TD BANK GROUP

NATIONAL BANK FINANCIAL CANADIAN FINANCIAL SERVICES CONFERENCE

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PARTICIPANTS

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

Gabriel Dechaine
National Bank Financial – Analyst

FIRESIDE CHAT

Gabriel Dechaine – National Bank Financial – Analyst

I'd like to welcome Mr. Mike Pedersen to the stage. Mike is, for those who don't know him, he runs the U.S. business for TD which is a very big component of the TD story both from a growth standpoint and a sentiment standpoint, I guess, and then U.S. is exceptionally interesting right now. Mike joined TD in June 2007. I don't know if you were Head of Wealth & Insurance right of the bat, but eventually did that, and then became Head of the U.S. P&C or your U.S. Retail Bank in 2013, correct?

And well, bittersweet, Mike's also retiring.

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

This summer.

Gabriel Dechaine – National Bank Financial – Analyst

This summer, so you'll be missed but we'll take advantage of your presence today and dive into some of the issues. And you can't talk about the U.S. without talking about regulation.

Winds keep blowing this way and that, but the expectation is that the regulatory burden for the banks in the U.S. are going to dissipate. What are your thoughts on that? And if you had a wish list for some relief in some particular area, what would that look like?

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

To use your wind analogy, I do think things have changed. What was a headwind to the banks probably is becoming a tailwind to the banks. Having said that, I would actually say and I know there are other large bank CEOs in the U.S. who would say it, but a lot of the changes that were put in place have been good public policy. So for banks in the U.S., we understand our risks better, we manage them better, and the system is safer for taxpayers. So I don't think they'll wholesale throw the whole thing out and nor do I think they should. I'm a little bit cautious in terms of thinking about how fast this might come.

First of all, I think the new administration has a long priority list and I'm not sure that financial services regulation is at the top of it. Secondly, as we've seen with healthcare, I think it's probably going to be more difficult than some might think for them to affect the changes that they want to affect. And then the third issue that makes me cautious is that, I think TD's now the sixth biggest bank in the U.S. If you take all that we do in the U.S., by any measure we're a top 10 bank – we're probably not their first target.

The Treasury Secretary Mnuchin, he said last week that they were going to focus on smaller banks so I'm not sure how quickly any changes would impact us. But I would hope that there would, at the very least, be a streamlining of the regulation that's been put in place quite quickly over the last few years, maybe even a streamlining of the regulatory agencies. It's better than it was, but there's still room for improvement.

In terms of our wish list, there are really two things that affect you with all of this change. One is the new rules and the impact they have on your business, but the other is that it's just extremely costly to implement the change itself. So on some level you just hope that change will slow down or the pendulum will stop swinging. That in itself would be a big relief to U.S. banks including the TD Bank.

If I think specifically about certain things that you might want changed, they're kind of at the margin. I'd like some parts of the CCAR process to be streamlined, if you will. I would prefer an ideal world that the CFPB followed more traditional rule-making processes than what they do which is mostly enforcement-led. But those are kind of some thoughts.

Gabriel Dechaine – National Bank Financial – Analyst

Thanks for the – lots to chew on there. And then there's also the, I guess, the subtlety of what type of regulation was implemented in the post-crisis period. You had stuff aimed at wholesale banks like Volcker Rule and then stuff aimed at consumer banks, Reg E, Durbin, and those had a pretty material impact on your revenue generation in the U.S. but by the same token you took a lot of steps to offset those.

So if we even saw some lessening of reversal of some of those items, would there be an impact on TD considering the offsets?

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

If they were reversed there certainly would, although in some of those ones that you've mentioned I would question how much banks would undo what they've done. Like Reg E for example, the big changes were around better customer consent to signing up for an overdraft to account, to better disclosure by banks. I doubt that at least the big banks would go back to 10 years ago if the rules changed but there would definitely be revenue opportunities. If, for example, Durbin got rolled back I think there are political obstacles to that and a lot of lobbying obstacles but there would be upside if that got rolled back. Some of the others, the benefit might be more just in the cost to maintain the regulations than a more tangible impact.

Gabriel Dechaine – National Bank Financial – Analyst

Got you, fair enough. Now swinging the other way from a regulatory standpoint, we have one large U.S. bank last fall have problems on the cross-selling side, Wells Fargo. Has there been a ripple effect on the industry? Are the regulators looking at all the other banks and seeing what their practices are? What their oversight is like in the U.S.?

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

First of all, I'd just say fairly categorically that we don't believe we have the types of problems that that particular institution did. And I would also just say, as my colleagues have said in Toronto at our AGM, that we don't believe that the Canadian media reports on our sales practices are reflective of our culture.

We've had a balanced scorecard for years where we reward both the customer experience, adherence to our compliance rules, as well as building business, and we've had controls in place for a long time. We don't think there are widespread issues of the sort that have been talked about.

And needless to say, even before the Wells Fargo news, we were monitoring these kinds of things and making improvements to our processes. In the U.S. in particular, we were more oriented toward acquiring new customers than deepening relationships. We've had a bit more focus on the latter recently, but we've had rules in place to oversee that. So we have looked at this both before Wells Fargo and after Wells Fargo. We make changes on an ongoing basis and will continue to.

I do think that, by virtue of what's going on in the U.S. that the industry as a whole has looked pretty deeply at this and that changes will be made in most banks. Everything I hear from the agencies themselves is that in the U.S. they are not of the view that you can't have sales or sales goals or a sales culture. They are simply of the view that, to the extent you have them you've got to make sure that they don't incent the wrong kind of behavior.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. Moving on to some of your growth strategies, including inorganic. The cards business, we've seen TD in the U.S. partner up with Target, partner up with Nordstrom, and based on Bharat's comments and yours as well, I believe, there's an appetite to get bigger in the private label cards business in the U.S.

Now, cards are a nice return business, don't get me wrong. But if I were to play devil's advocate on that, I'd say why not put the capital just towards commercial loan growth or some other consumer loan growth, because the multiples, they're inflated now for regional banks but the multiples for U.S. regional banks are much higher than they are for a private label card issuer. Why won't you direct your capital towards that higher multiple business, or is it just a diversification benefit that you see?

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

There's that, but I'm not sure – I think that some of the monoline card players that you're referring to have pretty good ROEs and high at least price-to-book and multiples above 10 and so on. I think to the extent some don't, it may be because they have subprime, which is obviously a risk that induces volatility.

Our analysis, our view, our strong view is that this is very accretive business. It's very profitable business to us. It solves two big problems for us or solves for two big opportunities. One is we have excess deposits and we need to deploy them in assets. And to your point, you can't deploy them all in one asset class. We like the card asset class, so we'd like to keep building this, and we'd do another deal of the sort that we've done with Nordstrom and Target. The other is that cards is a scale business. We've been building our own card business in the U.S. Every time we do one of these deals and add a few billion dollars, we get scale benefits that accrete not just to the deal we did but to our overall card business. So we're getting a double whammy in a sense that we get scale benefits as well as the inherent return, which we view as good.

Gabriel Dechaine – National Bank Financial – Analyst

So you have I guess a centralized cards business but you can keep the partners distinct for obvious reasons?

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

Yes, correct. But a lot of the infrastructure is shared and the risk management, the management, so we get scale benefits from that for sure.

Gabriel Dechaine – National Bank Financial – Analyst

So what did you I guess learn from Target, which was your initial foray into this business, and then learning experiences and maybe some mistakes along the way? And then you approached Nordstrom just differently and gained expertise over time. So what was – I guess what's different in your approach to Nordstrom than it was for Target?

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

I can't really speak to any individual customer or arrangements with individual customers. I would simply say that it's not like we were neophytes at this. We've had card deals for a long time in Canada, for example, and we had smaller deals in the U.S. We built a terrific cards team over the last five, six years, and the team had lots of expertise. We have learned things in both of those deals. They're quite different when you think about the customer segments. We've learned things about risk and the loss profile of certain customer segments as well as how to optimize both service levels and our operations. I'm sorry to be general, but I really can't comment specifically on any individual customer or deal.

Gabriel Dechaine – National Bank Financial – Analyst

No, fair enough. Getting back to the mix though, how you structured your asset mix in U.S. It's quite a bit different than some of the – not the Citibanks and all that of the world. But U.S. players tend to be more heavily skewed towards commercial lending. Your business is closer to 50-50 commercial and consumer. Is that a target of yours, and if so what's the rationale for being in a more balanced mix like that?

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

So it's a great question. We don't actually have, at any point, a target of how much commercial versus retail we want. Ultimately, we don't really think about the asset classes as much as we think about acquiring customers or clients where we can get the chequing account or the operating account or the cash management. I mean, those are very profitable in and of themselves.

Then in terms of the issue of where do we build our assets, first of all it has to help the customer and strengthen the relationship with the customers, but we're not dogmatic about it. It comes down to what are the current returns, what's the risk reward in any particular time, is there growth in that asset class that justifies us putting major effort behind it? In terms of your question, commercial versus retail, when I came into the U.S. business four years ago it was my view that in the short-term at least there was significant upside and opportunity in commercial and smaller corporate banking in the U.S., and we've had very good growth. It was also my view that mortgages would be challenged; no genius, the financial crisis dictated that. And on the retail side, therefore, we decided to go after cards and auto. So it depends on where the opportunities are at the time and, obviously, we have risk concentration limits that apply to any asset class but it's mostly about the risk reward relationship at any time.

Gabriel Dechaine – National Bank Financial – Analyst

You mentioned autos and that's a segment that can get a little bit newsie from a regulatory standpoint, sales practices and the like, and I know you've been careful about which market segments you want to be in. Firstly, let's just talk about that, what your approach is to auto lending in the U.S., where you want to be and how you want to avoid certain regulatory issues, I guess, that have hit some other banks?

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

Most of the issues have been with players that were heavy in subprime. We do zero subprime, so our target in auto is super-prime, prime and near-prime. Our portfolio right now is about 88% or 89% super-prime and prime, so it's a very conservative portfolio. Nevertheless, you've seen over the last few quarters that we've dialed back a little bit in auto growth. We were running at sort of mid-teens growth rates and now, I think last quarter, we were at 9% year-over-year growth.

Gabriel Dechaine – National Bank Financial – Analyst

9% or 10%, yes.

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

So it's been going down the last few quarters. I would say that's deliberate in the sense that in this environment, at this point in the cycle, we're not prepared to give on margin, and margins did narrow after the election as rates rose and we just chose to accept a lower level of volumes because it allows us the right risk-reward relationship.

Having said that, the auto portfolio for us is behaving exactly as we expected it would. Our PCLs are up a little bit, but that was expected. We've changed the mix a little bit, more prime, mostly is the biggest change from super-prime, a little bit more near-prime, but it's behaving as we expected it would. We obviously monitored very closely given all the attention it's getting, including from a regulatory point of view, I feel very comfortable with our risk there right now.

Gabriel Dechaine – National Bank Financial – Analyst

Just to pivot towards FinTech and it's a broad topic, but TD is uniquely positioned or advantageously positioned I guess, in being in the U.S. Trends in the U.S. can be several years ahead of what we see in Canada, in good ways and in bad ways.

What have you learned in the U.S. from observing the FinTech challenge, and how have you shared those experiences, I guess, with your Canadian peers, colleagues, brethren?

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

One thing I've learned is that Canadians don't want to learn from Americans and vice versa, but that's a different issue. So first of all, I'd say, the U.S. is the probably the most competitive banking market in the world. And it's the place where every FinTech company wants to prove their mettle and we see them all, and have seeing them all for several years now.

For example, in Canada Apple Pay was big news and a recent phenomenon, but we've had Apple Pay and Samsung Pay and Android Pay and Google Pay and Microsoft and whatever, lot's of mobile wallets; so, gaining lots of experience with those kinds of things. It's the same in all the other parts of the banking system, whether it's payments or banking or lending to small business or retail lending, or robo-advisors and so on. Having watched this now for a few years, the first thing I'd say is that we've worked very hard and invested significantly to ensure that we're prepared for the strategic options that may present themselves and the threats that may present themselves. In some respects, we're reacting now. In others, we're just prepared to react.

I do think that the FinTech phenomenon is a real threat to banking. I think that banks will have time to react. That this is moving at a pace where, if they choose to transform themselves, they can do so and emerge as winners. But I think it will be interesting to see who are the FinTech winners. I think a few of the FinTech players themselves will end up succeeding, if nothing else, because there are so many of them and because there's been $100 billion invested in it in the last three years. I think there are large banks in the U.S. that don't have a retail footprint or only have a retail footprint in one part of the country; that because they have all the banking knowledge and the regulatory knowledge can launch FinTech-like offers either outside or in their footprint with relatively low risk of cannibalization. They might do it by partnering with FinTechs or on their own.

I think that some of the big technology companies, the Googles, the Amazons and so on have the capability to do something if they choose to make it a priority. I think there are downsides. And then as I said, I think there are conventional banks, regional banks, banks like us that if they are willing to transform themselves, make the investments, incur some cannibalization risk probably will succeed, but I don't think they all will. I do think this is probably as big a risk as I can remember in the last couple of decades.

Gabriel Dechaine – National Bank Financial – Analyst

Can you give an example of one of your – whether it's commercial or mortgages or auto lending or cards, one of those verticals, that you've faced a new threat from a company that didn't exist five years ago, and what you learned and what you were able to maybe tell your friends up north or here, this is what we learned, this is what you should be doing?

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

I will. But just on that point, the banking systems are so different that there is a limit to...

Gabriel Dechaine – National Bank Financial – Analyst

Okay.

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

...even if we want to learn from each other, we can't. But it is an advantage to have a U.S. and a Canadian business because we share a lot, and it certainly informs our decisions. And sometimes we invest together knowing that we both need more of X or whatever.

And so a couple of examples, one is in the payments side, where I think that's probably one of the more tangible near-term risks just because of the amount of money and innovation that's gone at it in the U.S. So in that game, we've done various different things. We've partnered with others, like all of the parties that I mentioned before in terms of mobile wallets. We have worked with the other banks in the U.S. on standing up new payments offers that's been in the media that something is coming and we'll participate in that. We've also done things on our own to create improvements to our own payments offers, so that we can at least defend against these things in the short term.

So that's probably the best example I can give you. There are others in cards and commercial payments. In commercial payments, for example, we've co-invested in a FinTech that we believe has legs, and we're now working in partnership with them with our clients to provide a new offer to our clients. So it takes all of those forms, and I think this is something where you have to place multiple bets because nobody knows exactly what will win.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. Scottrade, I'm just – quick question on – because you participated in your partner's acquisition of Scottrade, and there are some balance sheet implications for you, some deposits that are coming onto your balance sheet, not a huge number. But are they going to be rolled into the existing IDA agreement that you have with Ameritrade?

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

Yes, it will be the same model. Very good deal for us in two respects, one is that it's very accretive for us. The other is that this is business that we know well, to your point, like we're just going to be doing more of the same. This is an acquisition where we're not acquiring real estate and branches and thousands of people that we need to integrate. So I really like this deal.

Gabriel Dechaine – National Bank Financial – Analyst

So it happened at a pretty opportune time, actually, pre-U.S. election. And then when it happened we focused a lot on it, but then on kind of fell off the radar screen for a little bit, but – for people like me but not for you certainly. Have you learnt anything throughout the – or over the past few months, some unanticipated benefits from those transactions for TD Bank, N.A. specifically that you hadn't realized at the time of the deal?

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

You mean good and bad? It obviously hasn't closed. We're, however, very far along in our integration planning. I'd say there's been no significant surprises as I think about the – there is always a few things that aren't exactly as you thought, but they've not been significant in a strategic sense or in terms of the model.

I think there are opportunities for us that we may be underestimated in terms of what other business we can do with customers, mortgages, for example. But it's a good story, no significant surprises, it seems to be what we thought it was and our business plan is as it was.

Gabriel Dechaine – National Bank Financial – Analyst

This past quarter anyway the Canadian segment, there is a lot of attention paid on some of the initiative spending that took place there, but we also saw a pretty big pickup in expenses in the U.S., which after a few years, I think, 2015 it was pretty flat, last year, 2016 I mean, also pretty low, low expense growth. Was this catch-up type of investment spending, and then is the expectation similar to – or is the guidance similar to what was said about Canada, where you're going to start to see that taper off in the next few quarters?

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

So I agree with everything you've said. We did guide in the fourth quarter that expenses might be higher. They were about 5% in the first quarter, and I would point out though that, that still meant we had 330 points of operating leverage and our efficiency ratio was 56.7%, which is a far cry from the mid-60s where it was a few years ago. So in the quarter, we had a bit of spend on some digital technology kind of things, we had the impact of the FDIC charge. There were just some investments in, for example, sales force and frontline people, both in contact centers and stores. We knew it was going to be higher in Q1 and it was roughly where we expect it to be. I expect it to be significantly lower going forward for the full year.

Gabriel Dechaine – National Bank Financial – Analyst

More broadly on expenses and I'll just focus on one quarter, but in Canada it's – efficiency is obviously a big theme. I'd say it's a little less on the U.S. because you've got a different environment, maybe more growth orientation, but how are you expecting your efficiency ratio to improve in the U.S. over the next few years?

You mentioned the 57%, which is yes, much stronger than it was a few years ago. What changes are you making to your maybe your distribution strategies, is the branch network is still going to grow with the same pace as it was over the past few years, probably not, but let's go into that a little bit.

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

So I think you've hit the main point that the big opportunity we have in terms of – one of the big opportunities we have in terms of further efficiency, and by the way I think there is upside for us on efficiency going forward, is around distribution and it takes various forms. We're investing heavily in digital because that's where we're seeing all the take up. Really, the only part of our distribution system that's growing significantly is mobile. The last quarter was up 31% year over year. Store transactions were down. Phone transactions were down. ATMs were up, but that's partly because we added a lot of ATMs to our network. So online was down, believe it or not. Mobile is where it's at, and that all goes to the quality of your digital offer, which is why we're investing so heavily in it. And it's reflected in the fact that our digital sales are rising very, very quickly. Chequing, for example, 15% in Q1 this year and 9% of our chequing accounts last year so it's rising really quickly. Credit cards are even better than that.

So what you're seeing us do, basically, is we've gone in the last two years from being a bank that was growing its store network on a net basis. We're now a bank that's not growing its store network on a net basis. We're still opening stores every year but we're closing more or merging more, and I think you'll see that trend continue as transactions go down in the store network. And the ones we're opening are smaller and more advisor-oriented, much more technology laden. And then we're also improving our ATM network both with the introduction of smart ATMs and more ATMs. So the combination will shift to fewer smaller advice-based stores, more ATMs that do more things, a very heavy emphasis on digital backed by, obviously, a phone capability.

And by the way we've invested in that. In our bank now, if you're using your digital device you can push a button and you'll get to a human being in a call center within 60 seconds without having to re-authenticate; that's already done. We do voice authentication now. Lot of investment in digital to accomplish those kinds of things.

Gabriel Dechaine – National Bank Financial – Analyst

How does that shift and distribution play into the M&A strategy? A few years ago we would've looked at what's the branch overlap. It's probably still very important, but if you're looking at a deal today how far down has that moved on the priority list? Branch overlap or even a branch-intensive bank that you could possibly acquire?

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

It's still attractive because one way to look at it is that if you did acquire you could close more branches than you used to be able to because you need less today, like our households per store has been rising steadily and you want it to rise steadily. So what you're really after is the customers and if you could buy a bank with 2 million customers there are still significant synergies.

Remember, as I say that store transactions are going down, still 80% of the sales today so it's still really important. So we'd still look at deals on that basis. It's still the case though with TD that we have a different footprint density in different parts of our market so we think about it differently depending on that issue. We still would like more stores, more physical presence in the Carolinas and in Florida, for example. So we'd be highly motivated to do something there if it was right from a valuation point of view and there weren't any AML, compliance, legal risks, and the credit portfolio was decent, and so on.

Gabriel Dechaine – National Bank Financial – Analyst

And on the valuation topic, what's your view on the...

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

They're high right now. It's difficult to make things work. But we're in the fortunate position that we have no strategic imperative or compulsion to acquire. We can grow this bank, we have critical mass very successfully, so we're prepared to be patient and these things change sometimes quite quickly and we look at what comes up but we won't do something unless it really makes sense for us.

Gabriel Dechaine – National Bank Financial – Analyst

Now, what about the credit outlook for the U.S.? We've seen some – let me rephrase. There has been some attention paid to the credit cards business and the auto lending business in particular. Your business makeup is different and that might insulate you from those factors. But while people are getting all caught up in the excitement of what's going on in U.S. banking, is there anything on the credit side that has you, maybe, a little bit guarded?

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

I think guarded is a good word actually. Obviously, we look at our portfolio very closely right now because we are late in what would be considered a traditional cycle. And there are noises from regulators and others about credit concerns, whether it's the categories you mentioned or commercial real estate, et cetera.

But we are seeing our own portfolio behave as we expect it to behave. There isn't any part of it where we're alarmed. But I'd say we're looking at it more frequently and more carefully than we might be if it was early in the cycle. Any of us who have been around for three decades in this business know that all cycles end. It's tough to look ahead and determine when that happens, but it is possible if you're diligent and careful about your analytics, and we look at it very closely. I would just say that I feel sanguine about our credit portfolio right now, but guarded is probably a good word to describe our posture right now.

Gabriel Dechaine – National Bank Financial – Analyst

Now just on the margin...

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

If I can just add one thing, you've seen our growth go off not just in auto over the last few quarters but in commercial and corporate. So we're accepting that in part because we want to be reasonably conservative.

Gabriel Dechaine – National Bank Financial – Analyst

Got you. Now the margin issue, I know this is a hot button topic for investors because the expectation is that TD's got a lot of rate leverage, big deposit book. There was some guidance that was given a few years ago. Management's reluctant to update that guidance for a variety of reasons. And in Q1 we actually saw margins go down, some accounting noise in there. So let's just take it on a very high level. If we get three Fed rate hikes this year, will the margin be moving higher and will it be moving higher in a material fashion?

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

I would expect so. I think he was looking for a simple answer.

Gabriel Dechaine – National Bank Financial – Analyst

We've got to eat up the clock here.

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

Okay, all right. I'll help you. We said at quarter end that we expect the margin to rise even if we didn't get further rate increases. Since then, we have gotten a rate increase. It's obviously only for part of the quarter. I never want to predict margin by quarter. There are just too many moving parts, but my expectation is that the net interest margin will improve during this year. And the more rate increases we get, the more confident I'd be about that.

Gabriel Dechaine – National Bank Financial – Analyst

Are there any questions from the audience before I – yes, the gentleman in the back. No, middle, I guess.

Unidentified Audience Member

I just wanted to know about the mergers and acquisitions, that market. Are you active in it in Canada and the United States, probably more in Canada?

Gabriel Dechaine – National Bank Financial – Analyst

Are you talking about capital markets?

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

You mean capital markets M&A?

Unidentified Audience Member

Yes.

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

We are not in the U.S. In Canada, that is something that we do a bit of, yes, more than a bit, but in U.S. we don't.

Gabriel Dechaine – National Bank Financial – Analyst

Nothing else? The growth expectations for the year despite some PCL headwinds, it moves up year over year and margins that were down. You still put up 9% USD growth, percent that is. So that's still pretty impressive. If some of those other issues normalize or reverse, then the outlook for the rest of year is still quite good, right?

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

You never want to correct your host, but on this one it was 10.2%.

Gabriel Dechaine – National Bank Financial – Analyst

10.2%. Yeah. Yeah. Sorry.

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

That's a lot of money for you and your investors. Look, I feel confident about this year. I mean, a very strong record quarter in Q1, 10.2% growth, and we've got more tailwinds than headwinds at this point. That's different than it was before. Revenue growth was 9%. I think we'll have strong volume and revenue growth continue. Expenses are under good control. PCLs will rise this year as they did last year, but it's a reflection of growth and our mix of cards and auto. It's behaving as expected. So that's factored in when we talk about a positive outlook.

I think the way we've said it is that we expect the U.S. business to be a positive contributor to the bank being able to achieve its 7% to 10% medium-term earnings growth target. So I think it's going to be a good year for the U.S. business based on what we see now.

Gabriel Dechaine – National Bank Financial – Analyst

And last question on the commercial, notwithstanding kind of guarded in your growth right now. Businesses were maybe a little bit reluctant to invest ahead of the U.S. election. We've had the election, but the world's still a little bit volatile. Are you seeing any improvement on how commercial borrowers are willing to borrow? Some of the numbers that we've seen for the industry anyway have indicated a slackening of demand.

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

It's weird. You've got definitely rising confidence both in terms of the surveys but also in terms of when I meet with clients. And yet C&I lending is slowing down as you say. I think there are a few things going on. One thing we definitely noticed in the last quarter or two is that some of our commercial corporate clients are tapping the bond markets and they tell us it's because they want to do so before rates rise too much more. I also think that M&A has slowed down because of all the political and regulatory uncertainty, tax reform uncertainty. People are reluctant to make acquisitions before they know whether there's going to be a border adjustment tax and so on.

And then I think there's a whole bunch of other reasons like in energy, for example. What we're hearing is that some of the energy clients that got hit by commodities prices in 2015, they are now in better health so they have paid down their – because of the rising stock markets they paid down their lines so all the growth needs to go to that first before you see any other growth. So I think there are some sort of unique circumstances right now that's tamping down the growth in C&I. I would expect it to go back to correlate more closely with the GDP growth, if this confidence actually turns into GDP growth.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. Well on that note, I appreciate all the time you're willing to spend with us and coming to Montreal to talk to investors. So thank you and good luck in the next, well, post-June phase of your life.

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

Thank you. Pleasure to be here, Gabriel. Thank you.