TD BANK GROUP

BARCLAYS GLOBAL FINANCIAL SERVICES CONFERENCE

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PARTICIPANTS

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

John Aiken
Barclays Capital – Analyst

FIRESIDE CHAT

John Aiken – Barclays Capital – Analyst

So, good morning, everyone. The final session for me this morning, TD Bank. We have Colleen Johnston, Chief Financial Officer, here who has been in the operations now for quite a long time and experienced. And I'm always delightful to chat with you.

Colleen, before we dive into all of this, I think that one of the bigger questions with the group in general is, just essentially with the Canadian economy, with the macro environment, essentially where is growth coming from. Can you expand upon that in terms of at least where TD sits?

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

Well, let me start off by saying, great to be here, always great to be in New York City. I think as many of you would know, we have a big operation here in New York City. In fact, we have about 130 stores in this market. And we're number three today in deposit share in New York City. And we had some fun last night. My colleague and I dropped into our new concept branch at 86th & Lex, 1,300 square feet, Smart ATMs, really, really modern technology-enabled. So, that was really a lot of fun for us. I know we want to talk about retail distribution, but it's – we always find a lot of fun to be here and see our great success.

So, to start with your question, maybe I'll step back a little bit. If you look at 2015 and you look at analysts' expectations, in fact, for the year…

John Aiken – Barclays Capital – Analyst

We're trying to bring that up.

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

Why not? The market thinks we'll grow EPS by about 7% this year, which I think is probably not that far off. And so, it's amazing when you look and, obviously, there's lots of concerns about the Canadian economy and lots of the macro issues. But it always reinforces to me, right, I've been doing this for a while, I'm just coming up to 10 years as CFO of TD. And I'm always so impressed by the resilience of the Canadian banking model and just all the sources of strengths. I really am.

If you look at that performance this year, our Canadian retail business is – and that's really about two-thirds of the Bank, is having a great year. We're seeing that across our personal and commercial bank. Obviously, insurance is having a good year as well. The U.S. is growing quite well. We started the year expecting modest growth in U.S. dollars. And year-to-date, we're up about 5% and we're seeing some good trends in a tough revenue environment, but some good results on the productivity side as well. And our wholesale business is growing.

What I like to see when I look at our model is the fundamentals are strong right across the board. We're seeing good growth on a lending side and the deposit side in all of our major markets. Margins are under some pressure in this environment, given low interest rates. We're working hard on improving productivity, and I know we want to talk about that as well. And again, those have been great sources of strength for us. We're always looking to grow organically, as you look – you look at TD, we've quadrupled the size of the Bank and the bottom line over the last 10 years. And part of that has been, obviously, good organic growth taking share, but also looking at some of our underrepresented businesses.

In most areas, we are number one or number-two market share, but there have been businesses where we've had a lot of growth potential. I look at wealth management being one of those in Canada. Business banking is one where we've gone from number five to number-two share over the last number of years. So, those have been sources of outsized growth for us, but continue to grow and increase our lead in our other products. So, I feel good on the fundamentals.

John Aiken – Barclays Capital – Analyst

Fantastic. What sets TD apart from the peer group is, like the platform that you've established on retail banking within the U.S. Can you talk about the trends that you've been seeing? I know you touched upon the 5% growth. Can you talk about a little bit more on a granular level? What you're seeing on the lending side and what the outlook is for margins? And then, I guess, the follow on to that is the efficiency, the cost-reduction programs that you've put in place post the restructuring charge?

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

I really like our U.S. model, needless to say, we've been in the U.S. now. We are TD Bank, America's Most Convenient Bank. We've been in the U.S. for about 10 years. We started back in 2005, as you know, with the 51% acquisition of Banknorth, and privatized that, made a number of acquisitions and then added Commerce back in 2008. We closed on that acquisition. That took us into these great big markets in the Northeast. We always targeted the Northeast. But this took us – this really upped our game. And what I loved about the Commerce acquisition is there was so much affinity between our philosophy in Canada around being the leaders in service and convenience, and that same philosophy in the U.S. And that has served us really well in our business.

So, where are we today? We're top-10 domestic bank in the United States and we've got a lot of embedded value and growth in our model. We have about 1,300 stores in fantastic markets. We are gaining market share. You'd see our rates of growth in the U.S. Our lending growth, in particular, is about double that of the peer group and we're doing that in a very safe fashion. So, we still have a lot of embedded value. We still have a lot of young stores in the United States and we're expanding there, but also picking up additional market share because our business model is so appealing.

Certainly, an opportunity for us and we've heard from Mike Pedersen on this, is on the productivity side, and he was really first out of the gate as part of restructuring efforts around looking at all aspects of his operations to bring down our cost of doing business and you've actually seen declines in expenses on a year-over-year basis in the last couple of quarters. So, I think he's done some very good work there in the U.S. And of course, we'll see what comes this afternoon with the Fed, but we do have a fair amount of upside to rising interest rates. A lot of that is the structure of our balance sheet and the fact that we have a higher proportion of core saving and checking balances, and a lot of that is really just the attraction of our model. We attract more primary customers because of our service and convenience and we retain them for the same reasons.

In this kind of rate environment, those margins are compressed. But as rates rise – we're not banking on it per se, as we look even at our 2016 planning process. We're not assuming rates will rise and that helps us keep pressure on the cost side as well. But we certainly have some upside to rising rates. So, overall, I feel very, very good with how we're positioned, the quality of our franchise and the embedded growth and how it's being managed.

John Aiken – Barclays Capital – Analyst

And what's the outlook on the U.S., the split between the consumer and the commercial lending side? And how are you seeing competition shape up in those markets?

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

If you look over the last couple of years, certainly, the commercial growth has outpaced the consumer side. But we still have lots of potential on both. We like to stick to our knitting. We don't like to go out the risk curve. When it comes to the lending side, there's lots of things that we can do, again, within footprint, within our risk appetite, and we're seeing very good growth here. Again, as I mentioned, it's really the maturity aspect of our operations and our ability to penetrate within our existing footprint. So, we feel good about that. But again, the commercial side has shown very strong growth.

John Aiken – Barclays Capital – Analyst

Fantastic. Can we – before I throw it out to the audience, can we have the first polling question up, please? So, there's an audience participation part to this. First question, what do you value most in TD's operations; one is domestic retail; two is U.S. Retail bank exposure; three, Wealth Management, including TD Ameritrade; four, relatively low capital markets exposure; or five, significant liquidity in both its retail operations?

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

All of the above.

John Aiken – Barclays Capital – Analyst

Too hard to choose one. The domestic operations, but also the low capital markets. Well, I mean, we've touched on the U.S.

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

On the U.S. Am I reading that the right way? No?

John Aiken – Barclays Capital – Analyst

Relatively low capital markets exposures. So, we've got U.S. Retail bank exposure, 29%, domestic at 26%, but the relatively low capital markets exposure 23%. I mean we've touched on the U.S. Retail banking, I'm sure we're going to be talking about domestic retail. But can you talk about capital markets and what TD's philosophy is and how – even with the lower exposure, how it becomes part and parcel of the operations?

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

If you go back about a decade or so ago, this was at the time TD had acquired Canada Trust. And the Bank really was – the business model was changed fairly dramatically back and this really started in 2002. And at that time, our CEO, Ed Clark, pledged that we would have retail mix 80%-20%; 80% retail and 20% wholesale, and that's what made sense for TD. If you looked at our earnings mix today, and this has been true over the last number of years, it's been more like 90%-10%. And I think what is shifting a little bit, and it isn't a 180 swing here, but we view wholesale as part of the Bank that can certainly grow. We want to make sure that we're taking the right amount of risk and we want to make sure that we're getting good returns. But it can be a consistent source of growth for us in the Bank.

We are seeing, and I think we can do more lending on both the Canadian and the U.S. side. We can certainly optimize and leverage our U.S. Retail platform. There is a lot that we can do when you look at sort of the mid-market, commercial or junior corporates. And that partnership between TD Securities and our U.S. Retail bank is strong and getting stronger. We're also doing a lot of work out of our New York operation. You would have heard recently from our head of that New York operation, Glenn Gibson, talking about our appetite on the credit side, on the corporate debt capital market side and really expanding that business in ways that makes sense in terms of leveraging what we do in Canada as well. So, I think there's lots that we can do on the wholesale side and I'm pretty optimistic about that business, or within our risk appetite, I would want to reinforce that point.

John Aiken – Barclays Capital – Analyst

Great. Do we have any questions in the audience?

Well, I guess, Colleen, you touched upon it and opened up the window about the Fed rate decision this afternoon. What's TD's outlook for margins in the U.S. and then also within the domestic retail banking franchise?

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

So, if rates stay where they are, like first of all let's start with Canada and then we'll go to the U.S.

John Aiken – Barclays Capital – Analyst

Yeah.

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

We've had two Bank of Canada rate reductions this year and the impact of those has been relatively neutral. My own viewpoint would be that we probably won't have another rate reduction in Canada, but I don't think we'll see rates rise. I don't think Bank of Canada will increase rates probably until 2017. That would be our base case. The U.S., I think, is a little bit different. Whether it happens today or whether it happens sometime in the next year, we think, the Fed will start to have a steady program of rate increases.

About 2.5 years ago, we talked to – the market was anxious to understand the upside that TD had to rising rates. And what we disclosed at that time is that a 25% – or sorry, 25 basis point increase in rates across the curve, now this is in both Canada and the U.S., would add about $300 million to net interest income. So, if you look at just purely the U.S. component of that, you would be looking at about 40% of that number.

And partly, it depends, obviously, on the – the rate of increase is just a short end, which clearly it will be and then obviously you have to then think about how much of that goes to the customer and how much of it is kept by the Bank, if you will.

Those are all factors that will come into play. But needless to say an increase in rates is a positive to our margins and positive to net interest income. Failing rate increases, we'll continue to see pressure on margins in both Canada and the U.S. and we've been sort of fairly explicit on that. You raised the U.S. margin earlier. There are always and there is a lot of focus on our U.S. margin, but there are some vagaries in that margin. And I won't trot them all out, you're well aware of them. But a loan mix, there are some accounting aspects that will affect the margin, but we have seen probably a greater drop in that margin than maybe the market was expecting to see. What would I emphasize, though, is part of it can be mix, where you're adding your higher rates of growth in lower-margin products. So, there is still positive to the bottom line and to net interest income, but they can have an effect on the margin. So, I think it's important to focus on margin, but to focus on all the aspects of what's driving the bottom line and where we're getting our returns as well.

John Aiken – Barclays Capital – Analyst

Absolutely. Part of the liquidity that TD enjoys is the sweep accounts in the TD Ameritrade.

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

Yeah.

John Aiken – Barclays Capital – Analyst

Can you talk about strategically what TD Ameritrade, how that helps, I guess, build your franchise within the U.S. and how you see that evolving over time?

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

To start generally with TD Ameritrade, I think as folks know, we own about 40% of TD Ameritrade. And we really, really like that business, a fantastic play on the mass affluent market in the U.S. And I think increasingly, there are opportunities for synergies between our two organizations. So, that's a positive. Years ago when we acquired that share, we sort of said, look, we're the bank and they're the broker, and let's have each of us do what we do best. So, I think the way we structured the balance sheet and the way we're managing the sweeps makes perfect sense for both parties on managing the related capital.

You have to then look at our balance sheet. So, exclude the sweep deposits for a moment, we still have lots of ability, we still have funding available and it's still one of our big opportunities to increase our lending business. And we have the funding to do that and to optimize our balance sheet. I mean, the reality is, though, our deposits have continued to grow at a good rate in the U.S. So, this is where we have good underlying growth, but then we have looked at some asset acquisitions, whether it be in the auto finance side or the credit card side, so more on the consumer finance side that can be additive to our business in the U.S. So, I think that gives us a great opportunity to continue to grow the bottom line.

John Aiken – Barclays Capital – Analyst

Fantastic. Do we have any? We've got a question.

Unidentified Audience Participant

Thanks. One of your peers has spent a lot of time talking about a potential to be designated as G-SIFI. And their balance sheet is sociably close to yours and the market cap is similar as well. I respect there are big differences in business mix. But if this peer is deemed to G-SIFI, do you think there'd be any impact on your required capital, either directly or indirectly through what the regulator in Canada may want from large banks as far as capital?

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

There are a set of rules and there is some measurement around whether or not you're designated G-SIB or not. We are not close to the line on that at the moment, notwithstanding the fact that the balance sheet size is relatively similar to between ourselves and Royal. But I think you've hit the nail on the head as the business activities are different. So, there is a whole set of criteria that are established to look at whether or not you're qualifying as a G-SIB. So, we're not close to that line at the moment. We'll see what evolves. One might argue that our capital levels today for Canadian banks are really at G-SIB levels anyway. So, we'll see. I mean, I think in a small banking system like Canada it would be tricky to have a single bank designated as a G-SIB and not others. But having said that, as I say, there are a set of requirements around this. So, we'll see what evolves, but at the moment we're not close to the line.

Unidentified Audience Participant

In the U.S. residential mortgage, are you selling conforming loans to third-parties or are you holding them on your balance sheet, like you do in Canada?

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

We're largely holding them on our balance sheet. We've done some mortgage sales, but we're largely holding them on our balance sheet.

Unidentified Audience Participant

Okay. Thank you.

Unidentified Audience Participant

I believe Canada is officially in a recession judging some of the GDP numbers we've seen the last couple of quarters in a row. How is that hurting the national psyche? And is it – do you believe it will have an impact on the quality of your loan portfolios?

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

You're right. In Canada, we have had now two consecutive quarters of contraction in the Canadian economy. But we have this great phrase, which everyone's bought into, which is that we're in a technical recession. I don't know if you know the exact definition of a technical recession, John, but I like it.

John Aiken – Barclays Capital – Analyst

Yeah.

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

But not to be facetious. First of all, what you are seeing is a rebound in growth in June, that's one month. But I think there is – most economists would suggest that we are going to see decent growth in the Canadian economy in the second half of the year and probably for the full year post modest growth. So, if you look at the factors, interest rates are low, employment is good, consumer spending is pretty reasonable. It doesn't feel – when you talk about the psyche or the attitude, it doesn't feel – now I live in Toronto and I can assure you that nothing feels further from a recession in cities like Toronto and some other big Canadian cities.

But I don't really think that's been part of the vibe in Canada right now. I'd say, clearly, in Western Canada, the feeling would be different and, in particular, in Alberta and cities like Calgary, where you are seeing job losses, we are seeing pretty dramatic changes in the level of CapEx spend. So, there are regional differences in the vibe in the country. But right now, I think Canadians are generally feeling relatively positive about the economy. We're going through a Federal election right now. So, there is a lot of rhetoric going both ways in terms of stewardship of the economy and all that sort of thing. But as I say, I think you'll see growth levels pickup in the back half of the year.

John Aiken – Barclays Capital – Analyst

Colleen, just to step on that, have you see any uptick on consumer delinquencies over the last little while?

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

No, we haven't. It's really been quite remarkable, in particular, when you think about Western Canada. And now, again, our exposure is relatively small. Oil and gas, generally, as you know, we have relatively low exposure, less than 1% of total loans to the oil producers and servicers. But even on the consumer side, our exposures are low. And a lot of the exposure is in the real estate secured lending side and about 64% of that is insured through the Canada Mortgage and Housing Corporation. So, we are well positioned and we are not seeing any cracks in terms of delinquencies at this point. But obviously, we stress test this a million ways to Sunday and looking at different views around where oil is, how long it stays there, where it gets to over what period. And as our Chief Risk Officer, Mark Chauvin, talked about at our Q3 call, there are scenarios where if you looked at, let's say, $30 oil and, well, you had that relatively sustained low oil for a multiple years, we would be looking at a scenario of four years going from, let's say, $30 to $45.

We'd been looking at an increase in credit losses of 5% to 10% on an annual basis. So, if you do the math even at the 10% and there – it'd be about a 1% impact on EPS. So we're, needless to say, monitoring all of this very, very closely. As Mark would say, Mark Chauvin was saying earlier this week, when you look at the confidence on the commercial side, he said, he's been studying and monitoring and managing these accounts for 20 years now. And the good news, it's not to say you can't have losses, especially if low – if you've low oil prices for a long period of time, but what we've been very confident in is our ability to predict those losses based on our knowledge of the client and our knowledge of the market. So, we feel very good with where we are right now. But clearly, losses will rise, as I say, if prices remain where they are for a sustained period of time.

John Aiken – Barclays Capital – Analyst

Fantastic.

Unidentified Audience Participant

I don't mean for this to be taken as an implied question, but you've got two interesting things going on. One is the lurch to the left in Canadian politics, especially Alberta, and that may extend nationally. And the other is really sort of supernormal profits that TD generates domestically with 40%-plus returns on capital in Canada. And I just wonder the extent to which there might be political risk to your business model.

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

I think, and I'll speak for TD obviously, when it comes to political risk, we are conscious of political risk, but – so what do you have to make sure that you're doing. Obviously, the focus is on consumer protection, making sure that consumers are well treated in terms of pricing and disclosures. And I think, we're in very good shape. You've a good value proposition for your customers. What do politicians worry about? They worry about access to affordable deposit accounts for Canadians, and that base is certainly covered off.

I think the Canadians have choice. Are they getting good value? Yes, they are. And in fact, I'd say, in Canada, Canadians are quite proud of the soundness of the Canadian banking system, how well the Canadian banking system has performed during the crisis and after the crisis. And I think in many respects that was a great source of strength to the Canadian economy versus the rest of the global economy. So, I'm not just saying there isn't any political risk, but I think we look at all of the aspects of what's important to Canadians and important on a political front, and we make sure that we're managing those very well.

Unidentified Audience Participant

I'm not disputing your claim of good value to the consumer. I just wonder if it might be, perhaps, better value so that you don't need to earn 40% domestic returns, it could be 30%, is a question. I don't know.

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

Yeah. I think a lot of what you see in Canada is somewhat structural. You look at our base of business. We have a significant portion of our lending is real estate secured lending, which does not attract a lot of capital, in particular the insured portion. So, that's definitely a contributor when you look at the return levels. And again – so I think in Canada, we have a smaller banking market, a disciplined oligopoly, which I think is an important part of the profitability in Canada. I think we're in good shape.

John Aiken – Barclays Capital – Analyst

Actually, before we take that question, can we do the next polling question, please? How do you think the Canadian bank evaluations would perform against the U.S. peers over the next 12 months; significantly outperform; modestly outperform; in line; modestly underperform; or significantly underperform?

More skewed to the right, but that's actually little surprising. Anyhow, so, I'm not going make you comment on that. The question at the back, please.

Unidentified Audience Participant

Could you just please comment on what have been the factors inhibiting closer cooperation between TD Bank and Ameritrade? What's changed? And how far do you think the cooperation could go?

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

I think there has been good cooperation between the two organizations and there has been an alignment of priorities. I think we're making reasonable progress. It's probably taken us a little longer than we thought. But if you look at our Wealth operation in the U.S., we refer accounts up to a certain level to TD Ameritrade. There are certain cases as well where we've co-located some of our operations. So, I think we've made some decent progress and we can continue to do that. I think there is a good alignment of interests between TD Ameritrade and TD Bank and there's some good core relationships that have existed for many years. So, I think that can continue. I talked earlier about the mutual benefits of the way we manage the operations, manage the balance sheet and capital and all of that as well. And I think, as I say, that's been a win-win.

Unidentified Audience Participant

But it sounded like there was going to be a step change in terms of the level of cooperation. Can you just elaborate on that?

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

I think the cooperation is good and will continue to improve. So, I wouldn't say it's a step level.

Unidentified Audience Participant

Can you talk about any recent discussions you've had with the credit rating agencies and what they are liking about your business and your business model and your profit and your prospects, as well as what they're not liking presently? And is there any risk of downgrades in the next 12 months or so?

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

We obviously deal with all the credit rating agencies. They like our model. What do they look at? They look at – they like – well, obviously, we have a large retail proportion in terms of earnings, the stability, predictability of those earnings. They obviously look very carefully at credit and the types of business that you're in, how well managed the credit is. So, I think in terms of TD's balance sheet and liquidity, how we're managing capital, all of those things are positive. So, all – those discussions are quite constructive.

John Aiken – Barclays Capital – Analyst

Colleen, within banking, there is a lot of discussion about digital and mobile and what impact that's having. How is TD positioning itself? What type of impact is it having on your branch networks? Is there any difference, Canada, U.S.? And is this something that is going to impact the bottom line or is this just a table stakes to make sure that you keep the customer?

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

Well, let me go back a little bit in time and give you sort of the evolution. I often find, when I talk to investors, there's a feeling these days like the whole digital revolution has come out of the clear blue and that banks haven't been thinking about all of the aspects, the evolution of retail distribution. And that really is not the case. So, let me go back about six years or seven years ago at TD, what we'll call our direct channel operation, so anything that happens outside of a branch. So, we decided at that time to really consolidate all of our direct channel operations, and that would be things like our ATM. ATMs have been around for 40 year, right? They're old technology, although being revamped in many respects. Our call centers, all of our online and emerging digital. Obviously, if you got back, we weren't talking mobile banking back six years or seven years ago. But what we did is we said, look, we want to bring all of this together under a single leader and what we want to make sure that we can do is optimize those operations.

There are areas where we can actually improve our productivity and reduce our costs and make room for investments in innovation. If you go back to that time, like the innovation was not a word that we used actively at TD. Today, we talk a lot about innovation. So, taking that envelope of costs and making sure, as I say, that we could afford those investments in digital and mobile. So, what's started to happen is obviously patterns, especially on the transaction side, have changed. And in recent history, what you've seen is a shift largely between online and digital and mobile, not as dramatically out of the branch shifts. While our branch volumes on the transaction side are coming down, they're coming down slowly. But what I would reinforce, and this is a really important point, is that the clear majority of our sales activity happens in a branch and it happens person-to-person. So, 80% to 85% of our sales activity, as I say, happens in branch.

The name of the game is making sure, obviously, as consumer behavior has shifted to more to self-service on the transaction side, that's meant that, to a certain extent, we can either slightly reduce our branch footprint, which we've done on a net basis in Canada and the U.S., but also that we can reduce our staffing in branches as volumes decline and, to a certain extent, have increased staffing levels in other areas on the direct channels side. So, all of that to say, if I look at our cost of retail distribution, they have only increased modestly over the last three years to four years. So, I think there's sometimes a feeling that, gosh, all those costs are skyrocketing because of digital and mobile. No, the costs have actually been managed within a pretty tight envelope over that period, but recognizing the change in consumer behavior and recognizing how you can optimize again the face-to-face advisory and sales side and get more oomph out of that as consumers move to the digital and mobile channels.

I feel pretty confident that we're well positioned. At the end of the day, there are some upstarts in this business, but you just can't beat the privacy, the safety, the security of the banks. You can never be complacent on that front. But if you can deliver all of that and the relationships and all of the modern consumer enhancements and all the agility that people are looking for, then I think the banks can continue to thrive when it comes to the evolution of retail distribution.

John Aiken – Barclays Capital – Analyst

Fantastic. Can we go with the third and final polling question, please? How do you view TD's strategy of pursuing portfolios of assets to utilize its excess liquidity; one, negatively, it's not creating value; two, neutral; three, positive, but it's going to take time to truly generate accretion; or four, a very positive and TD should pursue more? So, I'm being a little transparent as to where my next question is coming from.

Positive, but it's going to take time to truly generate accretion.

So, Colleen, we've seen a series of acquisitions and you said it upfront that this is – you're buying consumer finance assets. What's the underpinning philosophy behind this? And are we actually seeing the results, but it's not being recognized by the investor community?

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

Let's take the credit card market in the U.S. and some of the deals that we've done, obviously, with Target and more recently with Nordstrom. These are just fantastic partnerships with premier retailers and have been very beneficial, very much a win-win. What I like about those particular deals is they're financially attractive, but they also don't require significant amount of integration. So, you think about acquiring another branch-based organization, there is a lot of work in terms of integrating systems and premises and all that type of thing. This has really been great in terms of lack of integration, good financials, very high-quality asset class as well and has really performed quite well. So, we like – we've built up an expertise. We'd be interested in doing more of those kinds of deals at a – you need a certain scale to make them work, but we're interested in doing that.

Auto finance has been another business. Obviously, we acquired the Chrysler business. That's been a little more challenging from a profitability standpoint as the margins have been squeezed in that business, but one that we're continuing to work and improve our profitability there. So, I think those have been good sources of growth for us. But likewise, we're really looking to make sure that we can optimize our core business, our branch and store network and that we can realize all that embedded value. Mike Pedersen has some great initiatives underway in terms of increasing and deepening cross-sell with our customers, and there is a big opportunity there and again just recognizing the maturity of the business in the new stores and younger stores that we have in fantastic growth markets.

John Aiken – Barclays Capital – Analyst

If we enter a rising industry rate environment, does TD's desire to pursue these types of acquisitions wane in any way?

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

Not necessarily. Your point would be does the branch-based or store-based growth become more attractive. I think, we can do both.

John Aiken – Barclays Capital – Analyst

Okay.

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

Frankly, and I think we've proven we can manage both of those. I think we've clearly brought in great executive talent on some of these businesses. You look at credit cards and where we are, I mean that's just been a stupendous story. If you go back 10 years ago, we were, I think, number six in credit cards in Canada. Today, we're number one by a wide margin. And we're top-10 credit card issuer in North America and, obviously, these deals that I've talked about in the United States. So, we have done a really good job on this, but went out and hired a top-flight executive to take on that business. We've added executives across the board in the credit card business, because it does have some unique characteristics to that business, whether it'd be on the operational, on the credit management side, on the product side. And I think that's the hallmark of TD.

The game that we can play, we know where we have a competitive advantage and where we don't. We don't try to play in areas, where, yes, you can have – you can go and buy a team or go out and put your capital against something. That isn't a competitive advantage. We have lots of opportunities within our own space to take share and to grow a business. And we will commit the talent and the resources that we need to get to our natural market share. So, I think the credit card story is a great example of one where we said we are going to improve our share and we're now number-one share in Canada by a wide margin.

John Aiken – Barclays Capital – Analyst

Any other audience questions that you need to ask?

Unidentified Audience Participant

Thank you. Along the higher interest rates discussion, obviously, there is a hope in the U.S. for higher interest rates. In Canada, I believe, conversely consensus calls for rate cuts in the Bank of Canada and some of you've even called for quantitative easing. Tell us how you've managed that environment, where you have potentially higher rates in the U.S., but your home country you have declining rates and potentially quantitative easing? And do you think you can still grow earnings in an environment where you have more rate cuts than you anticipate? And what type of rate cuts you already forecast in Canada?

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

In Canada, this year we've had two rate cuts, as you know. So, the first one was a bit of a surprise, I think, to everybody in the market; the second one, much less so. So, then it becomes a question of how – it's not just the rate cut, but how does your balance sheet get repriced as a result of those changes and we've gone through that process. So, what you saw amongst the Canadian banks is that prime did not come down – prime rate did not come down to the same extent as the Bank of Canada rate change. And then, again, there are other customer-driven changes as well on the pricing changes on the balance sheet. So, those first two rate cuts had a relatively neutral impact on our profitability.

Our view at the moment is that it's likely that we will not have another rate cut, but we'll wait and see. But we certainly don't think rates are going to rise in Canada probably until 2017. Obviously, the expectations for the U.S. are quite a bit different and we'll, again, see what happens this afternoon and wait to see what happens over the coming year. For planning purposes, at the moment, we are not assuming any increases until a latter part or mid – I would say, probably mid-to-late 2016. But that's really more of a planning assumption. It's anybody's guess what will happen today and in the months to come.

John Aiken – Barclays Capital – Analyst

And I think we have our final question?

Unidentified Audience Participant

Yes. Do you expect to expand your geographic footprint in the U.S., either de novo or by acquisition? And if it's by acquisition, the regulators have problem with that?

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

When you look at our history in the United States and our decision to go into the U.S. – into U.S. Retail goes back now probably about 12 years or 13 years. And we very much targeted the Northeastern United States. We liked it for a number of reasons. First of all, we like the overall growth prospects in the Northeast, but we also like – on a common sense level, we really like the proximity to Canada. The fact that there is a lot of cultural similarity between the Northeast and Canada, the fact that it's close by, we all speak English, we all understand that.

People often say, gosh, there is a lot of changing these days, but such great growth in the Far East, true, but you think about all of the challenges of expanding internationally. So, we picked a lot of common sense reasons to sort of say, let's focus on the Northeast. And I think that was just a fantastic choice when we made it. We still see feel the same way that the Northeast is a great market for us. Obviously, we had the extension strategy down. And Florida is also a good market for us. We have about 170 stores in Florida right now and it's a great extension strategy for Canada.

In terms of our branch-based delivery, I think it would be unlikely that we would expand outside of the Northeast. Some of the asset classes that we've talked about previously, whether on credit cards or auto finance or it can be some national asset classes that fit within our model, but in terms of branch-based, I think you'll see us stay in the Northwest. We're in some fantastic markets and we have great growth prospects. If you talk about New York market, the Boston market, Washington, Philadelphia, again, Miami, these are fantastic.

These are five of the top-10 metropolitan statistical areas in the United States and we have tremendous presence and growing. So, we really like that geography. And in terms of regulatory intervention, we have a good relationship with the regulators. We are very well positioned in every way. So, that shouldn't stand in the way.

Unidentified Audience Participant

Just one final thing on credit cards. I thought you're like Wells Fargo, you only offer retail cards to existing customers. Is that the case?

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

In this particular case, no, because this is really more – it's really the – it's the retailers' portfolio and it's on our books, mind you, and subject to all of our policies and procedures. But that is a different asset class.

Unidentified Audience Participant

Thank you.

John Aiken – Barclays Capital – Analyst

Colleen, great discussion. Thank you very much for joining us.

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

Yeah. Thank you, John, pleasure.