



## TD BANK GROUP Q3 2017 EARNINGS CONFERENCE CALL AUGUST 31, 2017

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## PRESENTATION

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

Thank you. Good afternoon, and welcome to TD Bank Group's third 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; Greg Braca, President and CEO, TD Bank, America's Most Convenient Bank; 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 Q3 2017 Report to Shareholders.

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

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

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

Q3 was a great quarter for TD. Earnings were \$2.9 billion, and EPS was \$1.51, both up 19% from a year ago. All of our businesses performed well in the quarter. Revenue growth was strong, as we continued to harness the power of One TD to help our customers meet their financial goals. Insurance claims fell, and we recorded a broad-based decline in credit provisions. Our efficiency ratio dropped to its lowest level in over three years. And we benefited from an improving operating environment – with resilient economic conditions further strengthening performance on both sides of the border.

Overall, I am very pleased with these results, which reflect the power of our client-centric model, our diversified business mix, and the investments we've been making – to enhance our omni-channel distribution capabilities, increase our productivity and enrich the customer experience.

The strength and stability of our earnings has also contributed to robust capital and liquidity metrics. Our Basel III Common Equity Tier 1 ratio ended the quarter at 11%, up 20 basis points from the prior quarter. And our leverage and liquidity coverage ratios remain above target.

Reflecting these strong fundamentals, we announced our intention to repurchase up to 20 million common shares for cancellation, subject to regulatory approval. This builds on the 15 million common share buyback we completed in the second quarter, and will better align our CET 1 ratio with our low-risk earnings profile, high quality balance sheet and proven ability to generate organic capital, while ensuring we remain well-capitalized through the anticipated closing of the Scottrade acquisition and implementation of IFRS 9.

Let me now comment on each of our businesses and how they performed in the quarter. Our Canadian Retail segment earned \$1.7 billion, up 14% from a year ago. Personal and Commercial Banking had a very strong quarter, with 8% revenue growth, led by record originations in our real estate secured lending business, and continued strength in chequing and savings accounts and business loan and deposit volumes. Credit provisions declined and remain at cyclically low levels. And expense growth moderated further, as we had indicated – resulting in positive operating leverage.

Our Wealth business performed well this quarter, with earnings up 7%. We generated \$8 billion in retail net asset growth, driven by strong mutual fund sales in our asset management business. And we continued to take share in our Direct Investing and Advice businesses.

Insurance also had a good quarter, with earnings up sharply year-over-year, reflecting more favourable experience of CATS in our footprint this quarter. Our Insurance business is well positioned for the future. We are seeing strong adoption rates of our applications and tools, including TD MyAdvantage, our usage-based auto insurance app, which is designed to encourage and reward better driving habits.

All in all, it was a great performance for Canadian Retail, as we continued to execute on our growth strategies and make customer-centric investments in our business. This quarter, that included making changes to our chequing accounts to offer customers more convenience and features they have told us they value. We also improved our credit card line-up with two cash back cards that round out our product offering. Take-up has been very strong on both fronts.

We enhanced our end-to-end digital capabilities in Cards and Real Estate Secured Lending, including signing an exclusive contract with the Canadian Real Estate Association that has added 25,000 national property listings to the mortgage affordability calculator in our digital home buying app. In Small Business Banking, over half of all loans up to \$75,000 are now adjudicated in less than 2 minutes – delivering a much better customer experience. And TD Auto Finance had record volumes this quarter, reflecting our success growing our wholesale relationships, which now number nearly 400, up from less than 50 a few years ago. These are just a few examples of the ways in which we're evolving our products and how we deliver them, to help our customers feel more confident about their financial future.

Our U.S. Retail Bank also delivered strong results this quarter, with earnings up 15% year-over-year to US\$590 million – our fifth consecutive quarter of double-digit growth. Revenue rose 10%, led by loan and deposit growth, increased fee income and higher margins. While loan growth slowed across the industry, we continued to take share, while remaining within our risk appetite. We managed expenses very effectively, generating over 500 basis points of operating leverage and driving our efficiency ratio to an all-time low. And our return on equity edged higher, with segment ROE above 10%.

We turned in this strong financial performance while continuing to invest in enhancing our digital capabilities and our brand promise to "bank human". Last quarter, I told you about our new TD Send Money P2P service. It's off to a very impressive start, with customers performing nearly 300,000 transactions so far. We've also had good success with TD ASAP, which allows customers to authenticate directly to an advisor in a contact center from their digital device. TD ASAP authenticated its millionth call this month. Together with TD Voice Print, which authenticates using voice recognition, we're now pre-authenticating nearly 50% of all customers calling into our core banking queue. And TDAF, our auto finance business, ranked Highest in Dealer Satisfaction among Non-Captive Lenders With Retail Credit by J.D. Power – demonstrating again our ability to compete and win by delivering a legendary customer experience.

Our Wholesale Bank performed well in Q3, with earnings of \$293 million – comparable to a very strong quarter last year. Revenue rose 5%, reflecting higher trading and corporate lending. We continued to grow our U.S. dollar businesses. And we won several mandates in the quarter, underscoring the success of the investments we've been making to grow our customer-focused dealer. On the heels of our work with Canadian Natural Resources last quarter, we were joint book-runner on their recent bond offerings – the largest concurrent cross-border multi-tranche U.S. dollar and Canadian dollar offerings ever completed. We were also joint book-runner for the Inter-American Development Bank's US\$2.3 billion issuance, the largest 10-year U.S. dollar Sovereign Supranational Agency deal so far this year – a testament to the strides we've made in building our SSA business.

Overall, I feel good about our performance at this stage of the year. Three quarters into fiscal 2017, earnings and EPS are up 15% – a better result than we anticipated at the start of the year.

This outperformance is partly attributable to a more favourable operating environment in the U.S. and more recently in Canada, where stronger than expected economic growth has boosted activity in our businesses and driven a further decline in credit provisions from already low levels. Together with margin expansion in our U.S. retail bank, this has been very constructive for earnings growth.

But our good results also reflect our distinctive strategy and focus on execution. Time and again, our disciplined approach has enabled us to deliver consistent earnings against a variety of backdrops. And it allows us to move forward with confidence, investing in our people and businesses to ensure we are ready to support our customers. At this time, our thoughts are particularly with the people of British Columbia and Houston, who are struggling with the wildfires and floods that have swept through their regions. We are making advice and assistance available to our customers, and supporting the relief effort through donations to the Red Cross. And we will be there to help you as you return to your communities and begin rebuilding.

To wrap up, it was a very good quarter for TD, and it has been a good year to date. We are delivering profitable, risk-adjusted growth, while continuing to adapt and reinvent ourselves to serve our customers better. I am delighted with the progress we are making on our strategic initiatives. And I am proud of our people, who are leading the way on our journey together to build the Better Bank.

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

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**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 \$2.8 billion, up 17% year-over-year and EPS of \$1.46 up 18%. Adjusted earnings were \$2.9 billion and adjusted EPS was \$1.51, both up 19% year-over-year.

Results were strong across all of our businesses. Revenue increased 7%, net interest income grew 7% reflecting loan and deposit growth and higher margins on average earning assets in both the Canadian and U.S. Retail segments. Non-interest income grew 6% primarily due to fee income growth in all businesses and higher trading revenue.

Expenses increased 5% reflecting higher employee-related expenses and investments that we are making in our businesses. Provision for credit losses declined 9% year-over-year reflecting favorable credit performance. Please turn to slide 5.

Canadian Retail segment net income was \$1.7 billion, up 14% year-over-year, reflecting strong revenue growth, lower insurance claims, and lower provisions for credit losses. This brings our year-to-date earnings growth to 8%. Revenue rose 4%. Total loan growth of 5% year-over-year with increases in both personal and business lending volumes. Deposits increased by 11%, reflecting growth in core chequing and savings accounts and business deposits.

Margin was 2.84%, up 3 basis point quarter-over-quarter reflecting balance sheet and business mix. Balance sheet mix was favorable as deposit growth outpaced loan growth reducing the need for wholesale funding. While many factors effect margins and they will continue to fluctuate from quarter-to-quarter, the improving economic environment in Canada is expected to support a more positive trend in the margin on average earning assets.

PCL was stable quarter-over-quarter and declined 8% year-over-year. A year-over-year decline was a result of lower provisions in the credit card, personal lending and auto lending portfolios. Expenses increased 4% year-over-year, reflecting higher employee related expenses and higher investment in strategic technology initiatives partially offset by productivity savings. Please turn to slide 6.

U.S. Retail net income was \$678 million in U.S. dollars, up 11% year-over-year or \$901 million in Canadian dollars, an increase of 14% year-over-year. The U.S. Retail Bank earned US\$590 million, up 15% year-over-year. The strong result was driven by 10% revenue growth, reflecting continued growth in loan and deposit volumes, a more favorable interest rate environment and fee income growth.

Average loan and deposit volumes increased by 5% and 7% respectively, both reflecting growth in personal and business customer segments. NIM was 3.14%, up 9 basis points quarter-over-quarter primarily due to higher interest rates. While many factors effect margins, we expect continued improvement in the event of further U.S. rate increases.

The increase in PCL quarter-over-quarter primarily reflects parameter changes to the retail portfolio in the prior quarter. Expenses increased 5% year-over-year, reflecting higher employee costs, charges for store closures and volume growth, partially offset by productivity savings. Earnings from our ownership stake in TD Ameritrade decreased by US\$9 million year-over-year. We achieved a double-digit segment ROE for the second consecutive quarter. Please turn to slide 7.

Net income for Wholesale Banking was \$293 million, reflecting higher revenue and lower PCL, offset by higher non-interest expenses. Revenue increased 5%, reflecting higher trading and corporate lending revenues, partially offset by lower underwriting. We recorded no PCL in the quarter compared to \$11 million of specific provisions in the oil and gas sector in the third quarter last year. Non-interest expenses increased 15% year-over-year, reflecting higher variable compensation and investments in our U.S. businesses.

Please turn to slide 8. The Corporate segment posted a net loss of \$150 million in the quarter, compared to the loss of \$241 million in the same period last year. The smaller loss reflects an increase in the contribution from other items and a decrease in net corporate expenses partially offset by a loss on the previously announced sale of the Direct Investing business in Europe, which is reported as an item of note.

The higher contribution from other items reflects incurred but not identified credit losses recognized in the third quarter of last year, higher revenue from treasury and balance sheet management activities this quarter, and higher tax charges recognized in the third quarter of last year. Net corporate expenses were lower reflecting a positive impact of tax adjustments in the current quarter and timing of certain other expenses.

Our Common Equity – please turn to slide 9. Our Common Equity Tier 1 ratio was 11% at the end of third quarter, up 20 basis points from the second quarter. We had strong organic capital generation this quarter, which added 38 basis points to our capital position. The increase in risk weighted assets before the effects of FX translation largely reflects Basel I floor offset from reduction in Basel III credit and operational risk weights. We have some ability to manage to floor and its impact on capital through the use of market strategies to reduce higher RWA exposures.

Our leverage ratio was 4.1%, and liquidity ratio was a 124%. And as Bharat noted, we announced our intention to amend our normal course issuer bid up to an additional 20 million common shares subject to regulatory approval.

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 on both a quarter-over-quarter, and year-over-year basis.

Gross impaired loan formations ended the quarter at \$1.1 billion, down \$55 million or 1 basis point, driven by lower formations in the Canadian RESL portfolio. There were no new formations in the Wholesale portfolio. Turning to slide 11. Gross impaired loans reduced \$305 million or 4 basis points for the quarter to \$2.99 billion. The decrease for the quarter was due to a \$197 million impact from foreign exchange, and resolutions outpacing formations, in the Canadian RESL portfolio.

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, we continue to report gross losses to better reflect portfolio credit quality. Provisions for credit losses are \$512 million for the quarter, down 2 basis point remaining at cyclically low levels. 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

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### Operator

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

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### Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Good afternoon. I just wanted to follow-up Riaz, you mentioned in terms of, if I heard you correctly, positive margin outlook both in Canada and in U.S. going forward. Just wanted to get your thoughts in terms of, it feels like after the GDP data this morning, we've seen an uptick in the market expectation for potential September or maybe October rate hike in Canada. Can you talk about it in terms of what happens to the margin if we don't get any additional rate hikes? And if we do, and how sensitive is that to the overnight versus the five-year part of the curve?

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

Ebrahim, as you know up to now this year, this fiscal year, deposit margins have generally tended to widen when you get the interest rate increases that we are seeing. But up to now this year, you would know that in the market credit spreads have been tightening and so that can provide some offset as liquidity premiums are compressed.

So overall product margins have to now remain reasonably stable in aggregate and in our case the margin on average earning assets increased mainly because of the mix in the way the balance sheet is funded. So I think that absent any further increases in interest rates I think would expect that the margin will continue to bump around and remain reasonably stable.

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### Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Understood. And same thing in the U.S., good margin expansion this quarter, if we don't have the Fed moving between now and year-end, should it be stable, or is there are still more juice from the June rate hike that will flow through into the fourth quarter?

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

I think that be a little bit leftover to come through, but I think it's now largely reflected in our numbers as the effect of the rate hikes have been reflected fully in the quarter.

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### Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Understood. And just very quickly on a separate topic, wanted to get your thoughts on you've been active in terms of the private label card space. As we think about what's happening with the retail sector overall, like how do you view that business, like do you still think that's an area where you want to pick up share, you want to look for portfolio acquisition opportunities, or you reevaluating sort of long-term investment outlook for that business?



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

Ebrahim, as you know in the U.S. we have a very liquid balance sheet and the loan-to-deposit ratio remains at around 1:2. So I think opportunities to acquire assets on attractive risk sharing terms continues to remain our priority for us and we'd continue to look for those opportunities and cultivate them.

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**Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst**

Understood. Thanks, I will re-queue.

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**Operator**

Next question we will hear from Meny Grauman of Cormark Securities.

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**Meny Grauman – Cormark Securities – Analyst**

Good afternoon, I wanted to ask about the strong growth in non-interest income in the U.S. – 19% year-over-year in U.S. dollar terms – and I understand some of it is related to the accounting change, but I was wondering if you could scale that, sort of talk about how much of that is growth absent that accounting change? And then also, were there any significant fee increases in the U.S. in Q3, anything in terms a big jump-up in fees? Thanks.

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**Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank**

Hi, this is Greg Braca. Thanks for the question. So, correct. Some of that 19% increase is clearly from the change in fair value account that we signaled in Q1. But, I would also signal that there was strong non-interest income, fee income growth across many of the lines of business in the U.S. in Q3. That, coupled with the three extra days in the quarter on a sequentially, Q2 to Q3 view, contributed to some of that growth.

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**Meny Grauman – Cormark Securities – Analyst**

Okay. Thanks. And then, if I could just ask about Canada, you referenced obviously the very strong GDP numbers this morning. And if you look at personal loan growth of 4% year-over-year a little bit on the lighter side, particularly if you look at mortgages and particularly up 1% year-over-year, credit cards up 1% year-over-year.

So I'm wondering, why not be more aggressive in mortgages in particular, given the economic environment here? How much of that growth rate is really tied to your being cautious rather than competitive dynamics?

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

So, hi, it's Teri. So in terms of overall revenue growth, I think we feel pretty comfortable and this is in line, particularly, if you take out private label purchases, with our mid-single-digit growth that we've been projecting. We do look at total RESL growth, so that the mortgages and FlexLine and again, ex-private label purchases that year-over-year growth would be just shy of 5%. And I think, we are very comfortable, we've said before that we lend prudently through the cycle.

And we've been strategically repositioning that growth towards FlexLine where we have an embedded growth opportunity, where it is a product for our customers, that is more flexible for the right customer, and stickier for us in terms of not having renewals associated with it.

And I'd say given the puts and takes in the Canadian market place and some of the changes we've been made to our lending policies in particular. I've noted before, reducing lending to borrowers who are financing multiple rental units above a certain number. We are under indexed in the highest growth markets of GVA and GTA and we are very comfortable with that. So, I'd say we are pretty much on track with what we have been projecting. We will continue to lend prudently and put good risk-adjusted business on our books.

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**Meny Grauman – Cormark Securities – Analyst**

Thank you.

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**Operator**

Next we will hear from Gabriel Dechaine of National Bank Financial.

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

All right, good afternoon. I also had a card-related question, just a quick one here. The card fees look like they picked up quite a bit, wondering if that's Canada driven and then, I guess, looking forward – Aeroplan. That relationship has become an important one for you obviously and changes that were announced earlier, or a little while ago. How do you plan to manage through the transition of Aeroplan over the next few years?

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

Okay. So it's Teri again. So just in terms of cards overall, it was a strong quarter for cards – in particular spend levels on Visa, on our core credit cards – was above industry levels. We feel good about that. The fees that are being generated by good growth in that portfolio, particularly, again in our core cards. We are managing our growth and repositioning our product line-up, as you've seen with the launch of our new cashback credit cards.

So, feeling like we've got a well filled out product suite for Canadian cards and cashback was a real gap for us before. In terms of Aeroplan particularly, for instance if we step back in the travel category, we're very well-positioned across all of our cards in the travel category with both Aeroplan and our First Class Travel card portfolio and card offerings for our customers.

Obviously, with Aeroplan and Aimia and all the other stakeholders in the market, we are paying close attention to how the situation is evolving. Right now, for our cardholders given the 2020 date that Air Canada has stated that the offer will remain for our customers. They are, the spend levels on that card are holding up very well. People are still engaging well with the product, acquisitions a little bit lighter. I would say that as we pay attention to the evolution, we are watching it closely. Our goal is to ensure that our customers are well-served and they get a good value from the cards that they carry with TD. And again, we're very comfortable with our overall offerings in this category and across the board to be able to manage the situation as it unfolds.

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

Do you plan on de-emphasizing marketing at all on the Aeroplan or no change?

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

We've continued to make available all the cards to our customers that are on our shelves in a way that's appropriate to meet their needs.

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

My next question is for Riaz. You're late to the party on the efficiency momentum in a good way, fashionably late I guess, and strong efficiency performance, the operating leverage this quarter, and that's very positive, but we saw that from other banks at the start of the year, and then it faded, and it's actually kind of disappointing, this quarter. I'm wondering how sustainable your performance is? Are we going to have some sort of a catch-up investment spending on the horizon that might throw you off-course a little bit? Or do you expect to smooth things out from here on out or let's say over the next year, not in perpetuity?

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

Yeah, Gabe, as we've said in the past, we do look at each of our businesses and product lines, and then assess what opportunities there maybe to make investments in each of those businesses and product lines, where they maybe in the customer side of things or the operation side of things.

And you know, we don't necessarily time them in a particular way, and they don't – they're not really manageable within straight line quarter, quarterly outcomes. So, we make the investments when it is appropriate to do so, and let you judge, whether on a quarter-to-quarter basis how you feel about our performance. I think overall, we have the lowest – one of the lowest efficiency ratios in the banking industry. So, we feel very comfortable with that.

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

Okay. Well, I guess more directly like what we saw in Q1 this year, is that we could see something like that develop again?

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

Well, I'll just remind you Gabe, that when we took the restructuring charges that we did in 2015, what we said is that we were making room to make investments. And that is exactly what we did in the quarter subsequent to that, so by the end of Q1, 2016 our expenses were at a low point and as we started making the investments, in Q1, you saw a larger growth rate, but we told you that that growth rate would moderate and it has been. So I think we've been doing exactly as you would expect us to do.

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

Okay. And just another quick one for Teri. You said, was there any change, you're not purchasing third-party mortgages as much as you were last year. Has there been any change in your origination mix from more proprietary channels and less in the broker channels?

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

So, I think I've mentioned that before the net margin of those purchases hasn't been as economic over the past period of time and as such we're purchasing when it make sense. And so, proprietary originations as I said, are just shy of 5%. We will make purchases when the economics are right.

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**Operator**

Our next question comes from Robert Sedran of CIBC.

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**Rob Sedran – CIBC World Markets – Analyst**

Thanks. Good afternoon. Just a quick one clarification on the prepared remarks actually. So, can you help me understand, why would simultaneously have a DRIP issuing from treasury and a buyback?

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

Rob, we offer the DRIP, as you know at a zero percent discount as a service to investors, who like to have an ability to receive their dividends in the form of stock. And then we – we offset that in – in annual repurchases to offset the dilutive effect, so it's more service to our retail investors in particular.

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**Rob Sedran – CIBC World Markets – Analyst**

Should you see this as a net buyback or just offsetting the impact of the DRIP?

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

Well, the offsetting of impact of the DRIP and options buyback was really in the previous quarter, this buyback is more pure.

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**Rob Sedran – CIBC World Markets – Analyst**

Okay. Thank you. And then just a follow-up on some of the comments that Teri was making on the FlexLine. The growth did seem to accelerate this quarter. I'm just curious if you can provide a little more granularity behind it. In other words, are these new accounts to the bank? Are they just new accounts on FlexLine products, or are they draws from existing lines that are already open? And of the new accounts, are they new to TD? Or are they perhaps coming from some of your mortgage customers?

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

So let me just step back with what I've been saying over time. So we were off market in terms of the competitiveness of our FlexLine products going back a couple of years ago and we've made investments to improve that product, and now we're seeing the benefits of that investment pay off. So it's very much on strategy.

The growth is new originations – utilization is very stable. And primarily that growth is in the fixed term portions of the FlexLine product. We have quite an embedded growth opportunity in this product for our existing TD customers and so new originations in line with strategy.

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**Rob Sedran – CIBC World Markets – Analyst**

So it's mostly taking from existing TD customers at the moment rather than new customers to the bank? Is that fair?

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

It is both because we are selling FlexLine in more than one channel. But I would say our primary opportunity that we've been focused on is other financial institutions borrowings to TD.

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**Rob Sedran – CIBC World Markets – Analyst**

Okay, thank you.

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**Operator**

Next question from Nick Stogdill of Credit Suisse.

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**Nick Stogdill – Credit Suisse – Analyst**

Hi. Good afternoon. Sticking with the HELOC actually, could you just talk about how B20 might impact your outlook for this product and will the impact on the FlexLine from B20 be any different for that of a mortgage product?

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

I'm not sure that I see a real impact to the product in terms of the loan to values for a fixed origination or float origination would be well in line with evolving B20. So, I'm pretty comfortable that we should be able to stay on the pace that we're on.

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**Nick Stogdill – Credit Suisse – Analyst**

Okay. So FlexLine can continue to grow at the current pace and with the overall market if B20 did kind of get implemented later this year, there will be no difference.

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

We're sure with the fact that we have an embedded growth opportunity. In this product, we've lots of room to continue to originate FlexLine to TD customers in particular.

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**Nick Stogdill – Credit Suisse – Analyst**

Okay. Thank you. And then just on the efficiency in Canadian banking to exclude Wealth, it looks like a new all-time low below 42% and I know you've been focused on slowing the pace of expense growth there. So maybe if you can talk about with sustainability of the efficiency ratio at this level or maybe what we should expect going forward?

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

It is step back and in terms of the expense growth year-over-year that we've been talking about through the year, we've been saying that it would moderate over the year and it has. Like Riaz said we'll continue to invest in our business when it make sense.

I've been bit opaque in what that investment has gone towards in the early parts of the year, but given this quarter many of those investments are starting to pay off for us with new customer capability. We see now from a digital perspective, we continue to be the highest in terms of unique users to our mobile app, 60% of our digital users are mobile active users, which is the new high that we achieved. All of our branches have iPads and Wi-Fi that we can use with our customers to help them take up our digital properties. This quarter we launch such that a Canadian can now purchase a chequing account or savings account or a credit card end to end online. And if you're a TD Canada trust customer, you can do that with a preapproved card in two minutes.

We have digital mortgage application end to end, start to finish. So, from a digital standpoint, those investments we've been making have been paying off. The cashback cards that we talked about, the enhancements to our chequing account line up, and we're the only Canadian bank with a mobile app in both traditional and simplified Chinese. And I say all that just to say that if we can make those kinds of investments in the future and they'll payoff we would continue to do that and that mean the efficiency ratio bumps around.

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**Nick Stogdill – Credit Suisse – Analyst**

Thank you.

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**Operator**

Our next question comes from Scott Chan of Canaccord Genuity.

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**Scott Chan – Canaccord Genuity – Analyst**

Good afternoon. I was wondering if you could give us an update on the Ameritrade Scottrade transaction in terms of an expected closing date. It seems like it could be held up by Fed approval. Is that something that you could update on?

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**Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank**

Hi. Scott its Greg Braca. I would say that, as was commented earlier, that we expect the transaction close during the fourth quarter. And all things being equal, we expect that to continue to occur.

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**Scott Chan – Canaccord Genuity – Analyst**

Okay. All right. And sticking to the U.S. a lot of talk on the Canadian side in terms of personal mortgages HELOCs, just looking for an update on the U.S. side in terms of kind of the expectations there and what are you seeing on the ground in terms of growth and products such as the mortgages as HELOCs and potentially auto?

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**Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank**

Sure. Thank you. So, well first, we signaled since Q4 last year that the aggregate loan growth we've seen at the Bank in the U.S. was going to come off some of those peaks because some of the commercial and corporate banking businesses, we've grown into somewhat of a more of a natural size.

But we continue to focus on mortgage, home equity, credit cards, and many of the consumer products given the age and maturity of the business in the U.S. as you would expect, whether it's you're looking at household penetrations or how much we've gotten of the natural share of our customer's wallet versus peers, we still got a lot of upside to go there and we do think, there is more growth to come from all of those products.

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**Scott Chan – Canaccord Genuity – Analyst**

Thanks very much.

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**Operator**

Next, we will hear from Doug Young from Desjardins Capital Markets.

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**Doug Young – Desjardins – Analyst**

Good afternoon. Teri, just back to you. In terms of the mortgage growth 1%, HELOC growth 11% in that pivot and shift, just wanted clarification, any implications for NIMs or PCLs if that pivot continues?

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

So comfortable that there would be no implications to PCLs on the pivot, and in terms of NIMs, FlexLine is a more profitable product for us for sure.

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**Doug Young – Desjardins – Analyst**

Okay.

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

And it also is more sticky in that they don't have renewals on an ongoing basis.

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**Doug Young – Desjardins – Analyst**

Okay. And then, Riaz, I guess in the past in Q4, we've seen NIX pick up as there has been higher accruals and just trying to get senses – you signaled in the back-half that you expect expenses to come down. As we go into Q4, is this quarter indicative of what we should be thinking of? Or is there going to be a typical bump-up in expenses as we move into Q4?

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

Doug, there are obviously things such as taxes and other things that do get accrued in Q4. So, it is not unreasonable to see expenses that tick-up like that. As you know, we've moderated that uptick a fair bit, and I expect that this year will be similar. But overall, what we said is that expense growth would moderate on a year-over-year basis, and so I think we continue to expect to deliver that.

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**Doug Young – Desjardins – Analyst**

If is it fair to go back over the last few years, and just look at the difference in Q4 versus Q3 as the sense, or is it – you've indicated that maybe you've moderated some of that sensitivity?

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

Yeah, a lot of that can depend on the level of projects you're undertaking and issues like that. So, I'm not so sure that that would give you an accurate perspective, but directionally you can get a view.



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**Doug Young – Desjardins – Analyst**

Okay. And then just lastly, risk weighted assets in corporate came down \$14 billion, I know, exposures came down by a similar amount, it did have a decent impact on your risk weighted assets in the CET1, just hoping to get a little bit more color on that?

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

Yeah, on a quarter-over-quarter basis for risk weighted assets Doug, overall they were down from about \$420 billion to \$408 billion, a large part of that is FX translation, which materializes into risk weighted assets, but for CET1 purposes, we hedge FX. So, you don't see that impact come through on the CET1 as much. And then the offset would be through the Basel I floor, which ticked up this quarter.

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**Doug Young – Desjardins – Analyst**

But corporate itself its exposure is down is that FX related or was there just something going on in the corporate loan book again in the corporate division?

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

No. Well I mean, we have treasury activities in the corporate division. So, it would be a number of different parts moving around I wouldn't attribute it to any one thing.

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**Doug Young – Desjardins – Analyst**

Okay. I may follow-up on that. Okay. Thank you very much.

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**Operator**

Next we will hear from Sumit Malhotra of Scotia Capital.

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**Sumit Malhotra – Scotia Capital – Analyst**

Thanks. Good afternoon. I want to start with Teri and maybe Riaz just on the deposit growth in Canada and how that's affecting NIM. So, Teri when I look at the numbers you've provided us here, commercial deposits or business deposits for TD in Canada, I think, they're up something like 6% on the quarter and 16% year-over-year. First of just making sure those numbers are – if that is correct, what is driving that level of commercial growth starting with the quarter? But even if you just look back over the last little while, it's really been accelerating.

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

So, I like, I think, I said this once before, I think, this is Paul Douglas who leads our commercial bank running this business in a very good way. He has been focused over many years on organic growth, on building relationships in the marketplace and that consistency in having bankers locally and close to customers has been paying off and we have seen that in strong deposit gathering and solid loan growth over a long period of time.

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**Sumit Malhotra – Scotia Capital – Analyst**

And the deposit uptake has nothing to do with a change in pricing? It seems strange to see that magnitude of increase without having to pay for it and the business is somewhat commoditized?

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

I can assure you that Paul is not out buying business.

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**Sumit Malhotra – Scotia Capital – Analyst**

All right, if that's the case, then Riaz your comments on NIM benefiting, is this – I've never really thought of TD especially in the context of the Canadian banks as one that was, that wholesale reliant anyway, but is this as simplest to say that you're getting more deposits from actual TD customers. So whatever – whatever little bit that is lessening your reliance on having to go outside, that's the pick-up that you expect to see in NIM?

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

Well, as you know if you breakdown our balance sheet, Sumit, and it's pretty evident in the supp pack – where you were looking at the business loans – that in Canada we're a net asset generator and in the U.S. we're a net deposit generator. So in Canada we do use wholesale funding to fund the Canadian Retail segment and when that loan-to-deposit ratio – when the deposits outpace loans in terms of growth you get a very nice benefit in you margin or average earning assets.

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**Sumit Malhotra – Scotia Capital – Analyst**

All right. My last question – second question is going to be for Mark and looking at and thinking through the trend in your provisions. You give us a lot of information here. So I'm going to try to keep it high level, but last two quarters your aggregate provision level on a core basis about \$500 million, somewhat noticeably down from what we had seen over the last year, year-and-a-half despite the fact that loan growth has continued.

Specifically it seems to be the incurred but not identified line. I know in Q1 there were some noise specifically relating to auto, I believe – in the auto and credit cards – in the U.S. But just wanted to ask you Mark, this new level that you've been adding in provision again in the low 30 basis point range. Do you view that as more sustainable than the 40-ish you were running at before, and specifically, in the incurred, but not identified line, what's been the key driver that has brought that level down so sharply this quarter compared to where it was running previously?

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**Mark Chauvin – TD – Group Head and CRO**

Maybe I'll answer that in two parts. First, for the loss rate of low-30s or 33 basis points this quarter, I think, that's indicative of a strong credit quality during benign economic conditions, and I would put that at the low-end of the range, and probably a level that based upon our mix of our balance sheet would be unlikely to get stronger.

But in strong economic conditions like we're enjoying in forecasting, something in the 35 to 40 to me would kind of be the range I would expect. When you talk about provisioning, incurred but not identified, they'd maintain relatively constant in terms of dollar amount. So the percentage you're seeing is reducing, which is probably an indication of strengthening credit quality.

We did build in the – during the last year-and-a-half in the oil and gas sector, and we did see negative migration during that period, which we've seen a reversal of that in the last several quarters. But those reserves have kind of been taken up by volume growth, but that will translate into a lower percentage coverage, but from my perspective, we're following the very same methodology that we've always used for establishing reserves across the portfolio and that hasn't changed.

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**Sumit Malhotra – Scotia Capital – Analyst**

I'll leave it by saying, and there was touch on earlier call, seemingly improving economic backdrop in Canada, you've talked about what you've seen in the U.S. for the most part. So from that perspective, you're not necessarily going to get better from here, but maybe low-30s ratio isn't out of line with a strong economic environment in both countries, that's a fair statement in your opinion?

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**Mark Chauvin – TD – Group Head and CRO**

Well, I am not sure if I go low – I might say mid.

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**Sumit Malhotra – Scotia Capital – Analyst**

Thanks for your time.

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**Operator**

Our next question will come from Darko Mihelic of RBC.

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

Hi. Thank you. I have three questions. Just wanted to be really brief with them. Just going back to Greg your answer with respect to the fee income year-over-year growth. If I look at it, just want to make sure I understand, this is really purely a modeling question. So, if I think of the \$124 million increase in those revenues, how much of that is true and how much of that would be just the absence of that previous accounting noise?

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**Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank**

Well, I'm not so sure that we've ever split up the category of non-interest income and gave that level of detail, but what I can say is that we have seen good strong fee income growth, because of new account generation, account growth, household growth and good commercial activities. And after one more quarter, this fair value hedge comparison year-over-year goes away. So, that would be more of a true up then to what we're really generating in fee income on a go forward basis.

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

Okay. And then maybe over to Riaz, this fair value accounting is now in the corporate segment, was it particularly negative or positive this quarter?

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

Actually, this particular quarter, it wasn't that influential, Darko.

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

Okay. And then my last question is with respect to the Canada segment. What is the impact of the sale of the direct business in Europe? And really, it would be helpful to get the revenue expense and net income impact does is that, it seems – I sense that you may have been losing money for you recently, but any help would help out with the model?

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

Yeah, I think Darko, it's relatively immaterial operation. So, I get your point about the line items, but I think, if you look at retail performance in aggregate, you won't end up concluding much out of it.

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

Okay. Thank you.

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**Operator**

Next we hear from Mario Mendonca from TD Securities.

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**Mario Mendonca – TD Securities – Analyst**

Riaz, if you can start with this other other – other other income that is – it's about a \$180 million this quarter, when I add back the \$42 million loss on the European Wealth Management sales, and that compares to a loss of \$52 million, last year. That swing is pretty big year-over-year. You gave us a list of things, that would have effected that, and one of them was treasury activity, can you may sense us to how much the treasury activity would have driven of that nearly \$230 million delta year-over-year?

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

Yeah, I think that, you're speaking of within the non-interest income line the – the components of other. So there is a fair bit of activity that goes through their Mario. There is, as I said earlier, that hedging impact that go through there, the direct investing loss that you mentioned that goes through there, that can be cumulative translation adjustments that get realized into income that goes into there. And so, there is a fair number of – like equity pick-up on smaller investments, et cetera.

So, it is a fairly wide, lots of different line items that have those kinds of fluctuations, but hedging-related activities in last year would have been considerably more negative than this year.

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**Mario Mendonca – TD Securities – Analyst**

Does that directly fall to the bottom line?

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

Well, it does fall to the bottom line Mario, but as we have explained before in the past, our hedging activities, the hedging effectiveness issue is really an accounting timing issue and less of an economic issue, so over the course of the hedge term, it all works out, but because of the way the mark-to-market pieces of the accounting work, you can have sometimes, and it contributes positively, and sometimes it contributes negatively, and it just creates a noise as a result of that, which is why they moved it off to Corporate.

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**Mario Mendonca – TD Securities – Analyst**

Part of where I'm going with this now, I want to go to a very broad question, is the – the sequential increase in EPS, adjusted \$1.34 to \$1.51 is obviously very big and I – a portion of that sort of relates to that line and that's why I'm trying to get a better sense of what's in there, so I can determine the sustainability of the result.

But let me ask you then very broadly, Riaz and perhaps Bharat, do you see this new move to \$1.51 as a new step-up, and now this is the new sustainable EPS quarter level for the bank or is this a highly unusual number that we shouldn't put as much weight, or is it somewhere between?

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

Let me give you sort of some numbers or thoughts to work with Mario, and then I'll let Bharat to address the thematic issues, if you like. In all these numbers that we're referring to, whether it be the fact that we had collective allowances a year ago, we don't have collective allowance in the quarter this year. We had a better insurance claim performance because we had catastrophes in Fort McMurray wildfire last year and we don't have it this year. We talked about the hedging effectiveness as you pointed out.

So all of these numbers can have the effect of moving our comparisons around a little bit, but what I would emphasize is that they are really in the context of business as usual and should be thought of as part of the Bank's performance.

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

Mario, what I would add is that, if you look at the macro situation, you saw that Canadian GDP number come up today. You've seen the U.S. number get revised up, you've seen interest rates move. You look at TD's business mix in relation to those moves and you say that the overall environment, the operating environment is much more friendly than it might have been a few years ago or even last year.

So you're seeing that play out in our numbers. Now, as usual there are a lots of puts and takes here. Sometimes you might have a situation that a geopolitical event or some economic issue that might be regional or a major move in certain commodities might pull that back. So it's hard to predict exactly where you might be, but I feel that from an operating environment, if you believe that some of this growth numbers in both these major economies will continue to be sustained, then it's a positive environment for TD. But as usual as Riaz just mentioned, you will have – we are not running the bank to go quarter-by-quarter. If there are opportunities for us to make the right investments, I think Teri talked about it, we will certainly take advantage of those opportunities. If there are issues that makes sense, for us that may result in our efficiency ratio moving around, we worry less about the that perhaps some might. So yeah, this can bounce around, but the overall economic environment and interest rate environment is more positive than we've seen over the recent past.

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**Mario Mendonca – TD Securities – Analyst**

Helpful. Thank you.

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**Operator**

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

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

Thank you, operator, and thank you to all of you for joining us today. I know this was little earlier than before, but I'm told by Riaz and Gillian that this was in response to some of the feedback we were receiving. So, hopefully, we've been able to do this call in sufficient time.

I'm very happy with the quarter. The teams right across the world 83,000 strong continue to deliver for all of our stakeholders, and I look forward to talking to you folks again in the next 90 days or so. So thanks for joining us and enjoy the little bit of the summer that is still left. All the best.