TD BANK GROUP
Q3 2013 EARNINGS CONFERENCE CALL
AUGUST 29, 2013

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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 – SVP, Investor Relations

Good afternoon, and welcome to TD Bank Group's third quarter 2013 investor presentation. My name is Rudy Sankovic, and I'm the 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 then offer comments on credit quality, after which we will entertain questions from those present 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 Wealth; Mike Pedersen, Group Head U.S. P&C Banking; Bharat Masrani, Chief Operating Officer; Bob Dorrance, Group Head Wholesale Banking; and Riaz Ahmed, Group Head Insurance, Credit Cards and Enterprise Strategy.

As you know, we shifted executive responsibility for some of our businesses effective July 1. It might be helpful to provide guidance on who will answer your questions this quarter. For Canadian P&C, continues to be Tim; Wealth Management, Mike Pedersen; US P&C will be a combination of Mike and Bharat; and Bob will cover Wholesale. Riaz is also available to answer questions with respect to Insurance and Credit Cards.

We recognize it's been a long day for the analyst community, so we would like to keep the call to a crisp 45 minutes, if we can. If you could turn to slide 2, please.

At this time I would like to caution our listeners that this presentation contains forward-looking statements. There are risks that actual results could differ materially from what is discussed and that certain material factors or assumptions were applied in making these forward-looking statements. Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities, and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes. I would also like to remind the listeners that the Bank uses non-GAAP financial measures to arrive at adjusted results to assess each of its businesses and to measure overall Bank performance. The Bank believes that adjusted results provide the reader with a better understanding of how management views the Bank's performance. Ed will be referring to adjusted results in his remarks. Additional information on items of note, the Bank's reported results and factors and assumptions related to forward-looking information are all available in our Q3 2013 Report to Shareholders.

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

Ed Clark – TD – Group President and CEO

Thank you, Rudy, and welcome, everyone. Thank you for joining us this afternoon, and I recognize it's been a busy time for a lot of you. Colleen's going to be up shortly to review our results in detail, but let me start by sharing my perspective, both on the quarter and the rest of the year.

Our third quarter results reflect very strong performances in our Canadian Banking, Wealth, and U.S. Banking businesses, offset by losses previously announced in our Insurance business. Earnings, including CAD418 million after-tax in insurance charges, were down 13% year-over-year, and earnings per share were down 14% to CAD1.65. Excluding these charges, earnings per share would have been CAD2.10, or CAD0.45 higher.

We are pleased to declare a CAD0.04 dividend increase today. Our second increase this year, as we continue to progress towards the midpoint of our 40% to 50% target payout range. This means that our dividends paid would have grown by 12% this year. Great news for our investors. I'm also happy to report that our share buyback scheme, which we announced last quarter, is well under the way. We've allocated approximately CAD1 billion to repurchase 12 million of our common shares. And as of August 23, we had already acquired more than 7 million shares. And despite the buyback, our Basel III capital will remain very strong at 8.9%.

Let me take a minute now to talk about each of our businesses. Canadian Personal and Commercial Banking had a very strong quarter, generating just under CAD1 billion in earnings. Personal lending was solid, but continues to grow at a moderate pace while business lending expanded at double-digit rates. We held the line on expenses, which resulted in solid operating leverage. And we got some help from credit, which surprised on the upside again. I'm also very proud to report that TD Canada Trust won the J.D. Power award for highest customer satisfaction levels among the Big Five banks for the eighth year in a row. And we just learned this afternoon that for the ninth year in a row, TD Canada Trust was recognized by Ipsos as the Big Five bank leader in Canada for its customer service excellence. More well-deserved recognition for the tremendous efforts our employees make to deliver on TD's promise of legendary service and convenience.

Our Wealth Management business had a very impressive quarter with earnings up 18% to a new record level. We continue to see strong net asset inflows, and with markets more resilient in July, we also benefited from higher trading volumes. Epoch is already making a contribution to our results, as well as our future growth strategy, with the integration proceeding smoothly and the new team working together cohesively. We also recorded our best efficiency ratio ever. Our Wealth business remains on track to deliver strong results for the year, as long as the capital markets remain healthy.

As I mentioned, Insurance recorded a loss for the quarter, reflecting the flooding in Calgary and Toronto, as well as an increase in claim reserves in our auto insurance business. We discussed these charges on our July call, and I don't have much new information to share. We do believe that the auto business in Ontario can be inherently a good business, but as I've said, we do see challenges. We're going to have to make some business changes. And as a result of all of these factors, we expect a modest decline in Insurance earnings from the normalized 2012 level of CAD600 million.

Our U.S. retail bank had another very good quarter in the third quarter. Earnings growth was a robust 22%, driven by strong organic loan and deposit growth, the first full quarter contribution from the Target credit portfolio, improved credit quality, and increased security gains.

Now, as you know, over the last few quarters, we have been shortening the duration of our balance sheet to better manage our capital and interest rate exposures. By regularly triggering unrealized gains in our investment portfolio, we locked in their current contribution to capital. This proved to be a prudent move, particularly in the third quarter, when we were able to take advantage of an opportunity in the markets before rates backed up, to sell a portion of our capital intensive non-agency CMO portfolio, which resulted in higher security gains for the quarter relative to our prior guidance, and gave a nice boost to our Basel III common equity ratio.

With the increase in long rates, we've adjusted our tractoring strategy and have begun to gradually increase our duration. We expect margins to be stable to improving as we move forward, assuming rates stay at current levels. The 80 to 90-basis point backup in long rates that has occurred since May has significantly reduced the remaining unrealized gains in the portfolio, a phenomenon that's been evident across the industry. This means that we have less scope to trigger further gains, reducing what has in recent quarters been an important contributor to earnings. Fourth quarter earnings will decline due to a drop in security gains below the CAD60 million to CAD80 million level per quarter, to which we have previously guided.

Turning to our Wholesale bank, the third quarter was a softer quarter, with earnings down 18% from the previous year due to lower trading revenue, and reduced capital market activity. Looking ahead, we continue to expect uncertainty about the macroeconomic environment and the impact of regulatory reform. However, our franchise model is built to withstand fluctuations in sentiment and activity, and we expect Wholesale to deliver our medium term target of 15% to 20% ROE for this year.

Let me comment on our expense performance. We signaled last quarter that the rate of expense growth in the third quarter would be elevated, in line with our ongoing efforts to balance initiative and project spend over the full-year cycle. While we expect expenses to rise in the fourth quarter compared to the third quarter, we are still targeting expense growth for the year of 3%, excluding the impact of acquisitions and FX. I'm satisfied that we've made good progress managing our quarterly initiative and project spend in a more disciplined way.

We are very aware that 2014 will likely be another challenging year with respect to revenue. So, we are very focused on finding ways to reduce our expense base so we can continue to invest in new initiatives to continue to build great franchises. So, to that end, we are looking carefully at everything we do, and whether there are changes which will allow us to do it better for less. This includes continued consolidation of our facilities in Canada and the United States.

In sum, very strong underlying results in most of our businesses, offset by our loss in Insurance. For 2013, these results unfortunately mean likely little or no EPS growth for the year. But we remain focused on finishing strong, continuing to invest while driving efficiencies and laying a strong foundation for 2014. With our proven strategy, experienced team and long-term vision to build The Better Bank, I'm absolutely confident that we're well positioned for growth and success next year and in years to come.

With that, let me hand it over to Colleen.

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

Thanks very much, Ed, and good afternoon, everyone. Please turn to slide 4.

Adjusted EPS of CAD1.65 was down 14% year-over-year, and total Bank adjusted net income of CAD1.6 billion was down 13% from last year. Our Q3 results reflect the impact of the severe weather-related events in Alberta and Toronto, and increased general insurance claims we preannounced on July 30. The negative impact on adjusted EPS was CAD0.45 in the quarter. Our segment results reflect retail adjusted earnings of CAD1.4 billion, down 10% from last year. Wholesale net income of CAD147 million, down 18%, and the Corporate segment, which posted a loss of CAD8 million. However, the underlying results in Canadian Banking, Wealth, and the U.S. Banking businesses were very strong this quarter.

Please turn to slide 5. This next slide presents our reported and adjusted earnings this quarter, with the difference being four items of note. There's one new item this quarter related to loan losses in the real estate secured lending portfolio as a result of the Alberta floods in June. During our investor call on July 30, we indicated that the loss was not expected to exceed CAD125 million before tax, assuming no recoveries. The final number booked for the quarter was CAD65 million pretax, which is our best estimate net of recoveries. Mark will provide further insight later on in his remarks.

Please turn to slide 6. Canadian P&C delivered a very good quarter, with adjusted net income of CAD997 million, up 12% year-over-year, a new record. Loan and deposit growth were resilient this quarter. Total loan growth was 5% year-over-year, with real estate secured lending volumes up 4%, and business lending growth up a strong 13%. Retail deposits increased 3%, and business deposit growth was 8%. Credit performance continues to be strong, with PCL and personal banking down CAD61 million from last year, primarily due to lower bankruptcies, principally in credit cards. Business banking PCLs declined by CAD11 million.

Adjusted expense growth was 2% year-over-year, as volume growth, merit increases, and investment in the business were largely offset by broad-based productivity gains. Operating leverage was 140 basis points due to strong expense management. NIM was up 3 basis points sequentially, attributed to seasonal factors in the real estate secured lending portfolio. Over the next year, we expect modest downward pressure on NIMs with quarterly margins bumping around, depending on product mix, seasonal factors, or rate moves. We expect a very good finish to the year, with the same fundamentals, but a notable decline in expenses from last year due to timing. Overall, a great result.

Please turn to slide 7. Looking at our Wealth and Insurance segment, Wealth had a record quarter with earnings up 18% year-over-year, due to strong fee-based revenue from growth in client assets and market appreciation, improved trading volumes and a positive contribution from the Epoch acquisition. During the quarter, we sold our Institutional Services business to National Bank. While the business was performing well, it did not fit our mass affluent high net worth strategy. We don't expect a material impact to 2014 earnings from this transaction.

Our Insurance business reported a loss of CAD243 million after-tax. The loss reflects charges of CAD418 million after-tax due to increased reserves for general insurance, automobile claims, and severe weather-related events in southern Alberta and the Greater Toronto Area, as previously announced on July 30. Wealth and Insurance expenses increased from last year, primarily due to the inclusion of Epoch and higher variable compensation, partially offset by decreased expenses from the sale of the U.S. Insurance business.

The contribution from TD Ameritrade was CAD69 million, up CAD13 million, or 23% from last year, due to higher trading activity and fee-based revenue. We expect the Wealth business to have a strong fourth quarter, driven by continued client asset growth and good trading volumes. As we released previously, in the medium term, we expect a modest decline in Insurance earnings from the normalized 2012 level of CAD600 million.

Please turn to slide 8. U.S. P&C results set a new record for earnings and ROE, with adjusted net income of $432 million, up 22% from last year, and ROE of 9.1%. The increase was primarily due to strong loan and deposit volume growth, the impact of a full quarter of the Target credit card acquisition, improvement in credit quality and higher gains on security sales, partially offset by lower net interest margins. As reported last quarter, revenue and PCL related to Target are reported on a gross basis on the income statement. Non-interest expenses include TD's operating expenses related to the business and amounts due to Target under the credit card program agreement.

Revenue increased by 27% year-over-year due to the inclusion of credit card revenue from Target, strong organic loan deposit and fee growth, and higher gains on securities sales, partially offset by lower margins. Revenues included CAD118 million of security gains, including securities classified as loans, versus CAD80 million last quarter and CAD23 million last year. The additional gains reflect the sale of CAD520 million of our non-agency CMO loan portfolio. As we work to optimize the risk return on the overall portfolio, in particular with the new Basel III rules in place, we had an opportunity to sell securities at an attractive price, where we held dollar for dollar capital. Our level of gains this quarter was higher than our CAD60 million to CAD80 million targeted range. We expect the Q4 gains to be below this range, but on average, over the second half of the year, we expect to be within our guidance.

Excluding Target, average loans were up 12% year-over-year, with an 18% increase in personal loans, and a 7% increase in business loans. Average deposits increased by 11%. Our net interest margin was up 13 basis points sequentially, due to the full quarter impact of the Target acquisition. We continue to see core margin compression in our non-Target portfolio, slightly above the 5 to 7 basis points per quarter guidance that we provided in Q2. We did not have positive accounting accretion this quarter like we did in Q2. We expect our margins, excluding Target and accounting noise, to stabilize and possibly improve if the increase in long-term interest rates holds.

PCL increased by CAD44 million due largely to Target-related PCL. Adjusted expenses were up versus last year due to increased expenses related to Target and investment in growth initiatives, partially offset by productivity improvements. All in, a good result for our U.S. business. However, we don't expect to be able to sustain U.S. P&C earnings at this level. We expect the fourth quarter to be down from Q3, primarily due to a lower level of security gains, as mentioned previously.

Please turn to slide 9. Net income in our Wholesale business of CAD147 million was down CAD33 million, or 18% compared to the same period last year due to lower trading-related revenue, partially offset by lower non-interest expenses. Revenues were down 12% year-over-year due to lower fixed income and credit trading. Q3 revenues last year included amounts related to a trading position that was previously considered impaired. Trading revenues in Q3 were CAD284 million, slightly below our CAD300 million normalized level. Non-interest expenses were down by 14% compared to last year, mainly due to lower variable compensation, reflecting lower expenses and lower legal provisions. Looking ahead, we expect continued market uncertainty due to the macroeconomic environment and the impact of regulatory reform, but we still expect Wholesale to deliver 15% to 20% ROE for this year.

Please turn to slide 10. The Corporate segment posted an adjusted loss of CAD8 million in the quarter compared to a net income of CAD30 million last year. Higher net Corporate expenses, driven by increased employee benefit costs and strategic initiatives, accounted for the major changes on a year-over-year basis. Q3 expenses last year were unusually low. Q3 results also included an incurred, but not identified allowance release of CAD21 million after-tax. For the fourth quarter, net Corporate expenses are expected to increase over Q3 levels due to higher project spend on growth and productivity initiatives.

Please turn to slide 11. Core expenses excluding the impact of FX and acquisitions were up 5.7% over last year. Growth in core expenses was driven by a combination of higher employee benefit costs, merit increases and the timing of investments in growth initiatives, partially offset by productivity gains. Q3 expenses last year were low, well down from the prior quarter, whereas this year, Q3 is fairly even with Q2 when you account for the days effect. On a year-to-date basis, core expenses have grown by 4.4%.

We expect to achieve our full-year target of less than 3% expense growth for 2013. We are pleased with our progress this year, as we've managed our initiative and project spend more evenly over the year. We do expect Q4 core expenses to be elevated versus Q3, but well below the Q4 increase of last year. Our 2014 planning process is well underway, and we continue to target core expense growth in 2014 to be below the 2013 growth rate. We are looking even harder at our expense base to ensure we can drive efficiencies for next year, including continued consolidation of our facilities in Canada and the U.S., and other initiatives.

Please turn to slide 12. Our Basel III common equity tier I ratio was 8.9% in the third quarter, an increase of 10 basis points over Q2, primarily due to organic growth, the sale of our non-agency CMO portfolio in the U.S., offset partially by our share buyback program and volume growth. We are pleased to announce a CAD0.04 dividend increase on top of the CAD0.04 we announced in Q1. I'm also pleased to report that we've repurchased more than 7 million shares as of August 23, which will help our EPS growth next year. Overall, we continue to remain well positioned for the evolving regulatory and capital environment.

Let me comment briefly on AOCI under Basel III. Throughout fiscal 2013, TD has called out the potential volatility of AOCI and the related impact on capital. Over the course of this year, we've been actively managing AOCI and we've put various strategies in place to manage this issue.

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

Mark Chauvin – TD – Group Head and Chief Risk Officer

Thank you, Colleen, and good afternoon, everyone. Please turn to slide 13.

Credit quality remains strong across all the portfolios, continuing the trend we've seen during the past year. In Canada, credit metrics remain stable, with overall loss rates during the quarter reducing to the lowest level experienced in over five years. Turning to the U.S., the performance of the personal and commercial portfolios continued to improve when adjusted for the Target acquisition completed last quarter. Strong positive momentum was evident throughout the U.S. commercial portfolio, as evidenced by quarterly charge-off rates reduced to the lowest level experienced in over three years. Both the number and dollar amount of loans moving into our workout group declined, and classified loans continued to reduce.

Before concluding, I would like to comment briefly on the loan loss provision taken for the Alberta floods. During the prerelease call last month, we indicated that gross [losses] resulting from the Alberta flood in the real estate secured lending portfolio could be as high as CAD125 million. Since that time, we have refined our analysis based on greater certainty regarding the support of the Alberta government and available property and default insurance, to arrive at a net exposure of CAD65 million. I am confident that the CAD65 million provision will cover losses, which ultimately result from a disaster of this magnitude.

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

QUESTION AND ANSWER

Rudy Sankovic – TD – SVP, Investor Relations

Thank you, Mark. We'll now open it up for questions. To give everyone a chance to participate, please keep to one question and then requeue, if there's time. For those participating in person, can I ask you to identify your name and firm before asking your question? Before ending the call today, I will ask Ed to offer some final remarks.

Why don't we get started in the room, please. Michael?

Michael Goldberg – Desjardins Securities – Analyst

Michael Goldberg, Desjardins Securities. In your agreement with Aimia, what protection do you have that they won't degrade the value of Aeroplan points like they did with CIBC? And what went wrong in your deal with Aimia that you and/or they even felt the need to negotiate with CIBC?

Ed Clark – TD – Group President and CEO

I think we will not get into the details of our deal with Aimia since there really are two possible outcomes here. One is that we go along with Aimia, and that's the deal that's in a sense in effect, or two, that we do this three-way deal. When it's clear which one we're talking about, then we'll undoubtedly have some discussion with it and we can answer relevant questions at that time. I guess the way we look at it is that going along with Aimia is a perfectly satisfactory outcome from our point of view. We obviously are excited and delighted by the opportunity to have this card.

On the other hand, I think if there's a better deal to be done, you should always do a better deal. And so if there's a possibility of a three-way deal, that also works, then we certainly would be taking a look at that. I think we're in the optimal position – if we can't get a three-day deal, we're delighted with the outcome, but if we can get a better deal by doing a three-way deal, we'll do that, too.

Michael Goldberg – Desjardins Securities – Analyst

Do you have any protection, though, against the value proposition being degraded?

Ed Clark – TD – Group President and CEO

What I guess I'm saying is, we could get a dozen questions on this. I think when we are in a position to talk about the full details of the deal, we'll talk about the full details. If we do either one of these deals, we're confident about the value proposition going ahead, if I can answer that question.

Rudy Sankovic – TD – SVP, Investor Relations

Thank you, Michael. Next question?

John Reucassel – BMO Capital Markets – Analyst

John Reucassel from BMO Capital Markets. Just a question for Mark. Thanks for the clarity on the CAD65 million. But if I look at CAD65 million relative to your RESL exposure in the Prairies, it's still roughly averaging 14 basis points on the total amount, or 49 basis points on the uninsured portion. Is that fair to look at it that way? And if so, why – it seems awfully high. But maybe give some color on what this portfolio is, is it broker sourced? Can you give us some more detail?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Sure, it's as representative as any other part of our RESL portfolio. But let me give background behind the basis of the provision. We have identified a number of properties that have been severely damaged where we provided loans. And looking at that, we understand, and although there still is uncertainty, we know that the level of insurance that they have either through their own insurance or through what they will be paid under the Alberta recovery, will be inadequate to cover and fully repair those properties. And then we also know that in certain cases it's a vacation property or rental property, they aren't eligible under the Alberta recovery.

So, in going through this, we've worked out a number that we think is very realistic, but is probably prone to come down further if further information comes out that says that the level of recovery through Alberta is maybe higher, or other things like that. But it's a pretty well thought-out number, based upon what we know is there now. But you really won't know for sure over three or four quarters.

John Reucassel – BMO Capital Markets – Analyst

Okay. So, are they a mixture of HELOCs and mortgages?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Yes, they are a mixture of HELOCs and mortgages, and they are about roughly one-third uninsured.

John Reucassel – BMO Capital Markets – Analyst

One-third.

Mark Chauvin – TD – Group Head and Chief Risk Officer

But otherwise, they are pretty typical of everything else. Well, that is typical.

John Reucassel – BMO Capital Markets – Analyst

And were they mainly broker-sourced, or?

Mark Chauvin – TD – Group Head and Chief Risk Officer

No, they were generally sourced in our normal sequence. Their problem is they were in the flood-impacted areas.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, John. Next question, any from the room? Operator, why don't we turn to the phones, please.

Operator

Your first question on the phone line comes from Robert Sedran with CIBC. Please go ahead.

Robert Sedran – CIBC – Analyst

Good afternoon. Just a follow-up question on the U.S. margin. I can appreciate the core margin has been tough to forecast lately, but has been underperforming your expectations of late. How confident are you in the new margin outlook that you're providing today, and does it feel like your visibility has improved? Is there maybe a specific product or portfolio that you could call-out in terms of benefiting more, like, say, the mortgage product or something?

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

It's Mike. We're fairly comfortable that if the current rate environment continues, that we're looking at stabilizing or improving margins in the U.S. We've obviously been able to tractor and extend duration a bit recently, as rates have been backing up. There is some mortgage compression going on in the market, but that's a much, much smaller book for us. So, on a net basis, we feel comfortable in the direction we've given, again, provided that rates stay roughly where they are.

Robert Sedran – CIBC – Analyst

And Mike, is it the activity that you've taken since rates have risen that have given you the confidence, or is it just that's sort of your view now based on where rates are?

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

It's mostly the activities we've undertaken since the rates have risen.

Robert Sedran – CIBC – Analyst

Okay. Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Rob. Next question, please?

Operator

Your next question on the line comes from Gabriel Dechaine with Credit Suisse.

Gabriel Dechaine – Credit Suisse – Analyst

Good afternoon. I'm going to take another crack at this Aeroplan, just to clarify something. You've got one agreement that was put out in July, I think. That was the one-on-one deal with Aimia, then a potential three-way. Is it safe to assume that if it is a three-way, the first agreement, some of the metrics in there would change, like planned marketing spend, revenue commitments, or are you still kind of tied to those?

Ed Clark – TD – Group President and CEO

I think frankly we're not really anxious to get into that. We're obviously in the middle of discussions here. So, just to be clear, we have an agreement with Aimia. That agreement's in force, it's gone live. And so we have a deal going forward, and I think with the two of us together, our exploring with CIBC, is there an agreement, something that would be interesting to the two of us to do with CIBC. And when we have something, if we get something, then we'll be able to describe what that would be. We can't tell you whether we're going to get something or not at this stage.

Gabriel Dechaine – Credit Suisse – Analyst

Okay, and just to follow up on Rob's question on the U.S. NIM, so, good news, bad news story. The bad news on the quarter though, looks like the core was down 20-ish basis points sequentially. What in particular drove that big decline? And then looking forward, other than the pulling back on investing short and going back out on the extending duration again, what other activities were you talking about, Mike, that would make you feel confident about the NIM? Could you maybe give us a bit more context there?

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

Gabriel, it's Colleen. I'll start. I think the point that's been raised, which is a valid one, is that certainly the U.S. NIMs have proven to be more difficult to predict with accuracy than perhaps other parts of our operation. I think that just reflects the number of moving parts, in particular if you think about all of the acquisitions we've made, as well as the pressures on the core margin. I think it has made it tougher to predict. If you look at the – you're not that far off in terms of the actual core decline in the quarter. And I think if you look at that number, part of it was just more deposit compression than we had maybe expected in the range we provided previously. But to the point, we think we are at the inflection point now where things are starting to stabilize and in fact, possibly improve if rates hold. And why don't I turn it back to Mike, then, to maybe expand on the other activities.

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

There really isn't much I can say to expand. I was talking primarily about the Treasury tractor activities as a result of the rates rising in the last quarter.

Gabriel Dechaine – Credit Suisse – Analyst

What was the negative impact of going short, and then if we can expect that to reverse, what's the delta there, the positive delta?

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

Yes, Gabriel, I don't think we're going to get into all of the specifics, sort of all the moving parts. But needless to say, as again, as we've shortened duration, as we've sold securities, that has created that core margin compression. But now, to Ed's earlier points, as we start to lengthen duration, that does get gradually repriced back into the margin and obviously, that's good news for our U.S. operation.

Gabriel Dechaine – Credit Suisse – Analyst

Okay. Trying to look at the positive side here.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Gabriel. Can we have the next question, please?

Operator

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

Peter Routledge – National Bank Financial – Analyst

Hi. Thanks for taking the question. Mike, question for you in the U.S. I know you were just there, but you sort of arrived and long-term rate bond rate went up 120 bps, and that's obviously having an impact, I'm sure, on the rates you're charging borrowers, both in –

Ed Clark – TD – Group President and CEO

Peter, are you saying that Mike should take credit for the backup of U.S. rates? Is that your point?

Peter Routledge – National Bank Financial – Analyst

No, I'm – although if he wants to, he's welcome to – just wondering, how worried are you about a pronounced slowdown in lending, either on the commercial or the residential side? I've seen Fed data, the weekly Fed data that shows kind of a surprising slowdown in July. And I don't want to read too much into that, but are you feeling any pressure in your pipeline, in either the commercial or residential side?

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

Yes, obviously you would rather have solid flows than slowing flows. And just to give you a bit of color, we've been running in the last year on the mortgage side at about 25% growth. But if you break that down, up until Q3, it was about 30% growth annualized, and in Q3, it was just over 4%, so more like 16%, 17% growth. And the industry slowed down a lot as well. There's obviously been a significant slowdown in mortgage volumes in the U.S. I guess it's always relative, and we believe that we will continue to outgrow the competition as we have been.

We expect to continue to be able to generate double-digit volumes in mortgages. We're underpenetrated in our customer base, given that this is something we've recently started to focus on. We're building capability in this area, we're adding mortgage lenders. We're also fortunate that we have customers who very much like what we do, so when we ask them to speak to us about their mortgage, they are happy to do so. So we think that we'll outperform no matter what the environment. But yes, the volumes are probably going to slow down a little bit. It's the same on the commercial and small business side. We were outperforming in those areas in terms of volumes. They have slowed a little bit, but we're still outperforming and expect to continue to be able to outperform in terms of volumes. I can't predict what the volumes will be.

Peter Routledge – National Bank Financial – Analyst

All right. I'll let someone else jump in. Thanks.

Rudy Sankovic – TD – SVP, Investor Relations

Thank you, Peter. Next question, please?

Operator

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

Brad Smith – Stonecap Securities – Analyst

Yes, thanks very much. Appreciate that. Colleen, just with respect to the Target and the way it's being flowed through the segments, I was just curious, the revenues, are they pretty much exclusively being treated as net interest? And are there expenses that are also flowing through the expense line from the US P&C segment? If you could just give me some sense for that, I would appreciate it.

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

Sure, Brad. So, when it comes to Target, we're including 100% of the revenues and 100% of the PCL. And on the revenue side, it's largely NII, but there also is some other income there. Then what happens, when we – to take us down to our proportionate share of the earnings, that adjustment flows through expenses. And then we do have some of our own direct expenses that we're incurring to oversee the operation and manage risk and all of that. So, our expenses are a combination of those two items to bring us back to our share, and then the incremental expenses to manage the business.

Brad Smith – Stonecap Securities – Analyst

Okay. So, when you talk about the margin, that is the margin net of the minority interest effectively in it, I take it?

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

No, it's not. It's the gross amount, that's why it has such a big effect on the margin.

Brad Smith – Stonecap Securities – Analyst

Okay. Thanks very much.

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

You're welcome.

Rudy Sankovic – TD – SVP, Investor Relations

Thank you, Brad. Next question, please?

Operator

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

John Aiken – Barclays – Analyst

Good afternoon. I understand, Ed, that you don't want to get into the details of the negotiations, but question for Riaz, in terms of assuming there is an agreement that's put in place with CIBC and Aimia, what's the timeline that you need for approvals and to be able to transfer over the card balances? I guess what I'm trying to back into, what exactly is the drop dead date for these negotiations and if these carry on too long, when do you walk away?

Ed Clark – TD – Group President and CEO

Do you think Riaz is an easier hit and that he's going to answer a question that I wouldn't have? Is that what's going on here?

John Aiken – Barclays – Analyst

Ed, I figure he's newer, so I might have more luck.

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

I'm not sure that's going to help you there much, John. I'm going to answer that the discussions will continue until the parties decide that they have something to say, and the transactions would be subject to normal regulatory approvals, including competition approvals, and it's hard exactly to predict when all of that would materialize, John.

John Aiken – Barclays – Analyst

Okay. You can't fault me for trying. Thanks.

Rudy Sankovic – TD – SVP, Investor Relations

Great. Thank you, John. Next question, please.

Operator

Your next question comes from Sumit Malhotra with Macquarie Capital. Please go ahead.

Sumit Malhotra – Macquarie Capital Markets – Analyst

Thanks. Good afternoon. Hopefully two quick questions. First, to go back to the impact that Target is having on the U.S. results, specifically looking at the PCL line and credit cards, I think in one of your disclosures, we see that U.S. credit card PCLs haven't really changed much since you brought this portfolio on. Just wanted to get some information here. Was this portfolio brought on having been, for lack of a better term, cleaned up so that you're starting basically fresh, and that's why the level of PCL in the card book has been low, or is that just an indication of where credit quality is right now? I don't know if I'm explaining that well, but I guess my point is, doesn't look like U.S. credit card PCL have changed too much since Target came aboard.

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

To back up, when you bring this on, we're not carrying impaireds, and we have a credit mark when we closed the deal. But then what you start to see, and in fact, you've seen our impaired loans notch up a bit this quarter. And that's as those impaireds start to move to their sort of normalized level. But on the other hand – so, it's not like we're drawing our current losses against the credit mark – we're actually building up a GA at the same time. The exact same thing happened with MBNA. You're just not seeing it in the credit card line per se, you're seeing it in the GA category. In fact, if you look at our PCLs on a quarter over quarter or year-over-year basis, they are up in the U.S., but that's entirely due to Target. So, there's definitely a large number there for PCL. But the offset is that we have much better underlying credit performance quarter over quarter and year-over-year as well.

Sumit Malhotra – Macquarie Capital Markets – Analyst

I think I have this somewhere from Target's disclosures, but could you just refresh me, what's the loss rate in their card portfolio right now? Where are you trending in that book?

Mark Chauvin – TD – Group Head and Chief Risk Officer

It's around 6%.

Sumit Malhotra – Macquarie Capital Markets – Analyst

6%, okay. And my last question was for Tim. Tim, CAD1 billion in earnings and no questions. I thought I should break the ice. Loan growth is one area particularly on the consumer side that, maybe for a couple of reasons, the segment hasn't looked as good as some peers over the years. Looked like there were some signs of recovery this quarter. I think some of that is seasonal, but I don't want to answer my own question. Wanted to take your temperature on the loan growth outlook and whether you think –

Ed Clark – TD – Group President and CEO

No, no, go ahead. Help us out here. It would be great if you could answer the question and then we can compare it to what Tim says.

Sumit Malhotra – Macquarie Capital Markets – Analyst

Tell you what, I'll stop and say just wanted to take your temperature on whether the return in loan growth this quarter is the start of maybe a stronger level than we've seen over the last year?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

I'm tempted to say it's seasonal and end it there. But I think you're right. Actually, last quarter we suggested that the growth in loans was going to be sort of reaching not just a seasonal [low], but a little bit of a tipping point. We've seen that in Q3. We're probably feeling a little more optimistic right now about the outlook than we would have this time last quarter. Seeing some green shoots, if you will. But having said that, we still feel that it's going to be not returning to the heyday of consumer lending or real estate secured lending growth that you would have seen a number of years ago, but probably stronger than you would have gotten an answer from me three months ago.

Sumit Malhotra – Macquarie Capital Markets – Analyst

More in line with the sector than you have been in the last year, is that a reasonable expectation?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

Certainly this current quarter is, and we expect the same going forward.

Sumit Malhotra – Macquarie Capital Markets – Analyst

Thank you for your time.

Rudy Sankovic – TD – SVP, Investor Relations

Great. Thank you, Sumit. I think we have time for one more question, operator.

Operator

Thank you. Your last question will come from Darko Mihelic with Cormark Securities. Please go ahead.

Darko Mihelic – Cormark Securities – Analyst

Thanks very much. I get the last one, and I'm going to ask a question I wouldn't normally ask, Ed. It's been a long day, and I think I heard a little change in messaging from you in your opening remarks, and I want to clarify. You mentioned that you are really going to attack, or control expenses next year. You're considering changing the way you do business, including perhaps consolidation. Could you maybe expand upon that? By the light of my screen here, I can see that branches are expanding in Canada and the U.S. for a long time now. What is it exactly that you mean by considering consolidating?

Ed Clark – TD – Group President and CEO

Yes, I would say I think it's fair to say there's probably, call it a slight shift. I think we're clearly saying to you that even though I think things have improved in the sense that rates have backed up, that's a material impact. I think in terms of the U.S., you have to recognize that low rates, while a big headwind for us in terms of the value of the deposit business, did produce some security gains for us and the refi business and the mortgage business. So, as rates back up, those tailwinds go away, but all-in, it's a better world for us.

If interest rates start backing up here over time, what you're going to see is obviously our deposit, and that's our strength as a Company, this enormous deposit base is getting revalued upward. But it does take time to roll in. And so we still, despite the fact that we see, as we've indicated, that we're bottoming out here in terms of rate compression in the United States – and I think we're getting closer and closer to bottoming out in Canada as well – the recovery, as rates go up, that takes time to bleed into our results.

So, we still see 2014 as a tough revenue year, and we're saying we've just got to go through every part of the Company and keep on saying, are there ways that we could do this with less, for less, and actually do it better? And that means that we have been looking at branches. We've announced already in the United States a significant number, 33, I think is the number, of branches that we are going to merge in the United States. We have always done a bit of weeding and filling in Canada and we're continuing to do that in Canada. And it means generally when we look at facilities and say, are there things that we could do where we could have either fewer of these, whatever they are, call centers or offices or whatever, that we should just go through the entire portfolio and say, is there a way of changing the cost structure permanently and getting on with this? So, yes, there is a slight nuance in the message here.

Darko Mihelic – Cormark Securities – Analyst

Okay. Thanks very much.

Rudy Sankovic – TD – SVP, Investor Relations

Great. Thanks, Darko. So I'll turn it over to Ed for final comments.

Ed Clark – TD – Group President and CEO

Yes, so basically, as I've said, it's a mixed quarter in the sense that obviously, and we regret, we did have a significant loss in the Insurance business. That's not a good event from our point of view and we don't want to round that corner. On the other hand, do we believe that we've got ahead of the insurance issue by doing that? Yes, we believe we do. The great thing is that at the same time, if you look at underlying performance of our business, we really had record performances in the US P&C business, the Canadian P&C business and the Wealth business. So, when you put it together, you can feel good about that even if you don't feel so great about others. We're focused, as I indicated, and a longer answer to your question is, our job now is to get the Company positioned to have a good 2014, despite the fact that there's still, I think generally, there's not a booming revenue number that we're going to have to work with.

Rudy Sankovic – TD – SVP, Investor Relations

Thank you very much, Ed. With that, I will end the meeting, and thank you for joining us today. Have a good day. Thank you.

Operator

Ladies and gentlemen, that does conclude today's conference call for today. Thank you for your participation, you may now disconnect your lines.