# TD BANK GROUP
# Q2 2017 EARNINGS CONFERENCE CALL
# MAY 25, 2017

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## PRESENTATION

### Gillian Manning – TD – Head of Investor Relations

Thank you. Good afternoon, and welcome to TD Bank Group's second quarter 2017 investor presentation. My name is Gillian Manning, and I'm the Head of Investor Relations at the bank. We will begin today's presentation with remarks from Bharat Masrani, the bank's CEO, after which, Riaz Ahmed, the bank's CFO, will present our second quarter operating results. Mark Chauvin, Chief Risk Officer, will then offer comments on credit quality after which, we will invite questions from prequalified 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; Greg Braca, Chief Operating Officer, U.S Banking; and Bob Dorrance, Group Head-Wholesale Banking. Please turn to slide 2.

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's shareholders and analysts in understanding the bank's financial position, objectives, and priorities, and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes.

I 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 Q2 2017 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. TD delivered a strong performance in the second quarter, with net income and earnings per share both up 12% to $2.6 billion and $1.34, respectively. Our results reflect strong revenue growth, lower credit revisions and good expense management across our businesses, with a standout performance by our U.S. Retail Bank.

Our capital and liquidity metrics are equally robust. TD's CET1 ratio ended the quarter at 10.8%, down less than 10 basis points even after the completion of a 15 million share buyback in the quarter. And our leverage and liquidity coverage ratios remain strong. I'm very pleased with our performance so far this year. We have maintained our focus on growing profitable, client-centric businesses. We have benefited from favorable financial market conditions which have boosted activity in our Wealth and Wholesale businesses and increased margins on our sizable core deposit base. And we are making good progress on the business and strategic objectives we laid out at the start of the year. Let me now comment on each of our segments.

Canadian Retail net income rose to $1.6 billion this quarter, up 7% from a year ago. We had good revenue growth across our lending and fee-based businesses and saw a decline in credit provisions. We continue to originate good risk-adjusted loan volumes in the higher margin areas we have prioritized, including HELOC, commercial lending and business cards. We delivered strong growth in chequing accounts, winning more of our customers' trust in business, and we had robust growth in savings and business deposits.

We also continued innovating to improve the customer experience. In February, we launched an integrated digital experience that guides customers through the home buying process. We've seen 120,000 unique visitors since launch, with 1,500 appointments and calls generated to our branches and mobile mortgage specialists.

Our Wealth business performed very well again this quarter, generating 9% earnings growth and $11 billion in net asset growth, up 31% from a year ago with $2.8 billion in long-term fund sales. We continue to take share in our mutual fund and private wealth businesses. TD Asset Management was ranked the number one pension plan manager in Canada for the sixth year in a row according to Benefits Canada. And we drove innovative solutions in TD Direct Investing in Q2, migrating clients to our new active trading platform.

In our Insurance business, earnings grew 5%, and we introduced innovative new solutions here too. This quarter, we extended the platform enhancements we have been making by launching TD MyAdvantage, an app that helps customers save money on car insurance by encouraging them to develop safer driving habits. Take-up has been very strong with early results exceeding expectations. Customers love the way the app gives them timely advice and a driving score after each trip, so they can lower their premium by becoming better drivers.

Overall, I'm pleased with our progress in Canadian Retail. We've made disciplined choices about where to grow and invest. We've introduced changes to improve our advisory and distribution capabilities that are now bearing fruit. And we are seeing increased momentum in many of our businesses. These positive strides reflect good execution and a continued focus on our long-term objectives.

Before I wrap up with Canadian Retail, I would like to address two issues of interest to all of you. First, with respect to Air Canada's announcement earlier this month that it does not intend to renew its Aeroplan partnership with Aimia in 2020. Let me reiterate that it is business as usual with TD Aeroplan credit card customers at this time. Air Canada has stated that Aeroplan members can continue to earn and redeem miles until June 2020, and that it expects to make Air Canada flight available for Aeroplan redemption beyond 2020. Aeroplan has a stated objective of ensuring that its members retain access to strong redemption offering around air rewards in the future.

And for our part, we are committed to ensuring that our customers continue to be well-served. With our market leadership position in the credit card space and our compelling suite of other cards, including First Class Travel and new cards we are launching in June, I'm confident that we can continue to offer a strong value proposition and help our customers meet their goals.

Second, at our Annual Meeting a few months ago, I spoke to shareholders about negative assertions by some media regarding sales practices at TD and in the industry. I told them that what we were hearing was not our TD and did not reflect the experience of most of our employees. I also said we would review the concerns that were raised. We have largely completed the assessment with respect to Canadian personal banking, and I'm pleased to say that my view remains the same. I value the assessment and there are some ways that we can continue to improve. I also want to take this opportunity to thank our employees. I recognize that this period has been difficult for them. Our business results speak for themselves. Our people have continued to outperform. Our premier retail model remains intact and we will continue to win with customers by having the best employees.

Now, shifting to our U.S. business, U.S. Retail Bank earnings were US$554 million in the quarter, up 21% from last year. Revenue growth was strong again at 10%, reflecting good volume growth, higher deposit margins, and rising fee income. Provisions for credit losses declined from Q1 and also fell year-over-year. Expense growth was 2%, resulting in 750 basis points of operating leverage and reported segment ROE rose to a new high of 10%.

As I reflect on the performance of our U.S. business, the benefits of our customer centric model have never been more evident. We continue to gain market share and outgrow our peers, while remaining within our risk appetite. A deposit rich balance sheet gives us significant upside to higher rates and, with our franchise still relatively young, we have a meaningful opportunity to strengthen and deepen customer relationships.

We will continue to invest to support that growth, including moving forward with the digitization of our distribution strategy. Our latest innovation this quarter is Send Money, a person to person platform we launched by joining a new P2P payments network that includes the top U.S. banks. TD is the first issuer to market providing this newly developed user experience, a capability that will give us access to a significant share of U.S. checking account customers via instant transfers. It's an exciting step forward for our U.S. Retail business. I couldn't be more pleased with this performance and the contribution it is making to advancing our strategy of becoming a premiere North American retail bank.

Turning to our Wholesale Bank, net income was $248 million this quarter, up 13% from a year ago. Segment revenue increased 7% driven by higher corporate lending fees and client activity in our equity trading business. We also continued to make investments to build our U.S. dollar business, adding people to our investment banking, debt capital markets and trading teams, and enhancing our product offerings. TD Securities acted on several notable deals in the quarter. We served as sole underwriter and bookrunner for Canadian Natural Resources on its $11.1 billion acquisition of Royal Dutch Shell's oil sands assets, the largest sole E&P bank underwriting in Canadian history. We were joint bookrunner on AltaGas' $2.6 billion subscription receipt offering to partially fund its purchase of WGL Holdings in the U.S. – a cross-border transaction that required a coordinated, multi-product solution, including M&A advisory, equity, credit, and high-yield capabilities. And we were joint bookrunner on General Motors Financial's US$3 billion senior notes offering.

Overall, Q2 was another good quarter for our Wholesale Bank and for TD as a whole. Together with the strong performance we delivered in the first quarter, total bank earnings are up 13% year-to-date and EPS is up 12%. These impressive results speak to the power of our diversified business mix as well as our ability to execute with excellence amidst a rapidly changing environment. Business and market conditions may fluctuate, but our focus will not waver. We remained committed to driving profitable risk-adjusted organic growth, continuing to adapt and innovate, and supporting our clients and customers in achieving their financial goals.

To wrap up, I'm very pleased with our first half results. I'm confident in our strategy, proud of the hard work and dedication of our people, and excited about what we can accomplish in the months ahead.

With that, I will pass it over to Riaz.

**Riaz Ahmed – TD – Group Head and CFO**

Thank you, Bharat. Good afternoon, everybody. Please turn to slide 4. This quarter, the bank reported earnings of $2.5 billion and EPS of $1.31. Adjusted earnings were $2.6 billion and adjusted EPS was $1.34, both up 12% year-over-year.

Revenue increased 3%, reflecting retail loan and deposit growth, higher deposit margins in the U.S., and higher fee-based income related to wealth asset growth and corporate lending. On a taxable equivalent basis, revenue increased 7%. We had higher than usual tax exempt dividend income this quarter due to increased client activity and equity trading, which also resulted in a lower tax rate. Expenses increased 1%. Adjusted expenses increased 4% primarily reflecting investments in technology and business initiative and higher employee-related expenses including variable compensation. Credit losses fell quarter-over-quarter and year-over-year. And results were strong across all of our segments.

Please turn to slide 5. Canadian Retail segment net income was $1.6 billion, up 7% year-over-year, reflecting volume and fee-driven growth and lower credit losses. Earnings increased across all of our businesses – personal banking, business banking, wealth, and insurance, generating attractive ROE. Total loan growth was 4% year-over-year, with increases in personal lending and business lending volumes. Deposits increased by 11%, reflecting growth in core chequing and savings accounts and business deposits. And wealth assets grew 12%. Margin was 2.81%, down 1 basis point quarter-over-quarter. We continue to expect moderate downward pressure on margins for the rest of the year.

PCL declined by $34 million quarter-over-quarter due to lower provisions in auto lending and by $27 million year-over-year due to lower provisions in auto lending, cards, and personal lending. Annualized PCL as a percentage of credit volume was 26 basis points, a decrease of 4 basis points year-over-year. Expense increases year-over-year reflected higher employee-related expenses, including revenue-based variable expense growth in the wealth business, higher investments in the strategic technology and digitization initiative, and enhancements to our product suite.

Please turn to slide 6. U.S. Retail net income was US$636 million or $845 million in Canadian dollars, both up 18% year-over-year. The U.S. Retail Bank earned US$554 million, up 21% year-over-year. The strong result was driven by 10% revenue growth, reflecting higher loan and deposit volumes, higher deposit margins, and fee income growth, as well as lower credit losses and well-managed expenses. Total loan growth of 6% and deposits increased by 9%, both reflecting growth in personal and business customer segments.

Net interest margin was 3.05%, up 2 basis points quarter-over-quarter. The increase reflects stable loan margins and a 6 basis point increase in deposit margins, partially offset by balance sheet mix as deposits outpaced loan growth. Deposit growth reflects strong customer acquisition and higher balances and contributes to net interest income growth. But when it outpaces loan growth, it has the effect of dampening NIMs, in our case, as excess deposits are invested in high quality, lower-yielding securities. While many factors affect margins, we expect continued improvement with further U.S. rate increases.

PCL decreased 41% quarter-over-quarter, primarily reflecting seasonal decreases in the credit card and auto lending portfolios. And PCL decreased 7% year-over-year as higher personal banking provisions were more than offset by lower business banking provisions. Expenses increased 2% year-over-year reflecting volume growth and higher employee cost and higher FDIC charges, all partially offset by productivity savings. Earnings from our ownership stake in TD Ameritrade increased 5% year-over-year. And as Bharat mentioned earlier, we are very pleased to have achieved a segment ROE of 10% this quarter.

Please turn to slide 7. Net income for Wholesale was $248 million, up 13% year-over-year reflecting higher revenue and a net recovery of credit losses, partially offset by higher non-interest expenses this quarter and a lower effective tax rate a year ago. Revenue increased 7% reflecting higher corporate lending fees and increased client activity in equity trading, partially offset by lower fixed income trading. PCL was a net recovery of $4 million, reflecting the recovery of specific provisions in the oil and gas sector. Non-interest expenses increased year-over-year, reflecting continued investments in our U.S. dollar business, including adding bankers, enhancing product and e-trading capabilities, and the impact of the Albert Fried acquisition.

Please turn to slide 8. The Corporate segment posted an adjusted loss of $102 million this quarter compared to a loss of $120 million in the same period last year. A smaller loss reflects a decrease in net corporate expenses year-over-year and an increase in the contribution from other items. The higher contribution from other items reflects provisions for incurred but not identified credit losses in the same quarter last year, and higher treasury revenue this quarter, offset by higher expense provisions this quarter and the positive impact of certain tax items in the same quarter last year.

Please turn to slide 9. Our Common Equity Tier 1 ratio was 10.8% at the end of second quarter, relatively flat to Q1 2017. We had strong organic capital generation this quarter and completed our previously announced normal course issuer bid, repurchasing 15 million shares. Our leverage and liquidity ratios are consistent with last quarter's levels. I will now turn the call over to Mark.

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

Thank you, Riaz, and good afternoon, everyone. Please turn to slide 10. Portfolio credit quality remained strong during the quarter, as evidenced by reductions in gross impaired loan formations, gross impaired loans, and credit losses. Gross impaired loan formations ended the quarter at $1.15 billion, down $127 million or 2 basis points, driven by reductions in Canadian commercial and indirect auto gross impaired formations. There were no new formations in the Wholesale portfolio.

Turning to slide 11. Gross impaired loans are down $109 million or 4 basis points for the quarter at $3.29 billion. The reduction is attributed to resolutions outpacing formations in the U.S. HELOC, U.S. Commercial and Canadian RESL portfolios offset by a $78 million negative impact of foreign exchange.

Moving to slide 12. As indicated in previous quarters, U.S. strategic card PCLs are reported on a net basis for segment reporting, including only the bank's contractual portion of credit losses. For the purpose of the credit slides, however, we continue to report gross losses to better reflect portfolio credit quality. Provisions for credit losses are down 7 basis points on both a quarter-over-quarter and year-over-year basis. For the quarter, notable PCL trends by business segment are Canadian Retail loss rates remained at cyclically low levels. Further recoveries were recorded in the Wholesale oil and gas segment with no new credit losses. Consistent with historical seasonal trends, U.S. credit card and U.S. auto portfolio losses reduced during the quarter. And U.S. commercial credit losses reduced. To conclude, the key takeaways this quarter are credit quality remains strong across the bank's portfolios, and we remain well-positioned for continued quality loan growth.

With that, operator, we are now ready to begin the question-and-answer session.

## QUESTION AND ANSWER

**Operator**

And we'll take our first question from John Aiken from Barclays.

**John Aiken – Barclays – Analyst**

Good afternoon. Riaz, just diving into the ROE on the U.S. segment. Taking a look, we had earnings year-over-year growing by 17%. Doesn't look like the risk weighted assets have shown some strong growth, yet, the average common equity in the group is really hasn't seen the same level of growth. Can you remind me how the equity is allocated across the segments into the U.S. Retail in particular?

**Riaz Ahmed – TD – Group Head and CFO**

John, the risk weights are allocated in accordance with the regulatory requirements. So you will remember that for U.S. Retail, we are AIRB-approved and for non-retail, we follow the standardized methodology. And that's the basis on which the capital is allocated to this segment, John.[1]

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

John, this is Mike. I might just jump in and not miss the opportunity to tell you that we don't talk very much about ROE in the U.S. But it's something we're very, very focused on, and all of our efforts whether it's expense management or acquiring more customers or deepening relationships, even a lot of efforts on capital optimization have obviously helped us to a better place over time. But we will stay very focused on that going forward.

**John Aiken – Barclays – Analyst**

Thanks, Mike. And that's leading into I guess my follow-on question that with this focus on ROE and improvements that we've seen, how does that impact the discussion about inorganic growth on a go-forward basis on your platform?

**Bharat Masrani – TD – Group President and CEO**

John, this is Bharat. We've said it many times that if the right compelling opportunity were to present itself, we look at it very seriously. Obviously, the card space has been very attractive – the partnership deals that we've done. And should a similar present itself we will look at it seriously. And I've also said previously that if there were banking type of deals available, particularly in the southeast of the U.S. and if it were helping us in accelerating our growth aspirations there, then those will be quite interesting for us.

So we are not – we don't need to inorganically grow our franchise. We have the scale. We have the brand positioning and obviously the performance not to compel us to acquire. But should a compelling situation arise, we look at it very seriously.

**John Aiken – Barclays – Analyst**

[1] For further clarity, capital is allocated to the segment following regulatory capital principles, adjusted for certain items.

Great. Thank you. I'll re-queue.

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**Operator**

We'll go to our next question from Meny Grauman with Cormark Securities. Please go ahead.

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**Meny Grauman – Cormark Securities – Analyst**

Hi. Good afternoon. The question I have is also about the U.S. Good results in the U.S. but it seems like you are able to buck some macro trends that we're seeing across U.S. market, including very strong commercial loan growth. Even though we're seeing the Fed data point in another direction, we're also hearing about credit issues in areas like credit cards and auto loans.

And I'm just wondering from your perspective on how you're able to avoid those negative trends, what's different in your business that's allowing you to put up these results and not seemingly show any of these signs of issues that seem to be going around here?

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

So, Meny, it's Mike. I think you're raising two issues. One is the issue of loan volume growth and the other is credit quality. So, I'll just make a few comments, and then I'm going to ask Greg Braca to comment on the loan volume issue. He's been responsible for both the auto finance business and the corporate lending business which a lot of this pertains to, and then Mark can cover the credit quality issue.

So just by virtue of context – by way of context, we have said for the last few quarters that we might well see some tapering off of our loan growth and particularly in commercial and auto, and that is what has happened as we expected. We're still outgrowing our peers though. I would also say that TD is always disciplined about its credit adjudication, and that goes in good times and bad times and that's helped us greatly over the years. But at this point, given where we are in the credit cycle, we're being quite disciplined as well in our pricing. And if that means slightly lower volumes, that's okay with us.

Having said all of that, loan growth has moderated a bit, but we're still outperforming. So, I'll just let Greg add some color and then Mark can take on the credit quality issue.

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**Greg Braca – TD – Chief Operating Officer, U.S. Banking**

So thanks, Mike. As noted, we continue to still take share, in aggregate, in our lending business and we're quite bullish on our ability, all things being equal going forward, to continue to grow our loan portfolio. As Mike noted, we have been saying, we've had some very strong double-digit C&I growth for the last few years and we've been calling that down, that as we start coming in to our own natural size across very many industries and businesses, we would naturally see a slower growth in C&I on a relative percentage basis year-over-year.

As well in the auto business, we've also had double-digit growth. And we said we're not going to chase volume for the sake of return or credit quality, and you're seeing a moderation in the auto space there. In Q2, I would just also call out that, in Q1 and Q2, we've seen some slowdown in general across all commercial markets. A couple of things have been going on. Higher interest rates, we've seen clients staying on the sidelines or hitting the bond market and retiring bank debt, and we've also seen less CapEx spend. And in the U.S., we've decidedly seen a lot of our commercial clients sitting on the sidelines for the last couple of quarters, with a wait-and-see attitude, with everything from decisions on taxes, to infrastructure spend and the rules of the road in the U.S. with the new administration. So, notwithstanding all of that, we continue to take share.

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

And Meny, on the side of U.S. credit quality, I remain very comfortable with the overall quality throughout the portfolios. We always try to follow very disciplined lending standards through a cycle and we really are avoiding the more volatile subprime categories. There isn't any throughout the portfolios.

The experience of the second quarter was very close to our expectations. As we felt, given the seasonality nature of the cards and the indirect auto portfolio, you would expect to see a decrease in Q2, which we saw. And also commercial loan losses in Q2 were very low. Now, I'm not looking for major increases, but you can't have really low losses for extended period of time. So I would look for a modest increase, maybe in the next quarter.

But from a quality perspective, I prefer to look at loss rates, and we're really in the current economic environment, and barring a significant change in that, we're looking at the loss rates in the U.S. staying relatively consistent to what we're seeing in this quarter and for the balance of the year.

**Bharat Masrani – TD – Group President and CEO**

Meny, this is Bharat. Just to add to that, we've been talking about this for a few years now. The footprint we have in the U.S., the discipline that Mark, Greg, and Mike talked about – that we avoid certain sectors, this has been the TD tradition, and not going out of footprint, lending, that's been a key component of our strategy as well. And all those things combined to make our franchise what it is.

So, yes, if you are in the lending business, once in a while, you're going to take losses like any other bank. But I'd like to think that we would continue to be on an outlier status given our stated strategy, and how we're executing against them.

**Meny Grauman – Cormark Securities – Analyst**

Appreciate the detail. Thank you.

**Operator**

And we'll take our next question from Steve Theriault with Eight Capital. Please go ahead.

**Steve Theriault – Eight Capital – Analyst**

Thanks very much. I had a question for Teri. But first, just to follow up, Riaz, you said in your opening remarks, you expect further NIM improvement in the U.S. with more Fed rate hikes. So I just want to make sure I understand that. In the absence of additional hikes, so all else equal, are you looking for the NIM to be flat or down with the mix changes if deposits continue to grow faster than loans, or is there any benefits still left from the previous rate hikes over the last little bit?

**Riaz Ahmed – TD – Group Head and CFO**

There would be, Steve, some left from previous rate hikes. But I'd say that absent further Fed rate increases or steepening of yield curve that we would bump around where we are now, with a little bit of a positive bias.

**Steve Theriault – Eight Capital – Analyst**

Okay. That's helpful. Thanks. And then for Teri, I was hoping you could speak to a little bit why the HELOC book has been growing considerably faster than the mortgage book. I know they don't necessarily grow at the same pace and I remember times where the inverse was true but it's interesting that the mortgage growth is only 1% while the HELOC's continue to grow in the mid-single-digit range. And I guess I'm wondering specifically if the HELOC growth is more drawdown related versus origination related. Any color there would be helpful.

**Teri Currie – TD – Group Head, Canadian Personal Banking**

For sure. Thanks, Steve. So this is part of our stated strategy in terms of growing our products where we have an embedded growth opportunity. So we're quite pleased with the progress we're making. FlexLine is a better product for the right customer in terms of being more flexible and it's also more profitable for us. We have been tilting our origination, again for the right customers. So this is an origination story at kind of almost 40% of originations now in this category.

And so, this is exactly aligned with our strategy. We're pleased with how it's performing.

**Steve Theriault – Eight Capital – Analyst**

Is that also a bit of a tilting towards uninsured specifically or is that...

**Teri Currie – TD – Group Head, Canadian Personal Banking**

Not necessarily. We've been improving the FlexLine product to allow it over time to have the same characteristics and choices of our regular mortgage product.

**Steve Theriault – Eight Capital – Analyst**

Okay. And I guess while I have you, I thought I'd ask on Aeroplan. I remember when the transaction was done, I think it was 2014, that Aeroplan was expected to become more integrated with some of the other offerings like deposit products and whatnot, maybe mortgage products.

I know that was the initial intention. But I'd be curious to hear a little bit of how far that's gone. I've seen some promotional miles offerings but I was hoping if you could give us a quick sense of how integrated the points program is in your product set and if you expect any changes. I know Bharat said no changes for the card customer, but I'm wondering if you're thinking of any changes in terms of ancillary offering?

**Teri Currie – TD – Group Head, Canadian Personal Banking**

So for sure, no changes for our card customers. And in fact, we're feeling comfortable with our overall competitiveness of our cards offering, both First Class Travel and Aeroplan give our customers in the travel category very good choice. To your specific question around other uses or usage of the points, we've tried some things and it's been limited and we don't anticipate sort of any change going forward from what we've been doing historically.

**Steve Theriault – Eight Capital – Analyst**

Thanks very much.

**Operator**

And we'll take our next question from Nick Stogdill with Credit Suisse. Please go ahead.

**Nick Stogdill – Credit Suisse – Analyst**

Hi. Good afternoon. My question is also for Teri. Just on the expense growth this quarter, so we saw some improvement. I'm just wondering if positive operating leverage for the full year is still a target for Canada.

**Teri Currie – TD – Group Head, Canadian Personal Banking**

We absolutely continue to expect positive operating leverage for the full year, the expense levels to remain at this level, and the growth levels to taper off through the year.

**Nick Stogdill – Credit Suisse – Analyst**

Okay. Thank you. And then maybe for Mark, just on the auto lending in Canada. Is it really an improvement in Western Canada that's driving lower PCLs and lower formations?

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

Yeah. So Nick, I'd say there's two major factors. One is an improvement in the oil-impacted regions, and that's kind of working its way through the systems. So – but the other factor and is equally prominent is that it's really improved collection strategies. We did have some operational issues as we brought things together last year that resulted in the increase, and we've worked our way through those. And that's what we're seeing that's contributed to lower losses this year.

**Nick Stogdill – Credit Suisse – Analyst**

Okay. Thank you. And then just a quick one. Just an update on the Scottrade acquisition. Can you refresh us when that's expected to close? And then when you announced that purchase, did you factor in higher rates into the accretion outlook?

**Bharat Masrani – TD – Group President and CEO**

So this is Bharat, Nick. I think we have said that we expect the transaction to close around somewhere in the fall timeline. That continues to be the case. And I'll let Riaz talk about the assumptions we had made.

**Riaz Ahmed – TD – Group Head and CFO**

Yeah. Nick, whenever we look at the acquisitions or just general business planning, we look at a number of scenarios on the interest rate front. And so we look at everything on a flat rate basis but also look at sensitivities for the impact for interest rate increases. So both – all the scenarios would have been considered in the acquisition.

**Nick Stogdill – Credit Suisse – Analyst**

Okay. Thank you.

**Operator**

And we'll take our next question from Gabriel Dechaine with National Bank Financial. Please go ahead.

**Gabriel Dechaine – National Bank Financial – Analyst**

Good afternoon. I want to ask about the big TEB adjustment this quarter. I get that there's an adjustment to your tax, but also, when you have these types of trading activities, you – the negative revenue impact. But I'm just wondering, what happened this quarter to drive such a large amount of TEB revenue? We see it in the tax reconciliation as a big $307 million dividend received figure in there. And at the root of my question is how repeatable is that type of performance because you call it out as higher than usual equity trading activity?

**Riaz Ahmed – TD – Group Head and CFO**

Yeah. I think, Gabe, I think you should think about it just in the ordinary course of all kinds of client activity. So sometimes this kind of activity is elevated, other times underwriting is elevated, other times M&A is elevated. So it's all client-driven and a function of what the client flows look like.

**Gabriel Dechaine – National Bank Financial – Analyst**

But there wasn't anything in particular that you could call out that boosted this activity?

**Riaz Ahmed – TD – Group Head and CFO**

No, I think it is simply client demand activity. So, clients are active is what I'd like to call out.

**Gabriel Dechaine – National Bank Financial – Analyst**

Okay. Then on page 1 of your supplement, then, I admit I've never really looked at this even though it's page 1. But slide – sorry, line 35, we see the after-tax impact of a 1% increase in interest rates. I'm just wondering, is that – is $67 million, it's down quite a bit since 2015. Is that a number – is there a big caveat there? I know some interest rate disclosures have major caveats attached to them. Should I really be using this number for some indication of your rate sensitivity?

**Riaz Ahmed – TD – Group Head and CFO**

I think if you look at the MD&A, Gabe, we described the net interest income sensitivity in a bit more detail, and it is a risk management measure rather than a way of looking at the margin or NII upside. So, what – when I say it's a risk management measure, what I mean is that it is calculated in relation to our target duration profile. And while that all sounds very technical, I'd be happy to walk you through the technicalities offline as to what the differences are.

**Gabriel Dechaine – National Bank Financial – Analyst**

Shortened duration I guess. Is that...

**Riaz Ahmed – TD – Group Head and CFO**

As I've said, the MD&A gives you a full disclosure of how that calculation arrived at and what it means. So maybe for the purpose of the call, I might just leave it at that and happy to take you through it separately.

**Gabriel Dechaine – National Bank Financial – Analyst**

Last one here about the – you did call out the positive margins expanding. Are we still on the situation where a lot of this higher deposit margins have not been passed on to consumers? And also before I forget, Mike Pedersen, I think this is your last call. Good luck in the future and miss talking to you.

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

Thanks, Gabe. Pardon me?

**Gabriel Dechaine – National Bank Financial – Analyst**

I don't want to get teary eyed here.

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

All right, I'm sure you won't. But thank you. So I would say that we are gradually as each rate – Fed rate increase transpires seeing a higher deposit beta. So it was a little higher as a result of the December 2016 increase than it was in December 2015. But it's still well below what you might consider as normal betas on the basis of historical precedents. My expectation would be that it'll continue to rise. But it's been fairly low and most banks I think would say it's been in teens, low-20s kind of stuff until now, but it should rise going forward.

**Gabriel Dechaine – National Bank Financial – Analyst**

So in teens, low-20s, what's that in relation to?

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

The beta – percent.

**Gabriel Dechaine – National Bank Financial – Analyst**

Okay. Got you. Thank you.

**Operator**

And we'll take our next question from Sumit Malhotra with Scotia Capital.

**Sumit Malhotra – Scotia Capital – Analyst**

Good afternoon. Thanks for having me. First question is on the insurance business. Strong contribution earnings-wise this quarter, and we know that business has been somewhat lumpy at times. Just wondering if there was any update from the bank in relation to some of the weather activity that we've heard about in the last few weeks and whether you have any comments as to how that may affect the results on the second half of the year.

**Teri Currie – TD – Group Head, Canadian Personal Banking**

Sumit, this is Teri. So, obviously, the flooding didn't impact Q2, given it happened after quarter-end. We expect a minimal impact – that's partly driven by just our share in the impacted area relative to others, and so not as significant an exposure. So let's probably leave it at that.

**Sumit Malhotra – Scotia Capital – Analyst**

All right. So, nothing that we'll notice more than the usual volatility in this business?

**Teri Currie – TD – Group Head, Canadian Personal Banking**

No. Not from what we know today.

**Sumit Malhotra – Scotia Capital – Analyst**

And then, Teri, over to you. A couple of questions for the Canadian P&C business, specifically away from Wealth and Insurance. Obviously, Bharat mentioned in his opening comments a lot of, let's say, unflattering headlines for the business a few months back. But if I didn't know about any of that, if I just looked at the results here today, certainly wouldn't have any indication that there was anything negative being said about the Bank and that there was customer retrenchment in any form.

So to put this to you in a couple of ways, when we look at revenue in this business, are you of the view that there has been or will be any kind of step back in revenue growth as a result of what we heard about? And secondly, maybe very unrelated to this, we usually do see consumer loan growth look better for TD and all of the Canadian banks in the second half of the year, along with the pickup in real estate activity. Is that seasonal strength, in your view, likely to be less so this year as a result of recent changes specifically in the Toronto market?

**Teri Currie – TD – Group Head, Canadian Personal Banking**

So, on your first question, pleased, in fact, that we have had such strong revenue growth and continued that trend from Q1. And I think that speaks for itself in terms of your question around have our results been impacted or do we expect them to be impacted. Good business deposit growth, core chequing, acquisition at record levels, strong total personal deposit growth, feeling good about business lending and secured lending, which we'll get at your second question.

Really, again, taking advantage of those opportunities we'd outlined where we have embedded growth opportunity, and you've seen that in business credit card and unsecured lending, in mutual funds, and in FlexLine as I talked about earlier. So I think from a revenue and growth standpoint, we would feel good about the guidance we've given you before and would continue to expect to meet that guidance.

On your second question around lending growth, we would still be in a place where we, from a year-over-year perspective, would expect proprietary lending growth to be in the mid-single digits. So, notwithstanding Ontario fair housing or anything you've been reading in the media, well, it's early to tell. Our experience informed by GVA and the fact that the market in Ontario or the Greater Golden Horseshoe is fairly tight from a listings to sales perspective, I think our guidance still stands.

**Sumit Malhotra – Scotia Capital – Analyst**

So I'll leave it here. You mentioned GVA. You've obviously – you give us provincial disclosure. Looking at high level data, we did see sales decline relatively sharply in Vancouver for about a six-month period before we've seen a pickup of late. Is that – I'll wrap it up here. Did you see your lending volumes in Vancouver after the implementation of the tax pare back and is that the expectation that you have for Toronto in the near-term?

**Teri Currie – TD – Group Head, Canadian Personal Banking**

So in GVA in particular – so in both of the kind of higher growth market you mentioned, we have been under-indexed relative to the competition. And so I wouldn't necessarily point to the specific policy changes as an issue for us. And that's been purposeful in terms of some of the tightening to policies. We, as Mark mentioned, have risk policies that we pay attention to through a cycle. And so that's resulted in some under-index growth.

As it relates to the Greater Golden Horseshoe, we're not sure obviously because it's early days and there were multiple measures that were announced. But given the tightness of the market, you might anticipate that it wouldn't be as long a period of delay.

**Sumit Malhotra – Scotia Capital – Analyst**

Thanks for your time.

**Operator**

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

**Sohrab Movahedi – BMO Capital Markets – Analyst**

Thank you. Mike, the U.S. Retail year-to-date expense growth, you've been able to keep it at, looks to me, like under 4%. Is that a sustainable trend line as you look into next year?

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

Yeah. So I think that's right. I think year-to-date it's been at about 3.5%. It was 5% in the first half – or first quarter and 2% in the second quarter. I would say that's a reasonably good guide based on what we see right now in terms of the rest of the year. I'd say it's a little early to comment on next year.

I would just say, though, that we have a strong focus on productivity. And Greg and I have talked about that and he has assured me that he's going to continue that. So that will continue to be a focus on the business.

**Sohrab Movahedi – BMO Capital Markets – Analyst**

Okay. And what sort of stuff may impact next year that makes it a little bit more difficult to kind of commit to a growth rate?

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

Well, we are always focused on creating operating leverage and investing in the business for the future and, I think it's fair to say, operate in a very uncertain environment in the U.S. right now. So that alone could dictate of the pace at which we invest and where we invest.

But we also have a competitive environment that is evolving very quickly in terms of digital disruption and so on. And when you're looking out six quarters, as you're asking me to, that's a long time in today's reality, and I'm just reluctant to predict what our expenses will be that many quarters in advance. Again, I can say there's been a strong focus on expense management, and every indication I have is that that'll continue.

**Sohrab Movahedi – BMO Capital Markets – Analyst**

Perfect. Sorry, I didn't mean to push on it. I just wanted to see if there was something in there. I mean, I guess that the Scottrade Bank addition, will it have any negative implications here from an expense or operating leverage perspective?

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

That's not something that I would consider in that respect.

**Sohrab Movahedi – BMO Capital Markets – Analyst**

Thank you very much.

**Operator**

And we'll take our next question from Darko Mihelic with RBC Capital Markets. Go ahead.

**Darko Mihelic – RBC Capital Markets – Analyst**

Hi. Thank you. Just a real quick one for Teri. With the review now over of your sales practices, maybe can you just touch on employee engagement and customer service scores and whether or not there's been any sort of change there?

**Teri Currie – TD – Group Head, Canadian Personal Banking**

Absolutely. So, I am pleased to say that we continuously each year monitor our overall employee engagement. And having recently received those results, they were very strong, in fact, up in branch banking in Canada this year, so I think that's a good reflection of the pride that people are feeling.

I can also tell you having spent a lot of time in all of our markets across the country, in branches, in focus groups with employees, that they do not believe that what was portrayed in the media has anything to do with what they do each and every day, helping our customers. They are proud TD bankers who work hard to help our customers' dreams come true.

So I would say motivation is good, and we have some proof to back that up. And I'm sorry you had a second part to your question – customer experience. Customer experience levels are not something we report externally. But I can tell you that I think our business growth would indicate that our customers are engaged with us in a significant way as they were pre any of this attention.

**Darko Mihelic – RBC Capital Markets – Analyst**

Okay. So at the end of this has been a really good outcome for TD. No change to employee kind of compensation schemes. We should expect that really it's business as usual and that I'm a bit surprised that – I mean were there anything – like from a systems point of view, that would need to be addressed at results and review.

**Teri Currie – TD – Group Head, Canadian Personal Banking**

Now you're asking me a different question. So let me just say having gone through the review, as we would with kind of any review that we do, there are things that we learned that we can improve upon and we'll be acting on those kinds of things. There's nothing, I would say, relative to our overall performance framework that I would hold out as part of that. But some kinds of examples would be improving training for particularly first line management and ensuring they have the coaching that they need and the mechanisms that we hear what they have to say.

But overall, again the assessment reinforced what we thought going in and we're pleased that we'll be a better business as a result of having spent more time listening to our people and our customers through this period.

**Darko Mihelic – RBC Capital Markets – Analyst**

Okay. Great. Thank you very much.

**Operator**

At this time I would like to turn the call back to Mr. Bharat Masrani. Please go ahead for closing remarks.

**Bharat Masrani – TD – Group President and CEO**

Thank you, operator. Very pleased with the results as the numbers can do the talking here. I want to take this opportunity to thank all the TD bankers around the world. They continue to deliver for our shareholders on an ongoing basis.

And I'd also like to take this opportunity, somebody mentioned on the call. This is Mike's final earnings call. So, Mike, on behalf of all your colleagues at TD, and I know I'm talking on behalf of the folks on the phone as well, thank you for all your efforts. We wish you the very best in your retirement.

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

Thank you.

**Bharat Masrani – TD – Group President and CEO**

And, Greg, I think he set you up for expenses and revenues and all that…

**Greg Braca – TD – Chief Operating Officer, U.S. Banking**

Yes, not lost on me.

**Bharat Masrani – TD – Group President and CEO**

Thank you very much, operator.