TD BANK GROUP
UPDATE ON Q3 2013 RESULTS
JULY 30, 2013

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Certain material assumptions underlie the forward-looking statements contained in this document including that there will be no further catastrophic events that could impact the performance of the insurance business or the Bank prior to the third quarter. Additional material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2012 MD&A under the headings "Economic Summary and Outlook", and for each business segment, "Business Outlook and Focus for 2013", each as 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.

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PRESENTATION

Rudy Sankovic – TD Bank Group – SVP, Investor Relations

Thank you very much, operator.

Good morning, and welcome to TD Bank Group's conference call. My name is Rudy Sankovic, and I'm the Head of Investor Relations at the Bank.

We will begin today's call with remarks from Ed Clark, the bank's CEO, after which, Riaz Ahmed, Group Head, Insurance, Credit Cards and Enterprise Strategy, and Colleen Johnston, the Bank's CFO, will provide updates on items that will impact our third-quarter results. We will then entertain questions from pre-qualified analysts and investors on the phone. We ask that you please restrict your questions to topics that relate to today's announcements. Questions on other issues can be addressed at our Q3 investor call on Thursday, August 29.

Also present to answer your questions this morning are Mark Chauvin, the Bank's Chief Risk Officer, and Kenn Lalonde, President and CEO, TD Insurance, and EVP, Insurance, TD Bank Group.

At this time, I'd like to caution our listeners that this call contains forward-looking statements. There are risks that actual results could differ materially from what is discussed and certain material factors or assumptions were applied in making these statements.

Forward-looking statements made in the call represent the views of management and are presented for the purposes of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities, and anticipated financial performance. They may not be appropriate for any other purposes.

The Bank also uses non-GAAP financial measures referred to as adjusted results. That is, reported results, excluding items of note, net of income taxes, to assess each of its businesses and measure overall Bank performance. The items of note relate to items, which management does not believe are indicative of underlying business performance. Additional information on items of note, the Bank's reported results, and factors and assumptions relating to forward-looking information are all available in our Q2 2013 report to shareholders.

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

Ed Clark – TD Bank Group – Group President & CEO

Thank you, Rudy. And good morning, everyone. I'd like to thank you all for taking the time to join us today to discuss some important updates with respect to our home and auto insurance business and the impact of certain storm-related events and increased claim reserves are going to have on our third quarter 2013 results.

As you're aware, this morning, we made a disappointing announcement that this quarter we expect to take two separate provisions in our insurance business and a non-insurance related charge mainly due to flood-related real estate secured lending losses. Riaz and Colleen will provide you with more details.

I would like to make some broad comments on what we intend to do to reshape our business to deal with the issues, which underlay the need to take this charges. Before we discuss the implications of our insurance business, it is important to not lose sight of the human impact resulting from these events. We all know the severe weather events can have a devastating impact on communities and individuals. We empathize with the residents of Calgary and Toronto and the surrounding areas for the damage, inconvenience and hardship caused by the impact of that severe weather earlier this summer.

I'd also like to thank our employees for their tireless efforts to support our customers through these events, when many employees themselves were dealing with the impact of the storms. The frequency and severity of these events highlight the need for continuing dialogue between the industry and government. We all need to achieve greater clarity around the roles to be played by the insurance industry, the banking industry, governments and individuals to protect people from weather-related events.

There's currently work being undertaken by the insurance industry to better understand the impact of climate change on the insurance business. We fully support this work. We will continue to work both with the industry and directly with provincial and federal governments to explore alternatives to provide affordable and fair protection for Canadians.

Our insurance business has also clearly faced challenges mainly in Ontario with regards to the auto insurance business. There has been a significant problem in Ontario for some time, which governments have tried to address. It nevertheless remains a problem. We have mentioned this on a number of calls, and in the fourth quarter last year, took significant additional reserves to cover claims associated with prior accident years. Evidence from this year's claims development has led us to increase those reserves further. While it is impossible to be certain in these matters, we certainly hope we have put the claims related to prior accident years behind us.

We are also increasing the reserves we expect for the 2013 accident year in proportion to earned premiums on current-year insurance policies. We believe that inherently the auto business in Ontario can be a good business. Clearly, we have to review all aspects of our business, including our market share in certain market segments and make adjustments. This becomes even more important given the pricing constraints imposed on the industry, which are particularly burdensome on an insurer like us, which offers among the lowest prices in the industry.

We are working closely with the government and the regulatory authorities to find solutions, which ensure drivers in Ontario get the low-cost insurance they deserve without jeopardizing their desired coverage.

Riaz is going to provide you with a brief overview of our insurance business. The message is a simple one. We are the number-one direct home and auto insurer in Canada. We have an excellent life and health business, with great people and strong future opportunities. All businesses face challenges. We know what they are in this business. We are addressing them, and with the adjustments to be made, this business will continue to produce profitable growth for TD.

Before we turn the call over to Colleen to discuss the financial impact of these events, I'd like to call on Riaz Ahmed, Group Head, Insurance, Credit Cards and Enterprise Strategy, to make some comments. Riaz?

Riaz Ahmed – TD Bank Group – Group Head Insurance, Credit Cards and Enterprise Strategy

Thank you, Ed, and good morning. Before Colleen speaks to the financials, I would like to provide you a very brief overview of our insurance business.

As you are aware, TD Insurance comprises a life and health business, which includes creditor insurance, disability products and life insurance, as well as a home and auto business. The effects of the severe-weather events and the increasing claims reserves referred to by Ed affect the home and auto component of TD Insurance.

I would like to highlight four components of our home and auto business. First, we provide uncomplicated insurance products, and as such, operate a direct-insurer model. In fact, ours is the largest direct-response home and auto insurer in Canada which does not require the services of a dedicated and more costly broker sales force.

Second, we are a Canadian pioneer and lead in affinity marketing. More than half of our insurance clients are from affinity relationships, and this is a segment of the market where the TD brand resonates incredibly well. The affinity business allows us to select groups with characteristics that align well with our risk appetite, and it offers a significant franchise competitive advantage for us.

Third, from a geographic standpoint, we operate across Canada and have significant presence in key markets in Alberta and Ontario. Our direct model has contributed to more growth in urban areas like Calgary and the Greater Toronto area, two urban markets where we have a substantial business presence.

And finally, to help control the impact of catastrophes on our bottom line, we do utilize reinsurance. The use of reinsurance is an important tool in our management of tail risks.

It might be useful to provide you with some insight into what's happening in the Ontario auto market. In September 2010, Ontario made reforms to automobile insurance regulations with the objective of reducing the cost of insurance by limiting the accident benefits paid to claimants for minor injuries sustained in an automobile accident. While this cost reduction has largely been achieved for accidental benefits, a consequence has been an increase in third-party liabilities as claimants sue at fault parties and their insurance companies to obtain higher settlement amounts, especially for economic loss. This increase in bodily injury was largely anticipated by the insurance companies. However, the frequency of claims and the severity of claims paid are proving to be significantly higher due to a general increase in litigation.

Recent court rulings have also leaned in favor of claimants, resulting in erosion of minimum thresholds that were intended to curtail lawsuits. Specifically, TD's business concentration in urban markets such as Toronto has made us more susceptible to these types of legal actions. We're also seeing similar trends emerging in Alberta in recent accident years.

As Ed mentioned earlier, we have challenges in the Ontario auto business, and we are also seeing increasing frequency and severity of weather-related events. We will be looking at these developments and the continuing reform initiatives from governments and considering making necessary adjustments to our business. That being said, TD Insurance remains profitable and continues to have good growth prospects.

In the medium-term, we expect a modest decline in insurance earnings from the normalized 2012 level of $600 million per year. I look forward to working with our team of dedicated insurance professionals, as we continue to enhance our insurance business for both TD and for its customers.

With that, I will turn the call over to Colleen for further comments on the financial impact of these events. Colleen?

Colleen Johnston – TD Bank Group – Group Head Finance, Sourcing, and Corporate Communications & CFO

Thanks, Riaz, and good morning.

As noted in the press release issued this morning, we expect our TD Insurance business to report an after-tax loss ranging between $240 million and $290 million for Q3 2013. We're providing a range of losses because we haven't closed the books yet for Q3. For the quarter, we will be booking an additional provision of $418 million after-tax. Excluding these charges, Q3 2013 earnings are estimated to be in the range of $130 million to $180 million.

The additional provision of $418 million consists of two items; the first provision of $125 million after-tax relates to two extreme weather-related catastrophes, the Calgary and Toronto floods that took place on

June 20 and July 8, respectively. This amount reflects claims cost resulting from evacuation and home and automobile damage and is net of reinsurance.

The second provision in the amount of $292 million after-tax is to increase our general insurance reserves. In TD's report to shareholders for Q4 2012 and again in Q2 of 2013, we cited increased frequency and severity of prior-year claims and associated uncertainty. This continuing trend is primarily due to the impact of the Ontario auto insurance reforms implemented in 2010 on our market segments. The reforms have shifted claims costs from accident benefits to bodily injury.

In 2013, we have observed a continued increase in severity of insurance claims in Ontario and, to a lesser degree, Alberta. In other words, claims are more costly and we are facing more uncertainty. This is due to a general increase in litigation and fraud, particularly in urban areas where we are concentrated. These circumstances taken together have caused us to reassess and increase the expected ultimate loss rates for prior-year claims when determining claims reserves.

Additionally, we will recognize certain estimated non-insurance related losses caused by the severe weather in Southern Alberta, mainly reflecting loan losses in the real estate secured lending portfolio. This will be treated as an item of note and is not expected to exceed $125 million before tax. We will look forward to discussing our Q3 results with you on August 29.

And with that, we'll open up the call for questions

QUESTION AND ANSWER

Operator

And your first question comes from the line of Mr. Robert Sedran from CIBC. Please go ahead.

Robert Sedran – CIBC – Analyst

Hi, good morning. Just in terms of the guidance on the medium-term outlook – and I'm not clear. I know we kind of talked around it, and I'm not sure if it's included in that discussion of the medium-term being lower than the $600 million. Does it include any of the pricing action taken by the Ontario government this year, or is that over and above the issues we're talking about today?

Riaz Ahmed – TD Bank Group – Group Head Insurance, Credit Cards and Enterprise Strategy

Robert, it's Riaz. I think that what we're saying is that taking into account all the anticipated changes that that number would include what we see as price – expected pricing amendments, although we don't know what the details of those are because that's not been formally announced.

Robert Sedran – CIBC – Analyst

Okay. And then – and just in terms of the – I guess in Ed's comments, he mentioned that the insurance business is still going to be a source of growth, but then the medium-term outlook is it's likely to be a decline from the $600 million. How do you reconcile those two, and when would you expect to start seeing growth again in this business?

Ed Clark – TD Bank Group – Group President & CEO

Why don't I start and then Riaz – I think we are saying over the medium-term to say is, are we well-positioned? I think fundamentally yes, but I think the direct model tends to grow with market share more than the brokerage-based model. And so I think this can be a growth, but obviously we've had a set of setbacks here and you mentioned one of them. We have to work our way through the Ontario price reform, plus we have to – we've said we're going to increase our reserves for the auto insurance business on a running rate basis. And so that means we're stepping down the running rate and it may be that we will have a pause here, I would think, in the early part of it. But I think in the longer and the medium-term, can this be a growth business for us? The answer is yes.

Robert Sedran – CIBC – Analyst

Thank you.

Operator

Your next question comes from the line of John Aiken from Barclays Capital. Please go ahead.

John Aiken – Barclays – Analyst

Good morning. Colleen, can you give us a little bit of color around the nature for the increased provisions in Alberta? Is this – what I'm struggling with is, is this because of people losing their jobs or is this related to businesses and then the mortgages are not kept current?

Colleen Johnston – TD Bank Group – Group Head Finance, Sourcing, and Corporate Communications & CFO

Yes. John, we'll turn that over to Mark on the real estate secured lending losses.

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

Hello, John. Yes. The increase – what we've done is we've – we completed a detailed review of our credit exposures in the Calgary areas, especially those areas that were impacted by the flood-related damages. And really, we feel that in the RESL portfolio, given the extent of some of the losses on the houses that there will be an increase in RESL-related losses, but that number that we've given prior to – like, up to $125 million is prior to any recoveries or mitigation received through the Alberta disaster recovery fund or CMHC insurance. We didn't include it at this point because the details of the programs aren't finalized and we thought it would be more prudent to, at this point and the lack of knowing what they will be, to establish an upper number of $125 million. But it's really all RESL-related and not expected to impact the commercial or the other segments.

John Aiken – Barclays – Analyst

Fantastic. Thanks, Mark.

Operator

Your next question comes from the line of Gabriel Dechaine from Credit Suisse. Please go ahead.

Gabriel Dechaine – Credit Suisse – Analyst

Actually, Mark, while you're on there, so this $125 million, that's prior to any CMHC recoveries. If we can assume a similar distribution of insured versus uninsured of your overall mortgage book into the Calgary area, is that kind of a fair assumption, and why wouldn't we assume a big chunk of that is therefore not going to really be a loss for you in the end?

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

Well, first, the distribution, it is similar distribution. So, about 69% or 70% of it is insured. But really what we're not clear on is, given properties that are rendered, you can't rebuild or if they're in a flood plain designation, we're not sure how that will be treated going forward. So it's really unclear to us, you know, how we should deal with it, and so we thought let's err on the side of conservatism and stay with the $125 million.

Gabriel Dechaine – Credit Suisse – Analyst

So it might not constitute a -

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

I would expect the number to be below that ultimately.

Gabriel Dechaine – Credit Suisse – Analyst

Okay. And then on the guidance of the medium-term for the insurance business, and then you talked about the quarter, if it wasn't for these losses, you'd have something in the range of $130 million to $180 million of earnings in the insurance business. The modest decline, would it be kind of a safe assumption that the lower end of that range you just gave would be sort of the new run rate over the next year or two for insurance?

Colleen Johnston – TD Bank Group – Group Head Finance, Sourcing, and Corporate Communications & CFO

Gabriel, I think it's probably premature to give you that number. I think it's just appropriate to say that in the context of the insurance business of the segment on a standalone basis that we do expect the decline to be modest and manageable.

Gabriel Dechaine – Credit Suisse – Analyst

Right.

Colleen Johnston – TD Bank Group – Group Head Finance, Sourcing, and Corporate Communications & CFO

But I think we are having to work through – there are a variety of issues that we have to work through, and I think the business needs some time to do that.

Gabriel Dechaine – Credit Suisse – Analyst

Okay. All right. Well, thank you.

Operator

Your next question comes from the line of John Reucassel from BMO. Please go ahead.

John Reucassel – BMO Capital Markets – Analyst

Thank you. I guess question for Riaz. Just trying to understand the scale of the $292 million in reserving. So if I look at the regulatory filings, it looks like sort of a 25% a year beginning reserves. Is that correct? And the premiums in this business – are they about $510 million or $520 million? Are those numbers correct?

Riaz Ahmed – TD Bank Group – Group Head Insurance, Credit Cards and Enterprise Strategy

I'm going to ask Kenn Lalonde to address that for you.

Kenn Lalonde – TD Bank Group – EVP, Insurance and President & CEO, TD Insurance

So the reserves would increase approximately 13.5% based on total opening reserves.

John Reucassel – BMO Capital Markets – Analyst

Okay. Okay. 13.5%. And what's the impact on the loss ratio?

Kenn Lalonde – TD Bank Group – EVP, Insurance and President & CEO, TD Insurance

In year, we're anticipating that we're going to increase our losses – our loss ratio, rather, on accident year basis, on a go-forward basis, by about 3%.

John Reucassel – BMO Capital Markets – Analyst

Okay. So, you've been running at around 90%, so we should think about 93%?

Kenn Lalonde – TD Bank Group – EVP, Insurance and President & CEO, TD Insurance

No, I'm talking about the accident year itself.

John Reucassel – BMO Capital Markets – Analyst

Okay.

Kenn Lalonde – TD Bank Group – EVP, Insurance and President & CEO, TD Insurance

So in the manufacture – in our entities, we'll see a ratio that is likely above that.

John Reucassel – BMO Capital Markets – Analyst

Okay. Okay. And then just to be clear that you talked about – Riaz talked about the Affinity Program, are these – $290 million, are these related in the Affinity Program or outside of the Affinity Program or is it a mixture?

Riaz Ahmed – TD Bank Group – Group Head Insurance, Credit Cards and Enterprise Strategy

They would both, John.

John Reucassel – BMO Capital Markets – Analyst

Okay. Okay. And one last question, just on the RESL loans for Mark. I'm just trying to understand the – is this just averages that have been destroyed and they're above what the insured amount is? Is that what this is? People are just abandoning their homes? Or how should I look at this?

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

It's early days, but there is a segment of the properties, which it would appear that they may not be rebuilt, and they may be in designated flood plain areas, and it's unsure on how your CMHC coverage would be handled in that circumstance.

John Reucassel – BMO Capital Markets – Analyst

Okay. Okay. Thank you.

Operator

And your next question comes from the line of Michael Goldberg from Desjardins Securities. Please go ahead.

Michael Goldberg – Desjardins Securities – Analyst

Thank you. My question is also about the reserve strengthening. I think my numbers are right. In the fourth quarter, the equivalent number to the $292 million could have been in the order of $45 million or so. So, this latest strengthening is about 6.5 times that level. What comfort can you give us that reserves are not adequate? And secondly, how much of the $292 million is prior-year reserve strengthening versus the amount that's related to 2013?

Colleen Johnston – TD Bank Group – Group Head Finance, Sourcing, and Corporate Communications & CFO

So, Michael, I'll start. This is Colleen. The clear majority of the $292 million after-tax relates to prior year adverse development and a much smaller portion relates to current year increases. As Ed said in his remarks, it is always difficult to have complete certainty around the reserving process. And maybe just to step back a little bit from it, if you look at the end of 2012, our expectation of the number and size of bodily injury claims was revised upwards and the revised frequency expectation was a large driver of the additional provision we booked in October of 2012. And we do disclose in our Annual Report what the adverse development number was for the year.

In the first half of fiscal 2013, frequency of bodily injury claims has developed as expected. However, the settling – the cost of settling bodily injury claims has increased. So, given that observed increase in cost as well as the ongoing uncertainty – and the uncertainty portion of this is a really important part of why we've increased the reserves. So we did decide at that point that we needed to increase the claims reserves related to bodily injury, especially for the more recent accident years. And obviously, for those more recent years, there's less sort of maturity in terms of the development of the claims or aging of those claims versus the older ones. So I think we've – I think we've done as good a job as possible in terms of increasing the reserves given all that we've observed and again all of the uncertainty in terms of claims development.

Michael Goldberg – Desjardins Securities – Analyst

And what have you done to pricing? What will you do or what can you do to take account of the auto insurance environment in Ontario? How receptive is the regulator to rate increases or to doing something about the rampant fraud?

Riaz Ahmed – TD Bank Group – Group Head Insurance, Credit Cards and Enterprise Strategy

Michael, I'd say to you that those are all things that we're going to be considering over the next little while. And as you know, because this is a significant political action, it's hard to predict exactly how – what the outcomes will be, but – and so I think this is a matter that we need to spend some time on over the next little while.

Michael Goldberg – Desjardins Securities – Analyst

Thank you.

Operator

Your next question comes from the line of André Hardy from RBC Capital Markets. Please go ahead.

André-Philippe Hardy – RBC Capital Markets – Analyst

Thank you. Just a quick clarification on the reserve increase, how much of the $395 million is Ontario versus elsewhere?

Riaz Ahmed – TD Bank Group – Group Head Insurance, Credit Cards and Enterprise Strategy

I think a substantial portion of it is Ontario, André.

André-Philippe Hardy – RBC Capital Markets – Analyst

Does that – I don't need an exact number, but does that mean 80%, 90%?

Riaz Ahmed – TD Bank Group – Group Head Insurance, Credit Cards and Enterprise Strategy

I think I'd rather not get to that now, but I think you can safely assume that a substantial portion of it is.

André-Philippe Hardy – RBC Capital Markets – Analyst

Okay. And then on the commentary that earnings will be lower in the medium-term, is it primarily a higher expected bodily injury cost on a run rate basis, is it an expectation of exceeding market share, is it an expectation of using more reinsurance for weather-related events? Like, what are the primary drivers of you making that commentary?

Riaz Ahmed – TD Bank Group – Group Head Insurance, Credit Cards and Enterprise Strategy

I think it is all those considerations, André. I think we – as we've talked about the need to increase reserves, and also as the frequency and severity of weather-related events is increasing, we also know that the availability and cost of reinsurance is also rising. So it's a combination of all those.

André-Philippe Hardy – RBC Capital Markets – Analyst

Thank you.

Operator

And your next question comes from the line of Sumit Malhotra from Macquarie Capital Markets. Please go ahead.

Sumit Malhotra – Macquarie Capital Markets – Analyst

Thanks. Good morning. Just back to the pricing issue for a moment, Riaz. You mentioned that the bank will be reexamining all its options on what it can do for pricing. Obviously, there's been some politically charged discussions on that front over the last couple of months. Do you feel that you have the capacity to make any changes in that regard, given what we've been hearing from the Ontario government?

Riaz Ahmed – TD Bank Group – Group Head Insurance, Credit Cards and Enterprise Strategy

Well, I think that this is an industry issue, and that all of us in the industry need to have this dialogue with FSCO as well as with the government. And it will obviously impact the availability of coverage in the market. So I think we do need to have the dialogue urgently, and we will.

Sumit Malhotra – Macquarie Capital Markets – Analyst

So let's assume for a moment that you weren't able to get a pricing change put through. If I look at your net insurance revenue in the last couple of years, it's been in the range of $1.1 billion. Around the same lines André was going, would you be – would you take steps of starting to let some market share go here, if you're unable to get the pricing that you feel is needed to cover the increased cost? In other words, is that number likely to move lower from here?

Riaz Ahmed – TD Bank Group – Group Head Insurance, Credit Cards and Enterprise Strategy

Well, I think, Sumit, the reality is we're not happy with the returns in the Ontario auto business, as we've experienced them over the last little while. And therefore, we do have to look at the products and the markets in which we offer those products. And if we're unable to obtain appropriate industry and environmental conditions, then we'd need to look at that – what to do in respect of that.

Sumit Malhotra – Macquarie Capital Markets – Analyst

Last one is for Mark. Mark, if I go back to Q4, you had a – I want to call it a similar provision for credit loss that was set up after the impact of Superstorm Sandy in the US. I think it was around $60 million on the PCL line.

Obviously a much different situation in terms of CMHC insurance here in Canada. But is this reserve today on the PCL analogous to what you did for Sandy? And what was the impact that ended up happening, in terms of the actual realization of losses for that provision?

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

Yes, it's a somewhat similar process, other than this one did occur in June, so we've had a fair amount of time to do an analysis on it versus the other.

And I would say that on the Superstorm Sandy provision, our experience is that we will come within that number. And like – as my expectation would be for this one as well.

Sumit Malhotra – Macquarie Capital Markets – Analyst

This one, you made it sound that it likely might end up with – well, I don't want to put words in your mouth, but I think the messaging was it could end up being larger. In the case of Sandy, that wasn't case?

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

Excuse me – you said could be larger?

Sumit Malhotra – Macquarie Capital Markets – Analyst

Meaning, the provision that you set up may end up -

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

I don't expect it to be larger. I expect us to come well within the $125 million.

Sumit Malhotra – Macquarie Capital Markets – Analyst

Yes, that's what I meant. The provision may end up being larger than the actual losses you incur.

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

Oh, I understand. Okay. And that's fine.

But there is uncertainty. And we don't know, going into it. And we don't know what the level of the assistance from the Alberta Recovery will be. And we don't know the impact of the de-valuation of the properties, given the association of being in flood areas. So there is a fair amount of uncertainty here that we have to factor into.

Sumit Malhotra – Macquarie Capital Markets – Analyst

Thanks.

Colleen Johnston – TD Bank Group – Group Head Finance, Sourcing, and Corporate Communications & CFO

Maybe I can just expand on that a little bit.

As Mark said, there is uncertainty on some of the recoveries, but the reality is we do have to close the books for the third quarter within the next couple of weeks. And we will have to make some assumptions. Hence we are sighting the higher potential number at this point, and we may have to book towards the higher end of that range, but obviously resolve that as time goes on, and we do achieve more clarity.

But we do have to make our best estimate at the end of Q3. So we'll obviously update you on that at the end of August, when we report for the quarter.

Sumit Malhotra – Macquarie Capital Markets – Analyst

Thanks.

Operator

And your next question comes from the line of Mr. Brad Smith from Stonecap Securities. Please go ahead.

Brad Smith – Stonecap Securities – Analyst

I was just wondering if I could clarify an earlier comment relating to the provision adjustment that you're planning. I think what I heard was that some of the homes that were damaged may not be rebuilt. And then there was something – some comment about flood plains lending and how that may affect claims at the CMHC.

I was just curious. Are those flood plain areas changed as a result? Is that what -

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

We don't – Brad, we're not sure what the outcome will be, but we think there is a possibility that homes that were destroyed as a result of that would not be rebuilt. And these things – we're following them closely, but we don't know the outcome of them at this moment.

Brad Smith – Stonecap Securities – Analyst

All right. But what I'm just trying to get at is were any of the homes underwritten in flood plains prior to the flood?

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

Not to my knowledge.

Brad Smith – Stonecap Securities – Analyst

Okay. Thanks very much.

Operator

And your final question will come from the line of Mr. Mario Mendonca from Canaccord Genuity. Please go ahead.

Mario Mendonca – Canaccord Genuity – Analyst

Good morning. Colleen, first, the 7% to 10% guidance – EPS growth guidance for 2013 – obviously didn't envision this. Would it be appropriate to look at that now as 7% to 10% less – call it $400 million because – related to what you're not treating as an item of note?

Colleen Johnston – TD Bank Group – Group Head Finance, Sourcing, and Corporate Communications & CFO

Yes. That's correct, Mario. We are not characterizing this as an item of note. Obviously, the loan-loss related item we are – the $125 million pre-tax. But not this particular item. So, yes, that would change the complexion of our earnings increase on a year-over-year basis.

Mario Mendonca – Canaccord Genuity – Analyst

So if we wanted to be very literal, we'd say 7% to 10% minus $400 million or so?

Colleen Johnston – TD Bank Group – Group Head Finance, Sourcing, and Corporate Communications & CFO

Correct.

Mario Mendonca – Canaccord Genuity – Analyst

And then the uncertainty that's evolving in Ontario – you referred to litigation siding with the claimants. Can you be a little more specific? Is it – is the litigation siding with the claimants in so far as the definition of a catastrophic loss? Is that where the uncertainty and the litigation is emerging?

Kenn Lalonde – TD Bank Group – EVP, Insurance and President & CEO, TD Insurance

In part, it's due to the whole definition of what a catastrophic injury – as you know, that's been subject to discussion in the industry. And this is something that we are working closely with the government around getting a much better definition around that.

But in addition, we're seeing cottage-industry litigators appearing to represent claimants, as it relates to these third-party liability claims. And so issues are there, as well.

Mario Mendonca – Canaccord Genuity – Analyst

What would be helpful to understand is, not very long ago, a few quarters ago, maybe a few months ago, there were 30,000 claims in the pipeline in Ontario – or files essentially in the pipeline. And there was an effort to really get through these 30,000 quickly. So FSCO assigned a number of – and I'm sure you're aware of this – but assigned some third parties to really look at these.

What I'm trying to get at is has that number come down significantly? And is the information we're getting today is – as the mediation and the arbitration has played out, for the most part, it's going against you? Is that the way to interpret this?

Kenn Lalonde – TD Bank Group – EVP, Insurance and President & CEO, TD Insurance

So the matters that are currently pending in FSCO are coming down. And that would be happening across the industry. But really it's – that's related to accident-benefit claims rather than bodily injury claims.

But the issue that exists there is that, as arbitrators are concluding and establishing findings, it creates uncertainty around what the ultimate loss might be for those claims. And so it really presents an issue for the industry, frankly. And – but we are hopeful that with Bill 65 here in Ontario, that greater clarity will occur as a result of the powers that are likely to be given to the superintendent at FSCO to narrow this.

Mario Mendonca – Canaccord Genuity – Analyst

And when do you expect that?

Kenn Lalonde – TD Bank Group – EVP, Insurance and President & CEO, TD Insurance

Well, we're awaiting the approval of the bill, which I anticipate is likely to happen in August.

Mario Mendonca – Canaccord Genuity – Analyst

And then a final question, and this is probably very premature. But how does that P&C business tie into TD's overall domestic retail banking?

And I think you know where I'm going with this. If, for some reason, TD decided this was a business that didn't work because returns weren't appropriate, and TD wanted to exit the business, what kind of disruption would that create for the bank? Or would there be? Is there much of a tie-in there?

Ed Clark – TD Bank Group – Group President & CEO

Why don't I take that? And maybe I can use that as a way of doing concluding remarks here.

So we think this is a good business. I think it does reinforce our franchise. We obviously have a leading position across the country. And we like the direct model. It's a more efficient model and produces better prices for the consumer, because it's a more efficient model.

Is it absolutely essential to our franchise? Probably not. There's a lot of things – that you might – and are not absolutely essential.

But are we a better bank because we have this? Yes. And do we believe that the business can be run profitably? It can.

Clearly though, the industry as a whole are facing significant challenges right now. There is – I don't think anyone – there's probably not a few people left who do not believe that there are not – is not weather change going on. And that there are more of these catastrophic events.

It's clear that Canada is challenged. We do not have as-developed catastrophic government policy. And so the fact that we're trying to figure out how a CMHC is going to adjudicate claims of houses that went down – floated down the river, and now have been told that can't be rebuilt on the place originally means that we're still working our way through this set of government issues of how to deal with that. And I think all of us were challenged in the Calgary market – that deal with many of the claims issues.

I think clearly auto industry in Ontario is a challenged industry, and we understand why people would like to see insurance premiums go down. We'd like to see insurance premiums go down too, but you have to then change the underlying cost structure. And I think it's fair to say that we have our own issues in Ontario auto that we may have a larger market share where the uneconomic businesses than we want and we're going to have to adjust that share, because we're obviously not going to put capital in the business that we can't get a good return to. So we have to work our way through these things. But I think we're not going to exit this business. I think we're going to invest in this business, we'd tune this business, tweak this business, because I think fundamentally it is a good business, it's been good for us and it is good for our brand, and it gives Canadians a retail product that they need and deserve, and we do it at a lower price than everyone else. And so we're going to stick with this business.

Mario Mendonca – Canaccord Genuity – Analyst

Thank you.

Rudy Sankovic – TD Bank Group – SVP, Investor Relations

Thank you, everyone. And that concludes today's call. Thank you for joining us.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your lines.