TD BANK GROUP
SCOTIABANK FINANCIALS SUMMIT
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PARTICIPANTS

Bharat Masrani
TD Bank Group – Group President and CEO

Sumit Malhotra
Scotia Capital – Analyst

FIRESIDE CHAT

Sumit Malhotra – Scotia Capital – Analyst

We will keep things moving along with the last presentation before we break for lunch. And we're very happy to be joined by Mr. Bharat Masrani, Group President and Chief Executive Officer of the TD Bank Group. Bharat was appointed CEO in November 2014, having joined TD back in 1987.

Bharat Masrani – TD – Group President and CEO

Sumit, how are you?

Sumit Malhotra – Scotia Capital – Analyst

Good to see you.

Bharat Masrani – TD – Group President and CEO

Nice digs I would say.

Sumit Malhotra – Scotia Capital – Analyst

Yes, the house that Brian built.

Bharat Masrani – TD – Group President and CEO

First time I came here, it's better than the Ritz.

Sumit Malhotra – Scotia Capital – Analyst

Let's get into a topic that I kind of started with all of your counterparts this morning and I want to hear your thoughts as well. Sitting here in, what looks like it's going to be another record year of earnings for the sector, although it did necessarily feel like that at the beginning of the year. Once again, we've seen a pretty good level of resilience from not only TD, but your peers as well. So the way I've kind of phrased this is the crisis was officially a number of years ago, but subsequently it feels like we spent a lot of time thinking about what can go wrong. And maybe as a result of that, we've underappreciated or underestimated certain parts of the business, particularly in Canada and especially with TD.

But I'd be interested in hearing, maybe, what some of those factors are that you think have underpinned that resilience for the Group, and for your Bank in particular.

Bharat Masrani – TD – Group President and CEO

I think, firstly, on a macro basis for the industry, I mean, we have a market where most of the players have good scales, some have better scale than others, but for the most part there is good scale for the players in the market. We have regulatory system that is principles-based and works over the long haul. And frankly we have a culture, generally, in the country that understands probably risk more so than we might have seen in other parts of the world. And that has played an important role for banks generally in Canada.

I'd say TD, for us in particular, staying with the culture theme, we've found that to be a powerful force within the Bank. We look at our history, even prior to the crisis, we were one of the few banks that decided to get out of structured products and that turned out to be a good decision. Although at the time it wasn't as popular. But we were one of the few banks that did not partake in asset-backed commercial paper and this is all to do with the Bank's culture, because I think – this probably applies to all the banks, but with TD I can talk more confidently – that as a bank we take our role very seriously in a sense that although it may be the fashionable thing to do, or it may be allowed under a particular regulation, that doesn't mean is the right thing to do for the Bank or for our customers. And if that's what we think, then we won't do such an activity. So I think that plays an important role.

Our business mix is important. You know that, you write about it. As to what exposures we have, and what industries – I think that plays an important role of risk management. It has been a key differentiator for TD over many years. I think that plays an important role.

And lastly and most importantly are our 80,000 TD bankers around the world. We run a large, complex bank and it's important that culturally, from a values perspective, that every one of those bankers is doing the right thing for the Bank and our customers. And that has played well because you see the headlines from the rest of the world that sometimes those basic things get missed and they can cost a lot to the shareholders. So, a lot of good reasons why Canadian banks have done pretty well and TD has done particularly well – because of those characteristics.

Sumit Malhotra – Scotia Capital – Analyst

Good. Thank you for that opening and I want to touch on some of those themes in the next part. This conference always comes right after, or hot on the heels if you will, of Q3 earnings season so a lot of points are topical. I thought it was interesting a couple of Thursday's ago, when two banks reported, one in the morning where all the questions on the call were about how fast they were growing their mortgage book. And then later that afternoon we had TD and the questions were why is your growth in Canada all of a sudden so slow. There are a few pieces to that, but I want to start specifically with mortgages.

You touched on a couple of interesting things from TD's history – avoided subprime, avoided ABCP, avoided structured credit. When I look at mortgage balances in Canada, pretty flat over the last 6 months, I thought these guys have a great track record of risk. Maybe there's something they don't like and they are avoiding that risk again, which wasn't necessarily the answer we got on the call. Would be interested in your take on that, in particular.

Bharat Masrani – TD – Group President and CEO

I think these growth numbers can sometimes not tell the whole story. For TD, we have sizable market share and when our year-over-year growth may seem a little different than some of our competitors, I think it's also important to notice what base you're counting the growth from. We feel happy with how we're growing our book and on what basis. You talk about – I think the implication is are we pulling back from our growth. We've have had a consistent underwriting stance over many years, especially over the last 4 or 5 years. But we have, what I would call, the diligence around our underwriting has probably become more strict then we might have had a few of years ago, and what do I mean by that.

Sumit Malhotra – Scotia Capital – Analyst

That's right. Just to be clear, this is domestic, residential real estate.

Bharat Masrani – TD – Group President and CEO

That's what we are talking about.

Sumit Malhotra – Scotia Capital – Analyst

Perfect, okay.

Bharat Masrani – TD – Group President and CEO

Would we be more diligent in the type of appraisals we would demand or accept? Would we be more focused on income verification, for example? Would we track our exceptions to policy when we approve certain types of mortgages? Are we more diligent about what kinds of exceptions are getting done within our system? All those may have some implication on our rate of growth, but that has been consistent over a few years, and I wouldn't want that to come across that TD is consciously pulling back to a great extent.

I think you would expect from TD to do the prudent thing, and that's what we're doing when some of these prices have gone up the way they have. And that's not just the last one year – they would happen over few years. And so that's what we do as bankers, we manage those issues. So, I feel comfortable as how we're growing. We've always shown that our Canadian business is a very important business to us and it provides fantastic returns to our shareholders. And it continues to be a growth story for us, but sometimes, year-over-year, may seem like not what people are expecting. But we don't worry about that. We worry about our ongoing franchise-building activities that are going on in the market.

Sumit Malhotra – Scotia Capital – Analyst

Good. And I'm going to get to that business more holistically. And I think you're right. There can be things like seasonality, and I know, in particular, I asked a question like; hey, the last six months' balances are very flat. Maybe that changes in Q4 as some of the summer volumes coming through. But it doesn't sound like there are some pockets of risk that you've completely stepped back from the market because there is things you don't like, is that fair?

Bharat Masrani – TD – Group President and CEO

No, we haven't stepped back from the market. We are doing what I just outlined.

Sumit Malhotra – Scotia Capital – Analyst

Perfect.

Bharat Masrani – TD – Group President and CEO

And that applies to all the markets that we are in.

Sumit Malhotra – Scotia Capital – Analyst

Okay, so then, let's just look at the segment as a whole because, as TD has always said, when it comes to market share, the real market share that matters is market share of revenue and market share of earnings. So last couple of quarters, revenue growth in Canadian P&C has been much lower than we've been accustomed to the past and below market, the way we are looking at it.

One of the key factors when comparing versus peers has been net interest margin compression. Now you've added some capabilities in the credit card side, if we go back to the Aeroplan deal, so some higher-yielding assets have come in. You've also got the biggest deposit portfolio, which would suffer some compression. I don't want to answer the question for you so I will stop talking and say, when you guys slice the numbers, why is it that your NIM performance in Canada has been worse than that of peers?

Bharat Masrani – TD – Group President and CEO

As you know Sumit, and I know you've talked to our folks quite a lot. We manage our treasury in a particular fashion, which is not unusual. We tractor our, what I would call, non-rate sensitive deposits. And that particular strategy helped us two years ago, when we were outperforming from a margin perspective because that's what you would expect from that strategy. As rates have remained low, and in fact they've dropped even more, as these tractors get reset at such a rate environment, you would expect compression, because that's how this is supposed to work. If rates had stabilized a year and a half ago than you would have not seen this phenomena play out, but so it was fully expected, from my perspective. That's what we should have expected.

Secondly, as part of our retail bank, a key part of our franchise is our chequing and savings business, which is a huge part of our business. And those are the deposits that are, after doing a lot of analysis, are what we would call non-rate sensitive. And those are the ones we would tractor. And so they are NII positive, because we are still making money on it, but they have a depressing effect on the margin. So, I think you're seeing that play out as well. And sometimes those issues get forgotten. Over time, I would expect everybody to revert to the mean, because most of us run it that way. And timing might be off here or there. But I also would note that on an absolute basis, TD still has the highest margin business in the sector. And so I think this year-over-year volatility sometimes gets overplayed.

Sumit Malhotra – Scotia Capital – Analyst

So last one on Canada before we move on. It wasn't that long ago, I think is just about a year ago since you have the Investor Day for your aggregate Canadian business. The target we were provided was in line with the 7% to 10% you talk about at the top of house – 7% to 10% growth. Is that truly a medium-term objective and there a few reasons why it's going to be difficult to be in that range in the 2016 and 2017 period, would be one.

Number two and I'd be remiss if I didn't ask this. I think TD put the JD Power survey into a lot of our heads as a talking point for the sector. So, after a long period of time being at the top of the heap, obviously it was a Number 2 finish this year. What if anything do we take from that on the outside, especially when looking at the business, not having as strong growth as it's had in the past? Can I combine those things or is it too much of a talking point?

Bharat Masrani – TD – Group President and CEO

No, I don't think – you shouldn't combine the two for sure. But, let's start with the first one.

I thought our Investor Day was terrific. I think it gave a good insight on what comprised Canadian Retail – our Personal Banking business in Canada, our Business Banking business, our Wealth Management business, as well as our Insurance business. I think that's how we had set it up. And it was terrific. The response from our shareholders was terrific. And then, we did say that we have a medium-term earnings growth target. And you're right – it is a medium-term target. Now, I always find when we say medium-term, yeah, it is medium-term, but is it this particular year or this particular quarter, what does that mean?

Well, it is medium-term and where it would fall within the medium-term would depend on what the economic conditions are. Last, when we had that call, there was some talk about what economic growth might be in Canada? What kind of rate increases you might expect? And if those get delayed, obviously, your medium-term gets stretched out. So I think that's the best way to look at it. Yes, of course, we strive to grow as much as we can. I think the target we set out there is a realistic target, and I think it is an achievable target. From a timing perspective, there are certain things that will have to play in a particular manner, for us to say this is going to happen now, versus two quarters from now, or a year from now, or year-and-a-half of two years. So, I think that is a better way to provide context as to what that entails.

I think that with respect to J.D. Power, yes we won it 10 years in a row and when you win something 10 years in a row you certainly have a target. And the good news for us is that in every category, we actually improved year-over-year. There are lots of categories that J.D. Power measures, and the other headline that comes out, is that the J.D. Power scores are out of 1000. And I think the top 4 or 5 banks in Canada are within 12 points of each other. So there is a more of a clustering thing. And I think that's important to note. But listen, is it a disappointment? Absolutely, it is. It's nice to win it for the 11th year in a row. So we'll work hard to make sure that we get there. But it is important also to make sure people understand that Ipsos also runs a survey as well and happy to report that 12th year in a row, TD won that. Now that doesn't mean that others are not catching up because, again, the lead we have is narrowing, and that is to be expected when you're leading something, everybody is targeting you, and banks are doing well, generally.

So it is an important part of our DNA, not to win awards, but how we are executing against the strategies we've built out. And if that means we win awards, that's terrific. I feel happy as well, we are executing, but other pockets where we can work harder, and there are, and we are working harder in those areas.

Sumit Malhotra – Scotia Capital – Analyst

Moving north to south from Canada to the U.S. – but a quick pit stop to talk holistically about expenses. 2015, the Bank took over $700 million in restructuring charges. And you certainly communicated to us what areas of the business we should begin to see that improvement. Market has obviously been focused on and rewarding efficiency improvements from the banks, and you deliver that from an operating leverage perspective. So, a couple of questions come up, I believe, the aggregate communication is something like $600 million in run rate savings we should expect from TD. Are you in a position to talk about where exactly we are on that path to $600 million and whether a lot of that has made its way to the bottom line or has been offset in other areas of investment spend?

And number two, is maybe the bigger question, are restructuring charges now going to be a fact of life for TD? In other words, when you get to the end of this year and some of those benefits have run out, it's just become an annual exercise or something that you feel you've taken care of early in your tenure?

Bharat Masrani – TD – Group President and CEO

Firstly, on the guidance we provided when we took the charges that this will mean $600 million of savings by 2017. So I can tell you we are on track. I think we've given specific numbers for each fiscal year. And so, we are on track with that and feel happy about that that. It makes sense.

At the time, I was also quite categoric that we will continue as TD has traditionally done to invest for the future. That is part of our secret sauce. That's what has made the bank that we are. And we were not going to stop investing for the future. So we have invested and we continue to come out with offerings that are resonating with our customers. You can see that in our performance. We are, for example, the largest digital bank in Canada. And this takes investments, this takes offerings, this takes platforms to be able to do that. And so, I feel great that you know we are making the right investments at the pace at which you know these are coming on stream. It is good as well. So I think we are on track as to what we had laid out. I'm happy with the Bank's expense performance from core basis versus what the investments are. And feel that we are on the right track and meeting what are changing customer expectations are in the market. So those are the two. You threw a third one in there…

Sumit Malhotra – Scotia Capital – Analyst

Just whether restructuring charges become an ongoing exercise for the Bank in order to continue to make these investments, while at the same time ensuring the expense base is appropriately sized.

Bharat Masrani – TD – Group President and CEO

I'm so glad that the restructuring that we talked about last year has been completed. And you know, we are now benefiting from it. It was the right call and all that. And as a bank, you'd expect us not to say we will we never ever have a restructuring charge – never is a long time. But have we finished through this phase? The answer is yes.

And happy with where we are, and I don't think this is a routine thing that TD takes in the normal course. When we do that there is good reason to do it. And there is a particular purpose that it would serve. But this part of our restructure is complete. And I don't anticipate anything stemming from that in the imminent future.

Sumit Malhotra – Scotia Capital – Analyst

So your ability to generate ongoing efficiency improvements, or positive operating leverage, however you want to measure it, is not dependent on the benefits of restructuring charges.

Bharat Masrani – TD – Group President and CEO

We always strive to generate positive operating leverage. And again, I was glad that we did. Some of our segments delivered more so than others. And that's a great story for the Bank. But we're not as fixated that you know every 90 days. This is going to be the number. If the right investment opportunities were to present themselves, then as our shareholders you would expect us to look at those seriously, and where appropriate, make those investments.

Sumit Malhotra – Scotia Capital – Analyst

One of those segments that has looked very good from the operating leverage perspective, has been the U.S. That hasn't always been the case. There has been obviously, much more of a competitive market for top line growth there then has always been the case in Canada. But your numbers in the U.S. – almost across the board – revenue growth has been solid, expenses well controlled, and credit in-line. I will leave interest rates aside, because who knows what's going on there.

Bharat Masrani – TD – Group President and CEO

It would help.

Sumit Malhotra – Scotia Capital – Analyst

We will believe it when we see it. In your relationship with your customers, at least initially, well, I think it's fair to say, that the mix of the bank in the U.S. loan book is about half corporate. Sorry, half commercial, half consumer. There was a period of time post the crisis when you benefited very handsomely from the refi boom, whereas as of late, the growth has been more on the commercial side.

Has there been targeted shift on the part of TD to focus more on commercial borrowers? Or have you just have been caught up with some of the deleveraging that all U.S. consumers or have we been seeing that the numbers for a while now?

Bharat Masrani – TD – Group President and CEO

I think first, the overarching point is that we had always maintained that we have a very young franchise. We are located on the eastern seaboard, which is very attractive. We have a scale position now in the U.S. – we have just under 1,300 stores down there; we've got close to 9 million customers. So we certainly have the scale. We are a top 10 bank within the United States, not counting the rest of TD. So, we have a positioning, we have a brand, that in my view is second to none and that is now resonating. And when you have a young franchise, you keep on working at it. Then you going to have more customers come to the Bank, because we are in those markets and we have a particular positioning. And you're able to deepen those relationships. And all of those are tracking as you would have expected and that, when you came to some of our Investors Days that we had a few years ago, and we said, this is how this will play out.

Now, the timing may be off because of the macro environment or interest rates or certain slowness, because of some parts of the economy may not have performed as expected. But overall, I feel very happy as with the progress we've made there.

I think your point on the mix, is there a conscious shift that's going on? I think the refi business on the mortgage side was particularly attractive to TD. And for customers to come to TD, the reason was the following. When you put these banks together, recreated the franchise that we would be proud of, with the branding and the offerings and the culture that we needed – that meant that we didn't have all the offerings available for our customers and we build the mortgage business at that time. So, what happened? We have existing customers at the time, who have their chequing relationships with us and they said, alright, I have my mortgage elsewhere and I am refi-ing because rates are so low. Why would I not come to TD? And we saw that business really thrive for us. Today, as you rightly point out, where rates have been, there is some refi activity but not as big. So now it's more purchase money. So, folks who want to buy a new home – that's a longer sales cycle, it takes a particular sales force and we are building all that. Over time, I think that growth will come as well. But it's more market driven as to what the mix we are seeing here, given our own positioning.

Then in the commercial side, it's been terrific. We had talked about building out certain capabilities from Maine to Florida, a part of that was what would call middle-market lending because we had these customer relationships but we didn't have the products, so TD Securities plays an important role there as well. I think our healthcare business has been terrific for the Bank in the United States. We have a deep franchise in that. I think on Pharmaceuticals, that's been a big business for us. So, the commercial side has been growing very well for us in the areas that we wanted to grow. So overall, I mean what's not to like? We had 13% loan growth year-over-year. And it's the reverse of Canada, when you start with a big base, the percentages become small. Here the percentages look big, so that's why we run the business mix that we do.

Sumit Malhotra – Scotia Capital – Analyst

And just want to kind of tie this in before I move to another topic. I've noticed that your branch count in the U.S., I think is down close to 5% from its high points. This is why you and I have talked about in the past that for a long time and especially, going back to the Commerce Bancorp – branch was a key distribution point for U.S. regional banks. And it's something that I think part and parcel of these restructurings, you're essentially telling us, you know what, this is not necessarily the full capability we need to have. Have you seen any change in customer behavior or TD's relationship with their customers in the U.S. as some of that branch-centric model starts to get scaled back?

Bharat Masrani – TD – Group President and CEO

I think firstly, on just the numbers, part of what I would call optimization is to be expected. When we put banks together, there were certain geographies we were in that were no longer growing or we're seeing population reduce. And as a bank of our type, what you'd expect from us is that we would adapt to that. And we've had situations where some of the acquisitions we went through, there might have four or five locations in a particular community where one brand new location would make more sense. And you would consolidate the four or five into that location. And as we are optimizing our U.S. platform, to some extent, the same applies in Canada, we're seeing terrific retention rates when we optimize and when we consolidate a couple of stores into one.

The other phenomena that is playing out is that we are still opening stores. The optimization accounts for about 85 locations that we've shut down over the last couple of years. But the same time, we opened 40 new ones in markets that we find particularly attractive like New York City and the like. So I think there is a whole optimization story that sometimes, maybe, we should do a better job in explaining how we manage our distribution. But without a doubt, the role of mobile banking, other channels, is not immaterial, especially for transaction. We are not seeing as much movement, in what I'd call sales types of calls or sales types of visits, to a store. But we see some basic transactions migrate out, which you would expect and we would want it to. For example, in our ATMs, we have image-enabled, where you can put multiple cheques in, and you get a print back, etc. When we put that feature in, basic cheque depositing activity, to some extent, migrated to the channel from a store. And so, what we did with that was to use that capacity more for sales, what we call, FSRs, rather than just service folks, and then, sell more product, mortgages or whatever the case might be. So I think that is the repositioning going on.

I think overall our approach is to build out our platforms that are omni-channel capable. What that means is that our customers will deal with us the way they want to, but they'll get a seamless experience right through the Bank's channels. So whether, they start an application in a store in the U.S., and they continue that interaction in the evening with the contact centre by calling somebody. And in the middle of the night that person can't sleep, they want to go on their tablet and want to continue that application – it'd be a seamless experience, whereas that is not common for many institutions. And so I think, we think that that's an opportunity for us. So that's how we're looking at our distribution, it's more of an omni-channel approach. And we have the as good or better offerings in each of these channels as our competitors of both sides of the border.

Sumit Malhotra – Scotia Capital – Analyst

Okay, thank you for that. I've got two more I want to get to. And we'll tread a fire through those ones. I'm going to start with capital.

Basically, since the bank started reported under Basel III in 2013, TD had consistently been at the lower end of the group. Last couple of quarters, we've seen more pronounced uptick in your capital position and your now with the peer group at around 10.5%. So first off, what are you thinking is the appropriate level that you want to manage the capital ratio to? We've heard a lot about how Canadian banks look low versus global peers, although you could argue the business model and profitability speak to some of that. So let me start on. That one would be number one. What's a level that you're managing to?

And number two, maybe it's somewhat simplistic, but I'll just say it, under your tenure, TD hasn't been nearly as acquisitive as was previously in the case. Maybe, you've got the infrastructure in place you don't need to be. But if you could remind us, what's on your wish list as CEO from a capital deployment perspective and what are the parts of the businesses that you would look to add scale to via acquisition if the price was right?

Bharat Masrani – TD – Group President and CEO

Yes, firstly on capital, I'm very happy with the levels we are at. Frankly, I was happy with where we were previously, notwithstanding some of the commentary at the time. But I think the capital has to have some relationship with your balance sheet, the risk, and the volatility you are carrying in your businesses and I feel that we are appropriately capitalized.

With respect to – and I think what you have seen over the past, as you have outlined, is the Bank's ability to organically generate capital. Now, some of it was thanks to getting the advanced approaches, etc, etc. That was helpful. But general the Bank's capability to organically generate capital is a good thing and we will continue to do that.

With respect to capital deployment and I find your point about my tenure and that maybe we have been on the quiet side – people ask me that, and I say well, when we did all the things in the U.S. I think I remember I was the guy heading it up, but you know that's a minor point. I signed off on a lot of deals at the time.

But on capital deployment, again, our approach on that has been very clear. We will use capital to support our organic growth strategy. So if you look at when we are growing our loan book in the U.S. 13%, year-over-year, it takes capital, and deploying a lot of capital. We've been growing our credit card book, and specifically in credit cards as is to what it takes, because you are still maturing the portfolio, especially if it's an acquired portfolio. So we have been using our capital appropriately there.

I have also said that we will use our capital when we think there is a capability gap in our offerings and if we think there's an opportunity to accelerate some of the capabilities we're building organically, then we will take advantage of that. And Epoch is a good example of that, where we thought that hey, this is a terrific opportunity for the Bank to enhance our offerings in U.S. and global equities, it provides us with a new platform, etc.

Thirdly I have talked about, you know, if there are other acquisitions that may pop up, especially in Canada – we will look at any acquisition in Canada very seriously, because there are not many that ever available. And then, the next one would be U.S. We have a balance sheet there that is conducive to acquisitions, especially on the asset side and we've been very aggressive in deploying it, especially in a credit card space. We find that very attractive, if the Bank has a particular capability that can be leveraged there. The partnership deals we have, have been terrific through this – these are terrific partners, the quality of the portfolios, how they perform – so, very happy with that. And we would also look at tuck-ins in the Southeast of the U.S., if they are available.

So this is how we go through our hierarchy on our capital deployment. And that's how we look at it. So, if any one of these filters were to be triggered, we would certainly be interested and look at it seriously, and if it meets our framework we will pursue.

Sumit Malhotra – Scotia Capital – Analyst

Just to put a finer point on the last one, especially as it relates to the U.S. I feel like you're, and to your credit, the script hasn't changed that much. It's been credit cards or areas where you can fill in that deposit gap and then perhaps to Southeast. Now, this is maybe more specific, but let me ask it. Are branch-based acquisitions still of interest to the Bank, given everything we just talked about technology wise? It seems like recently there's been a few more such transactions in the market. There was a Florida transaction that happened not too long ago. Are those type of deals with a branch footprint still of interest to you?

And then relatedly, how happy you've been with your two credit card partnerships? Obviously, economically, it's better to have your deposits invested there as opposed to securities, but the economics aren't nearly what it would be if it was your own credit cards that you were originating. Are those deals still something that you would pursue if more were available?

Bharat Masrani – TD – Group President and CEO

Yes. So, on the first part, the short answer is yes. I talked about omni-channel, where branches and the physical locations are quite important. And I think, the opportunity there is that when you have a bank that is -- or a specific organization that might be branch centric – we see that as an opportunity, as to how we can provide more omni-channel and deepen the relationship, etc. So, I won't say that just because it is a branch-based bank that it would not be of interest. I think what would be more important for us would be, does it fit strategically? Does it fit from a culture of perspective, from a risk appetite perspective? Is it going to be enhancing, or is it going to detract from what are doing? And frankly, does it make financial sense? We have a franchise in the U.S., now, where we are not compelled do a transaction. We have sufficient scale. There was a time when, we used to come down a lot and we used to talk about this, but we did not have sufficient scale. So it was absolutely necessary for us to build up that scale. So now we're not running around looking for deals because we don't have to. We did that in 2004, 2005 – our turn, that was our turn to do that.

Sumit Malhotra – Scotia Capital – Analyst

You've got your footprint.

Bharat Masrani – TD – Group President and CEO

We do. And so it would have to make sense strategically, culturally, from a risk perspective and financially. And if you were to meet that, we would certainly be interested and we'd pursue it very, very vigorously. I think on the credit cards side, listen, our partnership deals work remarkably well for us. We have great partners. We are looking at how we can enhance these partnerships even more. And your point about, if it is your own credit cards, yes, they would be better economics, but on the other hand they'll be more risk that comes with it – here, risk is shared. And secondly, probably does not give us as much cross-sell opportunity because these are partnerships deals and not exclusive to TD. But in itself as an asset class it is attractive. There are always opportunities to cross-sell especially within your own footprint and we look at those opportunities, but overall these are great deals that we would continue to pursue if the right ones were available.

Sumit Malhotra – Scotia Capital – Analyst

Last one and then we break for lunch. Haven't asked a question around the Wholesale all day and it is maybe …

Bharat Masrani – TD – Group President and CEO

You like the numbers?

Sumit Malhotra – Scotia Capital – Analyst

… Somewhat strange, I ask it to the bank that has the lowest reliance on that business. But that's one of the things you communicated when you came in that, maybe this is an area where we've been too risk averse, especially given your very strong credit culture and obviously I think most of us here in the room got to know you as the Chief Risk Officer of the Bank. So has the ability to use the corporate loan book opened some new doors for you on the capital market side? And is the business on both sides of the borders, where you feel the TD is still under-penetrated?

Bharat Masrani – TD – Group President and CEO

I think to say that TD led with its capital and loan book to build the Wholesale business would not be accurate. In fact…

Sumit Malhotra – Scotia Capital – Analyst

No, I'm not saying that as much as I'm saying, could you use more of it?

Bharat Masrani – TD – Group President and CEO

Well, we have been where it's appropriate. In fact I'm pleasantly surprised that as a bank, our exposure to oil and gas appears to be relatively low. And on the flip side of that is that we have a very thriving and very growing and attractive in investment banking business in Calgary, so I don't think those go hand in hand every time. My message to our wholesale bankers has been, to Bob Dorrance, who many of you know – as you know, as long as you're building franchise businesses, we have no interest in going back to the days when we were really focused on proprietary businesses. We need to be in the franchise business. Meeting our risk appetite and the risk appetite is not just talking about a specific limit or the like. Risk appetite means, do you understand the risk and can you manage it – principal one. Principal two, are you doing some permanent damage to our brand that we are going to regret. And thirdly, are you betting the Bank and the rest of it has to support you in a bad situation. If the answer to any one of them is unacceptable, then we have no interest in growing it.

And the last point, after I said risk appetite, franchise businesses, is over a cycle, give us 15% returns. And then if Bob can do that, and he has been trying, and I think successfully, let him grow. I say God speed, Bob. Grow as much as you want, because it is an attractive part of the market. And I think we have opportunities, given the overall size, scale of the Bank and its earnings power. And so that's what we've been doing and I'm glad to see progress in that.

Sumit Malhotra – Scotia Capital – Analyst

Good to see. And good to see you. Thank you for your time.

Bharat Masrani – TD – Group President and CEO

Thank you very much.