Q1 2005
EARNINGS CONFERENCE CALL

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Bill Ryan	Chairman, President & CEO, Banknorth Group

PRESENTATION

Dan Marinangeli - TD Bank Financial Group - EVP & CFO

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Okay, perhaps we could get started. Welcome to the TD Bank Financial Group's first-quarter 2005 investor presentation. My name is Dan Marinangeli, and I am the CFO of the bank. This meeting is being webcast in audio and video, as well as a telephone conference call.

With us today is Ed Clark, the Bank's CEO, who will give an overview of the quarter. Following Ed's remarks, I will cover our operating performance in more depth. After my presentation, we will entertain questions from those present, as well as pre-qualified analysts and investors on the phones.

Also present today to answer your questions are Bob Dorrance, Chairman and CEO of TD Securities; Tim Hockey and Bernie Dorval, Co-Chairs of TD Canada Trust; Bill Hatanaka, EVP of Wealth Management; Bharat Masrani, EVP of Risk Management; and a special guest today, Bill Ryan, CEO of Banknorth.

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I'd like to note -- I would like you to note that this presentation may contain forward-looking statements, and we draw your attention to the forward-looking statement in the presentation.

Ed.

Ed Clark - TD Bank Financial Group - President & CEO

Thank you, Dan. Good afternoon, everyone. Thank you for joining us to discuss our first-quarter results. Before I get into those I would like to say how delighted I am that Bill Ryan is here with us today and how pleased we are that the Banknorth shareholders voted in favor of our transaction on February 18th. We are now working to close on March 1st.

I said when we first announced this deal in August that a key feature we were looking for and found in Banknorth was an excellent management team. Working more closely with Bill and his team over the last six months has only served to increase our comfort level with the team and the transaction.

2005 is an important year for the TD Bank. In March TD celebrates 150 years of serving Canadians. This month we celebrate the 50th anniversary of the merger of the Dominion Bank and the Bank of Toronto. In addition, five years ago this month we closed the Canada Trust acquisition. When we look at this quarter with a return on invested capital of 23% and an annualized net income of about $1.7 billion in our personal and commercial segment, I don't think anyone is questioning that TD Canada Trust is a financial success, as well as a great success for our customers. We look forward to some special events this year acknowledging the tremendous contribution of our employees and the loyalty of our customers, and I want to take this opportunity to thank them all.

We know this is a busy day for you with three banks reporting, so Dan and I will be brief in order to leave time for any questions you may have.

We had an excellent quarter, reporting EPS before the amortization of intangibles of $1.08. Dan will take you through the numbers in detail, but I wanted to point out that this result includes $0.03 from a release of general provisions and $0.03 from the recovery of specific loan losses previously provided for under sectoral provisions. It also includes $0.02 loss from accounting guideline 13, resulting in a net figure of $1.04. This represents a 6% increase from the first quarter of last year on a comparable basis, but we recognize that most analysts will see a higher underlying growth rate because they made their own downward adjustments to last year's earnings, including the special tax adjustment, which we highlighted at that time.

Today we also announced a $0.04 or 11% increase in our quarterly dividend. This increase reflects our very strong performance this quarter, a desire to move our payout ratio back into the middle part of our 35 to 45% range, and underscores the strength of our sustainable earnings.

Each of our businesses has demonstrated excellent performance. We remain committed to straight-forward strategies which deliver strong, consistent performances. But we are aware that we are benefiting from an economic environment, which remains quite benign.

Let me take you through briefly each of our segments.

Starting with the personal and commercial segment, last quarter we indicated that our fourth quarter results understated more powerful underlying earnings trends in the personal and commercial segment. This quarter we delivered on that statement.

The P&C segment had a record quarter with net income growth of 21% year-over-year. Performance was broad-based with solid volume growth in real estate secured lending, core banking and business deposits, and insurance, including a great performance from TD Meloche Monnex, which benefited from strong volumes and low claims experience. Year-over-year there is also the pick-up from the acquisition of the personal lines of the property and casualty insurer, Liberty Mutual, which closed in the second quarter last year.

I want to share with you some observations as we look out for the rest of the year. The Canadian economy may be slowing and while margins appear to have stabilized it now appears unlikely we will get the benefit of higher interest rates for some time. Strong competitive pricing pressure has continued to result in small decreases in market share. We continue to try to fine tune our response to the competition without violating our shareholder-driven approach.

On the personal side, we've talked before about our slow growth in unsecured lending, reflecting our unwillingness to rapidly grow this area until we have the right risk infrastructure. We have paid a price in market share, offset partially by lower PCLs. We don't see this shifting until next year, after we've rolled out our new credit adjudication processes.

You may have noticed an increase this quarter in nonperforming loans in the commercial bank. There is no underlying pattern to this increase, and we do not view it as a systemic problem developing. However, I continue to worry about the credit cycle turning and the eventual impact of the strong Canadian dollar on small business and commercial PCLs. And as we've talked about before, we cannot expect TD Meloche Monnex to continue to grow at the same pace, and we will see the effects of previously introduced price reductions and a gradual return to more normal claims experience.

All that being said, despite all these worries, the P&C segment has had a very strong performance this quarter, and we believe that this quarter represents a new level of earnings in our P&C segment, which generally should be sustainable during the rest of the year. This would translate into our achieving the goal of double-digit earnings growth in 2005 when we look at the results on a year-over-year basis.

Turning to wealth management, last quarter we indicated that the underlying trends were better in wealth management than the fourth quarter results indicated. And while this quarter net income is down 12% year-over-year, it is up 56% from last quarter driven by robust mutual fund sales, improved performance from our advice-based businesses, and solid volumes in discount brokerage.

Mutual fund sales have been very strong both in our own channels and external distribution channels, driven in part by market recognition of our strong investment management performance. Long-term net sales were $926 million in the first quarter, an excellent result. We are delighted that TD Mutual Funds was honored as the analysts' choice for Fund Company of the Year at the 2004 Canadian Investment Awards, the first time a bank has received such recognition.

We are continuing our program and building out our advice-based infrastructure and our advisory sales forces. This requires patient investment today for tomorrow's gains, but to date, we have been able to balance this investment with solid growth and profit. With respect to discount brokerage on a year-over-year basis, the business dealt with a negative effect of a 16% decline in daily trades and a strengthening of the Canadian dollar, which reduced the revenue contribution from our U.S. operations and the U.S. dollar revenue from our Canadian operations.

On the other hand, our revenue and discount brokerage declined only 8% as a result of successfully growing our non transaction-based revenue streams, an indicator of the very different and more balanced franchise we have on the discount brokerage side. Overall, net income declined 25% as expenses rose, as a result of restructuring charges associated with the efforts to reduce our breakeven point, as well as higher marketing spend.

Our wholesale business improved significantly from the previous quarter, as M&A, debt and equity underwriting, and institutional equity sales were particularly robust. Earnings were lower than our very strong first quarter last year, primarily due to weaker trading results in some parts of our equity businesses, a lower loan portfolio, and a higher tax rate. It is worth noting that we had no impaired loan formations in the quarter, and the return on invested capital for the segment was a robust 22.9%. Our loan portfolio is comparatively small, and we are comfortable with its diversity and investment quality. Credit conditions are currently benign, and we are not forecasting any meaningful losses in 2005.

In conclusion, while there are lots of business issues facing us, we are still operating in a quite favorable environment and our businesses are adapting well to their challenges. It has been a tremendous start to the year, and we welcome Banknorth to the TD Bank family and look forward to closing the transaction on March 1st.

Dan will now go into the quarterly numbers in detail.

Dan Marinangeli - TD Bank Financial Group - EVP & CFO

Thanks, Ed.

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As an overview, the first-quarter 2005 reported basis earnings per share was $0.95. Before the amortization of intangibles on a diluted basis, it was $1.08. The segment results were quite strong. P&C banking in particular, as Ed mentioned, $424 million, up 21% year-over-year, 11% quarter-over-quarter. Wealth management was $98, down 12% from last year, but up 56% quarter-over-quarter; and wholesale down 20% year-over-year, but up 16% quarter-over-quarter. Our capital ratio strengthened again this quarter. Our Tier 1 Capital ratio is up 40 basis points to 13.0%, and our tangible common equity ratio at 9.3% is up 30 basis points. We did increase the dividend $0.04 or 11% to $0.40 cents per share per quarter, reflecting improved earnings.

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We had some accounting changes. Before we get to that, maybe I should talk about the earnings reconciliation. Excuse me.

So the difference between $0.95 and $1.08 is $0.13. It all relates to the amortization of intangibles on an after-tax basis. We had three items. Ed mentioned them. Recovery of specific loan loss provisions previously booked through sectorals. You will recall that we don't have sectorals anymore, but this is a remnant of credit losses that were taken out of sectorals and made specific over the last two years. That resulted in a $0.03 per share addition to earnings. We had the AcG-13 impact, which is the marking to market of the credit default protection we have on our loan portfolio. That was a $0.02 per share loss, and then we did release $35 million pretax or $23 million after-tax, $0.03 per share bonus to earnings relating to a general provision release. So when you work those items through the $1.08 you get to $1.04 on an income before amortization of intangibles basis and on a reported basis it will be $0.91 per share.

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Accounting changes that we effected this quarter – there was one major change. It was pervasive in fact. It affected our preferred shares and innovative Tier 1 capital. Those securities are now reported as liabilities. It reflects the conversion features that these securities have, basically about $2.5 billion of preferred and innovative capital moved up into liabilities. The dividends associated with those securities are now classified as interest expense. We didn't have any change in the overall earnings of the bank, but it did have an impact on net interest income, net interest margins and the efficiency ratio. All prior periods have been restated for this item so that you can get the proper trend.

We wanted to raise today a future accounting change, which is again will be quite pervasive when it is implemented. Currently scheduled for the first quarter of next year, this change will require us to treat our preferred shares and innovative Tier 1 securities that have soft retractable features as diluted securities, thereby reducing the amount of diluted earnings per share. We estimate that this amount would be approximately $0.04 per share per quarter starting next year. Obviously future preferred shared issues would not have these features once we can restructure our capital levels, but in the meantime we are stuck with this for a number of years, it looks like.

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Moving on to personal and commercial banking.

Slide 7

Total revenues this quarter were $1.663 billion. That is up almost 10% from the same quarter last year and 3% from last quarter. We had especially strong results in real estate secured lending, core deposits and business deposits. And, in fact, I would say we had spectacular results from our insurance business, which represented one-half of the increase in our revenues this quarter over last year. Liberty Insurance represented almost half of that half. So again, we are firing on all cylinders here when it comes to the insurance business.

Slide 8

Our net interest margins were flat quarter-over-quarter at 3.02%, the same as last quarter and really we have seen now three or four quarters of fairly flat margins. Again, that margin has been restated to reflect the change in net interest expense relating to the preferred share issues. Our margins are stable and we expect them to stay stable for the foreseeable future as we are not anticipating any increase in short-term interest rates, which should have a positive impact on margins eventually.

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On a PCL front, there were $95 million in total PCL this quarter in the P&C bank. That is down from last year but up a little bit from last quarter. On the personal side it has been very stable over the four quarters this year $85 million, $83 million, $81 million, $85 million. And we have a slight increase in the commercial PCLs this quarter. Again it's not a trend we don't think. It reflects the fact that we don't have reversals in the commercial bank PCL category that we had in the previous year. There doesn't appear to be any obvious deterioration trend in our commercial portfolio at this time.

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Looking at our expenses and efficiency ratio, 55.6% is our efficiency ratio. That is the lowest level ever in TD Canada Trust. It would have been lower if we had not reclassified some of those preferred share dividends. But expenses are up about 4.5% year-over-year. Virtually all of that relates to the insurance business. The Liberty impact of that increase, which was $40 million, would be $25 million of the $40 million. Base expenses were helped by the Laurentian integration synergies that happened year-over-year.

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Finally, if you have revenue up almost 10% and expenses only up 5% that has one heck of an impact on earnings, which are up 21%. The 23% return on invested capital for TD Canada Trust is the highest ever, and I will remind you that this includes all of the goodwill related to the personal business of Canada Trust that we purchased five years ago.

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Looking at some volume growth in market share statistics, again we said that we had excellent growth in real estate secured lending at 9.9% year-over-year. Core deposits up 8% year-over-year – very good results, however, we continue to lose market share in these categories. Our term deposits, the only exception here in terms of market share where we gained slight market share both year-over-year and quarter-over-quarter.

Looking at business loans and deposits, this is the first really significant – well it's not very significant, in fact – increase in business loans at 1.3% year-over-year. We are starting to see some business loan demand here but we are getting spectacular growth in business deposits as most of our commercial customers are quite awash in cash. We ended up gaining market share quarter-over-quarter in both small business loans and commercial loans, but year-over-year we had slight losses.

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If we look at these results on a graphic basis you can see the trend over the period from last year through to this year.

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Looking at wealth management next, we had a turnaround in fortunes in our wealth management business.

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Our revenues quarter-over-quarter are up about 10.7%, although they are down slightly year-over-year. TD Waterhouse revenue is down $34 million year-over-year. $20 million of this relates to foreign exchange rate differential year-over-year, and in fact the absolute Waterhouse U.S. dollar revenue figure was the same last year this quarter for this year this quarter. Despite lower trades per day and lower commissions per trade.

In Canada and in the international component of TD Waterhouse they were down about $14 million in total and that represents the lower trades per day and commissions per trade. We have excellent growth in the non discount broker part of wealth. We had really exceptionally good growth in both the advice and our retail mutual fund businesses, which combined grew about $27 million. That is a year-over-year number. Looking at expenses, they're up 2%. A couple of factors here: we had higher severance and marketing in the U.S. Foreign exchange was going the other way of course. It tended to reduce expenses by about $16 million but that was offset by higher expenses in the advice and fund businesses here in Canada, up about $15 million.

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Net income in the segment was $98 million. That is up substantially from last quarter, but down slightly I would say from last year and return on invested capital at 14.7% was a very satisfactory result. The earnings from the non discount broker part of wealth this quarter were the best ever, and I would say that in the discount brokerage business we had a good rebound despite the trades per day, commissions per trade, and foreign exchange impacts that went against us.

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Looking at the fund business here in Canada volume growth on a year-over-year basis the long-term funds had very strong growth at almost 21% and quarter-over-quarter 8.4%. That resulted in significant market share gains on a year-over-year basis against the industry as we grew by 47 basis points, and against the banks only market share data up 53 basis points – very good growth in the long-term segment of this business.

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Rapidly you can see the results on this page as well – very consistent growth each quarter in the long-term side.

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And finally, the summary statistics for TD Waterhouse again you can see the trades per day down 16% year-over-year, but up substantially from the fourth quarter. Customer assets continue to grow from last quarter to $247 billion and higher than last year, as well. Margin loans were stable while marketing spend was up slightly from the same quarter last year. New accounts were quite consistent with this quarter last year. And the margin before marketing again a lot better than last quarter but not as good as the first quarter which had much higher volumes.

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And moving onto wholesale banking, again, it is a similar story to wealth.

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We had a significant rebound from a weak fourth quarter but not as good as the spectacular first quarter we had. Revenues are down 7% from the first quarter last year but up 23% from the last quarter of last year. You will recall that we closed our convertible arbitrage business after the first quarter of last year, and that represents about two-thirds of the revenue decline year-over-year. This quarter our cash businesses did exceptionally well. We did very well in institutional equities, M&A, underwriting and syndications. We didn't do as well in the derivative products and corporate lending businesses.

Expenses are down from last year, slightly because incentive compensation was down by a fairly large factor about $36 million and that was offset by increased severance and support costs within TD Securities. Obviously it was up considerably from the fourth quarter of last year because we had a catch-up in terms of incentive compensation amount in the fourth quarter, which essentially caught up the incentive compensation awards at that point.

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Ed mentioned that we don't have a very large or risky corporate lending portfolio, and it really hasn't changed much over the past quarter. Our exposure is at $21.5 billion, investment grade at $16.8 billion and non investment grade of $4.7 billion. We have a slightly lower amount of credit protection in force this quarter versus previous quarters. It doesn't represent any change in philosophy but simply a rebalancing of the protection against the loans that we want to have protection against. We did amortize $13 million worth of credit protection and did not recognize any PCLs this quarter.

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The end result is a solid quarter for TD Securities: $141 million, up from last quarter but down from last year. Return on invested capital at almost 23% is quite satisfactory.

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Looking at the value at risk metrics or VAR, we did have a fairly stable VAR for most of the quarter. Just near the end of the quarter we increased our VAR usage slightly it relates to a couple of things. We had a significant arbitrage position on it at the end of the quarter, which is now cleared, and just near the end of the quarter we had some short-term positioning vis-a-vis interest rates, which again have cleared, and we've gone back to the stable level around $10 million.

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And finally, a short Banknorth update, as Ed mentioned we are anticipating closing the purchase on March 1st. Our projected capital ratios at close are about 30 basis points better than we had originally anticipated, 9.6% on Tier 1 capital and 6.5% on the net tangible common ratio. TD Banknorth results will begin to be reported in our second-quarter results. We will pick up the previous quarter results for Banknorth with a one-month lag. So in our second quarter results ending April 30, we will pick up one month worth of Banknorth's results, beginning the month of March.

And on that note, we will finish the formal part of the presentation and entertain questions.

QUESTION AND ANSWER

Ian deVerteuil - BMO Nesbitt Burns - Analyst

The expenses in the P&C Bank looked incredibly good. If you took out the 25 million incremental costs out of Liberty the expenses are under 900 million and that is not far off from what it was a year ago and your revenues are almost 10% higher. Can you talk about how sustainable that is?

Bernie Dorval - Co-Chair - TD Canada Trust

You can't take the expenses out of the equation without also taking the revenues out of the equation on the insurance side. So there is like $34 million that were related to Liberty, as well, and also other sorts of revenue growth from the insurance business. But clearly the strategy of what we have benefited from and can talk about that – actually we benefited from the synergies from the Laurentian Bank acquisition this quarter as compared to last year. That is an element, but other than that, I think most of the expense growth was coming from the insurance side. So you have to take into account the revenue on the other side.

Ian deVerteuil - BMO Nesbitt Burns - Analyst

Is it sustainable at this level?

Tim Hockey - Co-Chair - TD Canada Trust

The efficiency ratio no doubt is the best this quarter, and we historically have the best first quarter efficiency ratio, so we don't expect to achieve that level again for the remainder of the year, let's say. But we have always constant vigilance on expense control. We did have some Laurentian synergies that we took advantage of, but we also made sure we were investing a little bit more on some of our infrastructure spend as well at the same time. So we will have continued diligence, but we would expect expense ratio to go up a little bit.

Dan Marinangeli - TD Bank Financial Group - EVP & CFO

I think I have to get in on this as well because we didn't mention yet but we did change the methodology for allocating expenses within business units. So if you look at the corporate segment page, page 7 of the supplementary information package, you will notice that unallocated corporate expenses are higher than they have been. And that is because we reassessed our policy of allocating some of the control functions, such as risk management, audit, and so forth to the business units. We thought it was best practice not to allocate those expenses down to the business units, so there was about an $8 million benefit within the P&C segment for that alone. Although the expense performance is remarkable, it is not quite as remarkable as it looks.

Michael Goldberg - Desjardin Securities - Analyst

I have a couple of questions. First of all, on the insurance side it gets a little bit confusing in terms of the numbers, the revenue and the expense that get included. Has there been any thought to setting it up as separate segment or at least identifying expense items like the operating expenses associated with it, and commissions so we could really get a better idea of the net contribution that is taking place there?

Ed Clark - TD Bank Financial Group - President & CEO

We've honestly had some discussions about this. I think we are reluctant to do that to get ourselves too far out of line with our competitors, some of whom don't even break wealth management out of personal and commercial. And so sectors of different parts of personal and commercial will grow and facilitate high income growth – and right now obviously insurance is a major driver and push for us, but maybe years from now it will be credit cards – and if every time we have a growth sector we have to bust it out, then I think we will wait until industry practice comes in and they say okay, let's take all these sub segments out.

So I think we are trying in our disclosure to say how much of the revenue growth is coming from insurance and how much is expenses. We obviously disclosed the total revenue side on the insurance side, so we are trying to make sure that you get a feel for where the growth is without going all the way. But I understand your point of view. I think for this quarter what we are telling you is yes, insurance is important, but no, the performance of the personal and commercial bank is way beyond insurance. And if you took insurance out, we would still have had well over double-digits earnings growth in the non insurance part of personal and commercial year-over-year. So it is a broad-based success rather than dependent on the insurance side.

Michael Goldberg - Desjardin Securities - Analyst

Just so I understand it, the only thing that you are subtracting from your earned premiums there is your provisions for the claims, is that correct?

Dan Marinangeli - TD Bank Financial Group - EVP & CFO

That's correct.

Michael Goldberg - Desjardin Securities - Analyst

Also I had a question about personal non term deposits, which are up very strongly year-over-year and quarter-over-quarter. When I've seen that in the past, I guess the message was that a good part of the increase was happening in TD Waterhouse Bank. Is that still the case, or is the growth occurring in the domestic bank also?

Dan Marinangeli - TD Bank Financial Group - EVP & CFO

Michael, we only report Canadian dollar deposits in that line so it does not include the U.S. TD Waterhouse Bank. We do have deposits in Canada within the discount broker that are included in and that had a slight impact this quarter, a slight positive impact, but it certainly did not drive the growth.

Michael Goldberg - Desjardin Securities - Analyst

So all of this growth, then, is coming in the bank proper?

Dan Marinangeli - TD Bank Financial Group - EVP & CFO

Of that small amount that is in that TD Waterhouse in Canada, yes. Those are Canadian dollar balances we're talking about.

Michael Goldberg - Desjardin Securities - Analyst

Right, so how do you explain an almost 12% year-over-year, 4% quarter-over-quarter growth – I haven't seen that type of growth in any of the other banks.

Ed Clark - TD Bank Financial Group - President & CEO

Tim, do you want to answer this?

Tim Hockey - Co-Chair - TD Canada Trust

In non term there is obviously two components. One is the traditional checking account, and one is the savings account. What we are clearly seeing in the last year was both competitive, but also lots of activity around the high interest savings accounts – we call it our guaranteed investment account equivalent to the ING. We try to make sure we are very competitive on that in terms of not -- and some time ago, a few quarters ago we were losing share so we wanted to make sure – but probably our more overarching strategy is around basically just getting more Canadians to do their everyday bank account activity with us, to focus on the core checking business. That has been a focus of ours for call it 12 to 15 months and so we hope that is being successful in helping drive that number.

Ed Clark - TD Bank Financial Group - President & CEO

Can we go to the phones?

Operator

Jamie Keating from RBC Capital Markets.

Jamie Keating - RBC Capital Markets - Analyst

Hello, great quarter by the way. My question relates to the wealth management improvements and I am intrigued by the comments made about the advice channel starting to pick up, which I guess I would regard it as an area of potential struggle, so kudos to Bill on that one. I'm curious if we could just get a little bit of understanding as to what the year-on-year impact has been on earnings, if there has been one yet. And perhaps more importantly just a little color on productivity or yield, turnover, anything that might help us understand what leverage you are using to get that advice channel moving.

Bill Hatanaka - TD Bank Financial Group - EVP Wealth Management

Jamie, year-over-year we are up almost 100% on the bottom line of investment advice. I think that is from the basically slow and steady growth primarily attributed to a steady increase in the assets under administration. Basically the revenues that are tied to the assets under administration are coming in slightly – the revenue to asset ratio is slightly higher than you would see in larger asset bases throughout the industry, but it is a well-managed revenue base. So traditional metrics: assets are growing, revenues are buoyant at this particular time, and we are more efficient at basically driving the bottom line.

Jamie Keating - RBC Capital Markets - Analyst

Also just a follow-up, maybe to swing over to ask Ed this question or whoever else wants it – so that division generally is driving around for 15% return on invested capital notionally. Ed. where are you hoping that division could return on capital with reasonable markets and so on long-term?

Ed Clark - TD Bank Financial Group - President & CEO

The wealth management area?

Jamie Keating - RBC Capital Markets - Analyst

Correct.

Ed Clark - TD Bank Financial Group - President & CEO

I think we mentioned before that is a number – we allocate all the goodwill, and so the wealth management area has been burdened with the goodwill of both the original acquisition TD Waterhouse, the reacquiring Waterhouse, the acquisitions that TD Waterhouse made. In fact, when we sold off pieces that we acquired when we acquired those additional entities that shows up as a one-time profit, and so isn't netted against the goodwill, so the goodwill stays there. They have a fair amount of goodwill embedded in it. So I think obviously on an operating basis the return on equity in the wealth management area is dramatically higher than that number. That number should just basically go up now, since we are not doing any acquisitions in the wealth management area. But it really is just now dependent on the income number, and I think Bill's mission is to grow his asset base about 15% a year. And if he does that, barring other things going on, he should at least be able to make that in terms of income growth numbers.

Jamie Keating - RBC Capital Markets - Analyst

And could I just add a quick question for Mr. Ryan in view of the imminent closing here? Are there any changes anticipated in the nature of either the hurdles or methodology of your acquisition strategy going forward now that you are part of the, or about to be part of, the TD Bank fold?

Bill Ryan - Banknorth Group - Chairman, President & CEO

No, there really aren't any changes. I think we will continue from an acquisition standpoint to look in Massachusetts and Connecticut and also as we've said periodically look in the greater New York area. So over the last few months as we really examined our strategy we have come back to the point that we think it’s a good one and will continue that strategy going forward.

Jamie Keating - RBC Capital Markets - Analyst

Thanks. Congratulations all.

Operator

Andre Hardy from Merrill Lynch.

Andre Hardy - Merrill Lynch - Analyst

I have another question for Bill Ryan and then a couple on TD Waterhouse.

Bill, you talk about re-branding branches, maybe looking at doing things on the credit card side. Does that keep you busy at the expense of making acquisitions in the near-term?

And secondly on TD Waterhouse, could you remind us, Dan, what the non commission mix is? And furthermore, could you address your pricing structure in light of cuts at Fidelity as well as Schwab?

Bill Ryan - Banknorth Group - Chairman, President & CEO

I will take the re-branding of the Banknorth branches. Those branches will become TD Banknorth. The re-branding of the branches will occur in May and probably take us a month or two into the summer time. We have very good people who handle that. They are very skilled in that so that really doesn't take us away at all from really trying to look at other things we can do. So I think our strategy continues, and the re-branding certainly is an effort but we have specific people identified to do that and it won't get in the way of other things we want to do.

Ed Clark - TD Bank Financial Group - President & CEO

Bill, do you want me to comment on the pricing, the impact of the pricing?

Bill Hatanaka - TD Bank Financial Group - EVP Wealth Management

We are talking about the non trading commission mix? Is that the question?

The non transactional mix on total revenues is significantly lower than 50% of the overall revenues.

Operator

Susan Cohen from Dundee Securities.

Susan Cohen - Dundee Securities - Analyst

Thank you. With respect to the future accounting change that will impact 2006 earnings, do you have any options to restructure some of these vehicles so that the impact might be reduced?

Dan Marinangeli - TD Bank Financial Group - EVP & CFO

Yes, Susan. We do have some ability to restructure. But again, it would involve redeeming some of the current capital structure. If you read the notes to our financial statements, you will see that some of those preferred shares can be redeemed in a fairly short period of time, but most of them go out several years. It would be expensive to redeem them other than when they are due. We can issue more preferred shares. That won't help the problem with the current issue of preferred shares. I think the industry feels a little blindsided by the whole thing here, and if we keep changing the accounting principles back and forth on this, we are all a little frustrated. And although I shouldn't apologize for the accounting profession, we are doing our best here to mitigate the impact that there might be.

Susan Cohen - Dundee Securities - Analyst

Okay, and secondly any comments about the removal of the 30% foreign content cap either on your mutual fund operations directly or even any other more generic kind of comments?

Ed Clark - TD Bank Financial Group - President & CEO

I would say that – do you want to comment, Bill, about our mutual fund lineup and its ability to meet where we see demand now going?

Bill Hatanaka - TD Bank Financial Group - EVP Wealth Management

Certainly on our mutual fund business the RSP clone funds are a very small percentage of our overall business, so I don't think that the removal of the 30% percent cap will have a significant impact on our overall fund lineup. I would expect that over a period of time we would look at some consolidation there. But it will not be a material thing from our own perspective. With regard to on a generic basis – with regard to investing I think that the Canadian equity markets have generally been buoyant so many Canadians will continue to hang in there and continue to invest in Canadian equities. Those clients who are basically in the equity markets on an advised basis, I think that over a period of time will probably in aggregate take a more global approach on their investments in there.

Susan Cohen - Dundee Securities - Analyst

Thank you very much.

Operator

Quentin Broad from CIBC World Markets.

Quentin Broad - CIBC World Markets - Analyst

Thanks, good afternoon. Could you give me the average duration of the credit protection that is out there now and the gross non investment grade loan exposure, obviously netting all of the nets you put on it?

Ed Clark - TD Bank Financial Group - President & CEO

Bob, do you want to do that?

Bob Dorrance - TD Securities – Chairman & CEO

Quentin, I would just be hazarding a guess at the duration. But we put on protection in the most of the protection was put on in the first part of last year. Most of the protection that we would have purchased would have been in the five to ten-year or so range. I think it is fair to assume that you can work the duration from there. If you give me a second, I can probably get you an answer on that . . .

Ed Clark - TD Bank Financial Group - President & CEO

You want the non-investment investment grade split?

Bob Dorrance - TD Securities – Chairman & CEO

Right now we are on a net basis we are roughly 80/20 on a net basis. On a gross basis I have to find it in the – can I come back and give that towards the end of the conference?

Quentin Broad - CIBC World Markets - Analyst

Absolutely and perhaps Bob you might also talk about just your headcount and obviously it looks like it is topped out. It sounded like there was again more expenses coming through in the quarter for reduction or restructuring. Is there anything that's going on in there and are you done growing the business from a headcount perspective?

Bob Dorrance - TD Securities – Chairman & CEO

Maybe I will just quickly address that. As mentioned in previous calls, we had invested fairly significantly last year in a number of initiatives around both – business initiatives in terms of infrastructure in process, as well as regulatory initiatives around Basel II and anti-money laundering, etc. that everybody is consumed with. So I think it's fair to assume that the headcount has peaked and is trending down. What we're focused on now is being operating with greater productivity and efficiency so I would expect that will come down over time. We are budgeting for severance costs that would be above what I would assume would be a normal run rate still as we deal with some issues in the business.

Quentin Broad - CIBC World Markets - Analyst

Finally just on TD Waterhouse, if I may – it may be somewhat of a follow-up on Andre's request on the issue of pricing in the marketplace. Where are you guys in terms of fighting the battle of pricing and ensuring your returns are adequate? And then second, strategically, I guess once again – Ed, perhaps if you can give us your view on how you go forward in a marketplace that continues to have challenges on the revenue side for pricing and your attempts to continuously drop the breakeven on the cost side.

Ed Clark - TD Bank Financial Group - President & CEO

Why don't I try to answer that? I would say we think we are through the re-pricing. We absorbed that last year and so we are not finding any signs yet. Obviously we will continue to tweak those numbers if we start to see that we haven't got the pricing right. But as you know, all the players are going to fairly segmented pricing strategies. What you really want to watch is what is happening to your accounts and accounts outflow and whether or not you've got it right. We are pretty comfortable generally.

As Dan mentioned in his review, the remarkable thing is despite the fact that trades per day were down in terms of -- I think your questions are all basically around the U.S. if they are not then maybe I can come back and Bill can address the Canadian operations. But in the U.S. our actual year-over-year revenue numbers in U.S. dollars were flat notwithstanding the drop in the trades per day and notwithstanding the price cuts. That is a pretty remarkable performance and really reflects the fact that we've been pretty good at trying to find alternative sources of revenue to offset what we knew was going to be elements of a pricing war. And as I said in my remarks, it just reflects the fact that we are running a franchise strategy that is slightly different than others and have been able to do that quite successfully.

Operator

Steve Cawley from TD Newcrest.

Steve Cawley - TD Newcrest - Analyst

I know it's not a BNK conference call but since Bill is on the line I can't resist a couple questions. The first one is on asset growth. I know that this year you're targeting 10% organic growth and part of that is going to be – you are hoping – coming from the Fleet acquisition and any clients that may feel disturbed by – the dissatisfaction perhaps on the client side. Can you talk about whether or not 10% is achievable when it doesn't look like commercial is really using their lines of credit the way perhaps it was done in the past?

Bill Ryan - Banknorth Group - Chairman, President & CEO

Your points are very well taken. We think we can maintain that 10% loan growth, and it is really coming as a result of hiring management teams of lenders from Fleet who are not wanting to be part of Bank of America. We are just opening up an office in Braintree, Massachusetts with several lenders that have recently been hired who come with portfolios. Just on momentum going into Massachusetts and Connecticut, where we're still fairly small in size, we will be able to take business away from other customers. But that is against a model that – you are absolutely correct, all lines have hit a low of being used: 38% last year. They are only up to 43% as we speak today and normally our lines of credit would be used at about 55%. So we still haven't seen the economy turn, but we think we can still live off the largest bank in our region being sold to an out of region bank.

Steve Cawley - TD Newcrest - Analyst

Maybe one for Dan on BNK. When the deal closes, will the purchase equation be revisited when you mark-to-market BNK's assets? In other words, could we see the amount of goodwill related to the acquisition increase if it is decided that you should de-leverage BNK's balance sheet a little bit more?

Dan Marinangeli - TD Bank Financial Group - EVP & CFO

Their balance sheet will be marked on close, and the impact of that marking will have an impact on goodwill. To the extent that there is any restructuring done in BNK prior to the close, then that would have an impact. The purchase equation is open for a while, and we won't know exactly what the amounts are until a month or two post close.

Steve Cawley - TD Newcrest - Analyst

Is there any further de-leveraging anticipated before the close, just to be clear on that?

Ed Clark - TD Bank Financial Group - President & CEO

Bill, why don't comment on what you have said publicly?

Bill Ryan - Banknorth Group - Chairman, President & CEO

Let me say, on our fourth quarter call we had said that we had planned on doing some restructuring in the first quarter as we were becoming part of Toronto Dominion. What we wanted to do was protect ourselves if we could from rising interest rates, and also protect ourselves to some degree from a tightening margin.

Those two events haven't changed, so our plan is still as we had said in the fourth quarter to look at a restructuring charge, which we'll announce at the end of our first quarter when we have our first quarter call. So again, the market has not changed, and we have not changed our philosophy that we will do that at the end of the quarter.

Steve Cawley - TD Newcrest - Analyst

I have one last question for Ed on BNK. A strong currency in BNK makes acquisitions a lot more palatable for the organization. As you sit here looking at the valuation of BNK, what do you think of it? With an additional, I guess, 30 basis points on your Tier 1, do you want to talk about the additional financial flexibility you might have to do things?

Ed Clark - TD Bank Financial Group - President & CEO

I probably shouldn't get into – I keep saying to you guys valuing companies is your problem. I'm not very good at that. Running companies is what I have to do. But obviously I think Bill and I have said publicly if the market presents buying opportunities for us on the BNK shares, I think both BNK itself and ourselves will take advantage of those buying opportunities.

Steve Cawley - TD Newcrest - Analyst

Thank you.

Operator

Darko Mihelic, First Associates.

Darko Mihelic - First Associates - Analyst

Actually a lot of questions have been asked and answered, but I have a question for Bill if I may. You mentioned in your fourth quarter conference call that you didn't quite get all of the impact of the de-leveraging from the first go-round. You sort of gave a sort of hazy guidance for net interest margins. What kind of margins would you look for in 2005, given that you're going to probably take another de-leveraging charge?

Bill Ryan - Banknorth Group - Chairman, President & CEO

As we had said on our fourth quarter call, we were hoping for our margin to get to 4%. As you know we were sitting at the fourth quarter at about 3.89%, and certainly margins have tightened still.

So it is hard for me today to tell you that we are looking at a 4% margin for 2005. I think the events of the last month will make it that much harder. I think you're going to see margins that are going to go along in that 3.85% to 3.90% range, probably, as we go forth and that's okay with us. We certainly would benefit from a better margin, but those are nice margins. We are very happy to have them.

I think where we will be able to help the income stream is probably continued loan growth, as we just talked about, and probably fee income growth that we're looking and feeling very positive about so far. But I think margins will be tighter to get, and I think we will be affected like most other American banks.

Darko Mihelic - First Associates - Analyst

If I just may, one more question on TD Waterhouse. With -- Dan, you don't provide too much of a break out on the revenue side. Just to be clear, the answer to the previous question was nontransactional revenue was less than 50%. Is that correct?

Dan Marinangeli - TD Bank Financial Group - EVP & CFO

I think that was –

Bill Ryan - Banknorth Group - Chairman, President & CEO

Non transactional revenue is significantly greater than 50% of overall revenues.

Darko Mihelic - First Associates - Analyst

Greater than 50%. Okay. Thank you.

Operator

Jamie Keating from RBC Capital Markets.

Jamie Keating - RBC Capital Markets - Analyst

My question has been asked and answered. Thank you.

Ian deVerteuil - BMO Nesbitt Burns - Analyst

I have a question for Bill Ryan. One of the things I was surprised by was your comments after the close, I think at the time the votes are in that you would look at integrating some of the Waterhouse branches into Banknorth. I would perceive Banknorth as sort of a --.

Ed Clark - TD Bank Financial Group - President & CEO

Be nice, be nice.

Ian deVerteuil - BMO Nesbitt Burns - Analyst

-- not rural but not one bank with a fair amount of commercial lending. Bringing in a retail stock-oriented franchise into that, how do you think you put those two together into a single unit?

Bill Ryan - Banknorth Group - Chairman, President & CEO

Now we've had some time to work on it and it looks very much as a potential to do, it won't be for a lot of facilities, but there are facilities be they Banknorth branches or TD Waterhouse facilities where we think having the TD Waterhouse customer have availability of banking in the same facility will make their life easier and having Banknorth customers have the availability of TD Waterhouse in the same facility easier to do, too. So I think you will see several locations where we will share that responsibility. I can't imagine that is not going to benefit the customers. Instead of having to go to two places to do your business, hopefully you can do it in one. We have over 400 branches. I think we're probably talking about maybe possibly in a year or two, 10 or 12 locations that we would do it in. So it isn't going to happen in a lot of locations but it is the new method I think of trying to deliver good service for customers having both brokerage and banking in the same location.

Ian deVerteuil - BMO Nesbitt Burns - Analyst

The second question is for Ed and I guess it goes on from Susan Cohen's question on the 30% foreign ownership cap. One of the concerns that I do hear from investors is that Canadian banks have big brokerage, wholesale, institutional brokerage businesses, which have been built on largely selling Canadian equities to Canadian investors. Do you think this change is a fundamental shift in the competitive ability of Canadian investment dealers generally?

Ed Clark - TD Bank Financial Group - President & CEO

I am going to let Bob answer that question – he is a lot smarter on that stuff than I am.

Bob Dorrance - TD Securities - Chairman, CEO

I've heard the same discussion today as well, Ian. I guess I would say rather than getting into the big philosophical question I would look at TD Securities and where we have the greatest amount of market share to gain, being the fifth bank in a lot of the underwriting part of it, I see a lot of fairway for us kind of regardless on that side of the business. Whether the business shrinks on the trading side of the business is the sixty-four thousand dollar question. I think what the Canadian market has been particularly good at is coming up with new products to meet new investment needs. The income trust for example – a made in Canada solution to a certain issue – has been very profitable, both as an investment as well as a product for the dealer community. So I see a lot of the bigger part of the Canadian market in a way has already been covered by global dealers, and what we really have focused on and done well at as a community in the last four to five years is on the sweet spot, which has been income trusts and medium-size companies. You can look at our case and say, okay, well we might have to adapt in some parts of the marketplace but there still seems to be quite a bit of fairway in other parts. Overall for the industry, probably is not net positive.

Michael Goldberg - Desjardin Securities - Analyst

I'm just following up on the Banknorth and TD Waterhouse question. First of all did Banknorth itself have an advice channel, advice capability?

Bill Ryan - Banknorth Group - Chairman, President & CEO

We do, we use a third party firm called PrimeVest that we've been using for a number of years. One of the benefits of being part of Toronto Dominion there are a number of third party companies that we use because we weren't big enough on our own to do that business. And certainly over a period of time now we will roll in whenever possible to using TD's expertise to help us in those third party businesses.

Michael Goldberg - Desjardin Securities - Analyst

Okay, and just over the time since you have been working with TD could you give us an update on possible revenue synergies that you think you have identified?

Bill Ryan - Banknorth Group - Chairman, President & CEO

I think it's too early. I really do not want to give a splintered report. Obviously the transaction is going to close March 1st, and my plans really are at our first quarter call in April, I think I'll have all the data to really give you a very full report on what those synergies are. But the synergies haven't changed from what we discussed earlier. Cross-selling accounts with TD Waterhouse having some economies of scale, getting the discounts to buy computers and phones that TD has just because of its size. All of those things, participating loans back and forth where we used to use other banks to do that, now we can do it with our parent. They haven't changed. We haven't seen anything that tells us we can't do that. But again I would rather not give a splintered report; I would rather put it all together and our plan is with a lot of work in the next month or so we will be able to do that on our first quarter call.

Ed Clark - TD Bank Financial Group - President & CEO

Anything on the phone left?

Operator

There are no further questions at this time. Please continue.

Ed Clark - TD Bank Financial Group - President & CEO

Thanks very much.