TD BANK GROUP
Q2 2018 EARNINGS CONFERENCE CALL
MAY 24, 2018

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PRESENTATION

Gillian Manning – TD – Head of Investor Relations

Thank you. Good afternoon, and welcome to TD Bank Group's second quarter 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 second 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 second 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. Q2 was another terrific quarter for TD. Earnings increased 20% crossing the $3 billion threshold for the first time, and EPS rose 21% to $1.62.

All of our businesses performed well. Revenue growth was strong as we continued to drive new business to a differentiated customer experience. We managed expenses well, delivering positive operating leverage across the enterprise and lowering our efficiency ratio. Our capital and liquidity metrics are robust with our CET1 ratio ending the quarter at 11.8%, up 120 basis points from the prior quarter, helped by the new Basel II floor and continued organic capital generation. And our return on equity increased to 18% reflecting and improving profitability profile. These impressive results speak to the power of our customer centric model, the advantages of our scale and diversification, and the discipline we have shown in growing our business, as well as staying within our risk appetite.

They also reflect good execution against our strategic priorities. Over the last few years, we've been investing in our businesses to elevate our customer service proposition and position ourselves to succeed in a digital world. We've continued to evolve our distribution network to make sure we are providing customers and clients with the right touch points, in the right channels, at the right time. We are reimagining every step of the customer journey to deliver richer, more seamless experiences. And we are leveraging new technologies to help them engage with us more easily and offer personalized solutions they can trust and rely on.

To further extend our innovation leadership, we recently became the first Canadian bank to join the Canadian Institute for Cybersecurity at the University of New Brunswick. This builds on our cybersecurity office which opened in Tel Aviv last fall, our growing catalog of patent filings and our acquisition of artificial intelligence leader, Layer 6, earlier this year. These investments are central to our ability to design the next generation of legendary customer and colleague experiences by tapping into some of the world's top technology ecosystems while developing homegrown talent in Canada and at TD all in the name of building The Better Bank. A strong performance this quarter demonstrates our ability to innovate, execute and deliver for all our stakeholders.

Let me now turn to our business segment results. Canadian Retail had a banner quarter with net income up 17%. Strength was broad-based with our banking, wealth and insurance businesses, all delivering double-digit earnings growth. We added volumes in key product lines by winning more of our customers' trust and business. We benefited from our number one share in core deposits with rising rates driving further margin expansion. We reached a milestone in our auto finance business with TD Auto Finance ranking Highest in Dealer Satisfaction among Non-Captive Retail Lenders by J.D. Power, our first time in the top spot, up from the number three position in 2017, demonstrating the success we've had in growing this business. And credit quality remained strong reflecting our disciplined underwriting practices and favorable economic conditions.

We also continued innovating to serve our customers better. In our real estate secure lending business, we enhanced our digital homeowners' journey with the addition of a new mortgage pre-approval tool. Customers can now complete the online application in minutes and are contacted by a phone channel representative promptly. This best-in-class capability empowers our customers to get the advice they need in the moment for one of the most important purchases they'll ever make.

In Everyday Banking, we are proud to be the first of the big five banks to partner with the Canada Revenue Agency to automate direct deposit enrollment this quarter – a simple, but powerful innovation that is helping to deliver income tax refunds more quickly and securely. In our Direct Investing business, the online account opening platform we launched in February is driving strong engagement and new client acquisition. The new onboarding tool provides a digital gateway to a WebBroker platform, complete with e-signature and the ability to transfer accounts to TD with ease, an end-to-end self-service capability that no other Canadian bank offers.

These tools and platforms add to our portfolio of apps like TD MySpend, TD MyAdvantage and TD for Me, and complement the advice specialists we've been adding in our branch and phone channels as well as the professionals in our unique Design Center of Excellence. Together, they form a set of omni-channel capabilities that allow us to give customers and clients the care and insight they need to feel more confident about their financial lives. This commitment to delivering personal, connected experiences is how we build a premier retail franchise in Canada, and the investments we are making today will power the next leg of our success.

South of the border, our U.S. Retail Bank also delivered impressive results this quarter with earnings up 21% to US$673 million. The strong performance was supported by peer-leading growth in loan and deposit volumes, higher margins from the rising rate environment, and a lower tax rate. We delivered another quarter of positive operating leverage, while continuing to invest in our business. And with the contribution from TD Ameritrade, up almost 90% from a year ago, segment earnings pushed further above the C$1 billion mark, and segment return on equity rose to nearly 13%.

Our U.S. Retail franchise is benefiting from strong tailwinds and we are taking advantage of the opportunity. As I mentioned last quarter, we've been adding front line staff in key areas and building out our small business banking offering. We've also continued to enhance our core capabilities and infrastructure. We recently launched a new mortgage and home equity platform which will help us "get to yes" faster and improve the customer experience. Our efforts are bearing fruit. This quarter, TD Bank, America's Most Convenient Bank, received the Highest Customer Satisfaction with Retail Banking in Florida, according to J.D. Power 2018 U.S. Retail Banking study.

Rounding out our businesses, our Wholesale Bank also had a strong quarter. Earnings were up 8%, reflecting higher trading revenue and continued investments in the rollout of our U.S. dollar strategy. And TD Securities continued its record of winning significant mandates that highlight our top tier dealer status in Canada and our growing global execution capabilities. We advised Choice Properties REIT on their $6 billion acquisition of Canadian REIT, the largest ever public M&A and debt financing in the Canadian real estate sector, underwriting $3.6 billion of committed credit facilities and acting as book runner for their additional debt offering.

We continued to be active in the sustainable and green bond space, acting as joint lead on US$600 million in issuance including the World Bank's SEK 1.2 billion and NOK 500 million issues, our first sustainable mandates in these currencies, as well as the Province of Quebec's C$500 million green bond. And we were named Canada Derivatives House of the Year, Coming Force in FIG Bonds, and Most Impressive SSA House in Australian, Canadian and New Zealand Dollars by GlobalCapital – a testament to the strides we've made in building our capital markets business.

As I look back on the first half of the year, I'm very pleased with our performance. Total Bank earnings are up 17% year-to-date and EPS is up 19%, reflecting momentum in our franchise businesses in a macro environment that remains more resilient than many expected. While we expect year-over-year earnings growth to moderate in the second half of the year, due in part to a very strong third quarter in 2017, our full year results are on pace to exceed our medium-term targets. As always, we are taking advantage of the strong performance to invest in our continued growth and transformation, as well as in the success of those we serve.

We were proud to launch The Ready Commitment at our Annual Meeting in March and have targeted $1 billion in total by 2030 in four areas that we believe are critical to building confidence in an inclusive tomorrow: increasing access to the opportunities people need to build greater financial security; improving the quality of our environment, so people and economies can thrive; creating opportunities for everyone to participate and feel more connected to the communities, and supporting better outcomes for all. The TD brand stands for trust, confidence and legendary experiences. The Ready Commitment is an extension of this promise and will help prepare millions of people across North America to seize the opportunities and navigate the challenges of a rapidly changing world.

To wrap up, it's been a great first half of 2018. We are delivering strong results today while laying a solid foundation for our continued growth. I'd like to thank all of our 85,000 colleagues for their hard work and dedication. United by our purpose to enrich the lives of our customers, colleagues and communities, I know there is nothing we cannot accomplish together. With that, I'll turn things over to Riaz.

Riaz Ahmed – TD – Group Head and CFO

Thank you, Bharat. Please turn to slide 5. This quarter the Bank reported earnings of $2.9 billion and EPS of $1.54. Adjusted earnings were $3 billion, up 20% year-over-year, and adjusted EPS was $1.62, up 21%.

Results were strong across all our businesses. Revenue increased 12%. On a taxable equivalent basis, revenue increased 6% reflecting higher volumes and margins in the Canadian and U.S. Retail segments. Credit losses declined quarter-over-quarter, reflecting the higher PCL in Stages 1 and 2 taken in the first quarter and a stable economic outlook. Expenses were up 1%. We expect the rate of expense growth to be higher in the second half of the year as we take the opportunity to make further investments in our businesses. Please turn to slide 6.

The Canadian Retail segment net income was $1.8 billion, up 17% year-over-year on good revenue growth, lower PCL, and very strong operating leverage. Revenue increased on volume growth, rising margins and higher non-interest income in the insurance, wealth and banking businesses. Loans and deposits grew by 6% year-over-year with increases in both personal and business volumes. Margin was 2.91% up 3 basis points quarter-over-quarter due to rising rates. Net interest margin has risen 10 basis points year-over-year.

Total PCL declined by 19% quarter-over-quarter. PCL impaired decreased by 8% reflecting strong credit performance in personal and business banking, and PCL performing was nil this quarter. Total PCL as an annualized percentage of credit volume was 23 basis points, down 4 basis points quarter-over-quarter, remaining at cyclical lows. Expenses increased 1% year-over-year. I'd also like to bring to your attention that we have introduced new disclosure this quarter for our Canadian real estate secured lending portfolio. In our MD&A and supp pack, we are now showing the breakdown of amortizing and non-amortizing balances for HELOC portfolio. As we now turn to slide 22 of this presentation, 55% of our HELOC portfolio is amortizing. Please turn to slide 7.

U.S. Retail net income was US$770 million on a reported basis and US$827 million on an adjusted basis, up 30% year-over-year. The U.S. Retail Bank earned US$663 million on a reported basis, up 20% year-over-year. The strong result was driven by 9% revenue growth reflecting higher volumes, wider margins and fee income, and the benefit of the Scottrade transaction, as well as a lower corporate tax rate.

Average loan volumes increased by 5% reflecting growth in the personal and business customer segments. Deposit growth of 8% including strong growth in core checking accounts of 8%, and the 17% increase in sweep deposits from TD Ameritrade due mainly to the Scottrade transaction. Net interest margin was 3.23% up 4 basis points quarter-over-quarter driven by higher deposit margins, partially offset by balance sheet mix. Year-over-year net interest margin has increased by 18 basis points.

Total PCL decreased 17% quarter-over-quarter. The decline was driven mainly by reduction in PCL - performing due to seasonal trends in the credit card and auto portfolios, coupled with lower volume growth in the U.S. commercial portfolios. Last quarter, we began providing the PCL ratio for the U.S. Retail Bank excluding the retail program partners' contractual share of PCL for the strategic cards portfolio, which is held in the Corporate segment, and offset in Corporate non-interest expenses. This net U.S. Retail PCL ratio was 45 basis points in Q2, down 7 basis points from last quarter.

Expenses increased 7% year-over-year on a reported basis reflecting higher investments in business initiatives, business volume growth, higher employee related costs and charges associated to the Scottrade transaction, partially offset by productivity savings. The contribution from our investment in TD Ameritrade increased by 30% year-over-year on a reported basis and 88% adjusted for TD share of the charges related

to the Scottrade integration. Segment ROE was 11.9% on a reported basis and 12.7% on an adjusted basis up 270 basis points from a year ago. Please turn to slide 8.

Net income for Wholesale segment was $267 million, up 8% reflecting higher revenue partially offset by higher PCL and the higher non-interest expenses. Revenue increased 7% reflecting higher trading-related revenue. Total PCL was $16 million. PCL impaired was a net recovery of $8 million quarter-over-quarter reflecting a recovery of provisions in the oil and gas sector. And PCL performing was $24 million reflecting credit migration and the release of provisions in the prior quarter. Non-interest expenses rose 4% reflecting continued investments in client facing employees supporting the global expansion of Wholesale Banking's U.S. dollar strategy. Please turn to slide 9.

The Corporate segment reported a net loss of $163 million in the quarter, up 2% year-over-year. The higher loss is driven by higher amortization of intangibles and lower non-controlling interest in the current quarter partially offset by higher Other items. The higher contribution from other items was largely due to a higher revenue Treasury and Balance Sheet Management activities in the current quarter. Please turn to slide 10.

Our Common Equity Tier 1 ratio was 11.8% at the end of the second quarter, up 123 basis points from the first quarter. We had strong organic capital generation this quarter which added 37 basis points to our capital position, which was mostly offset by growth in risk-weighted assets. Our capital ratio position benefited from the transitional Basel II floor which came into effect in the second quarter. As the new floor is not currently binding for TD, this added 120 basis points to the CET1 ratio. We do not expect the floor to be binding to us for some time. Our leverage ratio was 4.1% and our liquidity coverage was 123%.

I will now turn the call over to Ajai.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Okay, well, thank you, Riaz and good afternoon, everyone. Please turn to slide 11. Credit quality remained strong in the second quarter across all business segments, as evidenced by the reductions in gross impaired loan formations, gross impaired loans and credit losses. Gross impaired loan formations were $1.15 billion or 18 basis points, down 2 basis points quarter-over-quarter and stable year-over-year. The decrease in the quarter was driven by the U.S. Retail segment, largely due to seasonal trends. Canadian Retail remained stable and there were no new formations in the Wholesale segment.

Please turn to slide 12. Gross impaired loans ended the quarter at $2.99 billion, down 2 basis points quarter-over-quarter and down 6 basis points year-over-year. Canadian Retail gross impaired loans remained stable at 20 basis points. Gross impaired loans in our U.S. Retail segment were down US$48 million quarter-over-quarter, but more than offset by our foreign exchange impact of $81 million. Wholesale segment gross impaired loans decreased $31 million quarter-over-quarter to a zero impaired loan balance due to the full resolution of all impaired oil and gas exposures. Please turn to slide 13.

This quarter, our presentation has been amended to report PCL ratios both gross and net of the partner share of the U.S. strategic card credit losses. In doing so, we remind you that the Bank's contractual portion of the credit losses is reported in the U.S. Retail segment whereas the partner share is reported in the Corporate segment. The Bank's provisions for credit losses in the quarter were $562 million or 36 basis points, down 9 basis points quarter-over-quarter and stable year-over-year. The decrease in PCL in the quarter was driven by continued strong credit performance in the Canadian Retail segment and seasonal trends in the U.S. credit card and indirect auto portfolios, reflected in lower U.S. Retail PCL, and specifically for the U.S. strategic card partners' share in the lower U.S. Corporate segment PCL. Please turn to slide 14.

Quarter-over-quarter, the $40 million decrease in impaired PCL primarily reflects continued strong credit performance in Canadian Retail and seasonal trends in the U.S. credit card and indirect auto portfolios. The quarter-over-quarter $100 million decrease in performing PCL is due to, again, U.S. seasonal trends, lower volume growth in the U.S. commercial portfolio and the prior quarter build in Canadian Retail. In summary, credit quality continues to be strong across all the Bank's 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 now take a question from Meny Grauman from Cormark Securities.

Meny Grauman – Cormark Securities – Analyst

Hi, good afternoon. I want to ask about the PCL ratio, the step down in Canada specifically how sustainable do you think that step down is? If you can give us a little more color in terms of what's driving it, is it simply just the strong – or the very low unemployment rate and some guidance going forward in terms of where you expect that PCL ratio to trend.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yeah. So I am seeing good credit quality across the Canadian book, I'll say on – certainly on personal, it's pretty stable on commercial as well. I think it's the economic environment that's causing that. If I look forward and I look at history for Canada, PCLs tend to be quite stable.

So, I do expect overall, if you recollect, I'd given guidance around 40 basis points to 45 basis points for the overall enterprise. I think if the macro environment remains supportive, I do expect overall to be at the lower end of that range for the full year.

Meny Grauman – Cormark Securities – Analyst

Okay. So thanks for that. And then if I could just ask on the insurance business, it looks like quarter-over-quarter improvement in earnings quite strong actually. We heard that the quarter wasn't so great – I mean, that's an understatement for auto insurance in particular, so that performance seems a little bit out of whack with just the bigger picture view of the P&C insurance business for the quarter. So, wondering what was driving that, if there's any additional insight you can provide on that business, specifically.

Teri Currie – TD – Group Head, Canadian Personal Banking

Thanks, it's Teri. So, we feel good about the growth of the insurance business this quarter, as you cited. Definitely premium growth is looking good in the business. There was an item in the quarter that we did note. In revenue, there was renewal of some international reinsurance contracts, those – just the timing of which were – a portion of those renewed in Q2, some of that was offsetting claims. Having said that – or that would have been offsetting claims. Having said that, if we just look at the core performance of the business, we're feeling good about how the business is performing.

In terms of auto specifically, we would have continued to see elevated claims costs for the repair of vehicles that we talked about last quarter and that is consistent with the industry. Having said that, our prior year development was more favorable than that and more than offset that trend.

Meny Grauman – Cormark Securities – Analyst

Is there anything – I see – if I go back to 2017 results, it looks like the past year's Q2 has been a very strong quarter. Is there any seasonality there, or something that's changed that would make Q2 sort of the strongest quarter of the year in that business?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, Q2 versus Q3, you can sometimes see a weather impact in Q3, for instance, that didn't happen last year. I would say there've been a number of investments we've been making in this business over time to improve our customer experience and to improve our capabilities and our claims capabilities, and I think those things are paying off, including collision centers that we've opened to help customers who find themselves in a difficult situation.

Meny Grauman – Cormark Securities – Analyst

Thank you.

Operator

We'll now take a question from Steve Theriault with Eight Capital.

Steve Theriault – Eight Capital – Analyst

Thanks very much. Maybe first for Bharat. Bharat, you've got a near 12% CET1 and a relatively modest 1% buyback in place. I'm wondering now with the elimination of the floor, should we expect you to be more active in terms of repurchases given the excess capital? And is 1% the right sizing for the buyback, given where you are capitalized?

Bharat Masrani – TD – Group President and CEO

Steve, yeah, a few things I'd say and we've been consistent on this. Firstly, was the regulatory issues around capital have been less uncertain now, but it's totally not clear and there is this Basel III floor, the output floor. I think OSFI has suggested they'd be coming out with some kind of guidance soon. So there are a lot of moving parts there, although I would acknowledge that it is, it is much more certain today than we had a while ago.

But from TD's perspective, we've been consistent on this. Our capital deployment framework has not changed. We do want to make sure that we have more than adequate capital to invest in our core strategies. We want to make sure that we have the flexibility should we need to use our capital to build on capabilities we think are critical for the Bank's growth on an ongoing basis. We have signaled that we are keen on acquisitions in certain types of markets in the U.S., certain types of offerings and/or products, and we continue to look for those. I've also said that in Canada, of course we will look at anything and everything that comes around, and we look at it seriously as long as all these acquisition opportunities meet our strategy and there is financial hurdles that are appropriate and are within our risk appetite.

And then of course with all that, if we think that we've done all that and we still have excess capital, we will certainly think about buying back our shares. So, that's how we are thinking about it, nothing has changed here. And so we will review this on an ongoing basis as you rightly pointed out. We did announce a buyback and that is in the market as you know, we had a press release out last month. And so, we will continue to consider that and we like our position overall on the capital side.

Steve Theriault – Eight Capita l– Analyst

Okay. Thanks for that color. And then maybe just a quick follow-up for Teri. The new disclosure around the HELOC, the mix of amortizing versus non-amortizing versus the 55% you gave in the disclosure. I'm wondering – can you tell us, has there been any change on this front with rates rising? Has it been pretty steady at around half for the last year, a couple of years, was there any movement on that?

Teri Currie – TD – Group Head, Canadian Personal Banking

So if you think back to some of the prior conversations we've had on this topic, part of the reason for amending the disclosure is to try to make this growth story more clear. And so you have seen and continue to see in this quarter, year-over-year growth specifically in amortizing HELOC and that has been a strategy. It's an area where we have an embedded growth opportunity and it's a great product, very convenient and flexible for the right TD customer.

And so in fact, that growth in the amortizing portion has exceeded, and in fact exceeded and continued to grow. So proportionately, it would continue to be a more important part of the HELOC portfolio, I would expect going forward.

Steve Theriault – Eight Capital – Analyst

Okay. I may follow up, but thanks for that color. I appreciate it.

Operator

We'll now take a question from Ebrahim Poonawala with Bank of America.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Good afternoon. I just want to follow up, Riaz, I think you mentioned expense growth was 1% up year-over-year. We've seen pretty significant improvement in the efficiency ratio year-over-year, down to like 50.1% adjusted basis. I just wanted to get a little more color in terms of how much higher expense growth we should expect for the back half of the year, and what that implies in your view for the efficiency ratio.

Riaz Ahmed – TD – Group Head and CFO

Thanks for that, Ebrahim. So, as we called out in quarter one, we are looking at opportunities to accelerate some of our investments consistent with our overall strategy and priorities. And so, I repeat that this quarter. We have a number of – let's say a couple hundred million dollars of additional expense initiatives that are in the hopper to be able to execute. And so, I think if we are able to execute on all of them by Q3, Q4, I think you could see overall expense growth rate rise by maybe 1% to 1.5% for the year.

I think if you look at the expenses on a six-month basis, you will also have to keep in mind that the foreign exchange rate does play a role in this. So, expense growth ex-FX on a six-month basis would have been closer to 2%. So, I think if we end the year at 3% to 3.5%, I think that would be reasonable.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Understood, that's helpful. Thank you. And I just want to follow up on Steve's question on capital. Is it – I guess, should we assume that you may sort of operate with a little elevated capital level for the time being until you find the right M&A opportunity, or until we get better clarity on Basel 4? I'm just wondering is there – do you see a need to like quickly bring this capital ratio down closer to 11% or not?

Bharat Masrani – TD – Group President and CEO

We are not – we won't feel compel to bring it down quickly just for the sake of it. I think as I said, if there are M&A opportunities and we do look at them. We are a quality buyer and we are viewed as such. That's our brand. So we look at enough of these. But at the end of it, if we come to the conclusion that for the next little while there is not going to be much use of it, then we would seriously consider increasing our buyback as well. So that's how I position it Ebrahim.

I don't think we put timelines that by such and such date if we don't find something then we're going to bring our capital down. That's not how we would operate. We would look at what's in the market, what are the opportunities, what might be coming down the pike as well because given our size and stated view and what kind of markets we would be interested in acquiring, a lot of inquiries are made of us. So we look at all of those and then at the end of the day if there are none that are acceptable or interesting, then of course we will look at buybacks as well.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

And just on M&A I think you've previously talked about interest in the U.S. Southeast as far as bank M&A is concerned, does sort of the environment today within – one transaction happened earlier this week, do the valuations any of those look prohibitive to you in terms of doing deal? Or do you think we are in a better place right now from a regulatory standpoint to be able to do a U.S. bank M&A?

Bharat Masrani – TD – Group President and CEO

Well, as you rightly point out when you get into a better environment, the values are not as attractive. And that's part of, I guess, the M&A world. We continue to look at the Florida market – the Southeast of the U.S. is really interesting to us. We have a fantastic franchise there. We worked hard to build it.
But we feel there are huge growth opportunities given our footprint in the U.S. The Northeast, a lot of folks in the Northeast do have homes or vacation down in the Southeast of the United States. Also helps our Canadian business, I think we've talked about this before, we have a few stores that we open on the West Coast of Florida that for the most part cater to our Canadian clientele and those are going very well for us.

So we like the Florida market, we like the Southeast market. There are some opportunities there that are more interesting than others. But values will be an important consideration for us. As I've said before, not only do they have to fit strategically, they have to make a financial sense. And of course they have to be within our risk appetite as well. So that's why we've been more measured, because sometimes you meet one or the other and others and all of them are not suitable for us. But that'd be an interesting one for us to look at.

I think we also said given our experience in this partnership deals in the credit card field, that continues to be of interest to us. I know there is a lot of discussion on whether this is the right time in the cycle to be looking at those types of transactions. We feel that if we get the right partners, these businesses are attractive through the cycle. And if the right opportunities were to present themselves, we'll look at it seriously. So that's what we have said in the U.S., and of course in Canada given our positioning here any kind of acquisition if it were to come along, we would look at seriously. So that's our approach here. But I think your key question, are values elevated? Of course they are. But there is some offset in the environment and the prospects for the business going forward.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Very helpful. Thank you.

Operator

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

Gabriel Dechaine – National Bank Financial – Analyst

Good afternoon. Just a clarification on one of on your earlier responses, Riaz. You said, expense growth 1% to 1.5% for the year and back half something like 3% to 3.5%, is that – did I hear that correctly?

Riaz Ahmed – TD – Group Head and CFO

No, Gabriel, I was referring to the whole year. So if you look at the first six months and say that expenses without taking FX into account would be up 2%, then if we get another, let's say, a couple of hundred million dollars into Q3 and Q4 that should give us another 1% growth so that we'd end up in that 3%, 3.5% territory for the whole year.

Gabriel Dechaine – National Bank Financial – Analyst

Got you. Okay. Thank you. I just want to ask about – and this is for Teri. Some of the pricing actions we've seen from the Bank in the last month or so, on the mortgages, on a five-year fixed and then on the variable rate, I guess that market got more competitive. And then also TD specifically the fees, some of the banking fees, we're seeing some tweaks there. How does that – am I going to notice that, should I make a big deal about it because it could have some tailwind effect?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, let me take RESL pricing and then fees as two separate topics.

So on the real estate secured lending side for certain we're constantly watching two things for posted rates, in particular: the cost of funds and then the competitive situation. And certainly at the end of April for the five-year fixed rate, our feeling was that from a yield curve perspective, there was opportunity to raise that rate and others followed us. And in terms of the variable interest rate mortgage as you cited, some competitive dynamics there. We're still comfortable that we're originating deals at customer rates that are competitive, and continue to feel comfortable with our growth guidance that we've given as well around mid-single digits for Fiscal 2018 for total proprietary real estate secured lending.

On the fee side, some of the revenue performance that you would have seen this Q2 would have been the decisions we made around overall fees last year playing their ways through across our businesses. Having said that, there are a variety of things we look at, and you may recall last year we actually took away the fee for many of our chequing customers to make e-Transfers and we actually do not charge a TD fee for non-TD ATM use. So notwithstanding we made a portfolio of changes to fees across our businesses, we also in this quarter, we have earned through some of those changes we made to give back value to our customers in areas that are important to them.

So I guess net-net I would say the fees that you might have seen communicated this year would have been the same kind of thing. We look across the portfolio, we consider where we can add value to customers, we consider how we're doing competitively, we communicate to customers ways that they could, perhaps, not pay a fee through different behaviors or activities with us, and we make those assessments. In terms of looking out and saying how material would that be, I'd say in the overall scheme of things these were more tweaks overall for pricing changes in 2018, I wouldn't expect them to be material the back half of this year or into next year.

Gabriel Dechaine – National Bank Financial – Analyst

Thanks, Teri, that's a great response. Then my last one here and this is a bit of a random one, but if I look across your cards portfolio, balances are flat year-over-year. If I look at the non-amortizing HELOC portfolio, so I can find it here, yeah, it's also pretty flat. And if I look at your Canadian commercial real estate portfolio, in the wholesale book, it's growing, but at about a quarter of the rate that I'm seeing from some of the other banks.

I'm just wondering if I'm you being – if there's anything there. Are there any markets where you're maybe pulling back, you're seeing things you don't like? Or is this something that you view and you're not happy with it and you want to actually change it?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, let me do that one in three pieces as well then. So, on the commercial loan front, we are growing commercial loans, albeit at a lower pace than our overall – or sorry real estate loans, our commercial real estate loans at a lower pace than our overall commercial loans. I would say we're happy with the growth of that business and the risk profile of that business. And as Paul and his team work in the market to deal with our customers, they are not shy to not do business that they don't think makes sense from a risk perspective.

If you talk about the float HELOC, that again is that strategy that we've been deploying around the improvements we made to our amortizing HELOC product as a credible mortgage substitute for customers. And you may recall we have an embedded growth opportunity where we didn't have those product enhancements or that exact capability to make it a mortgage substitute for customers over the past few years and we enhanced the competitiveness of that product. And so really we look at total real estate secured lending growth and those amortizing balances have been growing more quickly than the float balances and we're completely comfortable with that. And again, hitting the growth that we've been communicating.

And then, as it relates to cards, if you look at the portfolio overall, the Visa products are doing particularly well. So, these are the enhancements we've made to our lineup, in particular on Cashback and Everyday Rewards where we're performing better than what we'd expected when we launched those products. Overall our Visa retail sales are above the visa industry average, and so very comfortable not only with our leadership position in cards but the growth in the Visa portfolio.

We have been rationalizing and streamlining the overall cards business. I've talked about this in the past period of time. And so we did sell a portion of the CUETs portfolio some in Q1, some in Q2. And we've done less Retail Card Services business, those are completely aligned with our expectations. And we've been continuing to improve the profitability of our MBNA business by doing fewer lower yielding promotional loans for instance. And so put that all together, the portfolio itself is not overall growing quickly, as you said, but the parts of that that are strategic for the growth for the future are doing particularly well.

Gabriel Dechaine – National Bank Financial – Analyst

Well, it sounds that the MBNA is a little bit higher, I guess, further out on the risk curve if you're not pushing that one as much as Visa. It sounds similar I guess, there what's taking place in the float HELOC in the sense that you're not chasing growth in those markets?

Teri Currie – TD – Group Head, Canadian Personal Banking

MBNA for sure what we're not – we're really looking at a volume sort of profitability trade-off there. The promotional loans, it's less of a perhaps risk decision, more of we want to make sure we're getting paid for the business that we're doing.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. All right…

Teri Currie – TD – Group Head, Canadian Personal Banking

But overall we definitely are not in the business of chasing risks that's outside our appetite in any lender product.

Gabriel Dechaine – National Bank Financial – Analyst

All right thank you for the discussion.

Operator

We'll now take a question from Sumit Malhotra from Scotiabank.

Sumit Malhotra – Scotia Capital – Analyst

Thanks. Good afternoon. Teri, I'll stay with you for a minute. First couple of banks we've heard from there's been some differing comments on the trend in the real estate secured books. So when I look at your new disclosure with the amortizing HELOCs and the mortgages. Your year-over-year growth is in the 5% to 6% range. Actually it didn't look too bad sequentially either, in what sometimes is a slower period.

As you look out to the second half of the year – I mean historically, we can agree that we have seen stronger real estate-related loan growth from the banks in the second half of the fiscal year. Is that your expectation, that you should have a relatively normal rate of growth in the range on a year-over-year basis, or are there still some impact to be felt from the changes that have taken place over the past year?

Teri Currie – TD – Group Head, Canadian Personal Banking

So for sure, overall we would expect to hit the mid-single digit guidance for fiscal 2018. As you've noted, on a proprietary basis it's been about 6% total RESL growth year-to-date – that is at the higher end of that range. If by the end of the year we were at the lower end of that range, I would expect us through the year to deliver similarly to the proprietor RESL growth we had last year.

We did have some pull forward in Q2, for sure, of November and December preapprovals, and Q2 applications were a little bit lighter. Having said that, we're starting to see a little bit of the spring market come to fruition and we've made significant investments in this business, which gives me the confidence to stand behind the guidance. We have been adding to our mobile mortgage specialists in high growth markets. We've continued to invest in our credit operations center, so that we can for our customers who – the only question they want answered is do I qualify? They can get that answer more quickly. In terms of our branch advisors, we've been tooling them up and giving them more training.

And then, as Bharat mentioned we've been significantly enhancing our digital capabilities for real estate secured lending, for mortgages in particular. And as Bharat cited, now we have not only the ability for buyers to understand how much they can afford to connect seamlessly to a branch or an advisor to – in a proprietary and exclusive experience – seek listings that are in their desired neighborhood, to work through a preapproval, hold the rate for 120 days, and then get a mortgage specialist on the phone to help them through the process. And so because of all of those investments, I feel confident in the guidance.

Sumit Malhotra – Scotia Capital – Analyst

One of the areas of differentiation with the group has been utilization, or willingness to use the third-party or independent broker channel. You're still one of the banks that, at least, from the data I've seen, is involved there. How would you characterize from a distribution perspective your use of the third-party independent broker channel? Is that something that you're comfortable with pricing, documentation, those types of issues, or is it an area that you've pulled back from in any way?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, we want to be available for our customers in their channel of choice and that could be digitally as I just described through the branch, through the mobile mortgage specialists, or many customers do seek out the help of a broker and we don't want that to preclude them from becoming a customer of TD on a franchise basis. We're very careful in ensuring that any partner that we deal with at the Bank meets our risk appetite. Those loans are underwritten to TD standards. There's good second line overview of the adjudication that happens, and we don't feel like we're overpaying for those deals versus other deals that we make. So, it's a great client acquisition strategy for us.

Sumit Malhotra – Scotia Capital – Analyst

Thanks for that. Last one from me is for Bharat. When we talk about M&A with TD, I think the – and maybe it shouldn't but the talking points haven't changed much for a number of years, whether it's credit card portfolios or perhaps adding capabilities in the Southeast U.S.

One area we don't talk too much about is your investment in Ameritrade. It's probably our fault because it's been a really, really strong investment for the Bank for a number of years now. This year we're seeing a big increase, in part because some of the changes in the U.S., but also your participation in the Scottrade deal. When it comes to capital deployment how do you think through the merits of helping Ameritrade develop its business? Is that something that your partners with that company drive, or is the fact that you own a smaller stake mean you're more focused on growing your own bank business in the U.S.?

Bharat Masrani – TD – Group President and CEO

No, as you've – I'm so glad you brought it up, Sumit. As you rightly point out it is TD Ameritrade. We've been involved in this sector for many, many years. In fact, we entered the United States in 1996 in the online brokerage business. So, it is a – it is very much part of our thinking and as you know, when TD Ameritrade looked at Scottrade, TD was happy, willing, to participate in the transaction by acquiring Scottrade Bank.

So, we are committed, it's been a great business for us, continues to be a great business. We have ongoing programs that are critical for TD to ensure that we have the right offerings for our mass affluent clientele in the United States that is in the millions. So it is an important offering that we have for our clients as well. So it is very much part of TD and of course, if there are opportunities there, as was the case with Scottrade, we would look at it very seriously and make sure that if it makes sense for TD Ameritrade and TD Bank then we would look – we want to do whatever it takes to further the strategic advantage that business has in its market. So it is an important business for us and we are happy to support it and has done remarkably well for us as well as you rightly pointed out.

Sumit Malhotra – Scotia Capital – Analyst

Thanks for your time.

Gillian Manning – TD – Head of Investor Relations

I'm just going to break in and say that we're a little bit short on time. So I'd like to ask the analysts to kind of stick to one question.

Operator

We'll now take a question from Robert Sedran with CIBC Capital Markets.

Rob Sedran – CIBC World Markets – Analyst

I guess I'm the first one to stick to one question today, then. Riaz, I just want to follow up on your expense comment and I'm sorry if I missed it, but as you think about accelerating investment in the second half, is there a particular business segment or geography in which that's going to happen, is it more directed to the U.S. because that's where the tax benefit is coming from, or is it more platform-wide?

Riaz Ahmed – TD – Group Head and CFO

No, I think Rob you can think of it as a platform wide, we have priorities both in Canada as well as the U.S. and across all three segments, so I think you can expect it to be widely dispersed.

Does that help Rob? Maybe or since we are stuck...

Rob Sedran – CIBC World Markets – Analyst

Sure. I'll ask – I had a couple of – I had another question clarification, but I'll take it off line. Thanks.

Riaz Ahmed – TD – Group Head and CFO

Ok, thank you. Thanks Rob.

Operator

We'll now take a question from Nigel D'Souza with Veritas Investment Research.

Nigel D'Souza – Veritas Investment Research – Analyst

Thank you. Good afternoon. I just had a follow-up for Teri on the new HELOC disclosure. I just wanted to make sure I understand the mix there between fixed and floating. Am I correct in saying that the non-amortizing portion is essentially entirely floating and the amortizing is fixed, or is there a mix between floating and mix with that book as well?

Teri Currie – TD – Group Head, Canadian Personal Banking

You were right the first way that you described it. The amortizing is the fixed, the non-amortizing is the float.

Nigel D'Souza – Veritas Investment Research – Analyst

Okay. Got it. And on the single digit – mid single-digit growth rate for F2018, is that on the entire RESL book or just the amortizing portion of your RESL book?

Teri Currie – TD – Group Head, Canadian Personal Banking

We think about it as the total real estate secured lending which would include both. As you know amortizing has been growing more quickly, in fact, than non-amortizing in our past history or recent history. And it would be proprietary growth.

Nigel D'Souza – Veritas Investment Research – Analyst

Okay. So just to follow-up on that point. Are you expecting in the back half that amortizing HELOC balance to offset kind of the sequential decline to flattish res mortgage book we're seeing in Q2?

Teri Currie – TD – Group Head, Canadian Personal Banking

So again, we've been offering this to customers that – where it makes sense for them as a mortgage substitute. So for some customers the mortgage might be the right product, for others it might be an amortizing HELOC or fixed term HELOC. And so I'd consider them as one from a customer perspective and then it would be which is right for which customer.

Nigel D'Souza – Veritas Investment Research – Analyst

Got it. That's really helpful. Thank you.

Operator

We'll now take a question from Sohrab Movahedi from BMO Capital Markets.

Sohrab Movahedi – BMO Capital Markets – Analyst

Teri, I wonder if – are you in a position to talk about what the decline rate in the commercial lending business has been? In other words, you said you guys are not shy about turning down deals. Can you comment on if the decline rate has been trending higher or lower and whether or not the spread on the new book, how does that compare with the back book?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, I probably don't have those specifics, so I'd probably take that one offline.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. Thank you.

Operator

We'll now take a question from Darko Mihelic with RBC Capital Markets.

Darko Mihelic – RBC Capital Markets – Analyst

Hi, thank you. Just a quick question on the U.S. NIM, and the rather big jump quarter-over-quarter. I'm wondering if you can just speak to expectations for that going forward, maybe mix and a little bit of rate hike sensitivity for me again? It just – it caught me a little bit off-guard and I'm wondering if there's something in there that might make it decline over the next quarter or two. Thanks.

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

Darko, thank you for the question. So, quarter-over-quarter, obviously up 4 basis points. And the main drivers there would be increase in rates and deposit rates, in particular, we're seeing lending rates pretty flat and the offset to the rate hikes that we've seen would be the mix of the business that we continue to grow the deposit book on an absolute dollar basis faster than the loan book and that would be the offset there. And as we've talked about before, the way we should think about this is some priced in a June rate hike and all things being equal, and depending on mix and yield curve and all the other things that go into that, we would certainly see an environment for improving NIM, should rate hikes continue to occur.

Darko Mihelic – RBC Capital Markets – Analyst

Thank you.

Operator

We'll now take a question from Mike Rizvanovic from Macquarie Capital Markets Canada.

Mike Rizvanovic – Macquarie Capital Markets – Analyst

Good afternoon. So, I just want to go back to Teri on your fee-based revenue in Canada. So what I'm wondering is, we hear a lot about the cost savings that are set to come in the coming years. What is your view on the risk to revenue? And I'll tell you why I'm asking, so when I do look at other jurisdictions that are far ahead of Canada in terms of the digital transformation, their fee structures are significantly different than what we see here. What are your thoughts on that? It's more of a longer term view.

Teri Currie – TD – Group Head, Canadian Personal Banking

So, for certain if that were to play out here it would be an industry impact as opposed to a TD-specific impact. I think we're continuously ensuring as we think about the products and services that we offer to our customers that they're meeting their expectations and delivering value.

And there have been times in the past when some of those fee dynamics have changed and we've continued to evolve the product construct or the cost of doing business to allow us to continue to produce good results, notwithstanding those changes.

Mike Rizvanovic – Macquarie Capital Markets – Analyst

And then – so when you do see the J.D. Power rankings come out and for a number of years now we've seen the online platforms that do offer free everyday banking fees or no fee banking, if you will. Does that concern you at all? I know it's probably mostly – it's mostly millennials I would imagine, but they are going to make a growing portion of your client base over time.

Teri Currie – TD – Group Head, Canadian Personal Banking

When we do research with customers in Canada, what they tell us – even our most digitally active customers – is that it's important for them to have a branch-based capability with their bank. They call it a "real bank". And so you know we're continuing to ensure that we're delivering, as Bharat said, legendary personal connected experiences, omni-channel experiences, and for customers, even the most digitally active, that ability to have some place to go when they have a problem or when their questions are more complex continues to play an important role for them in selecting their financial institution.

Mike Rizvanovic – Macquarie Capital Markets – Analyst

Okay. That's helpful. Thank you.

Operator

We will now take a question from Scott Chan with Canaccord Genuity.

Scott Chan – Canaccord Genuity – Analyst

Thanks. Just on the U.S. side. If I kind of look at the loan book in U.S. dollars on the personal side, it seemed kind of flattish across many of the portfolios, HELOC's, mortgages, cards, et cetera. In terms of looking forward, should we be thinking about more of the year-over-year growth rate that you exhibited there, or is there is something in that in the quarter that kind of just caused slowness? Because I just noticed versus other U.S. peers that that seemed a bit slower than I saw?

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

Yes. Scott, thank you for the question. I just want to make sure I'm clarifying – your flattish sort of growth comments. You're talking about Q-over-Q, Q1 to Q2, correct?

Scott Chan – Canaccord Genuity – Analyst

Yeah. That's right. Yeah.

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

Yeah. So if you go back to last year, it's not dissimilar to what we would have seen in Q1 to Q2 in 2017. And I do think on the personal lending side, you do get the seasonality of people paying down cards and the forms of debt coming out of the holiday season, receipt of tax refunds and things like that, so that's not uncommon.
And – but more generally as I think about the year-over-year business up 5% certainly were leading peers and we still remain bullish in our ability to outtake share from our competitors, really across many asset classes. And if you look over year-over-year basis, auto loans are growing 7%, cards up 15%. Commercial story is a little bit different. In commercial is that, that we've seen a lot of pay downs, all time low utilization rates and many, many outlets for commercial assets these days. But again, there, we see ourselves as underweight in certain various commercial businesses and we still see for quite some time to come, our ability to take share there as well.

Scott Chan – Canaccord Genuity – Analyst

Okay. That's very helpful. 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. It's another terrific quarter from TD. And I'd like to take this opportunity to thank our 85,000 TD colleagues around the world for who are continuing to deliver for all of our stakeholders, particularly our shareholders. So thank you for that. And for folks on the phone, thank you for joining us this afternoon and we will see you next quarter. Thanks very much.