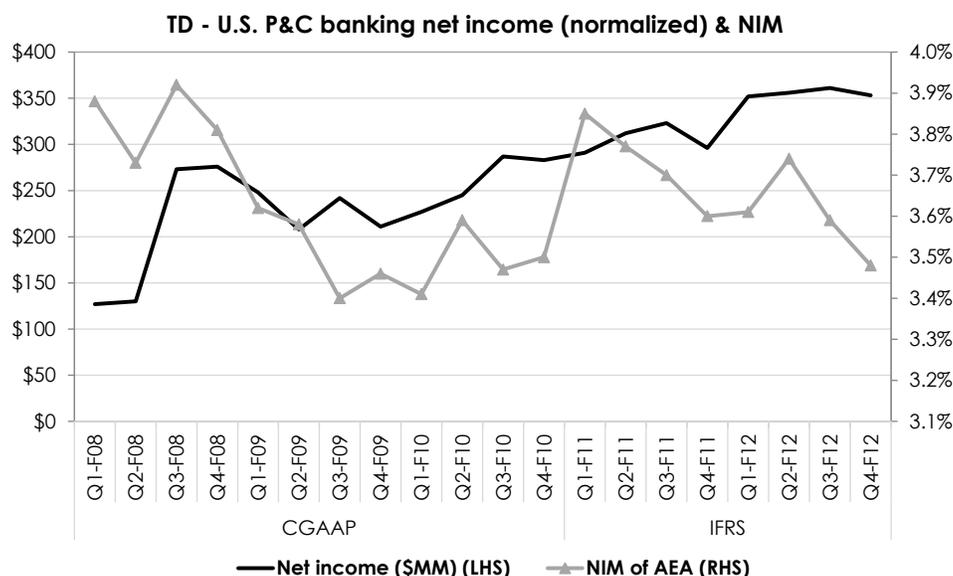


Toronto-Dominion Bank (TSX: TD; NYSE: TD) Q4-F12 Summary

TD's fourth quarter results were a mixed success, at best. A key engine of growth – TD Canada Trust – sputtered slightly for the second consecutive quarter, while a soft tax rate in the dealer and a lower-than-guided corporate segment loss pushed TD's consolidated numbers over the top. The outlook remains challenging, as Canadian credit growth is decelerating and low interest rates continue to wreak havoc, especially on the more deposit heavy of banking franchises.

TD reported GAAP diluted EPS of \$1.66 and adjusted EPS of \$1.83, compared to the consensus expectation of \$1.80. Although TD Canada Trust reported 10.2% earnings growth, we believe that once MBNA's earnings stream, which was acquired effective December 1, 2011, is stripped out of the results, organic pre-provision net revenue (PPRN) growth was just barely above 1% year-on-year, well behind Royal Bank though better than both CIBC and BMO, which reported slight PPRN declines.

In the U.S., 16% average loan growth propelled the segment to significant earnings year-on-year growth, though it has to be said that Q4-F11 was a definite trough. In fact, the on-going momentum in U.S. earnings has flattened out considerably in F12, as narrowing margins and Durbin crimped the top line. Although Durbin will be in the comps going forward, the difficult rate environment shows no sign of letting up. TD is investing in bolt-on acquisitions in an attempt to regain the momentum trajectory.



Source: company reports, Veritas adjustments.

TD's capital position remains on solid footing. TD's pro forma fully phased-in Bill CET1 ratio is reported to be 8.3%, up a greater-than-expected 50bps sequentially, though 24bps will be used to buy Epoch. There are a few reasons to believe that earnings could move higher in the near-term. The current quarter included \$30M of loan losses in the U.S. and \$22M in Canada due to a regulatory / definition changes, and the insurance business was hampered by severe weather in both the U.S. and Canada.

Bottom line, while the results were outshone by other Canadian banks this go-around, we did not see enough to change our Buy rating on TD (Veritas does not employ Hold recommendations). Importantly, though, the current earnings trajectory of TD's core segments suggests that consolidated 6% earnings growth may be a touch much. We maintain our Buy recommendation but put our valuation Under Review (prior: \$85.15). We will revisit our valuation and forecast in more detail after the quarter.

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TD announced the acquisition of Epoch Investment Partners for \$668M.

Epoch – oddly enough pronounced “epic” – is a fast growing, highly profitably asset manager based in New York. The firm, which trades under the ticker symbol EPHC, manages \$24B in assets, primarily in U.S. and global equities. EPHC’s earnings were \$7.9M in Q1-F13 (ended September 30, 2012) and \$24.8M in F12. The company generated a very strong 46% operating margin in its F12. Therefore, the deal price represents over 20x earnings.

On the conference call, Ed Clark spent a few minutes downplaying the probability of TD doing a transformational deal in U.S. P&C banking in the near term.

TD sneaked by consensus EPS expectations of \$1.80. The bank reported GAAP EPS of \$1.66; removing the impact of a number of items yields adjusted EPS of \$1.83. The quarterly dividend was unchanged at \$0.77, and represents a yield of 3.8%.

The usual characters appeared in TD’s reconciling items: MBNA integration costs of \$0.03 (cumulative after-tax cost over four quarters of \$104M), timing mismatch between hedging derivatives and AFS securities (\$0.04), and \$0.06 of amortization of intangibles. Additionally, this quarter included a charge of \$37M, or \$0.04, for the impact of Hurricane Sandy, primarily on loan losses.

The current dividend represented approximately 46% of Q4-F12 earnings and 39.5% of F13 consensus earnings. Therefore, we would expect continued dividend increases into F13. Should TD end up earning the consensus expectation, it could grow the dividend 14% to get to the mid-point of its recently increased dividend payout ratio.

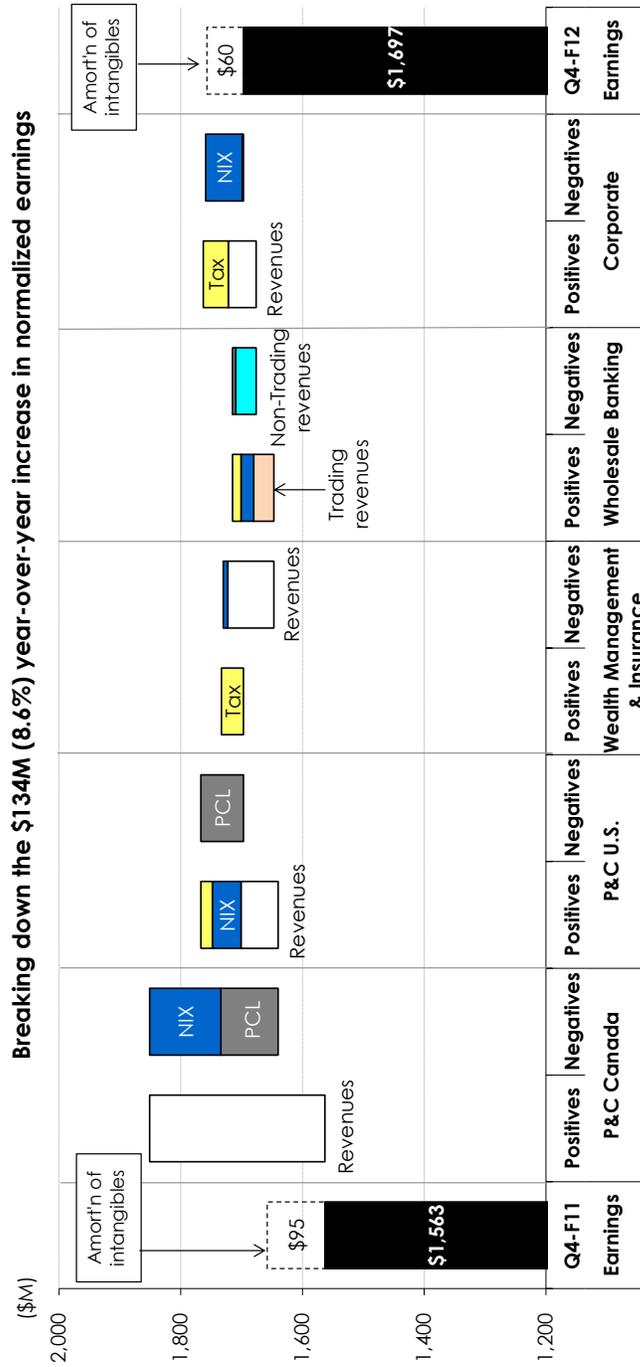
Other key factors:

- At the third quarter, the corporate segment delivered net adjusted earnings that were far better than prior guidance had suggested. Management noted that in Q4, the original guidance stood (a loss of \$40M-\$80M) and investors should expect a result at the higher end of the range. Once again, the segment provided a positive surprise, with Corporate putting in a loss of only \$29M.

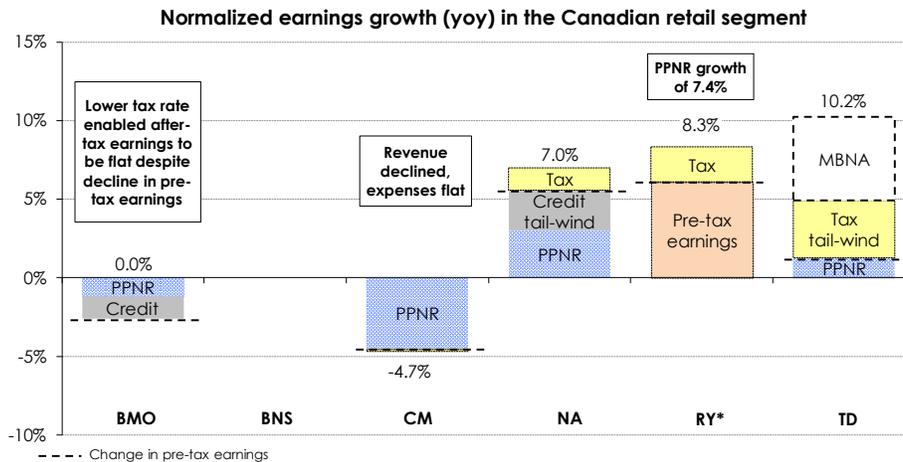
Management noted on the conference call that it would no longer provide guidance for the corporate segment; with the very next breath, it was noted that F13’s average corporate loss would likely be higher than the average loss for F12 – which was \$2M – but lower than the previous range.

- Over in the dealer, revenues were flat to the prior year, though 12.8% higher than the average of the first three quarters of the year. Pre-tax earnings were 4.6% higher than the prior year, but a very low tax rate – 9.9% - resulted in \$309M of earnings, up 10%. Normalizing the tax rate to 15% would have cost \$0.02 on a consolidated EPS basis.
- Loan losses in the U.S. have become progressively harder to analyze as time has passed, what with acquired impaired loans, loss sharing, changes in IFRS terminology and classifications, specified items, and regulatory changes. Nevertheless, we believe that core personal loan losses in the U.S. P&C segment are running at about 86bps annualized, even with last quarter but roughly double the level last year. Our metric excludes Hurricane Sandy and the \$30M of ‘catch up’ provisions taken this quarter in response to changing regulatory guidelines that required additional provisions for performing loans where the borrower had defaulted on another bank’s loans.
- TD Canada Trust generated 15% commercial lending growth, the most in the sector (barring Scotia, which reports tomorrow). Personal lending in the U.S. P&C segment was up 25% year-on-year.

Toronto-Dominion Bank (TSX: TD; NYSE: TD) Q4-F12 Summary



Source: Company reports and Veritas calculations.

Toronto-Dominion Bank (TSX: TD; NYSE: TD) Q4-F12 Summary


Source: Company reports, Veritas calculations and estimates.

* We have not demarcated between PPNR and credit where trends had opposite pre-tax income impacts.

TD - residential real estate metrics

| (\$billion) | Balances | Relative to Cdn P&C equity ¹ | Big 5 rank ² |
|------------------------------------------|----------------|-----------------------------------------|-------------------------|
| Residential mortgages³ | | | |
| Insured | \$150.4 | 19.5x | 2 |
| Uninsured | \$67.6 | 8.8x | 4 |
| HELOC ⁴ | \$64.2 | 8.3x | 1 |
| Total | \$282.2 | 36.6x | |
| Condo exposure | | | |
| Developer ⁵ | \$0.6 | 7.8% | 5 |
| Mortgages ⁶ | \$31.0 | 4.0x | 2 |

Trends

- RESL portfolio up \$3B sequentially, residential mortgages balance up \$3.4B sequentially, while HELOCs flat.
- Losses on mortgage portfolio currently at 2bps.
- LTV ratio on uninsured RESL portfolio decreased from 52% at Q3-F12 to 51% at Q4-F12.

Notes

(1) Canadian P&C common equity as disclosed by the company.
 (2) Rank from highest to lowest based on Q3-F12 measures relative to Cdn P&C equity.
 (3) Based on Real Estate Secured Lending portfolio which includes home equity products and securitized mortgages. Total residential mortgages balance is \$154.3B.
 (4) HELOC balances - 75% are in first lien position.
 (5) From Q3-F12 investor presentation, less than 2% of Canadian Commercial portfolio.
 (6) Insured/uninsured mix is 74%/26%.

Source: Company reports, Veritas estimates and calculations.

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