TD BANK GROUP
BARCLAYS GLOBAL FINANCIAL SERVICES CONFERENCE
SEPTEMBER 13, 2016

DISCLAIMER

THE INFORMATION CONTAINED IN THIS TRANSCRIPT IS A TEXTUAL REPRESENTATION OF THE TORONTO-DOMINION BANK'S ("TD") PRESENTATION AT THE BARCLAYS GLOBAL FINANCIAL SERVICES CONFERENCE AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALL. IN NO WAY DOES TD ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON TD'S WEB SITE OR IN THIS TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE WEBCAST (AVAILABLE AT TD.COM/INVESTOR) ITSELF AND TD'S REGULATORY FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

FORWARD-LOOKING INFORMATION

From time to time, the Bank (as defined in this document) makes written and/or oral forward-looking statements, including in this document, in other filings with Canadian regulators or the United States (U.S.) Securities and Exchange Commission (SEC), 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 ("2015 MD&A") in the Bank's 2015 Annual Report under the heading "Economic Summary and Outlook", for each business segment under headings "Business Outlook and Focus for 2016", and in other statements regarding the Bank's objectives and priorities for 2016 and beyond and strategies to achieve them, the regulatory environment in which the Bank operates, 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, individually or in the aggregate, such differences include: credit, market (including equity, commodity, foreign exchange, and interest rate), liquidity, operational (including technology and infrastructure), 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; the ability of the Bank to execute on key priorities, including the successful completion of acquisitions, business retention, and strategic plans and to attract, develop and retain key executives; 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 or other criminal behaviour to which the Bank is exposed; the failure of third parties to comply with their obligations to the Bank or its affiliates, including relating to the care and control of information; the impact of new and changes to, or application of, current laws and regulations, including without limitation tax laws, risk-based capital guidelines and liquidity regulatory guidance; the overall difficult litigation environment, including in the U.S.; increased competition, including through internet and mobile banking and non-traditional competitors; changes to the Bank's credit ratings; changes in currency and interest rates (including the possibility of negative interest rates); increased funding costs and market volatility due to market illiquidity and competition for funding; critical accounting estimates and changes to accounting standards, policies, and methods used by the Bank; existing and potential international debt crises; 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 refer to the "Risk Factors and Management" section of the 2015 MD&A, as may be updated in subsequently filed quarterly reports to shareholders and news releases (as applicable) related to any transactions or events 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 2015 MD&A under the headings "Economic Summary and Outlook", and for each business segment, "Business Outlook and Focus for 2016", each as may be 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.

PARTICIPANTS

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

John Aiken
Barclays Capital – Analyst

FIRESIDE CHAT

John Aiken – Barclays Capital – Analyst

Okay, ladies and gentlemen here. We're going to get the next session started. I'm very pleased to have Mike Pedersen, who is Group Head of U.S. Banking with TD Bank Group. Mike, thank you very much for attending. We really appreciate it.

Mike, just wanted to start off, we've seen some fits and starts in terms of loan growth in the U.S. retail banking sector since the financial crisis. What is your outlook for loan growth going forward, both on the consumer as well as on the business side?

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

Yeah, so, we've actually not had fits and starts. We've had pretty consistent loan growth right through the crisis, and since, and are enjoying very good growth right now. Last quarter was 13% year-over-year and it's broad based. It's in retail, it's in auto, it's in cards, it's in commercial and corporate and so on. And I think, it just reflects that we're a young bank, 11 years and going here, and we have lots of upside and we're underrepresented in some of our lending categories. So other things being equal, I expect that we'll continue to see good loan growth and that simply reflects that we've got lots of opportunity.

John Aiken – Barclays Capital – Analyst

And how do you expect to take market share from competitors, and are there any specific avenues you're looking for that are more attractive than others?

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

Well, we're focused on basically three simple things, acquiring customers faster than our competitors, and then secondly deepening share of wallet, this is where we have particular opportunity, and then efficiency. And the depending share of wallet is one of the ways that is helping us to gain market share. I'll give you one example. Because we're a young bank on cards, in 2014 less than 10% of our customers had a TD card. Today, that's almost 20%, so we have doubled it since 2014.

There are similar instances of growth in our corporate and commercial banking portfolio, in auto finance and so on. So, we're taking share because we're acquiring customers faster than the industry and we've got more share of wallet upside than some of our competitors.

John Aiken – Barclays Capital – Analyst

Fantastic. And I know it's been a lot of hard work building the U.S. platform, but for those who aren't truly paying attention, seems like it's almost overnight. What are the plans for growth of the footprints in the U.S., mainly the branch network that I'm talking about, and are we looking at organic growth or inorganic growth going forward?

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

Yeah. So, I would actually say that we're less focused on growing the footprint than we are in expanding inside the footprint. We're in Maine to Florida right now with 1,267 stores, 8.5 million customers, there is way more upside for us inside that footprint. There're pockets of our existing footprint, where we're at less than the critical mass. We'd like, examples of that would be Florida and the Carolinas, the Boston area, the D.C. area, so we're very keen on expanding in those markets.

I'd also say that the priority is organic growth, just because it's very shareholder friendly and we're being very successful at it. Our returns are improving. We've grown our profits this year by 9% year-to-date and we have 7% revenue growth and stable margins. There aren't a lot of banks that can say that, so we are keen on organic growth right now.

Having said that, we built this bank in 11 years, partly because we did 11 acquisitions and we still look at acquisitions and are still open to them, mostly focused in those markets where we have less than critical mass that I mentioned before, but look at asset purchases as well and so on.

John Aiken – Barclays Capital – Analyst

Great. Well, I'm going to stop hogging the stage just a moment before we open it up to the audience. Can we start off with the first audience polling question, please?

And for those that are on the webcast, what's the most undervalued segment of TD's operations? Please keep in mind that Mike actually does head-up the U.S. operations, one is domestic retail operations; two, the U.S. Retail Bank exposure; three, wealth management, including its interest in TD Ameritrade, four relatively low capital markets exposure; or five significant liquidity in both its retail operations.

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

Well, I…

John Aiken – Barclays Capital – Analyst

Sorry, this is actually pooling, so we're get to you to respond after...

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

Oh, I See. Okay. I better be quiet then.

John Aiken – Barclays Capital – Analyst

You get to tell them where they are wrong after the fact.

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

You did didn't tell me about this part.

John Aiken – Barclays Capital – Analyst

And it does look like, it's a wealth management, and then, I guess significant liquidity. Well, this is going to sum up my questions I had for later, but do you want to talk about wealth management within your sphere of operations?

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

Yeah, I can talk about it. At the group level, I was responsible for Wealth Management before my current role, and I think that's fair. I think in Canada we have a very strong wealth business, but considerable upside, particularly on the advisory side. We have terrific growth right now, a great team leading it, and I think that's showing in the results, and there is a very good outlook for our wealth business in Canada.

In the U.S. we have two issues – one on the high net worth side, we've been building the business for the last three years I'd say, quite successfully. We're up to about 200 advisors, it's a very profitable business now, it didn't take long to get profitable. We bought Epoch, the money manager a few years back, that's been a very successful acquisition. Our intent is to continue to grow that business, particularly in our big urban markets like Miami, Philadelphia, Boston, New York and so on.

On the mass affluent side, we're in a bit of unique situation, we are a big bank, the 8th biggest bank in the U.S. and we don't have a mass affluent face-to-face advisory sales force in wealth management. That simply reflects the businesses that we bought and the business we built. So we have opportunities there. It may be that there are opportunities for us to do something that's robo-like, and we're exploring that right now, but not having face-to-face advisors puts us in a bit of a unique position, not having some of the downsides that other banks have in terms of considering robo-advice offerings.

John Aiken – Barclays Capital – Analyst

How do you manage the challenge between integration with wealth management operations and what you can present in terms of the retail banking network, most notably is the, I guess what sets TD apart is the interest that you have in TD Ameritrade?

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

So it's actually a very good situation. I often say to people, show me another example of a company that owns say roughly 45% of something where they have as many synergies as we've been able to derive. So we have got the sweep deposits synergies. In our mass affluent business, we refer clients to TD Ameritrade, and they essentially provide that service for us. We've got back office synergies, so there are considerable synergies already.

There is no question we could do more, and we talk about that all the time. Right now we've begun to sell credit cards into their customer base. We've begun to do secured loans for them. So lots of upside and probably more we can do going forward.

John Aiken – Barclays Capital – Analyst

Fantastic. Well, to use a Canadian expression, I will stop hogging the puck and see if there are any questions that we have that outside. That was great Mike, thanks for your presentation.

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

Okay. You bet. We have to endure some more from you, right.

John Aiken – Barclays Capital – Analyst

Yeah, I know exactly. It's okay. This is the punishment if you don't raise your hands – you get to listen to me, drone on incessantly. One of the things you touched on with Ameritrade is actually the sweep deposits and TD has a fair amount of liquidity in the system, and predominantly in the U.S.

You've taken an approach to try to deploy that liquidity through acquisitions. Is there anything that you can do going forward? Are you looking for improvement in the U.S. economy to hopefully sop up some of that excess liquidity that you have?

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

Well look, we're growing our loan portfolio at 13% annually. There is a limit to how much faster I want to go. I'm very comfortable with our growth right now. We don't have emerging credit issues, either looking at the leading or lagging indicators, but if you doubled that, I'd probably be concerned. So ultimately what governs our lending volumes is our risk appetite and pricing – we don't compete on either price or risk.

The reality is that at 13% loan growth, we don't actually close the absolute gap, because our deposits are growing by 8% or 9%. That's still profitable business for us. So, we'd like to keep growing and acquiring customers, but we look for every opportunity to try to close that gap. We're about 60% loan-to-value ratio right now, so it represents a big opportunity. But we're disciplined about the assets we'll acquire, either organically or through acquisition, but we'll keep looking.

John Aiken – Barclays Capital – Analyst

There has been a lot of discussion with TD on the calls and in meetings, obviously on the U.S. side about with the margin, and I'm sure that we will get to that. But what is the prospect that you see for being able to expand the fee-based revenues as you expand your, well, with your existing customers as well as when you try to bring in new customers?

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

Yeah. So, that goes back to the fact that we're very focused on improving the ROE in the business. We've now got it up to, I think it was about 9% last quarter, so above our cost of capital, and that's good, but we're under no illusions that investors are satisfied with that.

So we're doing everything we can to improve the ROE, that's a major focus, and that takes many forms – that's expense management, it's the growth, it's the share of wallet initiatives, and so on. So we're very focused on that.

John Aiken – Barclays Capital – Analyst

Great. Do we have – I'll take another chance with questions in the audience. We have one up in the front.

Unidentified Audience Participant

Just a follow-up on your earlier comment talking about less interest in expanding the footprint at this time and perhaps growing a little bit more dense within footprint. A lot of regional banks in the U.S. are paring branches within their footprints. I'm just kind of curious, are you interested in doing branch deals of that nature? And I guess secondarily, how are you thinking about kind of the size of your branches and kind of this overall square footage?

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

Yeah, a lot in that question. So first of all, to be clear, we do some business out-of-footprint. Our auto finance business is out-of-footprint. There are certain commercial verticals where we're out-of-footprint. So we're not totally dogmatic about this. It's really a financial and return issue that we're better off investing inside the footprint in general.

In the same vein, we are, I think fairly unique, in that we're opening up a fair number of new stores every year. There are much smaller, they're 1,500 square feet, 2,000 square feet, 2,500 square feet as opposed to the 5,000 square feet of yesteryear. And they're much more technology-oriented focused on advice and sales, and so on. But we are now closing about twice as many stores as we're opening every year. That was the case last year, it was the case this year, I think it will be the case next year. So, this is balancing essentially revenue growth with the cost and efficiency, because for us, opening new stores is a major source of new customer acquisition – that's part of what's driving the 7% revenue growth. That's very important to us and we think it's a smart financial thing to do. But on the other hand, we are also finding that we are now able to close stores and retain a very high percentage of the customers and the revenues, so we're doing that at the same time.

Our general construct, in terms of the physical distribution network is that we want the costs to be no more than flat over the next five years and we will take the investments that we used to make in increasing the store spend and invest it in digital. That's quite successful for us. So to answer to your question, our total store network has been going down in numbers in the last few years. Depending on how fast we grow, it may or may not continue to go down, but in terms of, for example, households per store, the number is increasing quite quickly. We're growing households fast and we are not increasing, or we're decreasing stores.

Our preoccupation is to invest in digital. We've just launched a brand new platform that we spent two years investing in. It's put us in a much better position competitively, and we are now able to look forward, with the ability to be quite aggressive in our digital expansion. We've already got 10% of our chequing accounts that are through digital-only, sales that is, and in cards it's a third, 33%. So, this is a rich vein of revenue growth for us that we want to mine.

John Aiken – Barclays Capital – Analyst

Actually that's a good foray into our next pooling question, if we can please. How big a threat for growth of the banking industry does fintech represent over the next five years? One, a significant headwinds; modest headwinds; no real impact; modest tailwind; or significant tailwind? And depending on how you like the answer you can show it to Bharat, or not.

Pretty much in the, around the neutral, but still looking at a modest headwind. Mike, love to hear your thoughts on this in terms of how you're approaching spend, as you mentioned on digital and technology, and how beneficial this is going to be to the bottom line, both immediately and over the next five years?

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

So I would agree with this. To be clear, as I look at our P&L and our transaction and sales volumes, if you just looked at them in the absence of knowing that there was anything called fintech, you would say there is nothing going on. So our debit transactions, our payment transactions, credit transactions, revenues associated with all those things are rising as fast as, or faster than they were two years or three years ago, and it just doesn't look like there is any impact.

However, we're taking this very seriously. We think there is a risk that in this sort of timeframe, I think most likely in three to five years, we'll start to see an impact on our revenues, and our transactions. So, the major way that we're defending against it is by strengthening our omni-channel offer through the investment in new and very different stores, but also in the digital platform that I talked about earlier, so that we can do most of the business that customers want to do through digital means. I would say that at the same time, we're placing some other bets. We're building capabilities to launch things that are disassociated from that omni-channel offer. We may not decide to launch them, but we're building those capabilities, if nothing else for contingency purposes, in case this evolves faster than we thought it would.

So we are doing the gamut of things that you hear other banks talk about, we're partnering with fintechs, we're looking at fintech capabilities in many respects, we're building fintech things inside the bank.

John Aiken – Barclays Capital – Analyst

Well, relative to your U.S. direct competitors, is there any advantage to being a cross-border bank in terms of having the technology spend across both Canada and the U.S., or are you mainly focusing on your own operations?

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

Well, there are advantages if you compare our U.S. Bank to a similar-sized regional, who doesn't have the benefit of a much bigger parent. And if nothing else, the advantages lie in our ability to recruit serious fintech talent. That's easier to do when you're a very large international bank than it is if you're a smaller regional bank, I would think.

So there are some instances where we jointly developed digital capabilities, where we shared talent with our Canadian counterparts. There are others where we determined that the environment in the U.S. and Canada are different enough that it makes sense to do it separately, but there are some synergies, yes.

John Aiken – Barclays Capital – Analyst

Great, thanks. I think I've been stalling from a question in the front there.

Unidentified Audience Participant

Maybe you talked about this during one of your earlier analyst days, but looking at your loan growth at 13%, what can we expect in terms of a long term loan growth rate and how much capacity do you have?

And maybe also in the context of your ROEs at 9%, where does that go? Where can we see – what does this bank look like in three years, four years?

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

So, if we were a betting person, you might say that the odds of loan growth being 13% in three to five years is lower than it is right now. I think I'm comfortable with the loan growth right now. We look at it every month from a credit quality point of view. Many of our portfolios are improving, compared to where they were, because the stuff we're originating is better quality than what came off the book. Remember that we had loans in our portfolio that we acquired, so we're originating now to our standards.

As I said earlier, we're underrepresented, the TD name is very welcomed in the commercial and corporate space and we're finding lots of success. We've built talented teams and capability. And compared to some other banks, we just have more room to grow then they do. I'd say, in all of the major categories in corporate, commercial, cards, auto, residential real estate, we're keen to grow more within the parameters of our risk appetite and with the caveat that we won't compete on price. But I see right now a bit of moderation in demand, nothing serious and I'm not sure it will affect us because of our unique position, but there is less M&A in the corporate space. There is a less investment impetus, we've seen that in some of the macro information, and you do hear on the ground as well.

In auto for example, very comfortable with what we're doing. No subprime at all, only 15% near-prime. The profitability of that business is improving. We're doing well in the pricing front. So I'm happy to continue to grow at this level. But if things change, I won't be sad if we have to throttle back a little bit. We can still grow earnings nicely without necessarily the level of loan growth that we have right now. We've got lots of opportunities in our bank to improve profitability and returns.

On the ROE, so we are 9% right now but the return on tangible capital is much better than that, mid-teens. We have a fair bit of goodwill from our acquisitions, so we think about it in both respects. We think we can continue to improve that ROE. In three to five years, I hope we can still be in the mid-teens in terms of the tangible equity. So, that will slowly improve the overall ROE, both because we're growing and it's becoming a small, the goodwill is becoming a smaller part of the whole, but also because at the margin, we are writing better business. So, I won't give you a number, but because lots of things can happen, but again we're focused on expenses, we're focused on share of wallet, continuing to grow, capital optimization, lots of focus on ROE.

John Aiken – Barclays Capital – Analyst

Do you have follow-up, sorry?

Unidentified Audience Participant

Hello? Yeah. So, how do we – I guess what are you guys doing? You've got all these great opportunities in front of you – what are you doing that the competitors aren't doing? How are you, you're saying you're so well received, what – why is there all those low-hanging fruit out there for you, then?

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

Well, our basic strategy is a service strategy, right. We always believe that if you deliver a superb customer experience and if customers love what you're doing, they'll do more business with you. So, at its very simplest, we have tremendous service capabilities, including for example, having our stores open way longer than our competitors, and including just investing a lot in the actual customer experience. So that results in us having household acquisition and chequing account growth that's north of twice what the industry is doing.

And then if customers have actually joined you because they like what you represent in terms of service, and if you continue to serve them well, then when you come to them with a credit card offer or a potential wealth referral, they're inclined to at least say yes, I'll try it. So, at its very simplest, that's how our business model works and it's working and has worked for the last 10 years or 11 years, and I expect it'll continue to work. We're trying to build that service element into our omni-channel experience as well by introducing special little things that make people say, hey, this is a TD experience, even when they're dealing with us digitally.

And I would say the proof is in the pudding because you can see that we're gaining share in almost every product we're in. And the same thing holds, by the way in the non-kind of consumer businesses, in the indirect auto, it's about service and that's why we can get that share without going to subprime, that's why we can get the pricing we get, in corporate banking, in treasury services, it's about service, and we do get a bit extra for that, that the competitors that are less focused on service don't get.

John Aiken – Barclays Capital – Analyst

Mike, you've touched on auto finance a couple of times, and as I think you tried to highlight, TD really hasn't gone down the credit risk curve. But with the concerns about potential rising delinquencies, what competitive response are you seeing? Are you seeing other competitors now move up the credit chain? And how has that impacted volumes going forward, or expectations going forward?

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

Yeah. So we are seeing a bit of that, but I would say it has not impacted our business. The reality is, it's a very fragmented business, and much as we're a major player, we don't have huge share. So we're finding that by providing superb service to our dealers and providing even better service to the priority dealers, we're able to continue to have good volumes, and we're able to get the kind of pricing that we want, and the conventional wisdom in this industry was that you had to do the subprime in order to get the rest of it. Well, I think we're proof that that's not the case, because we don't do subprime and we're still getting nice growth, we're gaining share.

John Aiken – Barclays Capital – Analyst

Okay. Any questions out there? In the meantime, can we load up the third polling question, please? How likely do you believe that TD will be pursuing a material transaction in the near term, and what are the implications for its valuation? Likely and positive valuation; likely and negative valuation; unlikely but positive; or unlikely and negative?

That's probably one of the most more evenly split answers that I've seen. Number one was unlikely and positive for its valuation. I guess this is after the announcement that TD Securities made this morning. Next is likely and positive for its valuation, so, I guess you really can't do anything wrong in that case?

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

Well, I like that number two is the lowest one. I would rephrase this and say that, it's unlikely we will do a deal, that's negative for our valuation.

John Aiken – Barclays Capital – Analyst

Fantastic.

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

And seriously, you know, that is how we think about it right now. There was a time when we felt we had to make strategic acquisitions to build the business. We're now at a scale where we don't need to do that anymore and we're focused on ROE and improving our valuation.

John Aiken – Barclays Capital – Analyst

That's really interesting because I mean, you talk about ROE and the impediment that goodwill has placed on that from the historic basis. Have the criteria for acquisitions changed over the last five years in terms of how you view it for – for you, as part of the operations?

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

So not at its essence. So I mean, our criteria for acquisitions are first of all, that they're a good strategic fit. Secondly, that they're good financial deal. But thirdly, and maybe most importantly, that there is a cultural fit and that we would hire the people that run the Bank and that we plan to keep the people that run the Bank. And we found that if you do that, then you make acquisitions that have sustainable value. So those are all still in place.

I'd say the thing that's changed over the last five years though is that you pay much more attention to the possibility that in making the acquisition you acquire regulatory problems, AML issues or legal issues because the world has shown that it's very unforgiving of that and the regulators have shown they're very unforgiving up that. So, that's a meaningful change that at times means we walk away from deals that we might have done in the absence of those kinds of issues.

John Aiken – Barclays Capital – Analyst

There are any questions at this stage? Well, I guess – oh, sorry, one upfront here, please.

Unidentified Audience Participant

Can you talk about your exposure to the energy industry – sorry, any comments about your involvement with the energy industry in Canada or the U.S. and how it impacts you?

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

So, I'm probably not the guy to comment on the Canadian exposure, other than to say that, relatively speaking, we are underexposed and don't expect to have any significant issues going forward. We've already taken reserves, et cetera, and I think at this point, the situation is relatively stable. So, other things being equal, we feel relatively comfortable about the situation in Canada.

In our U.S. business, it's negligible. Like nearly nothing. There is no focus on oil and gas in our U.S. business or other energy sectors in the Bank that I run in the U.S. And in fact I'd say the whole energy situation is a boost for our U.S. business because the regions that we are in, low energy prices are more of a positive than a negative in aggregate.

John Aiken – Barclays Capital – Analyst

I guess Mike as a follow-on question that for your operations specifically, what are the sectors that you're keeping a closer eye on? I mean, I know the U.S. economy is actually doing quite well, particularly against Canada.

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

Yeah.

John Aiken – Barclays Capital – Analyst

But is there anything you're keeping a close eye on?

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

In terms of lending, for example?

John Aiken – Barclays Capital – Analyst

Yeah, in terms of credit quality.

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

Yeah, so, no surprise. The two things we watch most closely are commercial real estate and the auto sector, partly because others are articulating that they are seeing issues, cards a little bit as well. But again as I said earlier, we're looking very closely at those every month, every quarter. We are not seeing any signs of significant deterioration, or any meaningful deterioration. To give you an example in cards, our portfolio right now is – the net charge-offs are in the low 3s. So you could have that deteriorate quite a bit and still be acceptable. So it's really in pretty good shape, and we feel that our portfolios are strong and we're watching it though and can obviously react if we see anything evolve.

John Aiken – Barclays Capital – Analyst

In the back, sorry.

Unidentified Audience Participant

Real quick question, sorry, I walked in late, so if I missed that you've already covered this, but just remind me please what is the size of your U.S. Bank, in terms of assets and in terms of deposits? And then the second question is the infrastructure underlying the U.S. part of the bank – how big in terms of size would you feel comfortable and how big can the infrastructure hold in terms of total assets?

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

So our total assets now are $273 billion, I believe. Deposits about $220 – $225 billion, I don't have the exact numbers with me. Loans are about 60% of that, whatever that is. We have infrastructure to grow much more. This is not something that's a preoccupied patient inside the bank. We can readily grow our business on the existing platforms. Where we're investing is in making them more efficient and in things like digital and so on.

Unidentified Audience Participant

And then one quick follow-up. What's the mix on your loan portfolio between commercial versus retail and likewise what would be the mix of your deposits between commercial versus retail?

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

So the loans are slightly more commercial than retail, in retail significantly more – deposits, significantly more retail than loans – than commercial, sorry.

Unidentified Audience Participant

Can you talk about the strategic fit of prime brokerage and your ambition in capital markets. Are you interested in building out a broader investment banking presence?

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

Yeah. So, I don't run that part of our business in the U.S., that's part of TD Securities, but we have been building out our TD Securities business in the U.S. In fact our Bank, with our corporate banking capabilities, works very closely with them. It's been very successful in the last couple of years, there are certain sectors that we are very focused on, partly utilizing the expertise we bring from our Canadian businesses. One of the pieces that we thought was missing was prime brokerage, we're a strong prime brokerage player in Canada. What we effectively needed was a platform, the regulatory license, the stock market relationships, et cetera. The acquisition we announced this morning gives us that and you can think of it as a really nice platform that we can start to grow in a disciplined, thoughtful way over the coming years, mirroring what we have pursued in Canada.

Unidentified Audience Participant

So, Wells recently announced that they paid a substantial fine related to some unauthorized account openings. Their CFO was here this morning, kind of spoke to that a little bit and said that it was relatively small number of folks that were considered underperformers trying to hold on to their job. So my question is, is that something you guys monitor and I guess also, is it something that – how can you be sure that your incentives don't encourage that type of activity, essentially?

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

So, the answer is yes, that we have controls in place to attempt to prevent those kinds of situations. So, as an example, we've controls in place where if our compliance department sees that products have been sold that don't get used or funded, like a card that doesn't get used, or a deposit account that doesn't get funded, that's a flag – that means we will take a look at it. We have a system whereby we look at complaints specifically to try to ascertain whether there's any miss-selling risk raised by these complaints, and numerous other controls.

We also have a philosophy around compensation that's very conservative. So, the pay at stake for our sales force and the stores is significantly less than in other banks, because of our philosophy, which applies to my compensation too, that we have always believed we don't want compensation systems that incent any swinging for the fences.

Of course, one hopes that one's culture would always prevent these kinds of things. But I do think that we have controls in place that I hope are preventing them. Obviously every bank in North America will be looking to see if there's anything we should do to strengthen those, but this is something that has been top of mind for us for some time now. I'll also say that when I referred to the upside that we have before, that reflects that we are not nearly as evolved as some of the large banks in terms of share of wallet, and therefore, have a long way to go before we reach the levels that they're currently at. And, I would hope therefore, have some lower risk in terms of some of these issues.

John Aiken – Barclays Capital – Analyst

Just in the back again.

Unidentified Audience Participant

One more question. One of the themes of this conference has been, especially among the U.S. banks has been strategic decision making, M&A. And it's interesting that a lot of the U.S. banks, that have typically been more acquisitive over the years, have their own internal agendas of things they need to do and reasons why they can't to be acquisitive today. I think, TD Bank has been very open about the desire to grow in the U.S., potentially inorganically. Do you see this as a window of opportunity where there may be less competition for properties than there has been in the past? And can you just describe maybe what markets are most attractive to you? I know recent comments where the Southeast and fill-in deals, but any more color you can give on that, please?

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

So my answer would be yes, and no. I mean, it's very difficult for the large banks to acquire. There are smaller banks that are not allowed to acquire, so in that sense you could say this is a window of opportunity. On the flip side though, valuations are very high. Like the last four deals that I can think of got hammered in the market the day after and sustainably thereafter. And in addition to that, when you solve for the fact that it has to fit from a risk point of view and the culture fit has to be there, we look at things like if there is a good lending book, is it stuff we would have originated, do we think we can keep it, can we keep the lenders, add to that, the regulatory concern. And I think you get back to a – there's probably not an unusual window of opportunity right now.

And we have proven most successful in acquiring when we were strong and others were weak. We're a patient acquirer, and as I said before, we're not inclined to overpay in this environment, and we don't need to acquire something to succeed. None of the investor meetings I'm having, are there people complaining that we're only growing our earnings at 9% and our revenues are only growing at 7%. We're in a fortunate situation, and we'll happily continue to grow this bank organically. We have many opportunities, but believe me, we look at the acquisition opportunities, and we've shown we're not shy about executing, if they make sense.

In terms of the geography, I would say South Florida, the Carolinas, areas like markets in the Mid-Atlantic, where we have less critical mass, D.C. would be an example. We'd love to have more in Boston. But I think the likelihood of acquisitions in some of those markets are much lower than they are in others. So, hopefully that gives you a sense.

John Aiken – Barclays Capital – Analyst

And we have time for one last question. Well Mike, that means it's up to me to wrap up.

TD passed its inaugural Fed stress test this year, I was wondering if you could comment, because I think you could have exactly – you're uniquely positioned with having really two regulators, now of course you do have the U.S. side, but you got the Canadian over housing. How of the challenge is that from a competitive standpoint, in terms of – does it place any restrictions on what you may or may not be able to do?

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

You think we only have two regulators?

John Aiken – Barclays Capital – Analyst

Two, on the capital front. Sorry.

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

We love them all. So, first of all, we're happy to pass on the first go, particularly as a foreign bank. The track record of foreign banks hasn't been perfect, so very pleased with that, huge amount of work, and I'd also say that, we're under no illusions is that we're now through it, all the other banks we've talked with who've travelled this journey, say that the second time and third time can be as difficult as the first time, but obviously it's been a win to get through at the first time.

We learned a lot about our bank, this is definitely a piece of legislation that has some benefits for the banks, and we'll be a better bank for it. If you're asking whether it's changed our view on acquisitions and growing any parts of our business, I'd say not fundamentally, but we may do things a little differently than we might have. I'd say that we're just as keen on acquisitions after having gone through it as we were before, and that the items or factors that govern whether we do it are the ones that I've talked to earlier in this conversation, not so much CCAR.

But you all mindful of the fact that anything you acquire, you have to include in your nine quarter forecast and calculations and it does add an element of complexity and frankly risk in terms of passing. So you think about it.

John Aiken – Barclays Capital – Analyst

Great. Well, Mike, thank you very much for your time. We really do appreciate it.

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

Thank you John, and thank you, all of you.