



## Overview & Investment Thesis:

- Worldwide, TD Bank Financial Group (TDBFG) has more than 71,000 employees and 2,396 retail outlets serving about 19 million customers in four key businesses. TD's business mix is heavily weighted to deliver consistent and stable retail earnings, generating approximately 85% of its profits from the combination of its Canadian and US retail operations and 15% from its wholesale business. TD is a top 10 bank in North America by market capitalization and 6<sup>th</sup> largest by branches. It ranks among the world's leading online financial services firms, with 6 million+ online customers, has C\$619 billion in assets and is Canada's 2<sup>nd</sup> largest bank by this measure, arguably now possessing the lowest risk profile. Its vision statement: 'To be the better bank'.

- Canadian Personal and Commercial Banking* comprises Canadian banking and global insurance businesses. It serves approximately 11.5 million customers with a full range of financial products and services via over 33,000 employees and through its network of 1,127 branches, telephone and internet banking and 2,733 automated banking machines.

- Because of the acquisition of CT Financial Services Inc. in February 2000, the retail operations of TD and Canada Trust were combined, aiming to become Canada's premier retail bank 'TD Canada Trust'. The integration process was completed in January 2003. Since then it upgraded its front-office platform to an enhanced version of that previously within Canada Trust. The initial goal was to improve customer satisfaction to levels at least achieved by Canada Trust pre integration with TD, simultaneous with tightened efficiency via economies of scale. It has increased branch operating hours - "opens at eight, six days straight" and so now offers 50% longer hours than its nearest Canadian peer with more than 300 branches in 90 communities providing 7 day banking. Unsurprisingly it is now delivering the highest customer satisfaction among the big 5 retail banks (by J.D. Power & Associates) for 5<sup>th</sup> year in a row and rated #1 for customer service excellence in Canada (by Synovate) for 6<sup>th</sup> year in a row.
- TD Life and Health has a customer base of over 3 million and TD Insurance is the 10<sup>th</sup> largest bank-owned insurance broker in the US.

- US Personal and Commercial Banking* serves more than 6.5 million households across a Maine-to-Florida northeastern US footprint via over 19,000 employees and through a network of 800 automated banking machines and 1,269 branches.
- In 2009 opened 47 new stores in high growth markets: Metro New York, Washington DC and Florida and in 2010 acquired The South Financial Group Inc. and the operations of 3 Florida banks from the Federal Deposit Insurance Corporation (FDIC) as well as Chrysler Financial, including its loans and leases of approximately US\$7.5 billion.

- Operates under the brand TD Bank, America's Most Convenient Bank, its branches are open 44% longer than the norm of its major US competitors.

- Wealth Management* comprises a number of advisory, distribution and asset management businesses including TD Waterhouse, TD Mutual Funds and TD Asset Management (Canada's 2<sup>nd</sup> largest asset manager with 211 offices and 269 worldwide). Assets under administration are \$224 billion and assets under management are \$183 billion, served by over 7,000 employees including 722 Investment Advisors and 686 Financial Planners.

- Through Wealth Management's discount brokerage channels, it serves customers in Canada (TD Waterhouse Discount Brokerage) and the UK (TD Waterhouse International). And in the USA TD's discount brokerage operations are serviced via its 45% ownership of, the industry leader, TD Ameritrade which has over 6 million client accounts with assets of \$395 billion that generate approximately 420,000 trades per day, making it the USA's largest online retail broker.

- Wholesale Banking* (includes TD Securities) provides a wide range of capital markets products and services to corporate, government and institutional clients in investment banking; debt capital markets; institutional equities; private equity; corporate lending; credit-interest rate - and equity derivatives; and foreign exchange. It operates via over 3,200 employees in over 20 locations including the key financial centers: Toronto, Montreal, Calgary, Vancouver, New York, London, Singapore, Hong Kong, Sydney and Melbourne.

- Focus of Wholesale Bank is on expanding its North American fixed income and foreign exchange businesses and cementing to position as a top-tier integrated domestic investment dealer.

## Business Description:

The Toronto-Dominion Bank and its subsidiaries are collectively known as TD Bank Financial Group (TD). TD is Canada's second-largest bank by assets and market capitalization and is a leading North American Financial Services Company. TD operates four businesses in a number of locations in financial centers around the globe: Canadian Personal and Commercial Banking, including TD Canada Trust; Wealth Management, including TD Waterhouse and an investment in TD Ameritrade; Wholesale Banking, including TD Securities, and United States Personal and Commercial Banking through TD Bank America's most convenient bank, which in December 2010 announced the acquisition of Chrysler Financial for US\$6.3 billion.

## Industry Growth Drivers/Trends:

- Well positioned to exploit emerging technologies, to drive down its operational cost base and reach more clients via a diversity of delivery channels and cross selling - particularly, home & auto insurance and wealth management products.
- Focused on operational excellence - 'on simply doing it better'. TD wants to "continuously earn the right to serve customers and continually re-engineer processes to lower costs, increase capacity and improve customer satisfaction"...its Canadian retail business revenue growth has out-performed Canadian peers.
- Growth is based on effective risk management, TD is a North American leader in maximizing return on risk having emerged relatively unscathed from some of the "toxic" asset issues which beset its competitors.
- Demographic and secular trends will increase the demand for wealth management services. These trends include growth in the size of financial markets, aging populations, outsourcing of pension assets, underfunded government pension plans and increased cross-border investing.
- Financial services in the USA are converging. TD's US platform following the Chrysler acquisition is well placed for above average loan growth.
- Among Canadian banks, in our view, TD's North American wealth management platform, augmented by the TD Ameritrade deal, has the highest potential upside and TD's resolve to build a superior customer service model will further differentiate TD and so be an opportunity for growth.

## Competitive Advantages:

- Household brand name operating within an oligopolistic market, 'TD Bank, America's most convenient bank.'
- Significant market shares in key retail products and services, includes most branch opening hours in Canada.
- Harnessing IT with a service-oriented approach.
- Experienced and resilient management team operating a conservatively-run bank with strong risk management practices.
- Increasingly North American award winning retail franchise (one brand, one model, one product suite).
- Strong capital positions group well for evolving global regulatory environment.
- A North American retail focus - a lower-risk business with consistent earnings.

## Competitors:

- 4 large Canadian retail banks and all mutual fund companies in Canada and Bank of America and Royal Bank of Scotland (Citizens) in North East USA.
- Discount brokerages (Charles Schwab, 8m active a/cs, E\*Trade, 4.2m active a/cs).
- Onshore low cost bank entrants (e.g. ING Direct and ICICI Bank) and more traditional newer entrants (e.g. HSBC).
- Retailers (e.g. Loblaw - PC Financial).
- Investment/Wealth Management banks - e.g. Bank of America Merrill Lynch, UBS, Morgan Stanley and Ameriprise.

## Barriers to Entry:

- Regulatory compliance costs include information technology (IT) and capital.
- Extensive branch network, which would be prohibitively expensive to replicate.

## Customers:

- Diversified customer base.
- No single customer contributes a significant amount to total revenue.
- Diversified loan portfolio.



## Officers and Directors:

**Leadership team:** Chairman, Brian Levitt; President & Chief Financial Officer, W. Edmund Clark; Chief Financial Officer, Colleen M. Johnston; Group Head Canadian Banking, Tim Hockey; Group Head US Personal and Commercial Banking, Bharat Masrani; Group Head Wealth Management, Mike Pedersen; Group Head Wholesale Banking, Bob Dorrance.

## Corporate Governance:

- **16 member board** – 14 of the 16 are independent save for W. Edmund Clark and Hugh Bolton (non-exec chair of EPCOR Utilities).
- Brian Levitt, Chairman, has served on Board since 2008. The Board's standing committees are comprised of independent directors including the Audit Committee (Chair: William E. Bennett); Risk Committee (Chair: Harold MacKay); and Human Resources (Chair: Wilbur Prezzano).
- Directors are from a diverse range of backgrounds (i.e. telecommunications, computing, food and natural resources, academia, legal and financial services).

## Ownership:

Royal Bank of Canada 6.7%, Harris Financial 4.5%, CIBC 4.3%, TD Asset Management 3.1%, Pyramis Global Advisors 3.0%, Bank of Nova Scotia 2.8%, Jarislowsky Fraser 2.7%, BlackRock 2.4%, C.I. 1.9%, IG Investment Management 1.5% .

## Capital Allocation/Uses:

TD has a centralized finance group that is responsible for acquiring, maintaining and retiring capital. Acquisitions and organic growth have been funded through issuance of new capital and retained earnings and save for the loss in 2002, the management of capital has been extremely value enhancing. TD management is determined to maintain the trend of ongoing value creation, in sync with their business mix strategy of remaining heavily weighted on retail and commercial banking. The acquisition of Chrysler Financial reinforces the strategic intent that its portfolio of retail and wholesale businesses are to remain heavily biased (approximately 80/20) to retail and are managed for long term maximization of total shareholder returns. Group remains interested in acquiring franchises in the USA with clear preference for them to be insured by the Federal Deposit Insurance Corporation, so providing low risk entry. TD is also expected to reinstate a more progressive dividend policy as the global regulatory environment and markets' asset and earnings visibility improve.

## Key Products:

- **TD Canada Trust** - Maintains extremely strong market shares in Canada in the provision of personal loans, mortgages and deposits. Has number one or two market shares in most measures of retail banking.
- **TD Wealth Management** - Through TD Asset Management, TD is one of Canada's largest wealth managers. TD Waterhouse is regularly cited as the best self-directed broker in Canada and TD Ameritrade ranks as one of the top 3 in the United States. TD Investment Management was the fastest growing pension money manager in 2010.
- **TD Securities** - Originates debt and equity capital issues and is a leader in Credit Derivatives (i.e. Swaps, Currency Options and Forwards) in Canada; and is a top three dealer and a key player in North American foreign exchange markets and top 3 dealer in Canada for mergers and acquisitions, equity and fixed income trading and fixed income underwriting.

## Business Mix:

Net Income	2007	2008	2009	2010
Canada Retail Banking	54%	61%	51%	55%
US Retail Banking	8%	18%	13%	18%
Wealth Management	18%	19%	12%	12%
Wholesale Banking	20%	2%	24%	15%

Geographic Mix	2007	2008	2009	2010
Canada	58%	81%	80%	78%
USA	18%	18%	18%	20%
Offshore	24%	1%	2%	2%
Total	100%	100%	100%	100%
Customer Loans/Deposits	76%	66%	71%	66%

North American Credit Exposure	2007	2008	2009	2010
Residential Mortgages (global exposure)	31%	25%	26%	26%
Consumer Loans	39%	37%	40%	40%
Real Estate	7%	11%	10%	10%
Agriculture & Forestry	2%	2%	1%	1%
Automotive	1%	1%	1%	1%
Chemicals, Metals & Mining	2%	2%	1%	1%
Financial	5%	5%	3%	3%
Food, Beverage & Tobacco	1%	1%	1%	1%
Government & Health Services	2%	3%	4%	5%
Industrial Construction	1%	1%	1%	1%
Media & Entertainment	1%	1%	1%	1%
Oil & Gas	2%	2%	1%	1%
Utilities & Telecom	1%	2%	1%	1%
Retail Sector	1%	2%	2%	2%
Manufacturing	1%	1%	1%	1%
Transport	1%	1%	1%	1%
Other/Other International	2%	3%	5%	4%
Total	100%	100%	100%	100%

Interest Earning Assets	2010			
Bank Deposits	4%	4%	4%	3%
Treasury	8%	10%	7%	10%
Trading Assets	36%	34%	34%	34%
Loans to Consumers	52%	52%	56%	53%

## Financial Statement Summary: (\$MM, years ended December 31)

Income Statement	2006	2007	2008	2009	2010
Net Interest Income	6,371	6,924	8,532	11,326	11,543
Other Income	6,821	7,357	6,137	6,534	8,022
Provisions for Credit Losses	(409)	(645)	(1,063)	(2,480)	(1,625)
Non-Interest Expenses	(8,815)	(8,975)	(9,502)	(12,211)	(12,163)
Taxes	(874)	(853)	(537)	(241)	(1,262)
Net Income	4,581	3,977	3,774	2,953	4,450
EPS	6.39	5.53	4.90	3.49	5.13
Diluted EPS	6.34	5.48	4.87	3.47	5.10
Dividend per Share	1.78	2.11	2.36	2.44	2.44
Balance Sheet					
Common Equity	19,207	20,980	29,800	35,325	38,907
Book Value per Share	26.77	29.23	36.78	41.13	44.29

## Key Profitability Ratios and Figures:

Y/E December 31	2007	2008	2009	2010
Tier 1 Capital Ratio	10.3%	9.8%	11.3%	12.2%
Total Capital Ratio	13.0%	12.0%	14.9%	15.5%
Assets-to-Capital Multiple	19.7x	19.3x	17.1x	17.5x
Efficiency Ratio (Costs/Income)	62.8%	64.8%	68.4%	62.2%
PCLs % of Average Loans	0.37%	0.48%	0.98%	0.60%
Loan Loss Reserve of Loans	0.76%	0.70%	0.94%	0.86%
Loan Loss Reserve Impaired Assets	228%	133%	103%	67%
Return on Average Equity	19.3%	14.4%	8.4%	12.1%
S&P Senior Rating of Debt	A+	AA-	AA-	AA-

Sourced from Annual Report.

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