TD BANK GROUP
Q3 2018 EARNINGS CONFERENCE CALL
AUGUST 30, 2018

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PRESENTATION

Gillian Manning – TD – Head of Investor Relations

Thank you. Good afternoon, and welcome to TD Bank Group's third 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 third 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 today to answer your questions are Teri Currie, Group Head, Canadian Personal Banking; Greg Braca, President and CEO, TD Bank, America's Most Convenient Bank; and Bob Dorrance, Group Head, Wholesale Banking.

Please turn to slide 2. At this time, I would like to caution our listeners that this presentation contains forward-looking statements that there are risks, that actual results could differ materially from what is discussed and that certain material factors or assumptions were applied in making these forward-looking statements. Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities, and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes. I would also like to remind listeners that the Bank uses non-GAAP financial measures to arrive at adjusted results to assess each of its businesses and to measure overall Bank performance. The Bank believes that adjusted results provide readers with a better understanding of how management views the Bank's performance. Bharat will be referring to adjusted results in his remarks. Additional information on items of note, the Bank's reported results and factors and assumptions related to forward-looking information are all available in our Q3 2018 Report to Shareholders.

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

Bharat Masrani – TD – Group President and CEO

Thank you, Gillian, and thank you, everyone for joining us today. Q3 was another great quarter for TD. Earnings were $3.1 billion and EPS was a $1.66, up 10% from a strong Q3 a year ago.

We delivered good organic growth as customers responded to the improvements we've made to our products and platforms by bringing us more of their business. And we accelerated investment to enrich the customer and employee experience underpinned by a modern infrastructure that positions us for future growth and innovation. We are supported in this ambitious strategy by the strength of our balance sheet and our disciplined approach to capital allocation.

This quarter, we completed the normal course issuer bid we announced in Q2. Despite the repurchase of nearly 20 million common shares this quarter, our CET1 ratio ended Q3 little changed at 11.7%, a testament to our ability to consistently generate capital and a measure of our flexibility to deploy in support of our growth strategies.

Overall, I'm very pleased with our results that demonstrate the power of our model and our ability to execute with speed and impact, capitalizing on near-term opportunities to grow and take share, while advancing our longer term strategic objectives.

Let me share some highlights from each of our businesses. Canadian Retail performed very well in Q3. Earnings were up 7% reflecting good revenue growth across our banking, wealth, and insurance businesses. The results reflect the hard work our team has been doing to elevate our service proposition and the investments we continue to make enabling our customers to engage with us, when and how they want and to get the advice they need to feel confident in a changing world. Examples this quarter included adding to our mobile mortgage specialist business banking, wealth advisory and phone channel teams to ensure we have the right people aligned with the conversation our customers want to have and better connecting these teams through our One TD strategy.

The enhanced tools and resources for everyday needs like the matchmaking mortgage concierge service we added to our banking app, which uses geolocation technology to connect customers to a mortgage specialist, another piece in our end-to-end homeowners' journey. And our advanced trading dashboard and income projection tools in TD Wealth, which enable clients to make more informed investment decisions and execute personalized trading strategies.

We also continue to invest in longer term strategic capability builds like our announced acquisition of Greystone. We are very excited about this opportunity. Greystone's deep expertise in alternative assets and international equities enhances our already comprehensive suite of products, for institutional and high net worth clients. It's a significant new growth lever for our for our Private Bank, which has taken share for six consecutive years and it adds manufacturing scale to TD Asset Management, which will become Canada's largest money manager, when the transaction closes.

We're also very pleased to have reached an agreement in principle with Air Canada, CIBC, Visa and Aimia for the acquisition of the Aeroplan Loyalty Business. While there is still work to be done, we believe that the transaction, if completed, will provide an opportunity for all Aeroplan miles to transfer into Air Canada's new loyalty program, when it launches delivering convenience and value for millions of Canadians including our TD Aeroplan customers.

Turning to the U.S., earnings in our U.S. Retail Bank passed the US$700 million threshold for the first time, driven by industry leading volume growth, higher deposit margins and a lower tax rate. We continue to manage expenses effectively, delivering another quarter of positive operating leverage while continuing to invest. And with the contribution from TD Ameritrade, more than doubling from a year ago, segment earnings rose 31% and segment return on equity exceeded 13%.

Our U.S. Retail business is in an enviable position, delivering strong organic growth in a favorable operating environment, powered by a brand that is resonating with customers. This month, TD Auto Finance won its second annual J.D. Power Award ranking highest in dealer satisfaction among non-captive lenders for floor plan financing, as we continue to compete and win by putting the customer first.

And we are investing to deliver even more legendary experiences, launching new platforms for small business and commercial lending clients to complement the new retail lending system we introduced last quarter, improving our data infrastructure to provide more personalized advice, and enhancing our apps and websites to support the strong take-up we are seeing of our digital offerings.

Our Wholesale Bank earned $223 million this quarter with lower trading related revenue offsetting higher advisory and lending fees. Our corporate and investment banking business had a very strong quarter with good M&A activity. And our fixed income business recorded several milestone achievements. We remained active in the green bond space acting as joint lead on Manulife's $600 million green bond and Ontario Power Generation's $450 million issue.

TD Securities is one of three leading managers with Fannie Mae's issuance of securities using the new Secured Overnight Financing Rate or SOFR Index, the first major test of this alternative to U.S. dollar LIBOR. The US$6 billion FRN marked the debut of what promises to be a significant market. It also earned TD a lead role on US$1 billion transaction for the World Bank, which required derivative hedging, another first for TD and the market.

And our Canadian fixed income business had its best ever result in Greenwich Associates' annual survey tying for first in overall relationship quality and fixed income share. These accomplishments speak to the success of our Wholesale Banking strategy to offer innovative solutions to our Wholesale clients globally and serve as a trusted partner.

Overall, I feel very good about our performance at this stage of the year. Three quarters into fiscal 2018, earnings and EPS are up 14% and 16%, respectively, reflecting high levels of customer engagement and macro conditions that remain positive despite the headline risks.

We are taking advantage of this momentum to invest in our broader strategic objectives. TD's employer brand continues to grow and we're attracting the best and the brightest to our ranks.

This quarter, Layer 6, the world renowned artificial intelligence company we acquired earlier this year, won the prestigious 2018 RecSys Challenge organized by Spotify for the second year running, reinforcing our leadership in AI innovation and making TD the place to be for top AI talent. Our customers are telling us they want us to know them better. Layer 6 is helping us do that. Like in our Real Estate Secured Lending business where we are working to better leverage our existing datasets with their best-in-class machine learning so we can add more value for customers.

We celebrated our customers and the inspiring work they do on behalf of their communities. This year's Customer Appreciation Day, #TDThanksYou, honored their passion and commitment. We looked at hundreds of remarkable stories from Canadian customers and selected 49 community heroes donating up to $1 million in recognition of their efforts and helping promote their contributions across our digital channels.

And we continued to strengthen our community connections. As part of our new Ready Commitment, we launched the TD Ready Challenge, an annual North American initiative that provides up to $10 million in grants to catalyze innovative solutions for a changing world. A springboard for social innovation, the Ready Challenge will help forge relationships and test solutions to emerging problems and social issues at scale. Over 200 organizations have applied for grants across our North American footprint connecting us with hundreds of individuals and organizations with groundbreaking ideas.

To wrap up, I would like to thank our 85,000 people for their hard work and dedication. TD is a purpose-driven organization, steadfast in our vision to build a better bank and united by our shared purpose to enrich the lives of our customers, colleagues and communities. Our people bring this purpose to life every day. They are the reason our customers entrust us with their business and the driving force behind our success.

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

Riaz Ahmed – TD – Group Head and CFO

Thank you, Bharat. Good afternoon everybody. Please turn to slide 5. This quarter the bank reported earnings of $3.1 billion and EPS of $1.65. Adjusted EPS was $1.66, up 10% reflecting strong results in our Canadian and U.S. Retail businesses. Revenue increased 6%, reflecting higher margins, volumes and fee-based income in our Retail businesses. Credit losses were stable quarter-over-quarter and expenses were up 5% consistent with our comment last quarter that we would continue to invest in our businesses, including adding to our sales, service and data and technology capabilities. Given the favorable operating environment and the strong revenue growth we've been generating and the benefits of U.S. tax reform, we expect approximately 5% expense growth[1] and positive operating leverage for the full year.

Please turn to slide 6. The Canadian Retail segment's net income was $1.9 billion, up 7% year-over-year on good revenue growth, partially offset by higher insurance claims, including CATS and higher expenses. Revenue increased 9%, reflecting higher loan and deposit volumes, margin expansion, growth in wealth assets and higher insurance revenues. Loans grew by 6% with increases in both personal and business volumes. Deposits increased by 4% reflecting growth in business and personal deposits and wealth assets grew 9%. Margin was 2.93%, up 2 basis points quarter-over-quarter due to rising rates. Net interest margin is up 9 basis points year-over-year.

Total PCL increased by 12% quarter-over-quarter. PCL - impaired increased $7 million and PCL - performing increased $20 million both reflecting volume growth. Total PCL as an annualized percentage of credit volume was 24 basis points, up 1 basis point quarter-over-quarter. Expenses increased 8% year-over-year reflecting investments in client-facing advisors across all our businesses and higher spend on strategic initiatives such as end-to-end customer journeys and faster processing of customer transactions and increased marketing and promotion costs.

Please turn to slide 7. U.S. Retail net income was US$877 million on a reported basis and US$891 million on an adjusted basis, up 31% year-over-year. U.S. Retail Bank earnings rose 19% year-over-year. The strong results reflect 8% revenue growth on higher deposit margins, loan and deposit volume growth and the benefit of the Scottrade transaction, as well as a lower corporate tax rate. Average loan volumes increased by 4% reflecting growth in the personal and business customer segments. Deposit growth was 9% including strong growth in core checking accounts of 8% and a 19% increase in sweep deposits from TD Ameritrade due mainly to the Scottrade transaction.

Net interest margin was 3.33%, up 10 basis points quarter-over-quarter driven by higher deposit margins and positive balance sheet mix. Year-over-year net interest margin increased by 19 basis points. Total PCL increased 6% quarter-over-quarter. PCL - performing increased US$25 million, primarily reflecting a prior quarter benefit from lower commercial volume growth. PCL - impaired declined US$16 million, reflecting improved performance in the credit card and auto portfolios. The U.S. Retail net PCL ratio including only the bank's contractual portion of credit losses in the strategic cards portfolio was 46 basis points in the quarter, up 1 basis point from last quarter.

Expenses increased 5% year-over-year reflecting higher investments in business initiatives, business volume growth and higher employee related costs, partially offset by productivity savings. The contribution from our investment in TD Ameritrade increased by 98% year-over-year on a reported basis and 114%

[1] *Excluding FX.*

adjusted for TD's share of the charges related to the Scottrade acquisition. Segment ROE was 13.1% on a reported basis and 13.3% on an adjusted basis, up 300 basis points from a year ago.

Please turn to slide 8. Net income for Wholesale was $223 million, down 24% reflecting lower revenue and higher non-interest expenses, partially offset by a net recovery of PCL. Revenue decreased 12% on lower trading related revenue, primarily due to revaluation of short-term trading deposits as a result of improvement in our credit spreads, partially offset by higher advisory fees and corporate lending, reflecting strong underlying franchise performance.

Total PCL was a net benefit of $14 million compared to PCL of $16 million in the prior quarter. PCL - performing decreased by $38 million quarter-over-quarter reflecting credit migration in the prior quarter and a current quarter benefit reflecting a reduction in Stage 2 volumes. Non-interest expenses rose 3%, reflecting continued investments in client-facing employees supporting the global expansion of Wholesale Banking's U.S. dollar strategy, partially offset by lower variable compensation.

Please turn to slide 9. The Corporate segment reported a net loss of $113 million in the quarter. The lower loss is due to a loss on the sale of the Direct Investing business in Europe in the third quarter of last year and an income tax benefit resulting from the bank's current quarter update of the impact of U.S. tax reform previously estimated during the first quarter of 2018. Net corporate expenses were higher primarily due to the positive impact of tax adjustments in the third quarter of last year and investments in – and current investments in data and advanced analytic capabilities.

Please turn to slide 10. Our Common Equity Tier 1 ratio was 11.7% at the end of the third quarter down 16 basis points from the second quarter. We had strong organic capital generation this quarter, which added 43 basis points to our capital position, which was mostly offset by the repurchase of approximately 20 million common shares. Our leverage ratio was 4.1% and our liquidity coverage ratio was 127%

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 11. Credit quality remained strong in the third quarter across all business segments. Gross impaired loan formations were $1.18 billion or 18 basis points, stable quarter-over-quarter and year-over-year. Gross impaired loan formations was stable quarter-over-quarter and year-over-year for both the Canadian Retail and U.S. Retail segments. Consistent with recent quarters there were no new formations in the Wholesale segment.

Please turn to slide 12. Gross impaired loans ended the quarter at $2.96 billion or 45 basis points, down 2 basis points quarter-over-quarter and down 4 basis points year-over-year with contribution from all segments. The U.S. Retail segment was the primary contributor to the bank's $29 million quarter-over-quarter decrease in gross impaired loans reflecting resolutions outpacing formations in the U.S. RESL and U.S. commercial portfolios, partially offset by the impact of foreign exchange. The Wholesale segment retained a zero impaired loan balance quarter-over-quarter.

Please turn to slide 13. Recall that our presentation reports PCL ratios both gross and net of the partner share of the U.S. strategic card credit losses. We remind you that the Bank's contractual portion of credit losses is reported in the U.S. Retail segment whereas the partner share is reported in the Corporate segment.

The Bank's provision for credit losses in the quarter were $567 million or 35 basis points, stable quarter-over-quarter and up 2 basis points year-over-year, reflective of continued strong credit performance.

Please turn to slide 14. Quarter-over-quarter, impaired PCL was stable for the Bank and the segments. Performing PCL was stable quarter-over-quarter for the Bank. The primary factors impacting the change in performing PCL at the segment level were volume growth attributable to the Canadian Retail segment, a prior quarter benefit in the U.S. Retail segment due to lower commercial volume growth and a provision for trade-related uncertainty. This was offset by reduced Stage 2 Wholesale segment volumes in the current quarter and a prior quarter Wholesale segment provision.

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

And we will hear first from Ebrahim Poonawala of Bank of America Merrill Lynch.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Good afternoon. I was wondering if Riaz or Teri, if you could talk about a deposit growth outlook in the U.S. Well, when I look at your sort of breakdown between business and personal, we've seen personal growth in the deposits continue while the business deposits and actually, business loan growth have leveled off. And I was wondering if you can just speak to your outlook for balance sheet growth and as it does the margin outlook in the U.S. going into year-end and into next year.

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

Ebrahim, this is Greg Braca with TD Bank in the U.S. and I think, I should probably cover this question, if you don't mind. And I guess, I'd just start off by talking about volumes in general, and I might say that if you look over the last many quarters, we always have the lens of how are we performing against peers and again, with Q3, I'd say we continue to be at the upper end or exceeding peer growth both in loans and deposits. So I'd put it with that context about where the market is and what the market has to offer.

If I just stay with deposits and we could break it into consumer. Obviously, I'm not including any of the TD A sweeps or Scottrade deposits, I'm looking at the core Bank growth. I'd also like to add a caveat around the way we would think about it is the quality of deposit growth and we're actually quite pleased with 3% all-in deposit growth given the fact that another hot subject lately with rising interest rates is around base and what we're paying, and we continue to see us at the bottom end of what banks are paying out in terms of rates. And we're not paying up for hot money or time deposits or things like that and I'll come back to that in a moment. Yet we continue to outpace in terms of new households and absolute volumes and we're pretty pleased with that.

So, I just stay there on the deposit side, before I move to loans, unless you want to cover anything more on the deposit side. And just one other anecdote before I move off deposits and one of the other qualifiers I'd give you for example is that if you just look at our time deposits are relatively flat year-over-year or down, yet our checking account deposits that Riaz and Bharat called out. Our actual non-interest bearing checking account volumes are up 8% year-over-year and those are the sticky valuable sorts of deposits when I speak about quality. So let me just stop there on deposits first.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

That's helpful. So it doesn't sound like obviously there's a lot of talk about deposit betas as you mentioned Greg, when we look at sort of the U.S. and with the Fed rate hike, doesn't sound like you're overly concerned around the deposit betas in the U.S. and your ability to actually generate core consumer deposits?

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

Again no concern, I think that we always have concerns about how we continue to grow. But my answer would be I think we're in a terrific position to continue to take share as we've said all along, and our focus is making sure that we grow good core households both on the Commercial deposit side, treasury management and on the consumer side and that plan continues to pay off, so we feel good about that.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Yeah. I'm good on deposits, yeah.

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

If you want me to continue on the loan side, the way I would describe it is, and we've been talking about this now for seven, eight quarters that as we came into our natural share of size in the commercial loan portfolio, particularly around our Corporate Banking business and other capabilities that eventually we'd begin to level off. And if you go back seven or eight quarters, we would have consistently for a few years had double-digit commercial loan growth sometimes in the mid-teens or higher, and obviously driving a lot of that loan growth was in Corporate and Specialty Banking and some of our auto businesses in TD Auto Finance.

We've decidedly called out – called that growth down over many quarters and you're seeing that play out real time. And on the commercial side, first, you're seeing a very fierce competitive market for drawing assets. And number two, many of our customers have lots of availability including outside of the bank market. The bond market is very receptive, commercial paper is back in vogue and we're seeing the customers using their own cash balances. But without that being said, we still are happy with the commercial loan growth we're seeing, because again it's about quality, we're not going deep down the curve and stretching for term or giving away pricing. And obviously, we're very much focused on relationship.

And on the Retail side of it, I still think you'll see obviously, I know it's in the material, in the supp pack, cards growth has been good, we've leveled off in auto at just under 5% and we feel good about the strategy around that, and then the entire industry obviously has seen headwinds when it comes to home equity. And even though we're down 2% year-over-year, many of our competitors are down double digits with the refinance boom and rising interest rates. So, again, I think we feel pretty good about this and we expect more growth ahead.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Very comprehensive. Thank you. And Riaz, how does this translate into the margin outlook? And it was pretty good this quarter. How should we think about margin into this year and for – how it is impacted by future rate hikes?

Riaz Ahmed – TD – Group Head and CFO

Yeah. I think, Ebrahim, in the U.S. with, I think, we still remain from a macro perspective very oriented towards an upward bias in margins and as deposit continue to grow, and particularly in the checking accounts, I think that that should be continuing to be providing a good tailwind to margin growth.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

But just relative to kind of the margin expansion we saw this quarter, is that sustainable, could it get better or worse? Any thoughts?

Riaz Ahmed – TD – Group Head and CFO

Well, I think, in time, we also have to keep our eye Ebrahim on the yield curve and as you know it's quite flat. So, I think at some point, one should expect that the growth will be leveling off a little bit unless we also see yield curves starting to widen again.

Ebrahim Poonawala – Bank of America Merrill Lynch – Analyst

Understood. Thanks for taking my questions.

Operator

And our next question comes from Meny Grauman of Cormark Securities.

Meny Grauman – Cormark Securities – Analyst

Hi, good afternoon. A question on buybacks, big quarter for buybacks, I'm just wondering, what the message in that – in the buybacks this quarter was, specifically, is there any read through to M&A opportunities in the U.S. or lack thereof and whether this size of buyback signals sort of a new approach to buyback in terms of timing or in terms of size going forward?

Bharat Masrani – TD – Group President and CEO

Meny, this is Bharat. No, I don't think there's a difference in how we think about capital. Generally, as I've said many times, we look at the use of capital from a perspective of ensuring that we're allocating enough to our core strategies, using capital when required to fill out gaps or buying capabilities. I think Greystone is a good example of that. That was announced recently. We also want to make sure that if there are any regulatory uncertainties that we have enough flexibility to meet them and as well look for M&A opportunities. I think we've been consistent in saying in the U.S., we do have good opportunities. We have a growth platform and our brand and our business model is really resonating as you've seen in our numbers. So if the right opportunity were to present itself that is strategic and makes financial sense, we'll certainly look at it very seriously. In addition, in the U.S. given loan deposit ratio, any asset generating opportunity would be very interesting as well.

So that's how we think about it and when we go through that framework, if we still have a lot of capital flexibility, we have never been shy of using that to buyback our shares. If there is a better use of capital by our shareholders, we will obviously think of that very seriously. So that's how you should think about as to why we announced the Q2 NCIB and I would also add that in Q3, we completed that. We said we will buy back 20 million shares and we did buy back 20 million shares. So it's consistent with our approach and that's how you should look at it.

Meny Grauman – Cormark Securities – Analyst

Thanks for that. And then, just wanted to see if you could provide any more details on the Aimia transaction, specifically related to your specific share of the purchase price impact on capital and sort of how this transaction impacts TD?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, it's Teri Currie. I'll take the question. Obviously, we're really pleased that we're in this place of an agreement in principle with the consortium and with Aimia. And if the deal is concluded, then we feel this is a great, as Bharat said in his remarks, a great thing for Canadians and in particular, our TD Aeroplan cardholders. As this is an ongoing negotiation, we wouldn't be disclosing any further sort of financial deals around the transaction.

But I can say, if you think about this in the context of our overall card strategy, we really feel great that in addition to our very robust cards lineup and our other travel offering a first class travel reward, we believe we've got really a credit card for all Canadian consumers. So, our cashback cards are performing particularly well better than our business case, as the new part of the offering, we've continued to reposition the credit card lineup, and our retail sales are performing well in the Visa lineup relative to the Visa average.

We've been repositioning the MBNA business and improving the profitability of that business, and we were pleased from a card's volume perspective that we had announced the sale of our Retail Card Services business about $250 million in balances and we were flat in terms of volumes this quarter. So, a lot of things going well across. And with the conclusion of the Aeroplan transaction, I'd say we'll have an embarrassment of riches across our credit card portfolio and offerings.

Meny Grauman – Cormark Securities – Analyst

That sounds pretty positive. Just a follow-up.

Riaz Ahmed – TD – Group Head and CFO

Meny. Meny. Meny, we'll stay with our protocol of two questions, if you could realign, because last time we ran out of time.

Meny Grauman – Cormark Securities – Analyst

No problem.

Operator

And so, at this time, we'll go to a question from Gabriel Dechaine of National Bank.

Gabriel Dechaine – National Bank Financial – Analyst

Hi. Good afternoon. Yeah. So, this M&A topic is going to probably keep coming up, if the buybacks aren't there and you've got a very strong capital position. I'm curious, Bharat between U.S. Regional Banking and then supporting Ameritrade, where there may be consolidation opportunities, do you have a bias in either direction? Let's say you're in the office one day and you got two phone calls, one from U.S Regional Bank place and Tim Hockey is calling you for help on a deal, which one do you answer?

Bharat Masrani – TD – Group President and CEO

Well, if both deals are great for TD, we'll answer both calls, and that's how we would look at it. And we've been – Gabriel, we've been pretty consistent as to how we look at things, I think we've been saying what our framework is for a while and that's how we've applied it and where it's appropriate, we are not shy to use our capital to further our strategies and make sure that we're getting adequate returns. And I think our record speaks for itself that when appropriate, we'll aggressively use our capital, and to date, it has worked out pretty well.

Gabriel Dechaine – National Bank Financial – Analyst

But you mentioned having a lot of deposits in the U.S. and looking more maybe for asset gathering capabilities, but if you were involved in a broker, online broker transaction, you'd probably end up with a lot more deposits. Is that an impediment or do you not care?

Bharat Masrani – TD – Group President and CEO

Right, I mean every deal, hard to talk about something that's not out there, hypothetical situations, always difficult to assess because you can fool yourself in thinking there's one part of it that is better than the other part, but an acquisition those are guardrails that we've set for ourselves. That doesn't mean if there is a compelling opportunity, we will not look beyond the guardrail because sometimes opportunities present themselves, which were not expected. So that's how we would look at it.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. I was going to sneak in another, but I don't want to get on Riaz's bad side.

Operator

And we will hear next from Robert Sedran of CIBC Capital Markets.

Rob Sedran – CIBC World Markets – Analyst

Hi. Good afternoon. Just wanted to come back to the trading revenue decline. Riaz, if I understood the answer correctly, it seems like largely an accounting issue. If you could perhaps explain a little more what's going on, on that front and also, give a sense of – I know you probably don't want to give exactly the number that it had an impact this quarter, but approximately how much of the trading revenue decline was related to this issue would be helpful.

Riaz Ahmed – TD – Group Head and CFO

Yeah. Robert, so we use short-term funding, which you'll see on our balance sheet as being classified as trading deposits to essentially fund the global short-term markets business. And we mark-to-market these trading deposits through P&L. So when our funding costs tighten what's something that is actually good for the overall bank, it just turns out that using the mark-to-market methodology produces losses on those liabilities, which – a phenomenon that you'd be well familiar in the U.S. banks report that is debit valuation adjustments. And generally, when that happens, you would see correlated changes whether they'd be gains or losses on the asset side.

And this quarter in the way that the funding curves moved for us, it – and you know, we have a large book that is over $100 billion, it created a little bit of an outsized effect. And we didn't see the correlated offset. So it is true in the sense that from an accounting perspective, we mark-to-market these deposits and their funding, which we pay out as they mature, so that tendencies for these to go back to par over time. But the mark-to-market makes it not linear return to par and it bounces around.

So in terms of the delta to last year, last year we also had very good client activity in this book. So between the two, we kind of – you see the differential. If these kinds of given the size of the book and the bouncing around in funding costs, if that continues in a very and produces very volatile returns that are really more accounting mark-to-market driven than anything else, there are accounting options where we may take that mark-to-market into OCI or essentially use accrual accounting. So we might look in time, if appropriate to change the accounting method. But really from an underlying franchise perspective as we called out earlier, terrific advisory and corporate lending revenue and I wouldn't consider this to be a significant enough franchise.

Rob Sedran – CIBC World Markets – Analyst

If it's – thanks for that. If it's mark-to-market revenue or an impact of mark-to-market, would you expect in subsequent quarters to see it reverse or would you expect to see this is just like what – should we see this going back in subsequent quarters, I guess, what I'm wondering.

Riaz Ahmed – TD – Group Head and CFO

Yeah. I think, when you mark to market a single deposit like that, I mean, you – if it was a single deposit, you would see obvious effects of it returning. But when there's a portfolio that has been built over four or five years and deposits are continuing to mature and the portfolio is growing, you don't see it such a – in a such a linear way because some part of your deposits may have gains and some part of it may have losses. So I think it's not a linear play-out. But effectively, those deposits mature and they get paid out at par, so overall everything goes back to par.

Rob Sedran – CIBC World Markets – Analyst

Okay. Thank you.

Operator

And our next question comes from Scott Chan of Canaccord Genuity.

Scott Chan – Canaccord Genuity – Analyst

Thanks. If I had to pick on something on the U.S. side, it's the AUM. If I look year-over-year, it's down 5%. And obviously, we've had a significant tailwind in equity markets, specifically, the U.S. and you commented that your net outflows. But I was just wondering, if you could just expand on that a little bit. Is it more in industry or is it more kind of TD focused how this is impacting that?

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

Yeah. So, I guess, I'd cover it in a couple of ways. First, I'd just say, on the institutional side, we are seeing the phenomenon that continues to play out from active to passive. And in addition, as we called out, I think in the late 2016 and some of the carryover balances were in 2017, we did exit a sub-advisory relationship on the institutional side that continued to play out and some of those balances remained on in 2017.

What I would generally say as you know and as you've been following us, the larger story in our mind is how we continue to build out the wealth management business. And that becomes a very big part and will become a bigger part of our Retail strategy going forward. So I'd say on the institutional side, much of the answer I'd give you is the active to passive, narrative.

Scott Chan – Canaccord Genuity – Analyst

And on the Retail side is it been positive or negative or...?

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

Sure. So it's actually been a very positive story and you know over the last three years to four years we've spent a lot of time and energy building out our private banking space for higher net worth individuals as well as a mass affluent strategy as we continue to partner with TD Ameritrade. And that is something that if you just go back five, six years ago, we far from had a robust place in the Wealth and Private Banking space and this is something, we're very much interested in spending time and energy on in the coming years.

Scott Chan – Canaccord Genuity – Analyst

Right. Thank you very much.

Operator

And our next question comes from Darko Mihelic of RBC Capital Markets.

Darko Mihelic – RBC Capital Markets – Analyst

Hi. Thank you. I just wanted to return to the trading related hit in the quarter. And Riaz, I just wanted to understand it a bit better because it does seem outsized, I mean you didn't give us a number, but it does seem like that I mean overall, you're trading is down about $200 million quarter-over-quarter and that seems fairly outsized and I guess the reason for my question is we didn't really see much in terms of a change for Canadian bank credit spreads and to further emphasize the point, when we look at the other banks that use the fair value through profit and loss, I mean we can see their marks on – in their OCI and none of the banks have very big marks in the quarter.

So I'm just curious if you can drill into – was it something very specific to TD that would have caused this big change or am I overplaying the size of the hit to trading?

Riaz Ahmed – TD – Group Head and CFO

No. I think, there are two things. One is in terms of giving your relative perspective, Darko, I wouldn't be in a position to comment on how other banks do their mark-to-market and how the various factors of the yield curve, short-term, long-term, play into the various bank's positioning of their balance sheet in the trading space.

I do think that I can safely tell you that in terms of the gains or losses that we've experienced on a quarter-to-quarter basis over time, this was one of the largest and therefore, appropriate to call out. And then, as I said earlier, I think there's also a fairly attractive quarter that we had in the third quarter last year when we had a good set of client driven activities that helped us there. So I do see – as I said it may be that it's kind of unique to what we do and as – but, we'd look into that a little bit over time as we explore what – whether it's appropriate to make any changes in the way that we account for this.

Darko Mihelic – RBC Capital Markets – Analyst

And it was your credit spreads, right? That caused – I mean, TD's own credit risk. It was your credit spreads that changed in the quarter?

Riaz Ahmed – TD – Group Head and CFO

Yeah. It is our own funding cost and as I said earlier, you have to look at spreads and sometimes how you also position things relative to LIBOR-OIS et cetera. So big picture, I'd say funding costs and yes, it's driven by our narrowing of our – tightening of our own kind of funding cost including credit spreads.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. And then, for Bob Dorrance then, this is the third quarter in a row where we've seen you guys calling out higher expenses in your business, and we do see a lot more full-time equivalent staff. So it looks like you are growing out the U.S. dollar strategy. Can you maybe outline for us what you've done there and what should we be expecting from the Wholesale Banking segment next year, presumably all of this expense and people that you've added should have some sort of an impact? So, can you talk to what our expectations should be for Wholesale next year?

Bob Dorrance – TD – Group Head, Wholesale Banking

I think all other things being equal, Darko, assuming that we have a favorable environment, we should see continued growth, because as you point out we are investing. We are investing in the U.S. dollar business across the board and that investment is in terms of both front office people as well as front to back because with growth comes the necessity to invest end-to-end. We are adding – on the corporate investment banking side, we're basically adding corporate bankers as we broaden out the areas of focus. Traditionally, we had been fairly narrowly focused in energy and media and telecom and we're broadening out the sectors of the market that we are covering. And we're also deepening and adding client relationships in the two previous sectors in energy and in media and telecom. So, it's an investment of people.

More recently, as those strategies are resulting in more clients and also better tiering in the relationships that we want, we have been adding investment banking people. Focus there has been more in the M&A side. Specifically this year, we've added meaningfully in both the energy side in Houston as well as the utility side in New York. We're adding M&A people as well in media and telecom. The other corporate sides are a little earlier in the game, so we want to build up our relationships there before we would add investment banking. But we're also adding people then in the markets, in the Capital Markets side of the business in order to support the investment in corporate and in real money clients. So those are – we're adding new product areas, we've talked about prime services before, that's starting to get some traction and we're looking for healthy growth in that in 2019.

We continue to add to the real money business, to the institutional side as we on board more large clients there and again, the necessity to develop and broaden product there is paramount as well. So we've been building out our MBS business, we've been building out our asset securitization trading businesses. We've added people both sales, trader, and origination in the corporate spaces as well in U.S. dollars.
So, all parts are growing. It is an investment, cognizant of that and we're doing it eyes wide open, expecting that will earn sufficient returns for the bank over a reasonable period of time. And I would say as well, Darko, is that some parts of the journey are a little bit more mature and already are generating returns and cash flows to continue invest and some parts are still early on in the journey. But it's a significant opportunity for TD Securities in U.S. dollars especially in the U.S. where we can work with U.S. partners. The growth that the U.S. bank has, the funding, the rating, the brand, et cetera, I think all lead to the view that we have a very good competitive advantage as long as we can work well together and add the right people and within the risk appetite of where we want to be.

Darko Mihelic – RBC Capital Markets – Analyst

Thanks for that Bob.

Bob Dorrance – TD – Group Head, Wholesale Banking

Okay.

Operator

And we will hear next from the line of Sumit Malhotra with Scotia Capital. Please go ahead.

Sumit Malhotra – Scotia Capital – Analyst

Thanks. Good afternoon. First is for Riaz on the CET1 ratio. In speaking with some of your counterparts over the last couple weeks, we've heard about the potential impact on capital from the RWA changes to counterparty and securitization measures. Do you have any update for us on what that might mean for your capital in 2019?

Riaz Ahmed – TD – Group Head and CFO

Yeah. I think, Sumit as we go into the new securitization framework and the changes to the counterparty creditors, I expect a rather minimal change for us, maybe order of magnitude 10 to 15 basis points.

Sumit Malhotra – Scotia Capital – Analyst

Okay. So if I look at your number today 11.7%, just under that. So if I wanted to do a pro forma, we would take about 20 basis points for these changes as well as the Greystone deal, is that accurate?

Riaz Ahmed – TD – Group Head and CFO

Yeah, including Greystone, yes.

Sumit Malhotra – Scotia Capital – Analyst

Okay. Thank you for that. And the second one is for Teri, probably of all the banks I cover the one we've had the least questions about core funding and specifically strength of the deposit franchise is TD. But when I look at your consumer deposits in Canada, year-over-year that balance has slowed to a 3% level of growth, I bring this up maybe more specifically since many of your peers are talking about how consumer deposit growth has become a key focus point for them. And we're hearing about bonus campaigns on interest rates, $300 if you open a checking account. When you hear about these kind of promotions in the market, what is the competitive response if any for TD? And is this the reason that you feel your deposit growth has been decelerating of late?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, what I would say is, we feel great about our core checking acquisition. We continue to out-acquire relative to the other competitors in the marketplace, and the way that we see that is in our personal non-term deposit share, where we have a significant number one market share position. And so what you're seeing in the sort of consumer deposit overall is the impact of term deposits where we have seen more competitive pricing, and in particular outside of kind of the core players.

And so if I sort of lever off of what Greg was talking about earlier in the U.S. context, I'd say that we continue to have relationship pricing if you will for franchise customers and continue to ensure that we're competing rationally on pricing across our deposit business. But certainly when we look at the performance of our business relative to our ongoing acquisition or the new-to-bank customer growth, we feel great and continue to feel like we're leading in that space.

Sumit Malhotra – Scotia Capital – Analyst

Thanks for your time.

Operator

And our next question comes from Sohrab Movahedi with BMO Capital Markets.

Sohrab Movahedi – BMO Capital Markets – Analyst

Yeah, thanks. Riaz, the trading deposits which you kind of called out as kind of the culprit, if you will, for the trading mishap this quarter, it looks like it was kind of – it really started picking up those balances on your balance sheet anyway starting in Q3 2017. So is this – are you now where you think this business is going to be or do you think you're going to be growing this business? So are these balances going to be kind of going up from here, number one? And then number two is this kind of credit spread tightening, is it basically taking away some arguably elevated, let's say, mark-to-market gains in prior quarters from the same credit spreads?

Bob Dorrance – TD – Group Head, Wholesale Banking

I'd say that on the volume side sort of we would – some extent the short-term part of the balance sheet is a combination of what we use to grow franchise businesses. Some of it is created by the excess leverage that TD Bank has in general as a bank and that leverage we would invest if we saw opportunity on a normalized basis for profitable ROA and ROE investments. Really I think it is to reinforce what Riaz said, there's typically a correlation between returns on the asset side relative to what we're paying for funding. In the case of some of these relationships, there were differences in the quarter that were sufficient to make this meaningful.

I would stress as well that it was one part of why trading revenue was down year-over-year. Another part, as Riaz mentioned, is that we did have a particularly strong quarter in Q3 of 2017 related to some meaningful client trades that we had. That did not recur. So it's fair to say that absence this mark-to-market, the trading revenue, particularly on interest and credit, would have been down anyway. It just exaggerated it in a meaningful way – or in a meaningful way enough that it was important, I think we thought that you should know about it.

And as to whether we are going to continue to grow the business, it's really going to be driven by the profitability and what's available in the marketplace, and generally we earn attractive returns for shareholders in this business.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. Thank you.

Operator

And we will hear next from Nigel D'Souza of Veritas Investment Research.

Nigel D'Souza – Veritas Investment Research – Analyst

Thank you. Good afternoon. I want to turn focus on to your Real Estate Secured Lending book and when I look at year-over-year growth for that book, it's up a little over 5% in Q3. And that seems to be outpacing some of your peers as well. So I'm wondering what's driving that higher growth rate. Is that from your competing more on pricing, particularly on the variable side? Could you provide some color on that growth?

Teri Currie – TD – Group Head, Canadian Personal Banking

Sure. It's Teri again. So in terms of the growth, we feel great about the growth of our proprietary Real Estate Secured Lending business. It's a business that we've been talking about over the last number of quarters and the investments we we've been making in that business and we're seeing those investments payoff and that's really what's behind the growth. We've added mobile mortgage specialists around 250 over the past number of quarters. That certainly is helping. We also have underwriting standards through the cycle, so we feel very comfortable with the risk of what we're putting on our books. We continue to have an embedded growth opportunity with the Home Equity Line of Credit product that I've talked about before. And so we're very comfortable with the business we're doing there, is really amortizing HELOC business growth and it's generally speaking to customers who love us for their day-to-day banking and had borrowing elsewhere and they're borrowing with us as part of that franchise relationship.

We've continued to invest in our back office operations over the last year and that's allowed us to ensure that the customers' most important question as to whether they can qualify for the loan is getting answered more quickly, which is driving originations as well. And then finally, and importantly, we've been investing in our digital capabilities in this business and our end-to-end homeowner journey for Real Estate Secured Lending is contributing to more customers coming to us, finding us digitally, and then pursuing their mortgage business with us.

And then I think Bharat also mentioned we're able to leverage the capabilities of Layer 6 to ensure that with the data that we have about our customers and with their consent that we're using that information to again more meaningfully make offers to them that are relevant in the moment.

Nigel D'Souza – Veritas Investment Research – Analyst

Okay. Thank you, Teri. And just a follow-up on the point you made on the amortizing HELOC book. When I look at those balances, they're up about 35% year-over-year in Q3, now is that being driven entirely by FlexLine offering or is there something else at play here that's helping you achieve that outsized growth?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, the amortizing HELOC would be the FlexLine growth for sure. And again we've consistently been growing that as we improve the product going back a few years ago to really be a credible mortgage substitute for the right customers and a flexible and convenient offering.

Nigel D'Souza – Veritas Investment Research – Analyst

Okay, great. Thank you.

Operator

And we'll hear from Mike Rizvanovic of Macquarie.

Mike Rizvanovic – Macquarie Capital Markets – Analyst

Hi. Good afternoon. First, quick question for Greg. Just want to go back to the U.S. margin and your sequential 10-basis-point increase, was that exclusively deposit margins. I'm just looking at your sequential change in your loan balances in the U.S. and it doesn't look like the business mix would have been favorable at least from a margin perspective, can you give us a little bit of a breakdown on that 10 bps?

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

Sure. So it was a bigger lift than we've seen in prior quarters but I'd say it's a couple things coming together. First, obviously absolute deposit rates, and so it's deposit rates. It is a little bit of a mix of the business and it would also be better returns on the investments in the investment portfolio as we reinvest at better long-term rates and they were coming off at. So it would be a combination of the investment, better deposits and the mix of the business.

Mike Rizvanovic – Macquarie Capital Markets – Analyst

Okay. Thanks for that. And then just quickly over to Teri on your residential mortgage book in Canada. I'm just looking at the difference between what we've seen in the insured book versus the uninsured and the insured book clearly declining quite a bit. It's down double digits the last five quarters on a year-over-year basis, whereas your uninsured portfolio is growing somewhere in the 15% to 17% range. Just wondering when you think about what's ahead for 2019, do you expect some sort of stability or moderation or less of a decline in the former and perhaps some moderation in the latter, what's your outlook overall or maybe for those two components separately?

Teri Currie – TD – Group Head, Canadian Personal Banking

Say, just given the market dynamic around insured mortgages and the competitiveness and funding cost issues around that piece, I think what we have seen, we might continue to see which is a continued sort of slight erosion in insured balances.

Mike Rizvanovic – Macquarie Capital Markets – Analyst

And on the uninsured?

Teri Currie – TD – Group Head, Canadian Personal Banking

And on the uninsured, I would expect us to continue to see increasing – an increased proportion.

Mike Rizvanovic – Macquarie Capital Markets – Analyst

But in that same sort of 15% to 17% range, or is it realistic to think that that should be coming off to some degree?

Teri Currie – TD – Group Head, Canadian Personal Banking

I think it's hard to say for sure. But my sense would be it would moderate over time.

Mike Rizvanovic – Macquarie Capital Markets – Analyst

Great. 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 thanks to all of you for joining us this afternoon. As I said in my earlier remarks, very happy with how the quarter has turned out. It is reflected in our numbers. And frankly feel great that the strategies we've outlined are being executed upon, and the results are there for you to see.

I would like to take this opportunity once again to thank our really dedicated and talented TD bankers around the world who continue to deliver for our shareholders. Thanks again for joining, and we'll see you next quarter.