TD BANK GROUP
CIBC EASTERN INSTITUTIONAL INVESTOR CONFERENCE
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PARTICIPANTS

Greg Braca
Group Head, U.S. Retail, TD Bank Group & President and Chief Executive Officer, TD Bank, America's Most Convenient Bank

Robert Sedran
CIBC World Markets – Analyst

FIRESIDE CHAT

Robert Sedran – CIBC World Markets – Analyst

Okay. Our next participant is Greg Braca. He's the Group Head of US Retail at TD Bank. 30 years banking experience, and part of the bank's senior leadership team since 2002. So, welcome to Montréal, Greg.

Greg Braca, Group Head, U.S. Retail

Thank you, Rob.

Robert Sedran – CIBC World Markets – Analyst

I think just based on a bit of a different story and you're coming from the US., it'll to be good to give a bit of an update on what you're seeing business conditions wise, and then we'll launch into some questions.

Greg Braca, Group Head, U.S. Retail

Great. So, I'm not taking any political questions today coming from the US, kidding. But I would just paint though maybe a little bit of a backdrop of – a year ago, if we were having this discussion, it certainly would have been, wow, economy's roaring ahead, you've got from a banking industry perspective a lot of tailwinds between taxes, rate hikes and things look awfully strong. A year later, it's a little bit of a different context that we're talking about. Obviously, as of last week, we just had our second rate cut in roughly six or eight weeks.

We're talking about, are we finally getting to a point where there's a little bit of a downturn or a real downturn or a recession in the U.S.? How can the U.S. continue to grow in the face of all of the other discussions globally? Can it continue to outrun? So, obviously we're in a bit of a different pace. I would give you a little bit of a view though is, notwithstanding all of the views that might come on TD day in and day out at us. Geopolitical risks, economic risks, global risks, where we're going with interest rates.

Real-time, from our view, does still feel somewhat constructive and I would say that our view is even over and through 2020, we're still pointing to a positive GDP growth in the 2% range. So, not quite on the tear that it had been or stronger growth, but the consumer still holding up quite strong, unemployment is low, wages actually, for the first time in a decade, we're actually seeing some positive movement up on the wage front. Where you are seeing a little bit of a weakness from our front is – from our standpoint is, you are starting to see a little bit of a pullback from larger companies and folks sitting on the sideline in the commercial side from an investment uncertainty standpoint.

And we'll see if that eventually bleeds in to some of what has been a very strong consumer story. So again, not quite the dire state that we sometimes turn the TV on to. And if anything, one of the biggest concerns many of our customers have is the ability to continue to hire people with the right skillsets given the low unemployment numbers.

Robert Sedran – CIBC World Markets – Analyst

I wanted to ask if you've seen sort of some of that sentiment or concern leading into the numbers. And I gather from your comments you're starting to see it on the commercial side. Is it just that the conversations are starting to be colored by it, or are actually people pulling back and actively deciding to delay projects or delay spending?

Greg Braca, Group Head, U.S. Retail

Yeah. I think you're starting to see a little bit of a pullback and that's really delaying projects and spending. And it's the vantage point. I guess, it depends on the seat in which you sit. If you're a larger company, a multinational that has a more global view and your businesses are either worried about trade or on the supply chain issue or are selling into some of these weaker economies, your view obviously will be a little bit more skewed. The things are setting up to be a little tougher.

If your company or business is a little smaller or more focused domestically in the U.S., you'll see less of that outside of the general jawboning of, are we ready to head into a recession? And again, I would mention on the small business front we're still seeing quite robust hiring on that side.

Robert Sedran – CIBC World Markets – Analyst

So higher interest rates, lower taxes, robust GDP growth; it arguably gave a boost to the competitive environment – to a bunch of banks and some oxygen to a bunch of banks that were struggling for a long time. And we're certainly starting to go the other way on some of these things. What is this doing to the competitive environment as well? Are people reacting rationally or are they just grasping for business still and trying to retain the business they have?

Greg Braca, Group Head, U.S. Retail

Yeah. I think it's going to be really interesting, Rob, to see how this plays out because even when we have the tailwinds over the last couple of years from our vantage point, we always took a look at it as, let's back out rates, let's back out taxes. What's the normalized run rate of our growth? What does that look like? How does it feel? Are we taking share? Are we able to generate capital to continue to reinvest? Are we rebuilding core platforms, investing in data, mobile, technology?

Are we doing all of those things that set us up not just for the next fiscal, but for the next decade? And I do think the bar is going to become a lot harder for some of the smaller organizations in the U.S., given the amount of capital us and the larger banks are making on investment in core capabilities and without some of those tailwinds, I do think you're going to see some of that play out real-time.

Robert Sedran – CIBC World Markets – Analyst

The M&A environment, it's sort of gone cold again after heating up for a while. But when you think about scale and you think about your size and you see some of the big mergers that were happening around you, how important is your scale and do you need more or do you worry about the market consolidating around you if you're not participating?

Greg Braca, Group Head, U.S. Retail

Yeah. So, I think scale is an interesting question. The name probably doesn't resonate directly unless you're into the US business, US market every day. But Truist was the formation now that was announced between BB&T and SunTrust. And you can make the argument that they were fairly substantial regional banks in their own right. And knowing these two organizations, I think they've come together because they felt they didn't have enough scale to be able to continue to compete head-to-head with the money centers in the largest banks in the country.

Now, this merger didn't give them any real natural leverage outside of what was generally their core markets. There is some new markets for each of them, but it didn't give them a West Coast presence, didn't give them a meaningful presence in the center of the country, didn't give them a Northeast presence. But they did it purely to be able to overlay the investment of what they needed to do around cyber, technology, fraud, core platform investment over a larger base of revenue and customers.

So again, with a declining rate environment and some headwinds coming at us, you can make that argument that how does some of the smaller players in the US really manage to continue to not have the gap between the investments we're making and the larger banks are making and how does that really feel? I think it'll eventually show up in terms of, are they building core capabilities? Can they continue to grow their business?

And in some measures, I'd make the argument, you're already seeing that that the larger banks are certainly outpacing the smaller banks in terms of growth and share. And I think that gap continues to get wider. What's going to be interesting to see is, does that force them as multiples come down? Or if they do come down for the smaller players, do you begin to see a consolidation play in the US?

For us, I think we have a natural embedded advantage with our North American presence. And while we've become in a few – 14 or 15 short years become a large regional bank in our own right from Maine to Florida and some national businesses that we do have. I'd make the argument that we do have the advantage of being able to leverage our North American presence with TD Bank Group when it comes to technology, investment capabilities. And I do think that will play out for us quite well.

Robert Sedran – CIBC World Markets – Analyst

All right. I should've written this down, because I'm going to get the TD philosophy wrong, but it's not doing bad business in good times so you can do good business in bad times. Hey, I got it right that time. Okay.

Greg Braca, Group Head, U.S. Retail

Well done.

Robert Sedran – CIBC World Markets – Analyst

Thank you. I've been studying for a while. With all these concerns, macro concerns and the rest, are you changing anything that you're doing in terms of your underwriting criteria, your comfort level. If the customers are pulling back a little bit, are you pulling back a little bit as well?

Greg Braca, Group Head, U.S. Retail

Yeah. So I always say that that we can be smarter, we can be more disciplined then we can certainly stare that down. We talk about something internally, what we call, downturn readiness and how are we positioned as a company, not just from a credit standpoint, but from a resilience and core capabilities, technology, deeper insights into our customers. And there's always more we can do and we are.

What I would say though from a U.S. lens is, we never went back in and did some of the things that in retrospect say, did they really make sense. We're not deep into the leverage lending space in the US. We didn't go back into the resi for sale business with per square foot prices of condo development that I still can't get my mind around. So, I think we're being quite smart about where we're playing from a credit standpoint.

And as you get later into the cycle whether it's next year or three years out, you really do have to stand up. The conversations that I was having this morning with one off meetings here today was, we all tend to look at headline growth and who's doing what and how. I always offer an overlay onto that whole narrative. What's the quality of that growth and how do we think about that under the weeds? And are we growing core quality loans that'll serve us well both in good times and bad? Are we taking deposits share? And we have a terrific deposit share story. Are we paying upfront with the digital bank and paying the highest rate in the market? No. Are we growing good core household growth and non-interest bearing checking accounts? And to me it's not just the headline growth story for all of the institutions; it's really what is the quality underneath that growth.

Robert Sedran – CIBC World Markets – Analyst

Okay. As always, there's the app open. If anybody has any questions they want to ask, there's a microphone in the middle of the room if you just want to step up and ask something. Absent that, I'm going to keep driving all of my questions. So, the branch strategy. It's an interesting dynamic in the US where some are closing, some are opening. And you've actually for a branch-intensive footprint and customer service strategy, you've been closing – on balance. So, how do you think about the stores; sorry, I called it branches.

Greg Braca, Group Head, U.S. Retail

Thank you.

Robert Sedran – CIBC World Markets – Analyst

How do you think about the store strategy in the US? And why not be on the opening side rather than the closing side?

Greg Braca, Group Head, U.S. Retail

Yeah. So with 1,238 stores, I think – Amr, do I have that about right up to the moment? I would say, I just refrain that a little bit is that given some of the legacy organizations that we pulled together in 2007 and 2008 and 2009, 2010, sure, we've been in the last couple of years closing more stores than we've been opening new ones. But I make the context that we've been pruning around the edges and we've been rightsizing some legacy markets that we were in that might have been redundant or we found a store in a more smaller footprint or more digital capable store that we were able to consolidate a couple of sites into.

But the bottom line is, we still are opening new de novo stores real time, and we're opening them in New England and Boston, and we're certainly opening them in New York, and we're spending a lot of time in the Southeast. If you just think about the migration of the population and the amount of people moving into the Southeast not only for retiring, but moving because of taxes, lifestyle or whatever, 1,000 people a day moving into the State of Florida and we're building out new stores, real time in those markets.

I've never been on this bandwagon of making the prediction that we're going to close half or all branches or stores are going to go away. That's not been part of our core strategy. We've had a decided viewpoint around this. I think it's important that we're not lurching that strategy, given that someone else or another large bank announces a new; either close them all strategy or open them all strategy, and we've had a view around this. And it's served us well and I think it's going to serve us well in the future.

If I was at this conference two, three and four years ago, it would have been the only question I would've gotten asked is, how many stores are you closing and what's your digital narrative? When truth behind the scenes is, even the most digitally-connective strategy for any bank in the U.S., 70% or 80% of the new business volume was still walking into brick and mortar. No matter what narrative they wanted to frame, that was the real truth underneath. JPMorgan announces 18 months ago or 12 months ago that they're going to build 300 or 400 new branches in new markets for them in Boston, Washington, Philadelphia.

And now, every other bank has begun to talk about how many branches they're building. So, it's amazing how one makes this announcement and we go from a digital-only strategy that now folks only want to ask about how many stores or branches we're building. And so, the bottom line for us, we continue to build new stores and markets that we want to be in or we don't think we have the right weight or coverage. We're going to continue to prune in markets where we think we've got a better footprint or we can have a smaller branch that's more digitally connected, a more modern way of servicing that market. And overall, we're going to continue to invest in stores.

Robert Sedran – CIBC World Markets – Analyst

That in-store experience was a big part of the Commerce Bancorp brand. How important is it still then in the context of that? I mean, I understand you need them; they're the flag, they're what people identify with. And particularly, you arguably have a national brand with TD Ameritrade and Auto Finance and the rest. How important is that in-store experience still to who you are and what you do?

Greg Braca, Group Head, U.S. Retail

It's still part of – let's not forget who we are and it's still part of our secret sauce. So when I think about service, convenience, hours, while the narrative has become what digital app have you rolled out, what mobile capabilities do you have? We've never lost sight of people still including millennials. They still when they have a life event, they have their first mortgage, they have their first investment discussion, they have questions about a car loan or refinance. They still want to talk to somebody face to face and we see this real-time playing out.

So service, convenience, access, advice; and I think that last part is how do we marry that service and convenience with all of the platform investments that we're making. And that somewhat gets lost in our convenience models, that we're spending a lot of time, energy and money over the last couple of years, reinvesting and building our core platforms. How does that all marry together? When you come into the store and it's not just about service and hours; it also becomes about digital connectedness, omni-channel and advice. That's what we're trying to bring together in the stores.

Robert Sedran – CIBC World Markets – Analyst

Some of the other banks have talked about the expansion of the commercial business into new cities and the rest, largely because they're more or less only commercial banks as opposed to the more integrated model that you have. Is that an option for you or do you – are you going to open a branch only where you're going to have both sides of the business to do, or if you're going to stay in your Maine to Florida footprint?

Greg Braca, Group Head, U.S. Retail

We spent a lot of time talking about footprint and what that means for us. And I think the last thing we want to become is a suitcase banker, where we're flying into markets and dropping off a check and then having no other natural connection to the market, the customer or the marketplace, just to put assets on the books. To me, that's not a winning strategy for us in the U.S. If we're going to go at small business, we're not going to do it from 500 or 1,000 miles away just because we have a nifty credit app that allows us to adjudicate or approve credit loans from 1,000 miles away. That's not a relationship strategy in my mind.

Now with that said, Maine to Florida is an awfully important, that is our core franchise in the US. And if at some point down the road that becomes outside of Maine to Florida, we'll have that discussion. But we're going to cover and we've got a lot of work to do Maine to Florida and more share to take. And by the way, the real narrative we shouldn't get lost as we continue to take share right now as we speak. And when we talked about our Q3 results that we just released a month ago, that de novo growth in organic strategy continues to pay off.

I would say though and I shouldn't, more and more we should remind ourselves that we've got other businesses that are national outside of our footprint; our auto businesses in all 50 states, our corporate and specialty banking businesses, because those are corporate businesses and it becomes less about where they're located. It's more about an industry coverage strategy and how do we marry that business up with what our dealer and our wholesale bank is doing and how do we cover those names together?

And I think that was an awfully important and I was awfully close to that, when we launched that business of corporate and specialty banking. And that's become a large business for us and we cover these names really across the US, but that's about an industry coverage strategy not so much the geography.

Robert Sedran – CIBC World Markets – Analyst

So auto though is more of a retail strategy, right?

Greg Braca, Group Head, U.S. Retail

Yeah.

Robert Sedran – CIBC World Markets – Analyst

And so, that one is not – as you just pointed out, it is pretty much national and international?

Greg Braca, Group Head, U.S. Retail

It is. And that really was borne out because of what we bought. It wasn't because we naturally said we need to do auto loans in California or in Texas. We bought the old Chrysler Financial. And we've really made investments in that business and it's been a good asset generating business. And what we really acquired from that business is a real knowhow about how to cover that asset profile in a way that was independent of our store strategy.

That if you really look underneath the covers of that, that business is delivered through the dealer; not necessarily through the individual consumer. Somebody walks in in the US to buy a car, they go in through the dealer and we're financing that consumer through our dealer relationships. And that's the business that we acquire there.

Robert Sedran – CIBC World Markets – Analyst

How do you gain share in that business?

Greg Braca, Group Head, U.S. Retail

Well, there's a lot of ways to gain share in that business. And some of the ways that you gain share in auto were not that appealing to us. You can start playing around with how long you're willing to go out on the maturity curve for an auto. Like, how many months that you want to start lending, 84 months or 96 months on a car, that's not our view of how to go about that business. You can go down the FICO curve or the credit quality curve, and lend to more near prime or subprime and we're very suspect that that's the way you want to go about it.

In our view, we want to be a consistent player to the dealers and to help them sell cars. But in the prime and super prime space and we'll do a little near prime business for support of those relationships. But for us, we're not going to sacrifice and have a no return business or a zero credit quality business; that's just not for us.

Robert Sedran – CIBC World Markets – Analyst

Let's switch from autos to credit cards. Talk a little bit about the pure TD branch-originated or pure TD customer versus the partnership model. How important each are, and where you see the bigger opportunity for growth from here?

Greg Braca, Group Head, U.S. Retail

So, I think for a larger bank of size and scale, the credit card business ultimately is an important business for us. And we just think about our 9 plus million consumers from Maine to Florida. It drives me crazy that any of them open up their wallet and they pull out anything but a TD branded credit card. And so, first and foremost, partnerships are great. They give you scale, they give you size, they give you relationships, they help you share risk. Those are all good things.

But the most important credit card business we're shooting around that corner is our own branded TD credit card. And if you just go back a few years ago, we didn't really have a business of scale or size. And today, we would say that there's still far more business we can do in that space and then we can grow into our natural size, just given the relative consumer book we have. So, there's a lot of upside for us in our own card business.

Robert Sedran – CIBC World Markets – Analyst

We talk a lot about the differences in consumers in Canada versus the U.S., and that the monoline culture that historically has occurred in the US means that, I don't need a credit card from my bank; I'll get it somewhere else. How is that changing and can you actually get your card into their wallet and also not just your card into their wallet, but at the front of the wallet where that's the one they're actually using.

Greg Braca, Group Head, U.S. Retail

The one they're actually using to spend. So, I think it's a great question. I don't mean to imply that this is not a competitive space. There are folks that are keenly focused on this, both from a bank standpoint and from a monoline standpoint. But we have an enormously powerful culture of customers that just love banking with TD. It shows up in J.D. Power, it shows up in surveys, it shows up in our own shopping we do, in our own insights of our customers; and customers want to find ways to do more business with TD.

Now, that doesn't mean we can get away with offering an uncompetitive product, it doesn't mean we can't have the rewards or the cash back programs, it doesn't mean we can't have the service that all of the other larger card players have and we're building this out real time. I would say to you that, traditionally, there had been a big monoline business in the US, but you'll even see with what the money center banks have done. A lot of the real weight of the card programs both for their own branded card and their partnerships really has now wound up with the banks; JPMorgan, BofA, Capital One is effectively a bank these days. And it really is being delivered through a more fulsome experience on the bank side, and I think there's a lot more for us to do with our own customer base.

Robert Sedran – CIBC World Markets – Analyst

People often link credit cards and with the risk side of it even though arguably a well-run credit card portfolio is profitable through the cycle considering profitability of it?

Greg Braca, Group Head, U.S. Retail

Well run.

Robert Sedran – CIBC World Markets – Analyst

How has the performance been? Like are you seeing any signs of stress at all in terms of consumer behavior and consumer credit?

Greg Braca, Group Head, U.S. Retail

Yeah. Not to go too deep down in this session here on a crawl through how credit card works through the cycles and to give you a view about that. But subject to your first caveat, a well-run credit card business, through the cycle once it matures and seasons, will perform fine given the returns that you would need to expect throughout all cycles. So, we're quite bullish on this asset class. We want to do more in this card space.

But what you're seeing in our numbers real time is the fact that we're starting from a very, very small base, particularly in our own card business and you're seeing a maturation of that book of business and you're seeing a seasoning of that book throughout the first several years of ramping up of scale and size. So you should expect to continue to see that, but we're quite happy with where we are. And our intention is to continue to grow that book of business, notwithstanding where we are in the cycle.

Robert Sedran – CIBC World Markets – Analyst

Okay. I want to switch gears, talk a little bit about technology. You mentioned the omni-channel strategy and I'm curious how much – and we talked a little bit about scale as well. How much do you think the bank benefits – your part of the bank benefits from the North American scale, the concept of North American scale? Can you actually – does it cross borders?

Greg Braca, Group Head, U.S. Retail

Yeah. So the answer is, if you went back 10 years ago, this was a hot discussion that we had is how do we leverage everything on a North American basis and how do we do that. We realize there are going to be some things that we're going to be able to do right away from a scale perspective North American and there's some other things that we're going to have to really take our time and think through.

We have a separate regulatory environment. We have separate rules. We have separate governance requirements that are going to be different. There's a separate maturity between the Canadian business and what we're building down here in the U.S. And notwithstanding, there is a different competitive environment in both of those markets. You're going to have different products in history and all of that. So that context matters with this discussion.

But what I would say is, more and more especially with the speeding up of improvements in technology and data and digitizing the bank, there are actually more opportunities for us to leverage our North American parent and capabilities than there were even just a few years ago. So we're quite excited about that.

One of the conversations I do think is important to have when you think about our narrative is, we're not a money center in the US, but we're not a small or a smaller player or a small regional or a community bank. So, this narrative of scale and size is very important for us. And what you're seeing is this play out for us. Even in our spend numbers over the last couple of years when we did have some of those tailwinds, it was time for us as being this 14 or 15-year-old bank, and that's where we are in the US under the TD heading.

How do we go back and re-stitch together the core plumbing of the bank? How do we rebuild platforms? Really not just to get the next whiz bang app that the consumer wants or the customer wants, that's important too. But how do you go back and really rebuild the platforms? And we spent a lot of time talking about platforms and we've rolled out a new commercial lending platform across the bank over the last year and that took us several years to rebuild. We've rolled out new mortgage and home equity platforms and a new digital platform, we call, Next Generation Platform that really ties the whole consumer bank together from a mobile capability standpoint.

What those platforms allow us to leverage and some of this comes from North American technology is, every time you want that next capability, that next insight, deeper insights into data, how we think about data when not doing it as a one-off project is that we're building it on top of new modern architecture that allows us to roll it out, implement it and execute it far quicker than trying to tackle it as a one-off project from standing start on all technology. So this is a real-time narrative for us playing out and you're seeing us invest in this real time.

Robert Sedran – CIBC World Markets – Analyst

I'm not going to say mission accomplished, but is that largely done or is there more of it to be done?

Greg Braca, Group Head, U.S. Retail

Yeah. So, I don't think it's ever done.

But what I would say is, we have made substantial strides. And the holy grail to all of this is, how do you really on-board, organize and begin to get insights out of your data quicker and more efficient. As opposed to manual processes or sending teams of people to recreate the inherent data you want from a risk standpoint or just deeper insights in your own customer base. And I'd say, we're seeing remarkable upside already, early days, but I don't think you ever really understate with this discussion.

Robert Sedran – CIBC World Markets – Analyst

Having these systems that are a little bit more agile and nimble, I guess, is also partly defensive. Do you feel like – disruption insurance? Do you feel like that US is maybe more vulnerable to disruptions in some other markets just because of the size of the price and the number of technology companies that are there?

Greg Braca, Group Head, U.S. Retail

Yeah. Again, I'd say, we shouldn't jump to conclusions about how we're going to be disrupted because a few of us were out in the West Coast a few years ago and the whole narrative was around 'FinTech was going to eat our lunch'. And the next start-up out of somebody's garage was going to disintermediate our entire customer base. And we don't want to be flippant about that, but that narrative has certainly shifted to more; those capabilities wanting to partner, wanting to merge into us or wanting to offer us their capabilities because we already have the capital, the customer base, the brand, the presence, the safety soundness; and by the way, the license, regulations, all of those things that they want nothing to do with.

I do think over the last couple of years it's shifted from the FinTech threat to the larger technology company threat, and what are they thinking about and what are they doing? And I think that game is still being played out real time. What I would say for us is not only a bank, but our industry, the natural existing incumbents in this is a lot of the things that we're talking about platforms, investment in digital, AI, machine learning, cybersecurity, all of the investments we're making there, all the investments we're making on the regulatory front. Those are not easy to replicate. And I think we're a far cry as an industry, especially the larger players, of what we've done from where we just were from a few years ago, to be able to compete both with the traditional players and the non-traditional players.

Robert Sedran – CIBC World Markets – Analyst

Okay. We're just about out of time. Any closing thoughts?

Greg Braca, Group Head, U.S. Retail

No. Thank you for having us here. I think it's a terrific story that we have going in the U.S. And the one thing I would just always circle back to is the fact that there's not one line of business – I talk about this in the U.S. quite often – there's not one line of business we're running in the US that I would say, wow, we're at the natural share or size for a bank of who we are. If I think about the consumer business, small business, C&I, the corporate banking business, we're only starting to get going in the wealth platform that we've built. Every one of these businesses in my view has a lot of upside for the next several years.

Robert Sedran – CIBC World Markets – Analyst

Excellent. We look forward to tracking it. Thanks, Greg. Thanks for your time.

Greg Braca, Group Head, U.S. Retail

Thank you. Thank you for having us.