# TD BANK FINANCIAL GROUP
# RBC CAPITAL MARKETS FINANCIAL INSTITUTIONS CONFERENCE
# WEDNESDAY, SEPTEMBER 26, 2007

## DISCLAIMER



## FORWARD-LOOKING INFORMATION

From time to time, the Bank makes written and oral forward-looking statements, including in this presentation, in filings with Canadian regulators or the U.S. Securities and Exchange Commission (SEC), and in other communications. 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 2007 and beyond and strategies to achieve them, the outlook for the Bank's business lines, and the Bank's anticipated financial performance. The economic assumptions for 2007 for each of the business segments are set out in the 2006 Annual Report under the headings "Economic Outlook" and "Business Outlook and Focus for 2007". Forward-looking statements are typically identified by words such as "believe", "expect", "anticipate", "intend", "estimate", "plan", "may" and "could". By their very nature, these statements require the Bank to make assumptions and are subject to inherent risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements. Some of the factors 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 management discussion and analysis section in regulatory filings made in Canada and with the SEC, including the Bank's 2006 Annual Report; 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 monetary policy 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; 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 integration, growth and acquisition strategies, including those of its subsidiaries, particularly in the U.S.; changes in accounting policies and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; the effect of applying future accounting changes; global capital market activity; 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; fraud by internal or external parties, including the use of new technologies in unprecedented ways to defraud the Bank or its customers; legislative and regulatory developments; change in tax laws; unexpected judicial or regulatory proceedings; continued negative impact of the U.S. securities litigation environment; unexpected changes in consumer spending and saving habits; 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; the effects of disruptions to public infrastructure, such as transportation, communication, power or water supply; and management's ability to anticipate and manage the risks associated with these factors and execute the Bank's strategies. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity. The preceding list is not exhaustive of all possible factors. Other factors could also adversely affect the Bank's results. For more information, see the discussion starting on page 56 of the Bank's 2006 Annual Report. All such factors should be considered carefully when making decisions with respect to the Bank, and undue reliance should not be placed on the Bank's forward-looking statements. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf.

## CORPORATE PARTICIPANTS

| | |
|---|---|
| Andre Hardy | Analyst, RBC Capital Markets |
| Steve Boyle | EVP and CFO, TD Banknorth |
| Scott Custer | Chairman and CEO, RBC Centura |
| Tim Crane | President, Harris Bankcorp |

## PRESENTATION

***Andre Hardy - RBC Capital Markets - Analyst***

Good morning, everyone, and thank you for joining us on our last panel. This panel's entitled Foreign Banks, Opportunities and Challenges in Acquiring and Operating Banks in the United States. Maybe the title should have said Canadian Banks instead of Foreign Banks, but to our left we have three participants that all work for subsidiaries of Canadian Banks.

So to my immediate left, we have Scott Custer. Scott is CEO and Chairman of RBC Centura, which has been 100% owned by the Royal Bank of Canada since the early part of this decade. Scott has been in the business for 25 years, previously at Wachovia and First Union.

To his left is Tim Crane of Harris Bankcorp. Tim has been at Harris Bankcorp since the early '80s, which was when the Bank of Montreal purchased Harris Bank. Tim oversees a network of about 230 branches in Illinois, Indiana and soon in Wisconsin.

And then to his left is Steve Boyle. Steve is CFO of TD Banknorth, has been there since '97. Previously he worked for Barnett Banks in Florida. Steve has been CFO through the transition from Banknorth being a publicly traded, independent company to TD owning 100% of it.

So what we'll do is have each person give us three or four minutes on their bank, recent developments and then we'll open it up for questions and certainly I do have a few questions for all three of you.

So maybe Scott, you can start.

---

**Scott Custer** ***- RBC Centura – Chairman and CEO***

Thanks Andre. I'd be happy to. Good morning, it's nice to be here. Again, my name is Scott Custer, I'm with RBC Centura. We are RBC's U.S. banking business and have been part of RBC since 2001 when RBC acquired the company I worked for, which was Centura Banks, which was headquartered at the time in Rocky Mountain, North Carolina. We subsequently moved our headquarters to Raleigh, North Carolina, approximately two, two and a half years ago. We operate as a regional bank in the southeast. We're now in six states.

A little bit of history on Centura, we grew up in North Carolina, competing against the large companies there, carved out our niche really primarily in business, small business, commercial banking and began to grow in the late '90s when we became part of RBC. We were primarily still a North Carolina based company, North Carolina, where most of our branches were located.

We had offices in South Carolina, Virginia as well. But since 2001, we've grown in -- primarily through acquisition, but also through de novo expansion in Atlanta, in the surrounding areas around Metro Atlanta and Georgia, in Florida and most recently in Alabama.

In -- over the last few weeks -- in the last few weeks, we announced a significant expansion through it with our announced acquisition of Alabama National, which is a $7.8 billion company that's based in Birmingham -- Birmingham, Alabama. They have offices in Alabama, Florida and in Atlanta, so we are strengthening our position in each of those three states that we have been growing into over the last five years.

Again, from a business focus, our focus has primarily been on serving the needs of businesses and business owners and professionals and certainly have a very robust retail business. But really in our markets we try to concentrate on not being all things to all people, but being good at a more selected, targeted focus and that's been what we've been up to over the last thee or four years. And I look forward to answering questions as we go along.

---

**Andre Hardy** ***- RBC Capital Markets - Analyst***

Thank you.

---

**Tim Crane** ***- Harris Bankcorp - President***

Good. Andre terrific. Thank you for including us and as always I caution you to please check the Bank of Montreal website regarding forward-looking statements. Many of you are familiar with Harris. For those of you that are not, we're a full service Chicago-based bank. We serve consumers, a great deal business banking as Scott mentioned as well, as wealth clients. We're also a very established bank. Harris celebrates its 125th anniversary this year.

In terms of our footprint, we have 230 locations, which will go to approximately 270 following our completed acquisitions of two Wisconsin banks. Of our existing 230 locations, about 200 are in the Chicago area, including Northwest Indiana, and about 30 are in Central Indiana, including the attractive Indianapolis market.

Using June 2006 numbers for deposits, Harris would rank second in terms of market share for personal and small business activity in Chicago. Our two Milwaukee based acquisitions are Merchants and Manufacturers' Corp as well as Ozaukee Bank. It's a terrific fit for us, Milwaukee is 90 miles from Chicago. We're a well known brand in Wisconsin and are looking forward to adding those.

Just from a size standpoint, at the end of July, our personal and commercial business would be about $20 billion in loans, about $17.5 billion in deposits. Our locations -- and that would be about 1 million clients, a little more than 1 million clients. Our locations are in very high quality, affluent communities. In many cases, our network is almost irreplaceable. We have strong customer satisfaction and loyalty scores, which we spend a great deal of time working at.

In Chicago, relative to our competition, our position is both unique and very strong. We're finding that our brand is travelling very well into the Indiana and Wisconsin markets and our reception has been very good. Our business model's focused around delivering exceptional client experience.

So while we certainly offer a great deal of convenience to our clients, we're very competitive from a price standpoint, our differentiation is truly customer service. That translates, for us, into volume growth and revenue opportunity. We're well positioned to capitalize on the strengths and we continue to look for acquisition opportunities that fit our criteria. So thanks.

**Steve Boyle** *- TD Banknorth – EVP and CFO*

Hi. I'm Steve Boyle. I'm really happy to be here. Thanks to all of you for hanging in for the last session here, I know that's difficult. For those of you who know and have followed Banknorth over the years, you know we've really been an acquisition oriented machine.

We've done over 28 acquisitions in the last ten years, over two a year. And we plan to keep that capability. But our real focus today is on organic growth. We feel that with the multiples that are being paid in today's M&A marketplace, we need to be a superior organic growth machine and that's where our management team is focused today.

Our plan is to grow our earnings going forward at 7% to 10% organically, just like the rest of the TD Bank Financial Group areas. We have clear plans to do that. We have underrepresented market share -- deposit share per branch, we're going to grow that significantly, $8 billion to $10 billion, over the next thee to five years.

We also are growing our -- some of our faster growing wealth management and investment planning businesses, as well as our Shoppers Charge credit card. We've taken very decisive steps to reduce our expense base. We've reduced our FTD count by about 13% over the last year, and plan to reap about $50 million to $80 million of savings, over half of which we're going to reinvest in revenue producing initiatives.

And we have very clear plans to improve our sales and service, customer experience products and to leverage best practices with TD. We're very confident that this plan is going to be successful, and we feel really good about the progress that we're making towards executing it.

I'd be happy to take your questions.

## QUESTION AND ANSWER

***Andre Hardy - RBC Capital Markets - Analyst***

Thank you. Maybe the first one we'll do, and perhaps Scott and/or Steve you can start because you transitioned from being a U.S. regional bank to a bank owned by a Canadian bank. How has that helped you on the operating side?

Is that a hindrance on the consumer side to not be a regional bank? What advantages does a Canadian bank bring to the table in helping you operate? And maybe I'll start with you Scott and then we'll go to Steve and certainly, Tim, you can pitch in as well.

**Scott Custer** *- RBC Centura – Chairman and CEO*

Sure. Being part of a Canadian bank has got certainly more pluses than minuses. I -- when we first became part of RBC, we had to work hard to find our, I call it, find our sea legs in terms of the operating model, the balance in terms of oversight from RBC in Canada.

And one of the things we learned quickly is that the operating model, what works in Canada for RBC doesn't always translate to a smaller regional bank in the southeast anyway. So we had to find the right balance between what I call really being an owner-operator and being -- and a shareholder. And the operating model that we ultimately struck -- that we ultimately struck is a good one, I think it's a good balance.

And what we talk a lot about is having the resources of a large company, which we do. And that's a great strength, but trying to act and seem like a small company. And if you get that balance right, we believe you can compete against both the large companies that we have to compete with, but also if you can compete against the smaller, at least theoretically more nimble, smaller community banks.

And that's what we've gone after, we've created a governance structure that lends itself to that in terms of a -- the way our U.S. Board is involved with our business and our U.S. Board's accountability ultimately to the RBC Board and RBC management. And we think we've found a pretty good balance in that operating model.

**Steve Boyle** ***- TD Banknorth – EVP and CFO***

I guess we would say similar things. The key is, really, to finding the right balance and being able to tap into the resource of the parent. I might add a couple of things. So, one is that from a customer perspective, we really haven't seen any kind of negative backlash being owned by a Canadian company or whatever. The northeast is very culturally similar to Canada and that's worked out quite well.

I think the other thing that might be constructive would be, a good example of where the power of the parent has helped us, so we're introducing a new credit card product this Fall. We were able to leverage all the TD back office functions to do that, and then create a card that we thought would work in the U.S. And so bring that to market much more quickly than we would have been able to do on a standalone basis.

Also the business case would show that this should be very profitable over time, but it's a significant investment up front. With the earnings power of TD we're able to make those kinds of investments much more easily than we would have done as a public company, and that goes for all kinds of investments we're making, whether it's in longer hours or adding more investment planning reps, all those kinds of things. So it's been very helpful for us from having a very significant parent to help us out.

**Tim Crane** ***- Harris Bankcorp - President***

Yes, and I would agree with most of that, very much more helpful than that. We've been owned by Bank of Montreal for 23 years. Maybe the difference is we've always flown our flag under the Harris name in Chicago, which is a very well known Chicago and Midwestern name, and so the perception of being foreign owned is in some cases not known and I would agree with Steve, not negative when it is known.

Our successes have really been around the cross-border leverage that it provides, and in some cases some of the product breadth. But as you get, kind of up market, in the business side of things, that it's been very helpful. So --.

**Andre Hardy** ***- RBC Capital Markets - Analyst***

And are there products or practices where you may not be able to be as competitive as some of your regional peers? So perhaps some mortgage structure, which you're probably happy you're not that competitive as your peers are, things like the carry trade? How -- can you give us examples of how you may run differently from your traditional regional bank and the U.S.?

**Tim Crane** ***- Harris Bankcorp - President***

Sure. From my standpoint, there's not a great deal of difference between what Harris offers and what other U.S. banks offer. So the foreign element of it, or the Canadian owned element of that is only additive. We produce and sell products and services that make sense in our markets. We do it in a way that we think is sensitive to the communities in which we operate.

The -- I guess there's a couple of areas of difference though and we certainly leverage the expertise of a Canadian retail bank that's been in business for a long time, but we find the U.S. market probably more price competitive, certainly more service oriented than maybe some of the Canadian markets.

We deal with a lot of local marketing that would be micro-marketing in maybe Canadian terms. And where we're trying to learn for example is on the retail investment sales side, where I think in the Canadian market, it certainly had the banks with a much higher presence and a much warmer reception on retail investment activity than you do in the United States.

**Steve Boyle** ***- TD Banknorth – EVP and CFO***

So I would say that, I don't know if it's foreign or bigger, but clearly working for a bigger bank, have a more robust risk management capability. And clearly, there are areas where we have changed our operating philosophy. So we had a fairly significant amount of interest rate risk on our balance sheet when TD bought us and we de-risked the balance sheet, and that was difficult from an initial earnings perspective, but clearly its paid off over time.

And I think probably we and TD shared a similar philosophy, but clearly have avoided a lot of the riskier products, and particularly I'd say they have a very keen appreciation of reputation risk to the bigger organization. And so, we're mindful of that and I think that that in this current environment has held us in very good stead.

**Scott Custer** ***- RBC Centura – Chairman and CEO***

Not much to add. Just would say that being a part of a large company like RBC has afforded us as a $25 billion regional bank the ability to do things, have products, have services and have access to certain markets that we would have never had access to on our own. So it's a huge positive from that standpoint.

**Andre Hardy** ***- RBC Capital Markets - Analyst***

Okay. Perhaps we'll come back to this. I think a lot of people here probably want to hear your perspectives on acquisitions. Certainly the -- RBC Centura has done a large one recently. Perhaps talk about your diligence on the housing market, construction lending in the U.S. southeast where a lot of the exposure is.

Maybe Tim's -- the Bank of Montreal has made many small acquisitions. What would it take for the bank to make larger ones? And Steve, certainly, TD has highlighted a focus on organic growth in the near term, is it only valuations that are holding back the bank from changing that -- that thought?

Maybe Scott, you could start.

**Scott Custer** - ***RBC Centura – Chairman and CEO***

Yes, sure. On the acquisition front, I mean, part of our strategy has been to grow in the southeast. When you step back and look at where we were, we didn't really have critical mass in any key markets, if you looked at our distribution and we still had a long way to go in transforming our distribution from more, maybe slower growth, rural markets where we grew up, to faster growth markets.

And we've done that, as I said, part of that is pure just trying to grow organically where we are, part of that has been de novo, but part of that has been with selected acquisitions. We had identified a small handful of companies that we felt fit our target, Alabama National was one of those. And if you looked at our footprint, if you looked at where we were trying to grow, Alabama National was a perfect fit.

From a distribution standpoint, it really positioned us well in Alabama, where we were brand new. It essentially more than doubled our business in Florida, and it really moved us to a strong position in Atlanta where we now have 65 branches in the Metro Atlanta, Georgia market. And that's from a point where we were at zero, I mean we were just getting started there four years ago.

The second reason that we -- that that was particularly attractive was it gave us management strength and that's what we were looking for, as you grow a business, from being able to bring on new talent is certainly important. And finally we've entered the Alabama market and had not been there before, through the -- we picked up branches through the AmSouth Region's divestiture back earlier this year.

And this gives us immediate credibility from a management, from a marketplace standpoint and it essentially helps us to have an infrastructure that we already -- that we were going to have to build on our own. So for a lot of reasons, this deal made a lot of strategic sense. And I don't think we're -- we haven't cast our lot by saying we're going to grow our business through acquisition.

I think that our job is to identify those opportunities that when they come along, make sense for us, ones that we believe we've got the opportunity to execute on, and not to do it at the -- to the exclusion of focus on the primary role we have, which is to grow our business organically. Execute on what we've got every day and watch our same store sales grow in a reasonable way.

**Andre Hardy** - ***RBC Capital Markets - Analyst***

And -- but looking forward, is it fair to assume that this deal will keep you -- or this integration will keep you busy for some time, or if another bank on your target list were to come up, would you delay an integration to strategically deploy capital in tougher times for some banks?

**Scott Custer** - ***RBC Centura – Chairman and CEO***

You know, the future's always hard to predict. Because as soon as you say something, something happens and -- and it's something different. But I can say with certainty, you can only have one number one priority.

And our number one priority is to execute on this deal that we've just announced, and to do it the right way, to do it in a way that hits our targets, that retains employees, retains customers and positions us in these markets the way we want to be. And if we do that well, then other opportunities will probably take care of themselves as they come along.

**Andre Hardy** ***- RBC Capital Markets - Analyst***

Okay.

**Unidentified Audience Member**

What kind of premium did you pay for (inaudible)?

**Scott Custer** ***- RBC Centura – Chairman and CEO***

In what kind of -- in what sense, I mean?

**Unidentified Audience Member**

In terms of core deposits and in terms of book value.

**Scott Custer** ***- RBC Centura – Chairman and CEO***

In terms of book value, it was just under three times tangible book. Core deposit premium was in the mid 20% range - priced -- this year's earnings were -- was right around 19, I think to last year's earnings was kind of 18.5 to 19, in that range.

**Unidentified Audience Member**

(Inaudible question - microphone inaccessible)

**Scott Custer** ***- RBC Centura – Chairman and CEO***

I'm sorry.

**Unidentified Audience Member**

(Inaudible - microphone inaccessible)

**Scott Custer** ***- RBC Centura – Chairman and CEO***

Spend saves. We're net 20%. Because we'll have to add some -- because it's such a big acquisition for us, we'll have to add some calls to our own platform to bring them on, but net 20% in that range.

**Tim Crane** ***- Harris Bankcorp - President***

Yes, Andre. We've done a number of acquisitions and as you say, they've been smaller. They've been good acquisitions for us because they solidify our position in Chicago and then expand our footprint into markets where we had a presence from a commercial standpoint and their name exists, but have not had retail footprint. So we're very excited about Indianapolis and Wisconsin.

We think we're good at acquisition integration at this point. Our results in terms of delivering against the synergies that we've promised have been either at plan or better at this point. With respect to doing a bigger acquisition, I can tell you we look at what the market is doing and we've had a chance to look at deals, we think almost every deal that's either been done or may get done. And we do that selectively. And for acquisitions that fit our criteria, I think we'll be aggressive and we plan on continuing to expand.

To -- a little bit to Scott's point, it's not lost upon us that organic growth is an important part of the equation here, and so particularly as we've integrated a number of acquisitions over the last year or two, we've been very sensitive to the core performance of the bank continuing to improve. And ex-acquisition expense for the last three quarters, our core operating earnings continue to go up and we would expect to continue to focus on that, independent of the acquisition activity.

---

**Steve Boyle** ***- TD Banknorth – EVP and CFO***

So I guess from our perspective, we do still think that prices are high in the market. Not only are you paying high multiples, but as we go in and look at the companies, you're often paying high multiples for suspect forward earnings. So that's our main primary driver of why we're not doing deals currently or we focused on organic growth.

We have said that we will continue to look at deals and if we see a deal that's attractive, we'll take advantage of that. But we actually feel like it's been a benefit to us to kind of have a breather and to be able to focus on organic growth for a sustained period of time, and so that's our current plan.

---

**Andre Hardy** ***- RBC Capital Markets - Analyst***

And in terms of the -- oh, I see there's a question.

---

**Unidentified Audience Member**

A question to Bank of Montreal. With the acquisition of LaSalle by Bank of America, what does that mean for you? What does it mean for middle market banking in Chicago region?

---

**Tim Crane** ***- Harris Bankcorp - President***

Sure. It's good news, bad news, I guess. We've competed with Bank of America in the Chicago market for a number of years, so they've been a presence and we've seen them in the market. Obviously this will be a larger footprint and presence for them. Deal is expected to close sometime toward the end of the year. I think we expect them to be a good tough competitor.

I also think that we're seeing some market disruption and just some uncertainty among customers and employees that is creating opportunity. And so at a minimum, short term, we're looking for opportunity to expand. Longer term we expect that we'll compete very successfully against Bank of America.

---

**Unidentified Audience Member**

Could I just follow-up on that?

**Tim Crane** ***- Harris Bankcorp - President***

Sure.

**Unidentified Audience Member**

If you look at the space between Toronto and Chicago there's an obvious (inaudible) in there -- Michigan. (Inaudible question - microphone inaccessible).

**Tim Crane** ***- Harris Bankcorp - President***

Yes. Again we look at all the deals in the Midwestern area and we very much would like to continue to work in contiguous states. I don't think we have any aversion to being in Michigan, there are parts of Michigan where the economies are a little better than others. We pay attention to the financial fit and the likelihood that we'll be able to deliver against our targets. But we'll continue to look for fill in all the Midwestern states.

**Andre Hardy** ***- RBC Capital Markets - Analyst***

And as you have those discussions, and Scott, you just did a deal that involves shares and cash, the Bank of Montreal's traditional done cash deals. Is it a challenge to convince somebody to take Canadian stock when they're selling their bank?

**Scott Custer** ***- RBC Centura – Chairman and CEO***

No, certainly there has not been a challenge. In fact, that's been one of the things that was asked for and requested in the transaction. It's actually been a positive. Certainly RBC stock has performed in such a way that it's an attractive investment, and I think the -- it has become something that is viewed as a positive and certainly not a negative.

**Tim Crane** ***- Harris Bankcorp - President***

Yes, I'd agree with that. In fact, of our two deals, Andre, one of them was cash the other is stock-based. And in negotiating with the sellers of the company, they actually asked for the stock and talked about the fact that the Bank of Montreal represented, in their eyes, a stable, high dividend, high performing stock that they found very attractive.

**Steve Boyle** ***- TD Banknorth - CFO***

I'd just add that we would say we've had the same experience, and in fact that's one of the reasons why we sold the remaining stake in Banknorth. We felt that the Banknorth currency wasn't as attractive to parties as the TD shares were. And ,I think the flip of that is that most of the deals that we've done, people have wanted stock and a significant cash component, and having a parent of substance gives you the ability to do both.

**Andre Hardy** *- RBC Capital Markets - Analyst*

Okay. [John]?

**Unidentified Audience Member**

(Inaudible question - microphone inaccessible)

**Tim Crane** *- Harris Bankcorp - President*

Obviously the Canadian stocks have done very well. The flip side of that is that the U.S. earnings that you're acquiring translate into a lower Canadian dollar. And I think it maybe has a modest psychological impact, but I don't think it's a huge decisive impact.

**Steve Boyle** *- TD Banknorth – EVP and CFO*

Yes, I think I'd agree with that.

**Scott Custer** *- RBC Centura – Chairman and CEO*

Yes. That's the same. It hasn't really had a material impact really, I don't think.

**Andre Hardy** *- RBC Capital Markets - Analyst*

Scott, you mentioned that -- a 20% synergy number. Is that something you'd expect to be greater in future acquisitions? And you did mention having to add people to the platform, which would have made the synergies a little less? And I would ask that question to other panelists, are you able to get the same kinds of synergies that other end-market buyers get when you make transactions?

**Scott Custer** *- RBC Centura – Chairman and CEO*

It's really a deal-by-deal discussion. I mean, if you find something that's much more end-market, where you've got consolidation opportunities, where you've got lots of duplicative operations, you're clearly going to get more cost saves.

If you've got one where the company's a larger company, it's a larger company relative to your own size, you're going to -- it's probably -- and there's not the same overlap, then you're not going to get the same expense saves. But the deal's got to make sense, not just from an expense standpoint, really for us, it has to line up across a lot of different metrics.

And certainly we'll run it as efficient as we can, but this transaction, for us, won't make it or break it so much on the expense side as it'll make it or break it on how we perform with respect to retaining customers and ultimately growing the business.

**Tim Crane** ***- Harris Bankcorp - President***

Yes. We look typically at 20% to 30% would be a generalization around the expense saves and Wisconsin and Indiana, although not Chicago, are not far enough away that we don't get significant synergies. Again, our experience has been terrific in terms of delivering against those synergies or exceeding what we would anticipate happening and our success in retaining customers and being able to grow revenue, if not immediately, very shortly, has been very, very good so far.

**Steve Boyle** ***- TD Banknorth – EVP and CFO***

I think the only thing I would add would be that to the extent that we're able to leverage capability in the parent company, we can get a little bit more in additional synergies. So to the extent that we get ultimately more efficient on our own, then that enables us to extract more synergies from the companies we buy and an easy, maybe quick hand example, would be sourcing.

So we're able to leverage the buying capability of the parent. That's created synergies on our side and then we're able to get those additional synergies we find on the bank.

**Andre Hardy** ***- RBC Capital Markets - Analyst***

Okay. And for all three, are there particular MSAs or states where you're well below your market share objectives?

**Scott Custer** ***- RBC Centura – Chairman and CEO***

Yes. I mean we're -- as I said, we're a company that started -- I mean, we've never had significant share in any of the key MSAs in the southeast in terms of significant double-digit market share. And we are beginning to build that in places like the Raleigh, Durham, Chapel Hill area in North Carolina.

In Atlanta, we're somewhere between fourth or fifth now in terms of share position there. And so that's -- we've grown that nicely. But market share itself, to me, is often a kind of a not always a great indicator. I mean, I think the companies, if you look at companies that are really growing and performing, they're often the smaller companies. And so, market share being a leading indicator of ultimate financial success in what you're trying to do is not always the right instrument to look at.

**Tim Crane** ***- Harris Bankcorp - President***

We think we still have opportunities in Chicago. So even though our share there is significant, we would anticipate continued growing in Chicago. In Wisconsin, the Milwaukee area in particular, we'll post-acquisition land in a kind of fourth or fifth position, which we think is a very nice base to grow from.

In the Indiana, Central Indiana in particular, we start a little bit smaller. We would anticipate building that out. But again, have a larger presence on the commercial side, and for example in some our auto businesses where we're already well known in those markets, and I think we can certainly leverage the opportunity well beyond what the pure footprint share, which show out of the gate.

**Steve Boyle** *- TD Banknorth – EVP and CFO*

For us, clearly, New York, New Jersey, Philadelphia are areas that we have kind of a foothold now that we'd like to achieve more scale, and so to the extent we do get back into acquisitions, that would be the ideal location for us.

**Andre Hardy** *- RBC Capital Markets - Analyst*

You made a comment earlier, Steve, on essentially not trusting the earnings of the target banks. I'd suspect you'd rank the risk, credit, margins, [bill] and growth in loans deposits, correct me if I'm wrong, do you see anything else where people are overestimating what they may earn next year?

**Steve Boyle** *- TD Banknorth - CFO*

So I would probably say margin, credit, typically the due diligences that we've done have said that the banks we're looking at have probably done a decent job on credit. Clearly it's something that everybody's concerned about and we would obviously look at very hard at any bank that we bought.

I think it's really where is the future earnings growth coming from? Are we seeing balanced growth? Do we see any way out of margin compression? And unfortunately, most of the banks that we look at have hit the wall. Right? And so they've lost whatever their formula was for organic growth is gone, and so that's been our biggest challenges.

**Andre Hardy** *- RBC Capital Markets - Analyst*

And perhaps I'll ask the same question to two of you, because obviously you've been talking to potential sellers as well.

**Tim Crane** *- Harris Bankcorp - President*

Well I guess the lift -- or the add I would have is that in some of the properties we're looking at, we think there is in fact lift that's still available. And in the case of the two acquisitions coming up, the breadth of product and service or reach that they have in their markets won't equal what they'll have as Harris joins them as a partner.

And so, particularly in the Milwaukee area for example, on a business banking standpoint, we'll bring capabilities and tools that neither of those institutions had on their own, and we've seen that be actually quite a significant benefit for us as we get into the integration type activities.

**Andre Hardy** *- RBC Capital Markets - Analyst*

But in your discussions, where would have you have the most disagreements on, on where major trends are going as a buyer versus them being sellers?

**Tim Crane** ***- Harris Bancorp - President***

Well, I think margin is a good starting point, but we like to be realistic with respect to expectations, and so those are usually pretty early on conversations when you're talking to a seller.

**Andre Hardy** ***- RBC Capital Markets - Analyst***

Yes. Scott?

**Scott Custer** ***- RBC Centura – Chairman and CEO***

Not much to add other than there's no question, I mean there are sellers out there today that have, as Steve said it, have hit the wall and are ready to -- for somebody else to come in and because maybe they've got to believe there's a better way. And you just have to be careful.

In our case, in the most recent situation that we've done here, first of all from a credit standpoint at this company, Alabama National's got an absolute Grade A loan portfolio, they've averaged less than ten basis points in charge-offs for the last 15 years. So they've got a sound credit culture that we believe will stand the test of time during this period of turbulence.

The second thing is that we can -- there are activities, again, back to the point of being able to do things more efficiently, we look at activities they do today, we can do them on our platform on a [run ram], a go-forward basis, 15%, 20% more efficiently.

So there are built in efficiencies. And then, there's some things we can do with our balance sheet that will enable us to maintain their margin more where it is today, as opposed to, even as we look in the future and still see a period of margin compression. There are things that we ought to be able to do with their balance sheet that they probably were unable to do on their own that'll enable us to do that.

So all that kind of comes in to say that there is pressure on forward earnings, and betting on a company to continue to grow at 10% per year going forward, just because they've done it in the past, is probably not a good bet to make. But there are other ways to try to engineer that same growth trajectory.

**Andre Hardy** ***- RBC Capital Markets - Analyst***

Okay. And then maybe that is a good way to transition into a discussion on credit. Obviously you would have given a lot of thought on where construction lending is going in Florida. Is this a validation of a thought that the market may not be as bad as people think?

Or, is it this management team has a unique credit culture that may allow it to go through this unscathed or less hurt? And if that's the case, what is it that the company did that should allow them to perform better?

**Scott Custer** ***- RBC Centura – Chairman and CEO***

Well if I knew what they'd done that allowed them to perform the way they had, I'd give (inaudible) because they've got a performance record that I don't think many companies have been able to achieve. I do think there are serious credit issues out there. I think there are serious issues in the housing industry. You -- don't have a day go by without picking up a newspaper and reading about it.

There are pockets where there is more stress in that business than other places. We operate a homebuilder finance business across the whole United States, and so we see where those pockets are nationally and certainly, places like Florida, coastal sections of Florida, places like Atlanta, are areas where you do have some concern today.

What we've done is, number one, we've stayed away. We don't have any condominium exposure and we've stayed away from that. Alabama National's done the same thing. It really is picking your spot. It's embedded in what the credit culture is in a company, and it's the discipline around how that's run in the good times and bad.

And it's more evident -- and thankfully I think for us, and [this company] is more evident in the good times. I mean there's a lot of deals, which you don't do, that you probably have people that work for you that get upset because you won't do certain things when the tide is coming in and looks real good. But as it goes out, you're glad you might have said no to some of those situations that others had jumped into.

**Andre Hardy** *- RBC Capital Markets - Analyst*

Okay. And Tim, your outlook on Chicago would be interesting, but also on the auto finance business, where we've seen recently, not certainly at your bank, but in general, rising delinquencies.

**Tim Crane** *- Harris Bankcorp - President*

Well knock wood. The Chicago economy has been pretty solid, and we continue to see job growth in Chicago, we've got a diversified base of business. There's not without pressure in terms of some of the real estate areas, but I would tell you it's been orderly at this point.

And when we look, for example, at appraisals on kind of high-end residential real estate we're seeing changes of 2%, 3%, 4% as opposed to larger numbers in other parts of the country. In terms of the commercial side of our businesses, we're -- we still see good activity. And Harris is -- it's one of those times, to Scott's points, you're kind of glad you had a credit culture that serves you well.

We've not participated in any of the subprime activities from an originations standpoint. We have no negative amortization type activity. We have no teaser rate type loans. And so, we find ourselves trying to help and advise our customers at this point through what I'm sure is going to be a difficult period. And I think we're watching for the secondary impacts of that, particularly in borrower ability to pay auto loans or other areas where it will surface.

Specific to our auto business, which we operate in about 16 states from an auto standpoint, very conservative. We don't do leasing, floor planning or subprime. Our delinquencies are up, but certainly well below the change that we're seeing on these industry numbers. And so, so far so good, but we're keeping our eyes open.

**Andre Hardy** *- RBC Capital Markets - Analyst*

And Steve your -- the NPAs are up in construction lending at Banknorth and maybe talk --?

**Steve Boyle** *- TD Banknorth – EVP and CFO*

We've avoided, I'd say, most of the big direct issues, don't do any subprime, don't do many negative amortization mortgages, anything like that. The key area that we're focused on is for sale real estate, particularly in the mid-Atlantic area. We have seen an increase in NPAs. We think we've handled that very aggressively.

What we're seeing is as we get these loans into work out, that we're able to work them out with very little, if any, loss in principle, and so that's been good news so far. We think that things certainly have stabilized over the last quarter or two. And so as long as the market's hanging and then we feel like we'll be in pretty good shape.

---

**Andre Hardy** ***- RBC Capital Markets - Analyst***

Two of you have alluded to margin pressure continuing to be an issue going forward. What do you see driving the continued margin pressure?

---

**Tim Crane** ***- Harris Bankcorp - President***

Well in Chicago, we've seen a lot of competition. We've had 600 locations open in the last three and a half years, and everybody's got a business case that they're trying to hit and I think many of them are challenged to do that. So we've been living through a scenario where the competitive environment is tough. I don't see that going away.

Short term, we've seen our margins stabilize. I think from our standpoint, we're going a layer deeper and focusing on how we continue to improve our financial results in tough times. We've made some cost reductions, as Steve mentioned, we've reduced our staff by 4% or 5%.

We've certainly slowed our de novo expansion in the market. We've taken steps to cut other costs that we can control to make sure that we continue to make progress in periods where the market's tough.

---

**Andre Hardy** ***- RBC Capital Markets - Analyst***

Thanks. Steve, do you --?

---

**Steve Boyle** ***- TD Banknorth – EVP and CFO***

Yes. So I think the same issues, the big banks are more focused on retail than they've ever been, so there's some competition there. The little banks have way too much capital and are doing some irrational things. So again, we view it as an environment where there's probably going to continue to be some compression.

We are starting to see in the recent environment that commercial spreads are widening a little bit, which is good news. But again, our business plan assumes that we'll continue to see some modest compression, and that we've got to earn through that.

---

**Andre Hardy** ***- RBC Capital Markets - Analyst***

And clearly deposit growth, especially core deposit growth is -- has been weaker for the U.S. banking system. Is there any unique product or system or sales practices that you're able to bring to the table by being part of a Canadian bank that may have a different approach in Canada? Or it comes down to pricing and service, like everybody else?

**Scott Custer** *- RBC Centura – Chairman and CEO*

Yes, there's no -- Andre, there's no magic. I don't think there's any magic bullet just by being part of a Canadian bank that gives you a leg up in the U.S., especially in the competitive world of deposit growth.

What we've seen is that certainly there's -- we've been able to grow deposits in our business, but we certainly -- we've grown them in a more costly product type. So that's not probably uncommon to anybody else.

I would say that where we have seen the best results, and where we've had most of our focus is in the small and medium-sized business banking segment. As -- our experience is that for every dollar in loans that you make in that segment, you get $1 to $1.50 in deposits and that's a -- that's held pretty true.

And those -- that segment tends to be more willing to have deposit balances on hand. It tends to be maybe a little less focused on where they allow, although that's changing, and the direction of that's certainly changing, but that's where we've seen the best, most robust deposit growth in a cost-friendly way, and that's where we've spent a lot of time focusing.

**Tim Crane** *- Harris Bankcorp - President*

Andre I don't have much to add to that. I mean, again, I think from a core deposit standpoint, we feel pretty good about the business banking side of things, the consumer side's been a little bit tougher.

But we view this as a relationship play and doing our best to continue to strengthen our ability to serve all the clients' needs, and we think that's helped us at least retain core deposits. And as the environment turns a little bit, we think we'll be well positioned to grow them as well.

**Steve Boyle** *- TD Banknorth – EVP and CFO*

So I just had a couple of things. One would be that we feel like partnering with TD has helped us in terms of treasury and balance sheet management so that we'll have a steadier margin over time. And then as I mentioned before, it's helping us add wider margin lending products that should, over time, improve our margins as well.

**Andre Hardy** *- RBC Capital Markets - Analyst*

And then just a different question, which is probably helpful for people here, looking at small banks. When you do your due diligence on banks, what are the things you don't like to see? What are things that you'd change immediately after purchasing a bank? What are the characteristics of banks you try to avoid when looking at banks you may buy?

**Tim Crane** *- Harris Bankcorp - President*

Again, I think we've talked about interest rate risk. I mean, to the degree that small banks are making their earnings in ways that are not central to a customer-driven type of activity, that's certainly a red flag. We like to see balance in terms of the commercial and retail type activities. We'd certainly tolerate more commercial, but we'd like to see them active in the markets.

From a cultural and strategic fit, we like to see a customer focus and a customer sensitivity, as opposed to a transactional sensitivity for example. But every property's different, so you -- they all have their own peculiarities.

**Steve Boyle** *- TD Banknorth – EVP and CFO*

I agree with that. What we look out for are clearly any cultural issues, quality of people, but particularly if you see a lot of wholesale assets and liabilities, we don't think that that's -- those are real earnings that they don't really bring anything to the table.

**Scott Custer** *- RBC Centura – Chairman and CEO*

And just -- where you see preponderance of certain asset classes or concentrations of the type where maybe they've stretched in commercial real estate or they stretched with Grade C homebuilders. Or where -- in an effort to grow their asset base they have taken risks that we wouldn't ordinarily take, it might be hard to work you way out of.

And that's where, to me, that's what I see a lot of in smaller community banks. Especially in the Southeast where the competition is as difficult as it is. Yet these banks, they get started, they've got capital, they've got money to lend, they're ready to go out there and make money and they're -- in the path of least resistance is they find that the quickest, easiest real estate developer who needs money and you go make him a loan.

That is a -- that's usually -- and before you know it, you end up with a portfolio where 70%, 80% of the assets are real estate related. They may not be as -- they may not be -- chances are they're not underwritten with the same scrutiny that we would ordinarily do it.

And that's where when you acquire a company like that, and you begin to peel back the layers in that portfolio, you've got to begin to reposition that portfolio, you begin to lose customers, you can lose revenue, and really what you pay for that company is a lot more than what you think you paid.

So the type of asset base is really important to us that is one that we can live with, that we can work with and we can retain and that ultimately we can grow.

**Andre Hardy** *- RBC Capital Markets - Analyst*

Okay. And the last question I have is, sentiment on U.S. banks is very negative right now. As you read some of the papers, what comes out in research, are there areas where you think people are too negative? So that would be part one of the question. And part two is, what do you think will make your bank in a better position to skate through a few years of difficult conditions in the industry?

So I'll let you take a breath, Scott, maybe we'll start with Tim.

**Tim Crane** *- Harris Bankcorp - President*

Yes, I don't know if people are appropriately negative or not. There's certainly a lot going on that's getting a lot of press right now, and I think you kind of have get a layer below that and look at really what's happening. I know we feel like we've done a good job from a credit perspective.

We know there are others in the market that have not. We, again, we think that will serve us well. We believe we're taking steps to weather any tough market that might be in front of us from a financial perspective, focusing very hard on winning customer business, on growing revenues, building relationships that will serve us long term. And I -- we feel comfortable on a relative basis, we're very well positioned.

**Andre Hardy** *- RBC Capital Markets - Analyst*

Steve?

**Steve Boyle** *- TD Banknorth – EVP and CFO*

I would agree. I think there's a lot of headwinds out there and we talked about credit, we talked about margin compression. We feel like we're trying to stick to our knitting, focus on organic growth, try to improve our products and processes, try to take a hard look at our expense base, and that's going to get us through these difficult times.

**Scott Custer** *- RBC Centura – Chairman and CEO*

Not much to add. I can't really comment on how much negativity there is. I don't know that I feel it maybe quite as much as maybe there really is, and I think what all of us need is just a little better economy, a little more slope in the yield curve, a little more rebound in the housing business and just a little more stability in the market as we go along.

**Andre Hardy** *- RBC Capital Markets - Analyst*

Okay. So thanks for the three of you to participate. Thank you for participating. Thank you for all of you who stayed until the end of this last panel and have a good lunch.