Bank Financial Group

Investor Relations

TD BANK FINANCIAL GROUP
RBC CAPITAL MARKETS CANADIAN BANK CEO CONFERENCE
THURSDAY, JANUARY 8, 2009

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PARTICIPANTS

Ed Clark	President and CEO, TD Bank Financial Group
Andre-Philippe Hardy	Analyst, RBC Capital Markets

PRESENTATION

Andre-Philippe Hardy – RBC Capital Markets – Analyst

Okay, well, we'll get started. Our next participant is Ed Clark, President and CEO of TD Bank Financial Group. Ed has been in the bank since early 2000 when he came over from Canada Trust. Ed's often thought of as a retail banker, but he spent a fair amount of time in capital markets and, of course, in government for a period of his life.

So, Ed, on behalf of everyone in this room, thank you for participating. Look forward to our chat. I think you remember the setup. You and I will talk for 30, 35 minutes and then turn it to the floor for questions.

Ed Clark – TD Bank Financial Group – President and CEO

Okay, perfect.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

First of all, I'll just start with a big picture in one. If you look at the last 18 months, help us understand how you feel your bank did well, what you feel the bank didn't do as well and, importantly, how you're positioned for the next 18 to 24 months.

Ed Clark – TD Bank Financial Group – President and CEO

Well, I'd say by and large we think we did well, if you take a look at -- I always say I don't go to the ABM and get out relative dollars, I get out absolute dollars, but in relative dollars we did extraordinarily well. And, even we did a number, back in 2003, I said to investors, I'm going to deliver you 7% to 10% earnings per share growth without major accidents, is really what the pitch was, and over [those] period we delivered 10.4% earnings per share growth. So, in fact, and that's taking $4.88 of what we earned in 2008 and that's taking all the writedowns. We don't believe in this writedowns don't really you money, because in the end they really do cost you money.

So I'd say you step back and you say, we did all right. If -- would I do it again differently? I think the number one thing that I feel badly about was in 2005 and 2006, when we're getting out of the structured product area, which turned out to be a very good decision, we decided, and I obviously made that decision, to be in -- stay in the credit derivative trading business because we, frankly, we're obsessed with risk, and so the idea that we would buy bonds and match them up with credit protection seemed like a pretty good idea at the time. And, frankly, we just never in all our scenario planning -- had never anticipated that a world would be where there'd be no bid for assets. It's just something that hadn't occurred to us.

We were always freaks on liquidity, making sure that we had lots of liquidity. What had never occurred to us is the, of the, world would lack liquidity. So I'd say that would be number one. You could say, I think some people would say, well, we should have raised more common equity, but I actually think, well, all those that stayed, I should also stand up and say and I actually anticipated that September 15th would happen. The government would walk away from Lehman, and as a result of that -- that around the world -- governments would nationalize and create bogus Tier 1 numbers. As you know, the Tier 1 ratio in the US is a bogus number. And that would then cause people to look in the marketplace and say, everyone's got to have 9%, 10% Tier 1 ratios, even though these are dumb numbers.

And so, I didn't do that. And so, I don't actually -- I think in the end we responded as soon as the world changed. We did what we always do, which is here's the problem, let's solve it and let's drive on. In terms of looking forward, I find -- as you know, I'm not a person who disguises how I feel. The oddity is I feel actually quite good, and I think people are worrying that I shouldn't feel so good.

I actually, I think in terms of the Street, have a more pessimistic view of the future than most people. I tend to have those views, so I do think -- I don't see how Canada's going to escape this, so I think we're going to have a pretty deep downturn. And yes, I think that the US stimulus programs will eventually take us out of this. But my whole life experience is, these take time and we're already too far going down that you're going to stop going down. I think what they're going to affect is how fast you get out and how deep you ultimately go. So I don't see how we avoid 2009 looking pretty ugly. On the other hand, I think the thing that I think I find when I talk to people is that -- I don't mean this disrespectfully, people really don't get what a retail bank looks like and how different it is from a wholesale bank and how much a Canadian bank differs from a US bank.

To a certain extent, US banks are restaurants. They have to open for business every day because they sell off their assets. We're not like that. We every day add assets, lock in spreads, so going into 2009, in our businesses, we have an income stream that, frankly, going into 2009, is already higher than it was in 2008, because our balance sheet is bigger and we've locked in those spreads, so we don't sell off those assets. And so that provides an enormous ability for your earnings stream, which means that this is going to be ugly, not going to be fun, but it's not going to be life threatening.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

Let's start with the ugly in the US. So far, you've done amazingly well.

Ed Clark – TD Bank Financial Group – President and CEO

Thank you.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

Again, in relative dollars, and absolute to a certain extent, but you are not in the South, you didn't have a lot of construction lending. You didn't do a lot of third-party brokered loans.

Ed Clark – TD Bank Financial Group – President and CEO

That's right.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

You played that right. As we look at the next leg, which is going to be more C&I, more CRE, can the bank maintain the relative advantage that it's had in the US from a credit perspective.

Ed Clark – TD Bank Financial Group – President and CEO

No. In simple terms -- no, but I do think -- let me put it this way -- I always ask the question, did – to, if it's JPMorgan, or Wachovia, or Wells Fargo, or whatever -- did we do better in issuing secured first-lien home equity loans with high beacon scores to customers in our branches with deposits with us? Well, I think there's some evidence that we did slightly better, but that is not the explanation of why we did so much better than everyone else.

We did so much better than everyone else because we just didn't do all the stupid things, which is, as you know, is my theory of banking. Just stop doing the stupid things, and these are money machines like God has never created before. And so, just avoid those things, and so the question you're asking is, okay, 2008, and 2009, and 2010 will still be banks doing writeoffs from those, and that's why you get these massive numbers, is writing off stuff that just never should have been done in the first place, but because they did those, they brought the US economy to its knees. And so, what's going to happen to a bank that didn't do stupid things?

And I have to believe that we're going to get hurt. I just don't see how we can go on here and have 100,000 jobs lost in New York City in financial services and not be hurt. So that's why we've said we were writing off, or providing for about $35 million a quarter in the US more than we rolled off. And so, we've said we've got to move that number up going into 2009 because we don't know where this is going, but it certainly can't be getting better. And so we ought to be just constantly providing for more than we're writing off here ‘til we get some visibility of what these are.

But the truth is, we're not seeing it in the numbers yet. This is the guns of August that just keep on going, where you say eventually this is going to hit us, and I think it will, but I think the right thing to do for that is to just keep providing -- to the extent to which you're -- as you know, there's a lot of forces that say the accountants will only let you do this to a certain extent. But to the maximum extent that accountants let you, you ought to be providing because I think this will be ugly.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

The positive side of the US, which would be cost synergies, where are you in taking cost of out of both Banknorth and Commerce, and where can you go, still?

Ed Clark – TD Bank Financial Group – President and CEO

I wouldn't characterize it as that, so if I went on -- we didn't do the Commerce deal for cost synergies. We did the Commerce deal because Commerce is the only bank in the United States that gets our business model, and so rather than buy banks and try to teach them our business model, it is so much easier if you buy a bank that gets it, and we think it's easier to take the Commerce simple model and put a lot more complex products through it than it is to teach people how to do customer service that don't believe in doing customer service. So it's a bit like the Four Seasons model.

So, I still think the fundamental -- if you invest in us, you're betting that a customer service, convenience model is a superior model and that a business that has lots of retail concentration and small wholesale and tries to avoid the accidents is where you want to be. We won't get the cost synergies out in big numbers -- and even then, they're not that large numbers, until the end of 2009, because that's when they were converting the Commerce, so we're doing exactly as we did with TD Canada Trust. We're taking this slow, because we want to preserve the culture and the customers.

So when I look at it, I say it's what kind of business growth can we have, how big those PCLs will they be? So I think it's margins and PCLs and then, frankly, on the other side is the exchange rate because right now the exchange rate is more than making up for the extra provisions, but will that always be -- will the Canadian dollar go up and the provisions go up? That would be a bad news story for us.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

Sure. And should we assume that the franchise in a year will have the same footprint or would you use this period of turmoil to grow the footprint?

Ed Clark – TD Bank Financial Group – President and CEO

So what we've said is at this stage we would only do assisted deals. I don't have enough visibility on asset risk in the United States to say how could I decide whether to buy something or not and take the asset risks? So probably, if you wanted an obvious example that's been in the public domain, it killed me to look at Chevy Chase because it was a Commerce look-alike in Washington that would have given us a great position. But when we looked at the assets, we say they're too high risk. So, I don't actually anticipate -- at least certainly for the first half of 2009, I don't see that changing.

And, really, it would only change if we started to get a sense of visibility -- that we now know where the bottom is.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

Moving north, you made some negative comments about the economic outlook, but you also made comments about your spread income essentially being locked in for 2009. How might that go wrong, or how long is that spread income locked in for? A different way to ask the question is when would we see the margin compression come as a result of higher funding costs?

Ed Clark – TD Bank Financial Group – President and CEO

You're already seeing it. There's no question you're having this -- obviously, there's an element of a political debate here, but if you take a look and say why did we drop the prime and why did we drop our deposit rates? Well, we dropped the prime by 100 basis points more than we dropped the deposit rates, and so that's the simplest -- when people tell me, well, why didn't you drop the prime more, I say, hello, you, as a consumer, have deposits and lending. You just got 100 basis points lift out of this. So there's no question that is a factor for us, is that I think there is margin compression going on here.

In Canada, again, if you want headwinds and tailwinds, the negatives are clearly PCLs are going up, clearly, personal bankruptcies are going up. Clearly, our loan losses are going up on our general consumer file. We look at Canada and say the wholesale business basically has not had a loss in five years. I'm not saying we won't have another one for another five years, but that file we cleaned up pretty well. This is all about TDCT in terms of loan losses, and so I think you have to expect pretty significant increases in PCLs going forward, and it really is how this whole -- will we be able to start to recover in the lending markets our cost of lending?

I think every bank is trying to do that, but this is a highly competitive market. The most competitive markets in the world are always oligopolies, where you have a small set of big players who view market share losses as strategic losses. That's what goes on in Canada, and it means that it's very hard to recover those, and we obviously haven't recovered them.

So I think you're going to see margin pressures arise in PCLs. The good news is that our volumes may be good, may be bad, but our volumes continue to be spectacular here and we clearly have an enormously powerful franchise that takes market share every year.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

Volume growth being good, normally, when house prices are going down, that's not good for mortgage, typically, and typically a slowing employment growth environment is not good for unsecured credit growth. Yet we're still getting a good growth.

Ed Clark – TD Bank Financial Group – President and CEO

Yes.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

So what's driving that? Is it foreign competitors getting out? Is it just the slowdown is coming and hasn't?--

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Ed Clark – TD Bank Financial Group – President and CEO

I think this is happening around the world, is I think there's two phenomenas, and this is what makes it confusing or hard to deal with, is there is a reintermediation going on from non-banks to banks. In Canada, there's a reintermediation from non-banks and foreigners to Canadian banks. And then, within the banking system in both Canada and the United States, is a reintermediation between weaker banks and stronger banks.

So you get -- I think this is the first downturn where you've had anything like -- I mean, these are huge numbers, like hundreds of billions of dollars of financing just nonexistent, that has to be refinanced by the banking system. So that is what in a sense this public discussion is, that in fact all banks are having tremendous growth just because they're filling in for people who have left the market. And then within the banks, some are filling in more than others, and we're clearly -- no question about it, we're on the one end of the spectrum of this. And so I think the thing that we obviously worry about is, so are we the last fool? And what should we be basically saying?

We're going into the greatest downturn since the Great Depression, we should just stop lending totally? I think there's two considerations on that. There's one, obviously, there's a public policy consideration, and so do you really stand up and say, sorry, guys, we're out of here. And Mr. Flaherty obviously has views on that, and so we're trying to sit there and say how to do that.

And then the second is how do you actually -- if you want to get, the way we talk about it inside is we say, look, we're going down a deep valley. We're not quite sure how deep and how wide. We've got to do three things. We've got to make sure we get to the other side of the valley. That means you've got to have a lot of capital and a lot of liquidity.

You want to make sure that you get to the other side of the valley with the core elements of your model intact, and you want to end up, in my view, with momentum, because there's no point in getting to the other side of the valley and be totally dead in the water because you won't restart your engines. It's just too hard. But getting the right balance, I'd say, I'm not saying that we don't struggle with this every day, because how you do run a large organization and say, I want you to deal with the fact that we are going in a deep recession, but by the way, it's all right to keep taking market share.

And so, I think that is the scary thing that all of us are trying to work our way through and trying to, frankly, have a professional public policy discussion about that to say the Canadian banks are clearly at one end of the spectrum in the world in saying, "We're going to keep on going." And then that's what leads to this issue of capital, because for the first time, the way I look at it is, we earn, we'll always earn roughly $4 billion, $4.5 billion a year. We have $200 billion of risk-weighted assets. We give out half of it in dividends. Thank God, I didn't listen to the market and make it 60%, but we give 50% of it in dividends, and so that means I've got $2 billion to finance my growth, and I can finance about 10% growth with that $2 billion.

Well, there's a risk in this environment that we start growing at more than 10%, which means then I have to keep on going out and tapping capital markets to try to do this. This is great ROE growth, so, as you know, for us, one of the unique things about us is that we earn 40% to 50% more for every dollar of risk we take than everyone in Canada, and probably twice what you earn in the US. So we are a high, high-ROE business, and so it's a great rate of return, but there's not a market in which you want to have to keep on raising capital.

And so it's -- this is the balance in how do you actually organizational tell people, I want you to have better credits, but you can keep on growing them. Well, I don't think there's a simple answer to that.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

And how could you make us feel comfortable that what you're putting on the books in the context of what's going to be a bad economy is not going to lead to problems? Have you changed the way you underwrite things -- the type of customers you deal with?

Ed Clark – TD Bank Financial Group – President and CEO

Yes so can I -- Yes, let me just make a comment, because you keep getting these surveys that say that banks have tightened credits. So they ask, are you behaving differently than you were a year ago? Well, my answer is, I'm going to fire someone who says the answer is no, right? I mean, like, hello. Of course they're changing differently. But it's the wrong question to ask. The question asked is, if you had the same prospects, economic prospects, for Canada a year ago, would you have come to the same answer you've come to now?

And the answer is probably yes, but we are definitely pushing down on the system to say, assume Canada is going into a deep downturn. And, by the way, our cost of borrowing has gone up dramatically, and so make sure that you're pricing that through.

So those are the forces, so, yes, we're going through every line of business and saying, okay, would you make this loan if you assume we're going to have 8% or 9% unemployment? Just as you know -- a year ago, I got myself into trouble, because I said, we don't lend on $140 oil. Like, hello, have you heard of a hedge fund industry? Like, people say you're nuts, we're going to have $140 oil forever.

We said, no, no, we laid down $40 oil. That's the kind of reasonable number. Well, I think you have to when you do your lending, say, I've got to assume bad things, not good things. And so we are doing that, but notwithstanding doing that, we're getting this phenomenal growth.

So I think every bank, [if] they're not telling you the truth if they're not doing it, because they are doing it. They are going through every loan and saying, are we being prudent enough? But it doesn't mean, I think that -- from the public policy debate, that that says we're tightening credit. It just says we're in the business of making loans that get repaid, and we're looking at the economic circumstances and saying, [does] this loan get repaid?

What we're not going to do, though, is turn down people who we think could repay us. Because I think, A, that's the wrong thing socially, but also, from my point of view, from a business point of view, I do want to take advantage of this and take market share. This is a one-time opportunity to change the game, and why wouldn't I do that, if I could do it prudently? That's hard to do.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

And do you have the capital to do it?

Ed Clark – TD Bank Financial Group – President and CEO

I think we have the capital, but, as I said when I do the little arithmetic, that's an issue. As you know -- I mean, I have strong views on this. The United States comes along and it puts this TARP in and adds three points to the Tier 1 ratio. If we were in the United States today, our Tier 1 ratio would be about 12.5%, so you sit there and you say this is just a con game, a five-year retractable pref we're going to call common equity, because the US government says, Basel was an interesting thought, but we overrule Basel. And so if we look at Wells Fargo, USB and PNC, our tangible common equity is 40% or 50% bigger than theirs. And that's the way I run the bank, is everything starts with tangible common equity, and then you leverage that up in different structures and that's -- so you get that and then you try to maximize your return on risk-weighted assets, which means you maximize your operating ROE.

And, as you know, our operating ROE is huge, so I would say what all the banks are doing now is to say, okay, the market doesn't want to take the bother of doing the arithmetic of what real capital is. They've all brought in to this idea that it's apparent capital that matters, so I think we're all going to go and raise non-common Tier 1 capital to say give the market what it wants, because if you don't they will punish you.

But if you take a look at our tangible common equity ratio, I think, yes, no, that's a very good ratio. By world standards, we're in the upper elite of the world.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

It's a very good ratio with the denominator being risk-weighted assets. What the last 18 months have shown is sometimes those aren't calculated right. That was not a huge issue for TD, but certainly for -- especially European banks. Are you comfortable with those calculations, the kind of capital that's being put --

Ed Clark – TD Bank Financial Group – President and CEO

Yes, so what's driving the market is this fear. That's why TARP doesn't help you, only tangible common equity, is [are] you've got hidden writedowns sitting on your balance sheet? That's what's terrifying the market. So they're seeing this series of what were hidden writedowns then come up and then you say, well, then you're in trouble. And, we don't, so you have to look at it, given our business mix.

I don't want to trivialize, because we've got a great retail franchise, because I stopped running it and put really good management in and running it. But those kind of businesses -- the issues around our retail earnings, which is, as you know, last year we had $4 billion. We had more retail earnings than any bank in Canada, $4 billion, our running rate is $4.2 billion, right now. So going into the year our actual running rate is higher than what we earned last year.

And, yes, you could see a scenario where we dropped back down toward $4 billion. Maybe you could have us where we'd earn $3.8 billion, but that's the territory you're in here. You've got this hugely powerful engine that absorbed it. That's the nature of our bank. That's what makes us a different investment.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

And the only thing that could go wrong with that thinking, because you could run that -- let's say $3.5 billion.

Ed Clark – TD Bank Financial Group – President and CEO

Right, a real depression.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

A tremendous depression. What would need to happen for margins to drop 50, 100 basis points? Is that a plausible scenario? How unlikely is it?

Ed Clark – TD Bank Financial Group – President and CEO

I think the 50 to 100, 100 is certainly unlikely. Could you see 50? Could you just see every quarter, you go down 10 basis points in margin compression here? It depends entirely what happens to deposit [pressure] -- again, different banks are in different situations, so we -- TDCT self funds, and that's just, again another huge difference, so what you get on one side, you lose on the other side.

But if the government kept saying we want you to take your lending rates to zero but the market says you've got to keep your deposit rate there, then you can do anything to spreads. I don't think that's what will happen, but I think, if I was an investor, I would certainly be concerned, and as an operator we are concerned, is that there's no question I think margins will be less in 2009 than they were in 2008, and that's a big number, no question about it, because of the huge balance sheet. You move that number a basis point, you move a lot earnings.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

Going back to capital, it felt like you didn't want to raise the capital that the bank raised, yet other banks have raised capital since, so that relative bar keeps moving higher. Is there a point at which you put your foot down and you say, look, I don't care where others are?

Ed Clark – TD Bank Financial Group – President and CEO

Well, I think we've probably for the moment put our foot down on the common equity side, because I think let's not get into a war here on -- and I would say the tangible common equity ratios of the Canadian banks aren't that different, so it's really how much you want to fill-in in this leverage game, so how much you want to change your appearance and, frankly, how much the market can take.

And so I look at it and say, well, to the extent to which -- back up. I think something really exciting is going on here. That's why I am generally optimistic. Canada will emerge, as long as we don't do anything stupid, as the only country in the world where the banks didn't need the government help. They needed the government in a sense to be a positive, and they are being helpful in lots of little ways, but we're not talking the kind of nationalization that's gone on around the world.

And so one of the things, a good thing that came out of all of this, is it happens we led the market and said, you can go and raise common equity. You don't need governments to do that. We just came back in January -- I mean, my own feeling is that we are going to -- this is another positive thing. I think Mr. Bernanke's going to win. He's going to say to the market, I'm going to make it so expensive for you to hold riskless assets that you will finally wake up and say you can take some risk.

And that's really what happened in our preferred share issue, is that the average consumer sat there and said, well, this is 6.25%, but it's actually 8% pretax, effectively government guaranteed, maybe not explicitly, but what are the chances that TD Bank is going to not be bailed out if it did something stupid? And so where else do I get 8% government investments right now? And I think suddenly the retail market came back in January and said, give me more of this, and so when we did our issue, they said, could you give us some more of this piece of paper?

And so I do think that we are going to be able to emerge out of this and say the Canadian bank will not only redefine Canadian banking, I think it will redefine Canada as to say, somehow you guys did it right. It's not obvious, you don't look that smart when we look at you, but somehow you stumbled your way through here and did this right.

And so, I think that's worth fighting hard for, and if that means that when the shorts from the US arrive in Toronto and swagger down Bay Street and say, we're going to short all the Canadian banks and teach you guys a lesson, we're going to put you out of business, you have to take them seriously, fight back. But you don't fight back by going on the market. And so if that means we have to raise non-common Tier 1 ratio to look pretty, I'll do that. It's stupid, but it's good to the interests of my shareholders.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

I was going to ask you a question, but you made me laugh and I completely forgot what it was. Sorry, it's writedowns. So you said this is retail, we'll look at it that way. It can fluctuate, it won't kill the bank. Writedowns are the wildcard. So the way the accounting works, from an income perspective, the way the Alt-A securities book is classified and the credit trading book is classified, it can move the book value, but not so much the Tier 1 capital.

At what point will some of these other than temporary impairments become permanent? What would trigger that in your mind? Is it defaults?

Ed Clark – TD Bank Financial Group – President and CEO

Right, so let's take the Alt-A one, which is the one that everyone gets all -- so let's go through what has to happen. So buying Commerce, you're going to buy a bank. The first thing they say is you've got to mark the book to market. And so we marked down the Alt-A portfolio to where the market was in March of 2008, and then the accountants say to you, but we know and you know that that's not the loss that you're going to take on that, so you have to actually tell us what the intrinsic loss is, and we don't want you to be [wildly] conservative. In fact, we're going to lean against you and make sure that you put as small a number there as we think is justified.

So then you have a big battle with your accountants. You finally get them to be a little bit more conservative, and you pick that number. Now, in Europe, if we were in Europe, if over time that number turned out not to be conservative, we'd just keep moving the intrinsic loss number down, because what you're doing is you're taking where you marked it and where the intrinsic is and over time you're accruing the book value up so that at the end of the day you have the number that equals what you actually lost.

So, in Europe, in international accounting standards, what you would do is you would just say, well, if that number turns out to be wrong, let's just move that number down and accrue less quickly. And the SEC has just come out with a report that said that's the sensible way to do it. But, Canada, we like to do things differently.

What we say in Canada is, so give you an example, suppose you wrote it to $800 and the intrinsic loss was $50, so we were accruing from $800 to $950. Suppose we came to a view that it was really $949. Then they would say, well, why don't you -- you have to then go immediately to where the market is today, not where it was in March. So today the market on an Alt-A portfolio says that housing prices will fall from their peak 75% before we're done, another 50% from where we are today. And so I say, well, if we do that, you won't have to worry about Alt-A. You'll be worried about selling your US Treasury bills, because they will be worthless.

But we have an oddity -- but it is a real issue that we sit there and say, so we're working with the accountants to say we're the only country in the world that has this absurd accounting standard. Why don't we get the right thing? If the answer is that we have to keep moving the impaired down, it has no impact on us.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

You talked about being proud of raising the capital without government assistance, so the assistance, there's been a bit on liquidity but not on capital.

Ed Clark – TD Bank Financial Group – President and CEO

Because they make money. This is where they make money.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

In the US, there's a real question about what the system will look like in three years, with the government as a partner. How different will the TD Bank be in two or three years, given what’s happened in the last 24 months?

Ed Clark – TD Bank Financial Group – President and CEO

I don't want to minimize, but I don't really think -- we're not into big dramatic change people, so we have a simple model, and that's the beauty of the model and it's a model that people keep saying to me, well, you gave the same speech today as you gave in 1992, and I said, right. And in big organizations, that works. And so we're just going to keep driving this customer service, convenience model and we're going to be fundamentally a retail bank. And how big we are in the US depends on will there come a point where I get comfortable buying assets in the United States? I think somewhere in the next two years there are, so I think we could be bigger in the US than we are today.

I think we'll take market share organically on both sides of the border, but I don't see us changing in the next few years in a fundamental sense. And people ask me, well, don't you feel disadvantaged by when we do acquisitions, we don't have the TARP, we're not acquiring companies with TARP, so we have to use real money to do this.

I guess what I think people underestimate is when you go on the government drug, what happens to you over time, when you do that? And I do worry that in the US they have a refi problem that's pretty significant here, when you convince the market that you can only lend to this institution with guarantees. And I think that's where the GE issue, the 30-year issue, is a terrific development.

And the more the US can start pushing its institutions to say, get off this drug as fast as you can, but I say to my shareholders, I'm telling you, I'd rather pay up and issue more common equity and stay off the government drug, because we will run a better institution than if we're on it.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

Okay, we'll open the floor for questions now, to the extent there are any, and I expect there will be.

QUESTION AND ANSWER

Unidentified Audience Member

When you became CEO in '02, you said we were going to downplay the wholesale business, or at least the capital markets business, and --.

Ed Clark – TD Bank Financial Group – President and CEO

So I'm just missing --.

Unidentified Audience Member

When you became CEO in '02, at that point in time you said we're going to try and downplay our future mistakes in capital market activities.

Ed Clark – TD Bank Financial Group – President and CEO

Yes, yes.

Unidentified Audience Member

We went through LBC, single-name things, commercial real estate, telecom in '02, and there's still a lot of adventures in capital market activity. Structured product, you said you were successful in minimizing or downplaying that. You had a CDS book that caused some difficulty. On a go-forward basis, what should we expect will not happen on your watch in terms of capital market activity? If you could address maybe bridge loans, levered loans, and I'm assuming the capital markets come back again to allow for this type of activity to continue on in the future at some point in time.

Ed Clark – TD Bank Financial Group – President and CEO

So I actually think we are going rapidly to where -- maybe I'm wrong, but I think when the regulatory authorities think about this they're going to come to a certain conclusion. Even if they don't, I'm still going to do this, but I think it will get reinforced by what they do. So if you look at what happened to the evolution of capital markets firms, back in the 1980s, if you take the Canadian dealers, they actually added value to society and to the GNP. And the reality is, they made the system work, and they made companies able to buy other companies and they raised money for them.

And then over time, they moved farther along to say that's not where the real -- because spreads was a very competitive environment. We can make reasonable money in there, but we can't make super money here. The way we should make super money is to become trading houses and in becoming trading houses, then they found, well, even there, the profit isn't enough. We've got to be trading houses in more complex products.

But I step back and say, if we didn't do our -- I'm not supposed to say these things, but I'll still say them. If we didn't have tax arbitrage trading going on around the world, would the GNP of the world fall? No. All we're doing is redistributing income from governments to businesses and doing -- there's a ton of activity that goes on and in fact dealers consciously transform themselves to say the real money is to be made in non-GNP value-added activities. So I think eventually the regulators are going to say, why should the taxpayers of the world say you are too big to fail when what you are doing adds no value to society.

If I went down to Las Vegas and then called up Ben Bernanke and said, I just lost my whole stake, would you mind giving me some more money because I want to keep on playing, he'd say, you're crazy. But that's effectively what's gone on here in the last two or three years. So I think there will be tremendous pressure through capital rules and things like that to say get out of those businesses if you want to be in the world where you are too big to fail.

I think from our point of view, as I say, even if they didn't happen, it's where we're going, is we're saying let's go through and say where do we actually add value to clients? Because we are in the wholesale business as a part of a strategy to be a personal and commercial bank in North America. And it does make a difference if we can do swaps or give foreign exchange, layers of credit to the people or raise money for the people. All of [that] businesses. And to do that business, you have to -- on the institutional side, we make markets for our institutional equity players. We're the number one player in institutional equities.

All of those things actually add value to society, and so what we're saying is, we're in the business of doing franchise plays, including trading in a franchise world, but businesses that really add no value and are simply pure prop trading where we're just trading with the Street, between ourselves and this is a who wins, who loses game, we're not really interested in those businesses.

So I actually think the future for TD Securities is actually quite exciting because what we are discovering in the US is that because so many of these dealers moved away from the traditional franchise business. They've ignored the franchise businesses in the catchment area that we are, because they are off saying, no, no, I've got a hunch, bet a bunch and make a million, right? And so that's the world they went to and we're sitting in the heartland.

If you take a look at the top organizations in the corporate sector, they are in our footprint and those treasurers and VPs and people are actually at our banks as retail customers. And so we're saying to them, well, if you've got simple franchise products, that's what [we're] -- and, to me, those are low-risk products, high-ROE products actually, but, to be blunt about it, the people in the dealer who work in that end don't make the kind of super compensation that I've got a hunch, bet a bunch, and if I win I get paid and if I lose you pay. That part of the business, we're getting out of.

Andre-Philippe Hardy – RBC Capital Markets – Analyst

Thank you, and we're out of time, so thanks again, you're always very entertaining.