TD BANK GROUP
Q3 2014 EARNINGS CONFERENCE CALL
AUGUST 28, 2014

DISCLAIMER

FORWARD-LOOKING INFORMATION

From time to time, the Bank makes written and/or oral forward-looking statements, including in this document, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission, and in other communications. In addition, representatives of the Bank may make forward-looking statements orally to analysts, investors, the media and others. All such statements are made pursuant to the "safe harbour" provisions of, and are intended to be forward-looking statements under, applicable Canadian and U.S. securities legislation, including the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements made in this document, the Management's Discussion and Analysis in the Bank's 2013 Annual Report ("2013 MD&A") under the headings "Economic Summary and Outlook", for each business segment "Business Outlook and Focus for 2014" and in other statements regarding the Bank's objectives and priorities for 2014 and beyond and strategies to achieve them, and the Bank's anticipated financial performance. Forward-looking statements are typically identified by words such as "will", "should", "believe", "expect", "anticipate", "intend", "estimate", "plan", "may", and "could".

By their very nature, these forward-looking statements require the Bank to make assumptions and are subject to inherent risks and uncertainties, general and specific. Especially in light of the uncertainty related to the physical, financial, economic, political, and regulatory environments, such risks and uncertainties – many of which are beyond the Bank's control and the effects of which can be difficult to predict – may cause actual results to differ materially from the expectations expressed in the forward-looking statements. Risk factors that could cause such differences include: credit, market (including equity, commodity, foreign exchange, and interest rate), liquidity, operational (including technology), reputational, insurance, strategic, regulatory, legal, environmental, capital adequacy, and other risks. Examples of such risk factors include the general business and economic conditions in the regions in which the Bank operates; disruptions in or attacks (including cyber attacks) on the Bank's information technology, internet, network access or other voice or data communications systems or services; the evolution of various types of fraud to which the Bank is exposed; the failure of third parties to comply with their obligations to the Bank or its affiliates relating to the care and control of information; the impact of recent legislative and regulatory developments; the overall difficult litigation environment, including in the U.S.; increased competition including through internet and mobile banking; changes to the Bank's credit ratings; changes in currency and interest rates; increased funding costs for credit due to market illiquidity and competition for funding; and the occurrence of natural and unnatural catastrophic events and claims resulting from such events. The Bank cautions that the preceding list is not exhaustive of all possible risk factors and other factors could also adversely affect the Bank's results. For more detailed information, please see the "Risk Factors and Management" section of the 2013 MD&A, as may be updated in subsequently filed quarterly reports to shareholders and news releases (as applicable) related to any transactions discussed under the heading "Significant Events" in the relevant MD&A, which applicable releases may be found on www.td.com. All such factors should be considered carefully, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements, when making decisions with respect to the Bank and the Bank cautions readers not to place undue reliance on the Bank's forward-looking statements.

Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2013 MD&A under the headings "Economic Summary and Outlook", and for each business segment, "Business Outlook and Focus for 2014", 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.

CORPORATE PARTICIPANTS

Ed Clark
TD Bank Group – Group President and CEO

Bharat Masrani
TD Bank Group – Chief Operating Officer

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

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

Tim Hockey
TD Bank Group – Group Head, Canadian Banking

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

Bob Dorrance
TD Bank Group – Group Head, Wholesale Banking

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

Rudy Sankovic
TD Bank Group – SVP, Investor Relations

CONFERENCE CALL PARTICIPANTS

John Aiken
Barclays – Analyst

Darko Mihelic
RBC Capital Markets – Analyst

Gabriel Dechaine
Canaccord Genuity – Analyst

Steve Theriault
Bank of America Merrill Lynch – Analyst

Peter Routledge
National Bank Financial – Analyst

Rob Sedran
CIBC World Markets – Analyst

Mario Mendonca
TD Securities – Analyst

Doug Young
Desjardins Securities – Analyst

Derek De Vries
UBS Securities – Analyst

Meny Grauman
Cormark Securities – Analyst

Sumit Malhotra
Scotiabank – Analyst

Sohrab Movahedi
BMO Capital Markets – Analyst

PRESENTATION

Rudy Sankovic – TD – SVP, Investor Relations

Good afternoon and welcome to TD Bank Group's Third Quarter 2014 Investor Presentation. My name is Rudy Sankovic, and I'm the Head of Investor Relations at the Bank.

We will begin today's presentation with remarks from Ed Clark, the Bank's CEO; and Bharat Masrani, our COO; and 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. We will entertain questions from those in the room and from pre-qualified analysts and investors on the phone.

Also present today to answer your questions are Tim Hockey, Group Head, Canadian Banking, Auto Finance and Wealth Management; Mike Pedersen, Group Head, U.S. Banking; Bob Dorrance, Group Head, Wholesale Banking; and Riaz Ahmed, Group Head, Insurance, Credit Cards and Enterprise Strategy. Riaz is also responsible for the capital and treasury activities at the Bank.

Please turn to slide two. At this time, I'd 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'd also like to remind listeners that the Bank uses non-GAAP financial measures to arrive at adjusted results to assess each of our businesses and to measure the overall Bank performance. The Bank believes that the adjusted results provide readers with a better understanding of how management views the Bank's performance. Ed and Bharat will be referring to adjusted results in their remarks.

Additional information on items of note; the Bank's reported results and factors and assumptions relating to the forward-looking statements are all available in our Q3 2014 Report to Shareholders.

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

Ed Clark – TD – Group President and CEO

Thank you, Rudy, and welcome, everyone. Thank you for joining us here today. As Rudy mentioned, Bharat and Colleen are going to be up shortly to discuss our third quarter results in detail, but let me start by sharing my thoughts on the quarter overall and our progress so far this year.

Now, the third quarter was obviously a very strong quarter for TD. Earnings were up 37% year-over-year and earnings per share were up 40% to $1.15. These strong results were driven by good growth in all our businesses, including insurance, which rebounded strongly from losses incurred in the third quarter of last year when we took $418 million after-tax charge due to claims resulting from severe weather-related events and strengthened reserves for general insurance auto claims.

Now, we know the market's approach to dealing with this charge has been to add it back to last year's earnings. On that basis, total bank earnings were up 8% from a year ago and earnings per share up 10%, again, a very good result. This brings our year-to-date earnings per share growth to 10%, keeping us on track to deliver full-year adjusted earnings per share growth inside our medium-term target range of 7% to 10%.

I'm very pleased with this performance, which reflects great execution on a number of fronts. Our Retail business has generated healthy loan and deposit growth. We saw a strong increase in fee income and our recent acquisitions continue to perform well. Our Wholesale Bank also had a strong quarter with the trading and origination businesses both delivering good results. Credit was a tailwind once again, particularly in the portfolio in the United States. And net interest margins were stable despite continued pressure on U.S. loan margins from increased competition.

Expense growth excluding acquisitions, FX and variable compensation was below 3% in the quarter, reflecting continued productivity savings. We had very strong operating leverage in our Canadian businesses. As you're aware, we have had negative operating leverage in the United States largely as a result of lower security gains. But expense performance in the United States improved in the quarter, reflecting savings from past investments and productivity. And for the Bank as a whole, operating leverage was close to flat. We are comfortable with this outcome. We believe we should continue to invest in the future growth and efficiencies despite the still challenging operating environment.

As I look ahead, I am struck by how much uncertainty we still face. Recent political events are creating headwinds for banks all over the world. Interest rates have dropped back down and expectations for normalization in rates have been pushed further into the future. And along with them, the revenue upside we will reap as a result of our deposit-rich balance sheet.

Capital leverage and liquidity requirements are still evolving, but generally in the direction of a tougher regime, marked by higher funding cost and lower returns. We are supportive of these changes, which should make the banking system much more robust, but the burden of implementing them is not insignificant, particularly given that many of the rules are still in flux.

In this environment, it's important to be patient and stay faithful to our long-term strategy of growing our businesses in line with our risk appetite. One of the most enduring lessons of my career has been that good management teams, leading sound business models, adapt. We have a great team at TD, and we are strategically well-positioned.

Now, part of that positioning, of course, is our commitment to deliver legendary service and convenience. I couldn't be more proud of the fact that TD Canada Trust just won the J.D. Power award for highest customer satisfaction levels among the Big Five banks for the ninth year in a row, a truly remarkable achievement.

We were also recognized by Ipsos as the Big Five bank leader in Canada for customer service excellence for the 10th year in a row. And our innovative #TDThanksYou campaign surpassed all expectations – going viral, and recording well more than 10 million views on YouTube so far as people all over the world tune in to see how we WOW! our customers at TD. Congratulations to our wonderful marketing team, which again found a way to showcase TD's unique brand to the world.

As you know, I am here until the end of the fiscal year. This is my last quarterly call. So, I'm going to take this opportunity to say my own thank you. Thank you to our customers who continually inspire us to find new ways to make TD the Better Bank. Thank you to our 85,000 employees whose hard work and dedication makes everything we do look easy, which it isn't. Thank you to my partners on the senior executive team and our management team, more broadly, who have built strong franchise businesses, while fostering our unique and inclusive culture in making TD an extraordinary place to work.

And thank you to you, our analysts, for giving us candid feedback when we need it, and our investors for sticking with us when we made tough, strategic decisions in order to build an enduring competitive advantage.

What an incredible journey it has been. We've accomplished so much together, and I know that TD is poised to reach even greater heights. Whatever the challenges that lie ahead, the Bank has a leader in Bharat Masrani, who is second to none, and a management team with unparalleled depth and experience. As a customer and a shareholder, I couldn't feel happier or more confident about TD's future.

With that, I'll turn it over to Bharat to discuss our results in more detail. Thank you.

Bharat Masrani – TD – Chief Operating Officer

Thank you, Ed, and good afternoon, everyone. The third quarter was indeed a strong quarter for TD. The Canadian Retail segment performed extremely well. Net income was up 54%, driven by very good results in our core banking, wealth management and credit card businesses, strong operating leverage, and a rebound in insurance earnings from the charge Ed mentioned.

In our personal and commercial banking business, we delivered solid loan and deposit growth and double-digit increase in business lending. Wealth had another record quarter, with impressive growth in assets and fee income. Aeroplan also performed well, and we brought some 540,000 Aeroplan cardholders onto the TD platform this quarter. Welcome to all of you.

Results in the Canadian Retail segment were also boosted by a recovery in insurance, as I have mentioned earlier, from the charge we took in the third quarter of 2013. In the year since, we have worked hard to reposition this business and are making good progress.

Looking ahead, we expect our Canadian Retail segment to finish the year on a solid footing, with stable loan volumes and continued momentum in our growth businesses, offset by some modest margin compression.

Our U.S. Retail segment delivered record earnings this quarter. U.S. dollar net income exceeded $0.5 billion for the first time, up 4% year-over-year. Earnings excluding TD Ameritrade were also up 4% year-over-year. These results were driven by strong organic loan and deposit growth, good expense management and a further improvement in credit quality, which helped offset the impact of lower security gains.

We continue to expect modest earnings growth in our U.S. Retail for fiscal 2014 as tailwind from credit dissipates and heightened competition for assets continues to pressure loan margins. While our net interest margin was stable this quarter, this was largely due to accretion. If this trend recedes, the downward pressure on underlying margins will be more visible. But despite these challenges on the revenue front, the fundamentals of our business remain strong and we are investing in future growth.

Q3 was a very good quarter for our Wholesale Bank with earnings up 46%. We continue to leverage our position as a top three integrated dealer, delivering a strong performance across all of our trading and origination businesses. ROE was 18% for the quarter.

Overall, our businesses performed well in the third quarter. We are pleased with our results, but also mindful of several factors that are likely to affect our earnings in the fourth quarter. While credit quality remains strong, we expect credit losses to be higher, stemming from recoveries in the U.S. this quarter, which are unlikely to recur. We may see pressure on margins as competition for assets intensifies and support from accretion fades in the U.S. Our tax rate will likely normalize. And we expect expenses to be elevated on a sequential basis.

As we approach year-end, we remain focused on finding ways to run our business more efficiently, and there could be costs associated with this. This is why we signaled last quarter that we believe positive operating leverage will be difficult to achieve for the full year. But as we also said, given our stable earnings base and high quality franchise businesses, we are not prepared to sacrifice long-term growth to preserve short-term operating leverage. Instead, we'll keep looking for permanent cost savings that we can invest in our businesses to build on our leadership position in service and convenience across all of our platforms.

I'm confident that with the power of our brand, the strength of our model and our talented team, we can continue to lay the foundation for future growth. As we remain focused on our vision of building the Better Bank.

Earlier on the call we heard Ed express his thanks to our colleagues, investors and analysts. It's now our time to thank him. It has been a privilege to work alongside Ed. He inspired us to believe in the Better Bank and do great things. On behalf of TD's 85,000 employees, the senior executive team and the board, I'd like to express our thanks to Ed. He's been a trusted custodian of this great institution and leaves us in better shape than when he first joined. Thank you, Ed.

And now I'd like to turn it over to Colleen.

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

Well, thanks, Bharat, and good afternoon, everyone. Let me take you through our results. So turning to Q3, we delivered adjusted EPS of $1.15, up 40% year-over-year. This was a strong quarter reflecting good earnings contributions from all business segments. With a significant improvement in insurance earnings due to additional losses last year as a result of severe weather-related events and strength in reserves for general insurance auto claims. After adding back the $418 million in insurance charges, adjusted EPS would have been up a strong 10%.

Total bank adjusted net income of $2.2 billion was up 37%. Our segment results include retail adjusted earnings of $2 billion, up 38% over last year, driven by good retail results on both sides of the border and a significant rebound in our insurance business mainly due to losses incurred in the Canadian Retail segment last year. Wholesale net income of $216 million was up a healthy 46%, due to broad-based performance across our core businesses. The corporate segment posted a loss of $53 million. Overall, very strong results for the Bank this quarter.

Please turn to slide five. This slide presents our reported and adjusted earnings this quarter with the difference due to five items of note. I'll comment on two items. We've released the balance of our reserve related to loan losses in our real estate secured lending portfolio taken for last year's Alberta flood. And we incurred $16 million of after-tax cost related to the Aeroplan card integration.

Please turn to slide six. Canadian Retail delivered a strong quarter with adjusted net income of $1.4 billion, up 54% year-over-year. The increase was driven by good loan and deposit volume growth, higher fee income primarily in the wealth business, the addition of Aeroplan and a significant rebound from last year in our insurance business where we took additional charges.

Loan and deposit growth was good this quarter. Total loan growth was 6% year-over-year, with real estate secured lending volume up 3% and business lending growth up a strong 11%. Card growth was strong at 26% due mainly to the addition of Aeroplan. Personal and business deposits increased by 4% due to strong growth in core checking and savings accounts, partially offset by lower term deposit volume.

Margin was up 1 basis point sequentially. As we discussed before, quarterly margins will bump around depending on product mix, seasonality, the competitive environment or rate moves. For the fourth quarter, we're expecting a decline in margin of roughly 5 basis points as we expect the combination of these items to generally work against us.

Credit performance continues to be favorable with PCL and personal banking up $5 million from last year due to the addition of Aeroplan balances, partially offset by better credit performance and lower level of bankruptcies. Business banking PCL was up $7 million driven by prior-year recoveries.

Adjusted expenses were up 6% due to higher employee-related costs, including higher variable compensation particularly in the wealth business, volume growth and the Aeroplan card acquisition, partly offset by productivity gains. Adjusted operating leverage was very strong at approximately 380 basis points.

Of note, our efficiency ratios this quarter for both Canadian Retail and Canadian P&C were new records.

We continue to disclose the Canadian wealth and insurance businesses, which are now part of the Canadian Retail segment. The wealth business made a strong contribution with 14% earnings growth driven by strong asset growth. Assets under management grew $30 billion or 15%. The insurance business had solid results with $132 million in earnings, up significantly from last year when the business was impacted by the additional charges.

Overall, a very strong performance for Canadian retail.

Please turn to slide seven. U.S. Retail, which includes the U.S. personal and commercial banking businesses, U.S. credit cards, TD Auto Finance U.S., U.S. wealth business, and TD Ameritrade delivered 4% net income growth year-over-year. U.S. Retail excluding TD Ameritrade had good earnings of US$449 million, an increase of 4% over last year. The increase reflects strong organic growth, favorable credit and good expense management, partially offset by much lower security gains.

Revenue decreased by 4% year-over-year. Excluding the impact of gains on sales of securities, revenue increased by 2% due to increased volume growth and higher fee income, partially offset by lower margins. Average loans were up 8% year-over-year, with a 3% increase in personal loans and a 13% increase in business loans. Average deposits increased by 5%.

The margin was relatively stable this quarter. However, we expect a 5 basis point to 8 basis point decline in accretion next quarter, as well as some core compression. PCL decreased by US$99 million due to broad-based improvements in asset quality, particularly in auto loans, HELOCs and business lending. Expenses were slightly down versus last year due to permanent expense reductions, partially offset by higher employee cost to support business growth.

Earnings from our ownership stake in TD Ameritrade in U.S. dollars were up 1% year-over-year, mainly due to a 3% increase in Ameritrade earnings partially offset by TD's lower ownership percentage. Ameritrade continues to grow client assets at a strong pace, up 24% year-over-year.

All in, a very good performance for the U.S.

Please turn to slide eight. Net income in our Wholesale business of $216 million was up 46% compared to the third quarter last year. Strong broad-based performance across core businesses drove the strong results. Revenue was up by 21% over last year due to a combination of higher trading-related revenue, equity and debt underwriting volumes, and M&A fees. Trading-related revenue was good at $325 million, within expectations. Non-interest expenses were up 12% compared to last year due to higher variable compensation in line with higher revenue, partly offset by lower operating expenses. ROE this quarter was 18.4%.

Please turn to slide nine. The corporate segment posted an adjusted loss of $53 million in the quarter compared to a loss of $11 million in the same period last year, as a result of ongoing investment in enterprise projects and initiatives. Adjusted net loss was also higher sequentially due to the higher corporate expenses and gain on sale of TD Ameritrade shares recognized in Q2, partially offset by positive tax items. For the fourth quarter, we expect that net corporate expenses will increase over the Q3 level, driven by continued investments in projects and initiatives and a reduced level of favorable tax items.

Please turn to slide 10. Core expenses for the quarter, excluding the impact of FX and acquisitions, were up 4.8% year-over-year. Excluding variable compensation, core expenses grew by 2.3%. Growth in core expenses was driven by a combination of higher investment in regulatory and growth initiatives and employee costs, partially offset by productivity gains. On a year-to-date basis, core expenses have grown by 4.7%, or 3.1% when variable compensation is excluded. Operating leverage for the third quarter was slightly negative.

We expect Q4 expenses to be elevated again this year. Regulatory project costs will be higher in Q4, and we will incur costs associated with driving additional productivity improvements. These costs relate to initiatives already communicated and underway to transform and optimize various functions and organizational structures. As a result of these costs, we likely won't achieve positive operating leverage for the full year.

Please turn to slide 11. Our Basel III Common Equity Tier 1 ratio was 9.3% in the third quarter, up 10 basis points versus Q2, due mainly to solid organic capital generation partially offset by an increase in risk-weighted assets across various segments and the repurchase of 4 million shares during the third quarter.

In addition, OSFI provided guidance to all banks this quarter on the treatment of minority interest for CET1 purposes. Our Ameritrade goodwill is now a direct deduction from CET1 capital and has negatively impacted the ratio by about 8 basis points.

Overall, we continue to remain well-positioned for the evolving regulatory and capital environment.

With that turn, let me turn it over to Mark.

Mark Chauvin – TD – Group Head and Chief Risk Officer

Thank you, Colleen, and good afternoon, everyone.

Please turn to slide 12. Credit performance across the Bank remained strong, with annual loss rates running at five-year lows. The third quarter PCL rate of 28 basis points represents a 7 point improvement over last quarter and a 9 point reduction from last year.

Performance during the quarter was driven by strong and stable credit quality across all the portfolios with solid volume growth, Canadian credit card loss rates are at historical lows with the Aeroplan portfolio performing strongly, improvement in the U.S. Indirect Auto portfolio credit quality as we position the portfolio for future growth, and strong and stable credit quality in the Canadian and U.S. commercial credit portfolios. Total bank loss rates are expected to remain stable into 2015, with no immediate signs of concern ahead.

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 re-queue if there's time. For those participating in person in the room here, 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. So, why don't we get started with questions in the room? John?

John Aiken – Barclays – Analyst

Mark, I wanted to dive in a little bit on the indirect auto improvement and the provisions that we saw in this quarter. Was this just cyclicality that we see in the portfolio? It does look like the PCL ratio has been trending down. Is this something that you think would be a low?

And then a follow-on for Tim. When you see this performance, how does that bolster your confidence in your ability to continue to move it further along on the credit yield?

Mark Chauvin – TD – Group Head and Chief Risk Officer

On the loss rate, there's been a program over the last year-and-a-half to really look – now that we have full history on the acquired portfolio and we're in about the third year – it provides us with the opportunity to develop our own credit strategies to have a better understanding of the portfolio. These are conscious efforts taken to improve the quality of the portfolio, so I wouldn't call them seasonal. I would say that's kind of what we intended to achieve, and that's what we're running at.

They would be subject to changes in used car rates and the loss rates are very low. If that were to change, that would be a negative, or changes to the economy, but I wouldn't put it to seasonal. I think it's an improvement that I would look to stay, at least over the short-term, barring a change.

John Aiken – Barclays – Analyst

Mark, there was no change in the methodology that you used for looking at what really classified as impaired in the quarter?

Mark Chauvin – TD – Group Head and Chief Risk Officer

No.

John Aiken – Barclays – Analyst

Okay, thank you.

Tim Hockey – TD – Group Head, Canadian Banking

And just relative to the outlook for the business in the U.S., there's no question. As Mark says, we are building out our capability and our confidence in custom scorecards to be able to moderate where we are on the prime, near-prime spectrum. I'd say the industry has in our particular approach, has been to go actually a little bit more upscale, because that's where the risk-adjusted margins are right now, countered against our confidence. But as we build out the scorecard, we might react to market conditions and actually go down a little bit more, but we take that sort of a quarter at a time.

John Aiken – Barclays – Analyst

Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, John. Next question? Darko?

Darko Mihelic – RBC Capital Markets – Analyst

A couple of questions with respect to the net interest margin outlook that you provided, Colleen. You mentioned 5 basis points of compression for next quarter in Canada and a bit more in the U.S. It sounds like there's a lot happening in the U.S. I wonder if you can break it down for us because you mentioned the reasons for the compression. I'm wondering which of the reasons is causing the most amount of compression; but perhaps most importantly, what I'm interested in is, is this just the beginning of a continual decline in the margin thereafter, or do you think that it stabilizes from there on end? Thank you.

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

Well, I think it would be great if Tim and Mike could answer those questions about the Canadian and U.S. margin. Over to you.

Tim Hockey – TD – Group Head, Canadian Banking

I'm tempted to say go ahead, Mike. But I'll start. With the 5 basis points we alluded to in Canada, first of all, a bit of a backdrop. If you remember through the last few quarters, we always say there are many, many factors. They go up and they go down. We've been actually surprised through the last three quarters that we get sort of surprised on the upside. As we look forward to Q4, in particular, we think most of those positive surprises will turn against us.

So there aren't any positive factors, but they're driven by a number of things. Your first point is what's the largest driver? There is a seasonality effect. Mortgage breakage, in particular, is one that we think will be – call it a couple of basis points. There's also some Basel III impacts, the LCR that will hit us in next quarter. And generally, mix trends.

But we're doing some things ourselves. For example, in our MD&A book, we have an increased forecast for some of our promo loan or promo card offerings, which lowers the margin. So, when you look at all of those factors, they combine to have what would be an abnormal amount, so which is why we decided to call it out.

Your larger question as to whether this is a secular trend, it's still very early to figure out what 2015 is. We're at that stage. But there will continue to be pressure from a competitive point of view as well as a sustained low rate environment.

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

In terms of the U.S., I think what Colleen said was that the margin was going to be relatively stable – or was relatively this stable this quarter, but that we expect it to have a 5 to 8 decline in accretion next quarter, and then some core compression.

Let me just start by saying that if you look back over the recent quarters in the U.S., the banks we most compete with, so the money center banks and the regionals, they've seen margin compression in sort of the 5 basis point to 8 basis point per quarter range. So, this has been going on for a little while. We do expect compression again in the fourth quarter, but it's difficult to predict. And again, that's in addition to the lower accretion.

I think the core issue is loan compression, and it's particularly in the auto finance and in the corporate/commercial lending portfolios. I'd say as an additional note, consistent with what Tim said, in our case, some of that loan compression is attributable to the credit origination strategies that we take probably about a third of it.

But back to Colleen's point, there's a lot of moving parts right now. There's accretion. There's product mix. Looking forward, there's the potential impact of LCR on investment yields, which will affect margin, very difficult to – there's positives and negatives there, very difficult to see what will happen. Obviously, competition continues. So, difficult to look out very far on margin.

Tim Hockey – TD – Group Head, Canadian Banking

One last thing, Darko, I'd add is just lest you believe that five points spells doom and gloom for the fourth quarter, we actually think it's all about earnings and how to maximize that and we expect to have a fairly solid end to the year positive operating leverage.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Darko. All right. Why don't we move to the phone? So operator, if you could take the first question, please?

Operator

Our first question comes from Gabriel Dechaine at Canaccord Genuity. Please go ahead.

Gabriel Dechaine – Canaccord Genuity – Analyst

Good afternoon. Ed, I've got a question for you on your last call here. TD sub-9.5% core Tier 1 ratio that hasn't prevented you from being active on the buyback. I'm wondering if TD has a different view on capital requirements and how long you plan on buying back stock at your current capital levels.

Ed Clark – TD – Group President and CEO

You're going to have to ask Bharat how long he plans to – how much stock he plans to buy back. But I would say no. I think there is a consensus in the industry forming of the kind of capital ratios you're going to have, and I don't think we would be different from that consensus. And as I indicated in my remarks, I think what's happening is that they're finalizing the rules as they go through. And each time they finalize them, they probably make them slightly tougher than you might have thought they were going to be when they went through. And I think that's causing people some concern. But I think the reality is that the kind of ratios that we're all basically at today are the kind of ratios we're going to have to maintain.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. And then just a quick one on the NIM, Mike. Five basis points to eight basis points down from just a drop in accretion plus core NIM compressions. So there's a number on top of that. And then on credit, Mark, if maybe you can quantify or give a sense of what you mean by commercial recoveries in the U.S. are going to normalize or stabilize? Because we've had lots of recoveries over the past couple of quarters, and how that's going to change over the next few, I suppose?

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

Gabriel, it's Mike. I didn't actually hear a question, but I agreed with what you said. I'll let Mark answer and then if you want to ask me something feel free.

Ed Clark – TD – Group President and CEO

The reason why he didn't hear is he knows you can only ask one question, so that he makes a series of statements and then ask a question.

Mark Chauvin – TD – Group Head and Chief Risk Officer

On the level of recoveries in the commercial business bank in the U.S. in Q3, we had what I would call as non-recurring large recoveries. Loans that had been around for quite a while, we've been working on, and they came in at the range of US$20 million to US$25 million as a recovery or a positive to PCL. There are other recoveries of course, which I would call the normalized level, but something like those two occur again. There's nothing on the horizon that would tell me they would occur. I mean, there are no others like that.

Gabriel Dechaine – Canaccord Genuity – Analyst

So, US$20 million and US$25 million, that's the total amount this quarter?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Of what I would put into the category of unusual non-recurring.

Gabriel Dechaine – Canaccord Genuity – Analyst

Got you. And actually there was a question on NIM. It's five basis points to eight basis points down in the U.S. plus what other amount for core compression, question mark?

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

We didn't say an amount. I alluded to the fact that we've been seeing sort of five basis point to eight basis point compression in the industry and that we expect there to be some compression in the fourth quarter. I don't want to predict exactly.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. Thanks.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Gabriel, for your five-part question. Why don't we move on to the next question, operator?

Operator

Our next question comes from Steven Theriault at Bank of America Merrill Lynch. Please go ahead.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Thanks very much. I'll try and keep it to a two-part question. So just to follow up on buybacks, I think your program expired in June, so I guess the long question would be, are you intending to re-file now or will you wait to see how the CET1 develops over the next couple of quarters?

And then sort of the capital side as well, hearing you say that earnings have been better than you expected this year, I think I'm reminded of your and the board's decision not to reevaluate the dividend every other quarter. So, I guess I'm wondering given that the numbers have been stronger and I guess keeping in mind next year is the dividend that something that might be on the board agenda next quarter or is everyone still leaning towards more of an annual review, which I think it would take us to Q1 or Q2 next year?

Ed Clark – TD – Group President and CEO

I think you're going to be caught in the middle of transition here. I'm not going to talk about the future, and Bharat is going to tell you that when he's the CEO, he'll talk about the future, but I'll hand it over to Bharat.

Bharat Masrani – TD – Chief Operating Officer

We did talk about getting off the twice a year or an automatic expectation of dividend increases, but the good thing here is that our dividends are up 14% year-over-year. I think the last dividend we declared was pretty healthy. And so we'll review our dividend on an ongoing basis. It's hard for me to predict what that level would be, but let me reiterate it. Our intention is to get to the midpoint of our range and we are not there all the way yet. So, it would be reasonable to assume that our dividend growth will outpace EPS growth and timing of it will depend on how we feel about our earnings, which is the main driver of what we do with dividends.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Okay. And on the normal course issuer bid filing?

Bharat Masrani – TD – Chief Operating Officer

I think your assessment is correct. I mean we've talked about our capital deployment views. Obviously, we invest our capital firstly in our own organic growth strategies, RWA growth, et cetera. We look at if there is any potential acquisition, we certainly look at it from – is this a full capability building, is it accelerate some of the plans we might have – so we have that into consideration.

And then you talked about the uncertainty around rules now. We seem to be gravitating more towards certainty on what the exact capital rules would be. But there's still some ambiguity out there. And all of those things is what we look at. And so we are comfortable with where we are now, and we'll see where we go in the future.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Okay. Thanks very much.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Steve. Next question, please.

Operator

Our next question comes from Peter Routledge at National Bank Financial. Please go ahead.

Peter Routledge – National Bank Financial – Analyst

Just quick point of clarification first on page 25 of the presentation. The wholesale portfolio; is that loans to your clients in wholesale banking or are there other business segment clients in there?

Rudy Sankovic – TD – SVP, Investor Relations

Sorry, Peter, we're just flipping to the page.

Peter Routledge – National Bank Financial – Analyst

Yes.

Mark Chauvin – TD – Group Head and Chief Risk Officer

It's Mark Chauvin. It's non-retail, but it's not commercial. It's outstanding balances generating the wholesale bank, but it would be other type repo like – not repos but other types of exposures going in and out there. But they're all in the wholesale.

Peter Routledge – National Bank Financial – Analyst

Okay. So that's a pretty good growth rate quarter-over-quarter and year-over-year for that portfolio. Does that signal that TD – and I guess this question is for Bharat, does that signal TD's have a bit more appetite for capital markets risk generally and lending more specifically?

Bharat Masrani – TD – Chief Operating Officer

I'm sure Bob will put some more color on this. But we've said we are very happy with our framework for our wholesale bank. We want our wholesale bank to be a franchise player. We want our wholesale bank to operate within our stated risk appetite, and we'd like Bob to generate 15% to 20% return on the amount of capital we allocate. So within that framework, if there is opportunities for us to grow and increase our earnings, that would be a great outcome for the Bank.

So maybe Bob can comment on specific strategies we're employing within that overall framework.

Bob Dorrance – TD – Group Head, Wholesale Banking

I think you have to differentiate between the corporate loan book and what is in this number. The number tends to be a bit volatile, Peter, as reported here because of quarter end movements in BAs, et cetera.

Looking at our corporate loan book, we have seen a reasonably good growth both in Canada and U.S. and we continue to both try to look for the white spaces where we can add new clients as well as up-tier within syndicates, with clients on the credit side of the portfolio. I'd say that the credit corporate growth has been more in the range of 12%, 13% year-over-year.

Peter Routledge – National Bank Financial – Analyst

Bharat, if Bob could deliver 15% to 20% ROE on, say, 30% more capital allocated to that business in a relatively short period of time, would you or the board give him that capital?

Bharat Masrani – TD – Chief Operating Officer

You're asking a hypothetical question. Would it be within its risk appetite? Is it out to build a franchise business or not? So there'll be a lot of moving parts there, but if Bob can deliver that kind of return in the framework that I just outlined, we would seriously consider that.

Peter Routledge – National Bank Financial – Analyst

Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Peter. Next question, please.

Operator

Our next question comes from Robert Sedran at CIBC. Please go ahead.

Robert Sedran – CIBC World Markets – Analyst

Hi. Good afternoon. For Mike Pedersen. Mike, last quarter we talked a little bit about some of the headwinds to consumer loan growth, specifically around credit cards through Target and then also transitioning from a refi boom into just normal course originations in the mortgage business. Could you perhaps give us a bit of an update in terms of progress on both of those files and whether consumer re-leveraging in the U.S. is the catalyst we should be leaning on or this is just a market share game at this point?

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

Obviously good loan growth in the quarter up 8% with 13% in commercial and 3% in personal, and even in the quarter, good loan growth of 2.4%, and we continue to outperform competitors. We had particularly good commercial lending growth this quarter. Personal lending, a bit better than it was last quarter with some growth in almost all the categories, but it's still slow. I think the outlook might be a bit better.

So in auto finance, we had good growth this quarter and our optimization is obviously paying off, and we do expect that to continue with decent growth on mortgages. It's tough. It feels like fits and starts. The growth has improved a bit, but originations are up 15% versus last quarter, but they're down 70% versus last year, so that gives you a sense.

My sense on mortgages is that there are some positive signs emerging. You're seeing pending home sales up. Applications are up. The percentage of people who say they want to purchase a home is up.

And if you look at the estimates from Fannie and Freddie and the Mortgage Bankers Association, they're up quite strongly. Sort of 13% to 25% for purchase volumes, but they're quite pessimistic on refis. That should play fairly well for TD given our origination strategies and our footprint where there isn't a lot of refi upside. We're 75/25 purchase refi right now.

And the other portfolio that I think is improving in terms of growth is HELOCs. You've seen a bit of growth the last couple of quarters and I think that should continue. We are underpenetrated there and should be able to do more and you do have this phenomenon in the United States of stay in your home and renovate rather than move. So I'm cautious still because as I said it seems like fits and starts and lots of uncertainty, but it's feeling better than it did a quarter ago and I'm more positive looking out now than I was then.

Robert Sedran – CIBC World Markets – Analyst

And do you think that the Christmas issues with Target has pretty much worked through the system now and growth is what it is, or is there still some lingering impact from that?

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

I think there's – I think we're mostly through that. The portfolio was kind of flat this quarter, but the sales and utilization is looking pretty good. So, I think we're mostly through that.

Robert Sedran – CIBC World Markets – Analyst

Thank you, and thanks to Ed as well. Good luck, Ed.

Ed Clark – TD – Group President and CEO

Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Rob. The next question, please.

Operator

Our next question comes from Mario Mendonca at TD Securities. Please go ahead.

Mario Mendonca – TD Securities – Analyst

Good afternoon. Ed, congratulations on a great career.

If I could just ask one quick follow-up question first for Colleen. The earnings accretion or the yield accretion, just refresh my memory on the accounting. Would there be any offset, beneficial offset, if yield accretion declines? And my gut feeling is there should be, but I'm not really sure.

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

Yeah, there can be, Mario. Sorry...

Mario Mendonca – TD Securities – Analyst

What...

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

Sorry, I'm getting some feedback here on my mic.

Mario Mendonca – TD Securities – Analyst

I'm holding my receiver, so I don't think it's my end.

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

Okay. Maybe we're getting some interference from the other mics.

Ed Clark – TD – Group President and CEO

She means from me.

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

There can be, and that is often what happens is that – they don't necessarily go totally insane but you can have positive on the NII front and a similar positive – sorry, you can have then, a negative on the PCL side. So, as I say, they don't necessarily go exactly together, but right – for this quarter, the accretion was relatively neutral versus the prior quarter. But I think the point we're making is that our projections at the moment would suggest that we'd have about five basis points to eight basis points of decline as we head into Q4. But again, it's always difficult to forecast. Yeah.

Mario Mendonca – TD Securities – Analyst

And can we assume that some of that will be offset by lower credit losses?

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

Potentially.

Mario Mendonca – TD Securities – Analyst

That is the potential offset?

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

Potentially.

Mario Mendonca – TD Securities – Analyst

Okay. And then on the LCR, I'm really surprised that the liquidity coverage ratio would come up as a headwind for on the TD call, given the Bank's deposit franchise. I would have figured that would have come up on virtually every other call besides TD. So what will be helpful to understand is, when you talk about that headwind on NII or the margin, what are you referring to having to sell certain higher yielding securities and replace them with lower yielding, very liquid securities? Is that the message?

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

So I'll start. I think I'm the one that mentioned it. I was talking about the margin outlook and I said that it's one of the factors that will affect margins going forward because it'll affect yields and investments, particularly liquid investments. I wasn't making any comment with respect to our liquidity. I'll turn it over to Riaz.

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

I think, Mario, Tim mentioned it in the Canadian context as well. And I think what you have to do is just go back to what Ed talked about earlier that as you look at the guidance that was issued by us in May 2014 and then you interpret that, you end up having to hold higher quality liquid assets than what the framework would have suggested. But at the same time, the subsequent planning considerations out of that, I don't think it's unreasonable to expect that in some respects, the business model will change.

And for some classes of deposits, you might expect to see a substantive market repricing that occurs for those deposits. So the rules are complicated and they're subject to interpretation. And as we're working our way through them to go towards January 2015 compliance, they do have an impact. And we do need to get to compliance by that date. So you've seen us do a fair bit of prefunding this year as well.

Mario Mendonca – TD Securities – Analyst

Just a little bit surprised that it would come up on the TD call and I would figure probably belongs on other calls. And just one really quick funfair question, if you don't mind then. Sitting here something came across Bloomberg, where Finance Minister Oliver is announcing that he's going to make some consumer friendly announcements in the Toronto area next week. And do you think that that relates to interchange? And do you have any comments on interchange?

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

Mario, it's Riaz. I haven't seen that Bloomberg announcement. Maybe it's just come across now. I don't know what that would be about. My comments on interchange, so you will be tired by now from hearing all the other calls and everybody else's responses on it because this has been on the government's agenda, and consultations are ongoing. There are a lot of stakeholders and a lot of complex issues to deal with. I have no idea what the outcome will be and where it will lead to. So, unfortunately, I don't have anything to add on that front for you.

Mario Mendonca – TD Securities – Analyst

Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Mario. Next question, please.

Operator

Our next question comes from Doug Young at Desjardins Capital Market. Please go ahead.

Doug Young – Desjardins Securities – Analyst

Hi. Good afternoon. The risk weighted assets, Colleen, you mentioned that there was an increase, and it kind of looked a little bit at it and it looks more driven by credit risk and specifically on corporate. Just wondering if there's any details you could provide, and as well, were there any model refinements in the quarter? And as you look to your portfolio, are you anticipating any model refinements on your RWA calculation? Thanks.

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

So, our growth on a quarter-over-quarter basis was largely volume-driven across our businesses with some small offsets on foreign exchange and also some small offsets related to the mechanics of the way this minority interest adjustment was made. At the moment, no, we don't have any – we didn't have any model-related changes, and I'll hand it over to Mark in terms of anticipated changes, but I don't think so.

Mark Chauvin – TD – Group Head and Chief Risk Officer

Yeah. Table 27 of the MD&A gives detail. And actually due to the model changes, I mean, we are looking at our models ongoing. You have to refresh them annually. It's a continuous process under AIRB. And during the quarter, the net change was a slight reduction in RWA. Again, if I look forward, they are ongoing. I don't see anything that would – there's always a slight change of some sort as you have more data and you run your thing, but in an improving economy like we're having in portfolios, the net impact for us tends to be that they get a little lower not higher.

The only thing I would put as a separate discussion item would be, we are in the process of applying for AIRB status on the U.S. assets. And for AMA, operational risk capital across the enterprise, but this outcome is – could be next year but it's uncertain. I really can't predict when it would be. But in terms of any capital impact, we look at it. It's hard to determine what the impact is because it would be the basis of the approval. But it's in our capital planning and to me, it's all within manageable levels and it's something that we're aware of.

Doug Young – Desjardins Securities – Analyst

And just if I can sneak a second one, on the loss from the Alberta storms in July and August, has some of that filtered through your insurance results this quarter, or are you anticipating or do you have an idea of what those losses could be in the fourth quarter related to those events in Alberta? Thanks.

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

Doug, it's Riaz. As you know July and August does tend to be peak season for weather events, but I think that for us it splits over Q3 and Q4. So our Q3 results do indicate – do already include effects of the four events that we went through in July and the impact on us was relatively muted. And I think if the August – we had two events, the Burlington rain and then the Alberta hail as well, and we have made estimates in relation to those losses. And I can tell you that if nothing happens between now and October, our results will look very consistent with what we just reported for Q3.

Doug Young – Desjardins Securities – Analyst

Okay. Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Doug. Next question, please?

Operator

Our next question comes from Derek De Vries at UBS. Please go ahead.

Derek De Vries – UBS Securities – Analyst

Yeah. Thanks. Just one question, a lot has been covered, but some clarification on your business outlook. In the U.S., I think you called for modest earnings growth 2014 on 2013. Apologies, I'm kind of new to this, but I'm assuming that's U.S. dollar and its adjusted net income. So just clarification on that.

And then modest, I mean, you're looking 7% up through the first nine months. When I think modest, I kind of think 2% to 3% that would imply pretty significantly down on Q4 last year. Is that the intention of that guidance?

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

So yes, we mean adjusted net income. And yes, we mean in U.S. dollars and I do think that in Q4 we expect a bit of downside. We got the margin pressures that I alluded to before. We've got – I don't think we'll have the PCL tailwind that we had this quarter as Mark has alluded to. And as Colleen said, we will have some additional expenses in the U.S. in the fourth quarter. We've got some severance expenses. We've got some project expenses, some regulatory timing costs and so on. So, we don't expect Q4 to be as good as Q3.

Derek De Vries – UBS Securities – Analyst

Understood. But it sounds like it's going to be significantly worse than Q4 last year, which was already significantly worse than Q3. Is that correct?

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

I'm sorry. I don't remember what Q4 was last year. But it's going to be down from Q3 this year.

Derek De Vries – UBS Securities – Analyst

Okay.

Rudy Sankovic – TD – SVP, Investor Relations

Okay. Thanks, Derek. Next question, please.

Operator

Our next question comes from Meny Grauman at Cormark Securities. Please go ahead.

Meny Grauman – Cormark Securities – Analyst

Hi. Good afternoon. Just a question on Ontario auto insurance, it was a headline topic about a year ago. Just wondering what – if there are any developments on that front and in terms of the earnings outlook for the auto insurance business in Ontario specifically.

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

Meny, I don't have anything specific on that front to report to you other than to say that Bill 171, which fell at the time that the election was called, has been reintroduced as Bill 15, and it has not yet been sent to committee. But it contains some important improvements on the cost side including the licensing of clinics and dealing with arbitration tribunals, et cetera. So we're very encouraged with the reintroduction of Bill 15 and hope that it will be made law soon.

But when you look at other jurisdictions across Canada, it is obvious that there is more that can be done in Ontario to support the premiums that the government wishes to deliver for the drivers in Ontario. But we've been quite happy with the developments to-date and are making good progress in improving our sales and underwriting capabilities in our customer experience side, on the sales and service side, and feel that – as I said earlier, I'm quite pleased with this year on that front.

Meny Grauman – Cormark Securities – Analyst

Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Meny. Can we have the next question, please, operator?

Operator

Our next question comes from Sumit Malhotra at Scotia Capital. Please go ahead.

Sumit Malhotra – Scotiabank – Analyst

Thanks. Good afternoon. My questions are for Tim Hockey. Just looking at the expense line in specifically the Canadian bank, compared to the shorter quarter, it's pretty rare to see the expense line actually decline when we go into Q3. And I wanted to check with you here as to whether there's any specific items this quarter that lower the expenses. I know you're going to have the normal increase in Q4, but obviously you've kind of returned to that 3% to 4% operating leverage in the last couple of quarters. So, I wanted to get your outlook there on the leverage line and whether that's the key initiative you're looking at to offset the margin compression.

Tim Hockey – TD – Group Head, Canadian Banking

So short answer is no extraordinary items in the quarter, but also expanded operating levers this quarter that we would expect to narrow and normalize next quarter.

Sumit Malhotra – Scotiabank – Analyst

And I know that the Aeroplan obviously added to the revenue. So then, is it fair to say there wasn't too much that was added to expense infrastructure in this segment as a result of bringing that portfolio over?

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

Yeah. That would be fair to say. I mean, look, we added a fair bit of expense to get through the convergence spikes and to make sure that the customer experience would be stable. And the same applies in relation to the MBNA integration that we hope to complete in Q4. So, expenses in the card business are somewhat elevated this year. And as the integrations and conversions stabilize, we'll look for opportunities to take them out.

Sumit Malhotra – Scotiabank – Analyst

Last thing, just to make sure I understand the NIM and this segment correctly. I think we understand that usually it's a seasonally higher level of prepayment fees that benefit NIM in Q3, so that falling off in Q4 isn't unusual. But some of the other factors you talked about, are those expected to reverse when you start 2015 or does that 5 basis point or so decline in Q4 set the new base off of which you expect to fluctuate in 2015?

Tim Hockey – TD – Group Head, Canadian Banking

Yeah. As I said, everybody tends to look at NIMs on a linked quarter as opposed to year-over-year. I think that's appropriate. So, we always think of it as the new base, and then we look at each individual factor and say of all of them which ways are they likely to go. So, I would say that's the new starting point, and we'll bump around from there, and our planning process as I said is under way to figure out what sort of effects they will have.

Sumit Malhotra – Scotiabank – Analyst

Thanks for your time.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Sumit. Operator, I think we have time for one last question. We're just bumping up against 4:00. So, why don't we have one last one, please?

Operator

And our last question comes from Sohrab Movahedi at BMO Capital Markets. Please go ahead.

Sohrab Movahedi – BMO Capital Markets – Analyst

Sorry to ask this question as the last one. But as Ed and Bharat, as you think about the uncertainties that you've highlighted, economic, political, regulatory, you talked about the tough operating environment, how do you decide what's the right level of reinvestment in the business?

Bharat Masrani – TD – Chief Operating Officer

Actually – this is Bharat. In our case actually, we've been pretty disciplined in investing for the future. In my comments I said, yes, there is pressure over the short term, but we don't think we should sacrifice our long-term growth in order to achieve short-term results. So, for example, in the U.S., we continue to open new stores. For all of our North American businesses, we continue to make significant investments in digital capabilities and online capabilities.

And this, we feel, is important for our franchise, so that should not slow down. At least, that's our view that this is important as we build out a lot of our platforms in our franchises. And obviously, there's pressure. Certain priorities have to be put in place. But our view is that we're not going to stop investing for the future.

Sohrab Movahedi – BMO Capital Markets – Analyst

So, Bharat, it's safe to say that investing for the future is a high priority than capital return?

Bharat Masrani – TD – Chief Operating Officer

Of course, building long-term, sustainable growth engine to us is far more important than meeting short-term expectations. I mean, that is important when I talked about the capital deployment framework that we used. Investing in our business is our top filter before we start thinking of anything else.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. Thank you very much.

Rudy Sankovic – TD – SVP, Investor Relations

Okay. Thank you, Sohrab. So, I think – I'm sorry, Darko, question in the room. Sorry.

Darko Mihelic – RBC Capital Markets – Analyst

Yeah. Thank you. Actually, I don't even want to ask a question. I just didn't want the call to end without me at least expressing some gratitude to Ed Clark. If I look back over the many years that I've covered the stock, you've answered all of our tough questions. You haven't ducked any of them and you've answered all of our stupid questions with class for which I thank you very much, and I don't know that I could speak for everybody but I do think we're going to miss you, and best of luck in retirement. Thanks.

Rudy Sankovic – TD – SVP, Investor Relations

Okay. So, thanks. With that, Ed, over to you.

Ed Clark – TD – Group President and CEO

Thank you. As I said at the start, it's been great journey for me. Obviously, it's great that we ended up on a high note. It wasn't destined to be that way, but it turned out to be that way. But I guess as I think back 23 years ago, when I joined Canada Trust or 15 years ago when Charlie announced with me that TD was buying us, they're really high as that opportunity to work with fantastic set of people throughout the company to try to build a customer- and employee-focused company in both Canada and the United States. And so, again, thank you all for making that possible.

Rudy Sankovic – TD – SVP, Investor Relations

So with that, we will conclude the meeting. And so thank you, everyone. We'll see you next quarter. Thank you.