Bank Financial Group
Investor Relations

TD BANK FINANCIAL GROUP
Q3 2008 EARNINGS CONFERENCE CALL
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CORPORATE PARTICIPANTS

Ed Clark	President & CEO, TD Bank Financial Group
Colleen Johnston	CFO, TD Bank Financial Group
Bharat Masrani	President & CEO, TD Bank, N.A.
Mark Chauvin	EVP & Chief Risk Officer, TD Bank Financial Group
Bob Dorrance	Chairman, CEO & President, TD Securities
Bernie Dorval	Group Head Global Insurance, Deputy Chair, TD Canada Trust
Bill Hatanaka	Chairman & CEO, TD Waterhouse
Tim Hockey	President & CEO, TD Canada Trust
Tim Thompson	SVP Investor Relations, TD Bank Financial Group

CONFERENCE CALL PARTICIPANTS

Michael Goldberg	Desjardins Securities – Analyst
Ian de Verteuil	BMO Capital Markets – Analyst
Jim Bantis	Credit Suisse – Analyst
Brad Smith	Blackmont Capital – Analyst
Shannon Cowherd	Citibank Group – Analyst
Andre Hardy	RBC Capital Markets – Analyst
Mario Mendonca	Genuity Capital Markets – Analyst
Darko Mihelic	CIBC World Markets - Analyst

PRESENTATION

Tim Thompson - TD Bank Financial Group - SVP - IR

Good afternoon and welcome to the TD Bank Financial Group's third-quarter 2008 investor presentation. My name is Tim Thompson. I am Head of Investor Relations at the bank. We will begin today's presentation with strategic remarks from Ed Clark, the Bank's CEO. After which, Colleen Johnston, the Bank's CFO, will present will our third-quarter operating performance. Bharat Masrani, Group Head US P&C Banking, will then provide an update with respect to our integration initiatives in our US P&C. We will then entertain questions from those present and from prequalified analysts and investors on the phone.

Also present today to answer your questions are Mark Chauvin, Chief Risk Officer; Bob Dorrance, Group Head Wholesale Bank; Bernie Dorval, Group Head Global Insurance; Bill Hatanaka, Group Head Wealth Management, and Tim Hockey, Group Head Canadian P&C Banking.

As in the past, we're trying to keep the call to about one hour with Ed, Colleen and Bharat's remarks taking up about half that time. Please turn the page two.

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 financial position as at and for the periods ended on the dates presented and are strategic priorities and objectives and may not be appropriate for other purposes. Certain material factors or assumptions were applied in making these statements. For additional information, we refer you to our Q3 2008 MD&A.

This document includes a description of factors that could cause actual results to differ and can be found on our website at TD.com.

Let me turn the presentation over to Ed.

Ed Clark - TD Bank Financial Group - President and CEO

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

But before I do that and before I get into all that discussion, I really want to talk about TD Canada Trust's recent win of the J.D. Power Customer Service Award. For TDCT this is the third year in a row. It comes on the heels of the Commerce Bank third win in a row. These are exceptional achievements, and they flow directly from our continued investments to own the convenience and service space in retail banking in both Canada and the United States.

Now excellence in customer service is in our view the bedrock of franchise building, and it is a key to generating long-term earnings growth in retail banking. But we all know that excellent customer service is not something that just happens on its own. It is our frontline employees who really make the difference. And I'm thrilled that these awards provide the external recognition for what we have known all along -- our employees look to WOW! our customers each and every day.

Let's move on to the third quarter where there's some more good news on the retail front. For the bank as a whole, our results are pretty similar to, frankly, what we have seen all year long. Consistent earnings strength in all our retail businesses, but at the same time fighting market headwinds that have impacted the performance of our wholesale operation and to a much lesser extent our Canadian wealth business.

We are particularly disappointed by the mispricing in TD Securities. This is not what you have come to expect from us, and I want to take this opportunity to personally apologize to our shareholders.

We have reviewed the amount and are confident that what we have taken this quarter is final. We're continuing to work on a thorough review of our risk practices across the organization to ensure we minimize the risk of this kind of thing ever happening again.

In terms of impact, obviously this $96 million pretax charge, $0.08 a share after-tax, hit TD Securities pretty hard. Also, earnings without the impact would have come in slightly better than last quarter and is not a bad run-rate, particularly given the weakness in security gains in the context of the current market. But it is still representative of the continuing challenges that are facing wholesale banks around the world.

When you look at these wholesale banks and the financial industry in general, it is clear it is taking a fair amount of time to work through the issues arising from the US housing crisis. At the same time, we have seen significant volatility in the equity markets for financial services companies, which reflects the market struggle to determine the depth and duration of the crisis. The core issue is the extent to which the housing crisis and the resulting financial fallout will morph into a more general economic downturn.

When do we see the turn? At the end of the day in my view, there is really only one key issue -- the US housing market. When delinquencies stop rising and US housing prices stop falling, we will know we have finally hit the bottom. And we think we will be able to get a better idea of when that bottom will come sometime during the first half of 2009.

Now despite these market and economic issues, what remains remarkable is that we continue to deliver very strong results in our retail businesses. $1.1 billion in profit overall, which is more than 90% of our earnings this quarter.

We started out this year saying we're going to try to work hard to get close to $4 billion in retail earnings in 2008. At this point we clearly have a very good chance to exceed $4 billion with our third-quarter annualized run-rate for retail earnings of almost $4.5 billion.

In Canada, TD Canada Trust achieved record volume growth, strong share growth in deposits, record customer satisfaction scores and a record efficiency ratio of just under 50%. And these results were delivered while we continue to invest in the business, opening 11 new branches and supporting our longer hours strategy.

We continue to deliver solid results in Wealth Management despite the market weaknesses, largely because of the payoff from past investments. We're going to keep investing in this business to continue our growth in the future.

So what do we see looking ahead? Well, we're still worried that a slowing worldwide economy will hurt Canada. However, we have not yet seen evidence of a slowdown in our business volumes, and our credit numbers remain very stable.

More good news came from the US Personal and Commercial Banking, which now includes the earnings contribution of Commerce. Our estimate for US P&C as we reiterated back in June at our Investor Day was to earn $250 million in Q3. So we are obviously quite happy with the progress in this business having earned $273 million, a significant overperformance.

Our main business challenge reflecting the funding challenges of our competitors is the deposit environment in the United States where some major banks are paying above the wholesale cost of funds for retail deposits. It will continue to be for us a very tough balancing act managing the trade-off between deposit growth and margin compression. We are determined, though, to defend our customer base even at the cost of margin compression.

However, somewhat offsetting this trend, we see strong growth for commercial loans and widening loan spreads. We also see continued solid asset quality. Provisions for credit losses came in at $76 million, well exceeding net charge-offs and building reserves at on appropriate pace, reflecting our traditional conservative approach.

Now I know that the market continues to struggle with the fact that we don't seem to be taking big write-offs on our US investment portfolio or that we are not recording big loan losses in the United States.

Let me comment on this. On the investment portfolio purchased from Commerce, it is important to remember that we wrote it down to its market value on March 31, 2008. We're comfortable with that portfolio and continue to believe that the intrinsic value is significantly greater than the fair value.

I know some investors have expressed interest in our exposure to Fannie Mae and Freddie Mac in the United States. Let me be clear -- we have no common or preferred equity, no subordinated debt, and no unsecured debt exposure. We do have some exposure in our investment portfolio that MBS securities consisting of prime, conforming mortgages guaranteed by these entities. And depending on how developments unfold, we could see taking on a reasonable amount of unsecured exposure in the future provided that risk issues surrounding these institutions are satisfactorily resolved.

On our own loan portfolio, we clearly continue to perform very well on almost any metric compared to our US competitors. Clearly we are an outperformer. There are three key factors that have set us apart -- where we lent, what we lent and how we lent.

So where did we lend? In our market the US Northeast, one of the areas in the United States that has had much better housing experience than the rest of the country over the past year. What did we lend? Conservative loan products built on conservative lending standards at both TD Banknorth and Commerce.

As an example, in our home equity book, about one-third of it is a first lien portfolio.

And how did we lend? Using our own people and distribution systems, not third-party commissioned salespeople. We did not buy loans from outside our footprint. That is our triple play. And when you consider these factors, it is really not surprising why we're confident we will continue to be a positive outlier on asset quality. We cannot outrun the US environment, but we can do better in that environment. And we see no reason why we will not earn at least $1.2 billion in our US P&C operations in 2009.

Another piece of good news of which you are aware in the United States is that we were once again rewarded by our equity investment in TD Ameritrade, which generated net income of $74 million for the quarter, a 25% increase from $59 million in the third quarter of last year.

So let's step back and look at our full picture. We feel that our fundamental strategic positioning has actually worked out very well indeed. We told the market we could grow earnings without going out the risk curve. In our retail businesses, we have seen minimal increases in our nonperforming loans.

TD Securities has averaged a 14% rate of return on invested capital since this financial crisis began, including the cost of the mispricing incident and has avoided write-downs.

We also said we would shift our earnings mix to an emphasis on return earnings anchored by the premier Canadian banking franchise and a US growth platform. And we said we would build a top three dealer in Canada built on franchise businesses of serving our clients.

So what has happened? Despite all the headwinds TD Securities has, in fact, delivered a notable performance relative to many other dealers around the world in avoiding the major hiccups and has a solid franchise earnings that are consistent with the outlook we have previously expressed.

Our retail earnings have grown from $1.5 billion in 2003, and as I mentioned earlier, we're expecting $4 billion in 2008. That is a five-year compound annual growth rate of retail earnings of over 23%. Our five-year growth rate of retail earnings per share is about 19%, a very positive shareholder experience.

Looking forward we're going to stick to our strategy. We're going to do what we set out to do. We're building a lower risk, retail-focused leading North American bank. And we've got a great base going into 2009 if you look at our Q3 annualized run-rate for retail earnings at about $4.5 billion, and we intend to grow from there.

Our commitment to growth is reflected in the increase in our dividend. We have said all along that our dividends will grow in line with our earnings over the medium-term. This increase reflects the board's confidence in the strength and stability of our earnings as we head in the 2009.

Now, even with the strength of our retail businesses, we're not going to get to last year's level of earnings per share given the weaknesses we had this year in wholesale.

That said, we still believe we will follow-up 2009 with growth rate in line of our medium-term EPS target of 7% to 10%. So while we believe that the effect of the economic slowdown in the United States on Canada will reduce retail growth rates there, we are confident our franchise strength will continue to position us as a positive outlier in both Canada and the United States, and we are optimistic and excited as we move closer to our goal of building the first truly North American bank.

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

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

Thanks, Ed, and good afternoon. Let me take you through the third quarter. Please turn to slide four.

Let's start with the quarterly highlights. Total bank adjusted net income was $1.1 billion, down 4% from last year. This translated to adjusted diluted earnings per share of $1.35, down 16% from Q3 2007. The main reason for the year-over-year difference between earnings and earnings per share performance was last quarter's issuance of approximately 83 million shares related to our acquisition of Commerce Bancorp.

Total retail earnings were $1.1 billion, up 25%, representing 97% of total earnings. Our Canadian retail businesses were up 7% versus last year to $771 million for the quarter.

Net income from our US retail businesses, TD Bank and TD Ameritrade, was $347 million. This is the first quarter we're including Commerce Bancorp earnings in our results.

As announced previously, our North American growth strategy includes the alignment of our credit card, insurance and Wealth Management businesses bringing these US and Canadian businesses together. Financial results have moved from US P&C to the Canadian P&C and wealth segments for the first time this quarter.

The movement is immaterial at the net income level, but has some minor impact on line item trends. Our wholesale net income of $37 million was down 85% versus a very strong Q3 of 2007. Results in this segment were negatively impacted by the mispricing in TD Securities, which had an after-tax impact of $65 million or $0.08 per share.

The corporate segment posted a loss of $40 million on an adjusted basis compared with $20 million in earnings last year, a negative swing of $60 million year-over-year. Our Q3 Tier 1 capital ratio was 9.5%.

On slide five we see reported net income was $997 million or $1.21 per share, and adjusted net income was $1.1 billion or $1.35 per share. The difference between reported and adjusted results is due to four items of note.

The first two items are recurring. This quarter's integration charge is related to the Commerce transaction totaled $23 million pretax and $15 million after-tax. The tax item of $14 million or $0.02 per share relates to the impact of a reduction in future income tax assets associated with the Commerce acquisition. A related tax benefit, which was $21 million, is included under amortization of intangibles.

Slide seven shows our combined Canadian retail business, which includes Canadian P&C and Wealth results. Net income was $771 million, a new record, up 7% year-over-year.

Let's move to slide eight. Here we show results for Canadian Personal and Commercial Banking. Net income of $644 million was up 8% from Q3 of '07 and 11% from Q2 of '08. This was a quarter of records for Canadian P&C -- record net income, record revenue, record volume growth, a record efficiency ratio, record return on invested capital and record customer service levels.

On slide nine we show revenue of about $2.3 billion, up 8% from last year, primarily due to strong volume growth in TDCT. Transfer of the US businesses contributed about 1% growth in revenue and 2% in expenses. NII increased $97 million or 7% year-over-year, primarily due to volume growth over a wide variety of product areas.

Of note, Business Banking deposits were up 23%, Visa was up 20%, and personal deposits were up 16%. Our increase in branches, 11 this quarter and 19 year-to-date, our longer hours initiative and our superior customer service all work to produce increased volumes.

Other income was up $64 million or 9% from last year, driven primarily by increases in credit card and Business Banking fees, as well as new deposit fee initiatives implemented this quarter.

On slide 10 we show our net interest margin for the quarter at 2.98%, down 9 basis points from last year but up 2 basis points from last quarter. Our margin was up 2 basis points from Q2 of '08, driven by favorable changes in volume and mix and the transfer of US businesses, partially offset by the impact of higher funding costs.

Compared with last year, margins compressed due to continued higher funding costs, ongoing deposit competition and a shift in asset mix.

Turning to slide 11, provision for credit losses increased $43 million from last year to $194 million and was also up $3 million from last quarter.

If you exclude the impact of transferred US businesses, PCLs were down slightly quarter-over-quarter. Personal banking provisions increased $32 million to $179 million year-over-year, primarily due to higher personal lending provisions. Visa PCLs were flat year-over-year and down 10% from Q2. Business Banking provision for credit losses increased $11 million to $15 million year-over-year but flat quarter-over-quarter.

Despite signs that the economy is slowing down, consumer credit growth has remained strong. With respect to business credits, provisions have been at low levels and will likely increase as we go through the next part of the cycle.

Slide 12, expenses of just over $1.1 billion were up 8% over last year and up 3% versus last quarter. The year-over-year increase in expense has resulted from increased number of branches and hours, related increases in compensation and the transfer of US businesses. Excluding the transfer of the US businesses, we had a positive gap in operating leverage of about 1%. We expect to see some improvement in operating leverage moving forward now that the cost of the longer hours strategy will be fully included in the comparables.

On slide 13 we have listed our most recent market share data. This was a record volume quarter with $14 billion of combined growth in loans and deposits year-over-year. This is the highest amount of volume growth ever recorded at TD and was evenly split between deposits and loans.

Let's turn to Wealth Management on slide 14, which excludes TD Ameritrade. This business generated net income of $127 million, flat versus last year, but up 10% versus last quarter. A solid quarter given the tough market environment.

Slide 15, total revenue of $609 million increased 4% from last year, primarily due to the transfer of the US Wealth Management business. Discount brokerage revenue was up year-over-year. An increase in average trades per day and higher margin and deposit balances were partially offset by a decline in commissions per trade.

Revenue from the advice channels was flat year-over-year as asset growth and financial planning and private client group was partially offset by lower new issue and trading revenues in private investment advice. Expenses were up $26 million or 7% year-over-year, mostly due to the transfer of the US Wealth Management business. The negative operating leverage this quarter is mostly due to the transfer, but also from our continued investment in our advice businesses, while revenues were flat year-over-year.

On slide 16 we have included a few performance measures related to our Wealth Management business. Assets under administration and assets under management grew primarily due to the inclusion of US Wealth Management businesses. We saw asset growth in our other businesses, which was partially offset by the impact of market-related declines.

On a year-to-date basis, we have added 58 new client-facing advisors, and we are on track to meet our goal of adding 130 in 2008. Mutual fund AUM was flat quarter-over-quarter.

On slide 18 we show our US retail business, which consists of our US Personal and Commercial Banks and TD Ameritrade on a combined basis. This is the first quarter we're including Commerce earnings in our results. As such, prior periods are not comparable.

Our US businesses had a great quarter. P&C had earnings of $273 million, ahead of our $250 million estimate. The two main factors in our outperformance were higher net interest margins and lower expenses split about equally between the two. As per our prerelease, our investment in TD Ameritrade generated $74 million in earnings.

Slide 19, you will recall the pro forma P&L we discussed in April and again at our Investor Day in June. We showed you base earnings of $250 million. Clearly we well exceeded that number. The P&L will not line up exactly because of transfers from US P&C to Canadian P&C and Wealth Management with no net earnings impact.

Back in June at our Investor Day, we talked about six earnings drivers for this segment. They were organic growth, improved lending spreads, better product management, higher yields in the investment portfolio, expense discipline and the realization of synergies. All of these drivers contributed to our performance this quarter.

Slide 20, revenue for the quarter was US $1 billion. On a combined basis, we had great volume growth in loans, which were up 10% from Q3 of '07. Commercial loan growth continues to be very strong as many of our competitors retrench, and we're seeing better pricing with spreads widening, particularly on larger deals.

At the same time, we have tightened underwriting in critical areas, and the asset quality of new deals is strong. Consumer loan growth has been modest, but increasing which has been offset by continued declines in our residential book.

On deposits overall deposit growth has slowed in the current environment. Deposit volume growth was up 2% from a year ago, driven by growth in retail core deposits and commercial deposits, partially offset by volume declines in retail term deposits. We saw a modest decline in deposits quarter-over-quarter.

The margin for the quarter at 392 is above the estimate provided last quarter. Our margin is coming under pressure due to intense competition and our decision to price deposits to defend our franchise. Margin in Q3 reflects the current market environment with higher yields on investments and higher spreads on new business.

We began the quarter with a very strong margin, but realized our deposit pricing was inhibiting growth. As such, we adjusted pricing during the quarter and are beginning to see the positive impact on deposit growth, which will affect our margin going forward. We would expect to see our margin in the upper end of the previously forecasted range of 350 to 370 in Q4. We expect most of the revenue impact of margin compression to be offset by additional synergies and loan volumes.

Slide 21, at $75 million PCLs were in keeping with our previous guidance with net charge-offs of $34 million, down $8 million from last quarter, allowing us to build reserves in the quarter. Past due rates trended slightly lower in both the investment real estate portfolio and the commercial loan portfolio. Nonperforming loans as a percentage of total loans remained flat quarter-over-quarter, in line with expectations.

Slide 22, expenses were lower than our original estimate due to the transfer of the North American businesses and lower core expenses achieved through process improvements and other efficiencies. Excluding integration charges, the efficiency ratio was 57.2%.

Before moving to US Wealth, let me comment on the investment portfolio acquired with the Commerce deal. As of June 30, 2008, the fair value of this portfolio was close to $25 billion, down $1 billion from the previous quarter due to a combination of maturities and changes in fair value.

During the month of July, there was a further decline in the fair value due to continued market and liquidity pressures. In August certain securities were downgraded by the rating agencies. Both outcomes were incorporated into our assumptions upon deal close. We continue to believe the intrinsic value of the portfolio exceeds the fair value.

As a reminder, changes in fair value due not affect our capital ratios or our P&L. Changes flow through other comprehensive income on the balance sheet.

Slide 23, turning to US Wealth Management, TD Ameritrade reported third-quarter earnings of US $204 million, up 29% versus last year. This was the second-best quarter in TD Ameritrade's 33-year history.

On slide 25 we see wholesale generated net income of $37 million, down 85% from a year ago and down 60% from last quarter. Excluding the mispricing, earnings this quarter were still down from last year, but up from Q2 of '08.

Let's look at details on the next slide. Wholesale revenue of $328 million was down $364 million or 53% from last year. Weak trading-related revenue of $43 million was down $265 million from the prior year. This includes the $96 million mispricing. Credit and interest rate revenue was down from a strong Q3 of '07, primarily due to weaker credit trading in a challenging environment. Equity trading revenue was also down primarily due to weaker equity markets. Our interest rate and foreign exchange businesses continued to perform well.

Securities gains of $14 million were down significantly quarter-over-quarter and year-over-year, mainly due to fewer realizations this quarter. Non-trading revenue was down year-over-year as a result of lower net security gains and lower capital markets activity, partially offset by higher net interest income from loan growth on the corporate lending side.

Unrealized gains this quarter declined to $698 million from $746 million last quarter, mainly due to lower market prices. Provision for credit losses of $30 million included specific provisions on a single mezzanine loan and the cost of credit protection. Expenses of $281 million were down 14% from last year due to lower variable compensation on weaker results.

In conclusion, we had a very strong retail quarter, a record quarter in Canadian Retail, and our US results were well above expectations. Wholesale results for the quarter were weak.

We're committed to our strategies. Our confidence in our future earnings growth is demonstrated by our dividend increase.

Now let me turn it over to Bharat to comment on integration.

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Bank, N.A.

Thank you, Colleen. On the integration front, things continue to progress well from the last update provided on June 19 at the Investor Day. One significant milestone that has occurred since that time is our decision to rebrand the company as TD Bank, America's Most Convenient Bank, which we announced in July. The timing of the announcement allowed us to maintain our original timeline, introduce our new brand in the Commerce footprint in November of this year with the balance of our stores being rebranded later in 2009. Response from both our employees and customers has been positive.

We have implemented what we call accommodation banking across all of our stores, which allows TD Banknorth and Commerce customers to conduct basic banking transactions at any one of our locations from Maine to Florida.

In addition, we have successfully piloted a multibank initiative, which will allow us to consolidate many of our locations in the mid-Atlantic over the next several months, nearly a year prior to the system's conversion by colocating TD Banknorth's terminals into a nearby Commerce store, and the response from our customers has been very positive as well.

We continue to be on track to achieve our $310 million in cost synergies. Also, an incredible amount of detailed planning has gone into the integration, and we're rapidly moving into the implementation phase, and we continue to be comfortable with our target date for the integration to be substantially complete by the end of 2009.

And now back to Tim.

Tim Thompson - TD Bank Financial Group - SVP - IR

Great. Thanks Bharat. We are asking those participating in the question-and-answer portion to ask one question at a time. Before ending the call today, I will ask Ed to offer some final remarks.

So let's get started. Any questions in the room. Michael?

QUESTION AND ANSWER

Michael Goldberg - Desjardins Securities

Michael Goldberg, Desjardins Securities. Other banks suffered markdowns of 10 times and have strong trading revenue, excluding those markdowns. Why hasn't TD's revenue also benefited recently from the high volatility that has been out there?

Ed Clark - TD Bank Financial Group - President and CEO

Bob, do you want to take that? We're going to hand that to Tim and let him --

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

This is Mark. I really cannot comment on the other banks. From what I have seen, Michael, it seems that trading results in interest rate and foreign exchange businesses have been pretty good both in the US and Canada. That was the case for TD Securities.

As you can see in our trading results, there is the $96 million negative resulting from mispricing, and also as Colleen commented in our credit trading part of the business, we continued to have headwinds and did not perform well in that business. And we were somewhat below what I would consider a more normal rate of trading in our equity business where we have a fairly large market share in Canada.

Ian de Verteuil - BMO Capital Markets

Mark, you have got the rebranding red to green, and we see -- we don't have detailed numbers, but Colleen said the deposit numbers are down. And obviously we're all concerned that as we -- as Commerce is acquired, you know (inaudible). And I guess what can you tell us to provide comfort that the loss of deposits is related to pricing issues and competitive issues as opposed to some sort of backlash from conversions?

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Bank, N.A.

Yes. First, let me just first comment on the deposit numbers. As you know, the competition has been intense. What this liquidity crisis has done in some of our markets is to have competitors price deposits irrationally. It looks like there are some competitors that need to raise their funds, and they feel that they should raise it in the retail markets. And that has meant intense competition for deposits.

We have chosen or we did for a while not to be as irrational as some of our competitors, and that did result in some of the deposits running off. But we have corrected that. We have said that we will defend our franchise, and there are markets where we will defend our franchise very aggressively and we're doing that. And hence, Colleen's comment that the margin should normalize in the coming quarters and should not be as high as you saw in the previous quarter.

With respect to branding, the key point in branding is the issue of what does the brand stand for. We have done a lot of work regarding the brand in the US and then elsewhere, and the key finding is that the brand principles are far more important than the visuals of the brand itself.

America's Most Convenient Bank, which is for us more than a tagline. It is the heart of our Company as to what we do. We own the convenience space in the markets we're in, and we will continue to do that. Providing legendary customer service is a hallmark of our brand, and as you have seen with the awards we have got, that that continues.

Going forward, as TD Bank, America's Most Convenient Bank, will we be open seven days a week in most of the markets that we operate in? The answer is yes. Will we continue to wow our customers? The answer is yes. Will we be the leader in convenience and service in all the markets? The answer is yes.

So I feel that the branding decision is never easy, but as long as we stayed true to what America's Most Convenient Bank means, I feel comfortable that we will continue to grow our franchise down there, and the deposit pricing or the deposit numbers is solely a reflection of pricing and competitive pressures.

So I'm comfortable that that is what is happening. I do not feel it has to do with TD's ownership or the branding that we just announced.

Tim Thompson - TD Bank Financial Group - SVP - IR

Let's go to the phone lines. First caller, please.

Operator

Jim Bantis, Credit Suisse First Boston.

Jim Bantis - Credit Suisse

Good afternoon and congratulations on the record TDCT numbers. But I just want to follow-up with Bob regarding the trading results. You had touched upon some challenges on credit trading in particular. I just want to get a sense of perhaps what is going on with your business in that regard. You have had a couple of hiccups in the London office.

Was there a business that you were doing exceptionally well in in the past that you are no longer participating in? I'm just trying to get a sense of why the drop-off and may be is there a possible resurgence as you get that business a little bit more reorganized? If you can talk a little bit about it from that perspective, Bob?

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

Sure. We've had a credit trading business in TD Securities for 10, 12 years at least, and basically it is significantly a proprietary trading business that has involved trading in London, New York, Toronto. And we have done well over time with that business.

The issue that we have had in the last year essentially is the liquidity issue in North America, and the book basically is a book that has on average been long assets or long bonds protected with CDS and looking for anomalies and trading strategies. So we're trying not to take directional risk in trading but to take relative risk in trading on a protected basis.

What has happened in liquidity, and I think we talked about it in the last number of quarters, is that the basis between where bonds trade and where CDS trade widened out significantly as liquidity dried up and people did not want to hold bonds and rather hold credit performance at CDS. That has been the major headwind for the last 12 months. Although in the last quarter, that was not really the story of the poor performance. It did not help and it did not hurt in a major way.

The last quarter was more around just the direction of credit trading and credit -- sorry, of credit curves, etc., that that hurt, and we had happened to make a particularly strong performance in the previous year's quarter in credit trading. So this quarter, the quarter just ended was not a disaster, but was not great. It looks particularly poor, and adding to that, this mispricing that we found and announced during the quarter.

So credit trading has always been an important part of our revenue, and it has been absent in the last 12 months. You know we continue to review businesses as we go along and review strategies and review opportunities, and we're doing that at this point in time here.

Operator

Brad Smith, Blackmont Capital.

Brad Smith - Blackmont Capital

I have two very quick questions. One was, with respect to the consolidated loan portfolios in the US P&C banking, I was wondering if I could get some estimate of what proportion of those loans has been initially underwritten by under the TD standard as opposed to the preassessor management of acquired companies?

And then second question was, just based on the comments about the deposit market share strategy and the possibility of lower net interest margins, just wondering if we could juxtapose that with the idea that the targeted profit for '09 from US P&C banking is unchanged. Can you give me some sense for where you think you can make up the difference?

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Bank, N.A.

I don't have the exact percentage of what percentage of loans were underwritten after TD acquired these banks. But I can say that the underwriting standards followed by TD Banknorth and Commerce prior to TD's acquisition and post TD's acquisition have been the same. And, frankly, having been in the risk business myself, I would say that those standards are reflective of what TD would have done if it originated these loans from scratch in the United States. I don't have the exact percentage.

With respect to your second part of your question, that if margin pressures continue and we're comfortable with our guidance for '09, I'm okay with that because we do have to make that up. I see loan growth providing us some tailwinds there. I also see good expense management helping us out, and I can tell you, and I guess I get paid the money to make sure that we deliver the numbers.

So right now based on what I can see, I'm comfortable with the number we put out.

Brad Smith - Blackmont Capital

Thank you, Bharat. But I guess what my point is, whatever you thought you could do on expenses and now on loan growth, etc., was reflected in your $1.2 billion estimate. Now we're seeing or hearing about a margin strategy or at least a deposit strategy shift that is likely to reduce deposit margins by some amount, I don't know what. I guess what I'm trying to get it is, are you going to become more willing to play the yield curve, get involved in the carry trade like your competitors? Is that part of how you are going to make up that difference and still hit your targeted income?

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Bank, N.A.

The answer is no to the examples you posed on how we would make income up. Yes, we will be competing progressively for our franchise customers, but I would expect us to post some deposit growth that should allow us some relief there.

Like I said, we gave you a number of 250. We have exceeded that. That is a good number. I'm comfortable with it. Based on the trends I see in the market, I'm comfortable with the $1.2 billion that I put out there. And yes, there will be margin pressure, but as we have seen in markets, there will be some other offsets in the market. And based on what I can see, I'm comfortable with the number we put out.

Operator

Shannon Cowherd, Citibank Group.

Shannon Cowherd - Citibank Group

I was just wondering if there were any plans to eliminate or scale back on some of the traditional Commerce bank client experience features to sort of help moderate expenses?

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Bank, N.A.

The answer is no.

Operator

Andre Hardy, RBC Capital Markets.

Andre Hardy - RBC Capital Markets

On page 19 of your report to shareholders, you were helpful in helping us understand how much the fair value of the Alt-A portfolio had declined in July. Probably see that probably would have declined further in August. I'm just wondering if you're willing to help us understand what would have happened in August.

But also from a broader perspective, basically all mortgage-backed assets that would have declined in value, not just Alt-A. So can you help us understand what may have happened in July and/or August in non-Alt-A residential mortgage-backed securities in the US?

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

In terms of -- we have disclosed the July change in the Alt-A valuation. We are not disclosing anything further into August. But, as I mentioned, there have been several downgrades that we did fully anticipate when we did our analysis of the portfolio, and so those have been included.

As I mentioned in my comments, all of this -- these are obviously available for sale securities. Any of the differences going into other comprehensive income does not affect our capital ratios.

In terms of we're really not seeing much change in terms of the MBS side. I don't know if Mark has any further data on that. It has really been more on the Alt-A side.

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

We continue to monitor the investment portfolio closely across the range in the Alt-As and into the conforming mortgages. And we're really not seeing anything that is unexpected from what we had thought when we looked at the portfolio in March. It is performing along these trends. And we're pretty -- we're very comfortable in our position that the liquidity premium that is being charged against them and reducing their market values today is putting them below their intrinsic value from our perspective, and that position really has not changed at all.

Andre Hardy - RBC Capital Markets

Is there anything about your book, maybe that it's shorter duration than the average because spreads on Freddie and Fannie backed mortgages widened quite a bit in July, yet you're suggesting that you're not seeing much in your portfolio of securities.

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

No, I was talking about the credit metrics, not necessarily commenting on where the marks have gone since the end of July.

Andre Hardy - RBC Capital Markets

Alright. I will follow-up off-line.

Operator

Mario Mendonca, Genuity Capital Markets.

Mario Mendonca - Genuity Capital Markets

My question is sort of similar. Credit spreads have really moved out. I mean they are obviously pretty volatile. What I'm getting at perhaps for Colleen, there comes a time when the mark-to-market is either sufficiently below the carrying value or has been there for a particular amount of time where I think some of that judgment goes away, and you have more of sort of a bright line and you impair the security. Does that methodology exist in TD's approach to valuing these securities and went to take the impairment charge?

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

That is the way the accounting works is that obviously we will continually reassess the intrinsic value, and if there was any dramatic change in that intrinsic value, we would have to take a look and make a judgment as to whether or not there was an impairment in the value, a permanent impairment in the value of the security. If that was the case, in fact, we would have to write it down, and that would go through P&L. So we will monitor that on an ongoing basis.

Mario Mendonca - Genuity Capital Markets

What are the rules that the bank uses in terms of the magnitude, the percentage decline and the amount of time?

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

There are not any specific rules. There are guidelines that we use for our securities portfolio generally. I mean in Canada there are certain US GAAP rules, which are pretty clear cut, that if a security is below 90% of its value for a period of over six months, that at that point it would be a pretty good indication of impairment, and you would have to make that assessment.

There are not those rigid rules around this particular portfolio, and we're still evolving that framework in terms of assessment of impairment. But at the moment, the intrinsic value as we have judged it initially has held up extremely well over the last period.

Mario Mendonca - Genuity Capital Markets

So you are not at the 90 and you are certainly not at the six months, is that what you're telling us right now?

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

I'm not inferring that we are applying that framework in the United States. I'm saying that is the kind of framework we have in Canada, but we're putting that framework in place in the United States. And again, those judgments will be made based on the intrinsic value, which I would say has been conservatively estimated.

Mario Mendonca - Genuity Capital Markets

One final thing. The Tier 1 ratio of Q1 '09, can you update us on where you think that will be once you apply the Basel II to Ameritrade?

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

Roughly the impact of the substantial deduction, the 50% is about 140 -- sorry, 130 to 140 basis points. So we would expect by year-end that we should be above the 8% rate. We have done some issuance as you have seen in the third quarter. We issued about $0.5 billion of preferred shares. So we will continue to assess that. We probably are seeing a bit of pressure on the risk-weighted assets, upward pressure there as well. But I think you'll certainly see us above the 8% mark.

Mario Mendonca - Genuity Capital Markets

Post the application?

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

Correct.

Operator

Darko Mihelic, CIBC World Markets.

Darko Mihelic - CIBC World Markets

A question with regards to US Personal and Commercial Banking again. Colleen, I think you mentioned that the margin is likely to come in at the high-end of the range you had previously given, which is about 370 basis points. It is a fairly big drop quarter-over-quarter. I guess the question is, what would be the main driver? Is it just deposit pricing? And is it possible that it can go to 350 the quarter thereafter? And I suppose at the end of the day, what is the big driver behind some of the volatility in that line, and can it go below the other end of your range?

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Bank, N.A.

The main driver there is obviously, as I said, deposit pricing. Now what you saw in the quarter just ended is we did have run off in what I would call high-priced deposits, and that has an impact at your margin expense. But those are very high-priced deposits, so they do not have as much impact on your NII. But as we compete for those deposits, obviously the margin is going to come down.

And is this competition going to get so intense that it may go below that? There is always that possibility. But there will also be the offset of we're putting on new loans now that are reflective of what is happening in the market. And those loans, as Colleen mentioned in her remarks, are having good spreads. As you can imagine in this funding market, if people are having trouble funding, then the loan pricing is going to reflect that.

So I'm assuming, I'm making the assumption yes, there will be intense pressure, but there should be some offsetting forces out there. And the range we have provided based on the information that we have available and what we see as far as outlook goes is an appropriate range to work with.

Darko Mihelic - CIBC World Markets

So then I guess the securities portfolio really is not a consideration here?

Ed Clark - TD Bank Financial Group - President and CEO

I think your point is that a security portfolio is not what is causing the movements.

Darko Mihelic - CIBC World Markets

Right.

Ed Clark - TD Bank Financial Group - President and CEO

What is causing the movements in a sense is the running business. But I do think (inaudible) you are remembering is that you're trying to maximize NII at the end of the game here. You're not trying to maximize margin and getting this right balance. So you can move the margin around quite a lot if you start adding a lot of thin margin CDs on. And this battle right now is being fought in the CD world. That is where this battle is being fought.

What we're saying is that we have initially said, well, let's not do something stupid. We are kind of, as you know, economic profit maniacs here, and we said let's back off here, and we found that sent our margin up. But we say we don't like this result. We don't think in the end that is going to be good for our customer base, so we decided to get back in. We're telling you that is going to bring the margin down. That is the core thing that is going on here.

Operator

Jim Bantis, Credit Suisse First Boston.

Jim Bantis - Credit Suisse

A question for Mark. Mark, I can appreciate that today's numbers don't reflect the slowing situation in Ontario in terms of the economic conditions. And TDCT is a little bit more particularly sensitive to Ontario than some of the other banks.

Now I'm wondering if you can maybe just look out beyond what the numbers are saying today, but if we looked at the headlines in the papers regarding the job loss numbers that are coming mainly out of Quebec and Ontario, we're just seeing obviously a lot of plant closures and other types of employment issues. I'm just wondering if you can maybe look ahead of a couple of quarters and give us from your experience what we should be anticipating in terms of what is going on in Ontario to impact your impaired formations?

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

Yes, certainly. I probably the last couple of quarters would have looked out a couple of quarters and been wrong. We feel that it's a bit overdue, in fact. Our quality in the commercial bank primarily is at historical levels. It certainly could not get any better. And we have seen a few shocks to the economy already such as the higher Canadian dollar, plant closings in certain sectors, and it's not having the impact that we would have expected.

But clearly I think at some point it is going to come. And if there is a deeper economic problem, certainly we would expect an increase in, whether it is gross impaired formations or impaired loans, but I'm comfortable that we're well-positioned today to weather that storm. We have kept very consistent lending standards in my view over the last several years. If we go into this, we should fare relatively well.

Now I cannot predict the levels. I certainly would expect them to go up, but I think that they would stay within manageable amounts because there are fundamental things that we did in previous recessions that we're not doing now.

Now there is always a new thing that might hit you, but I think we're trying to -- we have been worried about this for so long now, the last couple of years, I think we should at least be a little more better positioned for it than we have in the past.

Ed Clark - TD Bank Financial Group - President and CEO

Tim, do you want to comment on this, and you might comment because I have always had this view that we are obviously heavily overweighted in Central Canada versus the other major banks, and I have been told that I misunderstand the numbers. So I will let you tell the rest of the world that.

Tim Hockey - TD Bank Financial Group – President & CEO, TD Canada Trust

I was going to say I just completely agree with our Chief Risk Officer, but now I have to give more color. Like Mark, what we have seen is that we would have expected a few quarters ago that we would start to see some of these effects, and in fact, we have not. But you also know that we have had an increasing PCL rate inside our unsecured lending business that the market has not reflected. That has now stabilized and, in fact, arguably peaked in terms of the rate.

The overweight to Central Ontario, we have had that obviously for a very long period of time, and we don't seem to be seeing the relative job shifts to the West and their impact on our PCL.

There are other elements of being overweight. For example, there is the higher degree of fraud generally in Central Canada than there is in Western Canada, but it is a relatively small number in the grand scheme of things. So it's just an illustration of we looked very carefully at this number all the time and try and see the effects of it. I will reiterate that I would agree with Mark on balance.

Tim Thompson - TD Bank Financial Group - SVP - IR

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

Ian de Verteuil - BMO Capital Markets

The formations in the US Personal and Commercial Bank, Bharat or Mark, can talk to. As you're running here at sort of $180 million of gross formations, is that can you give us any sense -- is that the HELOC book? Is that this residential real estate available for sale? Where is it?

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

The increase in impaireds in the US was in US residential for sale, and it was kind of moving into a bit of a New York market. You have seen a lot of job loss in there, and it is having a bit of an impact. But it really did not go into the other sectors of the business. It was really still in the residential for sale just in markets that have kind of caught up to some other markets.

Ian de Verteuil - BMO Capital Markets

So they (multiple speakers) that is a $2 billion portfolio, the residential for sale real estate?

Bharat Masrani - TD Bank Financial Group - President & CEO, TD Bank, N.A.

So in our June investor, I think the numbers were 6% of what we call for sale real estate.

Just to add to what Mark is saying, I would not want you to be left with an impression that the Northeast has totally escaped what is going on in the United States. From a relative basis, it is much better off than some other parts of the United States.

So are we getting weaknesses in certain sectors in certain markets? The answer is yes. Is the weakness more market and for sale real estate? The answer is yes as we said in our June Investor Day.

But what has happened in the Northeast, which is a good sign, is that when these projects get into trouble, there appears to be a normal course workout situation, and they are running out in the normal course. So I would expect formations to continue at the rate that you have been seeing. And then if I was guessing, it will more be influenced by for sale real estate than perhaps some of the other sectors.

Tim Thompson - TD Bank Financial Group - SVP - IR

One last question in the room. Michael?

Michael Goldberg - Desjardins Securities

The past two quarters your variable costs have been relatively high compared to your brokerage underwriting and trading revenue. And even adjusting for the $96 million mispricing this quarter, there is still over 80% of that total brokerage underwriting in trading.

I know that these items do not account for all the variable comps, but they never have accounted for all that variable comp. Why is the variable comp so much higher the past two quarters in relation to these items than it has been in the past?

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

Why don't I maybe start and hand it over to Bob because that is probably where the most variability is. Part of the effect in this quarter is the Commerce effect of those numbers coming into the expense side. We really don't look at that kind of a ratio, Michael, in assessing because obviously there are various elements of incentive comp throughout the entire bank.

Bob, any color on the wholesale side? Clearly that was the major reason for the decline in expenses versus last year.

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

Yes, I think the variable comp in the dealer part of the business would have moved down to reflect results. There were some gains -- like there are gains in securities coming out of the merchant bank where the variable comp is set by the formulas that apply in the merchant banking, the two and 20 formulas. So there were some gains -- not -- there were some gains this quarter, but also more in the previous quarter where recognizing variable comp, some of those gains have been offset by write-downs, which don't accrue the comp until later on. So I think it is probably more of that element.

That and relatively small numbers in the sense results of the ratios tend to move around more.

Michael Goldberg - Desjardins Securities

Everything that I was going to ask about, actually your invested gains the quarter are really low in comparison to the prior period. I can understand that the equity markets are weaker, and there is less potential to realize on merchant banking gains, merchant banking mandates that you have. But until we see a pickup, should we be expecting that that these gains are going to remain relatively subdued in the next little while?

Ed Clark - TD Bank Financial Group - President and CEO

So just to reemphasize Bob's point on the comp stuff, I have to explain this to my board as well. I mean the reality is that the core franchise part of TD Securities is doing very well and is actually -- so we're quite pleased with the result. And the way you folks know this better than I do, that system works we cannot say to the people you're performing very well. You're not going to get paid because there's other parts of the organization that are not doing so well. And so you can get very what looks like anomalous results on the compensation side.

On the security gains, I know this will sound strange to you, but we do not start with the earnings number we want and then trigger how much security gains we want. We do it from the bottom up, and we have a philosophy. Other people can have different philosophies. My philosophy is, if you start messing with these things to generate targeted earnings, you can waste a lot of shareholder money. The people who run this should maximize the values of those portfolios. If that means I do not get security gains in the quarter, I might like them. That is my problem, not their problem.

And so certainly on the merchant banking side, many of those, in fact, are even if I wanted to, I could not do anything because in the sense they are being driven by the system out there. They are very distributed, and they really do depend on whether or not, in fact, things get realized, their takeovers made or IPOs or whatever that actually (inaudible), and this is not a particularly good atmosphere to bring those -- for people in the private equity business to actually realize gains.

So I think you can anticipate certainly security gains have been over the past few years a major factor contributing to TD Securities overall performance, and I think we are telling you in the long-term I don't think they are going to be at the same levels they have been for the last two or three years. That is why we've brought the targeted earnings for TD Securities down. But certainly in the next few quarters, I don't -- we don't foresee a big contribution from security gains. I think might better than we had this quarter, but I would not -- it is not going to carry the day.

Tim Thompson - TD Bank Financial Group - SVP - IR

And with that, Ed, over to you just to offer some concluding comments.

Ed Clark - TD Bank Financial Group - President and CEO

Great. Well, as I think I said at the -- whoops, thank you. We are actually quite pleased overall with the quarter even though the one element that we obviously were not pleased with was the mispricing. We are on track to achieve what we set out to do with retail earnings, which was $4 billion, and I think we have established a very excellent jumpoff base for 2009.

And, as I was just saying, while wholesale earnings are weaker when we look at where we stand in institutional equity business, where we are in debt underwriting or debt syndication, how our core franchises are doing, we remain quite pleased, but we clearly are transitioning down to a lower running rate for TD Securities. I think our confidence in the future is reflected by our decision to increase the dividend by $0.02. Obviously all of us in the organization remain focused on execution, particularly in making sure that we have a successful integration between Commerce and Banknorth.

Thank you for taking the afternoon.

Tim Thompson - TD Bank Financial Group - SVP - IR

With that, I will end the meeting. Have a good afternoon.

Operator

Ladies and gentlemen, this is the end of the conference call. Thank you for participating, and please disconnect your lines.