Q3 2009
Strategic Overview
(Check Against Delivery)
Ed Clark, President and CEO

- Thanks Tim.
- First I want to begin by saying how pleased I am to be having our call from our offices in Mount Laurel, New Jersey. I'll talk about the integration at TD Bank, America's Most Convenient Bank in a moment, but we're down here to see first hand the fantastic work that Bharat and his team have been doing to bring together the legacy Commerce and TD Banknorth operations.
- Well, Q3 turned out to be a great quarter. There probably aren't many people on this call – including me – who thought we'd have this kind of performance in the midst of a recession.
- You're probably wondering how that happened and whether it will happen again, so let me briefly share my take on it.
- I think you have to start by giving credit to governments and central banks around the world. As a group, they have responded both quickly and appropriately. In Canada's case, we're benefitting from the fiscal action of the government and the monetary policies of the Bank of Canada.
- There was a point not many months ago when financial markets needed extraordinary measures. Investor and consumer confidence were extremely low and we all wondered whether we were facing the Great Recession or even a Depression. Concerted action worldwide has changed that outlook.
- We also didn't anticipate the resilience of the Canadian resale housing market. The structure of the Canadian housing and mortgage market provides an enduring strength for the economy and our businesses.
- But beyond that, I continue to be impressed by the resilience and adaptability of all areas of the Bank. We've never been tested by conditions this tough. But, we were up for it – we found that tough markets do present opportunities as well as challenges – you just need to find different ways to succeed.
- For example, in our US P&C business, we told the market we were running a better asset and risk strategy – and we're seeing the results of that now. And the financial crisis gave us an opportunity to take market share. In Canada, new business growth has also been extraordinary. We benefited from our lower risk lending strategies, resulting in very manageable PCL's so far in this cycle. And our Wholesale business has proven you can take advantage of disrupted and recovering markets without going out the risk curve.
- In a moment Colleen will explain our results in detail, but let me give you the highlights.

Results Overview

- Overall, each of our major businesses made a strong contribution. Our Retail adjusted earnings were almost $1.1 billion and our Wholesale business had a record quarter, which helped us end Q3 with an even stronger Tier 1 capital ratio – now over 11% – and a Tangible Common Equity ratio over 8%.

- Starting with Wholesale, as I said, we're proving that you can actually reduce risk and get better results. We've seen major reductions in our risk-weighted assets as we've continued to focus in on our franchise business model. It's unlikely this level of earnings can be maintained but we do have an excellent business that continues to perform well and produce a solid return on capital within tight risk parameters.

- Moving to Canadian retail, the performance of TD Canada Trust is truly amazing. We earned $677 million this quarter, a new record. And to give you a sense of the earnings power here, that record was reached despite a 49% increase in PCLs over last year.

- We always keep a close eye on expenses while growing revenue, and as a result our efficiency ratio hit a record 47.8%.

- In Canada, we're thrilled that for the fifth year in a row, we won the Synovate award and for the fourth year in a row, we won the JD Power award. Coupled with our fourth JD Power win here in the US, our customers and clients have clearly said that we deliver the best customer service in banking in North America. That happens because our employees are committed to delivering a legendary customer service experience each and every day.

- In Canada, we've seen strong demand for lending up to this point in the economic cycle and have proven our willingness to lend and take market share. But we are seeing signs that growth in demand for credit is slowing, as you'd expect during a recession.

- Our Wealth business is starting to see the effects of stronger markets come into its results. We're still feeling the impact of margin pressure as a result of low nominal rates, but we're also getting the benefit of record online brokerage trades per day and asset and volume growth.

- At TD Bank, America's Most Convenient Bank, we're pleased with our results, delivered in the context of a tough US market. We're still growing our loan book, up 14% from last year, and taking market share. On the deposit side, we're up over 8% from last year – driven by greater than 8% growth in our maturing branches and slightly slower growth in our mature branches. We are not growing our government deposits significantly. We're starting to see good growth in mature branches in the New England footprint where deposits grew in line with our overall growth. At the same time, we're seeing some signs of easing in deposit pricing pressure. Year over year, however, deposit margins have fallen sharply offsetting excellent volume performance. At the same time, we continue to expect weak US economic fundamentals and as a result we still expect growing PCL's, but not at the same pace as this year.

- The integration continues to go exceptionally well. As somebody who's done an integration before, I can tell you that there is an enormous amount of hard work going on behind the scenes as we get close to the end. I want to thank Bharat and his team – they are doing an incredible job of making this happen as smoothly and efficiently as possible for our customers, shareholders and employees. You'll hear more from Bharat on the integration in a moment.

Economic Overview & Outlook

- So, stepping back, how do we make sense of what's happening in the financial markets and the economy and what does it mean for TD?
- It seems like we're through the bottom. But there is clearly a debate about the strength of the subsequent economic recovery. Two key unknowns remain – how long are we going to be in the recovery phase and what is the sustainable growth rate of the economy over the medium term.
- For our part, we remain cautious on the economic outlook into next year. While we see some growth in the economy we don't see any increases in interest rates until the latter part of the year. And we just don't foresee any extreme stress scenarios playing out. However, we believe unemployment will remain high for some time. And we think we'll see continued upward pressure on PCL's in 2010, but nothing like the percentage increases we've seen this year.
- The biggest change in our outlook is that we are more positive than we have been on the implications for our businesses. We are not taking Q3's earnings as a run rate as we'd expect TD Securities earnings to be lower going forward, but we are reasonably optimistic that we have a solid base of retail earnings going into next year. In fact, 2009 has shown that there are ways in which strong businesses can perform in tough economic conditions.
- As I've said many times, we're a balance sheet company that generates an income statement. So in our retail businesses, that means that better than expected volume growth in 2009 locks in revenue growth for 2010 that will provide some offset to rising PCL's. And you know I believe the market underestimates the value of the consistent, high quality earnings that we generate as a result.
- At the beginning of 2009, I would have found it hard to believe that by Q3 I would be talking about a year-over-year increase in our earnings per share even after issuing shares last year. But it sure looks like we're going to get there.

Conclusion

- Overall, I would say that we're very pleased with these results, delivered in a difficult economic environment. We've been able to perform because we have over 74,000 unbelievably dedicated and talented employees focused on our strategy: to run a retail-centered and customer-focused North American franchise that's supported by a focus on liquidity, conservative risk management and convenience and service for our customers and clients.

- And so we'll continue to drive forward our vision of being the better bank every day and are confident we're emerging from challenging times with momentum on our side.

- With that, let me turn it over to Colleen.

Overall Call Closing

- Let me wrap up with the three key points I hope you'll take away from today's call:

- First – We're feeling good about all our businesses – they're performing well and we continue to see opportunities in every one of them.

- Second – We do expect rising PCLs into 2010, but our earnings power and capital strength are powerful offsets – we can continue to earn through a recession and gain market share.

- And third – It looks like we'll see an increase in our earnings per share this year. And more importantly, we're feeling very good about our long-term prospects, as we have made and will continue to make investments that will return significant rewards to our shareholders as markets and the economy recover.

- Thanks for your time.

Caution regarding forward-looking statements

From time to time, the Bank makes written and oral forward-looking statements, including in this document, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission (SEC), and in other communications. In addition, the Bank's senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others. All such statements are made pursuant to the "safe harbour" provisions of the U.S. Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation. Forward-looking statements include, among others, statements regarding the Bank's objectives and targets for 2009 and beyond, and strategies to achieve them, the outlook for the Bank's business lines, and the Bank's anticipated financial performance. The forward-looking information contained in this document is 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. The economic assumptions for 2009 for the Bank are set out in the Bank's 2008 Annual Report under the heading "Economic Summary and Outlook" and for each of our business segments, under the heading "Business Outlook and Focus for 2009." Forward-looking statements are typically identified by words such as "will", "should", "believe", "expect", "anticipate", "intend", "estimate", "plan", "may" and "could". By their very nature, these statements require us to make assumptions and are subject to inherent risks and uncertainties, general and specific. Especially in light of the current, unprecedented financial and economic environment, such risks and uncertainties may cause actual results to differ materially from the expectations expressed in the forward-looking statements. Some of the factors – many of which are beyond our control and the effects of which can be difficult to predict – that could cause such differences include: credit, market (including equity and commodity), liquidity, interest rate, operational, reputational, insurance, strategic, foreign exchange, regulatory, legal and other risks discussed in the Bank's 2008 Annual Report and in other regulatory filings made in Canada and with the SEC; general business and economic conditions in Canada, the U.S. and other countries in which the Bank conducts business, as well as the effect of changes in existing and newly introduced monetary and economic policies in those jurisdictions and changes in the foreign exchange rates for the currencies of those jurisdictions; the degree of competition in the markets in which the Bank operates, both from established competitors and new entrants; defaults by other financial institutions in Canada, the U.S. and other countries; the accuracy and completeness of information the Bank receives on customers and counterparties; the development and introduction of new products and services in markets; developing new distribution channels and realizing increased revenue from these channels; the Bank's ability to execute its strategies, including its integration, growth and acquisition strategies and those of its subsidiaries, particularly in the U.S.; changes in accounting policies (including future accounting changes) and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; changes to our credit ratings; global capital market activity; increased funding costs for credit due to market illiquidity and increased competition for funding; the Bank's ability to attract and retain key executives; reliance on third parties to provide components of the Bank's business infrastructure; the failure of third parties to comply with their obligations to the Bank or its affiliates as such obligations relate to the handling of personal information; technological changes; the use of new technologies in unprecedented ways to defraud the Bank or its customers and the organized efforts of increasingly sophisticated parties who direct their attempts to defraud the Bank or its customers through many channels; legislative and regulatory developments; change in tax laws; unexpected judicial or regulatory proceedings; the U.S. securities litigation environment; unexpected changes in consumer spending and saving habits; the adequacy of the Bank's risk management framework, including the risk that the Bank's risk management models do not take into account all relevant factors; the possible impact on the Bank's businesses of international conflicts and terrorism; acts of God, such as earthquakes; the effects of disease or illness on local, national or international economies; and the effects of disruptions to public infrastructure, such as transportation, communication, power or water supply. 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