TD BANK GROUP
SCOTIABANK FINANCIALS SUMMIT
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PARTICIPANTS

Bharat Masrani
TD Bank Group – Group President and CEO

Sumit Malhotra
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FIRESIDE CHAT

Sumit Malhotra – Scotia Capital – Analyst

We are ready to get started with the second half of our Bank CEO Day here at the Scotiabank GBM Financial Summit. Without further ado, let me introduce my next guest. Very pleased to be joined by Mr. Bharat Masrani, President and Chief Executive Officer of the TD Bank Group. Bharat first joined TD back in 1987 and has been CEO of the bank since November of 2014.

Bharat Masrani – TD – Group President and CEO

Good to see you, Sumit. Thanks for having me.

Sumit Malhotra – Scotia Capital – Analyst

You too, thanks for sharing here. I thought the best way to get started would be to turn the floor over to you. I think it's fair to say and I mentioned it in my opening remarks this morning. The results for TD and frankly, for the sector have been very strong this year operationally. Markets do what they do. Maybe I haven't seen as much as we'd like from that perspective, but you only control what you control and I think that's what your shareholders are most interested in.

So, why don't we start off with hearing right from the top if as it were – what are the key areas of strategic focus at the TD Bank Group right now, not only for driving strong operating performance in 2018, but in the many years to come?

Bharat Masrani – TD – Group President and CEO

Well, we've talked a lot, Sumit. And I know many of you, and it's great to see so many familiar faces, great to be here. We've talked a lot about TD's strength always has been, can it adapt to the environment it finds itself in? Rather than hoping and praying that the environment will go back to the good old days, and that has meant repositioning where appropriate, making the right investments, making sure that we're building out the platforms or adding to our capabilities where necessary.

And I've been working at that for a while because the environment certainly has been changing quite dramatically. And there was some time when that would mean where our expense growth might be at a particular level or operating leverage might be at another level or whatever the case might be, but it was important. And I think our message was very clear that we will do what is necessary to create long-term value for all of our stakeholders.

So I was happy to see that this quarter, particularly, and that in this year, generally, has worked out quite well. This quarter we posted earnings growth of 19%, as all of you know. Canadian Retail was up 14%, U.S. Retail was up 14%. And Wholesale was slightly down, but we had a bang-up quarter last year. So when I look at all the comparables, I liked where we ended up. And even the year-to-date numbers are good and, more particularly, all metrics that we follow – ROE and return on risk-weighted assets – all of them are trending in the right direction. And this is when we continue to make those investments that I've talked about for many, many quarters.

And the digital space, what the Bank is doing and building our platforms or businesses, coming up with a refreshed product line, particularly in our credit card offerings. So all that is great for the Bank, and I'm glad that some of those teams are working very hard and good to see that the results are bearing that out.

Sumit Malhotra – Scotia Capital – Analyst

Good. Let's delve into a couple of things there, and I think I'd be remiss if I didn't start with what, quite unfortunately, was one of the bigger new stories in the sector of the year and that was some of the, let's call it, media allegations that were levied against the Bank back in March. I'll start by saying this. You referenced the strong results in Canadian P&C. It's tough to see whether there has been any impact in your business, but I think it's important to hear from you at a high level. These articles didn't present the Bank in a particularly positive light. From a senior management perspective, what was the approach when these came out and dealing with some of the accusations that were leveled?

Bharat Masrani – TD – Group President and CEO

Well, as you can imagine, this was not a good event for the Bank, for the banking industry in general. And I mean, I was surprised then because this is not the TD that I know of and I've been around, as you introduced me, for over 30-plus years with the Bank and this was not something that I would associate TD with.

There were alleged complaints against the Bank. And my view was that one issue, one complaint, in this regard is one too many, and we're going to take this very seriously. I did publicly say that I don't believe that this is a widespread problem of unethical behavior or misselling at TD. But notwithstanding that, we're going to do a thorough review. We're going to make sure that this review is detailed. It encompasses all parts of the Bank that deal with retail customers and that we're going to hire a third party to make sure that there's a credible challenge, because in a bank you're very proud, sometimes, ideologies are strong in order to make sure there is credible challenge in the review process and also include our Board because I think from a governance perspective, it's important. We've never been shy in making sure that we are one of the best governed banks around.

And, so the good news is that we just completed – most part of our review is now complete – and my contention at the outset of this that TD does not have a widespread problem or unethical behavior or misspelling – and I'm happy to report that the review has confirmed that. That we do not have a widespread problem. But having said that, when you do a review of this nature, this detail, this extensive, the length of the review, there will be opportunities that will present themselves in how we might be able to enhance some of our approaches in this respect. And we are taking those seriously and, where appropriate, we are implementing them. Things like, could we be better at training, could we have more consistent messaging from a product perspective and the like. So, those are important sort of aspects of how do we continue to be an even better bank and we are working hard to do that. But the good news is that the review has confirmed that we do not have a widespread problem.

Sumit Malhotra – Scotia Capital – Analyst

I want to move off this and into your actual business, so I'm going to wrap it up with a couple of quick ones. I think you referenced this – sometimes in a crisis, you can find opportunity. As this review was undertaken, was there any adjustment that you ended up making to your practices, particularly in the branch level, whether it's variable compensation, whether it's sales objectives? And maybe, most importantly, we haven't heard much about it, but there has been a government, regulatory – FCAC review that's being undertaken for all the banks. Is there anything substantive that investors should expect as far as the impact on Canadian P&C revenue trends?

Bharat Masrani – TD – Group President and CEO

The regulatory review that you're talking about is ongoing. So I think each of the regulators have made their own statements as to how they plan to conduct that, and so that is ongoing.

What did we learn out of it? Like I said, when you do a review of this kind, this extensive, this deep, there'll always be opportunities. It is like saying when I clean up my house on one long weekend, I'm going to find opportunities how to better store some clothes I'm not going to wear. So there are always things that you could do that are going to make you better. And so we have learned a few things. I think training, more specialized training, on consistency – those will be the key things that come out.

But I don't expect this to fundamentally change the way we are operating our businesses because our businesses do embark on ethical practices. We are a customer-centric bank. Our brand is built is around the customer looking in, rather than the bank looking out to the customer. It is all about the customer. We believe in wowing our customers, and that will not change. And that's what we do. I think that offering some types of products that are needs-based is an important part of the banking business and banking offering, and that will continue. So, yes, there are learnings as you would always expect, but I know and I'd like to think that a few years down the road when we look back, I might consider this event to have been a positive part of it because it is probably going to make us even better than what we are already.

Sumit Malhotra – Scotia Capital – Analyst

Good. Let's take that and let's go into the actual business in Canada. I think, certainly, this is me speaking here, my view is that a good amount of the positive reaction in the stock last week was centered around the fact that these allegations didn't have any tangible impact in terms of the financial performance of Canadian P&C. One of the things that you touched on early on was the counter play, if you will, between investments and the business and the market's desire to see consistent positive operating leverage. It came back in a big way this quarter in Canada and it's been there in the U.S.

How do we think about the investment spend at TD and the periods of lumpiness that seem to show up from time to time? Is this just par for the course given the technological focus, or do you feel that you've now got a clear handle on where expense trends are going to be in the near term?

Bharat Masrani – TD – Group President and CEO

I've always said that we're not targeting a particular number for a quarter or for a period because our job as custodians of this great institution is to continue to create great shareholder value over the long term. And if that means we have to make investments that is going to get us to that goal and if that investment may result in a particular quarter where the operating leverage may not be what it is, or the expense growth may seem elevated, so be it. Because we're not going to compromise on doing the right thing for the Bank, just to meet a quarterly number.

Having said that, as you would expect, of course, we inspire to have positive operating leverage. And for the most part, the Bank delivers that. There might be bumpiness here or there for a period of two. And I think that is just to be expected – that's how I would put it. At least from TD, I can talk about TD. The investment needs are widespread, and as they should be. Because the environment is changing, customer expectations are evolving. You've got different demographics at play here. The level of digitization has accelerated quite substantially. The rate of investment in technology from a base infrastructure has changed quite dramatically. So when you kind of aggregate all these factors in, it is important that we keep up with those trends, and with TD, you've seen that. I know many of you know this, but I will repeat it because it is worth repeating. Like an introduction of something like TD MySpend – here is a personal financial management app tool that allows folks to track their spending to see how their spending is trending compared to a period they may have chosen from the past, whether they're spending too much, too little. Now, what does that mean for a bank? Well, we're creating that engagement with this customer. And what we have found is that folks who are using this more regularly have been able to save money and transfer some monies to their savings account, so how that gets integrated from not only experience but the level of engagement we create.

Now, in doing that, that's going to take investment, that's going to take effort, that's going to take, how does your offering fit in with the overall profile? TD MyAdvantage is something we introduced in our insurance business. Now, many insurance businesses have – they give you some contraption that you attach to your car, I think they call it – I think it's called a dongle, that's what somebody told me. And then, the insurance companies will take that contraption out at the end of the year and say, well, your driving habits were good or bad and now we'll adjust your premium. Well, TD Insurance will do this on your iPad or iPhone when you're driving around. You don't have to carry this contraption or whatever. It's creating that engagement – that personalized experience for our millions of customers on both sides of the border. I mean, that is what our brand is, that is what we are working on. We want to create an omni-channel, connected, relevant, personalized experience for all of our customers.

And when we do that, it takes investments, and so the lumpiness is to be expected because that's what we are working towards. But over the long-term trend, are we growing the bank, are we having more customers today than what we had yesterday and hopefully have more tomorrow. Are we penetrating the products we should? Are we deepening those relationships? I think those are far more important than a quarterly trend here or there, although well, I'll take what we did last quarter, but it's more important I think over the long term what are we doing in building out our franchise.

Sumit Malhotra – Scotia Capital – Analyst

I agree with that and we're going to come back to expenses and technology. So why don't I go to just a couple more within Canadian P&C that are maybe more revenue focused. Net interest margin, you had solid expansion in Canada this quarter, and I was interested that your prepared remarks noted, if the Canadian economic environment continues to strengthen, you're going to likely see more in the way of NIM expansion. I don't know if that's directly relating it to the Bank of Canada, but I've asked a few of your counterparts this morning. We did get another 25-basis-point rate hike from the BOC either on a dollar basis or directionally. It would be interesting to hear from you what that means for TD, whether at the top of the house or within the Canadian business.

And number two, if there was one point of contention I thought this quarter has been percolating in the last little while. The question has been from the market, why is TD and Canada flat-lining on the mortgage book but growing HELOCs at a much faster pace? I've been covering this bank for a while. I remember seeing that back maybe 10 years ago as well. And then around the rule changes, it stopped. Is there something in the HELOC product that you think gives the bank better margins or customer flexibility without sacrificing credit risk? So a couple of disparate questions but both obviously important to the Canadian business.

Bharat Masrani – TD – Group President and CEO

On the rate side, I say fundamentally when you look at TD, rising rates is a positive phenomenon for the Bank. In the U.S., we are a deposit-rich bank. We've got, I don't know, $240-odd billion of deposits and loans of $100 billion less, so we've got excess deposits of about $100 billion. So with a balance sheet of that kind, we've had four rate hikes in the U.S., obviously, it's going to be a tailwind for a bank like TD. In Canada as well, given our sort of focus and the growth we have always delivered, and I think the numbers speak for themselves on the chequing products. And rising rates helped that product a lot as well.

So I'd say when you look at from – if you believe that we are in a rising rate environment, then I think generally speaking, it's a positive event for TD. As long as the rate hikes are in an orderly fashion and do not tip the economy into a major slowdown, because if that were to happen on either sides of the border, that would not be positive, not only for TD but for any bank, because that's never a good thing. But the stage we are at in the cycle, I would think that for a while at least, this will be positive phenomena for TD. And I'm reluctant to throw particular numbers out because there are so many moving parts. And to try and create a level of precision and saying this is my NII sensitivity, it's hard as to what is your business mix, where is the growth coming from, how are the credit spreads behaving, you know your deposit margins have expanded, what's the beta? You have interest rate deposits there, interest rates sensitive deposits. And through this cycle, particularly in the U.S., the beta or the amount we have to pass on to the customers has been minimal. Again, when the rate hike happens, what that beta or that amount you're going to pass on will change quite dramatically.

But I think we said it in the call and as well in the remarks – until now we were feeling we'll bump around with a slight negative bias in our Canadian business from a NIM perspective. I think my sense is now we'll still bump around, but there's a positively positive bias on the NIM side. So, that would be the point on the rate side, that I feel good as to where the bank is positioned. And by the way, many of you know this, we are very disciplined in running our treasury, as to how we manage our balance sheet, how we optimize it. And that gives us certain advantages in making sure that any rate moves, that we can optimize the Bank's position.

On the real estate secured lending side, this has been asked of me for many quarters. Hey, TD is not growing as fast as perhaps others in the mortgage business. And I said, well, that is true particularly in the Greater Toronto market and the Greater Vancouver market. Yes, we've been growing, but we have not been growing as fast as others, so by implication, we are losing share. And I think that's okay. Where we are in the cycle, plus we've had a consistent view over any kind of cycle as to what kind of businesses or what kind of business would TD put on our balance sheet. We wanted to make sure that the risk-adjusted assets that come onto TD's balance sheet are consistent with our risk appetite, how we want to handle it. And if that means for a few quarters we may lose some share, so be it. That's the way I look at it.

With respect to HELOCs, there was a product gap at TD and it lasted a few years where we were actually losing share on the HELOC product because we didn't have what we call the FlexLine product, which is kind of a hybrid HELOC-mortgage product put together. And so, we built out that product, we think we have as good or probably better than a lot of the banks have in that products perspective. And so we are moving towards what I'd call TD's natural market share and you're seeing the growth happening there. Of course, HELOCs provide better margins to a bank because there is a float component to it that has more advantage for the bank. So I don't consider that to be an extraordinary event out of TD, that there is a change in approach. I think this is moving towards our natural market share that you'd expect from TD.

Sumit Malhotra – Scotia Capital – Analyst

To be clear, though, you're looking – the HELOC growth that you're seeing is not an addendum to the mortgage. It is the primary real estate lending tool. So if anything for us on the outside, if we're measuring real estate secured lending at TD, we're looking at that holistically and you've made that conscientious choice. And as there – a few years ago, the CMHC said we're not going to insure HELOCs anymore. So from a risk perspective, doesn't this change the dynamic for the bank?

Bharat Masrani – TD – Group President and CEO

The loan to values on HELOCs is 65% versus 80% on mortgages. I think again, I'll let our record speak for itself as to the risk that the bank would accept or cycles and how we manage that risk. So I feel quite comfortable that we are putting the right type of business, the clientele we are attracting or existing clients who would like to get into that product. And so, this is par for the course. It is not something extraordinary from a risk-taking perspective or some event that is taking place. I think your assessment that let's look at the overall RESL or real estate secured lending growth, and there one could argue that TD is not growing as much as perhaps others are, but I think that's an okay position to be in.

Sumit Malhotra – Scotia Capital – Analyst

Fair enough. Last one on Canada has to do with your partnership with Aimia on the Aeroplan product. Obviously, there has been some market news from Air Canada about their likely bringing the credit card franchise back in-house in 2020.

Your relationship with Aimia runs until then. High level, you've been involved with Aimia since 2014. Has this been a good investment for TD Bank from a credit card perspective? And if that relationship is taken in-house by Air Canada, what is going to be the competitive response within your credit card franchise?

Bharat Masrani – TD – Group President and CEO

So first part of your question – absolutely, yes. There are now hundreds of thousands of customers that we have that we didn't have before, so that's a good event for the Bank. I think it was 2013 that we did the transaction. So it's a good event for the Bank. But the announcements that have come out are business as usual. This program does not change in any way until 2020. Even after that, Air Canada has made very clear that it would be happy to redeem miles for Canada seats, so that's a good thing. So, I'd say from an overall Aimia, Aeroplan perspective, yes, there will be, I'm sure, changes here or there, but it's in everybody's interest to make sure that hundreds of thousands of Canadians who have this product are getting what they would expect out of this product.

I think with respect to TD's overall credit card business, we have a suite that is terrific. On the Travel side, we also have TD First Class, which also allows you to do a lot of things that others cards let you do. You can choose any airline you want or other travel benefits. We recently – we were lagging on a couple of other offerings. There was a cash back card – which the one out of TD wasn't as competitive, so we introduced a new one last quarter that has done remarkably well, exceeded our expectations. Another card we issued for New-to-Canada populations, again, the product we had in the market did not have all the bells and whistles that some others were offering, so that we revamped that offering as well.

So, thinking about overall card offering, the choices our customers have, the penetration we are getting, the reception in the market it's receiving, very happy with how we are doing in that business. You saw the numbers last quarter, as you know, how much we grew our credit card bottom line. So, overall, I feel good about it. With respect to this particular file, time will tell exactly how things might work out, but I would expect that all the stakeholders will make sure that the program is handled in the right fashion.

Sumit Malhotra – Scotia Capital – Analyst

By my math, the Aeroplan relationship is about 2% of total EPS to TD – would be happy if you correct me if I'm wrong. But maybe more importantly, when the deal was structured between CIBC, Aimia and TD, TD took the customers originally that were multi – sorry, they were individual and mono-line customers. Have you been successful in cross-selling the customers that you acquired as mono-line?

And maybe last one on this. In the contract with Aimia, are you able to put other credit card offerings in front of these customers, to maybe, if that relationship goes away, you've at least got a head start in trying to keep that business in-house? And I apologize if I'm being too specific.

Bharat Masrani – TD – Group President and CEO

Hard to do the exact math – these things depends on the quarter, depends on what you count, what you don't count. So I think it's – the point is it's an important offering for our customers. I think on your point on have we been able to deepen the relationships with these customers, it's an ongoing process. This is a journey, it doesn't happen overnight. But we like the profile of customers that have come to TD, and we continue to work at how do we deepen those relationships and then with success. But it's hard to say, well, we're done with that, because it's never the case. Sumit, I don't think it'd be appropriate if I start discussing the details of...

Sumit Malhotra – Scotia Capital – Analyst

Sure.

Bharat Masrani – TD – Group President and CEO

... of any contract with any counterparty. But suffice it to say, we've got an offering that meets every customer's needs depending on their needs, their requirements, their type of rewards they would want or not want. So, we have the products on our shelf, we do very well with them. And at the end of the day, the customers will decide what is working for them and what is not.

Sumit Malhotra – Scotia Capital – Analyst

Let's switch into the U.S. Earnings performance this year has been very strong. I'm not going to ask you about rate sensitivity. Your operating leverage has been very good. Let's touch on a couple of other topics, and let's start big picture. Obviously, after the election, there was a lot of excitement on the part of at least the equity market on the possibility that the new administration would enact we'll call them business-friendly policies in terms of corporate tax reform or regulatory relief. That's been bogged down into policy uncertainty.

And my question to you is what's been the response of your customer base? Because when I look at your loan growth in the U.S., that has slowed. It's something like in the quarter 1%, maybe 4% to 5% year-over-year lower than it used to be. Are you seeing, especially on the commercial side, that policy uncertainty start to impact your ability to originate new business?

Bharat Masrani – TD – Group President and CEO

Yeah. First, we are very happy with how the U.S. business is evolving. Obviously, I have a slight personal attachment to...

Sumit Malhotra – Scotia Capital – Analyst

That's right.

Bharat Masrani – TD – Group President and CEO

... I spent seven, eight years in the U.S. And it's nice to see it – it's the fifth consecutive quarter, I think, we've delivered double-digit income growth out of our U.S. business. So, a terrific job by the team to continue to deliver for our customers there.

With respect to the macro environment that you're talking about post-election, I mean, that has been helpful for us in many respects, particularly how the yield curve reacted after the election. And given the type of business we are in, that is a very useful development. I think with respect to specific policy initiatives, if you look at President Trump's agenda, the major components of his agenda were that, A, want to have major tax reform, B, want to have infrastructure initiatives and, C, to lessen regulatory burden.

Let's say we'll see on the tax reform and a lot of things going on. Perhaps things might get done, perhaps not. But in any system where there's democracy at play and there's a good separation of power and different views and all that, it's like watching sausage get made, I guess. And in the end, something may get made and we will see how that plays out.

I think on infrastructure, again, we'll see how that plays out but, unfortunately, in a way, it's not the way you want to build infrastructure. But when a tragedy like Houston happens, there is going to be a lot of building that will take place. Perhaps it might be concentrated in one area, but there'll be tens of billions or perhaps hundreds of billions of dollars that are going to be spent there and just more infrastructure life.

The third particular plan going on, regulatory reform, lessening regulatory reform, I think there you've already seen a lot of activity. Now, I'm not talking about banking. If you look at on the environmental front, if you look at some of the other sort of regulatory agencies, some reviews that are taking place would suggest that there is a lessening of burden occurring. On the banking side, you feel that, because a lot of the changes that the administration has signaled do not require legislative changes. So, it doesn't have to go through Congress. And all the proposals make sense. Because as usual, there are components of Dodd-Frank that make a lot of sense, but as is usual when you are coming up with a new regime in a relatively short period of time, there are going to be parts of it that are not as efficient that require changes, tweaks. The emphasis needs to change. And I think that is where the administration is focused, and I think that will be positive. So, hard to say because there's lot of noise around this stuff, but generally I would say the U.S. environment, unless there's one of these geopolitical events or something else happens that might derail stuff, but I see generally a positive trend coming out of the U.S.

You talk about loan growth – yes, we've seen the overall industry growth moderate a bit. And we have followed that, but the important point there is we are still outperforming and we are still gaining share, which is a very important component of what we are trying to do. I think on the Eastern seaboard, which is where we are, some of these headwinds are in fact not so, because with the oil price collapse, where we do business, it was like a de facto tax cut. And that buoyed the economy. I know when you look at the wage growth numbers out of the Fed, you'd say, oh my god, perhaps this recovery is not as strong. But if you are working or living or operating a business in the Eastern seaboard, you'd say, well, what's he talking about? Because just to hire people in our own bank, we know how much more we have to pay. So it's more of a regional story. So generally, I think U.S. is on a good stead and we'll see how the macro environment continues to evolve.

But I like our positioning, the age of our franchise, the potential we have. We serve 9 million Americans now on the Eastern seaboard. We have certain businesses that are growing very well on the commercial side. The healthcare business is an attractive business for us. The initiative we have got going between TD Securities and TD Bank, America's Most Convenient Bank, to address the junior corporate market on the Eastern Seaboard is really taking shape now. So, I like our positioning. I really like our positioning, although it would be quiet interesting for us if there were more sort of asset type of acquisitions available, especially in the credit card space because we like that space, we have more experience at it, because our balance sheet still is overfunded. We have more than $100 billion of excess deposits that we would like to find a way to utilize it more optimally then just to get investment returns.

Sumit Malhotra – Scotia Capital – Analyst

We're taking away here as we always do, so I'm going to go two for one to wrap it up.

Bharat Masrani – TD – Group President and CEO

Okay.

Sumit Malhotra – Scotia Capital – Analyst

When I first met you, you were the Chief Risk Officer of the bank so...

Bharat Masrani – TD – Group President and CEO

Wow, it was that long ago.

Sumit Malhotra – Scotia Capital – Analyst

Got the gray hair to prove it, right? I want to ask you a little bit about credit. I've been having an ongoing debate with your Chief Risk Officer. I think you've been very conservative in your provisioning. He says he's adequately reserving, so he's obviously the risk guy, you taught him well.

Credit quality looks great across the industry. Maybe the one area there's been even a little bit of concern has been auto in the U.S. When I look at your business, auto is about 15% of your total U.S. book. We've have seen a modest uptake in provisions. Just curious as to whether there's any components you're seeing in auto that make you think we need to pull this back. '

And then, lastly, you touched on you'd be interested in card acquisitions. You're at 10.7% on CET1 pro forma, which is towards the lower end of the Canadian group, but yet you have just filed for another 20 million share buyback after having done 15 million in March. I've never thought of TD as a big buyback bank. Is this signaling from you that, number one, I'm very happy with my capital, number two, I don't see a lot on the acquisition horizon? So two different questions, but maybe we can wrap up with those, and we'll keep it brief from here if we get this.

Bharat Masrani – TD – Group President and CEO

Well, sure, I mean, in your case, your hair went gray and I just lost it all. That tells you know how we're doing in our respective jobs. All I'd say is that on provisioning and how the bank is positioned and, obviously, we like to think of ourselves as part of our brand. And as you said, I was a Chief Risk Officer in one part of my life. TD likes to position itself conservatively and we should. That's the business we are in, that's our brand, that's what we do. I'm not saying that'll be the case in every damn instance out there, but generally speaking, that's what one should expect out of TD.

With respect to capital, I've been very clear. I think the level of capital that TD has, especially against – not especially – particularly against the type of risks we run, the balance sheet we have, the business mix that we operate with, what diversification we have, what kind of volatility we would generate or not is more than appropriate. And then I feel very comfortable. I think our ability to generate excess capital is very good. We've consistently shown that. And I've also said that when we look at our capital position, we look at, all right – do we have more than enough to sustain our core businesses? Is there going to be growth opportunities? Are we going to make sure that there's enough capital allocated to that segment?

We'll also make sure that if there are certain capability gaps in the bank, and I talked of couple in the credit card space, et cetera, that we would use our capital to build out those capability, so those gaps don't exist. Are there going to be acquisitions that are going to be available in either market that in the two major markets that we operate? Of course, we will utilize. But once in a while, we might find ourselves that these opportunities, although they are there, but it still allows us to buy back our shares when appropriate.

So, that's how we look at it. There's nothing – there's no departure from the way we've operated. And this time, it made sense compared to where we are, and I know we've got an upcoming closing with Scottrade. Notwithstanding that, even if you were to put those numbers in, we feel the level of capital we hold and the aspiration we have for growth and the opportunities we see in the market for acquisitions, all that can be accommodated even with this buyback. So, that's how we thought of it and feel good about it.

Sumit Malhotra – Scotia Capital – Analyst

And just to be clear, when you talked of operations U.S. auto, nothing that you...

Bharat Masrani – TD – Group President and CEO

So, in U.S. auto – yes, it's a good question you asked. Part of our loan growth, you say we are slightly subdued than what we used to be, is in fact making sure and auto space is an interesting space because you can generate lot of growth through it. But in our case, we've said two things.

Firstly, we will only put on business that is giving us a risk-adjusted return that meets our hurdle rates. If it is not going to do that, then we are not going to chase just for this growth, for the sake of growth. Secondly, out of our $20 billion auto book, 85% of that book is prime, super-prime. That's the space we play in. And the 15% that's the balance – that is what we call near-prime. We are not in the subprime auto lending business. I think some of the noise you are hearing out of the U.S. generally on credit is more related to the subprime space, and TD is not in the subprime business at all in any of our segments in which we operate.

So, I feel generally from a risk management perspective, provision perspective, where the auto business is, the type of business we are doing, I feel comfortable. That doesn't mean there might not be pockets of issues here or there, but I don't see a major issue looming out there in the space in which we operate. Could there be bigger accidents in the subprime space? Potentially.

Sumit Malhotra – Scotia Capital – Analyst

Dave McKay's phone rang when we ran late, so I don't want Gillian calling you. Let's wrap it up there. And thank you, as always, for your time.

Bharat Masrani – TD – Group President and CEO

Thanks very much, Sumit. That was great. Thank you for having us.