TD BANK GROUP
Q3 2012 EARNINGS CONFERENCE CALL
AUGUST 30, 2012

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Material economic assumptions underlying the forward-looking statements contained in this presentation are set out in the Bank's 2011 Annual Report under the headings "Economic Summary and Outlook", as updated in the Third Quarter 2012 Report to Shareholders; for each business segment, "Business Outlook and Focus for 2012", as updated in the Third Quarter 2012 Report to Shareholders under the headings "Business Outlook"; and for the Corporate segment in the report under the heading "Outlook".

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PRESENTATION

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Good afternoon, and welcome to TD Bank Group's Third Quarter 2012 Investor Presentation. My name is Rudy Sankovic, and I'm Head of Investor Relations at the Bank.

We'll begin today's presentation with remarks from Ed Clark, the Bank's CEO, after which Colleen Johnston, the Bank's CFO, will present our third quarter operating results. Mark Chauvin, Chief Risk Officer, will offer comments on credit quality after which we'll entertain questions from those present in the room and from prequalified analysts and investors on the phone. Also present today to answer your questions are Tim Hockey, Group Head, Canadian Banking, Auto Finance and Credit Cards, Bharat Masrani, Group Head, U.S. P&C Banking, and Mike Pedersen, Group Head, Wealth, Insurance and Corporate Shared Services. Bob Dorrance, Group Head, Wholesale Banking is joining us by phone today.

Given that this has been a busy reporting day for the analyst and investor community, we'd like to ensure that this call be limited to an hour, so we please--appreciate your cooperation. At this time, I'd like to caution our listeners that this presentation contains forward-looking statements and there are risks that actual results could differ materially from what is discussed. 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 and may not be appropriate for other purposes. Certain material factors or assumptions were applied in making these forward-looking statements. For additional information on these factors and assumptions, please see our Q3 2012 MD&A and 2011 Annual Report on TD.com.

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

Ed Clark – TD Bank Group – Group President & CEO

Thanks, Rudy, and thanks, everyone, for joining us today. Colleen's gonna be up shortly to discuss in detail our third quarter results, but let me start by sharing my thoughts on the quarter and talking about how we feel about the rest of the year.

This was a record quarter for TD with adjusted EPS growth of 9 percent versus the third quarter last year. Our retail businesses generated record adjusted earnings of more than $1.6 billion, also up 9% from a year earlier, and our wholesale bank delivered solid results in a very difficult market.

Among the highlights of the quarter was a renewed recognition of our best in class customer service. TD Canada Trust won JD Power Award for the highest customer satisfaction levels among the big five banks for the seventh year in a row. We are the only bank in Canada to have won the JD Power Award, an amazing accomplishment. And for the eighth consecutive year, TD Canada Trust was named the best of the big five banks for customer service excellence by Ipsos, formerly known as Synovate.

Now, these awards speak to the high standard of service we deliver across the breadth of our platform, from branch banking to phone to online banking and other direct channels. In addition, our investment advice business performed extremely well in the latest JD Power and Associates customer survey. I am as proud of this recognition as I am of our strong financial results. It is a testament to our employees' enduring commitment to TD's service and convenience model.

Along with this positive news, we are very pleased to declare a 5 cent dividend increase today as well as an increase in our target payout ratio to 40 to 50 percent of adjusted earnings. The latter brings us into line with our Canadian peers.

We have maintained a cautious stance on this front through a period of unprecedented economic upheaval. We have heard, though, from investors loud and clear the growing importance of dividend income in today's low interest rate environment.

When our board considered this together with our strong balance sheet, our stable earnings base, our superior ability to generate capital and the fact that the transition to Basel 3 is almost complete, they determined that the timing was right to make this change in our payout ratio. Today's dividend increase is our second this year, which is consistent with the pattern of increases declared by the board since 2003 except for a brief pause during the financial crisis.

Earnings growth permitting, the board has indicated that they would like to continue increasing our dividend twice a year as we progress towards the mid point of our new higher payout range. This can reasonably be expected to result in dividend growth outpacing adjusted EPS growth.

Collectively, these decisions signal the board's confidence in the resilience of our retail focused franchise banking model and our ability to continue to deliver sustainable long term earnings growth despite a challenging operating environment.

Let me talk a little bit about that environment and what it means for our outlook. Together with our strong numbers in the first and second quarters, today's record results add up to an impressive performance for the first three quarters of fiscal 2012 with adjusted earnings of $5.3 billion, up 11 percent over last year and adjusted EPS of $5.59, up 10 percent. We expect our fourth quarter results to come in at a level that will allow us to get into the lower end of the 7 to 10 percent adjusted EPS growth range for 2012 as a whole.

While we're pleased to be on track to meet our EPS objective this year, as we look ahead to 2013, we know we have our work cut out for us because the headwinds we've identified continue to gather steam. Persistent fragility in the global economy likely means a more prolonged period of low interest rates, putting further downward pressure on our margins.

Revenue growth in Canada is slowing as households limit new borrowing and the latest round of tightening in the mortgage insurance rules take in effect. And in the United States, the regulatory environment remains a source of present day challenges and future uncertainty.

So, while we said in 2012 that we would have to work hard to get into the 7 to 10 percent range, and we did, we would say today it feels like we are going to have to work even hard in 2013, given the headwinds and the higher starting point implied by this year's results. Still, we are confident that we have made the right investments in organic growth and the new strategic initiatives to achieve that target over the medium term.

Expense management will play an important role in meeting this objective. We have been focused on making the investments necessary to have positive operating leverage recognizing it'll be more difficult to achieve in an environment of slowing revenue growth. What we won't do is engage in fire drills or other kinds of short term thinking. Instead, we will look for ways to generate permanent sustainable savings by changing the structure of our cost base and making productivity a competitive advantage for TD.

To wrap up, it was a great quarter. I'm pleased with our results today. I'm proud of the management team's impressive performance, and I'm absolutely confident in their ability to strike the right balance between reducing our cost base and continuing to invest for the future.

We have been resilient so far by doing what we've been doing for the last decade, staying focused, executing our business strategy, investing for the long term and exploiting the growth opportunities for which we are very well positioned.

With that, let me turn it over to Colleen. Thank you.

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Thanks, Ed, and good afternoon, everyone. Let me take you through the results. Please turn to slide four.

We are very pleased with our results this quarter, with adjusted diluted EPS of $1.91, up 9 percent year-over-year, and total bank adjusted net income of 1.8 billion, up 11 percent from last year, driven by retail adjusted earnings of 1.6 billion, up 9 percent from last year, solid Wholesale results with net income of 180 million and a gain of 30 million in the corporate segment.

Please turn to slide five.

This next slide shows you the reported and adjusted view of earnings this quarter. The difference between the two views was due to seven items of note. Let me mention two of these items. We had a positive impact of 18 million from the change in the Ontario statutory income tax rate as well as an increase of 77 million to the previously disclosed litigation reserve.

Please turn to slide six.

Canadian P&C had a record quarter with adjusted net income of 889 million, up 12 percent versus last year. Adjusted operating leverage was 2 percent this quarter with record adjusted revenues up 13 percent compared to last year and adjusted non-interest expenses up 11 percent.

This year's acquisition of MBNA added 10 percent to adjusted revenues, 8 percent to adjusted expenses, 23 basis points to NIM and 96 million to PCL. Better credit performance on MBNA acquired loans added to net interest income, adding about 25 million pretax this quarter. Excluding MBNA, revenues increased 3 percent while expenses were up 3 percent due to volume growth, investments in branches and other business initiatives.

The strong performance this quarter was attributable to good loan and deposit growth year-over-year. Retail lending volume growth was good but slowing with real estate secured lending up 6 percent and auto lending up 5 percent. Business lending growth remains strong, up 14 percent while overall deposit growth was also strong at 9 percent.

We also experienced better credit performance this quarter as PCL in personal banking excluding MBNA was lower than last year and overall credit quality remains strong.

Excluding the impact of MBNA, margin was down 14 basis points compared to last year due to the low rate environment, portfolio mix and competitive pricing. Margin excluding MBNA was down two basis points sequentially. We expect the low rate environment will contribute to margin declines in Q4 as well as in 2013.

Please turn to slide seven.

Wealth and Insurance, excluding the impact of TD Ameritrade, delivered solid results in a challenging economic environment. Net income of 304 million was up 1 percent from last year. Wealth earnings were up 5 percent year-over-year. Transaction revenues declined due to decreased trading volumes and direct investing. This was largely offset by increases in fee based revenue in advice based and asset management businesses and net interest income driven by higher margin. We are pleased with good net client asset growth despite lower markets.

Insurance earnings were down 3 percent year-over-year. Premium growth and the inclusion of MBNA were more than offset by adjustments to reserves for claims liabilities and higher weather related catastrophe claims. On a year-to-date basis, Insurance earnings rose 18 percent. Please note that higher than expected weather related events have continued during the month of August.

Expenses across the segment were down 1 percent versus last year, largely due to lower trading volumes and lower technology cost in wealth.

The contribution from TD Ameritrade was higher this quarter as increased economic ownership and a weaker Canadian dollar raised the contribution to segment results versus last year.

Please turn to slide eight.

U.S. Personal and Commercial bank delivered solid adjusted net income of US$355 million for the quarter, up 3 percent from last year. The increase was primarily due to strong core growth and a lower effective tax rate, partially offset by the impact of the Durbin Amendment and runoff in legacy Chrysler Financial revenues, which was expected.

Average loans were up 14 percent year-over-year, including a 36 percent increase in residential mortgages and a 9 percent increase in business loans while average deposits, excluding government deposits and TD Ameritrade IDAs were up 9 percent.

NIM was down 11 basis points versus last year, mainly due to the low rate environment. Total PCL was down by 4 percent from last year as the underlying credit quality of the U.S. loan portfolio continues to improve.

Adjusted expenses increased from last year, primarily due to investments in the core franchise, including new stores. TD Bank opened its 1,300th location in the U.S. in early August. We're on track to add 35 new stores this year.

Please turn to slide nine.

Wholesale delivered solid results this quarter with net income of 180 million, up 61 percent from a difficult quarter last year. The increase was primarily due to higher trading revenues due to improved fixed income and credit trading as compared to the difficult market conditions of Q3 of 2011.

Total trading related revenue in the quarter was strong at 360 million, which was above our normalized expectation of 300 million per quarter and included gains recognized on trading positions previously considered impaired.

Partially offsetting increased revenue were increased PCL related to a single name and higher non-interest expense due to additional legal provisions and higher variable compensation. Annualized ROE for the quarter was strong at 16.7 percent.

Please turn to slide ten.

On an adjusted basis, the corporate segment posted a gain of 30 million in the quarter. Corporate segment results are subject to some volatility, as you've seen, and are inherently difficult to predict. Results were down from last year due to lower net corporate expenses and favorable tax items, more than offset by treasury and other hedging activities.

This number was better than expected due largely to lower expenses. Some of this is timing, and some of it reflects the early impact of our productivity focus. We continue to target a higher loss for the corporate segment in Q4 at the higher end of the 40 to 80 million loss range and intend to address the target for 2013 next quarter.

Please turn to slide 11.

Expense control remains a major focus across the bank as we position the bank for revenue headwinds of the slow growth economy and the sustained low interest rate environment. Our focus is on initiatives that will permanently improve efficiency and reduce the cost base of the organization and ultimately make productivity a competitive advantage for TD. At the all bank level, we expect the pattern of increased Q4 expenses versus Q3 to continue but at a lower rate than last year. We expect a quarter-over-quarter increase in adjusted expenses of approximately 250 million.

Roughly 40 percent of the expected increase will be due to business volume and seasonality. About 20 percent will be marketing campaigns with the remainder reflecting higher project and initiative spend. Excluding expenses added by recent acquisitions and FX, we expect adjusted expenses to grow by under 3 percent this year, which was achieved while making investments in future growth, including 60 new branches in North America, 25 in Canada and 35 in the United States. We are targeting a lower expense growth rate on the same basis for next year.

Please turn to slide 12.

Looking at capital, our Q3 tier one capital ratio was 12.2 percent, and our pro forma Basel 3 ratio was 7.7 percent. Our guidance remains unchanged on Basel 3.

Please turn to slide 13.

The board of directors has approved a 5 cent per share increase in the dividend, the second increase in 2012, and a higher payout range, now 40 to 50 percent. Including this announcement, per share dividends will increase 11 percent this fiscal year.

And with that, I'll turn the presentation over to Mark.

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

Thank you, Colleen, and good afternoon, everyone.

Please turn to slide 14.

As a reminder, the debt securities classified as loans in the acquired credit impaired loan portfolios have been excluded form the credit slides.

Canadian credit quality remains strong across the portfolio with the credit quality indicators for the U.S. portfolio continuing to improve. I would, however, like to comment briefly on the increasing gross impaired loans in the U.S. HELOC portfolio.

In line with recent regulatory guidance, a portion of our second lien HELOCs have been changed from performing to non-performing status. The change was made to reflect cases where our borrower is current on this TD HELOC but delinquent on any property loan held by another lender.

The net impact of the change resulted in a $74 million increase in gross impaired loans. As these loans were already factored into our reserves, the reclassification does not impact PCL.

Lastly, I can confirm that there has been no change in the performance of our acquired portfolios and the debt securities classified as loans this quarter.

Now, I'll turn the presentation back to Rudy.

QUESTION AND ANSWER

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Great. Thanks, Mark. We'll now open it up for questions. And to give everyone a chance to participate, please keep to one question and then requeue.

For those participating in person in the room here, can I ask you to identify your name and firm before asking your question?

And before ending the call today, I will ask Ed to offer some final remarks.
So, why don't we get started in the room here. And do we have any questions? Michael?

Michael Goldberg – Desjardins Securities – Analyst

I always get cut off at one question, so I'm gonna give you a two-parter. Michael Goldberg, Desjardins Securities.

To what extent does a make versus buy decision shape your U.S. Bank acquisition decisions? And I guess there's a couple of situations recently where, that question might be addressed?

And secondly, with your litigation experience and the recent Samsung decision in the U.S., how do you feel about litigation risk going forward?

Ed Clark – TD Bank Group – Group President & CEO

We're always happy to give you, Michael, two shots here.

I'd say the make versus buy, we haven't really moved off the paradigm. I think after we got the commerce deal and then I think supplemented by the South deal, the FDIC deals, we believe we got our U.S. platform to a strategically viable size and that we weren't endangered.

And my view has always been that if you're going to go into the United States, you definitely have to get to a certain size in order to stay competitive. And having got that with the platform and the second component of that is also to run the bank like a North American bank rather than a Canadian bank that happens to own a U.S. bank.

So, you'll see that in our card strategy, you'll see that in our auto loan strategy, you'll see that in our direct bank strategy where we're really spreading the cost of investment across a retail earning base that's the largest retail earning base in Canada by a significant margin.

And I think we don't believe we're strategically challenged for size. Obviously, we want to continue to grow and deepen the franchise, but we really look at acquisitions and say what's the cost of growing by buying and what's the cost of growing by building.

And if buying is not cheaper than building, I think if anything, we'd have a preference to build rather than buy because you know exactly what you're building when you're building, whereas when you're buying, you get a lot of other things that you wouldn't have built. And so, I think that's how we tend to look at it. We have a active corporate development group that looks at everything. It certainly turns down at least nine things for every one that it does. Probably the number is 90 or 95 for every 100 that it looks at. So, they're very, very disciplined. And so, we obviously decide to pass on the acquisitions that happens. It's not like everybody wasn't aware of all these acquisitions. And so, from our point of view, they just didn't make sense.

In terms of the litigation atmosphere in the United States, I think when you go into the United States, you've got a regulatory environment that's different than you would feel in Canada and a litigation environment that's different than you would feel in Canada. And if you're not up to that environment, then you probably should get out of the kitchen.

So I think there's an element in which you just have to accept that there is an environment where you may have the better part of the law but you won't necessarily - you're gonna pay a price if you don't in fact deal with that.

So, you're trying to get the right balance and what cases to try and what cases not to try. When we look at our situation, we don't find it at this stage an overwhelming burden, but it's obviously an irritation to us to have these kind of litigation charges.

Rudy Sankovic – TD Bank Group – SVP, Investor Relations

Thank you, Michael. John?

John Reucassel – BMO Capital Markets – Analyst

A question, I'll leave it for Colleen or maybe Tim and Bharat. But, I think we're four years now into, the very low interest rate environments that central banks have talked about. So, is the NIM pressure greater today than it has been, or is it about the same?

And, if it's the same, it seems you're being more cautious on NIMs today than you have been in the past. Could you just explain why the pressure is greater today than it has been in the past?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

Why don't I start from the Canadian perspective? I'm not sure that the NIM pressure is any greater. The competitive environment, depends on the product and on the day and the month and the competitor, it goes up and down.

I think what we'd be saying today is, even though we've gone through four years of low interest rates, the outlook for when that might turn around continues to lengthen out. It's not that we've lost faith, but we're suggesting it's probably not right to hope for a higher interest rate environment in the next little while. So, when we see an outlook, it's pretty clear that, as we said earlier, revenue is gonna continue to be at low rates, not just because of margin pressure but because we're also seeing the asset growth slow down at the same time. So, we better plan for that and bring our expenses down accordingly. But, it sure feels like NIMs in Canada will continue to drop down by ones and twos per quarter over the foreseeable future.

Ed Clark – TD Bank Group – Group President & CEO

I think, if I could, though, I agree completely with that, but I think if you want to get a sense of how we see the world, you know, I think the core rate is to look at the five year either the U.S. treasury rate or the five year Canadian rate. And the reality is the five year rate today is significantly lower than it was a year ago. And so, if there's been a seed change in the last couple of years - you go back four years, the European crisis has clearly changed the interest rate environment for negative. And I think if you have a view that the European crisis isn't going away quickly, which I would subscribe to, that just puts across the world a pretty heavy downward pressure on interest rates. And so, rates have actually fallen significantly in the last 18 months. I think if you want to watch our mood, watch that rate.

Bharat Masrani – TD Bank Group - Group Head, U.S. P&C Banking

Just to add, I know there is a lot of focus on the volatility in the NIM numbers out of the U.S. And to some extent, that is to be expected. There's acquired loan accounting. So, there's always noise in that number. As Ed said and Tim said, on the deposit side, obviously, you feel this effect of lower rates. And we've been saying, that that isn't a real effect.

But, the good thing is on the asset side I think it's hanging in there in the U.S. And in our case, we've been growing our loans faster than deposits. So, from a fundamental perspective, I feel good about that. And you've also noted, for many quarters now that, because of the noise and the way we are repositioning our business from a loan perspective, you should expect the range to be somewhere between 350 and 375. John, I think we've talked about this in the past. I think that continues to be applicable. But, you continue to see noise in the number. But, the pressure from a low interest rate environment on the deposit side is there.

John Reucassel – BMO Capital Markets – Analyst

Thank you.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Okay. Thank you, John. Operator, over to the phones please.

Operator

Thank you. We have a question from Gabriel Dechaine with Credit Suisse. Please go ahead.

Gabriel Dechaine – Credit Suisse – Analyst

Good afternoon.

While we're talking about NIM, in the U.S. - 16 basis points down quarter-over-quarter. I understand about half of that's related to acquisition accounting. But the other half, if you can kind of just break it down into what's coming from the competitive pricing environment, what's coming from the change in your mix and how much of that's coming from your securities portfolio.

And then, on the mortgages in the U.S., as well, you're one of the few banks, or maybe few is an exaggeration, but one of the banks that's actually keeping the mortgages on balance sheet rather than selling them. Can you explain to me in very simple terms how you're managing the interest rate risk of your growing U.S. mortgage book? Thanks.

Bharat Masrani – TD Bank Group - Group Head, U.S. P&C Banking

First, on the margin, yes, I think, for the most part, I think, directionally, your numbers are correct. Mix does impact a lot. Mortgages come in at a lower spread than commercial loans do. So, depending on, what kind of generation we had in one quarter, you are gonna see volatility around that. The investment portfolio, obviously, some of those investments as they roll, they're rolling at a lower rate. So, there would be some noise on that, as well.

But, as I indicated earlier, our hope is that, we are rolling less of those investment portfolio components as we continue to grow our core loan business. And I think you've seen that in the U.S. So, those are the moving parts. And that's why I said, to focus on that number is right. But, to try and get a level of precision is very difficult.

There is also somewhat of an offset in the non-interest income. As we have talked before, we have lot of optimization initiatives in the U.S. to increase our fee income in response to Durbin and Reg E as well as the low interest rate environment because, as you've seen with many banks, the amount of minimum deposits you have to hold before you start to get charged fees has gone up. So, those are industry trends that the system is adjusting to offset, some of these pressures.

On the second part of your question.

Gabriel Dechaine – Credit Suisse – Analyst

If I can, before we move on about the range you gave is fairly wide, the 350 to 375. I mean, what would cause it to swing that much? And, should we think of it more in the low end of that range for the next little while, or is it just gonna bounce around a lot?

Bharat Masrani – TD Bank Group - Group Head, U.S. P&C Banking

I think it will bounce around a lot. Last quarter, I think people were really ecstatic that the margin had gone up by ten basis points or whatever. So, it will bounce around a lot.
Required loan accounting, is a factor in that. And this time, it's about half. And sometimes, it's higher, and sometimes, it's lower.

But, I think trying to stay within that range is the appropriate way to do. But, it will bounce around. But, I'm comfortable that the range is an appropriate range, given what we know today.

Gabriel Dechaine – Credit Suisse – Analyst

All right.

Bharat Masrani – TD Bank Group - Group Head, U.S. P&C Banking

On the second part, we have talked about why we are benefiting and why we're one of the few banks that is benefiting from the refi boom. With the lower rates, there's a huge refi wave going on. As I've said before, we did not have in the U.S. any meaningful mortgage business through the legacy acquisitions. We built out a new platform. We have many, many customers that love the wild service, that love our offering. And as they have refied their mortgages, which are elsewhere, they would like to give a shot to TD, and they're happy with the service and the products we have and the servicing we provide.

So, overall, we've been a big beneficiary of that as most of the refis that are happening are not happening our book. We are benefiting from other banks' refinancing activities. So, that's the reason why mortgages are going up.

In our product offerings, we worked very hard to focus on products that carry less interest rate risk. So, for example, a lot of our originations come in 15 year product instead of the 30 year product. There is a large demand, as well, for variable rate mortgages, as well. So, that's a benefit from an interest rate risk perspective.

Thirdly, if you look at our overall balance sheet in the U.S., and more importantly, the TD Bank Group balance sheet, the amount of these mortgages we are keeping on balance sheet and the level of risk in that, it is manageable. In fact, there are offsetting parts within our own balance sheet that helps us to mitigate some of the risk that might come through this particular type of risk.

So, again, like you said, in simple terms, that would be the answer. And if you do want to have more detail and technical discussion, we can set up an offline call with you. But, overall, I feel very comfortable that this is still a relatively small part of our balance sheet. If it becomes meaningful, then obviously, you may see a different form of strategy from TD in managing this book.

Gabriel Dechaine – Credit Suisse – Analyst

Okay, thank you.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Thanks, Gabriel. Next question please.

Operator

Your next question comes from Peter Routledge with National Bank Financial. Please go ahead.

Peter Routledge – National Bank Financial – Analyst

Thanks very much. A question for Tim. I'm looking at page 27 of the presentation, and just looking at some of the loan growth dynamics quarter over quarter. And what strikes me is, other than residential mortgages and arguably in direct auto, on the personal side, you've got, flat home equity, flat unsecured lines of credit, credit cards that are personal. Is that supply driven? I.e. is TD pulling back a bit on those? Or is that demands driven, are households pulling back? And then, what does that tell you about the state of household finance?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

So, I would say that there's been no question that we've tightened probably faster than marketplace. So, I would say this is probably due to timing more than anything else. As you know, we've been quite vocal about the state of the Canadian consumer.

But, if you break down, where the sort of quarter-over-quarter growth is, on the mortgage side would be sort of in the middle of the pack, slightly up. As you say, on the non-mortgage HELOC, the high competitive pricing pressure on that, so we're essentially flat to slightly down, auto finance still doing well but less strong growth in Canada, and that's large due to competitive behavior.

On the card side, as you know, certainly, because of MBNA, we've had declines, and that was planned. And on the business lending side, we're up fairly significantly. So, all in, as you say, our quarter-over-quarter growth is at the lower end of the range.

So, do I expect that to normalize? I would think so. As I said, it's mostly timing. But, in terms of the last part of your question in terms of the state of overall consumer, our view is that the changes that were announced and had started to be implemented as a result of the OSFI guidelines will have additional effect that we haven't even yet seen in the marketplace, and all banks will tend to comply with that as quickly as they can, given systems and other conversion issues. But, it should start impacting the marketplace effective immediately. So, we'll see the effect of that on the overall level of consumer indebtedness.

Peter Routledge – National Bank Financial – Analyst

So, supply is pulling back, but you don't see demand pulling back other than?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

In certain categories, definitely, demand is pulling back a little bit. But, I'd say our supply has decreased, or decreased faster than demand.

Peter Routledge – National Bank Financial – Analyst

All right. Thank you very much.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Thanks, Peter. Next question please.

Operator

Your next question comes from Robert Sedran with CIBC. Please go ahead.

Robert Sedran – CIBC – Analyst

Hi, good afternoon.

Colleen, I just wanted to ask a follow up on that $250 million expense bump we're expecting in Q4. Is it fair to assume that a similar sized bump should be dropped into my model for Q4 of '13, or are there some of the initiatives you're talking about on the expense side geared towards reducing that number and perhaps smoothing it out so you don't get that large number every Q4?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

I think it's fair to say that we would like to see that number smoothed out a little bit more. As I mentioned, last quarter, we've been quite focused on this as an executive team and looking at some of the underlying reasons why we seem to have a more pronounced increase in our fourth quarter than you might find is typical with other organizations.

I think it all boils down in our view to making sure we're spending money wisely and that we have an appropriate pace and discipline around that spending. And I'm certainly comfortable at the number we're citing for Q4 is well disciplined and being well spent. But, I think we would like to see a bit more even pacing over the course of the year. So, I would hope you would see a smaller number in Q4 of next year.

Robert Sedran – CIBC – Analyst

So, would that the mean that the 250 million would just be sort of spread among the other four quarters or is some of that trying to be managed down, as well?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

I think you would always expect in my view that you would have higher expenses in Q4. I'd like to see it certainly at a lower number than we're citing this time around. And to this point, you would see some of that spread over the earlier quarters of the year.

Robert Sedran – CIBC – Analyst

Okay. Thank you.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Thanks, Robert. Next question.

Operator

Your next question comes from Brad Smith with Stonecap Securities. Please go ahead.

Brad Smith – Stonecap Securities – Analyst

Sure, thanks very much.

I just had a very quick question regarding the capital allocated to the U.S. Personal and Commercial business. I'm just curious about, this business, if you just look at page seven in your sub-pack, is there any positive return every quarter? But, the capital allocated to it isn't changing at all from quarter to quarter. So, is that capital leaving the business or is it somehow not being retained in the business?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Brad, there are some measures that we've taken to optimize capital in the business, and it can relate to the securities portfolio and the quality of that portfolio. So, we are always actively managing that. Generally, you would expect the capital allocated to be going up over time as the business grows. But, you do see some of that optimization activity going on.

Brad Smith – Stonecap Securities – Analyst

The capital was coming out of the business. Would it not be reflected, Colleen, in their regulatory filings?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

I think, as you know, Brad, the regulatory filings do reflect a different basis than you see in our segmented results. And there are various reasons that we hold different levels of capital in the legal entity versus what you would see reflected in the segment.

Brad Smith – Stonecap Securities – Analyst

Okay, thank you.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Thanks, Brad. Next question please.

Operator

Your next question comes from Steve Theriault with Bank of America Merrill Lynch. Please go ahead.

Steve Theriault - Merrill Lynch Canada - Analyst

Thanks very much.

A question for Mark please - I noticed about a $5 billion increase in corporate risk weighted assets, which I think I can link back to the U.S. operations. So, I'm wondering, are there any downgrades, methodology changes or maybe some recalibrations going on there you could make us aware of?

And while I appreciate you might not have that at your fingertips, I assume I could ask adequate follow up. Just on the dividend payout ratio, Ed, over what period of time do you think you want to get to the mid point? Are we talking a year, are we talking more like three years? And would you consider a step function in the dividend at some point?

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

So, relative to the increase in RWA and the increase in the U.S. side, I mean, the U.S. is still operating on a standardized basis, so it really wasn't attributed to a change in models or methodology. It was really attributed to really asset growth.

Ed Clark – TD Bank Group – Group President & CEO

On the dividends, I don't think we would want to commit ourselves to a precise date that we would hit the midpoint here. Obviously, we want to do it in a reasonable period of time. So, we don't want to take forever to do it.

But, I think, our basic message to you is that we will get to the midpoint, and we're gonna increase as long as reasonable - earnings perform as we expect, twice a year. And we're saying that we'll - historically, I've always said we'll grow our dividends in line with our earnings. Obviously, for a period of time now, we're gonna be growing our dividends faster than our earnings because that's the only way we can get to the midpoint given where we are today.

But, obviously, it will be to a certain extent what the environment produces how fast we get there.

Steve Theriault - Merrill Lynch Canada - Analyst

Okay. Mark, I wouldn’t have thought that the asset growth was that large, but I'll follow up offline.

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Yeah, I'd say it's tracking fairly closely, not perfectly, but that's the key driver.

Steve Theriault - Merrill Lynch Canada - Analyst

Thank you.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Okay. Thanks, Steve. Next question please.

Operator

Your next question comes from John Aiken with Barclays. Please go ahead.

John Aiken – Barclays Capital – Analyst

Good afternoon. Ed, with TD's pro forma Basel 3 capital ratio quickly approaching 8 percent and consensus expectations out there looking for a national SIFI charge of 100 basis points at some point, do you think that the Canadian banks are running the risk of actually increasing the potential SIFI charge because of the strength of the pro forma Basel capital ratios that they're producing already?

Ed Clark – TD Bank Group – Group President & CEO

That's a pretty speculative question. No I think is my short answer. I think I give too much credit to the people making this decision that they're not guided by that. I think they're genuinely guided by what the appropriate capital is.

And I think they're also equally sensitive to the fact that, Canada is clearly - in its current, we're leading the world here, but we can only lead the world by a little bit. If we get too far ahead of the world, we put the Canadian banking system at a significant competitive disadvantage.

So, I think they're aware. They're monitoring pretty tightly where other countries, and particularly the United States is moving and I don't think would want us to get out, completely out of step with that. So, no, I don't think we're shooting ourselves in the foot by getting the capital in place. I think we're being prudent and they're being prudent.

John Aiken – Barclays Capital – Analyst

Thanks, Ed. You managed the speculative question quite well.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Thanks, John. Next question please.

Operator

Your next question comes from Chris Mutascio with Stifel Nicolaus. Please go ahead.

Chris Mutascio – Stifel Nicolaus – Analyst

Good afternoon. Thanks for taking my question.

Colleen, my first question to you is how much is left of the integration expense for MBNA and over how many more quarters?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

I think I'll turn that one over to Tim Hockey.

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

I could bounce it back saying the decision over how many quarters is really up to Colleen in terms of the item of note.

So, let me give you a quick update on the MBNA acquisition. Generally, we're quite pleased at the credit performance, and were quite pleased at the integration of the team. I can tell you that the systems integration is well into the planning phase. We've already taken a decision to actually, as you know, run it as a separate entity. But, having said that, there's a lot of systems to build because we didn't buy the entire company.

So, our expectation is, at the tail end of next year, calendar when we do the first version of the integration cut over, and we'd follow it up quickly with a call it phase two in the early part of calendar 2014.

Chris Mutascio – Stifel Nicolaus – Analyst

And a very similar run rate we saw this quarter in terms of dollar amount?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

It's gonna be prolonged, and we certainly are seeing some of the cost estimate go up. And we've sent the team back with instructions to say get those cost estimates back down. It's a far way out, but it's pretty clear that it'll be - I think from a project expense on the item of note, it'll start ramping up in the fourth quarter of this year, and then it'll come back down again in the latter half of next year.

Chris Mutascio – Stifel Nicolaus – Analyst

Am I allowed one follow up, Rudy?

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Yes, please, sure.

Chris Mutascio – Stifel Nicolaus – Analyst

All right. On the reserves, after five or six straight quarters of the dollar amount of the allowance for credit losses being, you know, pretty flat, you've built them up some, over $100 million this quarter, despite the fact that your gross impaired loans were, pretty well behaved. Any thought process of why building the reserves this quarter?

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

Yeah, I mean, that reserve build represented the continuing increase required for the MBNA portfolio as we kind of build during the first year. So, the build specifically for that was in the just slightly under 100.

Chris Mutascio – Stifel Nicolaus – Analyst

Okay. Thank you.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Next question please.

Operator

You currently have no more questions here on the phone lines.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Okay, great, thank you very much. And I will turn it over to Ed for some final remarks.

Ed Clark – TD Bank Group – Group President & CEO

Well, as I said, we're very pleased with the quarter. We recognize that we've got some tough headwinds facing us against for next year, but we had tough headwinds facing us from 2012, and we managed to achieve our target. And we're focused on delivering for the shareholders, and that's what our job is. So, we're feeling pretty good about things. Thank you very much.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Okay, thank you very much, Ed. And with that, we will end the meeting, and thank you very much joining us, and have a great day. Thank you.