TD BANK GROUP
Q3 2016 EARNINGS CONFERENCE CALL
AUGUST 25, 2016

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PRESENTATION

Gillian Manning – TD – Head of Investor Relations

Good afternoon and welcome to TD Bank Group's third quarter 2016 investor presentation. My name is Gillian Manning, and I am the Head of Investor Relations at the Bank. We'll begin today's presentation with remarks from Bharat Masrani, the Bank's CEO. After which, Riaz Ahmed, the Bank's CFO, will present our third quarter operating results. Mark Chauvin, Chief Risk Officer, will then offer comments on credit quality. After which, we will invite questions from pre-qualified analysts and investors on the phone. Also present today to answer your questions are Teri Currie, Group Head-Canadian Personal Banking; Mike Pedersen, Group Head-U.S. Banking; and Bob Dorrance, Group Head-Wholesale Banking.

At this time, I would like to caution our listeners that this presentation contains forward-looking statements that there are risks that actual results could differ materially from what is discussed and that certain material factors or assumptions were applied in making these forward-looking statements. Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the Bank shareholders and analysts in understanding the Bank's financial position, objectives and priorities, and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes. I would also like to remind listeners that the Bank uses non-GAAP financial measures to arrive at adjusted results to assess each of its businesses and to measure overall Bank performance. The Bank believes that adjusted results provide readers with a better understanding of how management views the Bank's performance. Bharat will be referring to adjusted results in his remarks. Additional information on items of note, the Bank's reported results, and factors and assumptions related to forward-looking information are all available in our Q3 2016 Report to Shareholders.

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

Bharat Masrani – TD – Group President and CEO

Thank you, Gillian, and thank you, everyone, for joining us today.

Q3 was a good quarter for TD. Earnings were $2.4 billion, an increase of 6% from a year ago, and earnings per share were $1.27, also up 6%. In the Canadian Retail segment, strong fundamentals in our Personal & Commercial Banking and Wealth businesses were offset by the impact of the Fort McMurray wildfires and a higher tax rate. Our U.S. Retail Segment delivered impressive results across the board with revenue, expense, and credit metrics all performing well. And our Wholesale Bank had a very strong quarter with higher lending and origination activity.

We also delivered good results on the capital and liquidity front. Our CET1 ratio rose to 10.4%, up 30 basis points from the prior quarter. Our leverage and liquidity coverage ratios remain above target. And we passed a major milestone, successfully completing our first CCAR submission in the U.S.

Turning to our businesses, Canadian Retail earnings were $1.5 billion in the third quarter, down 3% from a year ago. Personal & Commercial Banking earnings rose 1%. Volume growth, higher fee income, and disciplined expense management helped offset higher credit provisions and lower margins. These continued to affect the year-over-year comparison, but both improved sequentially. Our Wealth business had a very strong quarter with double-digit earnings growth and another quarter of $10 billion in net asset growth. The Insurance business saw earnings decline as a further improvement in prior year's claims development was offset by higher claims costs this quarter, largely relating to Fort McMurray.

I'm pleased to report that we re-opened our Fort McMurray branches in June, and we continue to assist our banking and insurance customers as they return to their homes and community. We were proud to be the lead sponsor of last month's Fire Aid concert in Edmonton which raised over $2 million to support the rebuilding effort, including TD's $500,000 donation to the United Way of Fort McMurray.

Our U.S. Retail Bank had a record quarter, with earnings of US$512 million, up 14% from a year ago. Revenue growth was 7%, and expense growth including acquisitions was 3%, resulting in almost 4% of operating leverage. We recorded good growth in loan and deposit volumes. Credit provisions rose only modestly, and margins increased sequentially and year-over-year. We also continued to see the benefits of a stronger U.S. dollar in our consolidated earnings, with segment earnings up 21% from a year ago in Canadian dollars. I'm very pleased with the performance of our U.S. franchise. The work we've been doing to acquire new customers and deepen penetration is paying off across all our distribution channels.

The Wholesale Bank had a very impressive quarter, with earnings up 26% from a year ago to $302 million. Growth was broad based, led by higher fee income in Canada and increased activity in our U.S. dollar product offerings for corporate, institutional, and government clients.

We also had several notable wins in the quarter. We completed significant transactions with Suncor and Altice NV, and our equity research team achieved the number one ranking overall in the Thomson Reuters Analyst Awards. All in all, a great performance across all of our Wholesale businesses. We are generating strong franchise-able earnings as we execute on our strategy of deepening client relationships and expanding our service offerings.

Overall, I feel good about our results at this point in the year. Three quarters into fiscal 2016, earnings are up 5.6% and EPS is up 5%. On the credit front, while the recent firming in oil prices is a welcome development, we made a further addition to our collective allowance this quarter to reflect volume growth and negative migration in oil and gas related exposures. Overall, credit quality remains strong and credit metrics are performing as expected.

Looking ahead, the environment is likely to remain volatile. The global economy is adjusting to the fallout from Brexit, low or negative interest rates, and still sluggish GDP growth. In Canada, the economy lost steam in the second quarter, and there has been heightened concern about the Vancouver and Toronto housing markets. The picture is brighter in the U.S., where job growth and rising wages are supporting domestic demand, but other economic data have been mixed.

Amidst these shifting conditions, our North American platform and diversified business mix position us well. In our businesses, we continue to mine the growth opportunities in Canadian Retail that we identified at our Investor Day last fall. We are building on our momentum in U.S. Retail and our demonstrated ability to take share. And we are leveraging the strengths of TD Securities on both sides of the border. Overall, we remain focused on generating organic growth, holding the line on expenses, and investing productivity savings, and improving the customer and employee experience.

Last quarter, I told you about TD MySpend, a real-time money management app which we've just launched. It's an intuitive tool that has resonated with customers looking for a simpler way to manage their finances. In May, TD MySpend was rated the #1 free app in Canada across all categories. And just four months later, we have more than half a million users.

We also re-launched our digital offering in the U.S. this summer. The new platform works on iOS and Android devices and has a variety of new features, including thumbprint ID and an enhanced mobile remote deposit experience, better navigation and self-service options, and a secured messaging capability that enables customers to communicate directly with us through the app. It's been downloaded almost 2.5 million times so far, and the feedback has been great.

To wrap up, it was a good quarter and a good year-to-date. We're advancing our growth strategies, executing with excellence, and continuing to innovate. I'm confident about our business model, proud of our team, and very excited about where we are headed.

With that, I'll turn it over to Riaz.

Riaz Ahmed – TD – Group Head and CFO

Thank you, Bharat, and good afternoon, everyone. Please turn to slide 5. This quarter, the Bank reported earnings of $2.4 billion and EPS of $1.24. Adjusted earnings were $2.4 billion and adjusted EPS was $1.27, both up 6% year-over-year. Revenue increased 9% year-over-year, or 5% excluding FX and acquisitions, led by loan, deposit, and wealth asset growth. Adjusted expenses increased 7% year-over-year or 2% excluding FX and acquisitions. PCL increased year-over-year, but declined 5% quarter-over-quarter.

Segment reported earnings were $1.5 billion for Canadian Retail, just under Canadian $800 million for U.S. Retail, and $302 million for Wholesale. And the Corporate segment reported a loss of $241 million, or $183 million on an adjusted basis. Please turn to slide 6.

The Canadian Retail segment earned net income of $1.5 billion, down 3% year-over-year. Revenue growth of 3% was more than offset by higher insurance claims and a higher effective tax rate in the quarter. Total loan growth was 5% year-over-year, with personal lending volumes up 4% and business lending volumes up 10%. Deposits increased by 8%, reflecting growth in core chequing and savings accounts, which were up 10%. Business deposits grew 8%, and wealth assets grew 7%.

Insurance claims increased 15% year-over-year, primarily due to the net impact of the Fort McMurray wildfire, as well as other weather-related claims, partially offset by more favorable prior-year's claims development. Margin increased 2 basis points quarter-over-quarter, primarily reflecting higher seasonal revenue, partially offset by lower lending margins. PCLs decreased 2% quarter-over-quarter, primarily reflecting lower delinquencies in personal banking. Expenses increased 1% year-over-year, and on a year-to-date basis, expenses are up 1%. Please turn to slide 7.

Aggregate adjusted U.S. Retail earnings were up 16% year-over-year in U.S. dollars and 21% in Canadian dollars. The U.S. Retail Bank posted earnings of US$512 million, up 14% on an adjusted basis from Q3 2015. Results for the quarter reflected high revenue, positive operating leverage, and good credit quality. Total loan growth was 13% year-over-year reflecting an 8% increase in personal loans and a 17% increase in business loans. Deposits increased by 9%.

Margin increased 3 basis points quarter-over-quarter, reflecting a positive hedging impact and higher deposit margins. PCL increased 6% quarter-over-quarter, primarily due to growth in the commercial banking portfolio. Adjusted expenses increased 3% year-over-year, reflecting higher employee cost and business initiatives, partially offset by productivity savings. Earnings from our ownership stake in TD Ameritrade increased 31% year-over-year, primarily reflecting asset growth, higher trading volumes, and a favourable tax liability adjustment, partially offset by higher operating expenses. Please turn to slide 8.

Net income for Wholesale was $302 million, up 26% year-over-year from higher revenue. Revenue increased 12%, reflecting increased origination activity from debt and equity capital markets, higher corporate lending fees, and higher trading-related revenue. PCL was $11 million, a $39 million decrease quarter-over-quarter, reflecting lower specific provisions in the oil and gas sector. Non-interest expense increased 1% year-over-year. Please turn to slide 9.

The Corporate Segment posted an adjusted loss of $183 million in the quarter compared to a loss of $161 million in the same period last year. Net corporate expenses increased year-over-year, reflecting ongoing investments in enterprise and regulatory projects. The contribution from other items increased $6 million year-over-year, reflecting higher revenue from treasury and balance sheet management activities, partially offset by higher provisions for incurred but not identified credit losses. Please turn to slide 10.

Our Common Equity Tier 1 ratio was 10.4% at the end of the third quarter, a 30-basis-point increase, primarily due to organic capital growth. This quarter, we implemented AIRB models for our U.S. Retail exposures and Advanced Measurement Approaches for Operational Risk. The impact was approximately neutral to CET1. Our leverage and liquidity ratios are consistent with last quarter. Overall, we remain well positioned for the evolving regulatory and capital environment.

I will now turn the call over to Mark.

Mark Chauvin – TD – Group Head and Chief Risk Officer

Thank you, Riaz, and good afternoon, everyone. Please turn to slide 11. Credit quality remained strong for the quarter, as evidenced by reductions in the Bank's overall level of gross impaired loan formations, gross impaired loans, and credit losses. Gross impaired loan formations are down $229 million or 4 basis points for the quarter to $1.2 billion. U.S. Retail accounted for the majority of the decrease, with formations down $122 million, driven by legacy interest-only HELOC and U.S. commercial loans. Formations in Wholesale decreased $94 million due to lower formations in the oil and gas sector. Please turn to slide 12.

Gross impaired loans are down $99 million or 4 basis points for the quarter to 59 basis points. The Canadian Retail gross impaired loan rate, at 27 basis points for the quarter, remains at cyclically low levels. U.S. Retail was the main contributor to the decrease, with an improving trend in formations and resolutions within the legacy interest-only HELOC portfolio, along with good performance in the U.S. commercial portfolio, partially being offset by the negative impact of foreign exchange. Wholesale gross impaired loans increased $33 million due to two new formations in the oil and gas sector. Moving to slide 13.

As indicated in previous quarters, U.S. strategic card PCLs are reported on a net basis for segment reporting, only including the Bank's contractual portion of credit losses. For the purpose of the credit slides, we continue to report gross losses to better reflect portfolio credit quality.

Provisions for credit losses were $563 million, down $29 million or 3 basis points quarter-over-quarter to 39 basis points. The primary factors impacting PCL in the quarter were, first, a $39 million decrease in provisions for the Wholesale portfolio; second, a slower rate of reserve build for incurred, but not identified losses recorded in the Corporate Segment; and, lastly, a $34 million increase in U.S. Retail, driven by volume growth. Year-over-year, the Bank's provisions for credit losses increased 6 basis points due to a higher rate of reserve build and an acquisition in the U.S. strategic cards portfolio. Please turn to slide 14.

The pace of new impaired formations and losses in the non-retail oil and gas producer and services segment slowed during the quarter as the price of oil stabilized in the $40 to $50 range and gas prices strengthened. Consumer losses in oil-impacted regions moderated, and continue to be offset by favorable performance in the rest of Canada. Assuming oil and gas prices continue at current levels, I remain comfortable with my prior guidance for possible losses due to low oil and gas prices.

To conclude, the key takeaways this quarter are credit quality remains strong and the credit impact associated with low oil and gas prices stabilized during the quarter. With that, operator, we are ready to begin the question-and-answer session.

QUESTION AND ANSWER

Operator

Thank you. Our first question comes from Meny Grauman from Cormark Securities. Please go ahead.

Meny Grauman – Cormark Securities – Analyst

Hi. Good afternoon. Revenue growth in the Canadian P&C business is a little bit under 2% year-over-year, below average, and I'm wondering how you view that. How much of that is a frustration, or how much of that is just a reflection of your concern about the market? Specifically, there's been a lot of talk obviously about the housing market and some problem areas there.

Teri Currie – TD – Group Head, Canadian Personal Banking

So maybe I'll break that into two pieces just in terms of revenue growth and sort of outlook, we're committed to the growth opportunities that we talked about in the fall in Investor Day. We expect good volume growth across our businesses, good claims management, good wealth client acquisition.

We're continuing to see record primary chequing customer acquisition, which continues to give us great opportunity to continue to deepen relationships with those customers, like we talked about in the fall Investor Day. We have opportunities where we're under-share in the unsecured lending business, credit cards, mutual funds, and we're continuing to make good progress in all of those. In our unsecured line of credit business, we had record acquisition in Q3.

In our Private Investment Advice business, we had record growth in Q3. And when we look at external market share across a number of categories – mortgage, unsecured lending, auto finance, business loans, personal non-term deposits, and mutual funds – we're continuing to gain share. I'd say we have a good outlook on growth going forward.

In terms of the comments around the housing market, again, we continue to, I think, apply the same good standards we have over the past period of time across Canada, doing good business with customers across Canada. Market share, as I said, in mortgages, is increasing, it's going up. We continue to feel good about the quality of our portfolio, about our standards, about the quality of our originations, and I would say, across markets, continue to generate good business.

I would say that in the BC market, if we look at externally available data, our net portfolio growth and our market share would be slightly below the average.

Meny Grauman – Cormark Securities – Analyst

Thanks for that. If I could just ask a question on the restructuring as it's flowing into run-rate savings. You talked about $600 million by 2017. How much of that is in the numbers right now?

Riaz Ahmed – TD – Group Head and CFO

Meny, it's Riaz. I think we're entirely on track with the guidance that we had given at the time that we took the restructuring charges.

Meny Grauman – Cormark Securities – Analyst

Okay. And then I just noticed, related to that, the occupancy and equipment categories on the expense side had noticeable declines quarter-over-quarter, and I just want to know how much of that was just sort of maybe seasonable noise or how much of that was a product of the restructuring efforts?

Riaz Ahmed – TD – Group Head and CFO

I think you'd probably have a combination of both in there, Meny, and I think with the way that quarter-over-quarter numbers work out, I'm not so sure that I could give you more specifics than that.

Meny Grauman – Cormark Securities – Analyst

Okay. Thank you.

Operator

We'll now take our next question from the line of Ebrahim Poonawala with Bank of America Merrill Lynch. Please go ahead.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Good afternoon, guys. Just in terms of, if you can, Riaz, talk a little bit about the capital build. It was pretty strong this quarter. As you look out over the next 6 months to 12 months, if you can remind us what's sort of the capital deployment priorities are? And also, if you can sort of tell us what the outlook is in terms of acquisition opportunities in the U.S., if there's a geography we are focused on or particular assets that you would prefer to buy?

Bharat Masrani – TD – Group President and CEO

Ebrahim, this is Bharat Masrani. On capital, as I've said it previously, we look at capital deployment strategies on a regular basis with various items coming into consideration.

We start with, how much are we going to need to support our core businesses with respect to growth? We also look at, are there any particular gaps within our franchise that we need to either acquire or build that is going to require capital to be used? And we have done that consistently over the past little while. We also look at how the regulatory regime might be emerging or what expectations might be out there. So that is as well looked at.

And then, as you pointed out, we also look at potential M&A activity in our markets. And for us, we have a stated strategy of looking at acquisitions in the U.S. I previously said that we would look at – certainly look at any asset plays. You've seen us play an active role in the card space. Those are transactions and deals that we are very happy with, and would love to have more. With respect to bank acquisitions, we've said in the Southeast of the U.S., if there are tuck-ins available, we would certainly be interested and look at them seriously.

So, there is a whole framework we use from a capital deployment perspective, and that's how we assess the level of capital we may need or what else we should be doing.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

That's helpful. Thank you.

Operator

We'll now take our next question from the line of Gabriel Dechaine with Canaccord Genuity. Please go ahead.

Gabriel Dechaine – Canaccord Genuity – Analyst

Good afternoon. You can hear me?

Bharat Masrani – TD – Group President and CEO

Yes.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. So, I just want to ask about that collective. It's the fifth quarter in a row, I believe, you're boosting the collective. I get that there's portfolio growth driving that, but is it really a regular item that we should expect every quarter? It has been five in a row.

And it seems to me like it might be also putting you in a better position ahead of the IFRS 9 transition, which is in first quarter 2018, I believe. Is that one way of thinking about it?

Mark Chauvin – TD – Group Head and Chief Risk Officer

It's Mark, Gabriel. I don't believe we did it last year. So, it would be four quarters in a row that you'd be correct on that. And I would say that if you look at this quarter's increase, the $40 million that was driven in the Canadian business, which includes Wholesale, was really primarily due to negative migration in the oil and gas sector specifically. And we incurred that in the early part of the quarter, but we've really seen it taper off since then. So I'm not looking for that to continue.

The balance of the increase was really in the U.S. and I'd say it is split two ways. Half pretty much goes to volume and you would expect the provisions to increase with volume. And the other half would be for foreign exchange. It's not linked to forthcoming IFRS 9.

Gabriel Dechaine – Canaccord Genuity – Analyst

Do you have any indications on IFRS 9 yet?

Mark Chauvin – TD – Group Head and Chief Risk Officer

No. We're working through it. But at this point, and looking at the methodology and how it's implemented, I'd say we're a couple of quarters away from having clarity on what the impact would be.

Gabriel Dechaine – Canaccord Genuity – Analyst

Are you still thinking about it as a capital issue primarily as opposed to an earnings issue, like on the transition, because I know some estimates out there are for pretty big increase in the collective provision for banks, not necessarily Canadian banks, but it would affect you.

Riaz Ahmed – TD – Group Head and CFO

I think, Gabriel, whatever catch-up adjustment there is to the allowance would certainly affect capital, and we'll await guidance from regulators on how to deal with that. But I don't think we view it as a capital item. It is an accounting item as to how you provision against future credit losses and that's how we're looking at it.

Gabriel Dechaine – Canaccord Genuity – Analyst

All right, okay. Just to follow up on Meny's question. Teri, I appreciate the response you gave on all the things that you're encouraged by the growth that you're seeing in your business. I'm just wondering, is this, do you view this as a disappointing quarter or last few quarters? The growth has been on the soft side. Or do you think this is more of a transition period and we'll have better results out of the Canadian Retail business in the next year or so?

And then, I'll split the next one for Mike. Margins were up in the U.S. Is that something we should expect more of or do you expect it to stay flat from here on out because the Fed rate hike outlook doesn't look so rosy right now?

Teri Currie – TD – Group Head, Canadian Personal Banking

It's Teri. For the first part of it, I'd say our results were sort of as-advertised this quarter, and I think that, as I said before, and as we talked about in the fall, we've got some really strong levers of growth in terms of deepening relationships with our existing customers that I do believe will pay off as we move forward, and we continue to remain committed to the medium-term objectives that we talked about.

Gabriel Dechaine – Canaccord Genuity – Analyst

That was like 5% to 10% growth or 7%, I think?

Teri Currie – TD – Group Head, Canadian Personal Banking

7% at the Canadian Retail level.

Gabriel Dechaine – Canaccord Genuity – Analyst

Yeah. Okay.

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

And this is Mike. On the other part of your question, so, yeah, we had 3 basis point increase this quarter. It was really up for two reasons. One was some positive accounting benefit related to our balance sheet management. This is revenue neutral but resulted in higher net interest income and lower other income. And then, the other reason was slightly better deposit margins because LIBOR was a bit higher, and that benefits our rate-sensitive deposits.

In terms of outlook, we'd still say that we expect relatively stable margins and NIM for the near term and frankly, both on deposits and loans.

Gabriel Dechaine – Canaccord Genuity – Analyst

Thank you.

Operator

Your next question will come from the line of Robert Sedran with CIBC. Please go ahead.

Rob Sedran – CIBC World Markets – Analyst

Hi. Good afternoon. Actually, just a quick follow-up on that question from Gabriel on the collective. Just to be clear, in terms of the part that was related to migration, to the extent the losses do present themselves and are identifiable, will they require a fresh specific or are you going to be able to dig into the collective to cover them?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Well, the way it would work is, a collective allowance is for the performing book, so you have a certain amount that's set aside based upon the risk rating. When it becomes impaired, it comes out of the collective, so whatever was there is gone or is reversed, and you, based upon the specifics of the loan, set up a specific provision.

So the answer is that, yes, the specific is covered partially by what was in the collective. It depends upon the size of the specific.

Rob Sedran – CIBC World Markets – Analyst

Okay. So it's not like – because otherwise it sounds like you'd have to reserve for the same loan twice, but it sounds like you're...

Mark Chauvin – TD – Group Head and Chief Risk Officer

No. You don't. There are no collectives against impaired loans, only specific.

Rob Sedran – CIBC World Markets – Analyst

Understood. Okay, thank you.

Operator

We'll now take our next question from the line of Sohrab Movahedi with BMO Capital Markets. Please go ahead.

Sohrab Movahedi – BMO Capital Markets – Analyst

Thank you. Mike, the U.S., maybe can you talk a little bit about the – I mean, I know Bharat talked about the vibrant economy over there and the expectations and the outlook over there.

If you can speak a little bit to your business and the types of volume growth and operating leverage that you were able to deliver this quarter and how you feel about that as far as the next, call it, four quarters to six quarters are concerned?

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

Yeah. So I'll just start by saying that given our size in the U.S., there's a limit to how much our performance correlates with the overall economy. It's obviously better if it's strong. Our view is that our outlook is fairly good just based on the opportunities we have in the business, and the competitive advantages we enjoy.

In terms of the economy, the consumer is certainly strong, and we're seeing that in our business. We're seeing strong business lending growth as well. There's a bit of a paradox there in the sense that we've seen some weaker investment numbers in the U.S. economy recently, but I think it helps us that we're underweight in some of our U.S. lending businesses, and have built strong capability in teams. And our brand resonates well with corporates and commercial customers, so we're finding that we're being very successful in growing that business.

The operating leverage was particularly strong this quarter. We're enjoying good revenue growth right now as volumes are good and our margin is stable, and my sense is that volumes will continue to be strong. It's possible that in some categories, it'll moderate a bit. Those might be commercial and auto, although I'm not seeing that yet. But as was the case with Teri's comments, we're very disciplined about our credit, and we'll continue to do what's right for our franchise. And for the foreseeable future, I see our growth being good in the U.S.

And in terms of expenses, hopefully we'll be able to sustain the kinds of expense growth that roughly or broadly you're seeing right now, and therefore, we should be able to continue to deliver positive operating leverage.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. And just to go back to the collectives and business volume growth, there is no – you're not reaching, I'll call it, as far as credit quality or your risk appetite to generate the volume growth here, are you?

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

No. To be clear, the business that we're putting on is very high quality. In fact, as we put on new business, whether it is in commercial or other areas, it's improving our portfolio. Whether you're looking at lagging indicators or leading indicators, we're not seeing any evidence of deterioration in the credit portfolio. I'll invite Mark to comment because he might be more objective.

Mark Chauvin – TD – Group Head and Chief Risk Officer

I think it's safe to say, with the exception of the oil and gas sector, which we now see has kind of stabilized, portfolio quality throughout all of our other portfolios is really at very strong levels. That's certainly true of the U.S. And the reality is that volume growth will bring with it an increase in the collective. I mean, that's just the way it works. If you're putting on incremental loans, everything else being equal, you're going to have an increase in your collective allowance.

Sohrab Movahedi – BMO Capital Markets – Analyst

So, Mark, you're saying nothing really to read into a bank whose CEO is a former Chief Risk Officer that it's adding to the collectives. This is just – we shouldn't read too much into this?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Well, no. I would say that we do an analysis of our change in collectives because it tells us a lot about our portfolio. And there is – you look at it, increases are driven by volume, or they can be driven by risk, which is migration which was in the oil and gas sector, but not in the other parts of the portfolio, or methodology change. And really what we saw this quarter was, other than the oil and gas sector, was volume and the quality in the U.S. kind of offset some of the increase of this improvement in the collective.

Bharat Masrani – TD – Group President and CEO

Sohrab, I would just add that regardless of who the Chief Risk Officer of the Bank might be, TD has always had a tradition of solid risk management, and I'm glad to report that that continues.

Sohrab Movahedi – BMO Capital Markets – Analyst

Glad to see its continuing. Thank you.

Operator

We'll now take our next question from the line of Sumit Malhotra with Scotia Capital. Please go ahead.

Sumit Malhotra – Scotia Capital – Analyst

Thanks. Good afternoon. My questions will be for Teri on Canadian P&C.

I was interested that you stated that you feel you're still taking market share in residential mortgages. Because when I look at the last page of your supplement, it looks like, for the past six months, the resi mortgage balances in Canada have actually been pretty flat. And I think we can agree that this quarter, in particular, is usually one that we have seasonal strength.

Before you answer on that, I just want to say it. I don't necessarily think that slowing the pace of growth in this business is a bad thing, given where we may be in the cycle of the housing market, but just wanted to come back to you and maybe Mark. It's tough to see from these numbers how you're taking share. And secondly, has there been any deliberate change on your part in terms of origination standards that has resulted in the slower pace of growth?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, on the share, obviously those are lagged numbers that we get externally. So I would say those numbers are the most recent that we have to measure how we're doing. In terms of this quarter, we had record Mobile Mortgage sales force originations and record branch originations. So we've had strong growth in the portfolio.

I would say we've done that by maintaining the same discipline that we've had in the past. So I'm not concerned about the quality of the portfolio or of those originations. We'll have to wait and see through external reporting because obviously it is lagged whether that does play out in increased share, but for what we know today, we are continuing to grow solidly.

Mark Chauvin – TD – Group Head and Chief Risk Officer

And maybe – it's Mark. And from my perspective on the risk of new originations, which is really what you're getting at. I think the key part is to have a consistent underwriting strategy or underwriting guidelines that are the same throughout the cycle so that they don't get weaker in exuberant times. We're very strong at trying to do that. But, of course, over the last three years, four years, five years of increasing home prices, you do look at them and you say, I want to make sure that I'm comfortable with these underwriting standards and that they're good for our customers, and that they will pass that test.

So there have been some changes, clearly. We put a lot more focus on income confirmation to ensure that the mortgages that we do provide to the individual, that they can service them certainly at the time that we provided it. When we make exceptions, we put a structure in place to say, let's elevate the thought process, the decision making. So when you're making exceptions that are out of the underwriting standard, that's not a bad thing as long as there's a compensating factor, just to make sure there's a compensating factor. And the other is we put more focus over appraisals just to make sure that there's a second pair of eyes on them and that we're comfortable with them.

So these are things that just naturally occurred over the last three to four years, and clearly, they're going to have an impact on areas that grow really quickly because our policy is not to deviate from them regardless of how the market is going.

Sumit Malhotra – Scotia Capital – Analyst

That's some really good color. And I want to reiterate this point again. Like, we might be sitting here a year from now and saying, hey, you guys were right to perhaps have a slower pace here. And for Teri, I mean, you've got some external data. Our data is the stuff that the banks tell us. And on that basis, we can see here that the mortgage growth has been slower, and again. I appreciate that – the color from Mark because I think it makes sense, given where we are on the cycle, to perhaps put some changes in place.

Let me wrap up. The other question I had for this segment was on expenses. And we know you announced a couple of restructuring charges last year. And on the back of that, we're seeing, if I round the last four quarters on a year-over-year basis, the expense growth basically comes to zero.

And, Teri, as we look to 2017, I'm sure some of the benefits, if I can call it that, from the restructuring will still be in place. But when we look at this lack of growth in expenses and compare that to some of the investments you're making in the business, what is a more reasonable level of expense growth that we should expect for Canadian P&C in 2017? I'd be surprised if it's zero again, but I'll hear that from you.

Teri Currie – TD – Group Head, Canadian Personal Banking

So, I wouldn't expect zero. As we move forward, obviously, we're continuing to pay attention to delivering over the course of the year a positive operating leverage, so that'll be something that as we think about our plans for 2017, that we manage ourselves to.

Over the course of the year, there may be some quarter-over-quarter differences, and we will continue to make the investments we need to make. I wouldn't expect us to return to prior levels of expense growth.

Sumit Malhotra – Scotia Capital – Analyst

Thanks for your time.

Operator

We'll now take our next question from the line of Doug Young with Desjardins Capital Markets. Please go ahead.

Doug Young – Desjardins Securities – Analyst

Hi. Good afternoon. I guess my first question is for Riaz. The model refinements in the CET1 ratio, by my math, added about I think it was around 31 basis points to the CET1 ratio. And I think, and I apologize, I think you mentioned there is an offset in your prepared remarks, and I'm just wondering what that offset was and if you can give a little more detail?

And then just around the movement of the U.S. Retail portfolio to the AIRB methodology. Is that mostly done now for the U.S.? Or are there more portfolios that could move over, and if so, can you quantify what the potential impact would be?

Riaz Ahmed – TD – Group Head and CFO

Yes. I think on the CET1 impact, Doug, you have to look at we transitioned U.S. Retail portfolios and we also went to the Advanced Measurement Approach for Operational Risk. So that is one offset that you would see. So in your flow of risk weights, you'll see that offset.

The other thing you have to just be mindful of is when a bank is reporting both on standardized and AIRB basis, the Basel calculation around expected credit losses are compared to your general allowances and adjustments are made to your capital that you'll see in our capital calculations in the supplementary package. So the net of all of that – well, it turned out to be about neutral.

The additional portfolio that remains to be transitioned is the U.S. non-retail portfolio, and that is still a work-in-progress.

Doug Young – Desjardins Securities – Analyst

Any timing of when? Would that be a fiscal 2016 or is that most likely a fiscal 2017 event?

Riaz Ahmed – TD – Group Head and CFO

I think it's hard to call. As you know, there's a lot of modeling and work and data involved, and then there's the regulatory approval process. So I think it's difficult to call what the timing on that would be.

Doug Young – Desjardins Securities – Analyst

And then just two maybe follow-up questions for Canadian Banking, for Teri, I guess. I think just looking for a little more color on your NIM outlook because it looked like NIMs were a little bit better than what we expected this quarter.

And then also on the credit side, it looked like there may have been a bump in auto lending. Just wondering if you can elaborate on that. Thank you.

Teri Currie – TD – Group Head, Canadian Personal Banking

So, on the NIM, that was a seasonal change, as Riaz mentioned, and so we would stay with our guidance that you've had of modest downward pressure, a combination of low interest rates, product mix and competitive pricing. On auto lending – are we talking volumes or NIM?

Doug Young – Desjardins Securities – Analyst

No, more credit.

Teri Currie – TD – Group Head, Canadian Personal Banking

Yes. So, in terms of increased volume?

Doug Young – Desjardins Securities – Analyst

Is that what drove the higher PCL for auto lending? Volume? Or was there any...

Teri Currie – TD – Group Head, Canadian Personal Banking

There are a few factors. One of the main factors would be volumes.

Doug Young – Desjardins Securities – Analyst

But you're not noticing any material increase in delinquencies or any pressures on the credit side on that book?

Mark Chauvin – TD – Group Head and Chief Risk Officer

It's Mark. I'd say that on the consumer side, in the oil impacted provinces, that's an area that we have seen – we mentioned that we've seen increases there. I'd say the auto is probably the leading increase in that category. And they aren't big numbers, and they're offset by the rest of Canada, but clearly, that's where we're seeing it.

Doug Young – Desjardins Securities – Analyst

Okay. Great. Thank you.

Operator

We'll now take our next question from the line of Mario Mendonca with TD Securities. Please go ahead.

Mario Mendonca – TD Securities – Analyst

Good afternoon. First, a question, again, back to domestic banking. On page, I believe it's 5 of the supplement, we see that risk weighted assets are down to $99 billion from $110 billion last quarter. Maybe there's a simple explanation for that significant change, but I don't know it off the top of my head.

Riaz Ahmed – TD – Group Head and CFO

Mario, transition to Advanced Measurement Approaches for Operational Risk

Mario Mendonca – TD Securities – Analyst

That was the $10 billion to $11 billion move in the quarter?

Riaz Ahmed – TD – Group Head and CFO

Yeah.

Mario Mendonca – TD Securities – Analyst

Okay. By the nature of all the questions that are coming up, Teri, it's clear that the market is sort of collectively scratching, we're all collectively scratching our heads on why this premium domestic retail bank isn't keeping up with its peers.

So I know the banks do a lot of peer review. Is there anything you can think of from a structural perspective, maybe it's mix of loans, mix of deposits, or anything that would explain why TD has lagged over the last little while in domestic retail banking? I'm referring to margins, loan growth, a couple of things. Is there anything that you can point us to?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, on the margin front, the biggest factor has been low interest rates and the cost of funds for residential mortgages, in particular.

Mario Mendonca – TD Securities – Analyst

And do you think that TD is different in some respect from their peers? Because TD's margins have been materially lower or declining more than the peer group.

Teri Currie – TD – Group Head, Canadian Personal Banking

So we've had a pretty good look at that, and I think we feel that we're all in relatively the same place as it relates to NIMs and the outlook for NIMs going forward.

Mario Mendonca – TD Securities – Analyst

Year-over-year, TD's NIMs are down about 10 basis points so far – this is year-over-year in domestic retail. What we're seeing for the group is about half of that, maybe a little less than half. So there's nothing, then, Teri, you can point us to that would suggest – that would explain why TD's margins are lower or deteriorating faster.

Teri Currie – TD – Group Head, Canadian Personal Banking

Nothing beyond the lower interest rates, competitive pricing, and the cost of funds for mortgages.

Mario Mendonca – TD Securities – Analyst

Okay. And then in other income, just the fee side, that's another area where it does appear that the bank has lost some momentum relative to the peer group. Is there anything going on, on the fee side that you would point us to?

Teri Currie – TD – Group Head, Canadian Personal Banking

Nothing that I could point to particularly. I think on the fee side, the increases have been primarily due to re-pricing.

Mario Mendonca – TD Securities – Analyst

Okay. Thank you.

Operator

Thank you. And at this time, I would like to turn the call back to Mr. Bharat Masrani for closing remarks.

Bharat Masrani – TD – Group President and CEO

Thank you very much, operator. So just to wrap up, another good quarter from TD. And I'd like to take this opportunity to thank our nearly 80,000 TD bankers around the world. We're continuing to deliver legendary experiences to our customers, as well as continuing to deliver good performance for our shareholders. Thank you for joining us this afternoon, and see you at next quarter-end.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for your participation and you may now disconnect your lines.