Bank Financial Group
Investor Relations

TD BANK FINANCIAL GROUP

CIBC WORLD MARKETS 7TH ANNUAL EASTERN INSTITUTIONAL INVESTOR CONFERENCE

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CORPORATE PARTICIPANTS

Tim Hockey	Group Head Canadian Banking, TDBFG and President & CEO, TD Canada Trust

CONFERENCE CALL PARTICIPANTS

Darko Mihelic	CIBC World Markets - Analyst

PRESENTATION

Darko Mihelic - CIBC World Markets - Analyst

Are we good? Okay, great, thank you. Okay, we're very pleased to have Tim Hockey here with us today from TD. Mr. Hockey is Group Head of Canadian Banking at TD Bank Financial Group and President and Chief Executive Officer of TD Canada Trust. He has been with TD for over 25 years, holding senior posts across several areas of the bank.

Before we begin, I'd like to remind everyone that this Q&A session is being audio webcast and will be archived later this evening on the CIBC World Markets website. Let me also remind you that during this Q&A session, our participant may make forward-looking statements that are subject to a variety of risks and uncertainties. Certain material factors or assumptions may be applied which could cause TD Bank's actual results in future periods to differ materially from the conclusions, forecasts or projections in these forward-looking statements.

We would draw your attention to the slide regarding forward-looking statements that will remain up on the screen for the duration of this fireside chat. And, with that, we're going to go straight into the Q&A session with Tim this morning, so I'm just going to walk over and take a seat.

QUESTION AND ANSWER

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

I thought you were kidding when you said it was actually going to be a fireside chat.

Darko Mihelic - CIBC World Markets - Analyst

It's not hot, though. You can put a drink there, if you like. So, thanks again, Tim, very much for coming.

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

Appreciate it.

Darko Mihelic - CIBC World Markets - Analyst

Perhaps we could start -- there's been a lot of gnashing of teeth lately around the economic scenario, and perhaps you can just paint us a general picture of what your expectations are for next year with respect to the economy and the impact on loan growth for TD Canada Trust as a starter, perhaps.

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

Every year, we go through a planning cycle, as I'm sure everybody in this room does in their businesses, and you spend days working through all the economic forecast indicators. I just remember one line from our Deputy Economist, and he said, well, if you think of an economic cycle being seven years, the best five are behind you. So that's pretty much if you look at any one of the indicators that we see, it's moderation from the torrid pace we've been at over the last number of years.

So with that I would also say that we expected the same thing pretty much every year going into a planning cycle. We don't expect to be able to continue the growth rates that we have been able to do as an industry, let alone as an individual organization over the next couple of years, so practically every indicator is for moderation, I'd say, loan growth specifically.

Darko Mihelic - CIBC World Markets - Analyst

And can you give us a range of the level of moderation? Are we talking about double-digit, 10%, 11% growth falling to sort of 5% growth?

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

If you look at loan growth in particular, well, consumer lending, if you go back a 25-year history, something like that, and actually look at the absolute year-over-year percentage growth in lending, at the low end it's at 5%. At the high end, it's more like 15%, and so we've been running north in the double-digit territories, we the industry. So I'd see it going down towards, but not probably at the 5%, and it's going to be coming off what is still a very healthy rate, and so we see it moderating back to sort of more the lowish end of that 25-year cycle versus the high end.

Darko Mihelic - CIBC World Markets - Analyst

And none of this actually -- it's interesting, you have these sessions, but it doesn't look as though any of this has impacted your planning process in the last three or four years. If I look at TD Canada Trust, I see branches growing every year, and I think your plans aren't any different next year. Can you talk about why that is and clearly that in my mind differentiates TD from many of your competitors.

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

Yes, we think this is actually a very simple business, and you can do a lot of things to yourself to complicate it, so we have a very simple strategy that has actually not been changed since 2002. And it's, simply put, we believe there's any way of three types -- any business in any industry can compete in one of three ways. You can compete on price, you can compete on product innovation or you can compete on service or customer intimacy. And so we've said clearly we want to win on service, and in banking that means both, basically service and convenience.

So it doesn't mean you don't want to be competitive on price, and it doesn't mean you don't want to be competitive on product, but you don't win the game that way. Price can be matched in six seconds, product can be matched in six weeks. It takes a long time to get the service proposition right, and so what does that mean? In our case, it means a couple of things.

We will continue to open up branches as fast as we think it's appropriate in given markets. That's actually a great example, actually. We have now 103 branches, I think, in Quebec, which we're not happy about. We think that number should be bigger, and 20% of them were opened in the last four years, and we've been in Quebec for 153, so it tells you what the expectation for continued growth is in this market.

So opening lots of branches. The other big change on the service and convenience that we made last year and it's quite a differentiator from the competition is the hours of service we provide, and again, that's actually most stark in the Quebec marketplace. We have over 50% more hours in our branch system than the competition, and in Quebec it's more like 60% plus, which I always found amazing that the competitors will let you do that. So customers love our extra hours and so winning on service and winning on convenience is the strategy, and more branches and more locations is the way to do it, we think.

Darko Mihelic - CIBC World Markets - Analyst

Just to note, this move to longer hours is more a recent --

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

The history of it is Canada Trust had long hours way back when. TD had traditional bankers hours. When we merged in 2001, the locations that we merged into, we always took the longer hours. What we found by the middle of last year was we had too many competing different hours models.

You can be in a particular urban location and you can go to different TD branches and find different hours models, which meant it was difficult for us to advertise and actually our customers to understand what our hours are. So we standardized in June of last year, and we added more. So we now have essentially 62 hours a week and I think the average of all the competition in Quebec is in the mid 30s, which, again, I find astounding.

Darko Mihelic - CIBC World Markets - Analyst

Some could say that heading into a period of weakness -- I mean, clearly, let me just back up for a moment, you've now extended the hours. It's pretty hard for you to actually cut back on hours now, isn't it?

I mean, this is clearly the differentiator, so in a period of economic weakness, when many of your competitors that we speak to now are suggesting that cost control will be a very large element of creating an operating leverage that you speak -- I mean, you guys speak about a 3% sort of difference between revenues and expense growth. What can you do in the event that we do see a significant revenue slowdown in the next year or two? You can't cut hours, so what can you do?

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

Well, I actually look at that from a very different way, which is if you look at our efficiency ratio, our number starts with a four. And so if we've got a 49.9% over the last quarter efficiency ratio with 50% more hours, what are the other guys spending it on? And so, yes, we have longer hours, but I still think, and if you've seen our revenue and growth rate, we have a strong revenue number and we've had strong revenue number fairly consistently for the last number of years.

Our philosophy is, now that we're getting into a quite low efficiency ratio, is to keep moving it down. We don't have a specific target, but we say keep moving it down, but want to make sure that we're constantly investing in the future inside our revenue growth rate. That's the real paradigm, which is if you can keep your revenue growth strong, make sure you don't have to have what we call fire drills.

When you see an economic cycle's slowdown, hopefully get ahead of it, understand when your revenue is going to start to decrease, and then put plans in place to moderate your growth. But our planning cycle is we always look six quarters ahead and we do as much as we can to make sure that we can moderate our institute programs for revenue growth, as well as for expense savings, when we see the slowdown coming.

So we think we do have opportunities to make sure that we're reducing our expenses when we need to, but we'll also make sure that we're investing over the long haul as opposed to -- it's very bad for retail systems -- the reason why we talk about this fire drill. Don't think it's good for a retail banking system to go from a massive growth in expenses to a can't-water-the-plants scenario on another -- you can't whipsaw a system. So having a financial paradigm that actually is constantly growing your expenses inside your revenue growth rate, to make sure your top-tier earnings growth, that's been our consistent strategy for six years now.

Darko Mihelic - CIBC World Markets - Analyst

Having purchased Commerce Bank in the US, you now have a different model to look at. And are you going to backwards anything from Commerce.

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

Yes, we -- I've been retail banking for 25 years, and I'd like to say I've stolen -- Commerce is a legendary organization as a retail bank, and so I have probably stolen more ideas from them -- actually, I guess we didn't steal it. We ended up paying 8.5 billion for all of those ideas after the fact, but they have some really innovative ideas and so as a result, we're testing some of them as we speak. We have made plans to introduce some of the elements of Commerce.

We're kindred spirits in many ways. From a retailing point of view, we believe that we value convenience and service foremost. They have different ways of manifesting themselves in the US and Canada, it's a different consumer base, but, yes, we do like a lot of the elements that Commerce has.

Darko Mihelic - CIBC World Markets - Analyst

What about the 24-hour sort of hours that --

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

The difference that they have is that they have Sunday openings, and so the first question we often get is what do you feel about Sunday openings? We actually did research on Sunday. We've all tested it, all of the banks in Canada, and when we tested it in the past it was a lukewarm response.

And when we did consumer research on our hours change, what we said was, what is the value to an hour of banking available to a consumer on Sunday compared to during the general workweek, and the sound byte that I remember was that the consumer values an hour of banking time at their branch 4.5 times more during the sort of Monday to Saturday regular workweek than they do on Sunday.

So when we looked at that, we said, okay, let's bulk up on where they really value it the most, so we really have eight to late, six days straight, as opposed to on Sunday. And we also think it's important not to have -- to have a consistent model in all of your branches, not to say, oh, yes, we've got Sunday banking, but only do it in a couple, because we just don't think -- it's a bit of a bait and switch to your customers.

Darko Mihelic - CIBC World Markets - Analyst

Are you seeing any of the other competitors come up with similar ideas? We've seen a couple of them in particular expand now their branch networks, trying to pilot longer-term hours, and I think some of them are actually aggressively trying to bid for other products, as well, in terms of pricing. What's your comment on that? Are the competitors making a stiff go of attacking the service [component]? Are you seeing copycats and is this having an impact?

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

Any time there is -- this industry goes in waves. Retail banking, it's never sexy, first of all, but it all of a sudden becomes fashionable when other elements of traditional banking, their earnings tend to falter. So what that means to us is that there will be more competitive forces at play in our space.

Service is very difficult. Again, because we've been on this journey for five years, and we don't think we're there yet. Our model is all about being the better bank. It's about being better tomorrow than we were yesterday, but we've made great strides.

If you think back to 2001, 2002, when we put TD and Canada Trust together, we didn't have the better bank. We had arguably a not a great bank. All it was was a combination of two. We did it differently. We didn't take one model or the other, we took the best of both, and that's confusing for everybody and it's slow and it takes a while to get it going, but once you've got the wheels turning, then you're actually in good shape.

So culminating six years later, arguably, in fact we just got the -- there's only two national studies that are done around the best banks from a service point of view, and they have multiple -- they have 22 criteria between the two of them. This is Synovate and JD Power. Every criteria, every bank is ranked by various -- value for money, ABMs, telephone banking, you name it.

And we've won both surveys, the big national score now, for three and four years, but what was unique this time, that we were extremely happy to see, is we won every single category in both surveys. And the interesting story inside there, because people say, well, of course, you've got those longer hours, so people give you the benefit.

One of those surveys had a category called branch access and convenience in the previous years, and they decided -- this is Synovate. They decided to take that category out and said, okay, branch access and convenience sounds like it's the branch service excellence, so we'll take that category out. Well, that's the number one driver of actually what customers, why they're attracted to your bank, by far. And they took it out and we still swept every category and won the overall.

So the one that we tended to blow away the competition because of our hours proof point, it was taken out of the mix and we still won. So what's my point? My point is that took us five or six years to get up a head of steam to gain ground on the competition. It's one thing to say something. It's entirely different to get a 30,000-person organization to get completely lined up and everybody rowing together. It's truly awesome when that happens and it has remarkable momentum, and, hopefully, we just keep going down that path, because we think that's ultimately the winning strategy.

Darko Mihelic - CIBC World Markets - Analyst

Maybe we can talk a little bit about the environment and what's happened, and it looks like deposits are clearly at a premium now and there's been a lot of margin compression for Canadian banks. And we talk to competitors and we hear what they have to say and everybody's sort of pointing fingers at one another, who is sort of upping the pricing game with respect to the deposits.

Lately, the finger has been pointed at TD. I wonder if you can respond to that. Are you in fact aggressively bidding for GIC deposits? What is the impact on your margins and what can you tell us about the overall state of the product gathering.

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

First, I'd say that we're winning mostly in what I care mostly about, and that is the thick, essentially checking-based, margins, and so in other words, we have a pretty simple business proposition. If you have more branches in better locations with great hours and great service, then more people should choose to do their basic banking with you. That's the premise and it actually works. You attract more customers and you lose less.

The number one reason why people get attracted to any institution for banking -- location of the branch, close to work or home, and reputation for service is number two. The number one reason for people leaving you is we pissed you off. It's that simple. When you finally get upset with your bank and you decide to go elsewhere. If you can work on both elements, on the attraction and on the retention side, then over time you incrementally get better.

The first product to show that effect is your basic checking account, more customers deciding to do their basic banking with you, so that's the one I care most about. We've also done a few things over the last couple of months around targeted pricing.

We've said we don't want to actually just raise across the board our deposit rates, but there are a couple of channels and a couple of opportunities around term, [notably] through our broker channel and our Waterhouse channel, where we can more strategically price and by turning up the margin or the pricing just a little bit, I'd say we've had a disproportionate share reaction. And so I don't mind that at all, because it's still profitable. And it's through the channels where we have opportunity to take share, and yet we don't pollute, if you will, your sort of branch distribution gathering of your lower-cost deposits.

We like the fact, especially right now, with the turmoil, we like our market position because our franchise is all about gathering deposits, whether it be in Canada, in my business, or in our Commerce model or our TD Bank NA proposition. And we think right now, obviously, deposits are at a real premium, and so it's been working for us.

Darko Mihelic - CIBC World Markets - Analyst

But isn't that hot money? When you look at those different channels, it comes and it goes? So this is simply a profitability grab and nothing really long-term or strategic about what you're doing?

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

No, I'd say one of the things about our culture is we measure everything. We're highly analytical and we like a test and learn culture. And so whenever one of my product guys would come to me and say here's an opportunity where we think we've let things slide a little bit, I can turn the heat up to this degree and we value in our product group's ability to micromanage their margins, as well as their tradeoff of share. I'd say go for it and then report back, first of all, the results in the short term and then report back to me in six months or a year as to how much of that money stuck, and then we'll do the postmortem.

And so that's basically our philosophy. We're constantly trying little pieces, and if it works, then we'll look to see whether we can roll them out more broadly, as opposed to the big strokes of, it's a great idea, let's implement that and let's go and then a year later, you don't like the unintended consequences, so it's a little bit of that.

Darko Mihelic - CIBC World Markets - Analyst

And what can you tell us about the margins right now in the business, and should we expect to see net interest margins continue to get depressed here going forward? I mean, clearly, some of the events of last week could cause some disruption on the wholesale side. But you --

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

Sure. (inaudible) talking about this yesterday, if I had done the 2009 plan the week before last, it would have said one thing, and of course if I redo it again it'll say another. And it's difficult to actually anticipate the consequences of last week's actions, but prime BA spread in particular has dropped from -- stabilized for a while at 160 or 161 or whatever it was and now it's dropped to 147. So that has an impact. But, generally, though, TD's philosophy has long been that we have essentially we have a fully matched -- we don't gap. And it's a very important philosophy, not just for the bank as a whole, but notably for my product teams.

And the philosophy is -- the reason why it might be of interest to this group is just look at my job. My job actually isn't to take interest rate risk at all. I have a very simple mandate for myself and all of my team, just get more Canadians that want to do their banking with you and our treasury and balance sheet management group, which is world class, will do a great job of basically managing the asset liability mix. And so my team is completely focused on not taking interest rate risks or bets at all. They're just trying to figure out how to do better banking for more Canadians.

With that philosophy, though, comes implications, and the implications of that is that we have -- if you take that philosophy and combine it with our idea of being able to look six quarters out in our forecast, I value and my team values smoothing our interest rate risk.

And so we'll talk to our treasury group and say let's make sure that we have -- we're not going to be subject to systemic shock. And so we do as much as we can to make sure, because we need the long lens of six quarters in advance, so that we can moderate our revenue and expense growth to keep with our financial data, and all this works together. And so what that says is when I look at the market disruption effect like last week, we tend to be less affected than the industry.

And you've seen that, if you look back at the margin change in TD versus all of the competitors over the last number of years. Our margin is much more stable. However, what has been happening, it is a systemic or structural change that had [drifted] lower over time, and we see the same thing continuing? We hope, and so far history to date has shown that we'll have less of a lessening than the other guys.

Darko Mihelic - CIBC World Markets - Analyst

Maybe we can turn our attention now to credit quality, given that we're expecting a little bit of weakness in the economy. I'd like to frame this question a little bit differently for you, just to understand sort of where TD looks at these -- or how TD looks at these things.

If we took a snapshot of your typical customer today and compared it to five years ago, are they overlevered, are they more levered? Clearly, when you look at statistics, we look at record low delinquencies in mortgages. It looks like credit cards, we haven't seen a bump up in loss ratios there forever. Can you give us an idea of whether or not you're concerned about the consumer in Canada, and what do you see happening, unfolding?

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

Yes, a big distinction between overlevered and more levered. They're certainly more levered. The average consumer in Canada has a higher degree of leverage than they did five years ago, absolutely. That's been a long-term trend globally, not just in Canada. The question is overlevered, and nobody would know the answer to that question until you start laying on some of the other issues. So the number one driver of increased PCLs in our models and going back historically is unemployment rate. I mean, it's pretty simple.

If your income stream dries up, then obviously your leverage becomes a problem for you, if you can't make your payments. And so we model and have lots of views and I have a process to try to [design] what the shock might be if the unemployment rate starts to change and we start to see an uptick over the last few months. And so that's the number one impact, but the question will be how much -- I don't know if overlevered. We might two years from now think, yes, they were overlevered, depending on the size of the impact.

Darko Mihelic - CIBC World Markets - Analyst

But has it impacted your underwriting process? Are you starting to conceptualize and think about changing some?

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

Yes, we should talk about the industry and we should talk about us in particular. We're a bit unique from the industry in that we, a number of years ago, we made a major investment in essentially our scorecard platforms. We moved from product centric to customer-centric scorecards. And by doing that we said, okay, we'll take -- so what does that mean? It means if you apply as a customer as the credit card, you might get a different answer than if you apply for an unsecured loan, believe it or not, because there were two different scoring methods.

We took all of that technology and put it together and said, no, there is actually a customer credit. So that philosophy ultimately is an advantage. It wasn't an advantage in the first series of implementations. Why? Because we stepped on the gas too early. We put the system in and then we grew our credit too fast.

Now, the good news is that the earnings of our lending businesses more than overcame the increase in PCLs, but now in hindsight, when we know if we do champion challenger, so you take a swath of customers and you say let's try 2,000 customers and that they have this profile, this FICO score, and let's grant them X credit and let's measure them over a 12-month period against the exact same customers and then we do the optimization. So we've done that now for over the last couple of years, and we know that if we knew then what we know now, we would have gotten more profit out of that particular customer segment.

So we did that to ourselves, and if you look at our PCL growth rate over the last couple of years, it was quite high. The good news is, it also fueled a large part of our revenue growth. So we've moderated that and actually got smarter about it. But generally the industry would say that, looking forward, you've started to see the spike-up in PCLs and I think you can expect the same and it will probably be commensurate, as I said earlier, with what happens with economic factors and, notably, the unemployment rate.

Darko Mihelic - CIBC World Markets - Analyst

I'm going to scan the room here real quickly to see if there's any questions from the audience. No, okay. One of the great products you've had success with over the past couple of years have been the HELOCs. Can you perhaps give us a little bit of color on the HELOC portfolio and does this recent decline in real estate prices concern you whatsoever?

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

Does it concern me? Certainly, and it does because I get paid to be paranoid. Any time there's a negative trend, I have to ask all of my folks what are the implications of that. To the HELOCs in particular, no. We have -- our strategy for many years is, we think of real estate secured lending as a combined product suite between both traditional mortgages and home equity lines of credit.

And if you look at the drivers of profitability, we think HELOCs are more so. They have thicker margins, they have more stickiness. They're actually more flexible for consumers, and so as a result we look at that and we say we like that relative mix. We're the number one real estate lender in Canada, and so as a result, if you combine those two pieces together on a personal basis, then I look at my level of portfolio insurance, and I think we have the highest level of portfolio insurance, either high ratio insured by the consumer paying the premium or portfolio insured.

We insure a very large degree of our portfolio, not with AIG. And so as a result I look at that and say our relative exposure --I'd say we've got more than $150 billion in real estate secured lending, and I think the number we have -- don't quote me on this, but I'll be close. I think we've got [$9 billion] of real estate secured lending that is either uninsured or greater than 65% loan to value, out of $150 billion.

Darko Mihelic - CIBC World Markets - Analyst

Okay.

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

It's a tiny number if you think about it, and that's cutting off at 65% loan to value. So what are we seeing? We don't expect to see the housing market in Canada have the same moderation you've seen in the US, but there's certainly going to be moderation. We started to see it. So when we test and stress our portfolio, and I think everybody in this room knows that there's pretty dramatic differences between the structure of the industry, and a mortgage is not a mortgage is not a mortgage when you look north and south of the border, we're quite happy with the profile on our real estate scheme.

Darko Mihelic - CIBC World Markets - Analyst

Which product do you think is the key for TD Canada Trust going forward? Is it still a HELOC, or is the credit card? Because when I look at sort of some of the competitors' responses to -- and they're upping the ante with loyalty reward programs. And it just seems to me that ahead of what looks like economic weakness, people have been pretty chasing down the credit card. I'm curious, what do you think will be the --

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

The key product, if you ask anybody in my system, I think the answer they would tell you is it's the checking account.

Darko Mihelic - CIBC World Markets - Analyst

No, I meant for chasing growth. If there was one product you wanted to grow, it's still a checking account.

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

It's still a checking account. It always has been and always will be. And, again, it gets to the philosophy. We don't think of deposits as our cost of funds at all. We think about it as our most profitable business by far. The guy who runs the consumer deposits, essentially the checking account business, is the guy that has the biggest P&L inside my organization. It's all about that particular business, nice, thick margins, growing that business so more Canadians come to us, and so then we can -- we can (inaudible) the cornerstone of our philosophy.

Your point about loyalty programs is interesting. Generally, we find loyalty programs are most active, obviously, in the credit card segment, right? And it's

Darko Mihelic - CIBC World Markets - Analyst

The fire has --

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

I think I'm being cut off. And if loyalty is hot in the credit card business, but the number one driver of loyalty, simply put, back to my previous discussion -- service is the number one driver of loyalty.

Darko Mihelic - CIBC World Markets - Analyst

We're seeing loyalty reward programs even come onto checking accounts. What's your response to that? Is it necessary to have a competitive response?

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

I must get proposals all the time from either vendors or from product people saying, look at this, we have to launch this particular loyalty program. And I think it absolutely makes sense in the credit card space, because that's where it's most expected and it's a price of entry.

I look at some of the programs that are coming onto the checking side, or I'll give an example. We've been gaining share in direct payment. Actually, quite dramatically. I think it gets back to our philosophy of getting more people to do their day-to-day banking. But we don't have a loyalty program attached to the use of your debit card, and yet we've been gaining share hand over fist. And you'd think that if there was loyalty programs attached to one of the competitor's debit cards, they'd be gaining share, right?

Well, not so much. So it's back to only introduce loyalty programs when you think you have to to be competitive. And I'm not sure that you have to in certain market niches, notably on the basic banking business. That's just another version of increased competitiveness in overall retail banking.

Darko Mihelic - CIBC World Markets - Analyst

I think we're running out of time. If there's any questions in the audience, speak up now or forever hold. We've got one.

Unidentified Audience Member

If you think back over the last ten years, trying to get a sense or try to quantify the way customers are dealing with the (inaudible) Internet banking. Is there any metrics to give a sense of how that's changed over the last ten years?

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

Sure. Well, generally, the industry trend and certainly with TD is ABMs have peaked. As a new channel, they are dying, if you will. Decreasing. They're certainly not dying. They're being used. First of all, the premise is, Canadian consumers never met a channel they didn't like. Every time we introduce a new channel, there is always a belief that there will be transaction replacement. In other words, they won't use the tellers because they will use the ABMs.

What we end up getting is transaction multiplication. So the number of transactions that the -- think about it. When you guys started your banking in your working lives, you probably took your paycheck and you went to the bank and you cashed your paycheck and you took out cash and you paid some bills and the cash is what you used to buy the groceries.

Well, now, if you think about the number of times you touch the banking system, either with an ABM deposit, a debit payment, a credit card payment, the checks written, the number of transactions over the last ten years has skyrocketed. So what does that mean? Massive innovation in payments, generally, and it's still ongoing. The structure of the payments system is going to radically change over the next ten years, as well, brand-new payment instruments being made.

But, generally, direct payment has been a huge growth engine for payments in Canada. ABM has started to decline and of course the new and fastest-growing, of course, is the web. But branch transactions, in our case, our branch transaction count continues to go up 2% or 3% per year, and that's still, by the way, where I think any Canadian banker would tell you over 90% of the product sales still happen.

Unidentified Audience Member

(inaudible question -- microphone inaccessible)

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

Oh, sure. Percentage rates? I'll get it wrong, but probably 20% a year, 20% or 30% per year. Two reasons. One is obviously people moving to that channel, becoming more comfortable with transacting that way, even with some of the concerns that some people have about security and identity. That's one reason.

And the number one, of course, is we're continuing to add function to that particular channel to allow customers -- we're just expanding the product set for both purchase and transactions, so that people can of their banking on that particular channel. Our philosophy is very simple, though, and it's unlike many other bankers, which is we want customers to feel comfortable doing their banking with us wherever they want, whenever they want. We never want the customer to feel like we're pushing them from one channel to another. We don't think that's good service.

You want to do your banking at 7.30 at night in a branch? Great. Come on in. If you want to do it at 7.30 in the morning in your pajamas at home? Great. Do that too. We have to win on service and convenience, every channel, all the time.

Darko Mihelic - CIBC World Markets - Analyst

Okay, and on that note, we'll end the session; and thanks very much, Tim. It's been very informative. Thank you.

Tim Hockey - TD Bank Financial Group - Group Head Canadian Banking

Thanks.