TD BANK FINANCIAL GROUP
TD BANK FINANCIAL GROUP UPDATE ON Q4 2008 RESULTS
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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the conference call. At this time all participants are in a listen-only mode. Following the presentation, we will conduct a question and answer session. (Operator Instructions). I would like to remind everyone that this conference call is being recorded on Thursday, November 20, 2008 at 8:30 AM Eastern time. I will now place the line back on user hold until the conference begins.

Tim Thompson - TD Bank Financial Group - SVP Investor Relations

Good morning, and welcome to the TD Bank Financial Group fourth-quarter 2008 results. My name is Tim Thompson, and I am head of investor relations of the Bank. We will begin today's presentation with comments from Ed Clark, the Bank's CEO, after which Bob Dorrance, Group Head Wholesale Bank and Colleen Johnston, the Bank's CFO will give updates on the quarter. We will then entertain questions from prequalified analysts and investors on the phone.

Also present today to answer your questions is Mark Chauvin, Chief Risk Officer of the Bank. Please turn to page two. We know that this presentation contains forward-looking statements, and actual results could differ materially from what is discussed. These statements are presented for the purpose of assisting our shareholders and analysts in understanding our financial position as at, and for the periods ended on the dates presented and our strategic priorities and objectives and may not be appropriate for other purposes.

Certain material factors or assumptions were applied in making these statements. For additional information we refer you to our annual report. This document includes a description of factors that could cause actual results to differ and can be found on our website at TD.com. Let me now turn the presentation over to Ed.

Ed Clark - TD Bank Financial Group - President & CEO

Thanks, Tim. Let me start with some market context. It is truly a testament to how difficult the markets have been for everybody over the past three months that we are having a call of this nature today. We are clearly disappointed with this outcome, but we are also realistic enough to know that you can't totally outrun the most extraordinary financial markets since the Great Depression. Even though we tried, it was just not possible to build a wholesale bank that could withstand a world with no buyers, only sellers. Many banks and TD in particular have weathered these markets relatively well. And while many other financial institutions around the world are facing much tougher circumstances with much more serious implications, this doesn't feel good for those of us at TD Bank.

Today's call aligns with our focus on transparency. Given the fact that market conditions have gone from bad to worse since our last analyst call, we thought it would be helpful to take you through how this has impacted TD and what we are doing as we move forward. In a few minutes Bob Dorrance will walk you through the details of what today's announcement means for TD Securities. But I want to share a few thoughts with you on the impact of the unprecedented volatility of the past few months.

When you look back at the extraordinary series of events that have defined the global financial landscape over the past 12 to 15 months, TD Bank's Financial Group strategic positioning has largely protected us. However, we weren't immune to the collateral consequences. The credit-trading losses are mainly a result of severely challenged markets, flowing from a total lack of liquidity in the financial system, particularly and it's important to understand that, particularly during the September and October timeframe. This has meant that despite holding what we consider quality assets, not subprime mortgages, not structured products, not toxic assets but rather assets that continue to perform, we find ourselves in a position of having to take some mark-to-market losses that are not fully offset by the value of our credit protection.

If we step back, the very reason we avoided the problems facing some of the other banks is that we've been repositioning TD Securities over the last five years, aggressively working to lower their risk profile. As we've said before, we made tough choices that cost us money at the time, but these decisions have proven to be the right ones for TD Bank. What risk did we focus on, and what in retrospect did we clearly miss?

First, we focused on credit risk, both our lending book and our trading book; where we weren't comfortable with the credit we bought credit protection. Second, we run a conservative treasury operation. As you know we've always hedged out our interest rate risk, but we have also been very conservative in our funding model, charging our businesses the full cost of the liquidity premium and ensuring we weren't vulnerable to short-term shutdowns in the market.

Third, we worried about the complexity and tail risks in complex structured products and began to exit those beginning in 2005. So what did we miss? Frankly we did not foresee an extended liquidity crisis in the banking industry which would lead to a massive deleveraging of all financial institutions, causing asset prices to fall dramatically. We have spoken to you a number of times at every analyst meeting about the vulnerability in our credit-trading book to basis widening. And in fact the prices of cash instruments falling -- not because of credit deterioration -- because our positions were of high quality or credit protected, but because of lack of demand.

And when the crisis began in August of 2007 we saw this vulnerability and we began to act, bringing down our inventories. What we did not foresee were the events of the last two months. When a series of financial collapses and the market response to these failures would cause the world financial system to freeze up. Effectively most traded instruments virtually stopped trading causing us to mark assets down to the few trades being made, while a wider bid/ask spread implied lower prices for those same assets.

With hindsight we clearly should have wound these positions down sooner. So now what are we doing about this? Bob is going to describe this in detail, but in short we will move to wind down a significant portion of the trading book over the next 12 to 18 months in an orderly fashion. Hopefully at close to mark-to-market values. At the end of that process we will have a tightly focused credit-trading operation in Canada and the United States. We believe we have the bulk of the losses behind us. But the markets have moved so rapidly in the last few months that it is impossible to say anything with complete confidence.

What does all this mean for the Bank going forward? Really, no change. It actually only underscores why we have made the moves we have. First the shift to retail; secondly the shift in our wholesale business to more of a franchise play. With the backdrop of tough economic conditions I know that some of you will be interested about the prospects of our retail businesses given their importance to us. We will give you more color on our earnings call on December 4. But the bottom line remains that as it has been all year, really excellent performance.

We said we would try to hit $4 billion in retail earnings in 2008, and we did. Our domestic retail operations remain strong with excellent volume growth, no overt signs of major credit weakening. With the one negative being margin pressure as lending rates have fallen but the cost of funding has not. Domestic wealth management continues to have a tough year because asset value declines, but new originations and trading remain strong. TD Ameritrade continues to have excellent trading volumes and net asset growth. Our US banking operations continued to perform exactly as forecasted with asset quality remaining solid. While the deepening US recession poses risk, these are offset by the lower Canadian dollar providing a substantial uptick to US dollar earnings.

I know there was also interest with respect to our capital position. We ended up where we indicated we would be, we ended the fiscal year with a Tier 1 ratio of 9.8%. On November 1 this ratio will be about 8.3%, adjusting for the inclusion of our investment in TD Ameritrade. But for the Bank overall let me reiterate how I feel about our position. When you look around the world it is clear that many other banks have faced far worse challenges than we have with far graver consequences. That being said, I am disappointed to be having this call.

I am struck by how dramatically and rapidly the global financial markets have changed and how difficult it is to anticipate every risk. I am pleased however that the downside was relatively small and manageable for TD Securities. Even with these credit losses they will still have earned a 5% return since the start of this crisis. A truly remarkable performance. I remain confident about our prospects in a world where business models we have built become more favored. On that note, let me turn the presentation over to Bob who will get into some more detail on the quarter in the wholesale business.

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

Thanks, Ed. To begin, let me echo Ed's disappointment. What is most disappointing is that we've made some great decisions, followed a great strategy but, unfortunately we didn't get one thing quite right. And that is hard to take because we've been able to earn through some pretty tough markets and in fact will make money for our shareholders in fiscal '08 overall even with the mark-to-market losses that we are discussing today.

As you know, TD Securities has a three-pronged strategy comprised of our franchise businesses, our global trading businesses and our public and private equity investment businesses. Today we will focus on our credit product group, or CPG, which is part of the trading businesses. One of the reasons we are active in this business is that we can gather intelligence about credit markets, credit trends etc. which benefit both the Bank and our clients. This business has faced challenging market conditions over the past year and in particular over the past few months, which has led to significant losses. Let me take you through what has happened and what we are doing.

Please turn to page five. I will begin with a brief overview of the CPG business. It is a proprietary credit trading business with franchise orientation in Canada and North America, and it has been a positive contributor to TD Securities' earnings over the last seven years. The business uses a variety of range of products to execute trading strategies; some examples of these strategies are relative value trading which looks to generate revenues by identifying assets that are over or undervalued relative to each other. Directional trading which looks to take views in a market position, and the direction of credit movements in the credit curve, for example. And special situations where we identify opportunities that have provided a specific value opportunity in the capital structure.

As with all of our businesses all CPG positions go through the same TDBFG risk management process. Therefore we'd be comfortable, we have to take these positions from our trading book back into our balance sheet. The CPG business manages its risk by using a variety of financial instruments including credit fault swaps and interest rate swaps. A risk which cannot be hedged is liquidity risk, and liquidity has declined dramatically over the past few months which has led to wider bid/ask spreads and a widening in the basis.

Let's turn to page six. As we've indicated previously, the impact of global liquidity issues and specifically the widening in the basis that started in August of 2007 has impacted credit trading revenues for the past four quarters. However, this impact was much more significant in the fourth quarter. In the fourth quarter the wholesale bank had a net loss of $228 million. The primary driver was credit trading losses of approximately $350 million. The remaining business generated net income of approximately $120 million.

So what drove the losses in the CPG business? There were two key drivers. First, we did have losses on credit curve and relative value market positions. The second, and much more significant was a dramatic decline in global liquidity that unfolded in September and October. This contributed more than three quarters of the loss in the quarter. The decline in liquidity impacted credit trading results in two ways. First, credit bid/ask spreads widened significantly. This widening in spread reflects the weaker and less liquid credit environment.

Since our financial positions are valued using a bid or an offer, a wider bid/ask spread meant that we took mark-to-market losses. Second, the decline in liquidity contributed to a significant widening in the basis between bonds and CDS, which also led to mark-to-market losses. I would like to give you an example of how the basis have changed over the past year, and in particularly over the past couple of months and how it would have impacted our bond and CDS trading book.

Please turn to page seven. This table shows changes in spread. For a sample three-year BBB bond and related matched CDS over the past year. Please note that this is an example and in this case real life, the basis on other bonds in our portfolio will have performed differently, for better or worse. For example, the basis on higher yield bonds has widened much more than investment-grade bonds and the basis of longer bonds than three years is also wider.

The general widening over this time frame led to trading losses. As you can see in the chart, these losses starting in August of '07 on this bond have widened from 13 to 100 basis points. And that is the basis lost that we have talked about over the last four quarters as we talked about our poor results on a relative basis in the credit and interest-rate trading category.

However, during the fourth quarter basically from mid-September on this basis widened dramatically. This is a three-year bond; the basis went from 100 basis points to 384 basis points in this case. This meant that a $1 million bond position would have declined in value by $87,000 in the quarter, while the matched CDS would have only gone up in value by $23,000 leading to a net loss and $1 million of bonds of $64,000. As you can see from this example, bonds have cheapened much more significantly than offsetting changes in credit protection. This has contributed to significant mark-to-market losses in the quarter. When markets stabilize it is likely the basis will narrow which means there should be net mark-to-market gains on the bond CDS positions.

Please turn to page eight. Earlier this year, as Ed mentioned, we made a decision to reduce the size of the credit trading business. During 2008 we reduced the bond positions in the credit trading book by over 35% and we also reduced our exposure in Index and tranche position. Let me take you through what we are going to do on a go forward basis to move to a more narrowly focused North American trading business.

First, we elected to use the new accounting rules to reclassify $7.4 billion of the bonds from the trading book to available for sale. This allows us to align our business strategy of reducing the size of this business with our objective of realizing full value for our shareholders. The AFS book is a good quality book with over 70% of the bonds rated investment grade. We also hold significant credit protection in the book, approximately 85% of the portfolio has been credit protected. We believe we can recapture the mark-to-market losses over time as markets stabilize and as this book winds down.

Second, we will continue to run a core credit trading business with a focus on North America. We will remain closer aligned with and leveraged from the synergies of our franchise businesses.

Third, we will be winding down our non-North American credit trading business. This business has CDS, bonds as well as credit index and credit tranche positions. Going forward, the AFS book will provide a steady revenue source as the markets stabilize. But the trading book in this environment it is difficult to forecast with a high degree of certainty how it will perform. But given that we've marked down our position to current lows and that the strategy of the business going forward, as I've outlined above, we will be able to reduce it. We are hopeful we are positioned to manage through without realizing further material losses.

Let me turn the presentation over to Colleen.

Colleen Johnston - TD Bank Financial Group - CFO

Thanks, Bob. On page nine let me walk you through the accounting changes that impacted our credit trading business this quarter. As you know in October the Canadian accounting standard setters announced a change which allows reclassification out of the trading category. This is permitted where a rare event creates conditions that change management's original intent with respect to the asset. The accounting change makes sense in this environment and requires increased disclosure to ensure transparency to the market. We've concluded that we have such a rare event given the continuing extreme illiquidity in the markets and associated dislocation between bond spreads and CDS spreads.

As permitted by the rules, we transferred a portion of the CPG portfolio to available for sale on August 1, 2008 at fair value. Gains or losses recognized in net income prior to August 1, 2008 are not reversed. So after August 1, 2008 the bonds are still fair valued but the change in value flows through other comprehensive income, not P&L. After transferred, the accounting is the same as we would apply to a typical AFS security. We earn the spread on the bonds using the yield as of the date of transfer. Gains or losses will be realized through P&L only when sold externally, and losses will be booked if there is other than temporary impairment in value.

This deals with the bond side of the equation. We still have hedges on the portfolio, credit default swaps and interest-rate and foreign exchange hedges. The accounting rules still require us to mark-to-market these hedges. This number is a large gain this quarter, $118 million after-tax. We didn't think it made sense to move the mark-to-market losses on the bonds to OCI while taking the hedge gains into ordinary income. So like we do for hedges on our corporate loan book, we will be treating the change in fair value of these hedges as an item of note and excluding the impact from our adjusted P&L. This addresses the accounting asymmetry.

As a result of these accounting changes in our fourth-quarter mark-to-market losses of $561 million after-tax were recognized in OCI. The related item of note was a gain of $118 million. Net of the item of note, the net after-tax impact was $443 million.

Please turn to page 10. Our corporate segment will record a loss of approximately $150 million compared to our normal loss of about $40 million. The higher loss was largely due to illiquid markets which contributed to losses on securitization and negative carry on some of the investments. We earned a negative carry because of our decision to hold safer, yet more lower yielding investments given the uncertain financial markets in September and October.

Back to securitization, the question is why didn't we have securitization gains in the quarter. Well, we did have gains, but they were more than offset by losses on the related hedge. It is our practice to hedge our MBS exposure against the risk arising from an increase in the general level of interest rates. So it is the wider liquidity premiums in today's market that result in the loss. You should note that this is an accounting loss, not an economic loss. We can now reinvest these funds to earn an even higher liquidity premium over time.

I know that many of our investors are interested in our capital ratios given the state of the financial market. We feel we have a strong capital position with a Tier 1 ratio of 9.8% for Q4. This includes the impact of our Q4 earnings and non common Tier 1 issuance of $1.25 billion in the quarter. The call at Basel II requires us to take 50% of our substantial investments as a deduction to Tier 1 capital as of November 1, 2008. With that deduction we estimate our Tier 1 capital to be 8.3%.

As Ed mentioned at the beginning of the call we expect our Q4 2008 adjusted EPS to be $0.79, which reflects the wholesale and corporate segment results we discussed today. We will be discussing our results in full during our regular earnings call on Thursday, December 4. With that, let me turn the presentation back to Tim.

Tim Thompson - TD Bank Financial Group - SVP Investor Relations

Thanks, Colleen. We will now open it up to questions about today's update. I would remind you our full Q4 results will be announced on December 4 at which time we can address other topics.

QUESTION AND ANSWER

Operator

Robert Sedran, National Bank Financial.

Robert Sedran - National Bank Financial - Analyst

Bob, you mentioned that given the current marks what is left in the trading books you were hopeful that further losses may not be material going forward. Can you tell us if January 31 is unchanged from today, would that be true? I guess in other words what is the size of the change in the spreads in November?

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

There is to date the markets haven't gotten any better, and we are midway through the month. The portfolio is performing typical to what it was at the end of the quarter, so.

Robert Sedran - National Bank Financial - Analyst

So they've not gotten (multiple speakers)?

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

Yes, the market is not better, Rob, but to date we are performing in line with where we thought we would be.

Robert Sedran - National Bank Financial - Analyst

And when you look at the run rate, I guess for the interest rate and credit-trading line going forward, now that you said -- now that you talked about taking these things [out of] into AFS, is this -- is this the entirety of the loss that was there? Should we assume a run rate of closer to zero, or I hate to ask the run rate question but just given that the business is, the accounting for it has really changed; I'm curious if you can give any guidance at all about how to look at this.

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

I would think that for the -- until we get the business to where we want it to be strategically any money that we would be making in terms of the carry and the AFS book we certainly would not be hesitant to use that to unwind the non-core part or the non-North American trading book. But that is just the high level view of where it would go. But I think you could say this would be a neutral impact to the credit-trading line. The interest trading line is in there as well, Rob. So it is not easy to -- we are looking to exit the business on the non-trading side, wind down on the AFS and then we will have a full business on a North American side and we will be able to give better guidance when we get through that process.

Robert Sedran - National Bank Financial - Analyst

Okay. Thank you.

Operator

Ian de Verteuil, BMO Capital Markets.

Ian de Verteuil - BMO Capital Markets - Analyst

So Bob, the earnings off the AFS book, that $7.4 billion, how much will that be in its new accounting and having it in the AFS book as opposed to the trading book?

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

At a high level, Ian, it would be the embedded basis that was in the book at the end of the third quarter.

Ian de Verteuil - BMO Capital Markets - Analyst

So that is 384 basis points?

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

No, sorry, at the end of -- August 1 of '08 or July 31 of '08, if you want to take it there. Because effectively it takes in that example that is in the presentation, it would take the basis back from 384 to 100, and then -- so the embedded basis in the book, on an accounting basis is the 100 basis points.

Ian de Verteuil - BMO Capital Markets - Analyst

So you will be flowing through income just the earnings on this book of $74 million a year going forward?

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

Yes, ex any hedging gains or losses we have to keep it hedged and the cost of carry that we would have to fund the book.

Ian de Verteuil - BMO Capital Markets - Analyst

So the way it will work from here is you are bringing some income in, but the OCI losses have gone to the OCI. I'm just trying to get that squared in my head. I presume you're saying that it is not a big number what is coming through the AFS line. Is that how you've put those two seemingly opposing thoughts together?

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

Yes.

Ian de Verteuil - BMO Capital Markets - Analyst

Okay, the second question is for Ed. Ed, you started off by saying that and I'm paraphrasing here -- it is impossible to outrun an environment that is severe as the Great Depression. How would you transfer that statement to the US retail banking operations?

Ed Clark - TD Bank Financial Group - President & CEO

Well, I think we have said that it applies to the US retail banking. I certainly, when you look at where we are today it is hard to see how you are not going to have a sharp economic downturn. We really undermined consumer confidence and investor confidence, and for the average American we wiped out their home equity, and now we have wiped out their investment equity. So it is hard to believe that they are not going to get a buyer's strike and therefore a sharp downturn. And therefore it is hard not to believe that even though our loan losses stayed remarkably low, that they are not going to increase.

So I think on the big negative side I think there is definitely going to be upward pressure on our PCLs. On the big positive side as you know, when we went into the US we were very conscious that we were going in with a par dollar. And so as it looks like another collateral impact of this downturn is lower commodity and oil prices and therefore a lower Canadian dollar. And therefore the US dollars are going to translate into significantly higher Canadian dollars. And I think what I am saying is on balance the second factor for the moment looks significantly bigger than the first factor.

Ian de Verteuil - BMO Capital Markets - Analyst

Is the goodwill that is on the books, determined on the earnings in US dollars or Canadian dollars? If the test of whether --.

Ed Clark - TD Bank Financial Group - President & CEO

It is on Canadian dollars, so not surprising when you do all that we are going to get to our goal of economic profit probably a little sooner than we had originally thought and somewhat different ways than maybe we thought.

Operator

Mario Mendonca, Genuity Capital Markets.

Mario Mendonca - Genuity Capital Markets - Analyst

I just want to quickly clarify something you explained in the change in the value of the AFS. I understand that goes through other comprehensive income, the change in the value of the derivatives will be income but you will treat that as an item of note. I understand that entirely. What I'm getting at now is the regular dividend and interest income that emerges from that available for sale portfolio, that $7.4 billion. Have you talked about what that regular income is? That is the part I wasn't really clear how you were responding to Ian's question there.

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

I was netting the yields on the portfolio versus the cost of the protection and carry against that; so I was just looking at it as a net number as a basis (inaudible).

Mario Mendonca - Genuity Capital Markets - Analyst

And net of all those things like the cost of carry, the cost to fund that book plus the hedging, you are saying that the contribution is small?

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

Yes, sort of magnitude -- I mean we haven't exactly down to the details, but we are talking $50 million here on an annual basis.

Mario Mendonca - Genuity Capital Markets - Analyst

That is what I wanted to clarify. On the Tier 1, and I've had a little bit of trouble keeping track of the guidance that the company has offered on a Tier 1. You talk about 8.3% Tier 1 once you apply the Basel II to the investment in Ameritrade. In prior quarters the company has explained that 8.3% was before taking into account any potential issues of innovative Tier 1 capital. And in the quarter there was the innovative Tier 1 capital $1.25 billion, I think you explained to us. Now we see that it is $8.3 billion but that is after taking into account the issuance of the $1.25 billion. So it is possible that I've misinterpreted the guidance you've offered in the past, Colleen and Ed; can you set me straight?

Colleen Johnston - TD Bank Financial Group - CFO

If you go back to Q3 we did talk about being over 8%, but that was certainly before we had moved ahead on the non-common Tier 1 issuance, which we did I think the innovative piece was done in September so that was before that. So that obviously helped us, but we've had increases in our risk weighted assets in particular some of that has been driven on the VAR side, the market risk capital. So we have seen increases there, as well.

Mario Mendonca - Genuity Capital Markets - Analyst

Okay, so.

Colleen Johnston - TD Bank Financial Group - CFO

We had made the comments previously prior to the decision to issue capital; so in effect it wasn't really embedded in the guidance at that time.

Mario Mendonca - Genuity Capital Markets - Analyst

So the $1.25 billion should have in theory pushed you well above 8%, well above 8.3% but if I'm interpreting you correctly you are suggesting that the increase in required capital the RWA, rather, had been.

Colleen Johnston - TD Bank Financial Group - CFO

That has increased as well.

Mario Mendonca - Genuity Capital Markets - Analyst

Pardon me?

Colleen Johnston - TD Bank Financial Group - CFO

That has increased as well, risk weighted assets have definitely increased.

Mario Mendonca - Genuity Capital Markets - Analyst

So RWAs increased so much so that it has offset the benefit, let's say, of that $1.25 billion innovative issue?

Colleen Johnston - TD Bank Financial Group - CFO

In part.

Mario Mendonca - Genuity Capital Markets - Analyst

So you are saying that only about 30 basis points of that really made it in; the difference between the 8% and 8.3%? I guess what I'm trying to get at here is why isn't the Tier 1 ratio substantially higher than 8.3% given the issuance of $1.25 billion innovative Tier 1 capital?

Colleen Johnston - TD Bank Financial Group - CFO

A lot of it is the growth in required capital due to higher risk weighted assets, and you will see that, when you see the numbers on December 4 you will see that our wholesale risk weighted assets have definitely increased. And partly as I say that is market risk driven in this environment.

Mario Mendonca - Genuity Capital Markets - Analyst

Okay, anything else besides market risk or could it be credit risk as well? Because I know Basel II now has you take into account not only the expected loss at default but the probability of default. Has that probability of default increased substantially, is that is what driving it?

Colleen Johnston - TD Bank Financial Group - CFO

Let me start, and I will go to Mark then. Obviously we've had volume growth, Mario, but in terms of credit quality that has been relatively stable. Maybe Mark can fill in on that.

Mark Chauvin - TD Bank Financial Group - EVP, Chief Risk Officer

It is Mark Chauvin. The increase in RWA wouldn't be driven by a deterioration in the quality of the portfolio, more like an increase in CD. I would say it is largely volume growth.

Mario Mendonca - Genuity Capital Markets - Analyst

Volume growth in the wholesale loan book?

Mark Chauvin - TD Bank Financial Group - EVP, Chief Risk Officer

Well, the wholesale and the commercial.

Mario Mendonca - Genuity Capital Markets - Analyst

Willing growth or sort of put to the bank growth?

Mark Chauvin - TD Bank Financial Group - EVP, Chief Risk Officer

Pardon?

Mario Mendonca - Genuity Capital Markets - Analyst

Sorry, I will take this one offline. I wanted to focus on something else entirely, something a little different. Can you disclose at this point what your book value per share is?

Colleen Johnston - TD Bank Financial Group - CFO

No, I think we would rather wait until we have our full disclosure, Mario.

Mario Mendonca - Genuity Capital Markets - Analyst

Thanks very much.

Operator

Darko Mihelic, CIBC World Markets.

Darko Mihelic - CIBC World Markets - Analyst

Just a really quick first question. Should we care about counterparty risk here with respect to the credit default swaps you have protecting these books?

Mark Chauvin - TD Bank Financial Group - EVP, Chief Risk Officer

I'll answer that question. I think we are comfortable with the counterparty risk for a combination of reasons. First, it goes through our credit process. So whenever we accept a counterparty, it has to meet that credit process. So we wouldn't accept monolines or reinsurers or items like that as eligible CDS in this particular portfolio or really anywhere.

Secondly, we look at who we deal with, and it is really only the high-grade financial institutions. So about 90% of the protection across the book would be with AA rated or better FIs. And as is industry standard, it is always dealt with under a mark-to-market arrangement where the amount that is owing is secured by collateral, generally treasuries or within accepted guidelines.

And then the last thing is really you are dealing with double default protection so you really only incur a loss is when on the same day that your obligor like the bond defaulted that the counterparty that you bought the protection from defaulted. So you put those items together and it gives us comfort with the value of the protection.

Darko Mihelic - CIBC World Markets - Analyst

Okay, fair enough. Thank you. Maybe just a follow up for Colleen. Colleen, can you perhaps walk me through what happens if we go through the next couple of years, and it looks like the vast majority of the available for sale securities are between zero to five years. And we get the pull to par phenomenon and there is no defaults. What would the impact be? Effectively your OCI would -- the negative impact on the OCI I think would just go to zero and this would just close out. There would be no impact. Would that be correct in that thinking or would you have to -- I guess you would have hedging losses come through at that point because you have been booking gains up until now. What would the net effect be if everything just pulled to par suddenly tomorrow?

Colleen Johnston - TD Bank Financial Group - CFO

Obviously the OCI will then converge to zero essentially over that period. So we will have the yield on the portfolio and Bob has walked you through that and then gains or losses on sale will go through to P&L, so it will converge to zero. The hedges aren't going through OCI. The hedges are going through normal P&L. And again, that is the item we are going to treat as an item of note.

Darko Mihelic - CIBC World Markets - Analyst

I guess what I'm getting at is effectively I think one impacts your capital, the other doesn't. And the one that is going to impact your capital will be the hedges.

Colleen Johnston - TD Bank Financial Group - CFO

That is right, that's exactly right. Where the OCI does not affect our capital on the debt securities side, as you know. So there is that impact in terms of GAAP earnings which is really the driver on our capital; so you are correct in that assumption.

Darko Mihelic - CIBC World Markets - Analyst

Okay, and then I guess just lastly, me personally I am struggling with the earnings power of TD Securities in this environment. It looks like we are taking a book of almost $10 billion down to about $1.2 billion in size. So my question for Bob is this may be an unreasonable question to ask you given the current environment, but looking out to 2009 you mentioned that you earned about $120 million in the quarter ex these losses. Assuming that we don't have similar losses, is $120 million per quarter something to think about for TD Securities in 2009?

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

Yes I think it would be a run rate that I think we internally would feel comfortable with. That is how we plan and budget given the mix of businesses that we have.

Darko Mihelic - CIBC World Markets - Analyst

And it wouldn't be lower than that given these movements, these changes that you are making, I guess that is my question.

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

No, I mean there is pluses and minuses there. The business has, we've had some spectacular business this year and we've had -- we've had struggles in other businesses this year and the underlying profitability is coming in and around that. So I make the assumption that if we didn't have the drag of these losses but we had different markets and different mixes, some doing better, some doing worse that that run rate 125 a quarter is probably what we have as an earnings power at this date, normalized.

Darko Mihelic - CIBC World Markets - Analyst

Thanks, Bob. That's very good. And I guess my last question is for Ed is supposing the environment stays as bad as it is and you have another large loss, at what level do you think your Tier 1 capital gets to before you get nervous with respect to your capital position?

Ed Clark - TD Bank Financial Group - President & CEO

I think we would like to manage our capital to stay north of the 8% number. I think that is what we have been saying to the market. On the other hand, I have also said to the market we do have this anchor of $4 billion growing of retail earnings. And so in terms of the stability of the organization that is a huge asset that is not -- doesn't show up in the capital numbers but it certainly remains in terms of stability a huge factor.

So today it would obviously be difficult to supplement your capital other than through organic slowing down; really the only way you can do it is slow down your organic growth. We are reluctant to do that because right now the market is actually giving us market share growth, but I think the prudent thing to do is to try to manage the stay at 8% or above.

Darko Mihelic - CIBC World Markets - Analyst

Okay. Thanks very much.

Operator

Andre-Philippe Hardy, RBC Capital Markets.

Andre-Philippe Hardy - RBC Capital Markets - Analyst

Thank you. I just want to confirm a few things. So back to page five, slide nine, the $561 million here, that is only the Q4 impact of having moved the bonds to OCI? It is not your entire OCI movement, correct?

Colleen Johnston - TD Bank Financial Group - CFO

That's correct.

Andre-Philippe Hardy - RBC Capital Markets - Analyst

Are you willing to talk about the entire OCI movement and the relation to the Alt-A book, and if there is anything that is causing you to rethink what might be permanent and other than temporary there?

Colleen Johnston - TD Bank Financial Group - CFO

Again, Andre, I think let's do that on December 4 when we roll out all our disclosure. But I think as you are hearing on the retail earnings the number is quite strong for the quarter.

Andre-Philippe Hardy - RBC Capital Markets - Analyst

The other question, the $350 million after-tax loss, and if we ex that out we get to -- this is probably for Bob -- to the 120, 125 run rate. I'm a little surprised the number is that high because presumably there will be some compensation adjustments here. I guess what I am trying to say is you took a loss of $350 million presumably that is not going to be wonderful for bonuses, so your true run rate isn't quite $125 million. So were there other unusually large items, maybe BCE, maybe something else, that happened this quarter that give you comfort that the run rate is in the $120 million range?

Ed Clark - TD Bank Financial Group - President & CEO

Let me address the bonus issue. Obviously there will be consequences in TD Securities and for the most senior people in the bank as a result of this performance. There will not be consequences for the retail side of the Bank because they actually have had a great year. There are obviously costs associated with exiting this business and the places we are doing a fair amount of trimming this business back and there are obviously costs associated with those which we have taken this quarter.

Andre-Philippe Hardy - RBC Capital Markets - Analyst

Okay, and can you help us in any way with BCE, understanding what might have happened and how that impacted your income?

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

I think as I said in the previous calls we mark our loan commitments to market, and given what happened in the market obviously it would have been a negative part of the income this year, Andre.

Andre-Philippe Hardy - RBC Capital Markets - Analyst

That's helpful, and that is part not in the $350 million, right?

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

The $350 million is related to the credit trading business.

Andre-Philippe Hardy - RBC Capital Markets - Analyst

So you would have earned $122 million in spite of mark-to-market related to (multiple speakers)

Bob Dorrance - TD Bank Financial Group - Group Head, Wholesale Banking

That's right.

Andre-Philippe Hardy - RBC Capital Markets - Analyst

Okay and the last one for Colleen, you know there is nothing here (multiple speakers)

Ed Clark - TD Bank Financial Group - President & CEO

Andre, I think it is also fair to say that you are going to see our surplus in our head office portfolio decline and there were losses that we took through for that. And frankly if the markets keep on going the way they are we will probably have to take further losses next year.

Andre-Philippe Hardy - RBC Capital Markets - Analyst

Understood. Thank you very much.

Operator

Jim Bantis, Credit Suisse.

Jim Bantis - Credit Suisse - Analyst

Most of my questions have been asked and answered. Just struggling with the Tier 1 ratio being at 8.3%, Ed, as you pointed out that this is unusual times, extreme volatility and the Bank really isn't in a position to weather the storm in the context of other sharp items that might affect the Bank in terms of perhaps the commercial real estate portfolio, issues with respect to BCE or other extraordinary items we are not even thinking of. I'm just trying to think how quickly can -- and I know the regulators are thinking the Canadian banks Tier 1 ratios are not as high as they should be now relative to the US and European markets and would like everyone to get north of 10%.

How do you reconcile that in the context of maybe do you want to be ahead of the curve and consider a common equity issue? Or maybe Colleen could help us through saying, Jim, if we earn this much through retail banking by the end of the year we can get a Tier 1 ratio of north of 9% just on our core earnings by themselves and no dividend increases.

Ed Clark - TD Bank Financial Group - President & CEO

I think when you step back, if I can just talk about the Canadian's bank generally versus the world, if you look at Tier 1 ratios, I am not sure that’s a fair reflection of the strength of the capital the Canadian banking system has. So we have been running at 30% preferred and other leverage type financing of our Tier 1. Whereas in the US they've been running at 45%, and they've added the TARP pref on top of that so in effect it is almost treated like common equity. Doesn't go against the 45% even though it is a relatively short-lived pref. And in the UK and Europe they've been running at closer to 50%. So I think this is what, not to speak for OSFI, but I think OSFI is sensitive that there is a reality and there is a perception that could have gone out and said why don't we have the whole world go off Tier 1 to tangible, common equity ratios as a way of measuring this? But that probably wasn't going to happen since people are using Tier 1. And so that is why I think they moved to take the 30% up to 40% to give the Canadian banks more room; not to go all the way to the kind of leverage that the rest of the world is running but closer to it. So that is obviously a substantial move that allows you to raise non common equity here to improve the Tier 1.

Jim Bantis - Credit Suisse - Analyst

So is the market deep enough in your view, Ed, with respect to the issuance of such securities to get you to 30% or 35%?

Ed Clark - TD Bank Financial Group - President & CEO

I think probably I am the last person on this call -- everyone else on the call knows more about this than I do, but I think obviously over time people are going to be looking at how to do it. I don't think we all five Canadian or six Canadian banks can just walk out tomorrow and move their ratios to 40%. But I do think over time it gives you another -- it just means you have another instrument that is more available to you.

Jim Bantis - Credit Suisse - Analyst

Got it. And you would put these instruments well ahead of doing a common equity issuance?

Ed Clark - TD Bank Financial Group - President & CEO

I think today's availability and price, raising common equity would be extremely difficult.

Jim Bantis - Credit Suisse - Analyst

Okay, great. Thanks very much.

Operator

Ohad Lederer, Veritas Investments.

Ohad Lederer - Veritas Investment - Analyst

I had a question about the $350 million of losses from the credit products group. That $350 million is not an item of note, so it is in your adjusted earnings and your GAAP earnings. The $560 million on slide nine in OCI that is in addition; so I guess my question is how did the $350 million come about since the bonds were transferred out on the first day of the quarter?

Colleen Johnston - TD Bank Financial Group - CFO

Maybe let me clarify. Yes, you are right, the $350 million we are not treating as an item of note so that is included in our GAAP earnings and in our adjusted earnings. And then the loss, the $561 million after tax is now on the separate portfolio. So the $350 million is on the $2.5 billion portfolio. Then the available for sale is the $7.4 billion and the $561 million is the OCI mark, the mark through OCI on that particular portfolio. So they are two separate pieces.

Ohad Lederer - Veritas Investment - Analyst

Okay, the $350 million is on the continuing and the wind down that is still in (multiple speakers)

Colleen Johnston - TD Bank Financial Group - CFO

Correct. That is correct.

Ohad Lederer - Veritas Investment - Analyst

Thank you.

Operator

Sumit Malhotra, Merrill Lynch.

Sumit Malhotra - Merrill Lynch - Analyst

First question is for Colleen. Colleen, can you talk about the process by which or the test through which you had to go through with your auditors to move some of the assets to the available for sale accounting method from held for trading?

Colleen Johnston - TD Bank Financial Group - CFO

So as I said earlier, the accounting guidance is really been based on having a rare event, which in this case is the condition of global markets essentially IFRS has given some guidance on that in terms of being one of the events that would qualify for a move out of trading. In this case into available for sale. And then there is the issue around the intent and the way we are going to manage the book. And we've talked about the fact that we are going to be treating that differently than the trading book.

And in fact, that was something that we were looking at doing throughout the course of the year, but really the accounting didn't work, so I think there is a reason that the accounting standard setters made the change given the current environment. So we have walked through that with the auditors who are certainly quite comfortable with the change in designation to available for sale.

Sumit Malhotra - Merrill Lynch - Analyst

So directly there the final sign off or the approval, if you will, was provided by your external auditors to make this move?

Colleen Johnston - TD Bank Financial Group - CFO

Certainly ultimately that was the case, yes.

Sumit Malhotra - Merrill Lynch - Analyst

Also for you here I think in the corporate segment the comment that the Bank held larger amounts in cash; certainly in this environment I can understand looking to maintain higher liquidity levels. Is that basic, the basic principle here that instead of assets that normally would have been invested in shorter term paper or bonds was kept in cash just given the difficulties in the market? Is this something if that is the case, is that something we should look for to continue and the resulting negative impact on net interest margin is something we should expect to see?

Ed Clark - TD Bank Financial Group - President & CEO

This is very much a decision that I made. You have to go back in time when this crisis started. At that point the Government of Canada had not introduced the program whereby we could sell our mortgage backed securities back to the government. And so you had a situation where you couldn't do that. And at the same time term markets had completely frozen up for all banks in the world so you couldn't actually borrow term funding.

And as I have indicated, we are extremely conservative on our liquidity management. We do not like to have to roll, have large rollovers on a nightly basis. So I just made a decision that we were going to preserve cash. The issue is what you do with that cash and frankly there was a period of time where it wasn't obvious which banks were going to be standing and which ones weren't. So we went to a very conservative stance, basically said if it means we are sitting on cash and earning nothing, I would rather do that and wake up the next day and know that I have my cash.

And we are now in a position, I think with all the changes that have gone on, the introduction in Canada of the $75 billion buyback program, the fact that governments around the world have intervened into their banks and guaranteed their debt and put equity into the banks means that we are now increasingly back in business and opening up our lines and are prepared to reinvest. And so in fact I think what you will see is as we do that this spread won't be an ongoing thing and in fact, given where spreads are today, the fact that we have cash to reinvest will actually be a positive for earnings going forward. But probably phased in, in the first quarter but then by the second quarter may well be a significant factor.

Sumit Malhotra - Merrill Lynch - Analyst

With all that detail I will press my luck and ask you one more. I just want to make sure I can reconcile your comments. It sounded like earlier in the call you described the credit quality in the US loan book as solid. But then later I thought I heard you say there was some upward pressure on loan loss provisions. I just want to make sure I heard that okay and maybe if you can walk us through how you are feeling about the state of the credit quality? Specifically in TDs US loan book and how the previous guidance has been provided for loan losses looks to you now as we get ready to head into 2009.

Ed Clark - TD Bank Financial Group - President & CEO

As usual I was probably being completely frank, so I will continue. I might as well, in for a penny, in for a pound. I was responding to Ian's question, so if you said are you seeing now loan loss deterioration in our US book? Not a market change from what we've been telling you all the way through; really quite a remarkable story of how much lower our loan losses has been than everyone else and how much lower our nonperformers.

So the actual facts of where we are today have not altered from the previous quarter comments. But Ian was basically saying but if you have a view that the world is going into a deep recession, can you really believe that you could stay in that position? And my frank view is no; so I think inevitably we are going to have to review this. We haven't made a decision on this, but we are clearly going to have to review, and we do. Obviously on a continuous basis as it is right now we are providing more than we are writing off. So should we actually even widen that gap further.

And looking forward say well, maybe we have to -- maybe it will be excessive caution, but I would rather be excessively cautious than the opposite. So I would say on balance that has clearly got to be a negative factor here going forward. So there will be upward pressure I think to build your reserves even more than we have been building them. Offset, as I say, but pretty dramatic movements in the exchange rate, that means those dollars when you translate them all back in, those US dollar earnings are coming back in at dramatically higher Canadian dollar earnings.

Sumit Malhotra - Merrill Lynch - Analyst

So I will leave it here. I heard Colleen on a conference a few weeks ago repeat the $1.2 billion guidance for 2009. I'm sure we will talk about this again on December 4, but with all the gives and takes here maybe higher loan losses, maybe some more expense synergies depending on where NIM goes from here the $1.2 billion still seems achievable to the Bank for 2009?

Ed Clark - TD Bank Financial Group - President & CEO

I guess it depends on what your foreign exchange forecast is. And so you are better at doing that than I am, but I would say if you use most reasonable numbers, it is hard to believe that the exchange rate movement isn't going to be bigger than the PCL movement.

Sumit Malhotra - Merrill Lynch - Analyst

Thanks very much.

Operator

Brad Smith, Blackmont Capital.

Brad Smith - Blackmont Capital - Analyst

Just a very quick question. Colleen, could you just share with us the total capital ratio for the end of the quarter?

Colleen Johnston - TD Bank Financial Group - CFO

Sorry, I don't have it, Brad. I can get it to you. I will get back to you on that.

Brad Smith - Blackmont Capital - Analyst

Okay, terrific. Thanks, Colleen.

Operator

Ian de Verteuil, BMO Capital Markets.

Ian de Verteuil - BMO Capital Markets - Analyst

Colleen, it is a follow-up on the question from Darko. So I think Darko asked on the AFS book, how does the pull to par impact income? And if I am, once you pull if over time the AFS book pulls to par, the OCI number goes to zero.

Colleen Johnston - TD Bank Financial Group - CFO

Right.

Ian de Verteuil - BMO Capital Markets - Analyst

But don't you actually bring earnings into the Bank from the excess spread and the fact that the bonds are currently discounted?

Colleen Johnston - TD Bank Financial Group - CFO

Yes.

Ian de Verteuil - BMO Capital Markets - Analyst

So really what will happen is you will be booking losses on the credit default swaps, which you will call unusual. But the excess earnings on the book will come through earnings and those will be part of operating earnings?

Colleen Johnston - TD Bank Financial Group - CFO

In essence, yes. Again, we will continue to adjust on the item of note for the hedges, and then now in more so accrual basis income will come in through AFS.

Ian de Verteuil - BMO Capital Markets - Analyst

And how big would that be, that pull to par that comes through operating earnings? How material would that be on -- assuming all these bonds are money good?

Colleen Johnston - TD Bank Financial Group - CFO

That is not a material number. It really in effect would represent again if everything came back to par, would represent the losses that we had posted prior to August 1, would be that number. So that it is not a material number on an annual basis, Ian.

Ian de Verteuil - BMO Capital Markets - Analyst

The indication Bob gave us was 165 basis points of spread. So if I just did that, that is $122 million a year on $7.4 billion. Wouldn't that be material?

Ed Clark - TD Bank Financial Group - President & CEO

Ian it is Ed here. Since I am the least educated person here and I think I finally got this into my head maybe I can try. If you go back to that example that Bob gave, essentially what we are doing is going back to the July 31 space and we are going back there partly by using this AFS, but also partly by saying the things that we can't backdate which is the credit default swaps, we are going to put to items of note. So then you lock in a spread after paying for your CDSs of 100 basis points.

And then against that you have to put the cost of funding the book, which has obviously gone up and so that is why we think net all in that will be not a material amount. What does have to happen is that the $118 million of positive credit gain in this quarter has to get unraveled in this process. And as it gets unraveled it will also be put through item of note because clearly we are saying, ignore the gain and then ignore the losses as we unravel that.

Ian de Verteuil - BMO Capital Markets - Analyst

So it is just the 100 basis points, just the $74 million a year?

Ed Clark - TD Bank Financial Group - President & CEO

Right, exactly, minus the cost of carry.

Colleen Johnston - TD Bank Financial Group - CFO

I think though to stress, as Bob did earlier, really I wouldn't put any precision on that number. I think it is really intended to give you an order of magnitude as opposed to giving you the mechanics of this than the additional hedges etc. that will be going on. So I think --.

Ed Clark - TD Bank Financial Group - President & CEO

I think what we are saying here is by and large I think the way you can look at this is -- and we don't want to -- we are in very unusual times so it is very hard to know what TD Securities is going to look like next year unless you can tell us what the world is going to look like. But in a sense if you go back to this quarter and said we made $125 million a quarter, getting no contribution from CPG, I think you can assume that in the next couple of years we will be happy if we get no contribution from CPG and we get rid of this book with the marks that we have taken so far.

Ian de Verteuil - BMO Capital Markets - Analyst

Thank you very much. You do understand it, Ed. Thank you.

Mark Chauvin - TD Bank Financial Group - EVP, Chief Risk Officer

We just have one last caller, and after we finish with that I will ask Ed to summarize for today, so to the last caller, please.

Operator

Mario Mendonca, Genuity Capital Markets.

Mario Mendonca - Genuity Capital Markets - Analyst

A question about the available for sale securities. Q3 '08 total balance was about $60 billion. When you add the $7.4 billion that you referred to this quarter, you are into $67 billion, almost $68 billion which put your available for sale securities account at about almost a double Royal's. And you have a Tier 1 ratio of about 8.3%. It doesn't take much in terms of deterioration and the value of that available for sale securities portfolio, either through impairments or what have you, to significantly impact that Tier 1 ratio. And I appreciate your comments about having $4 billion of retail earnings to sort of cushion the blow.

The question specifically is, in that available for sale securities about $68 billion, what proportion of that -- what percentage of that portfolio -- if when you take the adjustments through OCI, the mark-to-market -- what percentage of that actually affects the Tier 1, the available capital for the Tier 1 ratio? And I appreciate that fixed income like the bond portfolio for example doesn't but other securities do. Can you help us understand, Colleen, what proportion of that $68 billion would affect available for sale or would affect the (multiple speakers).

Colleen Johnston - TD Bank Financial Group - CFO

Mario, that is a fairly detailed question. Let me get back to you on that. I think you understand the principles around the fact the change of the value of debt securities doesn't affect capital. And that currently the way it works is that if we have gains on our equity securities that amount actually in OCI goes, is a positive in terms of Tier 2. If that came into a net negative on that portfolio that would be a deduction from Tier 1. So that is the way the methodology works, but let me get back to you just in terms of the detail of AFS.

Mario Mendonca - Genuity Capital Markets - Analyst

Okay, and anything you can provide again maybe not today but December 4 in understanding the potential that securities, that AFS which is now essentially double Royal's, why you are confident? Like the Alt-A and everything else, couldn't have a material impact on the company's Tier 1 ratio? Because at 8.3% that is light relative to your peers, so anything you can do to help us on that on December 4 would be good. Thanks.

Colleen Johnston - TD Bank Financial Group - CFO

We will do so. Thanks.

Mark Chauvin - TD Bank Financial Group - EVP, Chief Risk Officer

Just a reminder, all participants and any answers to follow-up questions will be posted to our website, the IR landing page at TD.com. Now I will turn it over to Ed for a summary.

Ed Clark - TD Bank Financial Group - President & CEO

Thank you. So I think where I started, obviously we are disappointed to be having this call. I think in retrospect this business, the size of this business was probably too large. We had focused almost exclusively on not taking any credit risk. I think what we did not focus enough on, we always made sure we had enough cash but we really had not focused on a world where the rest of the world ran out of cash and said we have to sell assets and so I think that turned out to be a mistake.

I think secondly as we also made a mistake in once we saw the illiquidity coming into the markets, we had in fact anticipated a gradual, not a quick but a gradual improvement in the markets over time. And there were many signs along the way from August until August of 2007 to 2008 that there were these improvements. Simply did not anticipate a world in which, frankly, the financial system of the world melted down in September and October. And with the consequence of that forcing deleveraging throughout the system where almost every financial institution is selling off their assets because they have to sell off their assets. And therefore the consequence of this book is that you have to mark down to those prices.

And so we feel badly about that, but I do think you have to put it in context; the loss of TD Securities had this quarter is not a huge material number, and if you look at historical bumps that either TD had or other banks have had it is not a material number. And we are going to drive from here clearly just reinforces from my point of view the strategy that we've been following and saying let's even go more vigorously to make sure that we are not in proprietary trading businesses, that are not related to our main franchise business in TD Securities. And continue to reinforce that our core businesses are strong and that they continue to grow. Thank you very much for taking the time for this call.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation. You may now disconnect your lines.