TD Bank Financial Group

Investor Relations

TD BANK FINANCIAL GROUP
Q2 2008 EARNINGS CONFERENCE CALL
WEDNESDAY, MAY 28, 2008

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PRESENTATION

Tim Thompson - TD Bank Financial Group - SVP - IR

Good afternoon and welcome to the TD Bank Financial Group's second-quarter 2008 investor presentation. My name is Tim Thompson, and I am Senior Vice President of Investor Relations with the Bank.

We will begin today's presentation with strategic remarks from Ed Clark, the Bank's President and CEO, after which Colleen Johnston, the Bank's CFO, will present our second-quarter operating performance. We will then entertain questions from those present as well as prequalified analysts and investors on the phones. Also present today to answer your questions are Bob Dorrance, Chairman and CEO of TD Securities; Bernie Dorval and Tim Hockey, Co-Chairs of TD Canada Trust; Bill Hatanaka, Chairman and CEO of TD Waterhouse; Bharat Masrani, President and CEO of TD Commerce Bank; and Mark Chauvin, Chief Risk Officer of TD Bank Financial Group.

As in the past, we are trying to keep the call to about an hour with Ed and Colleen's remarks taking up about half that time. As well, we are asking investors and analysts participating in the question-and-answer portion of the call to ask one question at a time so that everybody has an opportunity to contribute. We certainly encourage you to re-queue if you have more than one question.

We know that this presentation contains forward-looking statements and actual results could differ materially from what is discussed. These statements are presented for the purpose of assisting our shareholders and analysts in understanding our priorities and objectives and our financial position as at and for the periods ended and dates presented. Certain material factors or assumptions were applied in making these statements. For additional information, we refer you to our Q2 2008 MD&A. This document includes a description of factors that could cause actual results to differ, and can be found on our Web site at TD.com.

Ed Clark - TD Bank Financial Group - President and CEO

Thanks, Tim, and good afternoon, everyone. Colleen is going to be up shortly to provide details on how we did in the second quarter of 2008. I'd like to start off by sharing my thoughts on TD's performance and reiterate our outlook for the remainder of this year and into 2009.

I would characterize this quarter as slightly disappointing but quite acceptable in the context of what's happening in the markets. As I've previously indicated, we see 2008 as a pause year in terms of earnings per share growth, a year where we are likely to have to work hard to reach what were great 2007 earnings per share.

Now, we could get help from a springback in earnings from Wholesale and Wealth Management later this year if markets improve. In contrast, we believe we will follow-up in 2009 with a year where, at a minimum, we will get back to our medium-term EPS growth target of 7% to 10% per year. Clearly, the most significant factor at work in this quarter is the stepdown in our wholesale earnings.

Three things are happening. The liquidity issues facing the market have resulted in unprecedented spreads between cash assets and derivative markets. This has been most apparent in our credit trading business. Market stress has also reduced activity in our franchise businesses. Finally, this stress has slowed the realization of security gains in our Merchant Banking portfolio.

Fortunately, our retail businesses in both Canada and the United States, which produced in excess of 90% of our earnings this quarter, did quite well. Overall, our retail businesses earned C$894 million, up

12% year-over-year. At the halfway mark of 2008, we are at just over C$1.8 billion in retail earnings. We are on track to reach our goal for this year of earning close to C$4 billion in our retail businesses with the help of the additional Commerce earnings.

In Canada, TD Canada Trust continued to demonstrate the strength of our franchise growing earnings 8%, a very solid performance. We stayed focused on building for the future, adding more new branches with longer hours, more customer-facing employees and at the same time delivering record levels of customer satisfaction.

I'm especially pleased with the impressive growth we've seen in Business Banking, a direct result of the investments we made in this business over the past few years. As we head into a downturn, we're going to stand by our commercial banking customers and focus on growing our franchise.

We are seeing some expense growth this quarter as we continue to invest in our businesses and widen the gap over our competitors, but our expense growth will stay inside our growth in revenue. You can expect to see continued reinvestment going forward.

The one exception to solid retail earnings growth was in our Canadian Wealth Management business which, similar to Wholesale, has been impacted by weaker capital markets and, to a lesser extent, strategic pricing decisions we made last year which we believe will pay off in the future.

Despite the market challenges, we remain positive about the underlying trends we are seeing in wealth, and we continue to make investments in this business – investing in our network of client facing-advisors, technology and products, I'm sure we continue to have growth in the future.

As we announced earlier, TD Banknorth contributed C$130 million to our second quarter, another good performance in light of the continued deterioration in the overall U.S. banking environment. We are feeling very positive about our U.S. Personal and Commercial segment's ability to grow and delivering value for our shareholders. That's reflected in the fact that we increased our earnings target expectation from C$700 million to at least C$750 million for 2008 and have reiterated our expectation for a minimum of C$1.2 billion in earnings in 2009.

The close of the Commerce deal is a major milestone for TD. As I said on our April 21 investor call, we are incredibly excited by the progress we're making on integration and we look forward to sharing our plans with you in more detail at our Investor Day on June 19 in New Jersey.

As for TD Ameritrade, they generated solid volumes while building on their long-term asset-gathering strategy.

I'd like to take this opportunity to comment on Joe Moglia. Given the recent news Joe has moved to Chairman of the Board at TD Ameritrade. Few CEOs have been able to do what Joe has done. He took a company that had a market capitalization of C$700 million in 2001 and grew it to over C$10 billion today. Earnings per share have grown from C$0.32 in 2003 to a forecast of C$1.32 in 2008, a phenomenal five-year compound annual growth rate of 35%. Joe led TD Ameritrade to be one of the largest brokerage firms in the United States and the leader in trades per day. He guided the firm through the transformational TD Waterhouse USA acquisition and has led the charge in its new era as an asset gatherer. We are absolutely delighted that Joe is staying on. He is going to be an incredibly strong leader of the Board who is going to be there to offer wisdom and strategic guidance as TD Ameritrade continues to grow.

So what is the outlook? Well, let me start with an overview of how I see the financial markets evolving, given what's happened.

I need a drink of water before I get into this.

As banks have become more transparent in their holdings, taken their write-downs and raised new equity, the issue in the capital markets surrounding banks has moved from a concern over bank solvency to a supply/demand imbalance in bank fundings. The dramatic reduction in securitizations, combined with the re-intermediation of many assets, is causing banks around the world to borrow externally at unprecedented levels. Not surprisingly, the cost of such borrowing has risen significantly. The shift in the nature of bank funding will not happen instantly, but we should expect strains in the capital markets for some time and continued upward pressure on lending spreads as banks try to pass on the higher funding costs that they are currently absorbing.

At the same time, the worry is shifting to the impact on banks of a slowing world economy and the extent to which bank funding issues will exacerbate the downturn because of a reluctance of banks to lend. Concern in the United States has spread from housing losses to credit cards and auto receivables. We're likely dealing with an old-fashioned credit downturn with some risk that the U.S. will suffer a double-dip downturn as the fiscal stimulus effect wears off while the economy absorbs upward pressure on prices.

While the industry may have already felt much of the impact in their mark-to-market books, it is probably too optimistic to assume that there will be no more write-downs, although it is hoped any remaining write-downs will be smaller in size.

It is difficult for investors and analysts to predict wholesale earnings in normal times. But it is especially difficult in this environment. The real issue in the industry going forward is the level of sustainable earnings in the wholesale businesses. This may be hard to discern for some time. Clearly, some business models have been broken. Regulatory pressures will reduce leverage, and heightened concern over liquidity will make many financing structures uneconomic. Short-term earnings will likely be even more opaque because some of the write-downs which the industry has taken will bleed back into income.

For TD Bank, the impact, both small, positive and negative, will be more muted. Obviously, the market's negative impacts have been less severe. While the size of our Wholesale business is smaller, we've already made the shift to a franchise focus and our reliance on non-deposit funding is dramatically smaller.

Going forward, as a medium-term run rate, after all the noise has quieted down, we see TD Securities as a 15% to 20% ROIC business with sound growth potential. Interestingly, since the issues in the market began last August, TD Securities has earned a 17% rate of return on invested capital while absorbing the full impact of the turmoil. This, in my view, is a truly remarkable performance.

We feel very good about continuing to run a wholesale business model that has taken out the tail risk and is focused on supporting our franchise clients. We have the capital and funding to support our client base, and we will continue to do so using in fact this opportunity to extend our franchise businesses.

As for our other businesses, we believe that the effect of the economic slowdown in the United States on Canada will reduce TD Canada Trust's growth rate, as we've seen this quarter. But our franchise strength and our strategy to continue to invest in the future will make us a positive outlier.

In the United States, as you are aware, we plan for significant step-up in loan losses, but we are very comfortable with our earnings projection, even in a worsening economic environment.

We are still not seeing any deterioration in our credit numbers. We can't see it in the data we have for Canada, and I can't see it in the data we have for the United States.

Let me add a personal note. You will have seen a press release earlier today that I announced that I'm beginning a program to exercise options later this year. I have frankly struggled to find the most shareholder-friendly way to do this. Up to now, the easiest way was not to exercise options at all, but I am at the point where I have a series of options which are set to expire, so I do need to act. It seems the best way to move forward is to give the market lots of notice, remove any market timing element, and ensure that I have a continuous, strong incentive to grow our share price over the long term. For this reason, I have announced that I will begin exercising 10,000 options per week starting September 30 of this year as a way of exercising the 650,000 options coming due during 2010. I've prescribed that, until at least till the end of 2009, 40% of the pre-tax gains will be given to charity and 15% will be used to acquire TD stock.

I can't resist putting in an advertising plug for Private Giving Foundation. This is a donor-advised endowment created by TD Waterhouse. This entity gives individuals a simple way to separate the timing decision of when they want to exercise options and the giving decision. It's going to work great for me and I would recommend it to anybody who wants to set up a long-term giving program.

On that note, I will turn things over to Colleen.

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

Thanks, Ed. Let me take you through the second quarter. Please turn to Slide 4.

Let's start with the quarterly highlights. Total Bank adjusted net income was C$973 million, down 2% from last year. This translated to adjusted diluted earnings per share of C$1.32, down 3% from Q2 of 2007.

Total retail earnings were C$894 million, up 12% from last year, representing 91% of total earnings. Our Canadian retail businesses were up 3% versus last year to C$697 million for the quarter.

Net income from our U.S. retail businesses, TD Banknorth and TD Ameritrade, was C$197 million, up 58% from last year. Please note that while we closed the purchase of Commerce Bank on March 31, those earnings will not be included in U.S. P&C results until our third quarter.

Our Wholesale net income of C$93 million was down 57% versus a very strong Q2 of 2007.

The Corporate segment posted a loss of C$14 million on an adjusted basis compared with the loss of C$21 million last year. Our Q2 Tier 1 capital ratio was 9.1%.

On Page 5, we see reported net income was C$852 million or C$1.12 per share, and adjusted net income was C$973 million or C$1.32 per share. The difference between reported and adjusted results is due to items of note.

Let me touch on two new items of note this quarter, first the restructuring and integration charges related to the Commerce transaction. These charges taken with respect to the Commerce acquisition totaled C$30 million or C$0.04 per share. Total charges will be C$420 million pre-tax, largely incurred by the end of 2009.

Second, the timing impact relating to the Commerce transaction -- you've seen this before. The Commerce deal closed March 31, 2008 and we issued 83 million shares to close the deal. Because of the one-month reporting lag, we have not included any Commerce earnings this quarter. The timing impact cost us C$0.04 a share.

Let's take a look our businesses starting with Canadian retail on Page 7. We include a basic P&L for our Canadian retail business, which combines both Canadian P&C and Canadian Wealth results. Combined net income growth was 3% year-over-year. This result reflected solid Canadian P&C results and weaker Wealth Management results, which I'll get into shortly.

Turning to Page 8, we show results for the Canadian Personal and Commercial Bank, TD Canada Trust. Net income of C$582 million was up 8% from Q2 of '07 but down 3% from last quarter.

On Page 9, we show revenues for TDCT of C$2.1 billion, up 7% from last year. The increase was due to good volume growth across most banking products and higher fee income. Good volume growth drove the C$104 million or 8% year-over-year growth in net interest income. Real estate secured lending volume was up 11%, while Visa cardholder was up 16%. Personal deposits were up 6%.

On the business side, small-business deposits were up 7%. Commercial deposits were up 11%. Total business loans were up 14%. Other Income was up C$44 million or 6% year-over-year, driven primarily by growth in personal deposits, credit cards and insurance.

For the balance of 2008, we expect to see revenue growth rates around the current level, although volumes are susceptible to an economic downturn. Over time, revenue growth will continue to benefit from increasing our leading position in branch hours, new branch openings, as well as improved productivity.

On Page 10, we show our net interest margin for the quarter at 2.96%, down 9 basis points from last year and 2 basis points from last quarter. The decrease from Q1 was largely attributable to continued price competition which offset the impact of improved prime BA spread.

Compared with Q2 of last year, margins compressed due to continued higher funding costs and ongoing deposit competition. Going forward, margins will continue to be vulnerable to deposit competition and also a move to shorter-term, lower-margin products. We continue to expect a modest decline for the balance of the year.

Turning to Page 11, provision for credit losses increased C$48 million from last year to C$191 million and was also up C$19 million from last quarter. Personal banking provisions increased C$36 million year-over-year, primarily due to higher personal lending and credit card volume.

We are seeing signs that some of the earlier actions taken to address credit issues have stabilized losses. Continued upward pressure is expected but in line with underlying volume growth, while any worsening in economic conditions may also contribute to an increase.

Business banking provision for credit losses increased C$12 million from Q2 of '07. Our business banking provisions remain at historically low levels and are likely to increase in future quarters depending on market conditions. We expect to see an increase in the currently low business banking formations during the second half of 2008.

Please turn to Page 12. Expenses of just under C$1.1 billion were up 6% over last year but flat quarter-over-quarter. At 51.3% our efficiency ratio improved by 70 basis points compared to last year. The year-over-year increase in expenses was due largely to investments in future growth, new branches and higher staffing costs for longer hours. We said last quarter that the 300 basis point gap between revenue and expense growth would be difficult to maintain in this environment. That was true for this quarter and is expected to be true for the balance of the year.

Expenses will continue to be closely managed to ensure spending supports long term earnings growth. The year-over-year expense impact of longer hours investment will decrease in the last quarter of the year.

On Page 13, we've listed our most recent retail market share data. In the past quarter, we gained share in all four categories, and you can see we continue to maintain a leadership position, holding the number one or number two ranking across most product categories.

On a year-over-year basis, personal market share declined. We saw quarter-over-quarter volume and market share growth in personal deposits as customers were moving to more liquid, shorter term products in an uncertain market. In business banking, we saw an impressive gain in share.

Because of our large and stable retail deposit base, we do not face the same funding challenges as our peers. However, we have increased customer rates to defend market share where it makes sense. We will continue to generate profitable deposit growth by delivering our convenience and service model.

Let's turn to Canadian Wealth Management on Page 14, which excludes TD Ameritrade. The business generated net income of C$115 million, down 14% from last year.

Page 15 -- total revenue of C$558 million was down 6% from last year. Transaction revenue was down primarily due to lower commissions in discount brokerage as a result of pricing changes introduced last year. Volumes in this business were up significantly. Fee-related revenue was down year-over-year as declining markets offset gains in Assets Under Management.

Revenue from the advice channels was down primarily due to lower new issue activity in full-service brokerage, while revenues were up slightly in the Private Client Group and Financial Planning due to higher asset growth.

Discount brokerage revenue was down year-over-year. The impact of new clients, higher margin loans and higher trading volumes was more than offset by lower commissions per trade.

Earnings were down 5% so far this year compared to the first half of 2007, which compares with the 17% earnings growth we saw in the first half of last year, reflecting the challenging market conditions so far in 2008.

All in, we are pleased with the underlying factors which support these results. We've experienced a large increase in new clients and new assets. The longer-term outlook for Canadian Wealth Management earnings remains positive, though challenges presented by market volatility may continue to impact results in the short term.

On Page 16, we've included a few performance measures related to our Canadian Wealth Management business. As you can see, we've seen growth in both assets and advisors. Our assets under management of C$174 billion was up mainly on the addition of new client assets and an increase in mutual fund assets managed for TD Ameritrade clients. Assets under administration totaled C$187 billion at the end of the quarter. Excluding the impact of market declines, we are pleased with our asset-gathering results.

With respect to mutual funds AUM, market volatility has continued to drive an industry-wide shift from long-term funds to money market funds as retail investors seek lower-risk alternatives. Long-term mutual fund AUM is down C$900 million in 2008 due to lower growth in the shift in mix, while money market funds have grown C$2.3 billion. In total, mutual fund AUM's are up 5% year-over-year to C$57 billion.

For the fourth consecutive year, we are committing to adding 130 net new client facing advisors with 43 added year-to-date. We continue to see growth in client-facing advisors as our value proposition resonates with both industry veterans and those professionals new to wealth management.

On Page 18, we show our U.S. Retail business, which consists of TD Banknorth and TD Ameritrade. Combined net income was up 58% from last year.

On Page 19, we show the contribution made by the U.S. P&C segment to TD Bank Financial Group in both Canadian dollars and U.S. dollars. We discussed estimates of these earnings during our April 21 Commerce acquisition update.

TD's second-quarter U.S. Personal and Commercial banking segment net income was C$130 million, up C$3 million from last quarter's result and up C$68 million from Q2 of 2007. Versus the prior year, excluding the impact of higher ownership and the impact of the Canadian dollar, the improved bottom line was largely driven by higher operating earnings.

I'm not going to go into details on Slides 20 through 22, as we addressed them on the acquisition call. As Ed mentioned, we will be holding an investor day on June 19 in New Jersey highlighting TD Commerce Bank.

Please turn to Page 23. Turning to U.S. Wealth Management, TD Ameritrade reported second-quarter earnings of US$187 million, up 33% versus last year or an EPS of US$0.31 per diluted share, net revenue of US$623 million, and average trades of 312,000 -- very strong results.

Year-over-year revenue increased by 19% to US$623 million. Mission revenues increased 25% due primarily to higher trading volumes, and asset-based revenue rose 15% as client assets increased through organic growth. Asset-based revenues now represent 60% of total revenue. Average trades per day were up 23% year-over-year, up 312,000 versus 254,000. April trades have decreased 3% from March to 297,000 trades per day. Total client assets rose 9% from April 2007 to US$320 billion, with spread-based assets increasing 3% to US$31 billion.

TD's investment in Ameritrade generated net income of C$67 million, a 6% increase from C$63 million in the second quarter of last year. The increase was attributable to higher TD Ameritrade earnings, partially offset by higher TD funding cost allocation to the segment and the stronger Canadian dollar. Quarter-over-quarter earnings decreased C$21 million due to weaker TD Ameritrade earnings.

Let's now turn our focus to our Wholesale business. On Slide 25, we see wholesale generated net income of C$93 million, down 57% from a very strong second quarter in 2007.

Let's look at details on Page 26. Wholesale revenue of C$428 million was down C$214 million or 33% from last year. Trading revenue was down from a very strong second quarter in 2007. Strength in FX trading, which benefited from market volatility and strong client flows, was more than offset by continued weakness in credit trading as well as lower interest rate trading revenue. Also, revenues in our equity businesses were down versus last year.

Our non-trading domestic franchise revenue was down slightly from last year as lower M&A and new equity issuance fees were partially offset by higher net interest income and debt underwriting fees.

The mark-to-market on our loan underwriting commitments is included in the interest and credit trading line. The impact of the mark in Q2 was in line with Q1.

The main driver for trading losses this quarter was lower revenue from our interest rate derivatives business and continuing but lower losses in our credit trading book. The credit trading losses relate primarily to the divergence in normal pricing relationships in the cash and bond and credit default swap markets. The mark-to-market reflects underlying liquidity pressures on assets rather than underlying credit quality.

Let me give you an example. Let's assume we held TD sub debt and bought credit protection through credit default swaps. Economically, this results in minimal exposure to TD credit risk. However, because credit spreads have widened more on the debt than on the CDS, and in this example the difference in spread has increased from approximately 20 basis points to 100 basis points, it results in mark-to-market trading losses. Our credit and loan trading businesses have suffered from these types of liquidity-related stresses.

Security gains in Wholesale were C$83 million this quarter. Unrealized gains this quarter declined in both our public equity and merchant banking portfolios.

Expenses of C$291 million were down on lower variable compensation.

On an adjusted basis, our Corporate segment posted a net loss of C$14 million this quarter compared to a loss of C$21 million last year and C$44 million last quarter. This result is slightly better than our target of -C$20 million to -C$40 million per quarter. The quarter-over-quarter variance was primarily due to an unfavorable tax item last quarter.

Please turn to Page 29 for some additional comments on our quarterly reporting. We reported balance sheet growth arising from the Commerce acquisition. In total, we've added C$57 billion of assets to our balance sheet as a result of the acquisition. The final page of the supplemental has a schedule showing the Commerce impact on our consolidated balance sheet. Our Tier 1 ratio post-Commerce came in at 9.1%, above the range we provided on our April 21 call. We expect our Tier 1 ratio at November 1, 2008 to be 8% subsequent to the upcoming change in TD Ameritrade's Tier 2 capital deductibility. We remain comfortable with this target and have flexibility to strengthen the ratio. We have capacity to raise noncommon capital through innovative Tier 1 and preferred shares of almost C$1 billion each, and today we reintroduced the 1% discount on our dividend reinvestment plan.

Let me comment on our enhanced disclosures this quarter. The significant write-downs faced by many banks around the world have led many to question how they could have been prevented. I have no doubt that enhanced transparency on the risks banks take will play a critical role in promoting efficient capital markets going forward. The Best Practices recently set out by the Financial Stability Forum represent an important step forward.

From a TD perspective, we support the risk disclosure recommendations proposed in the FSF report. In all substantive respects, we've now complied with these Best Practices.

In conclusion, our earnings per share declined by 3% year-over-year. Our retail businesses had a very solid quarter, and our wholesale earnings reflect market conditions. Our businesses have good momentum and we are focused on continued execution of their strategies as we progress through 2008. We are continuing to reinvest in our businesses to ensure that we grow in the future.

With that, I will turn it back to Tim for your questions.

Tim Thompson - TD Bank Financial Group - SVP - IR

Thanks, Colleen. As I mentioned at the beginning of the call, we are asking those participating in the question-and-answer portion to ask one question at a time. Before ending the call, I will ask Ed to offer some final remarks. So let's get started with people here in the room first. Michael?

QUESTION AND ANSWER

Michael Goldberg - Desjardins Securities

You've been marking your segment (technical difficulty). Could you give us some idea what the impact on earnings would be if that deal fell through?

Ed Clark – TD Bank Financial Group - President and CEO

No. I don't believe that we're willing to disclose on particular assets like that. I appreciate your interest but (inaudible).

Ian de Verteuil - BMO Nesbitt Burns

A question for Tim -- in the last two weeks, the mortgage pricing business has I think gotten quite interesting. We've seen (inaudible) price cuts (inaudible) five year and relatively deep cuts shorter than that.

From your perspective, it doesn't seem as if this really has been driven entirely by lower funding cost. Is there anything else going on that you would see that would cause (inaudible) the industry moving as aggressively as it has?

Tim Hockey - TD Bank Financial Group - Co-Chair, TD Canada Trust

I would say it's a good example of the constant competition in the market, especially in what has been a bit of a delayed spring around real estate lending. So that's certainly the case. It's also illustrating some of the different philosophies and maybe methodologies by which TD pricing is done at the various different (inaudible). So we were scratching our heads a little bit on some of them. But it's mostly just competition right now in the marketplace.

Ian de Verteuil - BMO Nesbitt Burns

Is there any attempt at shifting term or … there any attempt at shifting term on the loan book that's going on? Because it was 34 bps I think at the five-year and then it seemed to be 75, 80 bps everywhere else.

Tim Hockey - TD Bank Financial Group - Co-Chair, TD Canada Trust

Yes, I think that is exactly right. There was an attempt by the marketplace to shift away from what is a very popular product, being the VIRM type product, variable interest rate mortgage. But it's very difficult to get customers to select away from their own preference on term, so it will have varying affects. But that's what I would say the forces are at play.

Ian de Verteuil - BMO Nesbitt Burns

Is that why you think the spread compression remains during the year? Is that why you think the spread compression remains, you know, in the back of -- I think Colleen said she thought spreads had remained tough right through the year. Do you see spreads going down as a result of it?

Tim Hockey - TD Bank Financial Group - Co-Chair, TD Canada Trust

We certainly see the margin on average earning assets drifting down over the remainder of the year. It's generally competition, certainly on the deposit side. This one took us -- we weren't the first mover on this side, but the market moved a little bit faster and of course we want to be competitive on our credit products. But yes, there will continue to be heated competition.

Tim Thompson - TD Bank Financial Group - SVP - IR

Other questions in the room?

Ed Clark – TD Bank Financial Group - President and CEO

Let me come by back to Michael for one second. I sounded uncharacteristically rude; I wasn't meaning to be rude. But you can appreciate that this is a highly complex situation and how we are positioned is a thing that could be to the detriment of the shareholders if it was publicly known. So, it's not in the interest of the shareholders to disclose that kind of thing.

Tim Thompson - TD Bank Financial Group - SVP - IR

All right, let's go over to the phone lines. First caller, please?

Operator

Robert Sedran, National Bank Financial.

Robert Sedran - National Bank Financial

Hello. Good afternoon. Bob, when I look at trading revenues for the different banks, it would seem that there is a combination of retrenchment or risk reduction and then just general market weakness. Can you talk about these two factors at TD? In other words, how much is market disruption related and how much is the change in the business model? I guess, on a related note, how comfortable are you that, when the market does normalize, there hasn't been permanent or at least long-term damage to your trading strategies on the interest rate and credit side?

Bob Dorrance - TD Bank Financial Group - Chairman, CEO & President, TD Securities

The impact that we've had on our trading business has been largely related to the markets themselves and the impact of the liquidity squeeze. I think it's fair to say that, in markets where you are experiencing reduced liquidity, where possible, it's more prudent to carry lower inventories than it is higher inventories. So, to the extent that various trading [does] do that, that's in their empowerment to do so. But we have not reduced our overall risk limits as we've gone through this cycle. But it's I think different (inaudible) and different institutions with reduced liquidity will respond accordingly to that. But structurally, we haven't done anything, Robert.

I think, in terms of were there to be a V type rebound in the marketplace, generally speaking, depending on what market it is, you usually don't have as much inventory at the bottom as you do towards the top. So we may have given up some real money on the way through on average, and that's not -- that is not a statement on where we are currently in the market in terms of inventories, just more philosophically that there's probably some truth to what you're suggesting, that when markets improve, they generally improve into having lesser inventory. The other part of that is that I think, as Ed alluded to in his comments, there are some parts of the market, even with improvement, that structurally probably won't come back for quite a while. So to the extent that people have been invested in those markets, they don't think those are coming back and that revenue is probably forgone for a period of time.

Operator

Jim Bantis, Credit Suisse.

Jim Bantis - Credit Suisse

Good afternoon. A couple of quick questions -- Ed, your comments with respect to credit quality and particularly focusing on the U.S. -- it sounds like your gut is telling you that things are going to worsen but you were referring to the data that you don't see in the numbers. I'm wondering if you can just elaborate on that. Is it the macroeconomic data that you're looking at in the U.S. that seems mixed, or is it the underlying credit that you see at Banknorth and Commerce Bank?

Ed Clark – TD Bank Financial Group - President and CEO

It's Ed here. I will start off, but I think I will hand it over to Bharat, who is a better risk officer than I would have ever been and also is running the U.S. side. But I think you characterized it exactly right. I mean, when you look at what's going on, you have to have a relatively pessimistic view that we are hardly through this and that the U.S. is still facing a pretty tough economic time and it's hard to see how particularly Ontario outruns the hard economic time. So you mentally say I don't see how we as a bank could escape through unaffected by that.

I think the positives are that, as I say and then I will let Bharat go, we don't actually see it in the data, so you can't actually put your hands on it. Secondly, I think we have run some pretty top risk policies at this point that seem to be working, and we have enormous earnings momentum in our (inaudible) particularly in TD Commerce. So those are offsetting factors and that's why I think I'm saying we're comfortable in saying that we can make the kind of earnings numbers we're talking to in 2009, even if credit conditions are worse.

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Commerce Bank

So what I would add is, yes, you see lots of announcements out there and that's the general feeling in the U.S., that things are slowing down, and some institutions are announcing some sizable credit issues. For us, I mean, you've seen our numbers.

I think there are certain factors that differentiate us, and that's why the data Ed sees is slightly more positive. Firstly, we are in the northeast of the U.S.; that is less impacted than perhaps the rest of the country. Secondly, both of the banks, TD Banknorth and Commerce Bank, have traditionally been conservative lenders and the risk management in those institutions is similar, i.e. in line with what TD would do. So that has helped us through this period. The third point I would make is that, almost exclusively, these banks originated its own assets. These are not brokered loans or we've not purchased portfolios.

Those are the positives, but as you rightly point out, you cannot outrun a U.S. recession. If that happens, yes, our losses will go up. But I think I feel confident that we will certainly be a positive outlier.

With respect to the earnings, at the April 21 call, we did reiterate, in fact increased our earnings estimate for '08 to C$750 million and to at least earn C$1.2 billion in 2009. If you recall, in those numbers, I did emphasize that we expect our PCLs per quarter to increase substantially. So for each quarter, my estimate is that we will have PCLs in the C$75 million range. That is much higher than what we've experienced, and that's in anticipation of some of the issues that you're talking about. This is per quarter through the rest of '08 and throughout '09. So that's the caution that we see within our U.S. segment. But I feel comfortable with the numbers we've put out.

Jim Bantis - Credit Suisse

Bharat, I appreciate that. When you look at the watchlist that you have for the U.S. and perhaps even for Canada, have the number of accounts increased dramatically, or is the size of the accounts increased? Any color there?

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Commerce Bank

I will comment on the U.S. side, and I would say -- I mean obviously when you have -- when you're in the lending business, and we do have a sizable book, there are certain sectors that are weaker. We've specifically talked about for-sale real estate. So is there a steady flow into what I would call watchlist? Yes. But conversely, there's a steady flow out in the normal course. Accounts are getting worked out in the normal course. So, I would say, from an impaired portfolio perspective, I see some stable numbers for now, and there's nothing noteworthy that I can point to that would help you with what you're looking for. I leave Mark or --.

Ed Clark – TD Bank Financial Group - President and CEO

Yes, so I think it might be useful if Mark kind of explained the dilemma away.

Mark Chauvin - TD Bank Financial Group – EVP, Risk Management and Chief Risk Officer

On the convenient side or --?

Ed Clark – TD Bank Financial Group - President and CEO

On both! (LAUGHTER)

Mark Chauvin - TD Bank Financial Group – EVP, Risk Management and Chief Risk Officer

Okay, well, on the U.S. side, as Bharat said, I think that there's -- we look at the commercial real estate portfolio, and we -- although it's not showing any signs of deterioration at the moment, we would expect, in a weaker economic condition, that there would be things like increased vacancy and rental rates go down, that whatever impact on us. But we think that we are pretty well-positioned, although we think, in a downturn, there would be a hit on us to some extent.

I think it would be well within the levels that Bharat mentioned in terms of the C$75 million per quarter, and there's a few reasons we think we're well-positioned. It's the geographic area. A majority of our commercial real estate portfolio is actually reducing term loans as opposed to construction loans. So if you take out the residential for sale, which is an item that we have been dealing with for the last year and we've identified has been a problem and we feel is stabilizing, the other area that's very low content of the construction side, so we think that would be kind of the lower risk.

The other areas that we would be concerned about I guess, as the economy weakens, would be the home equity line of credit, which is a fairly large portfolio in the U.S. But again, it's a totally -- it originates a hold strategy, so there's no broker loans in there. About a third of it is first mortgages. Looking at the credit scores, they remain strong throughout the portfolio. We have a relatively low content that is above a high LTV. So again, we think the delinquency numbers have gone up a little bit but they're quite low relative to the other numbers you see, and we think we're well-positioned there to weather a downturn should -- I think it will occur but I think we should be a positive outlier in that area.

If I turn my attention to Canada, you asked about the watchlist. If you define that as loans that are especially mentioned or criticized, classified or impaired, there's kind of three categories in there. In all categories in both the wholesale and the commercial portfolio, we continue to run at historically low levels or very strong levels, so asset quality is strong, but as the economy weakens, we would expect those to increase but clearly within levels that would be manageable or reasonable given the economic cycle, in our view.

Operator

Brad Smith, Blackmont Capital.

Brad Smith - Blackmont Capital

Just a quick follow-up, Colleen -- you mentioned the mark-to-market being I think -- I just wanted to confirm -- embedded or netted into the interest rate and credit line and trading income and that it was consistent with the prior quarter. I'm sorry if I missed this. Have you disclosed the number somewhere?

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

No, Brad, we haven't, but what we certainly didn't want people to assume is that the change quarter-over-quarter, the decline was due to the mark-to-market on loan commitments. In fact, that was a very minor impact in the quarter.

Brad Smith - Blackmont Capital

Is that to imply that it was a minor impact last quarter as well? If it's consistent with last quarter?

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

Relatively, yes.

Brad Smith - Blackmont Capital

What about the cumulative MTM? Can you talk to that or --?

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

No, we are not going to -- we've decided we are not disclosing that particular item, as we communicated to Michael earlier. That's fairly sensitive information. Given that this is a live deal and it's a single client, we don't feel it would be appropriate to disclose that amount.

Brad Smith - Blackmont Capital

Oh, I'm sorry. I wasn't talking about a specific transaction. I was talking about in aggregate. Is that the only mark-to-market adjustment that the Bank is making?

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

Largely, yes, almost entirely that item, yes.

Brad Smith - Blackmont Capital

I see. Okay, thank you.

Operator

Mario Mendonca, Genuity Capital.

Mario Mendonca - Genuity Capital Markets

Good afternoon. Can we take a look at exhibits? Or not exhibit, rather Page 18 of the supplement -- U.S. personal and commercial banking, Banknorth, C$102 million in new formations, and then Commerce, C$97 million. I don't think the C$97 million -- or I don't think that represents new formations in that one month for Commerce, but maybe you could just help me understand C$97 million in formations for Commerce.

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

Mario, that is strictly the inclusion for the first time inclusion of the Commerce balance sheet, so that is the initial inclusion of C$97 million in the net impaireds -- or gross impaired for Commerce Bank.

Mario Mendonca - Genuity Capital Markets

Just the inclusion? And perhaps just to clarify it then, when the Bank is consolidated, why would there be gross impaired loans? My sense was that you would have written them down substantially, that there wouldn't be much at all in gross impaired loans.

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

No, that basically is the fair market value of those impaired loans, and that's net of the allowance. We don't carry the allowances going forward; that's what changes in the accounting. But we do carry the net amount.

Mario Mendonca - Genuity Capital Markets

The C$97 million is net of the allowance then?

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

Correct, that's a fair value.

Mario Mendonca - Genuity Capital Markets

Can you tell us what the gross amount is?

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

They are actually relatively similar; there wasn't a large allowance.

Mario Mendonca - Genuity Capital Markets

One final thing that is sort of related -- CBH, can you give us any updates on what's been happening to deposit growth at CBH?

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Commerce Bank

Mario, it's the same as what we disclosed at the April 21 call. I think there was a slide there where the year-over-year deposit and loan growth numbers were. I don't have it in front of me here, but there's no change to what we disclosed on April 21.

Mario Mendonca - Genuity Capital Markets

Thanks.

Operator

Andre Hardy, RBC Capital Markets.

Andre Hardy - RBC Capital Markets

Probably for Tim Hockey. In Q1 we have revenue growth of 7% and expense growth of 6% in the pure bank. There were comments made that operating leverage is not going to be what it's been this year. Looking at the next year, do you expect the expense growth to lead to higher revenue growth, and that's how we go back to the normal operating leverage, or do you expect the expense growth to slow, or both?

Tim Hockey - TD Bank Financial Group - Co-Chair, TD Canada Trust

I would say both. What we are seeing this year is --

Ed Clark – TD Bank Financial Group - President and CEO

I'm going to be very interested in this answer to the question here! (LAUGHTER)

Tim Hockey - TD Bank Financial Group - Co-Chair, TD Canada Trust

Yes, I would say both because I think the investments we have made very carefully are geared towards future revenue growth.

We have said and we telegraphed previously that we're going to see a little bit of a squeezing in the operating leverage both this quarter and for the full year because of that fact, but the step-up in year-over-year expenses actually starts to diminish quite frankly in Q4. So as a result of that, we collectively -- Bernie and I said it's the right thing, as both Ed and Colleen said, to continue to invest in what customers care about and it will lead to future revenue growth. So I guess the answer is both.

Andre Hardy - RBC Capital Markets

This is all based on prior models of how quickly your revenue comes after opening branches or extending hours?

Tim Hockey - TD Bank Financial Group - Co-Chair, TD Canada Trust

Yes. I would say the wild card of course is the margin question, but having said that, the models are pretty good at predicting what happens to volume and other revenue-generating initiatives.

Andre Hardy - RBC Capital Markets

Thanks. Tim Thompson, can I squeeze in another one?

Tim Thompson - TD Bank Financial Group - SVP - IR

Sure, go ahead, Andre.

Andre Hardy - RBC Capital Markets

For Bob probably -- value at risk went from C$24 billion on average in Q1 to C$42 billion in Q2. It looks like, even if you exclude Commerce Bancorp securities, trading securities were up. So can you talk about what seems to be a higher risk appetite for the Bank? Or maybe I'm reading too much into this and it's just volatility in higher and that is driving a higher VAR.

Bob Dorrance - TD Bank Financial Group - Chairman, CEO & President, TD Securities

It's mostly the latter, Andre. It's a combination of higher credit spreads in general, so it's credit spread widening plus credit spread volatility in our VAR model that has driven VAR higher.

Andre Hardy - RBC Capital Markets

So you are trading.

Bob Dorrance - TD Bank Financial Group - Chairman, CEO & President, TD Securities

As volatility and/or spreads would reduce, you would see VAR reduce as well. So in general or on average, it's not an indication that we've been more aggressive in taking on more positions or in taking on more trading liability.

Andre Hardy - RBC Capital Markets

That clarifies things. Thank you.

Operator

Sumit Malhotra, Merrill Lynch.

Sumit Malhotra – Merrill Lynch

Good afternoon. I will start this one with Colleen. Colleen, if I take the no earnings growth in 2008 very literally and take a look at the C$5.75 the Bank produced in 2007, it looks like you've got to do just under C$1.50 per quarter in the back half of the year. You've been very helpful to us in giving us a helping hand with CBH and Corporate. I think we have pretty good visibility on Canadian retail and Ameritrade. So am I right in thinking that wholesale has to do somewhere around C$180 million a quarter to make this work? Because that one doesn't sound too different than what you were doing late last year.

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

I will start out, Sumit, and hand it over to Bob, but I would say that number, based on our calculations, is definitely on the high side. We don't expect to see a run rate at that level going forward, but I will give it over to Bob to talk about the rest of the year.

Bob Dorrance - TD Bank Financial Group - Chairman, CEO & President, TD Securities

I think, as Ed alluded to in his comments, it's hard to forecast wholesale earnings at the best of times. I do feel that we have good strategies in place, and I think we are executing on those strategies and we will continue to do so to drive a medium-term run rate of 15% to 20% in our wholesale business. How that manifests itself quarter-by-quarter is difficult to forecast, and I don't think that we are implying that it is going to 15% to 20% every quarter. That would be an average through a cycle, and some of those quarters, we will do better and some of the quarters, as we just finished, we will do less than that. But given the amount of capital that we have in the business and given the opportunities we have in the business, given the growth plans and the people, etc., I think 15% to 20% is a fair assumption if you take a run rate at what wholesale can do in the TD platform.

Sumit Malhotra – Merrill Lynch

Just very quickly on top of that, securities gains -- it's been mentioned a few times that we would probably see that number start to trend down. It was higher than I would have thought this quarter, and your unrealized balance has held in well. Any update you can give us on what your pipeline looks like for that business in the second half of the year?

Colleen Johnston - TD Bank Financial Group - Group Head Finance and CFO

Let me start, Sumit. If you look at the supplemental and the securities gains that we show in other income the C$110 million, about C$83 million of that was in wholesale and the remaining amount was in fact largely in TD Banknorth for a couple of items that we mentioned previously.

With that, I will let Bob respond to the wholesale answer.

Bob Dorrance - TD Bank Financial Group - Chairman, CEO & President, TD Securities

I think, given where markets are at on the equity side, we are not extremely optimistic about what we might do in the second half of the year. We have some realizations that we think we already know about and it's a function of closing, but we are taking a fairly cautious view of what gains we might be able to harvest in the second half. So, I think the improvement in profitability would more come out of the dealer than it would come out of the securities gains.

Sumit Malhotra – Merrill Lynch

Thanks very much.

Tim Thompson - TD Bank Financial Group - SVP - IR

Let's go back to the presentation room. Ian?

Ian de Verteuil - BMO Nesbitt Burns

Just a clarification, following (inaudible) so Bob, the rise in VAR, is that what threw out the market risk component in the RWAs?

Bob Dorrance - TD Bank Financial Group - Chairman, CEO & President, TD Securities

That's right.

Ian de Verteuil - BMO Nesbitt Burns

It's just a linear thing, there is nothing else on that.

A question for Ed -- when I think back to the Canada Trust, where you allowed your balance sheet to really get stretched to get to do that deal, you know, that worked out extremely well. The leverage was a big part of the success of that deal and really getting the ROEs back up again.

It seems that, this time, you are allowing that to occur again in an environment that, as you say, you intuitively believe you need to be more cautious on, where you believe -- intuitively we believe the U.S. is getting weaker here. Yet you've allowed the capital to drift back down again based on Basel metrics. But you are allowing that to occur again. Can you talk to sort of the philosophy on allowing that to occur at this stage of the cycle?

Ed Clark – TD Bank Financial Group - President and CEO

I'm not sure where you are trying to prod me to rant or just giving me a soft lob, but I'll take it as one of those two. You know, I feel quite strongly that I think we are actually quite well capitalized, so I'm not actually worried about our capital position.

I think, when people look at the capital positions of financial institutions, they should ask themselves a question. What businesses are they in? How much tail risk are they actually taking, and what is the certainty of their growth prospects on earnings? To have two institutions, both of them at 9.1% Tier 1 capital and one has C$4 billion of solid retail earnings growing and another one would have less, they are not, in my view, in the same -- amount of capital they actually need and particularly when you combine that with the wholesale strategy that we've been running over the last few years and has actually proven itself out in the current marketplace. We used to say to people, well, you'll only know whether we're following the strategy when we shock the system with a bad event. Well, the world managed to shock the system with a bad event and we ended up earning the 17% ROIC in our TD Securities through that bad event.

So when I look at our capital, and we are saying we're going to be comfortably at 8% at the end of the year, I think we are well capitalized. We are not sitting there with lots of excess capital because I completely agree that if you are in the world that we're going to, we wouldn't want to be using up a lot of that capital, and it does mean that, if we're looking at acquisitions, those acquisitions are going to have to meet the task of being financed with shares and therefore accretive in their own right. It may well be that we will not do any acquisitions in that case, or that the market, because of the current demand/supply imbalance between buyers and sellers in this market actually produces better rates of return that historically we've seen in the acquisition market.

But I am not uncomfortable, given the risk profile we run, the strength of the retail earnings, the future prospects of those retail earnings going into this downturn with our balance sheet as it is.

Ian de Verteuil - BMO Nesbitt Burns

You know, when you think about the Basel II changes, I mean I accept that it's the bizarre regulatory framework. But how else would we look at it? Because I mean the risk weighting is a risk weighting, so your point on the lower risk -- you know, you did get a tremendous amount of help on your RWAs from Basel II. I mean, isn't that effectively coming to your point that the business mix is reflected in the Tier 1 number?

Ed Clark – TD Bank Financial Group - President and CEO

Well, my point on Basel II is that all of the capital regimes that we have around the world ignore earnings. As I say, they say that if you had a 100% wholesale dealer, or you had a bank that had our wholesale dealer tied to a C$4 billion earnings stream that shocked in the worst scenario in the world couldn't lose money, that they would need exactly the same capital.

That doesn't make any sense to me from a capital regime. So the greatest strength in an institution -- you look around the world and say "What are the institutions that run into trouble?" Well, it's proportional to the size of your wholesale relative to your retail. Those that are anchored by strong retail have managed to weather the storm reasonably well.

So Basel II doesn't take into account income; it only takes into account capital and it doesn't take into account how you generate that income. I think how you generate, whether you're going out the risk curve or you're taking tail risk, matters very fundamentally in terms of the safety and soundness of the institution. That doesn't mean that Basel II is a bad thing. I think there's a lot of improvements that came out of Basel II, but I don't think it tells you everything, when you look at an institution, as to whether or not how -- what is its ability to take shocks in the system.

Tim Hockey - TD Bank Financial Group - Co-Chair, TD Canada Trust

One last question. Michael?

Michael Goldberg – Desjardins Securities

A question for Tim or Bernie -- can you remind me what the TD Canada Trust stance is for the independent mortgage broker channel, given that we know that there's quite a divergence between some of the other banks?

Tim Hockey - TD Bank Financial Group - Co-Chair, TD Canada Trust

Yes, we actually operate in three channels, two of them proprietary and one through the independent broker. So we obviously have the branch distribution, we have our own proprietary mortgage sales force and we do distribute through the independent brokerage community as well.

Tim Thompson - TD Bank Financial Group - SVP - IR

I will turn it back to Ed to close the meeting.

Ed Clark – TD Bank Financial Group - President and CEO

Thank you, Tim. Well, I think my messages are fairly clear. We did regard it as a disappointing quarter because we're not used to having a drop in earnings, but I think quite an acceptable quarter given the market conditions in which we are operating. I think obviously our wholesale earnings are being impacted by market circumstances, and I think we are signaling to the market that we do believe that there is a step-down in the running rate of those earnings back to in fact the kind of guidance that we used to give that this is a 15% to 20% ROIC business able to in fact earn those kind of returns in even pretty turbulent environment, and that it has solid growth prospects but built around fundamental franchise businesses.

I think we're closing in. We want to try to get as close as we can to C$4 billion in retail earnings this year, and in fact have quite very strong growth in those earnings going into 2009. We're not pulling back at all from our fundamental belief that we are about building franchises but equally important, investing in those franchises to continue to be a growth company that does it without going out the risk curve.

Thank you very much for taking the time.

Tim Thompson - TD Bank Financial Group - SVP - IR

That's the end.

Operator

Ladies and gentlemen, this concludes our conference call for today. Thank you for participating. You may now disconnect your lines.