TD BANK GROUP
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PRESENTATION

Stefan Nedialkov – Citi Research – Analyst

…Our fourth and last session of the Canadian banks track, Toronto Dominion.

TD is one of our two buy-rated stocks. We currently cover the Big Five Canadian banks, so we have two buys out of five names. Our buy rating and target price of $95 are based on three points: number one, upside from corporate lending, particularly in Canada; number two, the capital generation in the US business from moving away from the standardized approach towards AIRB; and number three, sufficiently high risk weights of Canadian retail loans, which should mitigate an increase in regulatory scrutiny, potentially driven by the ongoing Basel III risk weights review.

And with this, I'd like to introduce Bharat Masrani, who is the CEO of Toronto Dominion USA, otherwise known as America's Most Convenient Bank. Bharat has more than 26 years of banking experience, building up his career from a commercial lending trainee in 1987. Bharat is a member of the TD Bank Board of Directors. Prior to his role at TD Bank, he served as Vice-Chair and Chief Risk Officer of TD Bank Group, a position he held from May 2003.

Bharat has also served as CEO of TD Waterhouse Investor Services in Europe, SVP of Corporate Finance and Co-Head in Europe, VP and Country Head for India, and VP and Head for Corporate Banking in Canada. Bharat serves as a Board member on the Financial Services Round Table and is a member of the Federal Advisory Council. He and his wife, Shabnam, make their home in Philadelphia and have two grown children.

Disclaimer -- I've been asked to read this. Sorry for the next boring 60 seconds. Disclaimer - at this time, I'd like to caution our listeners that this presentation contains forward-looking statements. There are risks that actual results could differ materially from what is discussed, and that certain material factors or assumptions were applied in making these forward-looking statements. Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities, and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes.

So, Bharat, welcome. You'll give us the five-minute presentation, then we'll do a bit of fireside chat, and then Q&A.

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

Thank you.

Thank you very much, Stefan, and thanks, everyone, for taking the time to join us. I've heard there is a snowstorm in the offing, so a lot of people have had to leave early.

It's great to be here in Boston, a key market for TD. Hopefully you did get to see some of our stores, and as you know, home to the iconic TD Garden as well, so great to be in this city.

Let me start with a brief overview of TD Bank Group's strategy and our major business lines, and then I look forward to taking your questions.

TD is a North American retail-focused bank with four key business segments – Canadian Personal and Commercial Banking, Wealth Management and Insurance, US Personal and Commercial Banking, and

Wholesale. Today, the vast majority of our earnings are generated by the first three segments, which collectively we consider our retail operations. I'll talk more about that in a moment. It is this lower risk retail focus that's a key differentiator for us.

As you can see from the map, our retail franchise extends coast-to-coast across Canada and down the Eastern seaboard of the United States, where we now have more than 1,300 stores. What's particularly noteworthy about this is that the same map in 2004 would have shown no US retail banking presence, so quite dramatic growth. Please turn to the next slide.

This slide summarizes the strategy driving this transformation. It's really quite simple. We are relentlessly focused on building ‘The Better Bank’, and our strategy has four key elements: first, a geographic positioning across North America; second, our retail focus, which delivers a better return for the level of risk undertaken; third, we build franchise businesses with repeatable and growing earnings streams; and fourth, our risk management culture, which informs our choices about where and how to do business, including how we manage our capital and liquidity functions. At TD, we have a well-defined risk appetite statement and only take risks we can understand and manage. Please turn to the next slide.

This slide shows our ranking relative to our Canadian and North American peers. Across a range of key metrics, we stand out as a top 10 bank in North America. From a balance sheet perspective, we rank second versus our Canadian peers for total assets and total deposits, and from a P&L perspective, we rank sixth in adjusted net income versus our North American peers. TD is also the highest rated bank in Canada, and one of the few banks globally to be rated Aa1 by Moody's. Please turn to the next slide.

Let's take a closer look at our earnings mix. Our strategy of building a retail focused, lower risk bank has unfolded over more than a decade through a combination of acquisitions in the US and Canada and investments in our organic growth. Over the same period, we deliberately re-oriented our wholesale bank from a traditional broker model to a franchise dealer focused on client-driven flow businesses. This involved exiting areas that were not consistent with our lower risk strategy, including structured products and non-franchise businesses, such as proprietary trading.

The transformation has been quite dramatic. In 2012, approximately 90% of our earnings were generated from our retail businesses, with the balance coming from wholesale. In 2001, those numbers would have been nearly evenly split between the two. Please turn to the next slide.

Let me now shift gears and take a look at our recent performance. As you know, we reported our first quarter results last week, and I'm pleased to share that it was a strong quarter, with total bank adjusted net income of CAD1.9 billion, up 9% from last year, and adjusted EPS of CAD2, up 8%. Our retail businesses all had record earnings, driven by good loan and deposit growth in Canada and the US and impressive revenue growth in Wealth and Insurance. Our Wholesale bank had a softer quarter, but the business's underlying performance was quite solid. And our Basel III capital position was also strong, with a Common Equity Tier One ratio of 8.8%.

Reflecting these strong results, the Board increased our quarterly dividend by CAD0.04 per share, up 5%. This is the fifth increase we have delivered in the last two years. So, overall, it was a great start to 2013. Please turn to the next slide.

Let me turn my attention to the US P&C segment, which I have the privilege of running. Today at TD Bank, America's Most Convenient Bank, we have more than 1,300 stores, more than 25,000 employees, and eight million-plus customers. We operate in many of the largest urban centers and wealthiest states along the Eastern seaboard. And with more than CAD200 billion in assets, CAD170 billion in deposits, and CAD90 billion in loans, we are now a top 10 bank in the US.

From an earnings perspective, last year was another record year for our US business. We contributed CAD1.4 billion in adjusted net income after tax to TD's bottom line despite the negative impacts of Durbin and a challenging operating environment. And before you ask, Stefan – and I know you will – we remain committed to our CAD1.6 billion adjusted earnings target for fiscal 2013.

It won't be easy. We face the same headwinds we battled last year: continued margin pressure from low interest rates, regulatory uncertainty, and a host of fiscal and macroeconomic challenges in the US and abroad. But, we are working hard every day to deliver on that objective, and I'm confident we have the right strategies in place to get there.

Since first entering the US, we have consistently demonstrated our ability to grow organically. We opened 41 new stores last year, and have plans to open approximately 35 in 2013. Our regional banking model, built on providing our customers with legendary service and unparalleled convenience, is designed to deliver the entire bank and has enabled us to consistently take share. In fact, we outperformed our peers right through the financial crisis, and we look forward to continuing that outperformance in 2013 and beyond.

So, with that by way of an overview of TD Bank and TD Bank, America's Most Convenient Bank, let me turn things back over to Stefan, and I'll open it up to take your questions. Thank you very much.

FIRESIDE CHAT

Stefan Nedialkov – Citi Research – Analyst

Okay. Thank you, Bharat. So, I'm going to start with a broader strategy question. You guys are known as one of the most customer-centric banks in both Canada and the US. But, in Canada, we are starting to see some of the banks copying your – I don't want to say business model, but some of the attributes of your business model, such as longer working hours, longer opening hours. Are you concerned about US regional banks and US money center banks potentially following that example – offering longer hours, becoming friendlier – or is this something that does not concern you? If it does, how do you plan to respond?

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

Well, you always have to respect your competition. Everybody tries hard to get share.

The good thing in our bank is that we have consistently been able to show that we can organically grow our franchise and take share. That's been the hallmark of TD Bank, America's Most Convenient Bank since we entered the United States. And yes, there are components of our model that I see lot of our competitors replicating. You're right, some have tried opening on Sundays. Some have tried other components. But, I always feel that the space we are occupying is the only sustainable place from a competitive perspective – that is, from our perspective, built around delivering legendary service and unparalleled convenience.

So, that might sound like, "Yes, so what? We've heard that before from many bankers who've come here." But, there are parts of it that are hard to replicate, though it may sound easy. Let me give you one example. If you run the type of hours we do, it takes a particular type of employee, a particular demographic you have to attract – how you hire, how you promote, how you compensate, how your staffing models work, how your benefits work. All of this needs to be aligned. And it's not just opening the store, but everything that goes with it at the back end.

Trying to get that right is effectively the basic DNA of a bank. So, yes, I guess it is not difficult to replicate, but, if you are going to replicate it, you'll have to sustain it in order to be successful.

So, yes, I do worry about competition. That's my job to worry. But, I feel that we are occupying a space that is attractive for us, and we have shown, over time, that we can be successful doing that.

Stefan Nedialkov – Citi Research – Analyst

Okay. In the US, you are in an excess deposit position. Even if we exclude the TD Ameritrade deposits, you are still in an excess position. Obviously it is a little hard to think about how to profitably invest the TD Ameritrade deposits because they're quite short-term in nature and quite transactional, I would imagine. But, we are seeing margins coming down quite significantly, especially in the first quarter. Obviously there were reasons, but we'd rather see more stable margins, or trending down more smoothly.

As you think of ways to maybe deploy these excess deposits, how do you see the potential for corporate lending growth? We have seen quite a few regional banks here present at our conference, and risk appetite is definitely coming back. A lot of the regionals are talking about growing their corporate books by low to mid- double digits for 2013, so there is more competition. Is deploying your excess liquidity in that space necessarily going to be a guarantee for more stable margins?

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

Yes. So, firstly, by way of background, if you look at our numbers year-over-year, we have had loan growth of 16% and deposit growth of 8%. So, I think we are making progress in ensuring that we have a somewhat more optimal balance sheet mix than what we had previously. I think we're making good inroads in various asset categories. The Bank has done quite well on the mortgage front, and on C&I lending we've been pretty strong. So, fundamentally, I'm happy with the direction we are following.

With respect to certain segments: am I attracted to corporate lending? I'd say more junior corporate banking is a sweeter spot for us. As I said in my remarks, we like to deliver the entire bank. We are making good progress in that particular segment within our footprint. It does give you an opportunity to cross-sell your other services, which is important for us with lending. It's important, but we'd rather sell other services out of the bank, and in the junior corporate market, you have more opportunities to do that.

We are, as well, building out capabilities in the asset-based lending business. We've not been a player there, but we feel that it is a segment that is important to offer our customers. And within our footprint there is good opportunity. So, for the past year or so, we've put in a lot of effort to build the infrastructure that is required for it.

Healthcare is another area. We feel more certainty around the changing landscape that comes into force starting in 2014. We find that an attractive space. We are already a well-regarded player in that space, so we think there's more opportunities there.

So, yes, there are areas I think we can focus on, but I'd make the general comment on risk appetite – having also been in the risk business and the lending business myself, personally – we have to be prudent about this and be serious about the risk appetite statements we put out to our thousands of employees. I mean, lending is great as long as it works, but it can be unforgiving when you get it wrong, so we want to make sure we do it in a prudent manner. And, if all of your presenters are going into a particular segment, I'll think hard whether I really want to go there.

Stefan Nedialkov – Citi Research – Analyst

Yes. Yes. Okay. In terms of what we saw again in the first quarter of 2013, you started harvesting unrealized gains in your US business in order to convert that into permanent capital, basically, and that was also one of the reasons why your net interest margin went down. So, to me, you are giving up P&L to solidify your balance sheet in the US.

I have two questions on that front. Is it fair to assume that CAD1 of foregone net interest income translates into more than CAD1 of capital, number one? And number two, is the current Fed emphasis on foreign bank capital in the US behind your emphasis on capital rebuild?

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

Yes. So, on the first part, I think it probably requires a more fulsome background. We're doing a few things in managing our balance sheet in this particular environment. We feel that the risk of rates dropping further is relatively low compared to the potential for rates to go up. So, with that in mind, we have implemented a shortening of duration strategy. We can do that in a few ways, and we are.

One of the strategies we've employed is to sell the securities, and this will shorten duration. But, as importantly, you pointed out, under Basel III, those unrealized gains are capital. So, the capital ratios you are seeing from the bank already include that as capital, and if you believe in the way you are shortening duration relative to where you think you are in the rate cycle, then it will be consistent that you want to make sure that those gains become permanent capital and do not disappear on you. So, to reduce capital volatility in the Bank – the Bank traditionally has been quite disciplined in managing its capital. It is a key component for our success. So, I think you need to look at it from a fulsome perspective. That is our strategy, and that is what we are doing.

With respect to your question as to what exactly is the math on NII give-up versus what is a securities gain, it's hard to say. It depends on which security you sold when. So, I don't want to offer up a number that this is a ratio you should do, because then it could change every day. But, I think, generally, you probably have more of a gain, because there's some term you've given up by selling it upfront. So, generically, I would answer it that way. It's hard for me to give you a specific ratio, because it would change quite dramatically depending on what securities we sell.

On capital, with respect to US rules, as most of you know, when we acquired some of the banks, we employed a structure in our holding company that was optimal for us as to how we financed those deals through various structures. And we are on track to meet the capital requirements under the Collins Amendment and Dodd-Frank – that was the way we had structured our balance sheet. I think you're probably getting to the proposed new rules that might be in the offing. I'd say they are the proposal stage. They are at – they're not rules yet, and there's still enough time for banks to comment.

I mean, generally, we think there's a lot of work that needs to be done, because the devil's in the detail in these rules. We feel it's manageable. There is nothing that would suggest it's not manageable. But, let's see how they pan out, because our experience has shown that, whenever there's a proposed rule, by the time it becomes final, there's a lot of puts and takes that go either way, so let's get to the bottom of that. Once that is clearer, then we can provide more insight as to how exactly it impacts us. At first blush, I think it probably is manageable for us from a capital management perspective.

Stefan Nedialkov – Citi Research – Analyst

And when you say manageable, you mean under the current proposals by the end of 2014, so overtime, rebuilding the capital base for the next three years?

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

Well, from a consolidated basis, it should not have any impact. How we manage our capital between different legal entities and all that – that's what I mean by manageable. I think you shouldn't take my comment to mean that, on a consolidated basis, we have to do anything specific to meet these standards. No, we don't.

Stefan Nedialkov – Citi Research – Analyst

Yes. Some of the European banks were quite clever – in the previous round of Fed requirements – in terms of structuring different legal entities around their U.S. subsidiaries. That now is going away, and everybody is supposedly going to be on the same, level playing field. Because, I guess you haven't necessarily done such legal transformations in the past, there is more of a chance that you're on the regulator's good side rather than bad side. Is that a fair statement to make?

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

First of all, I wasn't sure where you were going with this, and I was getting a little sensitive. I thought you were trying to say that Canadians are not as clever!

Yes, I think we run a different type of business than perhaps a lot of our foreign competitors might run. We're running a core personal and commercial banking business. Within the United States, not counting our global business, we are a top 10 bank in the retail and commercial space. I think we just are in a different situation than perhaps other banks might be. So, I don't worry too much about clever structuring around these situations, because it is what it is, and what's going to apply to us is going to apply to the rest of the world. As long as there's a level playing field, we will compete effectively.

Stefan Nedialkov – Citi Research – Analyst

All right. Okay. Just to round up the capital discussion that we are having, in TD Bank Group's Annual Report, and also in talking to the Bank itself, you have told us that you are moving towards the Advanced IRB approach in the US, potentially as of 2014, and that could potentially generate a fair amount of capital. How likely is it that the regulator will approve your models, given that most of the banks are still on Standardized? And could you give us some sense around how much could be released?

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

So, it's interesting. We are fully Basel II compliant in Canada and on a consolidated basis. As you probably know, none of the US banks actually are off the parallel run yet, so there is no US bank that is yet Basel II compliant. I think the part on capital that makes it more complicated is that, through the Collins Amendment, as part of Dodd-Frank, there is now a regulated legal floor. So, regardless of what the models might suggest, you have to hold the capital, and I think it says Standardized Basel I is the minimum floor. There might be certain technicalities there that I might have not gotten right.

So, it's less a capital sort of objective, and more – I think what Basel II and AIRB are doing is forcing more discipline, consistency, governance around risk management, modeling, validation, et cetera, and less about capital releases, because I think most jurisdictions have now put floors. Now, that may change down the road. I think generally at TD, we've been outperforming from a risk perspective. Generally we've been positive outliers from a risk perspective. So, by definition, if capital is based on the amount of risk you take and your risk performance, then we should benefit.

But, if you have a regime where, consistently, floors are applied, then I don't think the advantage is as much. So, I don't know what the exact numbers are, because it's still in process. We are still working towards entering parallel run in the United States. Our plan would be to become Basel II compliant, but I think the level of capital consideration is going to be fairly small because of the floors that apply under Dodd-Frank.

Stefan Nedialkov – Citi Research – Analyst

And these floors – once the US moves onto Basel III – aren't those floors likely to be synchronized with the Basel III floors?

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

No, but the Collins Amendment – I think it particularly stipulates what the floor is. I think it just tries to create a level playing field for non-Basel compliant banks in the United States, so that you couldn't have a situation where an AIRB bank has substantially less capital in the US than a non-AIRB bank with a similar type of business. I think that appears to be the objective. And if that's how this turns out, then I don't think there is much of a difference, because I think – maybe we have lawyers in the room who might help me here – but even under Basel III, Dodd-Frank would trump Basel III.

Stefan Nedialkov – Citi Research – Analyst

Okay. I just wanted to shift gears a little bit toward the M&A side of things. I've got just a few questions here, and then we can open up for Q&A. What is your latest thinking in terms of the expansion in the US organic or inorganic? And in particular, which US state would you like to conquer next?

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

So, as I indicated in my remarks, we are now in every state on the Eastern seaboard except for one. We are not in Georgia. Apart from that, we are in every state. We entered the great state of Rhode Island, close by from this city, only recently and quite successfully, and we are very happy with that.

Our strategy has been – in Canada, if you look historically, the Bank has always been focused on de novo store growth, branch growth. That's always been a key component of our strategy. In the US, we've deployed the same strategy, and we acquired that capability when we acquired Commerce Bank. Commerce Bank was a prolific de novo organic growth type of an engine. And so, we've maintained that capability. We've added certain components to that strategy to make sure that we are more focused on selling the entire bank and not just the deposit side of the bank, et cetera.

And that has worked remarkably well. So, the numbers I cited earlier – 16% loan growth, 8% deposit growth – for the most part, these are organically grown numbers in the bank. We opened new stores. I said we opened 41 last year. We'll open 35 this year. So, organically growing the franchise is a key part. Taking share is what we are all about. The service and convenience model is conducive to that strategy. That's how it works.

In terms of which state – which particular areas we find particularly attractive – last year we announced 'Take New York', which is a whole initiative within the bank. We would like to become the third largest retail-oriented bank in New York City. Today, we would be viewed as the fifth largest. We'd like to do that in the next two to three years. It will take about 50 new locations. Somebody earlier in one of my one-on-one meetings asked me, "Well, you can just open new stores and you can be third largest." I said, "Well, I think what we want is to successfully open new stores." There's a minor requirement there, as well. But, I think the bank has shown that it can do that, so that's a very attractive area for us.

Florida is very attractive for us. We are putting a lot of effort, especially into South Florida, where we now – in the whole state we've got about 170 locations, whereas three years ago we would have had 32. And most of that came through acquisitions, when we acquired the three banks from the FDIC and we bought South Financial. So, it gave us a core from which we can grow now.

And the other big focus market for us is here, Boston. This is very important for us. We have a very good franchise in Massachusetts. We do need more core type of locations in the city of Boston. Hopefully people living in the city might have seen our newer locations in Post Office Square – I'm very excited about what's happening in these markets.

So, those would be the key focus areas for us, and we also have the usual – what I call usual unique businesses, usual growth opportunities in Philadelphia and other parts.

Stefan Nedialkov – Citi Research – Analyst

Okay. I've got one last question. On RBS Citizens – and you thought that was going away. Well, it's not, I'm afraid – RBS Citizens, Ed Clark said recently, "Last quarter I indicated that, if we were to look at a larger deal, it would need to fit the Bank's strategy, timing and risk appetite. In addition, it would need to meet our financial hurdles and be supported by the market. We do not believe that a transaction to acquire RBS's Citizens Bank is available that meets these criteria."

So, what intrigued me here was the use of the word "available." If RBS made Citizens available to you at a price that met your financial hurdles, would you reconsider?

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

I thought Ed was pretty clear as to what our stand is on this, but I should go back to him. Obviously he wasn't, because people keep on asking me this question. Somebody asked me, "Well, does this mean you're saying this will never happen in your lifetime?" I said, you know, "My lifetime is a long time." And so, I could argue with you – if they come and say, "Take Citizens, and we will pay you money to go ahead and take it," I mean, are we going to say no? No.

So, it has become a circular argument. We have said that, in the US, we now have a franchise where we do not need to do a deal. We have a franchise that has achieved scale. We have a franchise that can organically grow. We have a franchise that has already proven to be very successful. We have a brand that is second to none. So, there is not a compulsion here that we need to go out and do something, whereas a few years ago we might have been in that position. We are not in that position.

Two or three years ago, we did say, and this has been consistent, that we would look at smaller deals – that smaller deals would be interesting for us because it would accelerate our organic strategy in certain markets, specifically in the southeast of the United States. I think South Financial fit that particular criteria – I think the three FDIC banks fit that.

We've also said that we would be, and we continue to be, interested in asset purchases. Buying Chrysler Financial, the auto finance business, fits that. Target – I'm happy to report that we are hoping to close that transaction in this fiscal quarter – that fits that side of the strategy. So, we've been very consistent on our approach.

So, to get back to question you're asking me – if there were a large transaction, how would you do it. So we said, okay, these are the criteria we have laid out, and I think we've been very consistent as to what makes sense here. And I think, for this particular case, not only does it not fit our criteria, but I think RBS has announced that it is going with a particular strategy over the next few years. So, I'm not sure where the confusion is coming from, because to us, we've been consistent right through it, and we're just following that particular line of thinking.

Stefan Nedialkov – Citi Research – Analyst

Great. Well, thank you. I'd like to open the floor to questions.

QUESTION AND ANSWER

Unidentified Participant

What's your long-term strategic plan for the ownership of Ameritrade? And what was the genesis of the revised IDA sweep agreement?

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

TD Ameritrade is very strategic to TD, and I am emphasize it's TD Ameritrade. It's important for us. It plays a role for our bank in the US – we have a very strong referral program to TD Ameritrade. It is part of our Wealth Management play for our banking clients. We are, as well, piloting a small project to see if there is a way for us to market some of our loan products to TD Ameritrade clients.

As you know, we manage the IDA as well, which is important for TD Ameritrade, as well. And we've been in that business for many years. As you know, we have a very large business in Canada that is similar. So, there has been a tradition for TD to be in that space, and that's why it's a very important and strategic investment for us, and it's a unit that we're very happy with.

The genesis behind some of the changes in the IDA was, under various regulatory changes, you want to make sure your agreement would allow you to be compliant with liquidity standards. So, we made those changes. There was a spread – the CEO of TD Ameritrade talked about those certain changes made in some of the economics for a component of the deposit, because it's quite strategic for TD Ameritrade to be attracting…to be playing in that particular segment in the business they are in, so we made those small changes, as well.

So, I think it is reflective of the various regulatory changes that are occurring out there, as well as some of the realities of a lower rate environment, and to make sure that it is not disadvantaged in playing in certain segments relative to its competition.

Unidentified Participant

Would you talk about, assuming that you don't do any big deals, what your expense outlook is versus your revenue outlook for 2013? Because clearly you're growing, so how much pressure is that putting on you? Because everyone else seems to be dealing with revenue pressure and trying to take cost out, and you're clearly not in that situation, really. So, could you talk a little bit about quantifiably what that's going to look like?

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

You're talking in the US particularly, yes? So, we, like the rest of TD, are very focused on productivity – are very focused on expense management. It's been a core message that we've given out for the past year or so, and I think the Bank has done a reasonable job in meeting some of the hurdles we've set ourselves internally.

In the US, the headline number obviously includes the investments we are making, and I think it is important that we continue to do that. That is very much part of our growth performance – new stores come in that number; when we launch a new mobile platform, it comes in that number. So, we're making some big investments, but at the same time, we are creating productivity opportunities that have worked well for us. So, for example, in the last year or so, we have introduced a new teller system that is all image-enabled, which has allowed us to reduce our check processing sites from nine to two. It has meant that we were able to automate a lot of those processes, which not only reduced risk, which not only made the customer experience superior, but which reduced costs quite dramatically, as well.

So, I think we're balancing that out. Yes, we have the same pressure as any other, but we want to make sure that we don't compromise on investing for the future. That's a proven strategy. It works very well for us, so we won't be compromising on that. But, where appropriate, we will be introducing efficiencies and automation to sustainably reduce our core expenses. And in that regard, I'm quite happy with the way we are proceeding.

Unidentified Participant

Can I ask a question about M&A in the context of your footprint nationwide in the US? So, on the Eastern seaboard, you've got quite a good presence here and some infill opportunities. But, once you get beyond the Eastern seaboard, if you think about what is the Midwest or the West, would you look for an M&A strategy to really give yourself a foothold, or do you think you can go de novo outside the Eastern seaboard, as well?

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

Well, we think there is so much opportunity in the footprint we have. A couple of years ago, we had an Investor Day, where some of our people presented on how many new stores we'd opened in Boston, Philadelphia, the I-95 corridor. At the time, we thought we could open 300 new stores and still not have enough. So, we think there is ample opportunity on the Eastern seaboard, and I'm not staying up nights thinking about can I go to Detroit or to places in Ohio or elsewhere, because we think we are in the right footprint. We think that the growth potential is compelling. The Florida market is particularly attractive for us. Not only is it great for our Northeastern client base when they vacation in Florida, it's also very important for our Canadian client base. That can be a big driver for us for the future.

So, we feel there's ample opportunity on the Eastern seaboard. What I've learned is, never say never – we'll see what the future holds – but our focus is the Eastern seaboard. I'm not looking at expanding outside of that any time soon.

Unidentified Participant

Yes. The Canadian banking system, in very general terms, is clearly a higher-return sector than the American banking system, and yet you've expanded significantly into the US without any dilution of the group return, which I guess is in part due to buying well. But, can that situation be sustained, or will return on equity actually drift down as the US business grows?

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

Yes. So, I guess your point is that the returns in the Canadian business are far superior to the US business. I think, on an operating ROE basis – or any organically generated net income after tax – you're looking at returns in the high teens to 20%. It might be slightly higher if the rates were to normalize. And you say, in Canada, the numbers are higher than that. But, if your cost of capital is much lower than the 20%, then why would you not get into that business? So, is there a chance that the overall group ROE might be slightly lower, but you'd have a much bigger business that's North American in scale, that gives you the scale of North America, that allows you to be in businesses not only in the US but also in Canada because of your North American scale? I think that's a good trade-off for the Bank.

Stefan Nedialkov – Citi Research – Analyst

Any more questions? Okay. Well, we are actually a little bit beyond our time, so Bharat, once again, thank you so much for your time, for your insights, and we hope to host you soon again.

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

Thanks. Thanks, Stefan.

Stefan Nedialkov – Citi Research – Analyst

Thank you.

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

Thanks very much. Thank you.