**TD Bank Financial Group**
Investor Relations

# Q3 2006 EARNINGS CONFERENCE CALL
# THURSDAY AUGUST 24, 2006

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| Bob Dorrance | Chairman & CEO, TD Securities |
| Tim Hockey | Co-Chair, TD Canada Trust |
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## PRESENTATION

**Colleen Johnston** ***- Toronto Dominion Bank - CFO***

Financial Group third quarter 2006 investor presentation. My name is Colleen Johnston and I'm the CFO of the Bank. After my presentation on the Bank's third quarter operating performance, you will hear from Ed Clark, the Bank's CEO who will give some concluding thoughts. We will then entertain questions from those present as well as pre qualified analysts and investors on the phone.

Also present today to answer your questions are Bob Dorrance, Chairman and CEO of TD Securities; Tim Hockey and Bernie Dorval, Co-Chairs of TD Canada Trust; Bill Hatanaka, Chairman and CEO of TD Waterhouse; and Bharat Masrani, Chief Risk Officer.

I know that this presentation contains forward-looking statements and actual results could differ materially from what is discussed. Certain material factors or assumptions were applied in making these statements. For additional information we refer you to our press release and presentation material. These documents include a description of factors that could cause actual results to differ and can be found on our website at TD.Com.

Let's start with the highlights. We had a great quarter. Total Bank adjusted net income of $886 million, up 20% from last year. Adjusted EPS of 121 up 16% from last year. Supported by record performance in Canadian P&C Banking, net income from our Canadian retail businesses was $621 million up 22% from last year. Canadian Retail contributed 67% of the total Bank net income.

Net income from our U.S. retail businesses, TD Banknorth and TD Ameritrade, was up 28% year-over-year to $123 million and is 14% of total earnings. Wholesale net income of $179 million was up 38% from last year. Wholesale was 19% of total Bank earnings. The Corporate segment loss of $37 million was within our expected range.

Lower gains on securitization contributed to the change from last quarter or from last year. Corporate support costs were up this quarter in part due to the U.S. brand advertising costs. Our capital ratios remain strong with Tier 1 at 12.1% and tangible common equity at 9.1%. We announced a 9% or $0.04 increase in our quarterly dividend to $0.48 per share.

Reported net income was $796 million or $1.09 per share and adjusted net income was $886 million or $1.21 per share. We have three items of note this quarter, two of which include the impact from the revaluation of deferred tax assets and liabilities as a result of the substantial enactment of federal tax rate reductions during the quarter. Let's go through the items of note--Amortization of intangibles, $61 million this quarter or $0.08 per share.

This consists of the regular amortization number of $85 million minus $24 million associated with the revaluation of the related tax deferred liability. Accounting guideline 13, a recurring adjustment which was a loss of $5 million or $0.01 in the quarter. Other tax items, excluding the future tax liability associated with our intangibles, we have a net future tax asset position. A $24 million reduction in the future tax asset position was recognized.

To better compare with the disclosures of our peers we include a basic P&L for TD Canadian retail which combines both Canadian P&C and the Canadian Wealth results. The Canadian personal and commercial bank, TD Canada Trust, broke through the $0.5 billion mark this quarter with record performance.

Net income of $524 million was up 21% from last year. Record revenues of 1.929 billion, were up 14% from last year. The increase was broad based with strength right across-the-board. The first time inclusion of VFC accounted for just over 1% of the 14% growth. Net interest income rose by $166 million. Performance was driven by excellent volume growth coupled with good improvement in the margin.

In terms of volume, real estate secured lending was up 10%. Visa was up 20% and we saw good business in personal deposit growth with checking balances up 3% versus last year. Fee revenues were up 35 million as core banking, Visa, and insurance continued to generate higher fee revenue. Net interest margin for the quarter was 308, up 10 basis points from last quarter. VFC contributed 5 basis points of the increase. The remaining increase was due largely to higher margins on core banking deposits.

We expect margin to be down slightly in Q4 primarily because of market pressure on pricing evident late in the third quarter. The provision for credit losses increased $14 million from last year to $104 million. The increase in personal was due to inclusion of the VFC acquisition which added 9 million. We continue to believe that PCL's are at their low point; however we currently expect PCL levels to remain relatively stable in the near term depending on the level of recoveries.

Expenses of $1.39 billion, were up 9% over last year; however the efficiency ratio improved 254 basis points to 53.9%, a new record. With a gap between revenue and expense growth of 5%. Well over half the increase in expenses can relate to growing the business which includes higher origination cost, incentives, new branches, the addition of customer facing staff, marketing, and project spend. VFC added just under 1% of the expense growth in the quarter.

The theme is consistent with prior quarters. We are taking advantage of strong top line growth to invest in growing the business, and it's having the desired result. Personal deposit share was down 3 basis points quarter-over-quarter but up 6 basis points year-over-year. Personal loan share has remained relatively stable over the last four quarters. Small business lending share continues to increase up an impressive 165 basis points from last year.

Let's move on to Canadian Wealth Management which excludes TD Ameritrade USA and -- TD Waterhouse USA and TD Ameritrade. Generated net income of $97 million was up 33% from last year. Another very strong quarter. Total revenues of $492 million were up 15% from last year, increases were broad based with double digit revenue growth rates in discount brokerage, the advice channel and mutual funds.

Discount brokerage revenues were up due to higher trades per day and higher interest income on margin loans. A partial offset was the effect of the new pricing for our active trader platform launched last March. Quarter-over-quarter, transaction revenues were down on seasonally lower trading activity across our wealth businesses and the full quarter effect of the new active trader pricing.

Mutual fund revenues increased due to strong asset growth. In the past year, TD has moved into fourth place from sixth place in terms of total industry assets. Advice based revenues rose primarily as a result of higher assets under administration.

We've added 93 client facing advisors this year-to-date and we're well positioned to meet our target of 130 by year-end. Expenses for the quarter were $344 million, up 8% from last year. The increase was driven by higher transaction and asset volumes and the continued investments in our platform. Like

TDCT, Canadian Wealth is taking advantage of strong revenue growth to invest for the future. We posted an impressive 8% gap between revenue and expense growth.

Market share for mutual funds continues to be an impressive story. The gain in share for long term funds since Q3 '05 is 44 basis points for the Bank market and 45 basis points versus the industry. Our U.S. Retail business which consists of TD Banknorth and TD Ameritrade was up 28% from last year. We preannounced both numbers in July following the release of their results. Feedback on our enhanced disclosure has been very positive. We've included a trend line for net income translated into U.S. dollars to give you an indication of the effect of the strengthening Canadian dollar.

U.S. personal and commercial banking net income was $68 million versus $70 million last year. Net income was up $9 million from last quarter. This improvement was due to the extra month of Hudson and lower TD Banknorth restructuring charges as we mentioned last quarter.

While the TD Banknorth contribution of $68 million is relatively flat to last year, it's worth noting that the translation rate from U.S. dollars to Canadian has declined from 125 last year to 111 this year, and in U.S. dollar terms the U.S. P&C segment was up 9% year-over-year.

The next slide shows you some operating highlights from TD Banknorth's latest quarter. Last month, TD Banknorth reported adjusted earnings for their second quarter of U.S. $128 million, up 17% from last year. A number of the underlying metrics remain strong with good margins and efficiency and excellent credit quality. The Hudson acquisition continues to show signs of success with improvement in key metrics.

TD Ameritrade reported record earnings for their second quarter ending June the 30th of U.S. $140 million. TD's investment in TD Ameritrade generated 55 million of net income for the quarter, more than double the contribution from TD Waterhouse USA in the same quarter last year. This represents the first full quarter of the combined TD Ameritrade and TD Waterhouse USA results. Our average ownership this quarter was 36.7%. We are now at 39.5%.

Moving to wholesale. The wholesale bank generated net income of 179 million up 38% from last year. Revenues of 583 million were up 19% from a year ago. The strength in revenue was broad based with a particularly strong quarter in equity derivatives. In addition we had strong merchant banking gains.

As mentioned last quarter, we expected stronger securities gains from the merchant banking portfolio. Security gains were up $31 million from last quarter, the Mountain Union gain represented the majority of our total gains this quarter. We continue to have unrealized gains of $707 million in our securities portfolio consistent with the prior quarter.

PCL's of $15 million are in line with last year. The PCL number in the quarter represented the accrual cost of credit protection plus a small merchant banking loss. Expenses of $303 million were up 8% from last year. The increase is primarily due to higher variable compensation, tied to higher revenues.

Expense declines in our exited structure products businesses have been somewhat offset by increased investment in our domestic franchise and proprietary businesses, our strategic focus. The wholesale business has now essentially completed the exit of the structured products businesses. Overall, a great quarter for wholesale.

In summary, it was a strong quarter and we announced a $0.04 or 9% increase in the dividend. With that I'll turn it over to Ed for some concluding remarks. Ed?

**Ed Clark** ***- Toronto Dominion Bank – President & CEO***

Thanks, Colleen and thanks to all of you for coming and joining us this afternoon on the phone. Colleen's walked you through the numbers and what I'd like to do is just comment on a few of the highlights. Obviously, the third quarter was a fantastic quarter for us and does position us well to finish the year strongly but also well positioned for next year.

Obviously one of the highlights of the quarter has to be the $621 million was earned by our Canadian retail operations which are the Canadian Commercial Bank and Wealth Management in Canada. This represents a 22% increase from last year but it's also a major milestone.

When we put TD and Canada Trust together in 1999 these businesses earned about about $200 million a quarter. But we've managed to triple our earnings in our Canadian retail operations since the merger. That is a remarkable achievement, I think, by anybody's standards. And how did we do that?

Well, we did it by focusing both on long term franchise initiatives and tough short-term earnings goals consistent with achieving our long term franchise desires. While our consistent good results I know may look easy for those on the outside, I think it's important that we give credit to Bernie Dorval, Bill Hatanaka, and Tim Hockey for the teams for what has been a fantastic job.

They know they have to invest constantly for the future and they have led all their teams consistently to do that. But they've also led their teams to the need to meet our short-term goals which remain to produce sustainable performance better than our peers. It's hard work and they have done a great job.

Now, when I look out to the future, I have all of my normal worries, a slower U.S. economy, a slower in it's impact on Ontario and Quebec economy in particular and a worsening of the credit cycle, but I must say I am struck by the strength of the fundamentals in these businesses. Our new threshold of $600 million plus in earnings seems sustainable. And while growth next year may slow, double digit earnings growth in these businesses seems quite achievable.

The third quarter was also a great quarter for the Wholesale Bank and also was an important milestone. Now I recognize that it has been sometimes frustrating to our investors to fully understand the impact of our exit from the structured product areas. The good news is that we are done. There remain a number of operational activities but our economic risk is gone, and more importantly, we now have our wholesale business where Bob and I want it to be, and we can focus all our energy on continuing to grow it.

As I've indicated to you before, I really like where we are. We've got a highly profitable growing franchise play, we have strong proprietary trading groups operating in transparent markets and we have a leading investment group with a strong mark to mark surplus. Our returns are excellent and we see these businesses growing.

As we look forward, we do see a seasonally normal slower growth in the fourth quarter, but we do feel our long term earnings targets should move up from the $550 million that I originally suggested to $525 to $625 million per year. This represents very good returns on our equity base of about $2.5 billion in this business.

Turning to our U.S. operations. We remain very happy with what we've achieved, even if it does have it's normal business challenges. Our U.S. retail earnings as Colleen has mentioned are up 28% in Canadian dollars and 43% in U.S. dollars. We continue to believe that having a credible U.S. retail platform will be a differentiator for us and we intend to prudently grow it.

I recognize there is some worry that we will expand in the United States no matter what the cost. This is not the case. We have turned down a number of deals which didn't meet our criteria. We have a clear set of targets and a view of what price makes sense to us. Clearly, there are competing pressures here. I would not wish us a stall in our expansion, but I'm also unwilling to do deals where I can not see a pay off. I can only say as a major shareholder I am very much aware of the need to get this balance right.

As for the operations of TD Banknorth and TD Ameritrade, I'm quite pleased with the initiatives that both groups have taken to grow the companies and improve the quality of the earnings, not to mention the obvious progress being made by both organizations in absorbing their acquisitions. Clearly, Banking is tough today in the American market. As Bill Ryan has said, TD Banknorth earnings per share unless the environment changes will likely grow slowly. The Ameritrade earnings, as Joe Moglia has indicated, have upside as we realize the synergies of the Waterhouse acquisition.

Of note this quarter was Bharat Masrani's appointment as President of TD Banknorth reporting to Bill Ryan. I would just like to take this opportunity to thank Bharat for the great work he's done most recently as our Chief Risk Officer. He has been a very significant source of support to me. In terms of filling this role, we are putting an interim structure in place so that Bharat will be able to focus solely on TD Banknorth as of September the 4th. Once we have our longer term structure in place we'll let you know.

Now let me comment on our capital position. We continue to have a very strong capital position and with our high return on risk rated assets we are well positioned to finance continued growth in our businesses when and if the right opportunities arise. In these circumstances we do not see a need to continue the discount on our DRIP program or to allow dilution as a result of the exercise of stock options. We are therefore setting the DRIP discount at 0 and today we're announcing the intend to buyback under a normal course issue of bids subject to TSX approval approximately 4 million shares this year to offset the expansion option exercise solution.

In closing, Q3 was a fantastic quarter. A level of growth that's going to be hard to duplicate, but our confidence in both the quality and the sustainability of our earnings is shown against again once more by moving up our dividend. This is consistent with our dividend policy of raising our dividend in line with what we see are sustainable earnings. For most of our businesses, Q4 is likely to be relatively flat to Q3 with perhaps the Wholesale Bank slightly down. That doesn't change our positive outlook for 2007, assuming normal market conditions. We grew EPS 16% this quarter and 13% year-to-date.

We have said that we were going to try to grow over the cycle earnings per share by 7 to 10%. While we think that's a respectable earnings growth goal for a Company like ours over the long run, our job is in good times to do better. And clearly we have done better, with our overall earnings growing 15 to 20% and EPS growing 10 to 12%. Next year, we believe that exceeding our long run range of 7 to 10, again looks quite possible. With that I'll open the floor to questions.

## QUESTION AND ANSWER

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**Ian DeVerteuil, *BMO Nesbitt Burns - Analyst***

A question for Tim. The car business, it's tough to understand how well the car business is doing. It seems as that some of the numbers moved around a bit, it looks as if balances are up tremendously and it's impacted by securitization, but as well the revenues and the card services was up substantially. Can you talk to like how much share you're winning and what's going on?

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**Tim Hockey *- Toronto Dominion Bank – Co-Chair, TD Canada Trust***

Year-over-year it's a great success story. We're up 57 basis points in market share for credit and that's on authorizations and we're also up on the transaction volume.

We just peaked through $5 billion in total book this past quarter. To put that in perspective the growth of 1 billion in book took less than a year and the previous billion took about three and a half so that tells you the rate at which we picked it up. This is partly a by-product of the laser implementations over the last couple of quarters. I talked about it I think last call about the number of cards that were being sold through multiple channels, the growth in actual cards delivered through retail in our electronic channels is up in the 40 to 80 change depending on a percent year-over-year range, so it's got great momentum behind it. That's driving the revenue numbers that you're seeing in card services.

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**Ian DeVerteuil,** ***BMO Nesbitt Burns- Analyst***

I know the laser is sort of pushing really a push strategy of trying to encourage people to take the cards. Is there anything other than that? It doesn't seem as if the products differ that much, so is that the differentiating factor?

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**Tim Hockey** ***- Toronto Dominion Bank - Co-Chairman, TD Canada Trust***

Yes. Distribution, we haven't launched any new products in the card business. We actually are cutting over to our new Visa platform literally in a couple of weeks and there will be no product launches until obviously that's done and the conversion is through and then we have more options in terms of launching new products, but all of the growth is all around. Good marketing push, good distribution capabilities, and we're very happy at the rate at which we're growing now.

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**Ed Clark** ***- Toronto Dominion Bank - CEO***

Michael?

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**Micheal Goldberg –** ***Desjardins - Analyst***

The long term deposits are down about $2.5 billion this quarter. Where is that coming from and why?

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**Tim Hockey** ***- Toronto Dominion Bank - Co-Chairman, TD Canada Trust***

Which schedule? Is it the total bank schedule again or is it the--?

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**Micheal Goldberg –** ***Desjardins - Analyst***

Yes. Total Bank and it's out of the balance sheet, about $72.4 billion, and I know that includes TD Canada trust, the Banknorth, and also the client balances that previously would have been in Waterhouse Bank, so what I'm wondering is just where that decrease is coming from and why the decrease.

**Ed Clark** *- Toronto Dominion Bank - CEO*

Maybe what we can do is get back to you. We don't tend to think of it in the global way, we tend to think of it business by business and so you can't have movements in TD Bank USA that will affect that number so why don't we try to come back to you. We'll give you a number, an answer based on facts. Maybe we can go to the phones?

**Operator**

Your first question comes from Mario Mendonca with Genuity Capital Markets. Please go ahead.

**Mario Mendonca** *- Genuity Capital Markets - Analyst*

Good afternoon. Ed, last quarter, I asked about the guidance the Company provided and you referred to 7 to 10 and it was never guidance that I thought of necessarily belonging to any particular year, just more long term but you were clear last quarter in suggesting that it did belong in 2006. Your closing statements on today's call, it just sounds like a complete about-face from what we heard last quarter.

Not only are you suggesting that you can do better than the 7 to 10 this quarter, but even suggesting that the same is true for 2007 so first, am I right? Is this, this is very different from what we heard last quarter and secondarily, why is that? What's changed from three months ago that's caused you to be so much more constructive?

**Ed Clark** *- Toronto Dominion Bank - CEO*

To be perfectly honest with you, and we've had quite a bit of internal discussion about this. Our view of the outlook hasn't changed from quarter to quarter and our view of our strategy hasn't actually changed from quarter to quarter, but we are sensitive to the fact that we get feedback from the marketplace and whether they understand what's going on in the Company and whether the market is acting like they understand. So I think that there was a number of comments that the fact that we think over the long run, this has got to be a 7 to 10% business, that that's a more natural thing confuses the market when we keep on tracking up 10 to 12% increases in EPS and so that we're leading to some confusion as to how optimistic we were about what our future looked like both in 2006 and 2007. And I think particularly by the fact that when you look at us, the quality of our earnings, there is a -- we have tried to shift the business mix to areas where the earnings are relatively predictable and as you know, in our particular case, we also have the kind of mathematical impact coming in because of increased ownership that's gets loaded in over time, so you have an arithmetic effect. So I think that all we're trying to do in my remarks today is be a little crisper to say what we actually had, but if you actually said do we feel any different about the coming weeks? We thought we had a great quarter last quarter and we thought we had a great quarter this quarter and we like where our operating results are coming in and so we're really trying to clarify more explicitly how we feel about things.

**Mario Mendonca** *- Genuity Capital Markets - Analyst*

I don't mean to pursue it too far, but last quarter, it was a clear indication that 7 to 10 was appropriate for '06 and it would just appear that maybe this quarter surprised you somewhat in terms of it's strength. Is that a fair statement?

**Ed Clark** - ***Toronto Dominion Bank - CEO***

I think what we said last quarter was we thought we were at the upper end of the range of 7 to 10 as if I recall is where we are.

**Mario Mendonca** - ***Genuity Capital Markets - Analyst***

Yes. That's true.

**Ed Clark** - ***Toronto Dominion Bank - CEO***

So, I think we're now clearly saying that we probably are going to end up in the air above the 10% range, so in that sense, but if you're asking, and I know these fine differences mean a lot to you so I'm not trying to downplay how much it seems to mean to you. When you're an Operator which is what we think of ourselves, we're more worried about whether fundamentally the business is working, are we taking market share, do we see the business working well, that's what drives us. So we're probably not as sensitive as maybe we should be of what these fine differences whether we are at the upper end or whether we're well above the upper end so we are trying to be a little bit more responsive to the market in understanding that these things matter to you.

**Mario Mendonca** - ***Genuity Capital Markets - Analyst***

Okay. So I think maybe it's a matter of emphasis as well at your end versus our end. A few more sort of detailed questions. Marketing expenses up a fair bit this quarter from last. Is this the new sort of run rate we should get used to from TD given everything that's going on?

**Ed Clark** - ***Toronto Dominion Bank - CEO***

I'll let Colleen answer that.

**Mario Mendonca** - ***Genuity Capital Markets - Analyst***

Sure.

**Colleen Johnston** - ***Toronto Dominion Bank - CFO***

Yes. Mario the costs are up a fair bit from last quarter. I would say that's pretty much has split equally between our U.S. brand advertising costs and then other higher marketing costs primarily in the retail side, so I think you can expect, certainly you will expect to see the U.S. brand advertising costs come down next quarter.

**Mario Mendonca** - ***Genuity Capital Markets - Analyst***

So this was perhaps just a little special then?

**Colleen Johnston** ***- Toronto Dominion Bank - CFO***

This quarter, yes, in terms of the U.S. piece.

**Mario Mendonca** ***- Genuity Capital Markets - Analyst***

And another very minor, service charges this quarter up sequentially about $30 million. This is something I don't understand entirely why that would move so quickly in one quarter. Is there a certain parts to that? That you could speak to?

**Tim Hockey** ***- Toronto Dominion Bank - Co-Chairman, TD Canada Trust***

Mario, it's Tim. I would say that the inside TDCT retail, there were some fee increases that were put in place in May so we get a full quarter's effect, but there was also some significant increase in our active checking account customers which also helps with that growth number and those are the TDCT numbers. So it's a little bit of a step function bump that we'll see play out over the next three quarters as well and also just share growth.

**Mario Mendonca** ***- Genuity Capital Markets - Analyst***

So bottom line, that looks sustainable to you? This isn't something unusual this quarter then?

**Tim Hockey** ***- Toronto Dominion Bank - Co-Chairman, TD Canada Trust***

Absolutely.

**Mario Mendonca** ***- Genuity Capital Markets - Analyst***

Okay and then just sort of finally a very general question. It seems like again, a bit of a change in philosophy, perhaps not strategy, but in terms of returning capital to shareholders, the dividend increased, what you explained about the DRIP program, is this also sort of a shift in philosophies, is this in response to just everything you've heard from investors and analysts?

**Ed Clark** ***- Toronto Dominion Bank - CEO***

I'd say a tweak is probably how I would describe it as sort of a shift in philosophy. I mean we are -- we're not I guess completely insensitive to when we look at our forward multiple trading at a significant discount to our peers when our earnings predictability is probably better than our peers. I think it would be remiss of us not to note that fact, but I also think more fundamental sense is we do do capital planning and when we look at our capital situation as I indicated, we position the bank where we have a significantly higher rate of return for every dollar of risk we take and since regulatory capital driven off every dollar of risk you take, it means that we have a pretty powerful capital generating machine.

Maybe a little bit slower right now in the current environment because it's clear also that our volumes are growing quite rapidly, but I think we've come to the view that if you look out, given the things that we want to do, you're feeling quite -- pretty comfortable that we have obviously enough capital to fund a business expansion that we now see in mind and so when you put the market reaction and together with that, then as I said, it seems not prudent to be diluting the shareholder by either the stock option program or the DRIP program, so we've decided that the sensible thing to do was to do that. So it's definitely a tweak.

**Mario Mendonca** *- Genuity Capital Markets - Analyst*

Well whether it's a tweak or a shift, it's welcome. Thank you.

**Operator**

Your next question comes from Jim Bantis with Credit Suisse Securities.

**Jim Bantis** *- Credit Suisse Securities - Analyst*

Hi, good afternoon. Pretty strong operating leverage this quarter north of 500 basis points year-over-year. The expense growth is at a pretty good clip though as well at 8.5% and you can look at that of most businesses between the big three that you've got and I guess my concern or my question is if the volumes stop, what happens to this high level expense growth or maybe, Colleen you can help me understand of the expense growth how much is coming from fixed versus variable versus investment initiatives.

**Colleen Johnston** *- Toronto Dominion Bank - CFO*

Jim, what I can tell you is that the efficiency ratio on an adjusted basis has improved quite a bit this quarter versus the same quarter last year and two reasons for that. Partly there's a mathematical effect of the fact that we don't have TD Waterhouse USA in on a line item basis anymore where our efficiency was not great in that business, but we have grown the top line certainly faster than expenses, and you've seen the underlying growth in the various businesses so other business leaders may want to comment on that, but as I mentioned we are investing in the platform. We're investing in growth and so you are seeing probably a slightly higher expense growth rate than would be sustainable over the longer term.

**Ed Clark** *- Toronto Dominion Bank - CEO*

Jim or Bernie do you want to comment?

**Tim Hockey** *- Toronto Dominion Bank - Co-Chairman, TD Canada Trust*

Jim, in TDCT, the way we slice it down at about 9%, Bernie and I would say that about 5% of that of base volume growth, new branches, the things that Colleen mentioned. VFC was that one-time bump of about 1% and we assume that's going forward, about 2% that can be classified as initiatives, and there's about another 1% that's non-recurring items all adds up to around 9%. So as we said last quarter, our paradigm is very much continue to invest in the future hopefully with a pretty wide operating leverage, not to the point of 5% every quarter but certainly trying to continue to invest and to when revenues growth flows, then we have some areas that we can cut back to try and keep that operating leverage wide for us.

**Jim Bantis** *- Credit Suisse Securities - Analyst*

Great. That's helpful. If Bob can give me something like that, that would be great.

**Bob Dorrance** *- Toronto Dominion Bank - Chairman, CEO, TD Securities*

The expense growth on the Wholesale side of the business is variable.

**Bill Hatanaka** *- Toronto Dominion Bank - EVP, Wealth Management*

So a 300 basis point gap in between growth in revenues and growth in expenses. If volumes were to decline, a lot of our expenses are around variable compensation and trade and execution expenses so they would automatically drop and we believe with some prudent management we can keep the other costs down as well, so we are prepared in that eventuality.

**Jim Bantis** *- Credit Suisse Securities - Analyst*

Great thanks. I'll requeue.

**Operator**

Your next question comes from Susan Cohen with Dundee Securities. Please go ahead.

**Susan Cohen** *- Dundee Securities - Analyst*

Thank you. For many quarters we had heard about margin contraction and one of the reasons was the competitive environment. This quarter we saw a nice bump up in margins partly because of VFC and I guess some improvement on the deposit side, but are there any changes in the competitive environment that you're seeing that could possibly lead to sustainable margin improvement going forward?

**Tim Hockey** *- Toronto Dominion Bank - Co-Chairman, TD Canada Trust*

From a P&C point of view, we clearly see this as a bit of a high watermark as you note the 5% from VFC won't, the 5 basis points rather won't recur. We think we're going to drift down a little bit from that, but your point specifically around competition, we think there was a little bit more rational pricing in the last quarter and that was an adjustment from the competitive side and we took advantage of that. Rates had a nice uptick for us but we see it drifting down from the 308 level over the next few quarters.

**Susan Cohen** *- Dundee Securities - Analyst*

Okay thank you.

**Operator**

Your next question comes from Darko Mihelic with CIBC World Markets.

**Darko Mihelic** *- CIBC World Markets - Analyst*

Hi, good afternoon. Just a few quick questions, actually just getting back to the share repurchase program. I almost approach it from a different view. Why announce such a small amount, 4 million shares? I'd imagine that you could have announced a bigger amount and then just brought back a small amount in the normal course issue. Is there a technical reason for not announcing say a 20 million share buyback?

**Ed Clark** ***- Toronto Dominion Bank - CEO***

There's not a technical reason. I guess I like to do what I say we're going to do and so I mean, you can get yourself clearance to have a big buyback program and obviously we would have no difficulty getting that, but if I really don't intend to buyback 20 million shares, I don't want to be announcing a 20 million share buyback program and then only buyback 4. And so if we decide that we want to buyback some more shares, we bought back the 4, then we'll announce another program and buy them back, I think it's

crisper to the marketplace to tell them exactly what you're going to do and do exactly what you said you were going to do.

**Darko Mihelic** ***- CIBC World Markets - Analyst***

Okay that's fair, thanks. The next question, I guess, is with respect to your comments of the double digit growth in retail. I guess when I look at the, some of the information you provide with respect to insurance premiums, 11% year-over-year growth, am I correct in thinking that that's slowing or is it in fact at the same pace and could you perhaps comment on what you expect from Meloche Monnex going forward?

**Ed Clark** ***- Toronto Dominion Bank - CEO***

Bernie?

**Bernie Dorval** ***- Toronto Dominion Bank - Co-Chairman, TD Canada Trust***

Darko, it's Bernie Dorval here. First of all on the 11% growth for the quarter, 2 points of that was generated by a retractive adjustment from industry pool, so the number, comparative number were more like 9% for the quarter. So if I look at the business growth in the entrance business going forward both from the Meloche standpoint and from our life insurance standpoint, we think we have -- we won't have the same kind of growth that we've had in the previous two or three years, but we're still growing our units at a pretty fair clip in that business and the average premium per policy is actually holding better than we thought at this point. So we're still seeing some, certainly for next year, some growth in the average premium per policy, probably something around the inflation level. So lots of discipline in that market for the point we're in the cycle.

But clearly, we are not going to have the revenue, the net revenue growth that we have had over the last two years but still, a very comfortable rate of growth we're seeing close to the double digit there. Not quite but pretty close.

**Darko Mihelic** ***- CIBC World Markets - Analyst***

And is there any metrics you care to share with respect to expense ratios?

**Bernie Dorval** ***- Toronto Dominion Bank - Co-Chairman, TD Canada Trust***

In what business in particular?

**Darko Mihelic** *- CIBC World Markets - Analyst*

Well, I think last year you had like a record combined ratio improvement or sorry, expense claims ratio at about 68%. Is that tracking about the same as last year?

**Bernie Dorval** *- Toronto Dominion Bank - Co-Chairman, TD Canada Trust*

Yes. We're making good progress because we've now completed the complete integration of the Liberty Mutual book that we bought, so that's helping and if you look at our rate of growth and expenses in that business, it's actually slower than the premium growth. So we're still making some progress on what is already a industry leading ratio. We're -- on a direct, if you look at it from a pure insurance operating accounting standpoint, I believe we're now at about 18.5% and we're actually trending down from that level and that would be world class. That positions our business very well in terms of sustaining pricing reductions or a more competitive pressure on the business because we have the best operating leverage in industry so we can keep growing this business.

**Darko Mihelic** *- CIBC World Markets - Analyst*

I guess it also helps with possible acquisition activity; am I correct in thinking that?

**Bernie Dorval** *- Toronto Dominion Bank - Co-Chairman, TD Canada Trust*

That's a good question. I would say today the results of the industry are still too good, which makes the prices not necessarily economically affordable so the transaction is not as interesting. We think that the -- as market will get into the next phase of the cycle which will be tighter, if it happens, I think we will see more apportionate to acquire but right now, there isn't really much that is available and at prices that would make sense as per our growth model. So we're quite focused on internal growth as we speak.

**Darko Mihelic** *- CIBC World Markets - Analyst*

Great thanks very much and maybe one last question for Bob. Actually, I'm not sure if you guys have disclosed the Mountain Union gain, but nevertheless, even if I back out to a certain amount it looks like the efficiency ratio at Wholesale has improved and it's a good level.

Is this sustainable, Bob, and I guess the second question is--When you say your exit from the derivatives business is essentially complete it looks like you still have about 29 million bucks that you can actually take down from the reserve, the restructuring reserve you had previously taken. So is it possible to think of this in the terms that that efficiency ratio should improve or do you think that this is a level that we should look for out of TD Securities?

**Bob Dorrance** *- Toronto Dominion Bank - Chairman, CEO, TD Securities*

I think the efficiency ratio out of--.

**Ed Clark** *- Toronto Dominion Bank - CEO*

That will be negotiated as a business plan for next year.

**Bob Dorrance** *- Toronto Dominion Bank - Chairman, CEO, TD Securities*

Yes. I think the efficiency ratio in TD Securities, if you exclude the Securities gains, clearly we benefited from that, is in and around a level that I think is -- that we would have as a target. It will vary up and down depending mainly on revenue because there is some operating leverage in the business, but I think on a go forward basis, I think your point is right, Darko. With respect to what's left, I think what Ed has said and Colleen, is that the market risk component of the structured product business has been substantially exited.

We still have an operational team that is there to -- we still have to movate the transactions, in other words we've sold the transaction to a counterparty and then we have to take the transaction and make that acceptable to the original counterparty that we had dealt with so it's a procession called movatian. We would expect that we'll be complete that early in '07 and that will wind down progressively between then and now so there still are some costs associated with just having people in the team to do that and then letting those people depart as the jobs are finished.

**Darko Mihelic** *- CIBC World Markets - Analyst*

Okay.

**Bob Dorrance** *- Toronto Dominion Bank - Chairman, CEO, TD Securities*

And there's still some operational costs, but not a meaningful number relative to what we have absorbed in exiting the portfolio over the last year.

**Darko Mihelic** *- CIBC World Markets - Analyst*

Okay. Great. That's very helpful. Thank you.

**Ed Clark** *- Toronto Dominion Bank - CEO*

We'll go back to the floor.

**Ian DeVertueil –** ***BMO Nesbitt Burns - Analyst***

A question for Bob. Your credit protection seems to be difficulting lower, the CDS that you bought. I think it's your CDSs. As I look at it, this is the ninth quarter of your credit protection declining from the previous quarter, and you started off at around 5 billion and now you're under 3 and it doesn't look as if your own book has shrunk much, and the comments made in your press release talk about portfolio restructuring. Can you explain what is going on in this business? I would have thought now would be a good time to buy protection as opposed to allow it to roll off.

**Bob Dorrance** ***- Toronto Dominion Bank - Chairman, CEO, TD Securities***

As you'll notice, Ian, the cost of the protection hasn't gone down so what we have done over the course of the last year, year and a half, is, as higher quality investment grade protection has rolled off or as loans have been repaid or reduced which has happened in especially in the investment grade side, we've taken the view that we would rather spend the money on higher risk, the higher risk part of the portfolio so you end up protecting a smaller amount of credit but you pay the same amount of dollars overall to do it. So our budget for credit protection in what we've been spending has been in and around 40 to $45 million annually.

We're still spending that. We're far more aggressively buying protection on non-investment grade type credit. Smaller aggregate amount, same cost, we think lower risk. Or better risk mitigation. And credit protection as the market has evolved as well has become more available in the type of credit that we're looking to protect, so we're more active in managing towards being able to buy non-investment grade credit which more available now than it was two years ago, three years ago.

**Ian DeVertueil –** ***BMO Nesbitt Burns - Analyst***

Ed, you have expressed in the past that asking prices for U.S. banks would become more reasonable. Do you want to give some update on this dimension?

**Ed Clark** ***- Toronto Dominion Bank - CEO***

I don't think we've seen the asking prices get more reasonable up to this point, and so that has meant that there has been a number of situations where we've walked away and we're prepared to wait until we get either something that the we think, well, for that price we're prepared to pay that price because in our particular circumstances we can make it work, or we'll wait for something that we're going to extend our franchise where we think it's a good price to pay for doing that.

So, I'd say that the market is still amazingly strong for how tough the underlying operating environment is because everyone sees the same strategic dilemma that we have which is that there actually is a limited number of banks and the consolidation process continues on and people don't want to completely miss the game and so that dilemma remains in the marketplace.

**Ian DeVertueil –** ***BMO Nesbitt Burns - Analyst***

And a couple of other questions, Bill, also either for you or for Bharat. Recently, there was the Banknorth Investor Day and one of the things that they focused on was their, the marketing strategy that they have in the Mid Atlantic, The no fee, the ATM. I wonder if either of you could give us a bit of an update on what's happened subsequent to that timing. Has there been any further progress in terms of the new account openings that you care to talk about?

**Bob Dorrance** ***- Toronto Dominion Bank - Chairman, CEO, TD Securities***

Well, so I'd say that the basic is that the campaign is working quite well, so we set ourselves a set of -- a target number of accounts that we need to achieve to break even, and even though we said that there would be about a nine month campaign. We're about 2/3 to the target in the first two months, so we're well ahead of what we thought we would get, and we like the quality of the accounts and we like the account balances. It's pretty dramatic turnaround in health in United Branches in terms of account openings across the product set.

I think the other good news is that the stock attrition rates have dropped dramatically so I think people are engaged in the field and can see that this is a pretty exciting place. So I would say our net take on this campaign is that it's worked, so far it's worked better than what we had originally anticipated.

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**Michael Gooldberg - *Desjardins - Analyst***

Okay and I have one other question. Risk rated assets in the quarter are up about $3.5 billion and maybe part of that is from VFC. How much? But beyond that it seems to be a faster pace than you've been running at previously. Do you see that faster pace continuing?

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**Colleen Johnston *- Toronto Dominion Bank - CFO***

The risk rated assets were up about 2.5%, Michael, to your point and most of that happened in TD Canada Trust as you would have seen about 4 billion increase in TD Canada Trust. Reasons for that, threefold you mentioned one of the reasons.

We have had a lot of loan growth, as well, we buy portfolio insurance on our mortgages, on our conventional mortgages and that's basically a timing issue in terms of risk weighted assets. Some of that came off in the quarter. So going forward, we'll -- we are pretty careful in terms of our balance sheet management practices, so we'll continue to manage RWA, I would say probably pretty tightly.

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**Michael Gooldberg - *Desjardins - Analyst***

What does that mean?

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**Colleen Johnston *- Toronto Dominion Bank - CFO***

Well, we'll see. I mean we'll manage our ratios and you are seeing lending growth, so I would expect that you'll probably continue to see some increase in RWA going forward.

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**Ed Clark *- Toronto Dominion Bank - CEO***

I think as a general matter, I think there's no question that we feel across the whole Company very strong growth coming and so we've probably met faster growth in our outstanding than we've had before. You can just feel the activity in the place. So there's definitely good strong underlying volume growth. Well if there aren't any questions, thank you very much.