Bank Financial Group
Investor Relations

TD BANK FINANCIAL GROUP
Q3 2007 EARNINGS CONFERENCE CALL
THURSDAY AUGUST 23, 2007

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PRESENTATION

Tim Thompson - TD Bank Financial Group - VP Investor Relations

Good afternoon and welcome to the TD Bank Financial Group's third-quarter 2007 investor presentation. My name is Tim Thompson and I'm Vice President 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 our third-quarter operating performance. We will then entertain questions from those present as well as pre-qualified analysts and investors on the phones.

In response to feedback from previous calls, we're trying to keep the call to about one hour today with Ed and Colleen's remarks taking up about half that time. As well, we're asking those participating in the question-and-answer portion of the call to ask one question at a time so that everybody has an opportunity to contribute.

Other executives present today include Bob Dorrance, Chairman and CEO of TD Securities; Tim Hockey and Bernie Dorval, co-chairs of TD Canada Trust; Bill Hatanaka, Chairman and CEO of TD Waterhouse; Bharat Masrani, President and CEO of TD Banknorth; and Mark Chauvin, Chief Risk Officer of TD Bank Financial Group.

Please turn to Page 2. We know that this presentation contains forward-looking statements and actual results could differ materially from what is discussed. Certain material factors or assumptions were applied in making these statements. For additional information, we refer you to our annual report. This document includes a description of factors that could cause actual results to differ and can be found on our Web site at TD.com.

Ed, over to you.

Ed Clark – *TD Bank Financial Group – President & CEO*

Thanks, Tim. Hello, everyone, and thank you for joining us today. In a few minutes, Colleen is going to provide all of the details on the numbers for the third quarter of 2007. Before she does, let me start by giving you my perspective on our results and current events. Now, I know we are supposed to keep this short today but you are going to have to forgive me if I speak a little longer than normal because it actually has been a very busy last few weeks.

Turning to our results, simply put, we had an outstanding third quarter at the TD Bank. We delivered adjusted earnings per share of $1.60; that's an increase of 32% over what was a very good third quarter last year and up 18% from a very strong second quarter.

More pleasing to me than the numbers, our performance is a validation of our strategy. A big part of what makes us different, a different kind of bank, is the way we position TD to deliver consistently growing earnings in our retail businesses while shifting the risk/return strategy within our wholesale business.

TD Securities' outperformance reflected great results across its businesses, and was aided by the fact that as a bank, we've always positioned our trading businesses conservatively, long both on the volatility and credit protection. In the context of these great results, the Board has raised the dividend to $0.57 or 8%. With this increase, our dividends this year are up 19% in 2007 compared to 2006, a spectacular performance and great news for our shareholders.

At the risk of being repetitive, as you know, we have a consistent approach to dividend policy. Dividend increases reflect our view of increases in sustainable earnings. The best way to have consistent dividend growth is to build franchises which deliver consistent earnings growth. That's what we do. We manage capital levels through securities issuance or buybacks. Our preference is to buy back shares to mitigate the dilution effects from options.

Let me go now into some more details on how each of our businesses performed. Our Canadian Personal and Commercial bank and Wealth Management in Canada posted another strong quarter, up 16% year-over-year. On top of a 22% year-over-year growth in the third quarter last year, this is really an unbelievable achievement.

Looking at TD Canada Trust specifically, 9% revenue growth in that business represents continued broad-based strength. Following up on last quarter's great expense performance, expenses grew by just 1% in the third quarter to create outstanding operating leverage of 8%. This performance delivered an efficiency ratio of 50%, an amazing achievement. Looking out, we expect to see our revenue and expense gap to move more closely in-line with our 3% paradigm.

Canadian Wealth Management kept up its impressive track record with another very strong financial performance. Increased volumes in the mutual funds, discount brokerage and advice-based businesses all contributed to bottom-line growth. The continuing investments we're making to build out our advice channels and mutual funds keep proving that we can grow earnings while creating solid growth opportunities for the future.

Again, even more important to us than the numbers is our focus on franchise building. TD Canada Trust leads in the service and convenience brand space in Canada. We continue to reinforce that brand by increasing our branch hours even further. This fall, over 800 TD branches across Canada will be open at least 62 hours a week, including 8 AM to 4 PM every Saturday. As we like to say around here, open at 6 -- open at 8, six days straight, ain't that great!

In terms of a simple way of looking at this, our branches are open more than 50% longer, on average, than the other four large Canadian banks. When you couple those longer branch hours with our clear, undisputed leadership position in online banking, you get a retail banking franchise that delivers exceptional customer service around the clock every day of the year.

Turning to the wholesale bank, we had a record quarter, up 41% over last year. Now, this result significantly exceeded our expectations and was different from the seasonal slow down, which we particularly expect in the third quarter. The pace of progress that we're seeing in building a great franchise is a wonderful validation for the hard work that's gone into moving it to where we are today. We continue to solidify our position as a top three dealer in Canada.

Now, we would expect our fourth quarter will resume more normalized performance, consistent with last year which, as you know, is usually our weakest quarter. Given recent activity in the capital markets, I want to make some general comments about our wholesale bank. As you know, we repositioned TD Securities to get out of businesses where the risk is not transparent because of illiquid markets and long tail or model risk. This quarter was a perfect example of how our shareholders benefited from that business strategy. But you cannot be in the wholesale business without taking risks.

The issue is, what risks? In trading, as I've said, we are focused on transparent and liquid markets. For our domestic franchise businesses, we want to use our balance sheet strategically to support our clients. That's why we underwrite loan transactions.

Now, as you can imagine, we have a rigorous process around underwriting. We watch the number of deals we do at any one time so that if there is market disruption, we won't be caught simultaneously with a number of deals. We ask ourselves a very simple question. If we need to, would we be happy to hold this credit to term? Finally, we stress test our decisions to see what it would cost us, after fees, to exit in a tough market if we don't want the single name concentration.

Now, normally we would not comment on specific deals, but I will make some comments about BCE, because elements of it are in the public domain. However, please bear in mind that because the deal is in progress, we will not be able to talk about many of the details.

The BCE deal is a landmark transaction in Canada, and we are proud to be playing such a key role. The deal is completely consistent with our wholesale strategy to build on our franchise businesses and furthers our goal to be a top-three dealer in Canada. We subject it to the same standards as we do all of our deals.

BCE is a good example of our risk approach in action. We will take risks when the risks are transparent, when we can understand and measure those risks. While it is a relatively large underwriting, we consider the credit risks for BCE to be acceptable for a major Canadian diversified market leader in this industry, and we're quite comfortable with the risk.

As to our overall position, how are we feeling today? Very comfortable. We have a limited underwriting portfolio, and we do not see it posing significant earnings risk to us going forward, nor do we see ourselves pulling back for our aggressive support for our clients.

Looking at our U.S. operations, we saw solid contributions from both TD Banknorth and TD Ameritrade. TD Banknorth said they were going to earn $108 million, and they delivered right on track with $109 million, even with the much stronger Canadian dollar, a terrific result. We know there's still lots more to be done at TD Banknorth, and we are continuing to drive forward to ensure we meet our organic growth objectives.

At TD Ameritrade, they delivered exactly what they said they would. They successfully moved TD Waterhouse customers to the TD Ameritrade platform and are removing costs from their operation. They are now focused on their long-term potential to grow organically and deliver value to their shareholders.

Current market turmoil has underscored the superiority of the TD Ameritrade business model. For example, with regard to TD Ameritrade's banking relationship with TD Bank USA, TD Ameritrade gets its net spread with no costs, no capital, and no risk. The risk-adjusted return is dramatically higher than if they had their own bank. The result from TD Ameritrade is a superior expense ratio, a higher ROE, and a better multiple.

In addition, TD Ameritrade has access to the full suite of banking products of one of the top ten banks in North America at similarly attractive rates. TD Ameritrade can be a pure-play brokerage firm with the resulting P/E while still offering the appropriate set of banking products. That is great for all TD Ameritrade shareholders.

Now, there continues to be a number of rumors concerning possible deals with respect to TD Ameritrade. Let me underscore points TD Ameritrade and we have made in the past without commenting on any specific situations, which obviously would be obviously inappropriate for me to do so. It will be the TD Ameritrade board that will decide whether or not to make an acquisition. TD is totally supportive of an acquisition that management and the Board view as right in time, right in strategy, and which creates value for all shareholders. Indeed, the governance terms we have with TD Ameritrade specifically provide for the opportunity for TD Ameritrade to make acquisitions using shares, which would dilute our stake and provides us with adequate time to bring our shareowners back to our 39.9% ownership limit.

The key issues in looking at deals are strategic. Joe Moglia has made clear on many occasions that he recognizes the value of consolidation opportunities, but the issues are complex.

Specifically, Ameritrade, before the TD Waterhouse acquisition, and TD Ameritrade since that acquisition, have consistently followed a pure play brokerage strategy that's focused on moving from a pure transaction player to one which also gathers assets from long-term investors. This strategy has proven to be very successful. TD Ameritrade remains open to pursuing acquisitions which enhance shareholder value and continuing to try to find ways in which to deal with any issues that may arise in order to unlock opportunities. TD will support them in doing so.

Let me close by commenting on the current financial market turmoil. While no one likes to see this degree of disruption, there is a positive side benefit. The market has been moving in recent years to underprice risk, allow excessive leverage, and over-reward unproven structures with significant illiquidity. Now we moved aggressively out of those areas, both on our own balance sheet and in areas where we had fiduciary responsibility. Repricing risk to reflect more accurately in the risk/reward trade-off will ultimately be a good thing, however painful in the short run.

I would also like to briefly address the issue of non-bank-sponsored Asset-Backed Commercial Paper conduits. Canadian banks have worked together to stabilize issues in the Canadian market, and we are working proactively with our customers adversely affected by these events.

Let me look at TD in light of these market conditions. While repositioning the Bank may have helped us avoid some of the most immediate impacts of the turmoil, we are not immune from the knock-on effects if market turmoil slows capital market activity or feeds into a slower economy. Our business mix will be a strong positive, and our relative performance should be very good. But a major slowdown would produce slower earnings growth. So far, we haven't seen it, either in our retail or our commercial lending businesses. Indeed, the net result has been positive for online discount brokerage businesses but the risks are clearly there.

My own view is that the deleveraging of the system and the repricing of risks will take some time to work through. But capital markets are well capable of doing so, and over time, as more information comes out, the market will more and more begin to differentiate the players to better understand who is and who is not at risk. We will likely see a somewhat slower economy in 2008, but I don't actually see a dramatic fall-off. In this kind of scenario, TD will continue to perform well.

With that, I will turn things over to Colleen.

Colleen Johnston – *TD Bank Financial Group – CFO*

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

Let's start with the quarterly highlights. Total bank adjusted net income was $1.164 billion, up 31% from last year. This translated to adjusted EPS of $1.60, up 32% from last year. All of our businesses contributed to the growth, an excellent quarter overall. Our Canadian retail businesses continue to perform very well -- $723 million for the quarter, up 16% year-over-year.

Net income from our U.S. retail businesses, TD Banknorth and TD Ameritrade, was $168 million, up 37% from last year. Our wholesale net income of $253 million was up a strong 41% versus last year and up 17% from a strong second quarter of 2007. The corporate segment posted income of $20 million on an adjusted basis, improved from a loss of $37 million last year. Our capital ratios remain strong with our Tier 1 ratio at 10.2% and the tangible common equity ratio at 7.1%. We recently completed our 5 million-share buyback.

We continue to be very pleased with our productivity performance. At the all-bank level, adjusted revenues grew by 9% versus last year, while expenses on the same basis were up just 2%, a gap of 7%. This drove our adjusted efficiency ratio to 57%.

On Page 5, we see reported net income of $1.1 billion or $1.51 per share. We have two items of note this quarter. First, amortization of intangibles was $91 million this quarter or $0.13 per share. Second, changes in fair value of credit default swaps hedging the corporate loan book -- this pertains to mark-to-market on credit protection purchased on corporate loans. During the quarter, the market value of credit protection increased as credit spreads widened, which amounted to a gain of $30 million or $0.04 a share in the quarter.

Let's take a look at our businesses, starting with Canadian retail. Turning to Page 7, we include a basic P&L for our Canadian retail business, which combines both Canadian P&C and Canadian Wealth results. We are very pleased with our 16% year-over-year growth in this business.

Turning to Page 8, we show results for the Canadian Personal and Commercial bank, TD Canada Trust. Net income of $597 million, a new record, was up 14% from last year.

On Page 9, we show revenues for TDCT of $2.1 billion, a new record, up 9% from last year. The increase was supported by strong, broad-based growth.

Impressive volume growth contributed to the $128 million or 10% year-over-year growth in net interest income. In terms of volume growth, Visa cardholder was up 20%, while real estate-secured lending was up 11%.

On the business side, small-business deposits were up 8%, commercial loans were up 11%, and commercial deposits were up 9%. Other income was up $44 million from higher sales and service fee revenues on strong core banking in Visa growth. Insurance revenues were up as well, due to increases in our life business.

Overall, we have experienced exceptional topline growth at TDCT. Revenue growth was strong at 9% but below the double-digit levels posted earlier this year. We expected this result and expect to see revenue growth in the high single digits in the coming quarters.

On Page 10, we show our net interest margin for the quarter at 3.07%, down 1 basis point from last year but up 2 basis points versus last quarter. The increase from the prior quarter was largely attributable to higher mortgage breakage revenue. Margins are expected to remain relatively stable as we head into 2008.

Turning to Page 11, provision for credit losses increased $47 million from last year to $151 million and $8 million from last quarter. Our personal banking provisions increased $48 million year-over-year, primarily due to unsecured lending volume growth coupled with higher loss rates on new accounts. Our PCL as a percentage of average assets is up 1 basis point versus last quarter. We expect continued volume growth in the Visa and other lending businesses to result in modest increases in PCLs for the next few quarters. Small-business and commercial banking provisions remain at historically low levels with low new formations.

Please turn to Page 12. Expenses of $1.05 billion were up 1% over last year and 2% quarter-over-quarter. Our efficiency ratio improved 200 basis points quarter-over-quarter to 50%, yet another new record.

Continued strong top line growth, coupled with disciplined expense growth, resulted in the efficiency gains you see here. Our year-over-year expense growth was due largely to the addition of new branches, while higher volume-related costs and variable compensation were mostly offset by lower discretionary spending, primarily IT development. Our operating leverage of 8% was exceptional in the quarter, and we expect it to narrow next quarter as expense growth normalizes.

Page 13, market share -- personal lending share has improved 6 basis points versus last year, while deposits are down 24 basis points. While we did have good deposit volume growth, it did not keep pace with the industry, most notably the non-traditional financial providers.

We've seen impressive market share gains in our credit-card business with our Visa market share up almost 70 basis points year-over-year. Market share for small-business lending rose 59 basis points versus last year, while other business loans are up 23 basis points. Of note, our small-business lending share has grown from under 16% two years ago to over 18% today. That is amazing progress.

Let's turn to Canadian Wealth Management on Page 14, which excludes TD Ameritrade. This business generated net income of $126 million, up 30% from last year, another very strong quarter.

Page 15 -- total revenues of $587 million were up 19% from last year with strong growth across all businesses. Last quarter, I mentioned a change in the structure of our mutual funds that impacts both revenues and expenses. Excluding this change, revenues grew by over 16% with a revenue-to-expense gap of 6%. Mutual fund revenues increased, driven by 20% growth in assets under management. Revenues from the advice channels grew from last year mainly due to growth in both fees and net interest income. This was attributable to 18% growth in assets under administration and an increase in client-facing advisors. Our goal in 2007 is to increase client-facing advisors by 130, an ambitious but achievable target, with 58 advisors added year-to-date.

Discount brokerage revenues were up the year-over-year on increased net interest income and higher volumes but partly offset by lower commissions per trade. Expense growth of 15%, or 10% excluding the mutual fund methodology change, was mainly revenue-related.

On Page 16, we provide a breakdown of the TD Mutual Fund business as a percentage of both the banks and the larger industry group. Versus last quarter, market share for long-term mutual fund is down 2 basis points for the industry and 23 basis points for banks. Year-to-date, TD Asset Management is second overall in long-term fund net sales at $3.5 billion.

Page 18 shows our U.S. retail business, which consists of TD Banknorth and TD Ameritrade. Net income was up 37% from last year.

Next slide -- here we see the contribution made by the U.S. P&C segment to TD Bank Financial Group in both Canadian and U.S. dollars. Q3 net income was C$109 million, up C$47 million from last quarter's adjusted results and up C$41 million from Q3 of '06. In U.S. dollars, net income was up US$40 million year-over-year and US$48 million, quarter-over-quarter. The increase from Q2 was due to higher average ownership, up from 59% to 91%, and improved core earnings. These positive contributions were partially offset by the impact of the stronger Canadian dollar during the quarter. As we outlined in our May 7 call, TD Bank USA is now part of TD Banknorth, and we've moved certain corporate support costs to the corporate segment, consistent with our other segments.

Please turn to Slide 20. U.S. P&C U.S. dollar revenue was US$447 million this quarter, up 3% both year-over-year and quarter-over-quarter. Management reporting methodology changes accounted for roughly 1.5 points of the increase. I will focus my remarks on changes from Q2 of '07.

Contributing to the U.S. dollar improvement was good growth in other income, mainly due to overdraft and ATM fees. Partly offsetting this was the margin decline of 3 basis points in the quarter resulting from the flat yield curve and continued strong competition for deposits and high-quality loans.

With respect to volume growth versus last quarter, loans declined under 1% but deposits were up slightly versus last quarter. The introduction of Earn Smart, TD Banknorth's high-yield money market account six months ago, has helped reverse the recent decline in personal banking deposits. To date, over US$2.4 billion in deposits has been generated by the product, of which US$900 million is new money. This is a great early indicator of success for this product.

Going forward, as outlined during our investor day, our revenue initiatives will continue to be focused on the customer experience, including longer branch hours, filling product gaps in the retail business line, simplifying our fee structure, and tailoring our compensation programs to align incentives with revenue growth and an improved customer experience.

Turning to Slide 21, you can see U.S. dollar P&Cs were relatively flat in the quarter, totaling $31 million versus $30 million last quarter. Both net impaired loans and net charge-offs were up slightly from the prior quarter with net impaired loans as a percentage of total loans at 0.76%, up 2 basis points from the prior quarter. As we commented last quarter, problem loans are concentrated in for-sale real estate. These loans are relatively well secured today but will take some time to work out.

TD Banknorth asset quality has shown signs of stabilization into Q4 of '07. We're cautiously optimistic that the portfolio remains vulnerable to any further weakening in the U.S. economy.

Please turn to Slide 22. In U.S. dollars, non-interest expense was relatively flat versus last year but declined by US$8 million or 3% compared with Q2 of '07, due mainly to the charitable foundation contribution in the previous quarter. Expenses in the current quarter were reduced by the impact of cost-reduction initiatives, offset by investment in business growth and seasonality. TD Banknorth is making good progress with cost control initiatives designed to reduce its annual expense base by 5% to 8%, or US$50 million to US$80 million. As reiterated at our investor day, TD Banknorth expects to hit top end of this range.

Turning to U.S. Wealth Management on Slide 23, you can see TD Ameritrade reported record third-quarter earnings of US$159 million, up 14% from the prior year. TD's investment in TD Ameritrade generated US$59 million of net income for the quarter, up 7% from the third quarter of last year. The increase was driven by stronger TD Ameritrade earnings and an increase in economic ownership, partially offset by a transfer pricing adjustment related adoption of Basel II capital allocation to our TD Ameritrade investment.

Quarter-over-quarter, earnings from TD Ameritrade were down $4 million. This was due to this higher internal funding cost and the stronger Canadian dollar, partially offset by an increase in TD Ameritrade earnings.

Of note, the quarter includes a 3% decrease in average trades per day versus last year. However, recently released July trends show a 21% increase in trades per day from June.

Let's now turn our focus to the wholesale business. On Slide 25, we see wholesale-generated net income of $253 million, up 17% from last quarter, which was also a very strong quarter.

Let's look at details on Page 26. Wholesale revenue of $692 million was up $109 million or 19% from last year. We experienced stronger growth in our trading businesses with higher credit, foreign exchange and equity derivative revenue benefiting from increased market volatility. Our total domestic franchise revenue also improved on higher lending and investment banking fees, which benefited from loan syndications and M&A activity. This was partially offset by lower fixed-income results on weaker trading. Investing revenue was down, driven mainly by lower security gains from merchant banking. Unrealized gains at over $1 billion were down modestly from the end of Q2 of '07.

Provision for credit losses of $8 million was down $7 million versus the previous year, due to recovery of a single merchant banking exposure. The provision is related to the cost of credit protection on the lending portfolio.

Expenses of $326 million increased 7%, primarily due to higher variable compensation, consistent with stronger financial performance, partially offset by lower severance costs.

Please turn to Page 27 for the punch line. Slide 27 answers your questions with respect to various exposures within our wholesale bank. As you can see, we have very limited exposures across wholesale banking. This is a direct result of our shift in the risk/return strategy in wholesale that Ed referenced earlier in his remarks. Ed also noted that we do not have any exposure to non-bank third-party asset-backed commercial paper, and since we did not distribute or sponsor this paper, there will be no P&L impact going forward. Overall, we are feeling very comfortable with our risk position.

Slide 29 -- as I mentioned earlier, our corporate segment posted income of $20 million this quarter, improved from a loss of $37 million last quarter or last year. The year-over-year improvement was primarily due to lower unallocated expenses, driven by lower U.S. brand advertising and certain favorable tax adjustments amounting to $29 million. Now, the gain on the sale of Ameritrade shares that exceeded our ownership cap came in at $6 million. A credit recovery in noncore and better securitization results also contributed to the improved results from the prior year.

While we have definitely shown that it is tough to predict the results in the corporate segment, we will try one more time to tell you that we do have a stated range of -20 to -40. We expect to be within this range in the fourth quarter.

In conclusion, we achieved excellent results this quarter following a great first half. All of our businesses posted higher numbers than last year. All have good momentum and are focused on executing their strategies. Year-to-date, we are up 25% in earnings per share, and we've increased our dividend by $0.04. Our dividends for 2007 will increase by 19% versus last year. We are feeling great about our 2007 results as we move into the fourth quarter.

With that, I will turn it back to Tim.

QUESTION AND ANSWER

Tim Thompson – ***TD Bank Financial Group - VP Investor Relations***

Thanks, Colleen. As I mentioned at the beginning of the call, we are asking those participating in the question-and-answer portion to ask one question at a time. Certainly, feel free to join the queue several times if you have more than one question.

So with that, let's get started. First question? Jim?

Jim Bantis – ***Credit Suisse First Boston - Analyst***

Ed, you alluded to the change in branch hours, just to focus on the topic, a 50% increase in certain branches relative to the peers. You're already number one in customer service, already had longer branch hours. How do you manage this not being overkill versus -- in terms of your staffing requirements? Talk about maybe the benefits that you get from this.

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

So we think it's important to play to your strength. We think that the competitive market around service has increased and so as a result, we do a lot of research as you can imagine on this. We know that customers still care about it. So it doesn't let us off the hook from our expense growth paradigm, the 3%, by any means. It's another investment. Because we are already 25% more hours than the competition, we see this as an incremental add that so far the competition has not matched and so we're quite comfortable that it drives our revenue and we keep our expense growth inside revenue growth.

Jim Bantis – ***Credit Suisse First Boston - Analyst***

When you think of some of the key products that benefit most from branch hours, this should help revitalize the deposit base market share that's been eroding the past couple of quarters?

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

Yes, and more particularly, the one we care about most, which is the core banking, the thicker margin checking account, which is generally what's driven by branch hours as opposed to the tighter margin term and high interest savings account.

Tim Thompson – ***TD Bank Financial Group - VP Investor Relations***

Go ahead, Michael.

Michael Goldberg – ***Desjardins Securities – Analyst***

My question is on BCE, just to follow up on your comments, Ed. I feel like we don't know the whole picture and obviously we're not going to know the whole picture, but one thing in particular -- $3.8 billion commitment, as I understand it overall, that represents over 18% of your common equity at the end of the quarter. I just find it hard to believe that you would commit 18.4% of your common on any one transaction or counter-party, non-government counterparty, unless you were awfully certain that your commitment was offset by equally solid take-out commitments. So, how can you provide any comfort on this issue?

Ed Clark - ***Toronto Dominion Bank - President, CEO***

I don't think we are going to get into the details of this transaction to that extent. I'm just telling you I don't think my track record tells you that I'm a crazy man on risk. I'm very comfortable. The question I always ask myself is, knowing everything I know today, would I redo this transaction? In a heartbeat.

Ian de Verteuil – ***BMO Nesbitt Burns – Analyst***

A question for Bharat -- when I looked at the average loans and average deposits in Canadian dollars which you show here, even if I adjust for currency, it looks, on a linked-quarter basis, as if there is no -- as if it's unchanged. I think TD Bank USA is now included in here. I think that came in this quarter. So I would have thought that you would have done a bit better on the volume front. Isn't there an opportunity to really break away from the pack here and go after jumbos, sort of nonqualifying mortgages that a lot of people seem to be walking away from?

Bharat Masrani – ***TD Bank Financial Group – President & CEO, TD Banknorth***

Yes, so from a core prospective, you're right; we've had flat numbers, but there are some good signs on the commercial loan book. The pipeline is healthy, I would say, and we are starting to see some momentum on that side. However, it has been offset by run-off in the consumer lending book. To some extent, it's understandable, given some of issues that are going on in our markets.

On the deposit side, I think overall deposits are slightly up thanks to the Earn Smart account that Colleen talked about. It was offset somewhat by declining government deposits but I would say that was by design, because those are not very profitable, sometimes loss-making deposits. So overall, I feel good with some of the momentum we've got.

With respect to your question on isn't this a good opportunity? Yes, I would say it is a good opportunity in the sense that, at TD Banknorth, we do not have any direct exposure to some of the problem areas that you talk about. Therefore, in a way, it gives us an opportunity. So we did introduce, over the weekend actually, a 30-year fixed-rate home equity loan to offset some of the liquidity issues in the jumbo market, because we would be happy to take some of these loans. These are good loans as long as the credit standards meet.

So I feel that there is opportunity there. But having said that, you know, some of the turmoil could result in headwinds as well for some of our commercial clients, and I'm watching that. But overall, I feel good that some of the initiatives we announced in our investor day on June 28 are taking hold, and we're making progress.

Tim Thompson - ***TD Bank Financial Group - VP Investor Relations***

Can we go to the phone lines please -- first caller?

Operator

Andre Hardy, RBC Capital Markets.

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

This question is probably for Colleen. We've got a narrower prime B spread. We've got rising wholesale rates. Can you talk about where that hurts margins, and also where you are able to increase margins as a result of spreads on some of your loans that are probably expanding faster on the corporate side than your funding costs are rising? I guess, net/net, what is the impact of the movements in credit spreads on your margins?

Colleen Johnston – ***TD Bank Financial Group - CFO***

So, Andre, we've talked about the key area for margins, which is TD Canada Trust, and we expect those margins to remain relatively stable. Obviously, we have a large retail deposit base there as rates increase. We tend to see some widening of the margins, so we expect our margins to remain relatively stable. You might see some changes related to mix; the same would be true in TD Banknorth, but you're also seeing pretty much a stabilization of those margins as well versus last quarter.

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

But are we going to see a hit or a benefit in wholesale bank on the corporate segment?

Colleen Johnston – ***TD Bank Financial Group - CFO***

No, I don't think you will; I think that will be pretty neutral.

Operator

Brad Smith, Blackmont Capital.

Brad Smith - ***Blackmont Capital - Analyst***

My question relates to the slide on the wholesale banking exposures. I was just wondering if you might be able to provide some detail on your non subprime CDO exposures in terms of perhaps amounts and the sectors that you're exposed to. Also, I was just interested if you can provide a little bit more detail as to what nondirect lending exposure you might have to hedge funds, because I see here you have no direct exposure. Thank you.

Mark Chauvin - ***TD Bank Financial Group – EVP & Chief Risk Officer***

First, the CDO exposure. I mean, given our decision to exit the structured products, we have very little -- we don't really have any exposure to CDOs that would fall into the category of being difficult to value or be illiquid or have long model or tail risk.

In respect to the question on hedge fund exposures, we've always been very conservative in this area, so the only exposure we have is we will only take short-term interest rate swap or FX exposure maybe to a term up to two years. We only really do that on a collateralized basis, meaning that all of the exposure to us they pledge cash to us. We've implemented caps several years ago; we're well within those caps. They have not changed recently, and it's not really a material number.

Brad Smith *- Blackmont Capital - Analyst*

Thank you. I was just wondering if you could put a dollar amount on the CDO exposures that you do have currently, just the aggregate number.

Mark Chauvin *- TD Bank Financial Group – EVP & Chief Risk Officer*

No, the only really CDO exposure that we are comfortable with is that references indexes, which are very liquid in the credit-trading area. I would really prefer not to put a specific number on it.

Operator

Sumit Malhotra, Merrill Lynch.

Sumit Malhotra *- Merrill Lynch - Analyst*

This question is either for Colleen or Bob probably. If I just look at the total trading number in wholesale banking, I see $308 million. I was hoping you could give us a little more color on the loss of 87 we see in other income for the trading under the fair value option. That's larger than we've seen since the standards came in. Could you tell us if we should look at those two numbers at trading and the fair value trading number in combination?

Colleen Johnston – *TD Bank Financial Group - CFO*

Yes, let me help you on that one, Sumit. So, the $87 million is -- there's really two components of that. About three-quarters of the number relates to loans that are in our trading book, and those are fully hedged, so you would see an offset in the line in trading income. So when you're looking at trading-related income, about three-quarters of the fair value amount, as well as the trading income in other income, should be factored into trading-related income.

The other component part, as we referenced in the footnote, is related to insurance. That's about one quarter of the amount and you would see that as an offset to our insurance revenues also in other income. So this is really a classification issue more than anything, but you're right, it is a larger number that you've seen and I think that reflects movements certainly in the loan trading side.

Sumit Malhotra *- Merrill Lynch - Analyst*

Okay, to go along with that, would there be any -- when you mentioned loan trading, would there be any issue or any offset with higher net interest income in wholesale? Because that does seem to be a higher number even ex the trading area. Does that have anything to do with this issue?

Colleen Johnston – *TD Bank Financial Group - CFO*

I think that's what's driving your model precisely -- is that, if in fact you factor in this three-quarters of the 87 and do the calculus on that, then you will come up with a number that looks more normalized versus Q2 and the prior Q3.

Operator

Shannon Cowherd, Citigroup.

Shannon Cowherd ***- Citigroup - Analyst***

I realize it's not that large, but could you give some color to the magnitude as the contribution from VFC?

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

Sure. I would say that yes, it's not that large, but it continues to grow exactly on plan. Year-over-year, the performance is not that high. I think we indicated last quarter that because it is now built into our year-over-year run rate, what was a bump-up of over 1% revenues for example, is now built into the base. So it just continues to grow nicely, as we expected it to.

Operator

Mario Mendonca, Genuity Capital Markets.

Mario Mendonca ***- Genuity Capital Markets - Analyst***

A question for Ed -- in your closing remarks, you suggested that, in talking about the future, you said that retail and commercial conditions still look good despite all the turmoil; nothing is really deteriorating. Were you being specific insofar as leaving out the capital markets environment? Maybe that might be more appropriate for someone else. But what's the outlook on capital markets, specifically trading? Because that was obviously a big quarter.

Ed Clark – ***TD Bank Financial Group – President & CEO***

Well, why don't I give this over to Bob. I think it is notoriously difficult to predict capital markets, but I'm sure he's up to it! (LAUGHTER)

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

I did it really well last time. I guess our view would be that, given the turbulence that's happening in the capital markets in August that, you know, it's providing both opportunities in trading and also risks in trading. So I think, until this quiets down a little bit and stabilizes, you know, I would consider it more of a headwind for the wholesale banking business. We had a quarter in Q3 where all of the major businesses did well. They weren't all at records, but when all major businesses are doing well and we're not showing any losses, credit losses and we're not -- expenses are under good control, it obviously gives you an idea of what one might make in a quarter when everything is firing on all cylinders. That really happens, so I don't think -- you know, we don't look at Q3 and say, well, that's an expectation of a run rate in wholesale banking.

What we do look at, however, is what businesses that we do have, and they are not all correlated. There is a variety of different businesses that we have in wholesale. As we enter a period where we do have a headwind, some of those that are more transactionally driven will suffer more. We do not, however, have only transaction businesses, and we continue to have high expectations of the non-transaction businesses.

So you know, difficult markets means headwinds in wholesale. I like where we are, in terms of the businesses that we have. We like the risks that we have. We don't see large volatility in our business; we don't see major credit losses; we don't see major trading losses. But we do see headwinds. You know, I think as Ed alluded to, the fourth quarter -- and maybe this is why he didn't put it in. The fourth quarter for wholesale doesn't tend to be a great quarter. If you look historically at where we are, we don't see that forecast changing. As you look into '08, you know, we have good strategies, so we are focused on executing them and we will see what the earnings derived there from, but we're not looking for big volatility.

Mario Mendonca *- Genuity Capital Markets - Analyst*

Not changing the range you've historically given us for wholesale?

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

I'm not! (LAUGHTER)

Mario Mendonca *- Genuity Capital Markets - Analyst*

I can't change it for you.

Ed Clark *– TD Bank Financial Group – President & CEO*

In guessing what the range is for the center, we've not been particularly good, and in guessing the numbers for Bob, we've not been particularly good.

You know, I do think that if that's -- we probably -- we will probably have notched that number up. We obviously achieved more progress in building out our core franchise business faster than we thought we were going to make, so I think it's stronger. On the other hand, I don't think there's any doubt that, this year, there's an unusually -- going to turn out to have been an unusually good year.

I think, when we look at our overall businesses, I think we start with the world that we are an 80/20 business. Since we've got 80% sitting in the retail business, that's pretty solid, constant growth potential in it.

Secondly, when we look historically at what people associate volatility in the wholesale business, it's less driven from their revenue line than it is from bad things happening to them, either on the PCL side or trading losses. We've addressed both of those issues in our business. It doesn't mean you won't have trading losses, but the big downsides were taken out. So, we do think that we will end up with a dealer that I think has to retreat, probably, what we did in 2007 but it clearly will be a solid performer because of the nature of the dealer we built.

Mario Mendonca *- Genuity Capital Markets - Analyst*

Just to be clear, the 525 to 625 you've historically given us, you don't want to move away from that right now?

Ed Clark – *TD Bank Financial Group – President & CEO*

We haven't formally moved that number up but I would admit that 525 sounds like a very low number today, given what we've been able to produce.

Mario Mendonca *- Genuity Capital Markets - Analyst*

Despite the environment?

Ed Clark – *TD Bank Financial Group – President & CEO*

Yes.

Operator

John Aiken, Dundee Securities.

John Aiken *- Dundee Securities - Analyst*

Good afternoon. I know you disclosed that you didn't have any exposure to the third-party asset-backed commercial paper conduits. My understanding is that you're not very big within the bank-owned. But taking a look at the Montreal Accord, if it ends up dissolving or doesn't help the liquidity issue, is there any potential or what do you see as the risk of infection coming through in terms of some of your other domestic lending volume growth?

Ed Clark – *TD Bank Financial Group – President & CEO*

I'm not sure I fully understand the question. I think, if I could comment, I think one of the things that was a very positive outcome over the last few weeks was that the six major banks all acted together to say we have to drop certain Maginot Lines here and stop contagion. I think we ended up collectively deciding that Maginot Line was bank conduits versus non-bank conduits. There's no question you could go through and say, well, there are good people or bad things happen on bank conduits and good things happen on non-bank conduits, so it might have not been a perfect split, But I think, when you are dealing with markets, you've got to make life pretty simple. So we ended up making that simple distinction to say we were going to collectively act together to ensure that good operating of the bank conduits. I think we've done that successfully and I think that's a great outcome.

Then with respect to the nonbank conduits, as we indicate, we really had 0 earnings exposure here because we made sure that it wasn't in our system, either in our clients' accounts or in the things that we put them in. So we have no exposure.

Operator

Ohad Lederer, Veritas Investment Research.

Ohad Lederer - *Veritas Investment Research - Analyst*

Good afternoon. Just a question about wholesale markets -- the Bank has exited global structure products, dropped market risk over the last couple of years, and a lot of talk about not going into the sort of longer-tail types of risk. One number that does seem to really jump out is credit default swaps. The overall notional amount of the trading is up very significantly. The swaps greater than five years in term, the growth rate is even higher. I'm just wondering. I guess a general question and a specific question -- in general terms, could you talk about the risks in that business? What -- proprietary versus client, what the revenue contribution is? And then specifically, I understand a lot of non-bank ABCP conduits have been using CDS to synthetically create some of their assets. Does TD do any trading of that sort with the conduits?

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

Well, why don't I start with the trading part of the business? On our credit trading business, which is a proprietary business that we run is a relative credit trading strategy where we are trading -- well, we would be trading bonds versus a CDS, for example, on a hedge basis. So, what we look for is relative value opportunities within credit markets between asset classes, between term structure, etc. We look for options in bonds, etc., that you can monetize through the use of credit default protection. So we tend not to take directional views on credit, tend to take relative views on credit. We would use credit default swaps in terms of building relative value positions.

In terms of counterparty, I would let Mark Chauvin talk about that.

Mark Chauvin - *TD Bank Financial Group – EVP & Chief Risk Officer*

I think the latter part of your question -- do we source credit default protection from the synthetic items that would be in the conduits, a third party? We do not. We have strict standards on what qualifies as acceptable CDS protection, and that would not be a class that would fall into it.

In terms of the risks within the overall credit derivative products trading book, I mean the standards that we use are to make sure that, where we do source protection from indexes, which are extremely liquid, there's clear markets and we have the ability to independently verify the valuations at all times, so we're very comfortable with what we have and what we see at a point in time. It's a large book, but the reality is that they are offsetting. I mean, there's a long and short position, and on a net basis, we keep them with what we consider to be reasonable risk-tolerance limits.

Tim Thompson – *TD Bank Financial Group – VP Investor Relations*

Let's go back to the floor here. Ian?

Ian de Verteuil – *BMO Nesbitt Burns – Analyst*

Bob, I know these are tough markets, but seeing your arm in a sling there, it's tougher than I thought!

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

It happened in August! (LAUGHTER)

Ian de Verteuil – *BMO Nesbitt Burns – Analyst*

When I look at the trading revenues, one of the things that leaps out is the TEB component. When you think about risk, the market has dealt with volatility and liquidity, but surely there is tax risk on this business. I mean, it seems to be over 50% of the revenues, even if TEB adjustment is just 161 and the total revenue is at 168. So TEB is a huge number as a percent of it. I mean, how can you make us comfortable that that's low-risk business?

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

I think -- and Ed might speak to this as well. I think we take a very conservative view on the tax line in TDBFG overall. So I think what we look to do in is the tax strategies that we are using to -- that generate TEB revenue. We are comfortable with what we see the risks that we're taking there. I'm not the tax expert. We have a very, I think, conservative tax area in terms of the various interface that we have with tax at TD.

Ed Clark – *TD Bank Financial Group – President & CEO*

I guess what I would say, to build on Bob's point, I think what you have is a consistency of culture. It's very difficult to run institutions and run inconsistent cultures. You either tend to head in one direction or go in the other. When you start going in a particular direction, I think part of the reason you are getting the results that you're getting today, part of the reason why even on off-balance sheet you don't see us running into trouble is that we all have a view, and we have a view that says we have the banking business; it's got to be one of the most spectacular businesses in the world to be in if only people would not have accidents. The performance between great companies and not-great companies is not distinguished year-to-year. What it is, is do you avoid all of the pitfalls? So I think, even in respect to tax, you would find the same conservatism built into us that we want to make sure we do nothing that would ever get us into any trouble.

Tim Thompson – *TD Bank Financial Group – VP Investor Relations*

Jim?

Jim Bantis – *Credit Suisse First Boston – Analyst*

Yesterday, we saw that Bank of America kind of stepped in to provide some support to Countrywide, and I know the Banknorth model near term is more of an organic one. But when you see these difficult times -- and perhaps they are more than a headwind -- but if you see a competitor in the local marketplace that's under distress, is this an opportunity for the Bank to take advantage of those situations?

Ed Clark – *TD Bank Financial Group – President & CEO*

I think, obviously, we've watched this closely. There actually have been a couple of sales of small banks in our footprint that we might have gone on. We didn't see a price reduction in them that we thought corresponded to what's going on here. So as I said in previous meetings, we wanted Banknorth to focus on organic and get its game plan down. My nightmare scenario is that something comes along that's strategic that I really can't miss and it comes out of the price that I'm prepared to pay. And so far, that hasn't happened, but obviously that dilemma could still arise in these circumstances. But we did pass on a couple of deals.

Jim Bantis – *Credit Suisse First Boston – Analyst*

Okay, thank you.

Tim Thompson – *TD Bank Financial Group – VP Investor Relations*

Michael?

Michael Goldberg – *Desjardins Securities – Analyst*

TD Canada Trust or Canadian personal and commercial net interest revenue was 1388 this quarter. You know, it's up significantly from the second quarter, which is a short quarter. If I adjust for the number of days in the second quarter, it's up about 4.6%. If we look at the margin increase -- 2 basis points -- that would account for about 0.6% growth. So, I'm wondering where the other 4% came from. I noticed that you commented that mortgage breakage fees or revenue contributed to higher net interest revenue. How much was that? How much did that account for the increase? What else contribute to the increase in the quarter?

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

So Michael, we're not going to disclose individual items, but mortgage breakage was an uptick due to what is a great underlying trend, which is that the actual real estate-secured lending market is quite strong and robust. Whenever that happens, more customers look to refinance.

I'm just looking at the breakdown. It's slightly different but of course, it's numbers that you might have calculated, but the base volume growth sequentially, linked-quarters, accounts for a couple of points of our overall 5.8% growth. It's pretty broad-based. I'm just looking at the various pieces that I look at, sales and service fees, home and auto insurance, days impact. So there's a number of positive ones that all add up to that 5.8. So it's pretty broad-based. We're quite comfortable with it.

Michael Goldberg – *Desjardins Securities – Analyst*

Was the mortgage breakage -- was that the biggest component?

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

The mortgage breakage was -- no, not the biggest point.

Tim Thompson – *TD Bank Financial Group – VP Investor Relations*

Callers, please, on the line, the next one?

Operator

Darko Mihelic, CIBC World Markets.

Darko Mihelic - ***CIBC World Markets - Analyst***

My question is for Bob. I will squeeze two in here. Bob, have you lowered trading risk limits? Secondly, being this far into August, what can you tell us about your revenue so far?

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

No, we have not changed our trading risk limits. I mean obviously, we haven't changed our limits. I think different desks would respond to lower levels of liquidity in the marketplace by just adopting less risk where that's suitable. I don't think I want to get into commenting about monthly progress in trading.

Tim Thompson – ***TD Bank Financial Group – VP Investor Relations***

We'll take one last question from the lines, please.

Operator

Andre Hardy, RBC Capital Markets.

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

One for Tim Hockey. Tim, as you retool the credit scoring on the unsecured lending machine or whatever you call it, you know, you had some vintages that had higher losses than you thought. Do you have indications that the retooling is working, in terms of bringing those losses down?

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

Yes, there was a slight uptick, as you know, in the actual growth amount. One way to think about that in PCLs this last quarter is a little over half of the growth in the PCL number was actually due to growth in the underlying book. A couple was the remaining operational issues that we had talked about, so those are being fixed, and about one, I would say, of that 8 growth quarter-over-quarter was due to the credit quality issues we talked about.

The tools that we've now put in place, we've now started to implement a series of quick fixes and then there's a series of call it longer-term fixes that will be implemented. We have quite a strong degree of faith that the actual tool itself and the precision of the changes will be effective, but the issue of course will be that it will take some time, as in 6 to 18 months, to actually verify 100% that it had the desired effect. But we're quite confident that these changes will start proving themselves out.

Tim Thompson – ***TD Bank Financial Group – VP Investor Relations***

Before ending the call, I will ask Ed to make some concluding remarks.

Ed Clark – ***TD Bank Financial Group – President & CEO***

Well, the first thing I want to say is that I have very limited opportunities to take money off my management team on a golf course, as you will understand, but you can always suck them in. They thought an old fogey like me would not say "Open at 8, six days straight, ain't that great!" So here's the $10 that they owe me for having done that. (LAUGHTER).

Anyway, it was obviously, from our point of view, a great quarter. And as I say, a better quarter because in addition to the numbers, I think it demonstrated the value of all the strategic moves that we made, the strength of our fundamental businesses that we have been managing to build. I think our theme is very clearly we are extremely comfortable with what our approach to risk has been, both on the credit and the market side, and I think that making those changes has paid off. I think, when we look forward, obviously 2007 is going to be a great year. We will obviously clearly exceed our earning objectives for 2007, but we remain very positive about 2008. Thank you.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your lines.