

1. OVERVIEW

General Information on Basel can be found on the Canadian Bankers Association website at www.cba.ca. Choose “Issues”, “Standards, Rules and Guidelines” and “Basel Capital Framework” to view presentations on this subject.

Effective November 1, 2007, TD Bank Financial Group implemented the Basel II framework for calculating capital adequacy. The third pillar of the Basel II framework (“Pillar 3”) describes the public disclosure requirements. As a result of Pillar 3, a number of new disclosures and disclosure changes have been implemented throughout fiscal 2008.

The purpose of this document is to familiarize readers with new disclosures in the Q4/08 Supplemental Financial Information document (“Supp-pack”) and where necessary, refer to related pages in the 2008 annual report, which can be found at td.com/Investor Relations/Financial Reports.

For ease of reference, “TDBFG” or “the Bank” refers to TD Bank Financial Group, the consolidated entity.

Key Differences

Many elements of capital remain the same under Basel II compared to Basel I. The key differences between the two frameworks are:

I. Capital Calculation

- Treatment of substantial investments and investments in insurance subsidiaries
 - Goodwill/intangibles on insurance subsidiaries are now deducted from Tier 1 capital.
 - Beginning on November 1, 2008 (first day of fiscal 2009), 50% of the Bank’s investment in TD Ameritrade was deducted from Tier 1 capital, while the other 50% remained a Tier 2 deduction. The entire amount was deducted from Tier 2 capital throughout fiscal 2008.
- New deductions from Tier 1 and Tier 2 capital
 - The most significant change from Basel I to Basel II involves the treatment of Allowance for Credit Losses. Any shortfall between Allowance (Specific and General) and Expected Losses under the AIRB¹ approach is deducted equally from Tier 1 and Tier 2 capital under Basel II. Only the portion of the General Allowance allocated to the Standardized portfolio can be included in Tier 2 capital versus all of the General Allowance under Basel I.
 - There were also several changes relating to the treatment of securitization exposures. These changes were not material to TDBFG’s capital position.

¹ Advanced Internal Ratings Based

II. RWA Calculation

For Credit Risk, the Bank uses the AIRB approach for all material portfolios, except in the following areas:

- We have approved exemptions to use the Standardized approach for the majority of our U.S. credit portfolios, some small credit exposures in North America, our margin trading book and some small retail credit portfolios.
- The credit risk from the Commerce acquisition is currently reported using the Interim Approach to Reporting, with the intent to transition to the Standardized approach in 2009.

Plans are presently in place to ultimately transition these portfolios to the AIRB approach.

Page 68 of the Bank's 2008 annual report provides additional information on this subject.

For Operational Risk, the Bank uses the Standardized approach for our domestic and international operations and the Basic Indicator approach for operations of our U.S. Personal and Commercial Banking segment.

Page 77 of the Bank's 2008 annual report provides additional information on this subject.

For Market Risk, the Bank is using the Internal Models Approach.

Page 71 of the Bank's 2008 annual report provides additional information on this subject.

See the next section for a more detailed description of each risk.

2. DESCRIPTIONS OF RISK

Basel II enables banks to calculate regulatory capital requirements for each of three risk areas: Credit Risk, Operational Risk, and Market Risk. The following is a brief description of how each is calculated.

Under the AIRB approach, credit risk is measured using the following risk parameters: probability of default (PD) – the likelihood that the borrower will not be able to meet its scheduled repayments within a one year time horizon; loss given default (LGD) – the amount of the loss when a borrower defaults on a loan, which is expressed as a percentage of exposure at default (EAD) – the total amount we are exposed to at the time of default. By applying these risk parameters, we can measure and monitor our credit risk to ensure it remains within pre-determined thresholds.

Under the Standardized approach, the assets are multiplied by risk weights prescribed by OSFI to determine risk-weighted assets (“RWA”). These risk weights are assigned according to certain factors including counterparty type, product type and the nature/extent of credit risk mitigation.

Credit risk capital represents the largest change between Basel I and Basel II.

Operational risk capital is calculated based on the Bank’s gross income (essentially total revenue), using a 3-year rolling average.

The Standardized Approach calculates the capital charge by assigning average gross income to 8 regulatory business lines and assigning a percentage between 12% and 18% to each income category.

The Basic Indicator approach assigns a factor of 15% to the average gross income.

Once the Operational risk is calculated, the resultant capital charge is multiplied by 12.5 to arrive at RWA.

Because Operational risk is driven by revenue, TDBFG has higher Operational risk capital than most of its Canadian peers. This is a new component to Basel II.

Market risk capital is calculated by applying an OSFI-prescribed multiplier to the VaR (Value at Risk). The VaR is calculated on a historical simulation basis and outcome generally depends on the size and composition of trading book positions as well as input of historical market parameters.

There were no changes in the methodology for calculating market risk capital from Basel I to Basel II. Implementing Basel II enabled us to assess and strengthen our internal processes related to market risk.

3. BASEL II vs. BASEL I – QUANTITATIVE CHANGES TO CAPITAL

In Q1/08, under Basel II, TDBFG's Tier 1 Capital ratio was up 70bps relative to Basel I. Total Capital ratio was up 90bps and RWA were down \$17 billion. The table below illustrates what these figures were under Basel I and Basel II upon the completion of our first quarter under the new framework (quarter ending January 31, 2008).

In Q4/08, under Basel II, the Bank's Tier 1 ratio is 9.8%, Total capital ratio is 12.0%, and RWA are \$211,750 million.

Capital

Q1/08 (\$ millions)	<u>Tier 1 Capital</u>	<u>RWA</u>	<u>Tier 1 Capital Ratio</u>
Basel II	15,888	145,900	10.9%
Basel I	16,614	163,230	10.2%
Difference	(726)	(17,330)	70bps
	<u>Total Capital</u>	<u>RWA</u>	<u>Total Capital Ratio</u>
Basel II	22,014	145,900	15.1%
Basel I	23,117	163,230	14.2%
Difference	(1,103)	(17,330)	90bps

RWA

Q1/08 (\$ millions)	<u>Credit Risk</u>	<u>Market Risk</u>	<u>Operational Risk</u>	<u>Total RWA</u>
Basel II	121,460	4,088	20,352	145,900
Basel I	159,142	4,088	not applicable	163,230
Difference	(37,682)	0	20,352	(17,330)

4. QUESTIONS & ANSWERS

All page references correspond to the Q4/08 Supplemental Financial Information document (“Supp-pack”) unless otherwise noted.

1. Referring to page 14 lines 1-8 of the Supp-pack, how does the “Banking Book Equities” table differ from what was previously disclosed?

Lines 1-7 are new disclosures required under Pillar 3 and provide a more detailed breakdown of Unrealized gains (losses) associated with these equities. There is no change in methodology; all numbers on line 8 reconcile with previously-disclosed figures.

2. Referring to page 14 lines 1-2 of the Supp-pack, why are there Unrealized gains if the Balance Sheet value equals the fair value?

The Unrealized gain (loss) shown on line 2 refers to the difference between the original cost of the equities and the current fair value. Publicly-traded equities on line 1 are recorded on the Balance Sheet at their fair value while the Unrealized gain (loss) flows through Other Comprehensive Income.

Privately held equities are shown on two lines because they are carried on the Balance Sheet at cost. Therefore the Unrealized gain (loss) on line 5 represents the difference between lines 3 and 4.

3. How does the information on page 17 (“Loans Managed”), line 11 reconcile with information found elsewhere in the Supp-pack?

The total of the Loans column reconciles to Loans, net of allowance for credit losses on the Balance Sheet (page 13, line 17).

The total of the Gross impaired loans column reconciles to Gross impaired loans on page 18, lines 13, 19, and 26.

The Year-to-date write-offs, net of recoveries for 2008 reconciles to the Allowance for Credit Losses (page 19, line 2 net of line 3).

4. Referring to page 24 lines 1-7 of the Supp-pack, what is included in each counterparty type?

- a) Residential secured: individual mortgages, home equity lines of credit
- b) Qualifying revolving retail: individual credit cards, unsecured lines of credit and personal overdraft protection products
- c) Other retail: personal loans, student lines of credit, small business banking credit products
- d) Corporate: wholesale and commercial customers
- e) Sovereign: governments, central banks, certain public sector entities
- f) Bank: regulated deposit-taking institutions, securities firms and certain public sector entities

Page 69 of the Bank’s 2008 annual report provides additional information on this subject.

5. Why do the counterparty types on page 24 lines 1-9 of the Supp-pack not align with the financial reporting asset classes on page 13 lines 10-14?

As per the Basel II requirements, on page 24 we categorize exposures by counterparty type, each having different underlying risk characteristics. These differ from financial reporting asset classes which are based on accounting guidelines (page 13). For example, under Basel II, home equity lines of credit are included in Residential secured, while TDBFG's financial reporting treats home equity lines of credit as Consumer instalment and other personal loans.

6. Why does the "Drawn" number on page 24 line 9 of the Supp-pack not reconcile with total loans on page 13, line 15?

All of the drawn exposures on page 24 of the Supp-pack are included in the Balance Sheet on page 13. The Retail exposures can be closely mapped to a small number of accounts. The non-Retail exposures cannot be mapped directly using publicly-disclosed information.

The Retail drawn exposures on page 24 lines 1-3 of the Supp-pack can be closely mapped to page 13 using the following categories: all of Residential mortgages (line 10), Consumer instalment and other personal (line 11), Credit cards (line 12), and a portion of Business and government representing Small Business customers (line 13).

The non-Retail loans cannot be mapped between the two pages using publicly-disclosed information as there are a number of adjustments involving portions of various accounts.

7. On page 24, what is the trigger for the middle four columns ("Undrawn", "Repo-style transactions", "OTC derivatives" and "Other off-Balance Sheet") to come on-Balance Sheet?

Undrawn exposures become on-Balance Sheet if/when the facility is drawn.

For Repo-style transactions, the cash component is an on-Balance Sheet asset (reverse repos) or an on-Balance Sheet liability (repo transactions).

Regarding OTC derivatives, the marked-to-market portion is considered on-Balance Sheet, while the derivative itself is not (and remains off-Balance Sheet).

Other off-Balance Sheet items are mainly made up letters of credit & letters of guarantee. These would remain off-Balance Sheet unless the counterparty goes into default (at which time a loan would be recognized), or a 3rd party claim is made against TD.

8. On page 25 of the Supp-pack, do the dashes in lines 2 and 3 under the AIRB column mean the Qualifying revolving retail loans and Other retail loans are completely unsecured?

There is a difference between guaranteed and secured. The exposures in the Residential Secured category are both secured (e.g. by real estate) and guaranteed (insured) by either CMHC or Genworth. The guaranteed portion is a subset of the total Residential secured exposure.

For the Qualifying revolving retail, loans are unsecured and not guaranteed.

For Other retail, some loans may be secured (e.g. by investments) but none are guaranteed.

9. Referring to page 25 of the Supp-pack, how can there be \$88,095 million in guarantees for Residential secured if your Residential mortgage balance (gross) is only \$63,003 million (page 13, line 10)?

'Residential secured' is a counterparty type under Basel II. It includes individual mortgages and home equity lines of credit. Page 69 of the annual report provides additional information on Basel II counterparty types.

'Residential mortgages' on page 13 does not include other products.

10. What is the purpose of the tables on page 26 of the Supp-pack?

The tables on page 26 are a Pillar III requirement. They reflect the Standardized credit risk exposures (i.e. those that are primarily booked in the U.S. Personal and Commercial Banking segment) in their appropriate risk weight categories. These risk weights are assigned according to certain factors including counterparty type, product type and the nature/extent of credit risk mitigation.

11. Can the totals on page 26, line 8 be reconciled to any other numbers in the Supp-pack?

No. This page includes both on- and off-Balance Sheet exposures, on a spot basis.

12. Referring to page 26 of the Supp-pack, under the Standardized Approach,

a) What is an example of an exposure that receives a 0% risk-weight?

A loan secured by cash, or a loan guaranteed by a sovereign or central bank rated AA- or better (based on Standard & Poor's ratings) are two examples of loans that would receive a 0% risk-weight. For example, loans guaranteed by the governments of Canada or the U.S. receive a 0% risk weight.

b) What is an example of an exposure that receives a 150% risk-weight?

Loans that are more than 90 days past due, other than a residential secured loan, receive a risk-weight of 150%.

13. What is the purpose of the tables on pages 27 and 28 of the Supp-pack?

Similar to page 26, these tables are a Pillar III requirement. They reflect the AIRB credit risk exposures (i.e. those that are primarily booked in Canada) in their appropriate risk categories. Descriptions of each of the retail risk categories (page 27) and non-retail risk categories (page 28) can be found on page 70 of the Bank's 2008 annual report.

14. Referring to page 29, footnote #3, how does the bank arrive at an expectation of what is to be drawn assuming a default? Wouldn't the client draw down the entire amount if they were in financial distress?

This gets to the quality of the Bank's risk modeling, in particular, EAD – exposure at default. Based on 10 or more years of historical data, the Bank is able to estimate the amount that would be drawn when a borrower goes into default (e.g. more than 90 days delinquent). This is not necessarily the total amount available.

15. Referring to page 30 of the Supp-pack, why doesn't the total in the first column (\$38,980 million) reconcile with the securitization total on page 16, line 9 (\$32,580 million)?

These two tables will not reconcile as they are presenting different items.

The securitization figure on page 16 represents the balance of bank-originated assets that have been sold to Significant Unconsolidated QSPEs² and SPEs. The majority of these have no credit exposure due to insurance on the underlying assets.

Securitized assets on page 30 are the sum of our investments in securitized products and our obligation to provide liquidity facilities to bank-sponsored securitization vehicles, and therefore the Bank still maintains a level of credit exposure.

16. Referring to page 31 line 14 of the Supp-pack, what does “Adjustment to IRB RWA for scaling factor” refer to?

In order to overlay some conservatism on the RWA calculation, the regulators introduced a 6% scaling factor which is applied to the total AIRB credit risk RWA. This has the effect of increasing capital requirements.

17. Referring to page 31 line 15 of the Supp-pack, what is included in “Other assets not included in standardized or IRB approaches”?

This line includes substantial investments (e.g. TD Ameritrade), deconsolidated subsidiaries (e.g. insurance subsidiaries), goodwill and intangible assets in excess of the Tier 1 limit, land/buildings/equipment, cash, and some other miscellaneous assets.

18. Can the total Gross Exposures on page 31 be reconciled to the Balance Sheet on page 13?

No. The Gross Exposures on page 31 include both on- and off-Balance Sheet amounts.

19. Referring to page 32 lines 14 and 22 of the Supp-pack, how is the “50% shortfall in allowance” derived?

The “shortfall in allowance” represents Net allowances allocated to AIRB portfolios (specific and general), less the Expected Loss amount calculated under Basel II.

The Expected Loss amount is used to calculate regulatory capital and is based on an OSFI-prescribed formula.

General and Specific Provisions are used to estimate credit losses within the current environment and must meet GAAP requirements. The Bank’s General Allowance methodology is approved by OSFI.

² Qualifying Special Purpose Entities