

**TD BANK FINANCIAL GROUP**  
**LEADERSHIP VIEWS WITH BHARAT MASRANI**  
**FEBRUARY 3, 2010**

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## CORPORATE PARTICIPANTS

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Bharat Masrani            Group Head U.S. Personal and Commercial Banking, TD Bank Financial Group  
President & CEO, TD Bank, America's Most Convenient Bank

Tim Thompson            SVP, Investor Relations, TD Bank Financial Group

## QUESTION AND ANSWER

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### **Tim Thompson - Senior Vice President, Investor Relations, TD Bank Financial Group**

Welcome to the TD Bank Financial Group's Leadership Views video – a series of interviews with senior TD executives on strategic and timely topics. With me today is Bharat Masrani, Group Head U.S. Personal and Commercial Banking. Bharat, welcome.

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### **Bharat Masrani - President & CEO, TD Bank, America's Most Convenient Bank**

Thanks Tim. It's a pleasure to be here.

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### **Tim Thompson - Senior Vice President, Investor Relations, TD Bank Financial Group**

Let's start by looking at the U.S. financial industry. There have been a lot of changes over the last couple years. How has the financial crisis affected the U.S. financial industry as well as TD?

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### **Bharat Masrani - President & CEO, TD Bank, America's Most Convenient Bank**

What we saw in the past two years is dramatic. We saw more than a hundred banks fail just in 2009 alone. We saw major financial institutions that all of us have recognized and lived with fail. So it has been quite a stressful time in our industry and when you have a financial crisis where banks are failing, without a doubt you will follow with an economic crisis and like any other bank, we are not immune to some of the fallout. We've seen loan demand be pretty tepid in this environment as businesses are adjusting to a lower growth environment. We've also seen central banks around the world drop rates dramatically and this has an impact on banks like TD. We are a depository franchise, and hence, having nominal rates at a very low level does have an impact on our business. So we've not been immune to this and we've seen some of the fallout, but the great thing about our bank is that we are at the lower-risk profile of financial services. Our focus is low-risk retail banking, which is built around legendary service and unparalleled convenience, and what we've been able to do through this cycle is to gain market share. We have been able to grow our business in a tough environment, and frankly, having the risk management practices, having made sure that we did not enter businesses that have turned out to be quite fatal for banks, such as subprime lending and high-risk lending and high-risk structured type of transactions, has helped our bank to perform relatively well during this crisis.

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### **Tim Thompson - Senior Vice President, Investor Relations, TD Bank Financial Group**

If we shift gears and think about the regulatory environment and the political environment, the last few months have been quite challenging on that front. How do you see those headwinds impacting what we're trying to do in the U.S.?

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**Bharat Masrani - President & CEO, TD Bank, America's Most Convenient Bank**

Well without a doubt when we have a crisis of the type we've just experienced, there will be fallout. Obviously, we are a highly regulated industry and rightly so. And will there be some major changes out there? I think so. We've seen many proposals out there through various agencies as to what some of these proposals will look like, and frankly it is right to address some of the shortcomings that were quite obvious to this crisis. Were there gaps in the regulatory framework that allowed certain institutions to do what they did that turned out, with the benefit of hindsight, to be quite dangerous for not only the financial system but the overall economy? Absolutely. So I think it is right that some changes have to be made to ensure that we do not repeat some of these events in the future. And frankly, I'm a proponent of strong regulation, and some changes are great. But the important thing here is to make sure that we come up with the regulatory framework that addresses the key issues that caused this crisis. And the risk we run is that a lot of these proposals do have unintended consequences, and it's critical that all the players that are impacted here, all the stakeholders, think through what those unintended consequences might be, and make sure that we do not end up in a position where we've not really addressed the core problems that caused the crisis, and frankly, hinder growth for the future, because it's important to find that right balance.

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**Tim Thompson - Senior Vice President, Investor Relations, TD Bank Financial Group**

Excellent. So why don't we turn to the U.S. economy – obviously a very important context piece for U.S. business. Is there light at the end of the tunnel yet?

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**Bharat Masrani - President & CEO, TD Bank, America's Most Convenient Bank**

Trying to be in the forecasting business is always a dangerous vocation. I've learned that, and some of the depth of this crisis that we've seen is unprecedented. What we've had this time around is not only a financial crisis but a banking crisis – a crisis of confidence in some respect, and frankly some might say panic – that we experienced, which quickly followed, not surprisingly, with an economic crisis of some kind, where some might suggest that this the deepest downturn or recession we've seen since the great depression. And when you have those circumstances, it is extremely difficult to try and predict exactly when the turn would come. But suffice it to say that given the depth of this crisis it has taken longer to stabilize. I think the financial stimulus has been helpful. There is obviously some activity created through that level of spending, but without a doubt, this crisis and this particular downturn is lasting longer I think. Consumer confidence continues to be fragile. But like I've said before, for our bank, we do not engage in businesses that carry huge tail risk. And frankly our business model is built around low-risk retail franchises that have sustainable positioning in providing legendary customer service and unparalleled convenience. And frankly from my perspective that is what we have created, which allows us to withstand some of the effects of this downturn better than some of our competitors.

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**Tim Thompson - Senior Vice President, Investor Relations, TD Bank Financial Group**

Excellent. One fallout from the financial crisis is that other banks have put more focus on their retail operations. So that sounds like more competition. Are you seeing that?

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**Bharat Masrani - President & CEO, TD Bank, America's Most Convenient Bank**

Oh yes, you know all of a sudden there was a time when retail banking was viewed as boring and not really attractive, but now we are sexy and quite attractive. Given what has just happened in the industry, I

think some of the funding issues that certain institutions experienced through the banking crisis has resulted a renewed focus on retail banking and retail deposits. So we do see more competition. I expect many banks were not really serious about retail banking becoming serious very quickly. Having said that from our perspective we do have a unique positioning. Our positioning is based off providing legendary service and unparalleled convenience to our customers. From my perspective that is the sustainable, viable position to own. We cannot own this through pricing. We cannot own this through product innovation because we will be copied. So I do see where we do have an advantage because a lot of the new players or players who've been there who have renewed focus on this space from my perspective will have a hard time replicating what we have. I think that is unique to TD and it allows us to prosper well into the future.

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**Tim Thompson - Senior Vice President, Investor Relations, TD Bank Financial Group**

Bharat. Thinking about TD Bank, what makes us unique? What distinguishes us from our competitors?

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**Bharat Masrani - President & CEO, TD Bank, America's Most Convenient Bank**

At TD Bank, America's Most Convenient Bank, we have a unique business model that is hard to replicate. Our model is centered around providing legendary customer service and unparalleled convenience. We are open 7 days a week, 361 days a year, in most of the markets we operate. In those markets, we are open 50% longer than our competitors for the most part. We have penny arcades that provide free coin-counting services that have turned out to be critical for us to attract and retain customers. We provide free pens. We provide treats for kids and dogs. We also make sure that our grand openings which is very much part of our model follow something called "retailtainment" which creates a street fair-type of environment and we've found to be very, very important in attracting a huge amount of interest in the local communities and provides us with a base to have extraordinary growth through our denovo strategy. And you just don't have to take our word for it. We won the J.D. Power award fourth year in a row for retail banking, and we also won the J.D. Power award for small business nationally third year in a row. So yes I see more competition entering our space, but I'm very happy with our positioning because it is unique. It is the only sustainable place to be in banking from my perspective, and that's what we have. And that positions us well for growth.

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**Tim Thompson - Senior Vice President, Investor Relations, TD Bank Financial Group**

It's been about 5 years since we initially bought 51% of Banknorth, so we've been in the U.S. retail market that long. Knowing everything you know now, all those factors around regulation, tough economy, do you think it was the right decision to go into the U.S. market?

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**Bharat Masrani - President & CEO, TD Bank, America's Most Convenient Bank**

Absolutely. And when the U.S. market is the largest market in the world, the deepest market in the world, and frankly a market that allows a newcomer to come in and grow a credible business, to build a credible business, because the market is not fully consolidated yet. The great thing for us is that we have a fantastic business in Canada that does not only have scale but has provided universal banking services to Canadians. And frankly, do Canadians and Americans want the same things from their bank? I think so. They want great service. They want great convenience. They want products that are innovative. There are differences in the market that we need to recognize and make sure that we adapt to them, but I have no regrets. We now have positioning in 5 of the top 10 banking markets in the United States and I see great things for us in the future. You know timing, people tend to you know worry a great deal on

timing and we should, but we are in the franchise building business which is a long-term objective of the bank and I think, once we have built the platform that we intend to, we are going to be very happy with our positioning in the U.S. market.

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**Tim Thompson - Senior Vice President, Investor Relations, TD Bank Financial Group**

Here's a tough question for you. Many of our investors are concerned about the returns we're making in the U.S... The returns currently are below our cost of capital. How are we going to make the U.S. business get a better return?

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**Bharat Masrani - President & CEO, TD Bank, America's Most Convenient Bank**

Well obviously I'm not happy with the return. Tim you talked of earning return that is below the bank's cost of capital and obviously, the economic conditions right now have not been helpful in that regard. But the great thing we have is we do now have a platform from Maine to Florida. We have more than a thousand locations in some of the best markets in the United States. When we acquired the Commerce franchise a couple of years ago, 40% of the network was not mature. So there is embedded growth available in the network, and what we do, what the bank has been able to retain is the denovo store strategy. We do have organic growth in the US. We opened 33 new locations last year, and we plan to open 32 new stores this year. And these store growth and other strategies do provide us with organic growth, and every dollar of organic growth is quite profitable. So when I look at the markets we are in, there are certain markets, like Boston and New York, the growth markets we have in Washington D.C. and Florida, when I couple that with our organic growth capabilities, and we are already showing momentum. With that and our ability at some point to export some of the cross-selling techniques that we have been very successful with in Canada, and once we are able to get those embedded into our franchise in the U.S., I feel very good that we will have the growth, and frankly over the long term should improve those returns quite substantially.

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**Tim Thompson - Senior Vice President, Investor Relations, TD Bank Financial Group**

The U.S. banking market is a consolidating market. And we've seen a lot of our competitors taking advantage of those opportunities, especially over the last couple of years, but we haven't. What are your views around acquisitions?

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**Bharat Masrani - President & CEO, TD Bank, America's Most Convenient Bank**

Everything is about growth. So how do we get growth? We can get growth through organic growth by building our franchise and winning one customer and one dollar deposit at a time. We can acquire other banks. And so the great thing for us is that we now do have a growth platform. Because of our ability to grow our franchise and grow stores and locations right from Maine to Florida. With respect to acquisitions, obviously we would look at any acquisition that made strategic and financial sense. If there was a compelling opportunity there, obviously we'd have to look at it. I don't think our shareholders and our Board would be happy if we were to ignore strategic acquisitions that might be out there. And so yes, there have been instances recently, given the crisis, there have been deals that have gone through the FDIC process and some banks have participated in that. Would we be interested in looking at those? Yes of course we would be. The great thing about those types of transactions is that it does remove credit risk out of the balance sheet and the loss share arrangement with the FDIC. And that is attractive. Not only is it attractive by ensuring that there are no catastrophic losses in any of those acquisitions, but also it is capital-friendly given the embedded put to the FDIC on some of those problem loans. I think the

other big issue is that would we look at other forms of acquisitions and again yes we would look at it but it's very important that we have more visibility on asset values than we have seen recently. If there are transactions out there that we feel comfortable, that the asset values are not only visible but we are able to manage the downside risk then obviously it's important that we would give some serious consideration to those opportunities as well. So a long way of saying that we will look at any opportunity to grow in the United States. Our main objective right now is organic growth. But should there be a compelling opportunity we would seriously look at it.

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**Tim Thompson - Senior Vice President, Investor Relations, TD Bank Financial Group**

So Bharat, I want you to look into your crystal ball and think about U.S. retail banking. What's it going to look like in the future?

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**Bharat Masrani - President & CEO, TD Bank, America's Most Convenient Bank**

U.S. banking, retail banking specifically, firstly we've got a fragmented market. That has to sort of adjust to the great diversity of the United States. And I see a time when a lot of these institutions will follow the model we've seen in other countries. Do I see a world where these banks become more universal in nature? Do I see a world where retail banks that are primarily in the deposit and lending business start entering the wealth management businesses, start selling insurance? Absolutely I see that. I see a more universal offering in the future, and I like that, because what that does is it allows a bank like TD to take full advantage, because we already have that model in Canada. From my mind, from my perspective, perfected that model in our ability to cross-sell those financial services and I see that happening in the U.S., and that would allow us to take advantage of what we have built in Canada.

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**Tim Thompson - Senior Vice President, Investor Relations, TD Bank Financial Group**

So we're going to change gears here, and I want to ask you something about leadership. So throughout your career you've seen lots of leaders at work. What do you think are the most important attributes of great leadership?

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**Bharat Masrani - President & CEO, TD Bank, America's Most Convenient Bank**

This is always a fascinating topic because we can go on for hours talking about this. In my mind, I look at three things frankly. What I would call the general expectation of a leader is table stakes – that's what, business acumen – I mean, are they able to work in teams? Are they able to build businesses? Those are what I'd call normal attributes that you'd want. But then there are a few attributes that become critical in a good leader becoming an exceptional leader, and I think one of them is judgment. It's often, especially in the times we live in, when we might not have perfect information, where we have to make calls that are required to be made in real time, and do these leaders have that judgment that allow them to make the right decisions most of the time. So I think that becomes critical in great leaders. The second one is ability to attract and develop and manage talent. We are, after all, in the people business. We don't make cars or screwdrivers. All we do is hire great people that provide legendary service to our customers. So ability to spot talent, to attract that talent and to develop that talent becomes key. And in my mind, I say all those three kind of meshed together in a great leader having this ability to have people perform beyond their natural inclination. I think it's critical that we do that as leaders of a company. The third one, which is sometimes controversial, is to watch great leaders. And I think as important as it is to emulate some of those attributes is to see what you do not want to do, is to make sure that "I will never,

ever do that, because that is a real weak point that is creating so much turmoil in an organization”, and “how do I make sure I never do that?” Those are some thoughts I would share with you on leadership.

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**Tim Thompson - Senior Vice President, Investor Relations, TD Bank Financial Group**

Thanks for your time, Bharat.

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**Bharat Masrani - President & CEO, TD Bank, America’s Most Convenient Bank**

Thank you, Tim.

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**Tim Thompson - Senior Vice President, Investor Relations, TD Bank Financial Group**

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