TD BANK GROUP
Q1 2018 EARNINGS CONFERENCE CALL
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PRESENTATION

Gillian Manning – TD – Head of Investor Relations

Thank you. Good afternoon, and welcome to TD Bank Group's first quarter 2018 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. Ajai Bambawale, 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 first quarter 2018 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. Q1 was a great quarter for TD and a strong start to 2018. Earnings were up 15% from a year ago to $2.9 billion, and EPS rose 17% to $1.56. All of our businesses performed well as the investments we've made to serve our customers even better drove higher levels of client activity and an improved customer experience. We also continue to benefit from a favorable operating environment.

Our earnings power is evident in our robust balance sheet metrics. Our Common Equity Tier 1 ratio ended the quarter at 10.6%, including 120 basis point impact from the Basel I floor. We will fully recapture that capital in Q2 when OSFI implements its new transitional floor. The floor is not expected to constrain TD for the foreseeable future. That puts our pro-forma CET1 ratio at 11.8%, a level that affords us considerable flexibility to deploy capital. Our leverage and liquidity ratios also remained strong. Reflecting these good fundamentals, we declared a $0.07 dividend increase today. This brings our dividend per share to $0.67 a quarter, up 12%, or a five-year annual growth rate of 10%.

Overall, I'm very pleased with our Q1 results. We delivered double-digit earnings growth and strengthened our capital base, while continuing to invest in our digital transformation. One such investment was our acquisition of Layer 6, which we announced in January. We are very excited about this acquisition which brings some of the top AI talent in the world to TD and a platform that is globally recognized for its recommendation system. Layer 6's capabilities and know-how will supercharge our ability to embed AI across the Bank, helping us better leverage data to enhance the customer experience, drive better business decisions and improve efficiency. Only two months in, the Layer 6 team and TD colleagues are working on a number of exciting potential use cases. I look forward to sharing more details in future quarters.

Another notable development this quarter was the passage of comprehensive tax reform in the U.S. This also positions TD very well for continued growth and investment. Reflecting the reduction in the federal statutory corporate tax rate, we recorded a one-time write-down of deferred tax assets and certain other investments, which lowered our reported earnings this quarter. We also saw a roughly proportional decline in our U.S. Retail Bank's effective tax rate. Based on our current assessment, we expect this quarter's rate to approximate the run rate for the year in the U.S. Retail Bank.

We also benefit from U.S. tax reform through our ownership stake in TD Ameritrade. On their Q1 analyst call in January, TD Ameritrade raised their guidance for 2018 earnings by about 20% to incorporate the effects of a lower tax rate. All told, the implications of U.S. tax reform are significant for TD and for the customers and communities we serve across our U.S. Retail franchise. We are taking steps to amplify those benefits by reinvesting some of the savings across the Bank. This could result in an increase of up to 1% in total bank expense growth on a full year basis. We are making investments in increased pay and benefits for our people, in tools and resources that will enable them to deliver more legendary customer experiences, and in initiatives to support the places where we live and work, because our success is their success. Our purpose is to enrich the lives of our customers, our colleagues, and our communities, and it is at the heart of our vision to be The Better Bank.

I will now turn to our segment results. Q1 was a very strong quarter for Canadian Retail with earnings up 12% on good revenue growth and positive operating leverage. Our flagship retail franchise delivered good results across the board, reflecting the benefits of ongoing investments to optimize our network and product suite, and enhance our advisory capabilities. In personal and commercial banking, we had record real estate secured lending originations as we continue to execute on our strategy to grow our FlexLine HELOC book by winning new clients and extending our relationship with existing ones.

And we built on our leadership position in the electronic payment space with strong growth in the number of users and leading market share in our e-transfer feature. This critical functionality will help us widen our lead with active mobile users and demonstrates our success in translating legendary into the digital space. Our wealth business performed very well this quarter as investments we've made in our people and platforms continue to pay dividends.

We generated more than $10 billion in net asset growth and experienced record trading volumes. All of our channels performed well. In direct investing, the trading outages we experienced in early January caused disruption for our customers. This is not the standard of service we aim to deliver. But I'm pleased to say the issue was quickly stabilized and we have since launched a new end-to-end online account opening platform that will enable investors to begin trading within 24 hours, greatly improving the customer experience. In our advice channels, we continue to take share and are expanding our distribution capabilities with the addition of more private bankers, financial planners and investment advisors. And TD Asset Management maintained its number one position in Benefits Canada's ranking of institutional pension fund managers for the seventh year in a row.

In our Insurance business, we are reaping the benefits of the investments we made over the past year with the launch of our general insurance platform transformation in Alberta last fall reducing wait times and helping customers get advice and quotes more easily.

Turning to the U.S., our U.S. Retail Bank generated earnings of US$672 million this quarter, up 30% from a year ago. We had double-digit revenue growth and delivered over 400 basis points of operating leverage. With the increased contribution from our investment in TD Ameritrade, U.S. Retail segment earnings climbed 35%, driving our return on equity to 12%. In Canadian dollar terms, U.S. Retail segment earnings crossed the $1 billion threshold for the first time. Our U.S. Retail business is on a strong footing. We are growing within our risk appetite. We continue to add customers and take share. We are leveraging our scale to deliver efficiencies and we are seizing the opportunities created by a favorable operating environment to accelerate investment. You will see more of that in the coming quarters as we continue to invest in frontline staff and enhance our digital offerings to provide customers with faster and more seamless interactions. These investments are already bearing fruit with active digital users up 9% and mobile deposits up 26% from a year ago.

Rounding out our businesses, our Wholesale Bank performed very well in Q1. Earnings were up 4% on higher corporate lending activity and TD Securities continued its record of leading some of the quarter's most significant transactions. We advised Thomson Reuters on its announced partnership with the Blackstone Group to advance its Financial and Risk business and drive the growth of Legal, Tax and Accounting and Regulatory business. When closed, the deal will represent the largest corporate carve-out and leveraged buyout in Canadian history. The transaction demonstrates our leadership in the communications, media and technology sector, and is important in building our M&A franchise.

We were joint lead on five sustainability bonds during the quarter, with a combined value of over $3.5 billion, including $1 billion Province of Ontario Green Bond and US$750 million BNG Issue. And we won back-to-back mandates from Ford Motor Company, active bookrunner on their US$1.8 billion loan ABS in November and the US$2 billion multi-tranche seven-year offering in January. This speaks to the value of the investments we have made to grow our U.S. dollar business, as well as our ability to win clients by leveraging capabilities and partnerships across the entire bank – One TD in action.

One quarter into fiscal 2018, we have much to be pleased about. All of our businesses are performing well. The macro environment in Canada and the U.S. remains supportive. And developments over the past quarter have provided us with additional upside. While there are risks on the horizon, if these positive conditions persist, adjusted earnings growth for the full-year may exceed our medium-term targets.

To wrap up, I'm extremely pleased with our first quarter results. They highlight the power of our diversified model which offers a solid foundation for long-term growth and enables us to thrive through short-term volatility. From this position of strength, we can keep our focus where it belongs, on our customers. It is a privilege to serve them and help them move forward with confidence in their financial lives. I would like to thank our 85,000 employees for their commitment and dedication to this purpose. I look forward to working with you this year as we continue our journey to make TD The Better Bank.

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

Riaz Ahmed – TD – Group Head and CFO

Thank you, Bharat. Please turn to slide 4. This quarter, the Bank reported earnings of $2.4 billion and EPS of $1.24. We incurred a net $453 million charge relating to U.S. tax reform. Excluding this charge and other items, adjusted earnings were $2.9 billion, up 15% year-over-year and adjusted EPS was $1.56, up 17%.

Results were strong across all our businesses. Revenue increased 3% or 4% on an adjusted basis, reflecting volume growth and higher margins in the Canadian and U.S. Retail segments. Credit losses increased 9% year-over-year and this quarter reflect IFRS 9 methodology. This increase was largely in the Corporate segment which holds the retailer program partners' share of PCL for the strategic card portfolio which is offset in Corporate non-interest expenses. Expenses were relatively flat in the quarter.

Please turn to slide 5. Canadian Retail segment net income was $1.8 billion, up 12% year-over-year, reflecting revenue growth and good operating leverage. Our wealth business performed particularly well this quarter with net income up 27%, driven by growth in wealth assets and higher direct investing trading volumes. Revenue rose 7% on loan and deposit volume growth, rising margins and higher fee-based revenue in the banking and wealth businesses. Total loan growth was 6% year-over-year with increases in both personal and business lending volumes. And deposits increased by 7%, reflecting growth in the business deposits and core chequing and savings accounts. Margin was 2.88%, up 2 basis points quarter-over-quarter and 6 basis points year-over-year, reflecting rising interest rates.

Credit losses increased 11% quarter-over-quarter. PCL - impaired decreased by 3% in personal banking, primarily reflecting a change in policy regarding the timing of loss recognition in the indirect auto portfolio. PCL - performing, which was previously recorded in the Corporate segment, was $33 million, primarily due to the impact of forward-looking macroeconomic assumptions under the expected credit loss methodology. Total PCL as an annualized percentage of credit volume was 0.27%, up 2 basis points quarter-over-quarter remaining at cyclical lows.

Expenses increased 4% year-over-year, reflecting restructuring costs across a number of businesses, higher employee-related expenses, including revenue-based variable expenses in the wealth business and general business growth. Please turn to slide 6.

U.S. Retail net income was $751 million in U.S. dollars on a reported basis, and US$809 million on an adjusted basis, up 35% year-over-year. The U.S. Retail Bank earned US$669 million in U.S. dollars on a reported basis, up 29% year-over-year. The strong result was driven by 10% revenue growth, reflecting higher interest rates and volume growth, as well as a lower corporate tax rate.

Average loan volumes increased by 5%, reflecting growth in the personal and business customer segments, and deposit growth was 8%, driven by higher personal deposits and a 15% increase in sweep deposits from TD Ameritrade, due mainly to the Scottrade transaction. Net interest margin was 3.19%, up 1 basis point quarter-over-quarter, primarily due to higher deposit margins and partially offset by lower taxable equivalent revenue due to U.S. tax reform. NIM has risen 16 basis points year-over-year.

PCL increased 20% quarter-over-quarter. PCL - impaired was US$148 million, down US$12 million, due to lower provisions in the U.S. commercial portfolios. PCL - performing was US$47 million, up US$44 million, primarily reflecting seasonal trends in the credit card and auto portfolios, elevated by balances migrating to Stage 2 where they're measured based on a lifetime expected credit loss. This quarter, we have provided a PCL ratio for the U.S. Retail Bank excluding the PCL related to our partner share of the strategic cards portfolio. This ratio was 52 basis points in the first quarter.

Expenses increased 6% year-over-year, reflecting higher investments in business initiatives and employees as well as volume growth, partially offset by productivity savings. The U.S. Retail Bank's effective tax rate this quarter was approximately 11% compared with 18% in the first quarter of 2017, resulting in a US$55 million benefit this quarter. We expect the tax rate to remain around this level for the balance of 2018, implying a full-year benefit of around US$225 million.

The contribution from our investment in TD Ameritrade decreased by US$1 million year-over-year on a reported basis and increased 65% adjusted for TD's share of the charges related to the Scottrade acquisition. Segment ROE was 11.2% on a reported basis and 12% on an adjusted basis, up from 9.1% a year ago. Please turn to slide 7.

Net income for Wholesale was $278 million, reflecting higher revenue and lower expenses, partially offset by a lower net recovery of credit losses. Revenue increased 2%, reflecting higher corporate lending, partially offset by lower equity underwriting. We recorded a net PCL recovery of CAD 7 million in the quarter, due to credit risk improvement in the oil and gas sector, and there was no PCL - impaired in the quarter. Non-interest expenses were relatively flat for the quarter. Please turn to slide 8.

The Corporate segment reported a net loss of $634 million this quarter. The higher loss is primarily due to the impact of U.S. tax reform in the current quarter and the lower contribution from other items. Please turn to slide 9.

Our Common Equity Tier 1 ratio was 10.6% at the end of the first quarter, down 9 basis points from the fourth quarter. We had strong organic capital generation this quarter, which added 38 basis points to our capital position. This was offset by a decline of approximately 12 basis points as a result of the write-down of our deferred tax assets due to U.S. tax reform and 35 basis points in RWA growth. The increase in risk-weighted assets was driven primarily by the Basel I floor, including 15 basis points due to the adoption of IFRS 9, as noted in our Q4 disclosure.

Effective in the second quarter, the Basel I floor will be replaced by a new transitional floor which we do not expect to be binding for TD for some time. Pro-forma for such change, the Bank's CET1 capital ratio as of January 31, 2018, would have been 120 basis points higher. Our leverage ratio was 4% and our liquidity coverage ratio was 122%.

I will now turn the call over to Ajai.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Thank you, Riaz, and good afternoon, everyone. Please turn to slide 10.

Credit quality remained strong in the first quarter with stable trends across the Bank's credit portfolios. For the quarter, gross impaired loan formations were $1.26 billion, or 20 basis points, remaining at cyclically low levels and stable on both quarter-over-quarter and year-over-year basis. There were no new formations in the Wholesale portfolio. Please turn to slide 11.

Gross impaired loans ended the quarter at $3 billion, stable at 49 basis points quarter-over-quarter and down 8 basis points year-over-year. Canadian Retail gross impaired loans were stable at 21 basis points quarter-over-quarter. Gross impaired loans in our U.S. Retail portfolio were down $55 million quarter-over-quarter due to a $94 million impact of foreign exchange, offset by an increase due to an IFRS 9 methodology change and seasonal trends. Please turn to slide 12.

As indicated in previous quarters, U.S. strategic cards PCLs are reported on a net basis for segment reporting, including only the Bank's contractual portion of credit losses whereas the partners' share is reported in the Corporate segment. For the purpose of the credit slides, we continue to report gross losses to better reflect portfolio credit quality. PCL in the quarter was $698 million, or 45 basis points, up 6 basis points quarter-over-quarter and 3 basis points year-over-year, aligned with our expectations.

The year-over-year increase in PCL reflects volume growth, seasoning, and mix in the U.S. credit card and indirect auto portfolios and a reduction in recoveries in the Wholesale Banking segment. This is offset by a decrease in the Canadian Retail segment as a result of a one-time impact from a change in policy relating to the timing of loss recognition in the indirect auto portfolio and a higher U.S. commercial allowance increase in the prior year. The quarter-over-quarter increase in PCL is due to usual seasonal trends in the U.S. credit card and auto portfolios where the first quarter typically represents the high watermark, driven by holiday spending, followed by a subsequent decline in the second quarter as customers catch up with their payments, and the introduction of the ECL methodology under IFRS 9 that I'll speak about on the next slide. Please turn to slide 13.

I would now like to take just a moment to discuss the impact of IFRS 9 on the performing portfolio this quarter. Recall that under the IFRS 9 framework, the key drivers of change in an expected loss are volume, credit quality and forward-looking macroeconomic assumptions used in modeling. When credit risk migration occurs from Stage 1 to Stage 2, provisions increase from 12 months to a lifetime expected credit loss. In this quarter, the $86 million increase in our performing PCL is impacted by increased sensitivity to risk migration relating to seasonality in the U.S. Retail portfolio and forward-looking downside macroeconomic assumptions and the effect on the Canadian Retail portfolio. For the balance of the year and assuming economic conditions remain stable, our expectation is that credit losses will moderate over the next quarter and PCL should remain in the range of 40 basis points to 45 basis points.

Let me conclude my remarks with just a brief summary of my key points. The increase to PCL is in line with our expectations. Credit quality continues to be strong across the Bank's credit portfolios and we remain well-positioned for continued growth.

With that, operator, we are now ready to begin the Q&A session.

QUESTION AND ANSWER

Operator

We'll take our first question from Ebrahim Poonawala with Bank of America Merrill Lynch.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

I just wanted to start with obviously significant capital build as you move to the transitional floor. One, I was wondering if you could remind us in terms of what's the target level that you want to operate the Bank, sort of in this transitional floor environment, relative to the 11.8%. And then in terms of how quickly do you expect to sort of bring that capital ratio lower?

Bharat Masrani – TD – Group President and CEO

Yes. So, Ebrahim, this is Bharat. I think we've talked about this previously and I'd say the message is not changed as much. As you know, in our capital deployment framework, we start with what level of capital do we need to support our businesses by way of risk-weighted assets, et cetera. We also look at if there are any investments we have to make in order to accelerate some of our capabilities or some gaps that we need to fill. We also look at obviously acquisitions on an ongoing basis.

And then, if we exhaust all of those items, then obviously we look at perhaps even considering a buyback and we've done that over the past few years a couple of times. So, that's our approach in how we deploy capital, how we think about capital deployment.

On your point on what are we targeting, I mean, we do run, I feel, a low risk strategy generally and, therefore, are always comfortable with the capital levels we run. And that has been the case over many, many years. I think currently there is still some uncertainty. You're looking at Basel 3 plus, call it Basel 3.5 – 4, as to what Canada might do with respect to when those rules may apply, there's some uncertainty around that. So we'll see how this plays out.

This Basel I floor arrangement only got announced quite recently. So, we'll sort of work through what makes sense here. But there's lot of uncertainties out there that we want to make sure are taken into account as we think about capital on an ongoing basis.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Understood. And just sort of following up on that, Bharat, you've talked previously about potential for card portfolio acquisitions or a bank acquisition in the Southeast U.S. Just in terms of – if you could talk about the opportunity set on those metrics. And particularly as you think about a bank acquisition, what are we sort of waiting for in terms of – are the valuation mismatch too significant where it's a big hurdle to go through or are we waiting for better regulatory sort of clarity that would allow you to sort of pull the trigger there?

Bharat Masrani – TD – Group President and CEO

Ebrahim, as you rightly point out, we have talked about it. There are certain sectors that are more attractive to us from an acquisition perspective. The card side, especially the partnership deals we have, we're very happy as to how they work for us. And if they were the right opportunities within our risk appetite, then, of course, we will look at them seriously. And we continue to do that. There are opportunities out there but we want to make sure they are the right ones for TD. And as a Bank, we want to remain disciplined. Just because we may have capital flexibility that does not mean we will be chasing acquisitions that do not make sense for the Bank.

I think with respect to bank acquisitions, again, yes, the value expectations sometimes don't meet our requirements, but that doesn't mean that we don't look at opportunities right through our footprint. The Southeast is particularly attractive given our aspirations to accelerate our growth in that very attractive market for us. We already have a great franchise in the Southeast of the U.S. It's a growing franchise. But we think we can have more locations, more customers, and we'd like a higher level of scale than what we have today. So we'll keep on searching, but we want to make sure we do a – if we go ahead, the acquisition has to make strategic sense, financial sense, and operational sense for us, and culture and risk appetite matter as much as those other metrics. So those are the types of things we look at.

And then, of course, there are opportunistic players out there. If things were to present themselves that makes sense for the Bank, then we would look at those very seriously as well.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Understood. It makes sense. Thanks a lot.

Operator

And we'll take our next question from Meny Grauman with Cormark Securities.

Meny Grauman – Cormark Securities – Analyst

Hi. Good afternoon. Bharat, you mentioned that you're going to reinvest some of the tax savings that you're going to benefit from in the U.S. And just a clarification, is that reinvestment already included in the $300 million run rate annual benefit that TD's expected to get?

Bharat Masrani – TD – Group President and CEO

The benefit is before what we spend in expenses and so just to clarify that point. I think the investments we want to make, obviously, is to make sure that we are investing in our people, we are investing in creating capabilities to enhance the customer experience that we would like, and, of course, to accelerate any digital opportunities that may present themselves.

So we're working hard to make sure that these investments are accretive to the Bank from an experience, customer perspective as well as for the Bank financially.

Meny Grauman – Cormark Securities – Analyst

So if we think of it on a net basis in terms of dollar value how much of that $300 million do you expect to, I guess, come down to the bottom line once you do that reinvestment?

Bharat Masrani – TD – Group President and CEO

I think in my comments I said we expect our expenses, because of this particular initiative, to go up by approximately 1%. It's hard to pin down a particular dollar number, Meny, because we are already into Q2. Some of these initiatives do take time. So, we'll see where it comes out. But, overall, we feel good about what the comprehensive tax reform in the U.S. does for us. This provides us with lots of flexibility. And so, we want to make sure that where appropriate we do take advantage of that flexibility.

Meny Grauman – Cormark Securities – Analyst

Thank you. And then just want to ask about the efficiency ratio in U.S. Retail. A very good result, by my numbers, I think it's even a record. So, just some perspective – where do you expect that number to be through 2018 and maybe a little bit longer-term target, if you could refresh that?

Greg Braca – TD – Group Head, U.S. Retail

Sure, Meny. This is Greg Braca, so good afternoon. Obviously, we've worked very hard in bringing that number down from the well into the 60s not that long ago. And, obviously, this was a record number from an efficiency standpoint at under 55% and we feel quite good about that. And we've been working awfully hard at this over the last few years and it goes to productivity initiatives, digital initiatives and various end-to-end platforms we've been investing in.

Obviously, from quarter-to-quarter, depending on expenses and programs we're reinvesting in, as you will have seen in 2017 and the previous year, the number will jump around a little bit. But the long-term trend has been downward. And we continue to reinvest and focus on expenses that really do change the Bank and not just running the Bank day-to-day. So, look, our focus very much is on employee investment, digital, new platforms and we think the trend has been quite positive and we'll continue to invest in those.

Meny Grauman – Cormark Securities – Analyst

Thank you.

Operator

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

Nick Stogdill – Credit Suisse – Analyst

Hi. Good afternoon. First, another one for Bharat on the capital deployment. We've discussed the opportunities that TD is looking at for, I guess, some time. Is there anything you can add on how the dialog has changed given the certainty we now have around U.S. tax reform? Was that an impediment to acquisitions last year as companies or businesses waited to see how that played out? And anything you can add to how it's going this year?

Bharat Masrani – TD – Group President and CEO

Obviously, the economic backdrop is more certain today than perhaps it might have been previously. So, people seem to feel more confident. I think your specific point on tax reform, I mean, that is still very recent. And I wouldn't want to use that to say that discussions have changed in any material way. But we, as a Bank, as you know – I mean last year when we looked at this opportunity with TD Ameritrade, with Scottrade, we thought it made a lot of sense and obviously acted very quickly because it made sense for TD Ameritrade as well as for TD Bank.

So, we are obviously looking at opportunities in the market, but it's hard to pinpoint how the dialog might have changed over the recent past. It depends on circumstance, depends on the type of business and certainly depends on geography.

Nick Stogdill – Credit Suisse – Analyst

Okay. Thank you. And then for Teri or Riaz, on the HELOC growth in Canada, up 16% from last year, you've talked about the strong take-up of the FlexLine product. And my question is on how much of the year-over-year growth of the $10 billion represents the part of the HELOC that has a fixed amortizing component and how much is driven by growth in the revolving piece? And I'm just trying to understand how much of the growth is more mortgage-like.

Teri Currie – TD – Group Head, Canadian Personal Banking

Sure. It's Teri. Thanks for the question. So, again, this has been a strategy to really as we've evolved the product and made it more competitive and a credible mortgage substitute to actually offer FlexLine as a mortgage substitute to the right TD customers – more flexible and convenient for them, more profitable and stickier for us.

To answer your question, if you looked at mortgage plus the amortizing HELOC, the growth of those in combination exceeds the growth of the portfolio on average overall. So, that implies actually that the revolving components of HELOC are declining somewhat in the portfolio.

Nick Stogdill – Credit Suisse – Analyst

Okay. So, the 16% year-over-year HELOC growth, can you be a little more specific maybe on how much is the amortizing piece versus the revolver I guess? Just...

Teri Currie – TD – Group Head, Canadian Personal Banking

It's pretty much exclusively amortizing, is the best way to think about it.

Nick Stogdill – Credit Suisse – Analyst

Exclusively amortizing, okay. And then of the $76 billion in HELOCs, can you give us a sense on how much would be again amortizing of that part of it?

Teri Currie – TD – Group Head, Canadian Personal Banking

Since we only in 2012 and beyond started to actually improve the product, it will take time for this to work through the portfolio but definitely the lean of the portfolio is going more towards the amortizing portion.

Nick Stogdill – Credit Suisse – Analyst

Okay. Regardless the growth is in amortizing. Okay. Thank you.

Operator

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

Gabriel Dechaine – National Bank Financial – Analyst

Hey. Good afternoon. I also have a question on mortgages and HELOCs or this is called RESL I guess. So, you're not the only bank to talk about mortgage growth or the competitive dynamics in mortgage growth being an inhibitor to margin expansion that's eating away a little bit at it. Are you just willing to take that because we're expecting growth to slow down, so might as well get the growth while you can?

Teri Currie – TD – Group Head, Canadian Personal Banking

I think when we think about the business that we put on the books we are obviously quite conscious of that being accretive and giving us the kind of returns that we're looking for. And so, the competitive nature of pricing has definitely had an impact on margins overall as you mentioned. I think we're feeling very good about the growth of the portfolio overall, about our target of mid-single-digit total proprietary RESL growth going forward and think that that helps us to continue to put good risk-adjusted business on the books at the right level for the growth in the economy that we see going forward.

Gabriel Dechaine – National Bank Financial – Analyst

I'm actually looking at this in a positive way. You might take mortgages on now at a tighter spread but if customers, borrowers are stickier because of B-20 a few years from now, you might have more pricing power, so we could see a positive margin trend develop. Is that not reasonable?

Teri Currie – TD – Group Head, Canadian Personal Banking

I think in combination with the comments on HELOC being the sort of where we're going with our growth more strategically, again, good for our customers for flexibility and convenience. That is definitely a stickier product overall. So, in combination with your comment I'd say yes.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. Then my last and also mortgage related. Can you talk – and this is for Teri and for Bob, separate questions, but related. Your participation in the mortgage broker channel, I believe, you've been growing. How do you see that developing over the next few years? Are you emphasizing proprietary channels over the broker channel? How do you view that?

And then, Bob, like many other banks like at the mortgage desk you buy mortgages from third-party originators. Is there any change in that activity you foresee?

Teri Currie – TD – Group Head, Canadian Personal Banking

So I'll kick off, it's Teri. So, we're looking at the channels of choice for our customers going forward. So we've been building our digital mortgage origination capability and we will continue to do that. We've been investing in tools and capabilities for our branch network. We've continued to add to our face-to-face mobile mortgage sales force specialists. In fact, we added 95 in the quarter and we're up 185 year-over-year in the quarter. And we continue to do business with brokers that we've on-boarded to our program. As it relates to brokers, there are a segment of customers who choose to go to mortgage brokers. And for the right broker and the right business, we want to do that business for those customers and onboard them to TD as well.

Gabriel Dechaine – National Bank Financial – Analyst

So, if you had to pick one that's...

Bob Dorrance – TD – Group Head, Wholesale Banking

Yeah. I would say, Gabriel that we continue to monitor the third-party originators. And as they went their way through the changes in the marketplace, look at means by which we may continue to help fund them.

Gabriel Dechaine – National Bank Financial – Analyst

No change. Okay. Thanks.

Operator

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

Sumit Malhotra – Scotia Capital – Analyst

Thanks. Good afternoon. First, I wanted to go to Ajai. You list here your provision for credit loss ratio in the quarter at 45 basis points. When you provided a range of 40 basis points to 45 basis points, was that your expectation for the balance of the year or were you talking about Q2 specifically?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

That's for the balance of the year. I do expect, as I said in my prepared remarks, that in Q2 I expect PCLs to go down because of the seasonal element to PCL that we saw in Q1. So I'm saying 40 to 45 basis points for the year.

Sumit Malhotra – Scotia Capital – Analyst

Okay. That's helpful. Thank you for that. I guess a different way to think about it, maybe more to get your perspective on where credit trends stand. Firstly, some of your peers as we've been going through the IFRS 9 disclosure over the last week, some of them have expressed their view that thinking about provisions, specifically for the impaired portfolio which for you guys was around $560 million, so $140 million less, is maybe a greater or a better reflection of where underlying credit quality trends stand. Do you subscribe to that view? Do you think looking at the provisions in the impaired book gives us a better sense of the health of your portfolio?

And then, maybe more specifically – and since I wanted to get your take being relatively new in the position, especially as you look across your portfolio and some of these areas where you have some seasonal bumps, credit cards and auto, what is your view on the underlying health of these books and are you seeing any credit trends that you're concerned about right now?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

So, let me let me answer the first part. I think focusing on impaired and seeing what's happening in impaired is important because it tells you the current state of credit quality. But I wouldn't ignore the performing piece, quite frankly. I always think about total PCL and to reflect on what's driving total PCL, because there are different components to the other aspects of PCL which are performing, which include volume, which include credit quality, which now include changes in macroeconomic assumption. So I think impaired is important, but I wouldn't lose focus on total PCL.

And then the second part of your question on credit card and auto, so keep in mind, for the quarter, it is really seasonality. I'll come back to the year, but for the quarter, it is seasonality. So what happens with credit cards is the balances go up as customers draw down. You do see some increase in delinquency dollars as well. And then it comes back. In auto, it's less about balances. It's more about delinquencies. And then we do see that delinquencies come off.

But if you look year-over-year and you reflect on some of the comments that Greg has made in the past and Mike, we have indicated that, in auto, we are taking a little more risk. So we are taking a little more near-prime risks. So as we take on that near-prime risk and that book matures, so because of I would say mix and also a seasoning of that book, you are seeing elevated losses in auto. But the issue really is, is it expected or is it unexpected? And my view is whatever is occurring is expected.

And then similarly on credit cards, there is a bit of change in mix occurring primarily because of strategic cards where we have more private label exposures. Private label tends to be higher. So, again, because of mix, we're seeing slightly higher credit losses. Two important points – one is that it is expected, and second, which Riaz pointed out was, we're not taking the entire share of the losses here. We only have a fraction of the share. So, I hope that's helpful.

Sumit Malhotra – Scotia Capital – Analyst

That's very thorough. Thank you for that detail.

Operator

And we'll take our next question from Robert Sedran with CIBC Capital World Markets.

Rob Sedran – CIBC World Markets – Analyst

Hi. Good afternoon. As thorough as that was, I actually have a follow-up on that, if you don't mind. I'm just wondering, to the extent that some of the increase in Stage 2 is seasonal, when you suggest that provisions are going to be down sequentially, is that because you expect Stage 1, 2 to be basically zero, all else equal, or for there to perhaps be a reversal as some of that seasonal stuff gets cleared up.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yes. I think it's a reversal. So, what's going to happen is the balances will come down. The delinquencies will come down. So, some of that will move back to Stage 1. But there should be a pickup because of the difference effectively going from lifetime back to 12 months.

Rob Sedran – CIBC World Markets – Analyst

Okay. Understood. Thank you. I have a question for Greg actually. Lots of good things that Riaz and Bharat said about the U.S., so, allow me to ask one that perhaps is not as good. Business loan growth continues to slow. You kind of were bucking the industry trends for a while. And it feels like we're pulling back a little closer to industry growth rates. And business deposits are actually down quarter-on-quarter and year-on-year. Can you talk a little bit about the business bank and what some of the trends are? I guess we were perhaps hoping that with tax reform we'd see some acceleration in some of these things, and I'm wondering if you can talk to that a little bit.

Greg Braca – TD – Group Head, U.S. Retail

Sure, Robert. And thanks for the question. Over the last five to six quarters now, we've been decidedly calling out that we've expected – I'll just start with business loans – from some of the higher and very lofty growth rates that we would have had back in 2016 and maybe even the early part of 2017. And for a number of years, as we were growing out the corporate and specialty bank in the U.S. and some of the other commercial businesses, we would have talked about it in a way that we weren't really in our natural size of share for a bank of our size and capability and coverage throughout the U.S. And we obviously had very strong double-digit growth in commercial and C&I very broadly over a number of years. So, first, we've been calling out going back five or six quarters that some of that growth inherently will begin to come down.

And then, two, over the last 12 to 15 months, and I know Bob's business has seen it, we've seen it in the U.S., there's been a decided turnoff of M&A activities. All of the banks in the U.S. have become a little bit more cautious this long in the cycle around things like commercial real estate, speculative real estate and even the areas that we play in. We would have seen less deals come to market.

And then a few other things over the last year, I think, are awfully important to call out. That our customers are sitting on a lot of cash. And one, we're seeing a pay-down in utilization rates lower than they've been in many years from a drawn revolving credit standpoint; and two, access to capital markets have just been white-hot. The bond market's been quite vibrant. And in the U.S., there's been a return to commercial paper for short-term fundings.

So, there's been a number of things going on. But what I would call out is our commercial growth still generally outpaces many of our peers in the 1% to 2% range. We're still growing 3%-plus a little bit. And over the last quarter, we are seeing signs within the markets that many of our customers are talking about financing activities and the like, and we'll see if this plays out in the balance of 2018.

As I move to the deposit piece of it, it really does go to the broader question around betas and how much do you want to chase high-rate investments. And the beta environment for most banks has been quite benign for the first couple of rate hikes over the last four. Over the last couple, particularly the commercial and corporates, have become more keen, paying attention to what are we doing with all of this cash and liquidity on our balance sheets and we're obviously seeing that money look for a variety of options.

But the key point from things that we look at is while we've seen cash and deposits slow down on the commercial side, we've also seen some strategic views on our end where if folks were looking for very high returns, we weren't going to chase the hot money. And our focus, like it's always been, has been on core DDA and treasury management relationships where we continue to perform quite strong.

Rob Sedran – CIBC World Markets – Analyst

So, the margin outlook there, given all of that, I guess, relatively stable?

Greg Braca – TD – Group Head, U.S. Retail

Yeah. Given all things and the way we see the environment in the U.S. in particular, it's a stable environment. Obviously, the forecast has been for another few rate hikes. We do think overall for the margin story this bodes well for even somewhat of an increasing margin story.

Rob Sedran – CIBC World Markets – Analyst

Okay, thank you.

Operator

And we'll take our next question from Mario Mendonca with TD Securities.

Mario Mendonca – TD Securities – Analyst

A bit of a technical thing, Greg, if you could go back to the U.S. margin and offer how much was the margin impacted in the quarter from the U.S. tax reform?

Greg Braca – TD – Group Head, U.S. Retail

Yeah. So obviously, as Riaz called out, we were up 1 basis point but there are a number of things, as you know, that go into margin. And I would just call out the reduction in the tax rate hurt us by a couple of points just because of the new value of what tax-exempt loans and securities would be on our book of business. And the other side to that would be we have generally seen a declining value of LPs over the last several months and that would have also hurt the margin story.

Mario Mendonca – TD Securities – Analyst

So, about 2 basis points. And going forward, clearly, the effect is still there but you wouldn't expect the negative effect on margin to become exacerbated next quarter? We'd just continue to see that 2 basis points?

Greg Braca – TD – Group Head, U.S. Retail

I think that's generally true more or less.

Mario Mendonca – TD Securities – Analyst

Okay. Thank you.

Greg Braca – TD – Group Head, U.S. Retail

And then obviously there are other things that we've always talked about, what is the mix of the business, loans versus deposits, what's the growth rate. So, obviously there's more to it but generally that's true.

Mario Mendonca – TD Securities – Analyst

Thanks.

Operator

And we'll take our next question from Sohrab Movahedi with BMO Capital Markets.

Sohrab Movahedi – BMO Capital Markets – Analyst

Hey. Thank you. Bharat, you in your comments around your capital levels and the like talked about a variety of uncertainties out there. Are these economic, operational or regulatory-type of uncertainties you're talking about?

Bharat Masrani – TD – Group President and CEO

Talking more economic and geopolitical-type, and regulatory. Those would be the ones that I would highlight. I think on the regulatory side, as you know, yes, we got more clarification on the output floors from Basel but there's still some uncertainty around when those rules might be applicable to Canada or what might be Canada's view on timing of some of those floors. Obviously we await that guidance.

I think in the economic side, lots of things at play. We are bankers, Sohrab. We like to be prudent. We've had a long expansionary cycle here. So, I guess, theoretically, we are closer to the downturn than we were a quarter ago. Those would be the type of things you worry about. And then there are lots of uncertainties from a global perspective that has an impact on rates, has an impact on sentiment and all those put together creates uncertainty of some kind.

Sohrab Movahedi – BMO Capital Markets – Analyst

So just to build on that, this uncertainty or the prudence, or however you want to think about it, is that impacting risk appetite? I mean I know I hear Greg talking about Bob will go a little bit more near-prime on auto – for indirect auto or on a risk appetite, generally speaking. I'm just trying to understand. Are you compensating for that prudence and uncertainty just through higher capital levels? Or are you adjusting your risk underwriting standards as well?

Bharat Masrani – TD – Group President and CEO

No. I think on risk appetite, we've been consistent. All our approaches are built to sustain through a cycle. And I think you've heard Mark say previously, we don't like to make bad loans during good times, so that we can make good loans during bad times. And that continues to be the way we operate the Bank from that perspective. I think, I mean some of these uncertainties will impact capital. Some of the regulatory uncertainties will also impact capital. So we'll see how this plays out. I mean some of the positive thing on Basel I floor is a few weeks old. Let's give it a few more weeks to see whether there's more certainty or uncertainty with respect to some of the other rules that are being contemplated.

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.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. So that is – so the loan growth metrics that we're seeing, let's say, in the U.S. or in Canada, whether it's business or retail is not really being impacted by your uncertainty, kind of, outlook here?

Bharat Masrani – TD – Group President and CEO

No. Our underwriting standards, like I said, Sohrab, we make loans because we think they can – they're good enough in a downturn. Obviously a bank of our size, if there is a major downturn, we'll have our share of losses, but I'd be very surprised if we are a negative outlier because that's not how we operate the Bank. So, that would be a surprise for the Bank. And so, that's the way to look at how we look at underwriting and risk appetite through a cycle.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. Thank you very much.

Operator

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

Steve Theriault – Eight Capital– Analyst

Thanks very much. So, for Riaz or Teri to start. You flagged that there is restructuring charges or elevated restructuring charges in Canadian Retail. It doesn't look like expenses to me are all that elevated and you've delivered very robust 3% operating leverage. So, is there anything that I'm missing there – we're missing there, anything in the revenue line that might be one-time? Are you able to size those restructuring charges? Any help there would be great.

Teri Currie – TD – Group Head, Canadian Personal Banking

Sure. It's Teri. So, we did take advantage of the strong performance in the quarter for Canadian Retail to accelerate some of our strategic investments. They're investments we've talked about in the past digitizing our customer experience, adding client-facing advisors across the business bank, wealth management and the personal bank, streamlining and rationalizing our products and then optimizing our network, really ensuring that our service value proposition aligns with our customer behaviors and expectations. In terms of the numbers, the way to think about it would be ex the acceleration that I talk about. Year-over-year growth would have been 1%.

Steve Theriault – Eight Capital– Analyst

Okay. And so, I hear you that you're taking advantage of that strong revenue growth but you wouldn't say there's anything unusual in the revenue line item itself. Is that fair?

Teri Currie – TD – Group Head, Canadian Personal Banking

No. One thing that I would call out is we obviously had very strong direct investing trading volumes in the quarter and that could normalize over the course of the year.

Steve Theriault – Eight Capital– Analyst

And was it across banking and wealth and insurance in terms of the restructuring or was it mainly focused on the banking component?

Teri Currie – TD – Group Head, Canadian Personal Banking

There were elements across a few of our businesses in Canadian Retail. It was predominantly the personal bank.

Steve Theriault – Eight Capital– Analyst

Okay. And then a couple – thank you for that – a couple follow-ups for Riaz, I think. Riaz, in your comments, you suggested the new Basel II floor is not binding for some time. Could this start to creep back in 2019 or is it more of a 2020 and beyond? Is there any visibility you can help us with there?

Riaz Ahmed – TD – Group Head and CFO

Steve, it would obviously depend on the growth of the various products but I would think we're in reasonable shape for a couple of years.

Steve Theriault – Eight Capital– Analyst

Okay.

Riaz Ahmed – TD – Group Head and CFO

At least.

Steve Theriault – Eight Capital– Analyst

And then just – okay. And then that's helpful. And then lastly, you mentioned lower TEB when you're discussing U.S. Retail division around the tax changes. And in my mind, TEB is – if not entirely and primarily a function of equity trading and wholesale. So, is some of that TEB tax rate differential and the $105 million of TEB adjustment for the quarter, is some of that mapped to the U.S. division for low income housing tax credits or some sort of tax-related or is it really – vast majority is mapped to Wholesale?

Riaz Ahmed – TD – Group Head and CFO

Yeah. No, some of it would flow to the U.S. segment. As you know, in our corporate loans and securities portfolio, we may have loans to tax-exempt entities, et cetera, that would be eligible for gross-up.

Steve Theriault – Eight Capital– Analyst

But is it 50 / 50 or is it – any sense you could give of the mix?

Riaz Ahmed – TD – Group Head and CFO

I think the Wholesale side would be the more significant component of it.

Steve Theriault – Eight Capital– Analyst

Thanks for that. Appreciate it.

Operator

And we'll take our next question from Scott Chan with Canaccord Genuity.

Scott Chan – Canaccord Genuity – Analyst

Good afternoon. In the interest of time I'll just keep it to one question. Bharat, you've talked explicitly about potential acquisitions in the U.S. and it can be challenging with the valuations. What about in Canada? The valuations are better to home market? Is there anything that might interest you here that you could be looking at?

Bharat Masrani – TD – Group President and CEO

Well, in Canada, our home market, we would look at anything and everything that ever comes up. And if it made sense, then we would obviously look at it very seriously.

Scott Chan – Canaccord Genuity – Analyst

Like would wealth be like a priority here or distribution? Is there something that might be more of a focus than others or is it kind of broad-based?

Bharat Masrani – TD – Group President and CEO

All of the above, Scott. In Canada, a lot does not become available. And sometimes when it comes and TD decides not to pursue it is because it doesn't fit some of our criteria such as risk or return or strategic. That's how we look at it. Those things do matter, regardless of where the potential acquisition might be domiciled. So, that's how we think of it. But in Canada, unlike the U.S., we said there are specific sectors that we are targeting, whereas in Canada, we would look at anything that made sense for us.

Scott Chan – Canaccord Genuity – Analyst

Okay. Perfect. Thank you

Operator

And we'll take our next question from Nigel D'Souza with Veritas Investment Research.

Nigel D'Souza – Veritas Investment Research – Analyst

Thank you. Good afternoon. So I had a question related to your Corporate segment. I noticed that non-interest income in the quarter was a loss in the quarter and I saw that there was some reclassification of that line item to Wholesale Banking. Is that the only thing driving that loss? Or is there something else related to change of fair value gains and losses under IFRS 9?

Riaz Ahmed – TD – Group Head and CFO

No, I think, Nigel, it's Riaz. I don't think that there is anything particularly unique to call out there because the Corporate segment can have lots of puts and takes. And I think if you just look at the adjusted loss and look at the three line items that are there, net corporate expenses would be a little bit lower this quarter, mostly due to timing issues. And then the contribution from Other would be lower because you will remember that in Q1 of last year we had a gain on sale of some securities. And our non-controlling interests are down because we redeemed certain REIT securities. So I think in aggregate when you take all the puts and takes out, it's really those three things that are driving the adjusted loss in the segment.

Nigel D'Souza – Veritas Investment Research – Analyst

Okay, got it. And just another follow up on the Corporate segment as well for the PCLs. I noticed that ticked up as well sequentially. And correct me if I'm wrong, but I understand there was some reallocation of PCLs from Corporate to your other segments. So what's driving that move higher in Q1 relative to Q4? Is that related entirely to the card relationship?

Riaz Ahmed – TD – Group Head and CFO

That's exactly right. I think you have to remember that most of those credit losses that reside in the Corporate segment are the retailer's share. So, therefore, they're reported under IFRS that way but don't really affect our NIAT. And, as Ajai indicated earlier, under IFRS 9 methodology, you can have a seasonal migration and volumes elevating the performing PCL in the Corporate segment. And so it's a function of that particular portfolio and not really in relation to the economics for TD Bank.

Nigel D'Souza – Veritas Investment Research – Analyst

Got you. And last quick question, if I may. I noticed your allowances for credit losses. They're weighted more towards Stage 1 and Stage 2 than I think your peers. So are you just being more conservative? I know you've spoken on this already. But are you just being more conservative in your outlook since we have had some more positive economic outlooks from some of your peers related to Stage 1 and 2?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yeah. I wouldn't say I'm being more conservative. I think we're doing quite frankly whatever's appropriate for our book.

Nigel D'Souza – Veritas Investment Research – Analyst

Got it. Thank you.

Operator

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

Bharat Masrani – TD – Group President and CEO

Thank you, operator, and thank you to all of you for joining us. I'm very pleased with our quarter. It's great to see all our businesses performing so well which helped us deliver the numbers we did and also very pleased with our announcement of the dividend increase. And, as I've said every quarter, we can only do this with the dedication of our 85,000 colleagues around the world. So I'd like to take this opportunity to again thank them on behalf of yourselves because they continue to deliver for our shareholders. So thanks for joining and we will see you next quarter.