TD BANK GROUP
Q1 2017 EARNINGS CONFERENCE CALL
MARCH 2, 2017

DISCLAIMER

FORWARD-LOOKING INFORMATION

From time to time, the Bank (as defined in this document) makes written and/or oral forward-looking statements, including in this document, in other filings with Canadian regulators or the United States (U.S.) Securities and Exchange Commission (SEC), and in other communications. In addition, representatives of the Bank may make forward-looking statements orally to analysts, investors, the media and others. All such statements are made pursuant to the "safe harbour" provisions of, and are intended to be forward-looking statements under, applicable Canadian and U.S. securities legislation, including the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements made in this document, the Management's Discussion and Analysis ("2016 MD&A") in the Bank's 2016 Annual Report under the heading "Economic Summary and Outlook", for each business segment under headings "Business Outlook and Focus for 2017", and in other statements regarding the Bank's objectives and priorities for 2017 and beyond and strategies to achieve them, the regulatory environment in which the Bank operates, and the Bank's anticipated financial performance. Forward-looking statements are typically identified by words such as "will", "should", "believe", "expect", "anticipate", "intend", "estimate", "plan", "may", and "could".

By their very nature, these forward-looking statements require the Bank to make assumptions and are subject to inherent risks and uncertainties, general and specific. Especially in light of the uncertainty related to the physical, financial, economic, political, and regulatory environments, such risks and uncertainties – many of which are beyond the Bank's control and the effects of which can be difficult to predict – may cause actual results to differ materially from the expectations expressed in the forward-looking statements. Risk factors that could cause, individually or in the aggregate, such differences include: credit, market (including equity, commodity, foreign exchange, and interest rate), liquidity, operational (including technology and infrastructure), reputational, insurance, strategic, regulatory, legal, environmental, capital adequacy, and other risks. Examples of such risk factors include the general business and economic conditions in the regions in which the Bank operates; the ability of the Bank to execute on key priorities, including the successful completion of acquisitions and dispositions, business retention plans, and strategic plans and to attract, develop and retain key executives; disruptions in or attacks (including cyber-attacks) on the Bank's information technology, internet, network access or other voice or data communications systems or services; the evolution of various types of fraud or other criminal behaviour to which the Bank is exposed; the failure of third parties to comply with their obligations to the Bank or its affiliates, including relating to the care and control of information; the impact of new and changes to, or application of, current laws and regulations, including without limitation tax laws, risk-based capital guidelines and liquidity regulatory guidance; exposure related to significant litigation and regulatory matters; increased competition, including through internet and mobile banking and non-traditional competitors; changes to the Bank's credit ratings; changes in currency and interest rates (including the possibility of negative interest rates); increased funding costs and market volatility due to market illiquidity and competition for funding; critical accounting estimates and changes to accounting standards, policies, and methods used by the Bank; existing and potential international debt crises; and the occurrence of natural and unnatural catastrophic events and claims resulting from such events. The Bank cautions that the preceding list is not exhaustive of all possible risk factors and other factors could also adversely affect the Bank's results. For more detailed information, please refer to the "Risk Factors and Management" section of the 2016 MD&A, as may be updated in subsequently filed quarterly reports to shareholders and news releases (as applicable) related to any transactions or events discussed under the heading "Significant Events" in the relevant MD&A, which applicable releases may be found on www.td.com. All such factors should be considered carefully, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements, when making decisions with respect to the Bank and the Bank cautions readers not to place undue reliance on the Bank's forward-looking statements.

Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2016 MD&A under the headings "Economic Summary and Outlook", and for each business segment, "Business Outlook and Focus for 2017", each as may be updated in subsequently filed quarterly reports to shareholders.

Any forward-looking statements contained in this document represent the views of management only as of the date hereof and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities and anticipated financial performance as at and for the periods ended on the dates presented, and may not be appropriate for other purposes. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf, except as required under applicable securities legislation.

CORPORATE PARTICIPANTS

Bharat Masrani
TD Bank Group – Group President and CEO

Riaz Ahmed
TD Bank Group – Group Head and CFO

Mark Chauvin
TD Bank Group – Group Head and Chief Risk Officer

Teri Currie
TD Bank Group – Group Head, Canadian Personal Banking

Mike Pedersen
TD Bank Group – Group Head, U.S. Banking

Gillian Manning
TD Bank Group – Head of Investor Relations

CONFERENCE CALL PARTICIPANTS

Ebrahim Poonawala
Bank of America Merrill Lynch – Analyst

Steve Theriault
Eight Capital – Analyst

Meny Grauman
Cormark Securities – Analyst

Sohrab Movahedi
BMO Capital Markets – Analyst

Nick Stogdill
Credit Suisse – Analyst

Gabriel Dechaine
National Bank Financial – Analyst

Sumit Malhotra
Scotia Capital – Analyst

Rob Sedran
CIBC World Markets – Analyst

Darko Mihelic
RBC Capital Markets – Analyst

Mario Mendonca
TD Securities – Analyst

PRESENTATION

Gillian Manning – TD – Head of Investor Relations

Thank you. Good afternoon, and welcome to TD Bank Group's first quarter 2017 investor presentation. My name is Gillian Manning, and I'm the Head of Investor Relations at the bank. We will begin today's presentation with remarks from Bharat Masrani, the bank's CEO, after which, Riaz Ahmed, the bank's CFO, will present our first quarter operating results. Mark Chauvin, Chief Risk Officer, will then offer comments on credit quality after which, we will invite questions from prequalified analysts and investors on the phone. Also, present today to answer your questions are Teri Currie, Group Head-Canadian Personal Banking; Mike Pedersen, Group Head-U.S. Banking; and Bob Dorrance, Group Head-Wholesale Banking. Please turn to slide 2.

At this time, I would like to caution our listeners that this presentation contains forward-looking statements, that there are risks, that actual results could differ materially from what is discussed, and that certain material factors or assumptions were applied in making these forward-looking statements. Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the bank's shareholders and analysts in understanding the bank's financial position, objectives, and priorities, and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes.

I would also like to remind listeners that the bank uses non-GAAP financial measures to arrive at adjusted results to assess each of its businesses and to measure overall bank performance. The bank believes that adjusted results provide readers with a better understanding of how management views the bank's performance. Bharat will be referring to adjusted results in his remarks. Additional information on items of note, the bank's reported results and factors and assumptions related to forward-looking information are all available in our Q1 2017 Report to Shareholders.

With that, let me turn the presentation over to Bharat..

Bharat Masrani – TD – Group President and CEO

Thank you, Gillian, and thank you, everyone, for joining us today. Q1 was a great quarter for TD. Earnings rose 14% from a year ago to $2.6 billion. And EPS increased 13% to $1.33. Our Retail and Wholesale businesses performed well, reflecting strong volume growth, good client activity, and an improving macro environment.

Our Basel III Common Equity Tier 1 ratio ended the quarter at 10.9%, up 44 basis points from the prior quarter and our leverage and liquidity coverage ratio has remained strong. Reflecting these strong fundamentals, we declared a $0.05 dividend increase, bringing our dividend to $0.60 per share, a 9% increase. And we announced our intention to repurchase up to 15 million shares for cancellation, subject to regulatory approval, primarily to offset dilution from our dividend reinvestment program and issuance related to stock options.

Overall, I'm very pleased with our results this quarter. We delivered double-digit earnings growth and strengthened our capital base while continuing to invest in our businesses and in meeting our customers' needs.

Turning to our segments, Canadian Retail earned $1.6 billion in Q1, up 4% from a year-ago. Revenue rose 3%, driven by good volume, asset, and fee growth. We also benefited from higher margins reflecting business mix, re-pricing, and treasury actions we took last fall, though we continue to expect moderate downward pressure on margins in the months ahead.

In Personal banking, we continued to grow our core deposit base, which is critical to our retail strategy. On the lending side, we had good origination activity in our proprietary, real estate secured lending channels and loan growth was strongest in higher margin products such as HELOC and unsecured loans. In commercial banking, we had robust growth in loans and deposits. Our wealth business performed very well this quarter with strong asset growth and trading activity, driving a 15% increase in earnings. Insurance earnings were down slightly as improved claims results were offset by investments in improving the customer experience and upgrading our platform.

As we indicated in our Q4 call, expense growth in Canadian Retail was elevated this quarter reflecting strategic investments we are making to digitize the customer experience, enhance our products, and extend our service and convenience model across our distribution channels. Those investments are already yielding impressive results. Let me share a few examples.

Last quarter, I mentioned the redesign of our WebBroker platform in Direct Investing. The results have been outstanding. We're delivering solutions 20% to 30% more cost effectively while releasing improvements faster and more often. We're leveraging scalable and reusable technology solutions like the cloud and APIs. We further personalized our card offering, making it possible for customers to keep their TD Visa card number when they change card types at TD, the first Canadian bank to offer this service for Visa customers. And we released the enhancements of TD MySpend, our money management app that empowers users, who now number 850,000 with more tools to manage their financial well-being. We're excited about these innovations which are driving strong engagement and enabling us to provide customers with better, more meaningful advice. With the majority of our Canadian customers interacting with us digitally, we will continue to prioritize these initiatives.

Turning to the U.S., our U.S. Retail Bank generated earnings of US$518 million this quarter, up 10% from a year ago. Revenue growth accelerated to 9% driven by strong loan and deposit volumes, higher fee income, and continued strength in household acquisition. As is typical in the first quarter, we had a seasonal uptick in credit provisions but underlying credit performance remained strong. We also delivered very good operating leverage again this quarter, even after continued investments in technology, enhanced digital offerings, and revenue growth initiatives.

Those enhancements continue to power strong growth in U.S. digital sales. For example, 15% of chequing account sales are now done digitally, up from 9% a year ago and digital credit card sales are now over 20%. We expect to build on those gains with the innovations we continue to make. We've extended our new digital platform to a tablet experience, creating a single universal app that allows customers to review products and complete the account opening process digitally. And we introduced TD ASAP which allows customers to authenticate directly to an advisor in a contact center from their digital device. These tools are making banking faster, simpler and more secure for our customers. And we are seeing the benefits and improved customer experience scores, reduced call center wait times, and increased productivity.

Q1 was a strong quarter for our Wholesale Bank. Net income was $267 million, up 66% from the prior year. Robust capital markets and good activity across our businesses drove stronger trading revenue and higher debt and equity underwriting fees, more than offsetting revenue-driven increases in variable compensation and costs associated with our acquisition of U.S.-based securities dealer Albert Fried & Company. We also continue to advance our strategic priorities. TD Securities rank number one in Canadian equity underwriting in 2016, raising nearly $10 billion on behalf of our clients and leading some of the year's largest transactions. And our sovereign, supranational, and agency business is off to its best start ever in 2017, leading 14 US-dollar benchmark deals this quarter and raising nearly $30 billion in total.

One quarter into fiscal 2017, we have much to be pleased about. Our Wealth and Wholesale businesses are profiting from strong client flows and favorable financial market conditions. Our U.S. Bank's robust fundamentals are being amplified by accelerating U.S. economic growth and the prospect of higher rates. And our Canadian Retail franchise continues to deliver solid results and is well positioned to benefit from a firming outlook for the Canadian economy.

This quarter, you saw us deploy strong earnings growth and savings generated from our productivity program into additional investments, and you can expect that to continue. It's an exciting time to be in banking, rapidly changing technologies are opening up new frontiers and we are well situated to seize the resulting opportunities. We will continue to make investments to advance our digital transformation, deliver a more connected customer experience, and simplify the way we work. Our spending is purposeful, pragmatic, and aligned with our strategy to build a better bank, the bank of the future.

To wrap up, I'm extremely pleased with our first quarter results that speak to the strength of our diversified business mix, the adaptability of our service and convenience model in the digital world, and the enduring power of our customer-centric approach. I would like to thank our 80,000-plus employees for their hard work and dedication for enriching the lives of our customers and communities while delivering for our shareholders. We have accomplished a great deal together and I'm confident that we can build on this momentum in the year ahead.

With that, I will turn things over to Riaz.

Riaz Ahmed – TD – Group Head and CFO

Thank you, Bharat. Good afternoon. Please turn to slide 4. This quarter, the bank reported earnings of $2.5 billion and EPS of $1.32. Adjusted earnings are $2.6 billion, up 14%, and adjusted EPS was $1.33, up 13% year-over-year. Adjusted revenue excluding acquisitions and FX increased 7% and adjusted expenses on a similar basis also increased 7%.

Higher expenses this quarter reflected seasonality and investments in our business and infrastructure. As I said last quarter, these investments will continue and we expect the rate of expense growth to be higher on a year-over-year basis in the first half of the fiscal year, particularly in our Retail businesses, with expense growth abating in the second half of the year. Credit losses increased 16% quarter-over-quarter but declined year-over-year. Segment reported earnings were $1.6 billion for Canadian Retail, C$800 million for U.S. Retail, and $267 million for Wholesale. The Corporate segment reported a loss of $100 million or $75 million on an adjusted basis. Please turn to slide 5.

Canadian Retail segment net income was $1.6 billion, up 4% year-over-year, reflecting revenue growth in Personal and Commercial banking and Wealth and lower insurance claims, partially offset by higher non-interest expenses and PCL. Total loan growth was 4% year-over-year with increases in personal lending and business lending volumes. Deposits increased by 12% reflecting growth in core checking and savings accounts and business deposits, and wealth assets grew 11%.

Insurance claims decreased 12% year-over-year, reflecting a reduction in the fair value of investments supporting claims liabilities and lower current year claims. Margin was 2.82%, up 4 basis points quarter-over-quarter, reflecting favorable business mix, treasury actions, and product re-pricing. We do, nevertheless, continue to expect moderate pressure on margins, reflecting the low interest rate environment and competitive pricing. PCLs were relatively stable increasing 2% quarter-over-quarter. Year-over-year PCL increased 18%, reflecting the benefit in the prior year of the sale of charged-off accounts and higher provisions in the auto lending portfolio in the current quarter.

Expenses increased 7% year-over-year, reflecting higher investments in strategic initiatives, including digitizing the customer experience and enhancing our product suite, increased investments in frontline employees and business growth, partially offset by productivity savings. Please turn to slide 6.

U.S. Retail net income was US$ 601 million, up 9% year-over-year or C$800 million, up 7% year-over-year. The U.S. Retail Bank earned US$ 518 million, up 10% year-over-year. Strong revenue growth, reflecting higher loan and deposit volumes and fee income growth was partially offset by higher expenses and PCL.

Total loan growth was 7% year-over-year, reflecting growth in both personal loans and business loans, and deposits increased by 11%. Margin was 3.03%, down 10 basis points quarter-over-quarter. The decrease was largely due to the accounting impact on NII from our hedging activities which, as you know, is largely offset in other income. Fundamentally, margin was up 1 basis points this quarter, reflecting good deposit margin expansion, partially offset by lower accretion on legacy loans. While many factors affect margins, we expect continued improvement in 2017 with potential further upside if U.S. rates continue to increase.

PCL increased 32% quarter-over-quarter, primarily reflecting seasonal increases in the auto lending and credit card portfolios, and prior quarter benefits related to the release of special reserves held for the South Carolina flood. PCL increased 21% year-over-year, primarily due to higher provisions relating to mix in auto lending and growth and seasoning in credit cards.

Expenses increased 5% year-over-year, reflecting higher spend for technology modernization, volume growth and additional frontline employees, partially offset by productivity savings. Earnings from our ownership stake in TD Ameritrade increased 1% year-over-year. Please turn to slide 7.

Net income for Wholesale was $267 million, up 66% year-over-year, reflecting higher revenue and a net recovery of credit losses, partially offset by higher non-interest expenses.

Revenue increased 29%, reflecting higher origination activity in debt and equity capital markets and higher trading-related revenue. PCL decreased, reflecting the recovery of specific provisions in the oil and gas sector. Non-interest expenses increased year-over-year, reflecting higher variable compensation in line with revenue and higher operating expenses and costs associated with the acquisition of Albert Fried & Company. Please turn to slide 8.

The Corporate segment posted an adjusted loss of $75 million in the quarter compared to a loss of $178 million in the same period last year. Net corporate expenses increased year-over-year due to the timing of ongoing investments in enterprise and regulatory projects. The contribution from other items increased $133 million year-over-year, reflecting higher revenue from treasury and balance sheet management activities, as well as provisions for incurred but not identified credit losses and negative tax and other items recognized in the prior year. Please turn to slide 9.

Our Common Equity Tier 1 ratio was 10.9% at the end of first quarter, reflecting strong organic capital generation. The increase in RWA this quarter reflects business volume growth offset by certain capital management activities to reduce capital-intensive investments. Our leverage and liquidity ratios are consistent with last quarter's levels. We announced our intension to launch a normal course issuer bid for up to 15 million common shares, subject to regulatory approval. This is primarily to offset the share issuance for the dividend reinvestment plan and stock option exercises.

I will now turn the call over to Mark.

Mark Chauvin – TD – Group Head and Chief Risk Officer

Thank you, Riaz, and good afternoon, everyone. Please turn to slide 10.

Credit quality remained strong as we begin the year with stable trends across the bank's credit portfolios. Gross impaired loan formations were stable at $1.3 billion or 21 basis points quarter-over-quarter and reduced $436 million or 9 basis points from the previous year. U.S. Retail formations are up $71 million due to seasonal trends in the credit card and indirect auto portfolios and the negative impact of foreign exchange. There were no new formations in the Wholesale portfolio. Please turn to slide 11.

Gross impaired loans ended the quarter at $3.4 billion, down $110 million or 1 basis point quarter-over-quarter as resolutions outpaced formations in the Wholesale and U.S. Commercial portfolios. Gross impaired loans decreased $400 million or 8 basis points year-over-year, driven primarily by resolutions in the U.S. HELOC portfolio and the impact of foreign exchange. Moving on to slide 12.

As indicated in previous quarters, U.S. strategic card PCLs are reported on a net basis for segment reporting, including only the bank's contractual portion of credit losses. For the purpose of the credit slides, we continue to report gross losses to better reflect portfolio credit quality. Provisions for credit losses during the quarter are within expectations at $635 million, up $81 million or 5 basis points quarter-over-quarter to 42 basis points, 3 basis points lower than the previous year's quarterly loss rate. The primary factors impacting PCL in the quarter are seasonal trends in the U.S. credit card and indirect auto portfolios driven by holiday spending and the negative impact of foreign exchange offset by $25 million in recoveries in the Wholesale oil and gas sector.

To conclude, the key takeaways this quarter are credit quality remains strong and we continue to be well-positioned for growth across all credit portfolios. With that, operator, we are now ready to begin the question-and-answer session.

QUESTION AND ANSWER

Operator

And we'll take our first question from Ebrahim Poonawala with Bank of America Merrill Lynch.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Good afternoon. I guess first question, Riaz, if you could help us with the sort of better understanding the NIM dynamics in the U.S. going forward. Around you mentioned that you expect the NIM to continue to improve even without any interest rate increases and then do even better. Is there any way if you could help to quantify around what we should expect on the NIM coming out with the December rate hike, and if you get another hike in March, what that would mean for this NIM trajectory going forward?

Riaz Ahmed – TD – Group Head and CFO

Ebrahim, as I had mentioned to you on the Q4 call, I'm not really giving specific guidance around the interest rate and its impact on our NIM as you can say that there tend to be a fair number of moving parts. But what I can tell you is this. We experienced very good deposit margin expansion in this quarter which as I mentioned earlier was offset a little bit by the lower accretion on legacy loans, so the fundamental margin was net up 1 basis point.

We experienced this accounting noise from hedging that I've talked about before, which a decrease in NII is offset in other income which brought the headline number down. But this quarter we've also made a decision to move those treasury and balance sheet management activities to Corporate segment, which actually hurt the U.S. Retail's earnings this quarter. But nevertheless, what we've done is taken a fair bit of that volatility out into Corporate, so you should see a more stable and rising U.S. segment NIM number moving forward. And given that the Fed rate increase occurred really in the middle of the first quarter, that from a deposit margin perspective should continue to bode well into the second quarter where we would have the effect of the full year, and you should also see continued improvement due to what I've mentioned before, the yield curve enhancements.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Understood. And if I may, just another question for Bharat, I guess. There's been a fair bit of discussion around U.S. M&A through this earnings season. Just wanted to get an updated view both in terms of on the banks front – I know you've got some interest within your Northeast retail footprint – and on the non-bank side, cards or what else would interest you?

Bharat Masrani – TD – Group President and CEO

Ebrahim, our view on that is unchanged; it has not changed. We continue to be interested in high-quality card portfolios in the U.S. as we have said before. It's a business that we like. Our experience has shown that this business performs very well. It gives us decent returns and frankly helps us to build up our scale in the U.S. So if we were to see more opportunities in that area, that makes sense from a risk appetite perspective, and obviously in a financial perspective, we would look out those seriously, particularly given the structure of our balance sheet in the U.S. with the deposits outpacing loans by quite a margin.

With respect to the bank acquisitions, we have said and we continue to believe that if there are particular opportunities that would help us to accelerate our organic growth plans within the U.S., particularly in the southeast, where we think that we may not have as much scale as we would like, given the demographics, the dynamics of that market, we would look at those very seriously. But all these would have to make sense both from a risk perspective and financially as well.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

And, Bharat, would you care to sort of quantify like what the size of deal should we sort of think about, when we think about M&A, both cards or bank front?

Bharat Masrani – TD – Group President and CEO

A lot would depend on, A, what is available, and, B, our ability to integrate it, make sure we do it well. If we're going to do a large transaction, then we have to make sure that the culture is going to be aligned, what our values are do make sense because we do have a fantastic business proposition in the U.S. as we do in Canada. Our value proposition is compelling, and we would not want to do anything that would disturb that.

With respect to size, it's tough to say, Ebrahim. I mean, obviously if there's a very large transaction that appears to be very compelling, then we would have to think hard about timing, what would suit us both from a financial risk and integration and then conversion perspective but as well as market timing and whether such a deal would make sense for the Bank. So, hard to predict precisely because none has come around. But should one present itself, we would look at it seriously, but those will be the factors that would come into play.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Understood. Thanks for taking my questions.

Operator

We'll go next to Steve Theriault with Eight Capital.

Steve Theriault – Eight Capital – Analyst

Thanks very much. I wanted to ask a question on indirect auto, you mentioned this quarter a change in mix in indirect auto. So, am I right – is that flagging to move a little bit down market more into near prime? You've been reluctant to do so in the past. So if that's right, wondering what the thinking is there.

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah. So, it's Mike, Steve. So, to be clear we have not been originating any subprime and we continue not do originate any subprime.

Bharat Masrani – TD – Group President and CEO

Talking U.S., just to clarify.

Mike Pedersen – TD – Group Head, U.S. Banking

We're talking the U.S. here, yes. We're obviously continuing evaluating what our origination mix should be. And as you suggest in recent quarters, we have tweaked that a bit. We're doing a bit less super prime and more prime and near prime. But we're not talking about dramatics; it's a few percentage points. I'd say it's all planned and it's evolving exactly as we expected. We knew we were going to see higher PCLs as we adjusted the mix and we are seeing them in the quantums that we expect to see. It's obviously more accretive business for us overall. So I'd say very comfortable with what we're originating and no concerns on the credit quality part in the auto finance portfolio in the U.S.

Steve Theriault – Eight Capital – Analyst

Okay. When you say change of a few points, what would near prime be at in terms of mix? Would it be 10% or less than that, more than that?

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah. So the origination, which is what we're doing, so a year ago, it would have been about 10.5%, now it's just over 15%, but it changes quarter by quarter.

Steve Theriault – Eight Capital – Analyst

Maybe if I can dovetail that into a question for Mark. I think a bit surprised by the rise in PCLs in the U.S. So when we consider everything together – so seasonality in cards, but then what looks like a pretty consistent ramping in auto loans, maybe in part on the back of more near prime, how representative of a run rate through remainder of the year would you say that $190 million, I think it was, is?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Yeah. So maybe looking at the quarter-over-quarter change in the U.S. PCL, first, I'd clarify that it was really right on our projections, so there was no surprise to that at all. And really what was driving that quarter-over-quarter change – we refer to it as seasonality. But to explain that a little bit more, it's really driven by the fact you experienced during our first quarter, given our large participation in strategic cards with the retailers, you see an increase in spending through the holiday season that increases balances.

Also during this period, and it's consistent year-in and year-out, that you'd see a slight increase in delinquency in the card portfolio as well as the indirect auto portfolio. And that is what really – those two things created increase in PCL through reserving, which we forecast, but every year comes back in the second and third quarter. So, that was probably about 60% of it. The change – another 30% would have been change in FX. So it's pretty much accounted for all of it in the year. And I would expect the loss rates in those two categories to revert to what we experienced in the third and fourth quarter as we go forward in the year. The issue of the mix in cards was a bit of a factor year-over-year because it takes longer but not as much quarter-over-quarter.

Mike Pedersen – TD – Group Head, U.S. Banking

Steve, it's Mike again. If I can just add to your point, last year we saw Q1 PCLs were the high watermark for the year. We'd expect the same this year based on what we're seeing right now.

Steve Theriault – Eight Capital – Analyst

And then just a quick follow-up. The PCL on the auto, will that grow – would you say that's going to grow in line with the loan book or will it grow a little faster with the change of mix?

Mark Chauvin – TD – Group Head and Chief Risk Officer

I think primarily with volume but a little bit with the mix.

Steve Theriault – Eight Capital – Analyst

Thank you.

Operator

We'll go next to Meny Grauman with Cormark Securities.

Meny Grauman – Cormark Securities – Analyst

Hi. Good afternoon. I just wanted to understand furthermore the dynamics in terms of your outlook for further margin pressure in Canada going forward, especially in the context of what helped the margin this quarter. You mentioned favorable business mix, treasury actions and product repricing. So just in that context, why you expect margin pressure to continue going forward?

Teri Currie – TD – Group Head, Canadian Personal Banking

Meny, it's Teri. I'll take the question. So, as you identified, the positive factors for Q1 were business mix. So really deposit growth was very high, so that really helped us. Product mix, we had record-chequing volume, so that made a difference. We had some treasury actions as you indicated and repricing activities. So those things helped us in the first quarter, year-over-year in particular.

When we look ahead, we have all the same dynamics that we had talked about last year. And so we expect modest downward pressure because we'll still be facing the fact that on the deposit book the tractors will roll over at lower pricing. And on the lending book, the new business we're putting on is at lower margin than the average portfolio margin. Having said that, you will have seen we are starting to originate more of our Home Equity Line of Credit, our FlexLine product, and higher-margin product in the lending book, so that'll help over time. But again, the same factors of lower interest rates, competitive pricing are going to play a role in cost of funds as we go through the year.

Meny Grauman – Cormark Securities – Analyst

Thank you very much.

Operator

We'll go next to Sohrab Movahedi with BMO Capital Markets.

Sohrab Movahedi – BMO Capital Markets – Analyst

I would like to stay with Teri, if I can. Teri, within Canadian banking, I think this was the first quarter in a while that your year-over-year revenue growth was over 5%. And you've had pretty good accelerating revenue growth there. Can you just talk a little bit more on the revenue dynamics across, not just on margins?

Teri Currie – TD – Group Head, Canadian Personal Banking

Sure. So, thanks for noticing that. I would say, obviously for Canadian Retail, Wealth performed particularly well with strong growth there. Business lending and personal lending performed well. And unsecured personal lending has been a strategic growth focus for us.

Great core deposit growth business lending at double digits, personal deposit growth, again record-checking volumes in Q1. So a lot of things working in our favor. And then again, we've got the embedded growth in the franchise that's helping us. So I'd say we had good organic growth across many of our businesses, including cards.

Sohrab Movahedi – BMO Capital Markets – Analyst

And so within that Canadian Personal and Commercial Banking piece, your non-interest income was up pretty smartly. Is that repeatable, do you think?

Teri Currie – TD – Group Head, Canadian Personal Banking

Certainly the biggest factor was our broad-based organic growth. And so I would say the caveat I would probably put on, we had such good deposit growth. I would expect that to moderate somewhat. Otherwise, I'd say yes.

Sohrab Movahedi – BMO Capital Markets – Analyst

Perfect. Thank you.

Operator

We'll go next to Nick Stogdill with Credit Suisse.

Nick Stogdill – Credit Suisse – Analyst

Hi. Good afternoon, just sticking with Teri on Canadian P&C. Last quarter you did telegraph that expenses would be elevated in the first half of 2017. Can you break apart how much was for the frontline growth versus technology spend in other buckets in terms of the 7% growth year-over-year?

And is that a good pace to assume for the second quarter as well? And then lastly, just on the back half of the year, should we expect expenses to decline on an absolute basis versus H1 or flat or how should we think about that? Thank you.

Teri Currie – TD – Group Head, Canadian Personal Banking

For sure. So, a bunch of things in that question. So, yeah, we had guided to the expense growth that you saw in this quarter. And as Riaz mentioned, we feel it's some one-time favorable – there were some one-time favorable items in Q1 of last year. If we look at the expenses in this quarter, first off, the year-over-year expense growth will abate through the year, I think either Riaz or Bharat mentioned that earlier, and we are still expecting positive operating leverage for the full year, so there will be some bumpiness in quarters.

When we look at the investments as we mentioned, call it a third of that is around digitizing our branch customer experience. So this is really ensuring that we've got the right network, ensuring that we've got Wi-Fi and iPads in our locations such that our frontline colleagues can help our customers take up our industry-leading digital properties and continue to help our customers save time and money and have their self-service transactions, which almost 80% of them happen today, happening via direct channels, if you will.

We have invested in frontline advisors as you mentioned, call that another good portion of the investment, and that would be both wealth management and in Canadian P&C mobile mortgage sales force. And then the other impact is rationalizing and enhancing our product lineup. That's another portion of the expenses. And in that case, an example would be, for unsecured lending, we've gone from 50 products down to 8 in the last quarter. So we're making it easier for our colleagues and more efficient for them to get the right products in our customers' hands. But I'd say overall we're making investments to grow the business, where we've done that in the past. You've seen the examples of that. FlexLine and business card would be other examples of where we've made those investments and they're paid off in future growth. So I think that covers off.

Nick Stogdill – Credit Suisse – Analyst

Thank you.

Operator

We'll go next to Gabriel Dechaine with National Bank Financial.

Gabriel Dechaine – National Bank Financial – Analyst

Hi. Good afternoon. Just a quick numbers question on the U.S. margin and then still on this expense topic here. The margin, you mentioned the, I guess, accretable yield, that would have benefited Q4. Can you quantify that just so I can get a better sense of what the actual margin did in the U.S.?

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah. It's Mike, Gabriel. Around 4 basis points.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. So net of that...

Riaz Ahmed – TD – Group Head and CFO

IT was a negative, not a benefit.

Mike Pedersen – TD – Group Head, U.S. Banking

That was a negative.

Gabriel Dechaine – National Bank Financial – Analyst

Right. So it was a negative in the sense that you had it last quarter, you didn't have it this quarter. So excluding that, you would have been up 5-ish basis points kind of thing. And the accounting thing.

Bharat Masrani – TD – Group President and CEO

The math works, yes, Gabriel. The math works the way you said it. But I...

Gabriel Dechaine – National Bank Financial – Analyst

1 basis point plus 4, I got it. Okay. Then on the elevated expenses in Canadian P&C, the digitization, now just from a conceptual standpoint here, if I go through your non-interest expenses in the supplement and I go through the major categories, it looks like it's – where expenses went up across the Bank were in salaries and benefits, and all the other major line items were either flat, up a little or down.

But it looks mostly salary-related. So as you talk about expense growth abating or expenses coming down, as some of that initiative spending gets pulled back, how should I see these lines evolving over the course of the year?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, it's Teri, and then Riaz can kick in as well. So for our Canadian Retail businesses, again, a big part of the number was frontline advisors and customer support to ensure that as we grow our business, we could continue to grow our capabilities to meet our customers' needs. And the other thing that you would have seen would be increased costs along with investing in our businesses that obviously requires more people to deliver those investments in those projects.

Riaz Ahmed – TD – Group Head and CFO

Yeah. And I'd also just add to that, Gabriel that when you're undertaking these projects to digitize, and along those lines, they require a lot of people and developers, et cetera. So, you would expect, you're correct to basically connect the dots between the examples that we're giving you about the investments that we're making to salaries and benefits because it is the people-driven research development and projects work.

Gabriel Dechaine – National Bank Financial – Analyst

So those aren't necessarily permanent, are they?

Riaz Ahmed – TD – Group Head and CFO

No.

Gabriel Dechaine – National Bank Financial – Analyst

Right. And is it was alluded to earlier that you had good revenue growth in Canadian banking this quarter. There's been some acceleration there. Has it been – maybe we underestimate that from where we sit or where I sit anyway, that as you're pushing through these transformations and cultural changes really when you're digitizing, I guess, that's going to have an effect on the culture. There is a lag between or maybe a negative impact on your revenues short term like we saw last year, maybe 2015 as well. And you're starting to turn the corner on that as the plan advances, I guess. Is there some validity to that?

Teri Currie – TD – Group Head, Canadian Personal Banking

For sure, I would reinforce the mid-term guidance that we've given on Canadian Retail around mid-single digits. That's still what we would be projecting. But I would say I think – when we think about how we're delivering our strategy, it's definitely a multi-channel strategy. And while our customers are taking up our new capabilities, it's equally true that most of our customers deal with us across multiple channels. And when they do that, they actually have more business with us and they're more satisfied.

And so we are continuing to really work through, how do we optimize the branch network to be there for our customers in high-growth markets, consolidate and create new formats where it makes sense, and concurrently invest in the digital properties. And I think we're keeping that balance fairly intact, fairly right. And as we look ahead, we think we can do that with moderate expense growth and good business growth.

Gabriel Dechaine – National Bank Financial – Analyst

Thank you.

Operator

We'll go next to Sumit Malhotra with Scotia Capital.

Sumit Malhotra – Scotia Capital – Analyst

Thanks. Good afternoon. First, just a couple of clarification questions for Riaz. On the U.S. NIM, the commentary about, I think it's balance sheet management activities, are you referring to just the way the accounting impacts your credit card partnerships and how that flows through or is this relating more to the securities portfolio and some action you may have taken in that regard in the U.S.?

Riaz Ahmed – TD – Group Head and CFO

You're right that it is the accounting effects, but I wouldn't isolate it to one or other part of the balance sheet because as you know, we take our asset liability approach on an integrated basis, but it relates to the fact that we use derivatives to adjust the duration profile of our interest rate risks, and those derivatives are mark-to-market for accounting purposes. And then you use hedge accounting to tag those hedges against assets that would move in a similar way, and sometimes you can get basis differences.

So that's – over the term of the hedge, the effect is zero, but in the meantime you get this little volatility in NII that gets offset in other income. So it's a very kind of a technical accounting requirement, but what I'd say to you is that the takeaway is that the hedging program works. It is largely revenue-neutral over its duration, and that's why we essentially took it out back to the Corporate segment to give you a more fundamental view of what's going to happen to the underlying margin so that we're not struggling with this quarter-after-quarter-after-quarter and putting you through nits over it.

Sumit Malhotra – Scotia Capital – Analyst

It sounds like between this and the credit card account, you're going to make more references to the so-called core movement in U.S. NIM like you did this time around going forward.

Riaz Ahmed – TD – Group Head and CFO

I think essentially you'll see that coming together in any event given that we are moving the effects of these treasury and balance sheet items to Corporate segment starting this quarter.

Sumit Malhotra – Scotia Capital – Analyst

Okay. I had another clarification, but you know what, in the interest of time, I'll ask my actual question. I'll re-queue if there's time.

Back to Teri, and when we look at the 7% expense growth, I'm looking just at the P&C Bank, not Wealth or Insurance, so what you show in your Appendix. So, 2016, your expense growth in this big segment was limited to 1% year-over-year. And this year, with some of that project spending you had talked about, it's up at 7% to start the year. Now I may be looking at this too simplistically, but the 2016 flat expense number comes on the back of the larger restructuring charges the bank enacted in 2015.

My question would be, why wasn't some of that project spend anticipated over the course of the year, and maybe spread out a little bit more? And maybe put it a different way, did last year's number benefit – was it more front-loaded in that $600 million run rate savings estimate you've guided to as a result of the restructuring charges?

Teri Currie – TD – Group Head, Canadian Personal Banking

So I'll give you three pieces to that. I'd say for sure, as we came into 2016, expenses were lower as a result of the productivity exercise that we had done in 2015. In particular, we would have been holding some vacancies, and so working our way through that in 2016.

For sure, we had lower expenses at the beginning of 2016 and you're seeing the impact of that now year-over-year in our first quarter expenses, the number that you talked about. So those are the two factors. Having said that, we did accelerate our expenses through 2016 and then guided to this higher level at the beginning of this year because of those timing differences. And so again I believe moderate expenses for this year and improving year-over-year growth and positive operating leverage are the right sound bites.

Bharat Masrani – TD – Group President and CEO

Thanks, Sumit. This is Bharat. When you have a favorable environment and then you have an investment list, then obviously you're going to take advantage of the environment and get those investments done. And we will continue to do that because it makes sense for the bank. And I know there's a lot of noise around this, but my point is that – and I said this many times before, we're not going to worry about operating leverage in a quarter-by-quarter basis. We will make sure and we will try to aspire to have positive operating leverage over the year. And that's what we said we will do and that's what we are doing.

Sumit Malhotra – Scotia Capital – Analyst

I appreciate that. Thanks for your time.

Operator

We'll go next to Robert Sedran with CIBC.

Rob Sedran – CIBC World Markets – Analyst

Hi. Good afternoon. Teri, I guess you're the most popular kid in the playground today so I'm going to stick with that. I'm just curious, when you think about – I'm probably paraphrasing Bharat from earlier when he talked about making progress on extending the service and convenience model into the digital side. I'm wondering on the hours open on the branch side, if there's ever been any thought or if you've been doing anything in terms of pairing back some of that as the channels become a little bit less emphasized, or if you think maybe that's too central to the brand that you can't really affect the hours opened at all or if it wouldn't be a good idea to even try?

Teri Currie – TD – Group Head, Canadian Personal Banking

Since I'm popular, maybe I'll give you a little bit of story around this. So, our strategy obviously has been and we've been winning because we have a deep understanding of our customers and we're delivering the best personal connected experiences. And that's a branch strategy, that's an ATM strategy, it's an online and digital strategy, an online and mobile strategy, and it's a phone strategy. And again, we're continuing to pull the levers that we think make sense to have a connected experience for our customers to meet their expectations. Branches continue to be important for our customers. They're important for problem resolution, they're important for complex advice and they're important for us as billboards for attracting new customers, and you know we continue to be very good at acquiring new customers.

And so while we're continuing to innovate our formats in branches, we've reduced our square footage since 2013 by 160,000 square feet. We do think our hours advantage continues to serve us well. Now in markets, we continue to tweak to ensure that we maintain that advantage, but that we're available for customers at times that make sense. And so there have been cases and will continue to be where we pull those back, but I can definitely tell you that we think our hours advantage is a big part of our service and convenience offering, and it's not the most expensive part of creating the availability for our customers, and so we would be loath to do too much about that.

Obviously, concurrently as you mentioned, we're building out our digital capabilities. And Bharat mentioned industry-leading capabilities like TD MySpend, TD for Me and WebBroker. And so we're going to continue to, I think, deliver a premium retail franchise across all channels for our customers going forward.

Rob Sedran – CIBC World Markets – Analyst

Thank you. I appreciate that color.

Operator

We'll go next to Darko Mihelic with RBC Capital Markets.

Darko Mihelic – RBC Capital Markets – Analyst

Hi. Thank you. Teri, I'll stick with you. One question, I'll try and keep it brief.

What's difficult for us on the outside is when we understand or we hear about the elevated expense level. I guess the question is why does the expense level decline? But more importantly, at the end of this all, why is it that all the banks have been able to take restructuring charges. They're also spending on initiatives. Why is it seemingly that you're spending or it's affecting you more on a relative basis.

And I guess where I'm coming from is when I hear that you're rationalizing products and digitizing the customer experience, it's difficult for us from the outside to understand whether or not what you're doing is actually ahead of your competitors or you're catching up to your competitors. So can you speak to maybe some benchmarking and something that would help us understand better that what TD – apart from TD MySpend and WebBroker, but what is it that you've done with the product or the advisor side that is actually industry-leading?

Teri Currie – TD – Group Head, Canadian Personal Banking

Sure. So I think the biggest issue around expenses as we've talked about is the year-over-year comparison and the fact that in Q1 of 2016 we had some favorable items and we ramped up expenses, if you will, through the year and delivered a good expense result for the full year, and now we come into 2017 with a plan to deliver a good expense result over the full year but some front-end year-over-year expense growth, that is creating, I think, some of this question. So I do continue to want to emphasize that for the full year, we will have positive operating leverage and moderate expense growth.

Having said that, if you're looking at sort of then how do I understand why you are in this place, I would say in terms of digitizing and automating our offerings to our customers, we are continuing like all of our competitors to do more in that regard. And I think that that will continue to provide better customer experiences over time and also better efficiency over time. But there is investment to make that happen and that's what we're working through.

In terms of areas where we lead, certainly WebBroker is a big example of that. That's been cited by The Globe and Mail as the best amongst the Big Five banks. And I'd say the investment in the self-service capabilities for our investors has been second to none. And then, again according to comScore, we have the best mobile engagement in Canada across our customer base. And 50% of our total customer base are active mobile users and almost 80% of service transactions happen self-service. So those are just some examples. I'd be happy to answer more questions if you have a follow on.

Darko Mihelic – RBC Capital Markets – Analyst

I do have a lot of follow-ons but I'm not going to monopolize the call. I'll leave it there. Thank you.

Operator

We'll go next to Sohrab Movahedi with BMO Capital Markets.

Sohrab Movahedi – BMO Capital Markets – Analyst

Mike, just for you on the U.S., a bit of a big picture question. Lots of talk that maybe the U.S. administration is going to be able to get the U.S. GDP growth going to 3.5%, maybe even 4%. In that type of an environment, what sort of leverage do you have in benefiting and growing your earnings if U.S. GDP growth was in the, let's say, 3.5% to 4%?

Mike Pedersen – TD – Group Head, U.S. Banking

Good question, Sohrab. I've made the point before that, I think given our size, compared to – which is relatively small than the U.S. in the overall scheme of things, compared to some of the larger players, I believe that our growth and success is less correlated to GDP growth than some of our competitors. We win through a unique model and the proof is in our household acquisition and our deposit growth and our loan growth and so on. So I think that's very important. We actually believe that we can succeed in a low-growth, moderate-growth, faster-growth environment.

Needless to say, I think the sentiment in the U.S. right now is fairly positive, whether I'm speaking with consumer customers or commercial customers, they are more positive in terms of their outlook, and commercial and corporate customers are talking about investments and capital outlays more than they were. So I think that augurs well. But as this may be the basis of your question, we're not really seeing it in the actual GDP numbers reported yet. But I think they're sometimes a lagging indicator, and I think we will see it. If we get into a faster-growth environment, I would expect us to perform better than we're performing now. There's a point at which TD will not do the racier things in a fast growth environment, but we're nowhere close to that environment.

I feel very confident about our business looking forward with the assumptions that the economy is going to operate as it is, or slightly better. We just have so many things that being a relatively young business, that are going well for us. We are outgrowing our peers in all the respects I spoke about. We're deepening relationships with our customers, we're making very good progress on that. We're changing our distribution strategy. Bharat mentioned the digital sales in one year, on chequing going from 9% to 15%. We've had excellent productivity progress, good expense management. I'm very pleased with the efficiency ratio this quarter 56.7%.

And then we've got opportunities, as Bharat alluded to, like the Nordstrom's and Scottrade kinds of deals as well as others that he alluded to. And on top of that, potential rate increases. So I feel good about the prospects for the business over the next year or two.

Sohrab Movahedi – BMO Capital Markets – Analyst

It almost sounds like you'd rather not have the GDP growth in the U.S.?

Mike Pedersen – TD – Group Head, U.S. Banking

No. Given the choice, I'd take it.

Sohrab Movahedi – BMO Capital Markets – Analyst

Thank you.

Bharat Masrani – TD – Group President and CEO

But, Sohrab, like on that, if you have 3% and I think you said 4%, that will be quite something if that happens. I mean, we're going to have – company is borrowing more, loan growth is going to be pretty robust and then there's going to be a lot of transaction activities. So you would think we have a large chequing bank, so you would think the transactions would go up then interchange would go up. We have partnership deals with our credit card retailers. You would see some robust activity there. And if you have that kind of GDP growth, I mean, I am not clairvoyant, but you would expect interest rates to be firmer than where they are today. And with our balance sheet mix with a heavy emphasis on deposit gathering, you would think we would benefit.

So, lots of you know, yes, Mike's point is bang on that our model allows us to perform very well regardless of – from a relative perspective, regardless of where the economy might be, but in overall GDP growth of that level, if it were to way to happen on the basis that people would normally expect, it would be positive, very positive.

Sohrab Movahedi – BMO Capital Markets – Analyst

And presumably you would hold Mike's feet to – or whoever is heading up the U.S, region then to just much – you will hold their feet to the fire and you would have much higher expectations out of that earnings – expectations of earnings out of that segment under those circumstances as well?

Bharat Masrani – TD – Group President and CEO

More than just feet.

Sohrab Movahedi – BMO Capital Markets – Analyst

Thank you.

Operator

We'll go next to Mario Mendonca with TD Securities.

Mario Mendonca – TD Securities – Analyst

Good afternoon. Bharat, a couple of moments ago you said something that really caught my attention. You said that the bank will invest when we have a favorable revenue environment; we're not going to worry about quarterly operating leverage.

So the question I want to ask is, in any given quarter, what sort of expense flexibility does the bank have? And what I'm getting at here is – is it $100 million? As in in any given quarter, you can either expense or not expense $100 million or spend or not spend $100 million. And if the answer to the question is that's a ridiculous question, that's fine. But that's the direction I want to go.

Bharat Masrani – TD – Group President and CEO

Well, I'm not going to say it's a ridiculous question, Mario but I will say that, I mean, when the environment is – when you see some positives in the environment like we've seen in certain markets, when we know what our own pipelines are, and that's not just by quarter, then we do get a sense for where the next little while might be. And sometimes we get it right, sometimes we get it wrong. But hopefully, most of the times we do get it right, and that would encourage us to make the investments perhaps faster than what we might have done had that not been the case.

So that's what I mean. I don't want you to take the impression that we can throttle up or down within two minutes because Mike thinks that something is going to happen in the U.S. so let's get their expenses up. But generally, I mean, we do try to take advantage of an environment because in today's day and age, the investment opportunities are huge and some of them make a lot of sense for TD. And we want to make sure that we take advantage of our franchise and industry-leading position. We just want to make sure not only do we maintain it but we take share because of that advantage.

Mario Mendonca – TD Securities – Analyst

So expenses will always be based on their merits, but the timing of those expenses could be somewhat variable?

Bharat Masrani – TD – Group President and CEO

It's not inaccurate. This is not going to suggest that your whole expense base is of that characteristic, but certainly some categories do fall into that description.

Mario Mendonca – TD Securities – Analyst

Fair enough. Thanks.

Operator

And at this time I would like to turn the conference back to Mr. Bharat Masrani for closing remarks.

Bharat Masrani – TD – Group President and CEO

Thank you, operator. I'm very, very happy with what we have delivered today. You look at the numbers out of U.S. Retail, very strong results as well as from Wholesale. And we've started to see momentum out of our Canadian Retail business where we have some of the largest market shares in the industry. So, very happy with how the quarter has turned out and the momentum we are building. So, thank you for your support. I know our shareholders are listening to this call. We appreciate your support, and I look forward to meeting many of you over the quarter, and if we do not get a chance to get together, I look forward to talking to you in 90 days from now or so. Thank you very much.

Operator

Thank you. This concludes today's conference. We do thank you for your participation.