TD BANK GROUP

Q4 2017 EARNINGS CONFERENCE CALL

NOVEMBER 30, 2017

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FORWARD-LOOKING INFORMATION

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Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2017 MD&A under the headings "Economic Summary and Outlook", for the Canadian Retail, U.S. Retail, and Wholesale Banking segments, "Business Outlook and Focus for 2018", and for the Corporate segment, "Focus for 2018", each as may be updated in subsequently filed quarterly reports to shareholders.

Any forward-looking statements contained in this document represent the views of management only as of the date hereof and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities, and anticipated financial performance as at and for the periods ended on the dates presented, and may not be appropriate for other purposes. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf, except as required under applicable securities legislation.

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PRESENTATION

Gillian Manning – TD – Head of Investor Relations

Thank you. Good afternoon, and welcome to TD Bank Group's fourth quarter 2017 investor presentation. My name is Gillian Manning, and I am 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 fourth 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 to answer your questions today are Teri Currie, Group Head, Canadian Personal Banking; Greg Braca, Group Head, U.S. Retail; 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 2017 MD&A and the fourth quarter 2017 earnings news release.

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. Q4 was a great quarter for TD and a strong finish to fiscal 2017. In the rapidly changing environment, we succeeded by staying true to our customer centric strategy, drawing on the power of One TD to support our customers today, as we transform the Bank to serve them better tomorrow.

Riaz will review our results in more detail. Well, let me single out a few measures that underscore the strength of our performance. Earnings and EPS increased by 14% this year, and total Bank net income of $10.6 billion crossed the $10 billion mark for the first time. Revenue growth was strong and we achieved 260 basis points of operating leverage, while investing for the future. Return on equity rose to 15% with gains in all of our business segments. We generated 140 basis points of organic capital over the course of the year, enough to fund the Scottrade acquisition and our share buybacks, while maintaining strong CET1 and leverage capital ratios. We increased our dividend paid by 9% for the full year, and total shareholder return was 25%.

I will now highlight some of the key accomplishments in each of our segments. Canadian Retail had a terrific year, with earnings up 9% to $6.5 billion, reflecting good revenue growth and positive operating leverage. In Personal and Commercial banking, we maintained our market leadership position in core business lines and had strong growth in anchor products, including double-digit increases in chequing accounts and business deposits and record originations in real estate secured lending. We grew our lead in personal non-term deposits and took share in priority areas like HELOC and unsecured lending. And with the introduction of our new cash back and everyday rewards cards, we have a top notch suite of retail and business credit cards.

In our Wealth business, we continue to execute on our growth strategies recording share gains in our direct investing and advice channels, particularly private investment advice where we have taken share for nine consecutive quarters. We also generated $6 billion in long-term fund sales more than twice the level in 2016. And our Insurance business had another good year with record pre-tax income and lower claims, reflecting fewer severe weather events and favorable prior year's claims development.

Across our Canadian Retail businesses, we continue to win new customers by delivering personalized connected experiences, and we are deepening relationships with existing ones by bringing more of the bank to them. That's what our One TD strategy is all about, partnering across business and product areas, leveraging our scale and best-in-class distribution network, to enable customers to interact with us seamlessly.

We've also been making purposeful investments to build the bank of the future, simplifying processes, building scalable platforms and solutions, and leveraging our in-house team of designers, developers, engineers, architects, data scientists, and researchers to help our customers feel more confident about their financial lives. We've outfitted all of our Canadian branches with WiFi and iPads and doubled our network capacity, improving response times by more than 50%. We continue to add digital capabilities like a unique way for customers to understand the cost of home ownership, search for a property and get prequalified for a mortgage through one seamless online experience. We have the number one ranked mobile banking app in Canada according to Silicon Valley-based firm App Annie and the highest number of mobile unique visitors according to comScore.

We've added a mobile trading tool to our award winning WebBroker platform, which moves our direct investing business even further ahead of the competition. Over 10% of trades in DI are now taking place via mobile. And for the 13 years in a row, TD Canada Trust won the Ipsos award for overall customer service excellence among the big five banks as well as the ATM, online and mobile banking awards. Overall, a great performance by our flagship Canadian Retail franchise in 2017.

U.S. Retail Bank also delivered impressive results this year with earnings up 16% to US$2.2 billion. Revenue grew by double digits reflecting margin expansion in the rising rate environment and healthy volume growth. We managed expenses well, achieving 500 basis points of operating leverage and reducing our efficiency ratio by almost 300 basis points for the year, and our return on equity increased by 100 basis points. You'll recall that in 2013, we reached a target we'd set to deliver US$1.6 billion in earnings in our U.S. Retail Bank. Four years later, we've grown that by over half a billion dollars by adding customers and taking share in virtually every line of business.

In the consumer bank, we're building on our strength in checking account acquisition and deepening relationships. In the commercial bank, we've tripled the size of our corporate and specialty book. We were just ranked highest in small business banking in the south region according to the 2017 J.D. Power Small Business Banking Satisfaction Study for the first time. And TD Auto Finance ranked highest in J.D. Power's 2017 Dealer Financing Satisfaction Study among non-captive lenders earlier this year.

We've built our Cards and Wealth platforms through strategic relationships and select acquisitions, and we've generated productivity savings that we are redeploying in frontline staff and investments to drive the next leg of our transformation, from new customer and commercial lending platforms to digital tools like TD VoicePrint, TD ASAP, TD Send Money and our banking app, which ranked number three in mobile bank app satisfaction according to the 2017 J.D. Power U.S. Banking App Satisfaction Study. We were also pleased to close the Scottrade transaction this quarter, further strengthening our relationship with TD Ameritrade. The contribution from our investment in TD Ameritrade increased 7% this year, bringing U.S. Retail segment earnings to US$2.6 billion, up 15% year-over-year.

Rounding out our strong results in 2017, earnings in our Wholesale segment rose 13%, surpassing $1 billion and ROE climbed to 17%. We have substantially increased the earnings power of TD Securities, which continues to build on its leadership position in the Canadian market and occupied the number one or number two spot in the key domestic rankings, including equity and equity options block trading, government and corporate debt underwriting, syndicated loans, M&A announced and completed and equity underwriting. We also made significant progress building our U.S. dollar franchise and growing our lead managed Corporate, SSA and FICC businesses. Our One TD strategy has been critical to this success.

Our Corporate and Investment Banking and Global Markets team are working with all Bank partners to grow the collective bank franchise. And TD Securities continues to partner with the U.S. Commercial and Retail teams on a client coverage model that will drive growth in both businesses. We also demonstrated our commitment to environmental leadership and support for the transition to a lower carbon future. TD Securities has helped underwrite nearly $11 billion in green bonds since 2010 and led a US$1 billion issuance for TD this year, one of the largest green bonds ever issued by a bank.

Overall, 2017 was a strong year for TD across the board, and we expect to carry that momentum into 2018. As always, there are issues on the horizon from the impact of the latest mortgage rule changes in Canada to the NAFTA renegotiations, to geopolitical uncertainty. But the macroeconomic environment remains broadly supportive. The Canadian and U.S. economies are growing. The job market is healthy and wages are rising, and interest rates are likely to continue increasing at a moderate pace. While there are global risks, these conditions, if sustained, may enable us to deliver total bank adjusted EPS growth for 2018 inside our 7% to 10% medium-term target range.

Our vision to be the better bank positions us uniquely well to thrive in a world of disruption and innovation. Over the years, we continually reinvented ourselves to serve our customers better. And with the investments we are making today, we are not just keeping pace with the changing world but helping define the shape of the one to come.

Initiatives like our agreement with Kasisto, a leading provider of conversational artificial intelligence to integrate their KAI banking platform in our top ranked mobile app allowing authenticated customers to gain more insight into their spending through an interactive AI-powered chat interface. And our cybersecurity office in Tel Aviv, another first for a Canadian bank. The access it gives us to one of the world's leading cyber and technology ecosystems will strengthen our ability to attract top talent in this critical area.

As I look around, I see the tremendous progress we've made, and I'm excited about what lies ahead. I've always said that we succeed at TD because we have the best people. This year, we were named in Mediacorp's 2018 Canada's Top 100 Employers list for the 12th time, as well as DiversityInc's Top 50 Companies in the U.S. for the fifth consecutive year. I'm very proud of what we accomplished this year, and I can't wait to see what we will achieve together in 2018 and beyond.

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

Riaz Ahmed – TD – Group Head and CFO

Thank you, Bharat, and good afternoon, everyone. Please turn to slide 4.

In 2017, the Bank reported earnings of $10.5 billion, and EPS of $5.50, both up 18%. Adjusted earnings were $10.6 billion, and adjusted EPS was $5.54, both up 14%. Revenue increased 5% with growth across all of our business segments, and expenses increased 3% resulting in positive operating leverage. PCL decreased, reflecting a favorable credit environment. Canadian Retail and U.S. Retail delivered net income of $6.5 billion and $3.3 billion, respectively, for the year and Wholesale reported over $1 billion in earnings.

Please turn to slide 5. This quarter, the Bank reported earnings of $2.7 billion, an EPS of $1.42, both up 18%. Adjusted earnings were $2.6 billion, and adjusted EPS was $1.36, both up 11%. Results reflect growth across both Canadian and U.S. Retail businesses. Revenue increased 6%. Net interest income rose 5% reflecting loan and deposit growth and a more favorable interest rate environment. Non-interest income rose 7%, primarily due to the dilution gain on the Scottrade transaction, reported as an item of note. Excluding this gain, adjusted non-interest income rose 2%.

Expenses were down sequentially and year-over-year, reflecting productivity savings, some tax adjustments in the current quarter, and the impact of the sale of the Direct Investing business in Europe, partially offset by higher employee-related expenses and higher investment in technology initiatives. Provision for credit losses increased 15% quarter-over-quarter, primarily reflecting seasonal trends in credit cards and auto portfolios in U.S. Retail. Segment reported earnings were $1.7 billion for Canadian Retail, $776 million for U.S. Retail and $231 million for Wholesale. The Corporate segment reported a gain of $41 million or a loss of $104 million on an adjusted basis. Please turn to slide 6.

Canadian Retail segment net income was $1.7 billion, up 11% reflecting revenue growth and lower PCL, partially offset by higher insurance claims. Revenue rose 5%, reflecting loan and deposit growth and higher margins. Total loan growth was 5% year-over-year, with increases in both personal and business lending volume. Deposits increased by 8%, reflecting growth in core chequing and savings accounts and business deposits. Insurance claims rose 5%, reflecting higher current year claims, but we had fewer weather related events and more favorable prior years' claims development. Margin was 2.86%, up 2 basis points this quarter, primarily as a result of recent increases in interest rates. While many factors affect margins and they will continue to fluctuate from quarter-to-quarter, the current economic environment and the possibility of further rate increases is expected to support a positive trend for margins on a full year basis. PCL continued to reflect a very favorable credit environment. And expenses increased 1% year-over-year, and we had nearly 400 basis points of operating leverage on a net of claims basis. Please turn to slide 7.

U.S. Retail net income was US$621 million, up 16%. U.S. Retail Bank earnings rose 16% in U.S. dollars or 18% adjusting for the cost associated with the Scottrade transaction. The strong result was driven by 10% revenue growth, reflecting a more favorable interest rate environment and continued growth in loan and deposit volumes. Average loan and deposit volumes increased by 6% and 7%, respectively, reflecting growth in personal and business customer segments and an 11% increase in sweep deposits from TD Ameritrade, primarily driven by the Scottrade transaction. Margin was 3.18%, up 4 basis points quarter-over-quarter, primarily due to higher interest rates and balance sheet mix. We anticipate the operating environment to remain relatively stable in 2018, characterized by good economic growth and rising interest rates, which bodes well for continued loan and deposit growth and improving net interest margin.

The 19% increase in PCL quarter-over-quarter reflects seasonal trends in the credit card and auto portfolios. Expenses increased 7% reflecting higher employee costs and investments in business initiatives, partially offset by productivity savings. On an adjusted basis, excluding the costs associated with the Scottrade transaction, expenses rose 5%, the efficiency ratio was 59.1%, and we had nearly 500 basis points of operating leverage. Earnings from our ownership stake in TD Ameritrade rose by US$12 million on a year-over-year basis. Please turn to slide 8.

Net income for Wholesale was $231 million reflecting lower revenue partially offset by lower non-interest expenses and lower taxes. Revenue decreased 6%, reflecting lower trading-related revenue due to weaker capital markets activity. Non-interest expenses decreased 3% year-over-year reflecting lower variable compensation, partially offset by operating expenses related to the establishment of TD Prime Services in the U.S. Please turn to slide 9. The Corporate segment posted net income of $41 million in the quarter compared to a loss of $138 million in the same quarter last year. The increase reflects the dilution gain on the Scottrade transaction in the current quarter and a decrease in net corporate expenses, partially offset by a lower contribution from Other items. This lower contribution from Other items reflects lower revenue from treasury and balance sheet management activities, and a favorable impact from tax items recognized in the same quarter last year. Please turn to slide 10.

Our Common Equity Tier 1 ratio was 10.7% at the end of the fourth quarter, down 30 basis points from the third quarter. Strong organic capital generation added 32 basis points to our CET1 ratio this quarter. During the quarter, we repurchased close to 8 million common shares at a cost of 13 basis points of capital and closed the acquisition of Scottrade, which absorbed another 23 basis points of capital. The increase in risk-weighted assets largely reflects the effects of the Basel I floor, principally an increase in exposures where Basel I has more punitive risk weights than Basel III. Our leverage ratio was 3.9% and our liquidity coverage ratio was 120%.

Please turn to slide 11. This quarter we are providing an initial view of the impact of IFRS 9 for financial instruments, which is being implemented effective November 1, 2017. As at October 31, 2017, the current estimate subject to refinement is an overall reduction to Shareholders' Equity of approximately $36 million, of which $96 million is attributable to the adoption of the expected credit loss methodology, partially offset by $60 million due to classification and measurement changes, primarily reflecting securities required to be measured at fair value. Based on the current regulatory requirements, the expected impact to CET1 capital is a decrease of 15 basis points, which is almost exclusively due to the Basel I regulatory floor.

I will now turn the call over to Mark.

Mark Chauvin – TD – Group Head and Chief Risk Officer

Thank you, Riaz, and good afternoon, everyone. Please turn to slide 12.

The strong credit quality we experienced throughout the year continued into the fourth quarter. Gross impaired loan formations remained stable at $1.2 billion on a quarter-over-quarter and year-over-year basis. U.S. Retail formations increased $68 million quarter-over-quarter largely due to seasonal trends in the credit cards and other portfolios and one new impaired borrower in the commercial portfolio. There were no new formations in the wholesale portfolio. Turning to slide 13.

Gross impaired loans ended the year at $3.1 billion, stable at 49 basis points quarter-over-quarter and down 9 basis points year-over-year. The $100 million increase in gross impaired loans in the quarter is primarily driven by the negative impact of foreign exchange. Moving on to slide 14.

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. Quarter-over-quarter, provisions for credit losses are up $90 million or 6 basis points to 39 basis points. Canadian Retail PCL of $243 million or 25 basis points continued the solid performance we've seen throughout the year, representing cyclically low loss levels. U.S. Retail PCL is up 17 basis points quarter-over-quarter to 76 basis points or $358 million, which is in line with our expectations.

As experienced in previous years, PCL typically rises in the fourth quarter and first quarter due to seasonal trends in the credit card and other portfolios driven by the back-to-school and holiday shopping seasons. Volumes and delinquencies historically decrease in Q2 and Q3 as customers receive tax refunds. For 2017, the full year loss rate of 37 basis points represents a 4 basis point decrease from 2016, driven by improved credit quality in the oil and gas sector. To conclude, credit quality remains strong across the Bank's portfolios, and we remain well-positioned for continuing growth into 2018.

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

QUESTION AND ANSWER

Operator

We'll go first to Meny Grauman with Cormark Securities.

Meny Grauman – Cormark Securities – Analyst

Hi. Good afternoon. Question about the PCL ratio – the 37 basis points in 2017. I'm wondering what you expect the impact of IFRS 9 to be on that ratio, sort of isolated. And then if you could just talk more broadly about PCL ratio next year?

Mark Chauvin – TD – Group Head and CRO

Yes. So based upon our current view of the economic forecast, we don't expect IFRS 9 to have a major impact on creating reserves over the next year itself. And if I look at – kind of give you a range of where we – last year was 37 basis points. We're looking for continued strong economic conditions, would put something for the enterprise around the 40 basis point range, plus or minus, maybe 2 basis points or 3 basis points, which in my view, based upon the overall product mix of our balance sheet represents very continued strong performance, but it would be dependent upon the economic conditions remaining favorable.

Meny Grauman – Cormark Securities – Analyst

Thanks for that. And then if I could just ask a question about insurance earnings down in the quarter on a year-over-year basis, about 20%. I'm wondering if you could provide a little bit more color into what drove that.

Teri Currie – TD – Group Head, Canadian Personal Banking

For sure. It's Teri. So if you look at the full year, I think we feel very good about the overall performance of the insurance business for the year. There was an item in the fourth quarter that we disclosed around current year accident benefits, that provision was increased.

What we're seeing is the cost to repair vehicles as they become more technologically enabled, it takes longer, it's more complicated, and it costs more. That's an industry phenomenon, and over time, that gets dealt with in the price, the premium. That was partially offset by fewer weather-related claims quarter-over-quarter as well as a higher release of prior year developments year-over-year for the quarter.

Meny Grauman – Cormark Securities – Analyst

Thanks for that.

Operator

And we'll go next to Sumit Malhotra with Scotia Capital.

Sumit Malhotra – Scotia Capital – Analyst

Thanks. Good afternoon. Just wanted to start with Bob in terms of the trading revenue performance in the quarter. We've seen differing trends across the group. It's been weaker for all members of the group, but certainly in different forms of magnitude. Wanted to ask specifically about your result in the quarter and what some of the key factors were, and more importantly what you think the trend is as we start 2018.

Bob Dorrance – TD – Group Head, Wholesale Banking

Sure. As you noted, it is quite volatile with respect to comparisons and even within the groupings quarter-over-quarter in our results, the different categories can vary. We had on the FICM side, I think the real issues were that both the fixed income markets as well as the corporate credit markets were remarkably strong with very little volatility. And as a result of that, we saw a very much reduced secondary activity in terms of trading, as well as very little trend established in the marketplace.

The markets remained relatively open with respect to origination revenues, but on the trading side, both corporate credit and interest rates, were very slow. And similarly on the equity side, with the reduction in synthetic equity, you can see that trend obviously is in place. And then that area is very much dependent on client activity, and we experienced a quarter where we had limited client activity.

Go forward, I think you really need to see – I think all people in my area would say that would be welcome, would be some form of either volatility or some form of re-pricing some assets that would get people more engaged in the trading of them. So, offsetting that, I think we continue to see good origination activity. Markets are very receptive to new issues in fixed income and corporate credit that comes up, things like price, that's it.

Sumit Malhotra – Scotia Capital – Analyst

For trading specifically, Bob, we're last day of November, fair to say, it hasn't felt that different so far in Q1 relative to what we saw in Q4?

Bob Dorrance – TD – Group Head, Wholesale Banking

I'd say that on the trading side of the business, markets are fairly good, but they're not that active on the institutional front.

Sumit Malhotra – Scotia Capital – Analyst

Okay. And then last – thank you for that. Last one for me is for Mark. Just thinking about the provision in the U.S. and specifically I'm looking at page 34 of your supplement. When we look at the U.S. provision quarter-over-quarter, I'm looking at the line that the incurred but not identified, and you went from a recovery of $7 million last quarter to $48 million in Q4. Is it fair to say that the bulk of that is what we would call the collective change in the credit card book? And specifically that seasonality that you talked about – is this driven more from a reserving perspective because of expectations, or are there trends in the business that you see worsening that causes you to increase that particular line?

Mark Chauvin – TD – Group Head and CRO

Yeah. It is really resulting from the seasonal trend which really is primarily in the credit cards with the retailers. And so what you have is a combination of, as you go into this quarter and the fourth quarter and next, you have increasing volumes, plus kind of more demands on the individual, so you see a slight deterioration in quality, and both of those factors will drive increased reserves. But what we've seen every year over the past four or five years in the second quarter is that the volumes come down as the card balances get paid off, and the people start to manage – bring things a little more current. So, it's not a – I wouldn't say it's a trend that we're concerned about. It's one that we're very familiar with. It's extremely repeatable and it's consistent. It's exactly what we expected actually.

Sumit Malhotra – Scotia Capital – Analyst

So, I'll end it here. If I look at your 2017 provisioning, Q1, you were 42 basis points; Q4, you're 37 basis points. And to your point, you were in the low 30s in the two middle quarters. As a result of that U.S. seasonality and based on your economic outlook, do you think that seasonal pattern is a reasonable way to think about things for 2018?

Mark Chauvin – TD – Group Head and CRO

For the U.S.

Sumit Malhotra – Scotia Capital – Analyst

For the U.S., yeah.

Mark Chauvin – TD – Group Head and CRO

Absolutely in 2018, for the U.S.

Sumit Malhotra – Scotia Capital – Analyst

Thank you for your time.

Operator

And we'll go next to Nick Stogdill with Credit Suisse

Nick Stogdill – Credit Suisse – Analyst

Hi. Good afternoon. Another credit card question. Just looking at the fee line there, it was down sequentially and year-over-year. I believe there might have been an adjustment going through this quarter. If you could just give us some more color on the size and what caused it. And will that have an ongoing impact on the run rate credit card fee growth?

Teri Currie – TD – Group Head, Canadian Personal Banking

It's Teri again. So we have every year a look at the long-term redemption rate for our TD proprietary cards. That ticked up a little bit and this was a liability adjustment for that reason. It's a good news story, in fact, because the reason that that ticked up was that with the launch of our new credit cards in particular cash back, everyday rewards, and then including in that, first class travel and MBNA, we have a really good client engagement with those cards, the rewards site and the program, and so that plays out well in sort of earnings through the year. But it caused a little bit of an adjustment in that liability for the quarter. It's an unusual item.

Nick Stogdill – Credit Suisse – Analyst

And how much, just ballpark, did it contribute to the year-over-year decline or sequential decline? And then, with the redemption rate be higher going forward, so we should expect maybe lower growth, a little bit, in the fee line?

Teri Currie – TD – Group Head, Canadian Personal Banking

Yeah. Quite comfortable with the prospects of growth going forward for the cards business and the fees. We had basically retail sales in our full credit card business up 8% year-over-year, so good engagement, good quality business being done, and a very competitive lineup. This is really something that we take a look at annually, and it may or may not change going forward. It's a marginal change. It wasn't material to our overall results.

Riaz Ahmed – TD – Group Head and CFO

Nick, it's Riaz. If I can just add overall, obviously, what Teri suggested also means that our customers are very happy with the card, so in the end, I think it turns out to be good news. But if you look at the page – if you're referring to the card services line on page 11 of the supp pack, on all those non-interest income lines, I think you also have to be mindful of the fact that a number of those revenue items are in U.S. dollars. And so we also had a stronger Canadian dollar, so FX translation would affect a number of those if you're looking at them from a trend line perspective.

Nick Stogdill – Credit Suisse – Analyst

Okay. Thank you. And then just one clarification on the insurance earnings or the review, is that an annual type review or was there something more specific or a trend that you saw that caused you to review the accident benefit provisioning?

Teri Currie – TD – Group Head, Canadian Personal Banking

It's Teri again. It would be an ongoing review. It was simply a recognition of the fact that we have seen this change as has the industry in the cost of vehicle repairs. And again, we should see that play out in pricing over time.

Nick Stogdill – Credit Suisse – Analyst

Thank you.

Operator

And we'll go next to Steve Theriault with Eight Capital.

Steve Theriault – Eight Capital– Analyst

Thank you. Sorry, just to complete the circle maybe on cards, Teri, can you talk a bit about your outlook for card growth next year? You addressed the service fees, I think, but card growth in the quarter I think was 1%. So maybe you can put that in the context of the work you're doing on the cash back cards and what you're seeing in terms of spend on the Aerogold card?

Teri Currie – TD – Group Head, Canadian Personal Banking

Yeah. Sure. So just overall, we feel great. We continue to maintain a strong market share position, number one in cards as you know. We talked about in the past we've made investments this year to continuously improve our lineup, including as you mentioned, the cash back cards and the everyday reward cards. Customers are taking up the cash back card in particular above our own expectations, which is good news. And again, strong retail sales up 8% year-over-year.

We have made – and I've mentioned this in the past. So let me call it volume-rate tradeoffs in terms of our MD&A business doing fewer low yielding promotional loans, that's actually, we're giving up some volume, but it's improving the profitability. We doubled the profitability of that business this year. So overall, we feel great. I think we've got a TD credit card to meet any Canadian's needs including a great travel lineup including first class travel and have no reason to expect retail sales to do anything but continue to perform well.

Steve Theriault – Eight Capital– Analyst

Okay. Thanks for that. And then for Greg on U.S. indirect auto, I see that picked up in the quarter. Maybe some of that's seasonal, but I think that is some of the best growth we've seen in some time after a pause over the last year. So maybe just any comments on, is there a change in tact – is there any update on pricing maybe getting a little bit better in auto or worse for that matter. What's the outlook for that business looking into next year?
...

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

Yeah. So thanks for the question, Steve. A couple of comments as you rightly called out for the better part of four or five quarters now, we've called out we'd likely start to see moderating auto growth, given the size of the portfolio, the coverage of our portfolio. And as we've been watching the overall industry as a whole, wanted to make sure we remained in a good position there.

Additionally, as we've also been talking about for a few quarters, we've moderated the mix – a little less high prime, more into the prime space, and we bled in a little near prime business to build some margin into the portfolio. I think particularly to your question, if you think about Q4, auto sales in general, both new and used, after the hurricane season were quite strong in some of our southern markets, including Texas, Florida and the Carolinas and some of that uptick was the natural result of that. But again, at 6% year-over-year, it's sort of where we've been signaling our growth for the last few quarters, mid-single digit sort of growth year-over-year.

Steve Theriault – Eight Capital– Analyst

Thank you.

Operator

And we'll go next to Mario Mendonca with TD Securities

Mario Mendonca – TD Securities – Analyst

Good afternoon. First Mark Chauvin. If you could help me think through this PCL seasonality just one more time. Last year, going from Q4 2016 to Q1 2017, lift in PCLs was big, and I'm talking across the entire Bank here. There may have been something going on in Canada that I don't recall, but that sort of nearly $100 million lift from one quarter to the next, is that conceivable going into Q1 2018?

Mark Chauvin – TD – Group Head and CRO

So Mario, I guess, I'd focus – I don't have my memory what it was for the U.S., but the – I would expect a further lift in the U.S. in Q1, really to capture kind of the Christmas buying season, and the increase in the volumes in the card portfolios resulting primarily from that area, which would come down in Q2. And that's what we've witnessed in the past in the U.S. and that's what my forecasts are showing me this year again.

Mario Mendonca – TD Securities – Analyst

So that $100 million lift from one quarter to the next at this point, that's not something you could speak to just now?

Mark Chauvin – TD – Group Head and CRO

Oh, I'd like to analyze the $100 million better to tell you the truth. I mean, I would focus it on the U.S. part. I mean last year, there were oil and gas issues, and there were things that – there's been a few other changes here. But if I just focused on the U.S., I think it'd be a very appropriate comment.

Mario Mendonca – TD Securities – Analyst

Okay. Riaz, something – a question for you. The sensitivity of interest rates has become an increasingly important input into the way I look at banks and the questions I get from investors, and I know you've been – the Bank hasn't been open to updating their guidance from May 2013, but one of your largest peers did recently. Is there anything you can offer us to augment our understanding of interest rate sensitivity, perhaps just ranges or an update on the 2013 guidance?

Riaz Ahmed – TD – Group Head and CFO

Mario, as we've said before, looking at the full picture of upside, rising rates is complex and includes a number of factors which could include business product mix, balance sheet mix, changes in the shape of the yield curve, hedging, cost accretion, FX, betas, et cetera. But I do understand that there's a real interest from investors and analysts to better understand our NII upside to future interest rates.

So, if I were to give you a very simplified view, which is that if we took our balance sheet as at October 31st and assumed an instantaneous 25 basis points rate increase – a short rate increase – then the NII upside is about $150 million subject to all those assumptions that I talked about earlier and it would be split about $100 million in Canadian Retail and C$50 million in U.S. Retail.

Mario Mendonca – TD Securities – Analyst

Riaz, this is just at the short term, it's not the overall curve?

Riaz Ahmed – TD – Group Head and CFO

Yeah, short term, just the rate hike, yeah. Taking away all those other assumptions, everything else being equal.

Mario Mendonca – TD Securities – Analyst

So, over a full year, that's what we'd see?

Riaz Ahmed – TD – Group Head and CFO

Correct.

Mario Mendonca – TD Securities – Analyst

That's clear. Thank you.

Operator

And we'll go next to Gabriel Dechaine with National Bank Financial.

Gabriel Dechaine – National Bank Financial – Analyst

Good afternoon. I wanted to ask you about the Basel I floor impact, that $33.5 billion of RWAs tied to that item. That's the kind of number I usually associate with a large acquisition. But in this case, you're not getting the accretion, or anything like that. So, I recall last quarter, Riaz, you talked about some strategies or actions that you're looking at to alleviate some of this RWA pressure, or is it more realistic that we see OSFI get more lenient, I guess? Some of the other banks have hinted at that.

Riaz Ahmed – TD – Group Head and CFO

Well, I think as others have correctly called out, the industry has made representations to OSFI to relook at the impact of the Basel I floor, because it does give incorrect incentives to the banks. And the methodology that Basel I used as you will recall is very different from the Basel III methodology, so we're really applying a very old formula to look at how the floor is calculated. So, we are in consultation with OSFI on the matter. Now, there are some capital market tools that are available to manage the Basel I floor, but I think up until we get a resolution of the industry dialog with the regulators, I think I'd just rather wait it out.

Gabriel Dechaine – National Bank Financial – Analyst

I understand that. And you can't, I guess, bank on relief coming, so let's say in the steady state, how should we think of that number changing over time in relation to where you're currently growing the business? Where is the primary source of risk-weighted asset inflation coming from? Is it mortgages? That one seems kind of obvious but these are complicated...

Teri Currie – TD – Group Head, Canadian Personal Banking

Well, I think that Canadian industry's shape, overall shape, is that the assets in Canada tend to be lower risk-weighted for all the reasons that you're already familiar with. So, if you look at the run rate of how the Basel floor has been built up, which is disclosed in our supp pack, then I think you can use that as a reasonable going-forward run rate. But I think for us in particular, having said that we are a low-risk bank, it would be reasonable to expect that we would be first to trip the Basel I floor, and then that it would build up. And to your point, it has therefore accumulated to $33.5 billion by October 2017. I think you could anecdotally look at our IFRS 9 results and also say, yes, that is reflective of a lower risk portfolio approach that we use. But I am quite hopeful that this will be resolved, but hard to call the timing on it.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. And if I could throw one in there for Teri. I had asked the other banks, so I might as well ask you. The B20, a) are you seeing some demand being pulled forward? It doesn't seem to be – well you are getting growth of uninsured mortgages, so maybe that is the case. And then into 2018, how much do you originate now and like newer originations and the downside to that from B20, what would that be?

Teri Currie – TD – Group Head, Canadian Personal Banking

So on the first point, it's hard to tell whether we're seeing a pull forward. I think anecdotally, we think that that is the case given the January 1st timing of the rule. In terms of quantifying the impact to originations, there are a lot of moving parts, and I think we feel comfortable that the numbers that have been cited by our peers would be something that would be representative of the impact that we might experience as well. As many have stated, it's not a pure mathematical exercise and just assuming people would behave the same way they did in 2017. There is lots of ways that borrowers can choose to cure, including buying less expensive properties, amassing a down-payment over a longer period of time, accessing more down-payment funds, expanding their amortization. So I would say on balance, we expect our impact to be in line with the industry.

Gabriel Dechaine – National Bank Financial – Analyst

Great. Thank you for that. And Mark Chauvin, have a good retirement.

Mark Chauvin – TD – Group Head and CRO

Thank you.

Operator

We'll go next to Mike Rizvanovic with Macquarie Capital Markets.

Mike Rizvanovic – Macquarie Capital Markets – Analyst

Good afternoon. I just want to go back to the B20 for a second. Just wondering, do you build into that guidance, which seems to be relatively modest in terms of the impact on originations, do you build into the fact that we're looking at mortgage rates being above 60 to 70 basis points higher? And maybe more importantly, are you including perhaps another two rate hikes by the Bank of Canada? Which is I think what the market currently expects for 2018. And if you don't, will your guidance change, and would it be more meaningful?

Teri Currie – TD – Group Head, Canadian Personal Banking

I think the way I'd think about it would be, what we've said and would continue to say looking forward, is our proprietary total RESL growth should look like mid-single digits, and we would continue to expect that, even with what we just said about B20. We think headwinds would come at that if B20 was above those ranges we just talked about, or if there were further interest rate rises that could potentially mute lending activity.

Mike Rizvanovic – Macquarie Capital Markets – Analyst

Okay. Thanks for that. And then just quickly, so if the impact is as modest as some of you or some of your peers and yourselves seem to be indicating, do you think that maybe heightens the risk that the regulator maybe looks to do more to cool down the market? I just can't imagine if originations are not really coming off, then that means that credit growth is probably running at roughly the same pace. Do you see that as an additional risk?

Teri Currie – TD – Group Head, Canadian Personal Banking

I think it's hard to predict what might happen. What I think is happening now is people are looking at what are the impacts of the cumulative changes that have occurred and how did they play out, and I think then decisions may be taken based on how that all works out in the end.

Mike Rizvanovic – Macquarie Capital Markets – Analyst

Okay. Thanks for that.

Operator

And we'll go next to Doug Young with Desjardins Capital Markets.

Doug Young – Desjardins Capital Markets – Analyst

Good afternoon. Just probably two quick questions. On the seasonality, Mark, I understand the seasonality on the credit card book. And just can you remind me the seasonality on autos? Or is this more a function of just you're going down to near prime from prime and super prime, is that the seasonality? If you can kind of just flush that out.

Mark Chauvin – TD – Group Head and CRO

Yeah. There is a small element of seasonality on autos, which is really driven by just more competing needs for funds during this period, and you see a slight deterioration in credit quality, which we see come back in subsequent quarters. So, we identify that as being seasonal, but it is the minority. The majority of really what we see is in the credit cards with the retailers.

Doug Young – Desjardins Capital Markets – Analyst

Okay. And then I guess Riaz, operating leverage was delivered obviously in the quarter. The next ratios come down quite nicely in the back half of this year. And as you look out to next year, can we think of similar levels of improvements? Can you talk a little bit about what would drive further benefits, or is this just abnormally good? Just want some color on that. Thank you.

Riaz Ahmed – TD – Group Head and CFO

Doug, as I've said before, I really look to operating leverage on a business by business basis, because each business has its own unique characteristics and attributes. And in evaluating the performance of the businesses, we look to the maturity of that business in the market place, the level of investments that may be required, revenue growth that is achieved, et cetera.

So, the aggregation of all of that obviously is a great tailwind if everyone is doing particularly well, which we did in 2017, but therefore, it's hard to kind of, call it, on an annual basis at the all bank level, because some businesses, which may be high operating leverage – the high efficiency ratio businesses, but low capital businesses may be just as attractive to grow, which could get the all bank operating leverage number not to look so attractive. So, I think of it more at a business by business level and let the aggregate add up to whatever it may.

Doug Young – Desjardins Capital Markets – Analyst

So, I mean others have provided maybe not all; some have provided operating leverage target, some have provided efficiency ratio targets. Any thoughts of doing something similar just to give us direction around expenses?

Riaz Ahmed – TD – Group Head and CFO

I think overall I would say, I would hesitate to give you a bank level outlook only because you know that our strategy is to grow revenue and to make the investments that we need to make to transform the business and get productivity savings out.

So, the combination of those could result in operating leverage being very strong in some years, as it has been this year and maybe less strong in other years as you've seen in prior years. So, it's hard to call it out, but overall when you've got an economy like this and we're calling out 7% to 10% growth rate, you can assume that operating leverage will continue to be good.

Doug Young – Desjardins – Analyst

Thank you.

Operator

We'll go next to Sohrab Movahedi with BMO Capital Markets.

Sohrab Movahedi – BMO Capital Markets – Analyst

Maybe both for Riaz and Mr. Masrani. I mean this 7% to 10%, maybe the Basel floor becoming more of a tailwind as opposed to a headwind. Remind us of the capital priorities, please? And you had done the buybacks this year. To the extent the opportunities present themselves, do you think this is a good time to also do buybacks or are you valuation sensitive?

Bharat Masrani – TD – Group President and CEO

Sohrab, this is Bharat. You've heard me say this before, I think we've been consistent on this – that as we deploy, capital deployment framework, is fairly straightforward. We want to make sure that we're supporting all of our growth strategies and wherever capital is required, we will allocate it. Secondly, we have also said that if there are any capability gaps in the Bank, then we will certainly go out and buy those capabilities, if that is what is appropriate for us.

There has also been some discussion on, would some kind of acquisitions make sense and we said yes, some of them may, for example, in the southeast of the U.S. and that continues to be the case, on the card side, we've talked about it previously, this is a very good business. We like it. We like the model that we apply to it, where the risk is shared, as are the revenues. And we find the risk-adjusted returns to be very attractive, and as we are building out our U.S. card business, it does provide us with the scale that otherwise we would not have. And so we go through a framework in that regard. And then there is also this issue of uncertainty around regulations and all that, although we've gone through a good phase here where the level of uncertainty has reduced, but it has not been eliminated.

So we go through that thinking and after all that, if we think that we still have the flexibility, then of course, we would seriously consider buybacks as well. So that's the way we deploy our capital, and as you saw, we did do buybacks, and that's the way we got there. So time will tell based on how that works out and we'll see whether there is other requirements are there or not before we consider any buybacks.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. Just Bharat just to quickly follow up on that, I mean if you found yourself in the mid 11% range, for how long could that capital level stay at those levels before you would trigger the buyback?

Bharat Masrani – TD – Group President and CEO

It's the level of precision on this Sohrab that is difficult, because there are a lot of moving parts. You've seen in our own case in the last one year, I mean, could we have over the last little while predicted with the Scottrade transaction, as to how that came about, or the floor that you just talked about as to how it applies particularly to TD, and Riaz gave you a good understanding or to some of the other questions as to why it appeared to have impacted TD sooner and probably more because of the way our balance sheet works. So there are lots of moving parts here. I wouldn't want you to start modeling a particular month or a particular week after we hit the magical number that you might think is good. So we'll see when we get there, we will obviously make a very deep assessment as to what makes sense for the Bank.

Sohrab Movahedi – BMO Capital Markets – Analyst

I appreciate that. Thank you.

Operator

Our next question will come from Darko Mihelic of RBC.

Darko Mihelic – RBC Capital Markets – Analyst

Hi. Thank you. Riaz, sorry to go here, but you opened the can of worms on the NII and the impact on rates. And I want to approach this question a little bit differently though because we're not going to be able to – sorry?

Riaz Ahmed – TD – Group Head and CFO

I said that's now what you said last quarter. Anyways, go ahead.

Darko Mihelic – RBC Capital Markets – Analyst

Yeah. So I know, we're not going to be able to solve for precisely everything that happens on the NII front, but I mean I guess, I'll phrase the question this way. This past year, we've seen some rate increases and we did see some margin improvement in the U.S. and in Canada. But the all bank margin was actually down year-over-year. And as far as I can tell when I look through your data, it looks as though that culprit was interest-bearing liabilities in Canada and the U.S. in the business on government side had a fairly large increase there in those funding costs.

And so, when I step back and just think about your commentary on a 25-basis-point rate hike, can you speak to whether or not what happened this year was sort of one-off-ish and perhaps we should not expect some sort of a repeat in 2018? And therefore, as I think of $150 million of NII for a 25-basis-point rate hike, can I think of that as largely being positive at the all bank level? Any thought – is there any way you can help me with that?

Riaz Ahmed – TD – Group Head and CFO

There are two things I could suggest to you Darko. First, when you look at the all bank margin and therefore consider the entire balance sheet, it introduces a whole host of other business items that we don't generally focus on when we look at Canadian Retail and U.S. Retail. So, for example, if you look at the size of the investment securities that we carry on our balance sheet, some of those are needed to meet liquidity requirements, and some of them are driven by our deposit-rich U.S. franchise where we have a low loan-to-deposit ratio. And so you know that those items – and then you also look at the short-term balance sheet of the dealer and businesses such as repos and whatnot, where there are funding approaches there that are taken into account in the all bank NII and whose effect may overwhelm a 25 basis points rate hike, because they're such a big part of our aggregate balance sheet but yet are very low risk activities, holding HVLA securities and holding excess deposits in the U.S. and conducting repo businesses, et cetera, or low risk businesses but they're not NII-driven businesses necessarily, they're there for other reasons.

So I don't think you can necessarily correlate that what the impact would be should translate necessarily into an all bank margin number because of these other factors. Now you asked about anything that is one-off-ish that might not repeat in 2018. Well, if we got similar interest rate hikes in 2018 as we did in 2017, one delta will be betas. I mean you would expect through the cycle betas to continue rising, so the efficiency of the rate hikes to your NII development, we would expect that to reduce over time.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Thank you very much. Appreciate the color.

Operator

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

Bharat Masrani – TD – Group President and CEO

Thank you, operator. And just to conclude, great numbers from the Bank, terrific performance once again. And I'd like to take this opportunity to thank our nearly 85,000 TD colleagues around the world who continue to deliver for our shareholders.

And I know one of you on the call mentioned this, I'd like to take this opportunity as well to thank Mark Chauvin, this is Mark's last analyst quarterly investor call before he looks forward to a great retirement. Mark has given 35-plus years to TD, and we are very thankful for those years. Mark, we wish you very well in your retirement.

And finally, in case, folks on the phone, if we don't get together, happy holidays to you and your families, and we will see you in the New Year. Thanks very much.