the one thing that we will do is help it grow more because there is business that we can send its way. But, the key is that Epoch will stand as an entity and grow itself. And I think it'll just grow faster with the business that we can roll to it naturally.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Okay. Thanks, Steven. Next question, please?

Operator

Your next question comes from Robert Sedran from CIBC. Please go ahead.

Robert Sedran ***- CIBC - Analyst***

Hi there, and good afternoon. A question on the margin I guess in the U.S. I gather Target is going to materially change the guided range, Bharat. But, without that, you're at the low end or even slightly below the low end of your 350 to 375 range. So, given the structural challenges that there are on the margin, how can you be comfortable that this range is - or this quarter is about as low as it gets? Is there anything unusual in the quarter that may reverse going into next year?

Bharat Masrani – ***TD Bank Group - Group Head, U.S. P&C Banking***

No, Robert. As we talked previously, this number will be volatile. Once in awhile, we will reach, the range that I put out. But, just to understand the dynamic of the business, on the deposit side for sure, there is compression, zero rates in the U.S. But, the offsetting side for us is that, as Ed talked about it earlier and Colleen mentioned as well, you've got a very good organic growth numbers for our loan business. We grew our loan 16 percent. And that helps us on the margin side, obviously.

But, I guess, Robert, you're asking me to look forward. I think the key point here, and I know this is what probably people are thinking is, what does this do, given the volatility in this number regarding the $1.6 billion target that we've set out there? I can tell you, I continue to be committed to that target. I'm comfortable with that target. When you look at the Target acquisition, the portfolio will help us as well as de novo strategies. You've seen the numbers we've delivered. We opened 41 stores. We plan to open 35 more next year. Colleen talked about the productivity agenda that applies to the U.S. as well. So, overall, when I look at it, yes, there will be volatility in this number. But am I comfortable? Am I committed to the target we've set out? Absolutely. So, I think that's probably a wider perspective as to how you should look at this.

Mike Pedersen – ***TD Bank Group – Group Head, Wealth Management, Insurance, and Corporate Shared Services***

Rudy, if I can just jump in, I failed to answer the second part of the previous question around retention of the team at Epoch. There are very strong retention mechanisms in place. We have five-year contracts in place for the most senior people in the organization and retention mechanisms for every single employee in the company.

Rudy Sankovic – ***TD Bank Group - SVP, Investor Relations***

Okay. Thank you. Thanks, Robert. Why don't we get to the next question, please?

Operator

Your next question comes from Brad Smith from Stonecap Securities. Please go ahead.

Brad Smith ***- Stonecap Securities - Analyst***

Yes, thank you. I just had a quick question. I think, in the MD&A around the U.S. banking unit, there's some mention of securities gains in the quarter. And of course, when I look at the non-interest income, there's quite a significant increase in securities gains. Can you quantify that in the U.S. P&C bank?

Bharat Masrani – TD Bank Group - Group Head, U.S. P&C Banking

I don't think we've come out exactly what those numbers are on a regular basis. I don't think it'd be appropriate for me to get and try and reconcile every dollar there. But, I think the bigger perspective for you to understand, Brad, on this is that we do manage our balance sheet. You're well aware as to how we do that. Given the rate environment, our duration strategy requires us sometimes to trigger security gains because that's how we manage our balance sheet, including how we tractor within our U.S. business. In addition, as you are probably aware, under Basel III, there will be capital volatility because of the unrealized gains as to how they're treated under Basel III. So, it also makes sense for us to make sure that these capital benefits we have do indeed become firm under Basel III. So, there is an overall strategy here that we are following. And I think that's the best way to give you that perspective. And we will continue to do so until this rate environment forces us there, because that is part of our overall strategy to manage our U.S. balance sheet.

Brad Smith ***- Stonecap Securities - Analyst***

Thanks, Bharat. Just in the September 30th filing for the operating company, there was a $42 million securities gain. Would the amount in the segment be larger than that?

Bharat Masrani – TD Bank Group - Group Head, U.S. P&C Banking

I can't comment on that. Maybe Colleen can help there.

Colleen Johnston – ***TD Bank Group – CFO & Group Head, Finance***

Yeah, that's about the right number for the quarter, Brad.

Brad Smith ***- Stonecap Securities - Analyst***

Thank you very much.

Rudy Sankovic – ***TD Bank Group - SVP, Investor Relations***

Thanks, Brad. Next question, please?

Operator

Your next question comes from Peter Routledge from National Bank Financial. Please go ahead.

Peter Routledge – *National Bank Financial - Analyst*

Hi. A question for Ed. It's not about acquisitions you'll be glad to know. But, it's sort of the flipside of it. There is certainly some concern about acquisitions. It's reflected I think in the share price the last month or two. Why not go the other way? Why not announce 2 percent normal course issuer bid, like some of your peers have done? Failing that, why not just stop the 1 percent drip discount? Outside a large transaction at some point in the future, why not actively try to keep share count level?

Ed Clark – *TD Bank Group – Group President & CEO*

I think the simple answer, what I have said, and it may well be that we're approaching the point where we'll have to solidify our capital strategy. I think we haven't yet heard what the national SIFI charge is going to be, what the timeframe for implementing it is. And so, what we basically said and as mentioned earlier, we haven't heard what the U.S. holding company rules are going to be, although, as I say, we don't anticipate that would have an impact on us. So, I think, at this point, we've been in capital accumulation mode and said we would address the issue after that once we did.

I think the other thing is that, so far, we have been blessed, where we can redeploy excess capital at well above our cost of equity. Many banks are not in that position. And so, buying back their shares is the only alternative that they have. But, if you look at the MBNA deal, you look at the Target deal, and you look at those deals, those are spectacular deals for the shareholders. So, you always have to sit there and say, "If you happen to be strategically positioned where you can create economic profit for your shareholders," you always pause and say, "Well, do I want to give it away and destroy value by buying at a lower return to the shareholders than taking advantage of these small opportunities that seem to be coming our way?"

Peter Routledge – *National Bank Financial - Analyst*

Okay. Thanks.

Rudy Sankovic – *TD Bank Group - SVP, Investor Relations*

Great. Thanks, Peter. Next question, please?

Operator

Your next question comes from Gabriel Dechaine from Credit Suisse. Please go ahead.

Gabriel Dechaine *- Credit Suisse - Analyst*

Just a question on the Canadian margin. You've got, the margin, excluding MBNA, down three basis points. Does that three basis points include any positive credit mark that was on the MBNA transaction? I mean, I think it was about four or five basis point impact from that this quarter.

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

Yeah, no, this quarter, it's about net neutral. The breakdown of the three basis points was, call it a little over a third being the deposit margins, about a third of that being reduction in the amount of real estate breakage cost, and then the rest is sort of mixed.

Gabriel Dechaine *- Credit Suisse - Analyst*

So when it says, "excluding MBNA", it also excludes any positive impact from the credit mark. Is that right?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

True.

Gabriel Dechaine *- Credit Suisse - Analyst*

Okay. Now, people ask you this every quarter basically. But, what's your plan to stabilize the margin in 2013, or is this quarter basically what we should expect?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

Well, given I can't actually stabilize or increase the level of absolute interest rates, it's going to be a little difficult to stabilize margins. But, that's I think our story in the past and going forward that we are impacted by the absolute low level and protracted low level of interest rate.

Gabriel Dechaine *- Credit Suisse - Analyst*

Okay. And then last one for Ed, just a big picture, loan growth in Canada's still pretty strong. If it does continue, and I know housing prices started to show some weakness. But, if mortgage rates and mortgage growth and consumer leverage keeps going at a pretty healthy clip, what would the likelihood of OSFI implementing the countercyclical buffer be? Do you have any thoughts on that?

Ed Clark – *TD Bank Group – Group President & CEO*

I don't. This is dangerous territory. But, I would be surprised at that. I think it's becoming quite clear that Canada is well in the lead of implementing Basel III versus all the other major jurisdictions in the world. I think, if the housing market reheated up, then I think the government would say, "Is there other non-monetary policy rules that they can do to continue to tighten down on it?"

But, I think, right now, that's a question for a year from now and not for now. I think for now, people that were trying to step back and say, "Well, what has been the impact of the rule changes? And how much of it is flowing through? How much is still to go through?" And I think there're going to be no action for awhile would be my view.

Gabriel Dechaine *- Credit Suisse - Analyst*

Okay. Thank you.

Rudy Sankovic – *TD Bank Group - SVP, Investor Relations*

Thanks, Gabriel. Next question, please?

Operator

Your next question comes from Sumit Malhotra from Macquarie Capital. Please go ahead.

Sumit Malhotra *- Macquarie Capital Markets - Analyst*

Good afternoon. First, for Colleen, just on your comment in your prepared remarks about the Canadian banking margin, did you say the adjustment from Q4 to Q1, sorry, not the adjustment - the decline would be seven basis points strictly on the reversal of the MBNA credit mark?

Colleen Johnston – *TD Bank Group – CFO & Group Head, Finance*

So, partially, Sumit, on that, on the fact that we will not have another credit mark in Q1 and partially then just ongoing margin compression because, obviously, starting next year, we'll be just publishing the margin on the--on a basis including MBNA. So, we just wanted to caution so it wasn't a surprise when you came along to Q1 to see that you'll have both effects.

Sumit Malhotra *- Macquarie Capital Markets - Analyst*

So, that's helpful. The aggregate decline would be seven. And then from that level, all else equal, it would be in the range that Tim has talked about in previous quarters, which is something like two basis points a quarter, all else equal.

Colleen Johnston – *TD Bank Group – CFO & Group Head, Finance*

Yeah, that's right. I'll ask Tim to confirm. But, yeah, that's exactly right.

Sumit Malhotra *- Macquarie Capital Markets - Analyst*

Okay.

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

Yep, you've got the math right.

Sumit Malhotra *- Macquarie Capital Markets - Analyst*

Okay. Thank you. And then just over to the U.S., the Bank has made references over the last couple of years since you did the FDIC and South Financial Group transactions about the accounting back and forth between net interest income and PCL. This quarter, the 11 basis point decline, are you in a position to help us think through how much of that is what you would consider to be core decline versus how much is accounting because it certainly seems like, in order for margin to get back up into your range before the Target deal, you're counting on some of the accounting noise to go back in your favor, if that's the right way to put it.

Colleen Johnston – *TD Bank Group – CFO & Group Head, Finance*

Sumit, it's Colleen again. I'd say it's about half and half. About half of the decline was accounting related, and half was core margin related. And that, largely due, and this is a broader issue just around accretion generally, which is not necessarily smooth on a quarter-to-quarter basis. So, you will see a little bit of bumpiness because of that effect.

Sumit Malhotra *- Macquarie Capital Markets - Analyst*

And is it right to say that, for margin to actually go up in this business, again prior to Target, that you would need some of that to go the other way?

Colleen Johnston – *TD Bank Group – CFO & Group Head, Finance*

Again, I think that'll over time stabilize. Needless to say, I think that becomes more of a quarter-to-quarter issue. And then I think we'd already referenced the mix issue. And Bharat had commented on that, with the expectation of continuing strong loan growth, the margins on the lending side are thicker than on the deposit side. So, that should actually help us as well. And then Target, I'll provide some guidance as we get closer to close because Target will actually have quite a significant impact on the margin. But, I will help you walk through what that'll do on a line-by-line basis so you can adjust your models.

Sumit Malhotra *- Macquarie Capital Markets - Analyst*

Thanks for your time.

Rudy Sankovic – *TD Bank Group - SVP, Investor Relations*

Thanks, Sumit. Next question, please?

Operator

Your next question comes from Mario Mendonca from Canaccord Genuity. Please go ahead.

Mario Mendonca *- Canaccord Genuity - Analyst*

Just one quick question on expenses for Bharat in the U.S. On an adjusted basis, expenses were down fairly significantly year over year. Now, what I'm having a little difficulty understanding is whether that's just a reflection of how high the expenses were last year or if there was something more specific to what happened this quarter.

Bharat Masrani – TD Bank Group - Group Head, U.S. P&C Banking

No, Mario. It's ongoing expense management. We have been on the productivity agenda for awhile. And we are within the numbers that Colleen talked about for the group as to what you should expect, from a year-over-year perspective. And to keep this in perspective, some of those numbers may seem higher in some quarters for the U.S. business because we do have, new stores and investments that we make. So, that's why, sometimes, you do see those numbers jump around a lot.

And finally, there was an adjustment year over year once we migrated to IFRS. That had some impact as well. Overall, I think, the message I would leave on expenses is that, we are part of the productivity agenda. Our numbers will be higher than what Colleen has pointed out because of the investments we are making in our plan in new stores and other initiatives.

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

Thanks very much.

Rudy Sankovic – ***TD Bank Group - SVP, Investor Relations***

Great. Thanks, Mario. Next question, please?

Operator

There are no further questions on the phone. Please continue.

Rudy Sankovic – ***TD Bank Group - SVP, Investor Relations***

Great. Thank you very much then. And I will turn it over to Ed for some final remarks.

Ed Clark – ***TD Bank Group – Group President & CEO***

I just want to just reiterate what I said at the start. I actually think it was a great year. And I really do want to take the opportunity to thank our employees. I think what they managed to do is plow through a whole set of issues that came away, a lot of headwinds that we had to deal and produce great results. And I think it really underscores what a powerful underlying operating model that we have that we can overcome those headwinds. I want to thank all the shareholders for supporting us and wish everybody the best of the season. And we look forward as a management team to continuing to perform in the interest of the shareholders in 2013.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Thanks, Ed. And with that, we will end the meeting and thank everybody for their time today. Thank you.

Operator

Ladies and gentlemen, this concludes the conference.