TD BANK GROUP
Q1 2019 EARNINGS CONFERENCE CALL
FEBRUARY 28, 2019

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PRESENTATION

Gillian Manning – TD – Head of Investor Relations

Thank you, operator. Good afternoon, and welcome to TD Bank Group's first quarter 2019 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 first 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.

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 Q1 2019 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. TD delivered earnings of C$2.9 billion in the first quarter and EPS of C$1.57, in line with the first quarter of last year. Our Retail segments performed very well, delivering continued volume growth, margin expansion, and good underlying credit quality. Our Wholesale business had a tougher quarter with volatile markets and lower levels of client activity resulting in a small loss.

Notwithstanding these developments, our results this quarter reinforce the strength of our model. The bank's retail-focused business mix and North American footprint, coupled with its disciplined risk culture enabled us to deliver stable earnings in a challenging market environment. We also maintained strong balance sheet metrics with our CET1 ratio holding steady at 12%, after absorbing the impact of the Air Canada and Greystone transactions and the repurchase of 4.5 million shares during the quarter.

Reflecting the strong fundamentals and the earnings power of our franchise, we declared a C$0.07 dividend increase today. This brings TD's dividend per share to C$0.74 per quarter, up 10% for a five-year compound annual growth rate of 9.5% and we led the Canadian peer group in total shareholder return for the 12 months ended January 31.

Overall, I'm pleased with the progress we made, advancing the bank's longer-term strategy this quarter, moving forward with purpose as one TD, as we build a better bank for our customers, colleagues and communities in the digital age. We also recorded significant accomplishments in each of TD's businesses.

Canadian Retail had a great quarter with 6% earnings growth, including 8% in Personal and Commercial banking. We delivered good revenue and volume growth across all businesses and products. We are winning new customers and securing more of their business the way we always have: by putting our customers at the center of everything we do and reimagining the way we operate, to meet their evolving needs.

In Personal and Commercial banking, we continue to strengthen our omni-channel distribution strategy, complementing TD's expanded team of frontline advisors and specialists with new digital capabilities. The TD Homeowners' Journey went fully digital this quarter, enabling customers to complete the entire mortgage application process on their phone or tablet, if they wish.

TD Easy Apply platform is contributing to strong growth in digital checking accounts and credit cards, and has now been extended to business-banking customers. And TD Clari, the AI-powered chatbot we added to our top-ranked banking app last month, already has more than 100,000 registered users who love having a personalized, always on, digital assistant in the palm of their hands.

In our Wealth business, TD Direct Investing won top-spot among Canadian banks in the Globe and Mail's annual ranking of online brokers, with its WebBroker platform cited for maintaining an impressive pace of innovation. And the portfolio building and monitoring tools we've developed to help our customers manage their investments are just the beginning. There are more enhancements to come.

This quarter we were also excited to close the Greystone acquisition and see TD's new loyalty program agreement with Air Canada take effect. These premium products and capabilities extend our leadership position in the asset management and credit card spaces and enable us to add even more value for our customers.

Turning to the U.S., the U.S. Retail Bank generated earnings of US$700 million this quarter, up 4% from a year ago or 9% in Canadian dollars, with the benefits of tax reform now largely reflected in the year-over-year comparison, and a continued strong pace of investment. We again delivered peer-leading volume growth and benefited from further margin expansion. We continue to see good opportunities for organic growth in all our businesses. And with the contributions from TD Ameritrade up more than 70% from a year ago, segment earnings reached US$935 million or C$1.2 billion in Canadian dollars, an increase of 21%.

The U.S. Retail business continues to succeed by putting our customers first. In January, we launched the Unexpectedly Human brand campaign, which showcases our uniquely customer-centric approach and commitment to make a positive impact in our local communities. It's a powerful expression of how we do things differently at TD, from the extra conveniences we offer our customers, to the ways we engage with them like TD's improved mobile bill pay tool, which has a best-in-class user interface and more flexible features; our new e-signature capability which enables Retail and Wealth customers to open accounts digitally across multiple products; or the improvements we are making to the bank's distribution networks and platforms.

With these investments, we are making banking faster and simpler for our customers across every channel – part of our promise to deliver a personalized, connected, legendary customer experience.

We had a more difficult quarter in Wholesale, recording a C$17 million loss in a challenging environment. Revenue declined sharply, as volatile markets made trading conditions difficult and kept clients on the sidelines. The lower jumping-off point for revenue will be difficult to recoup over the balance of the year, but TD's strategy remains sound and we are continuing to invest in our client-focused franchise. Over the past year, we've added 50 corporate client relationships and grown drawn corporate loans by 20%, and we continue to win significant new mandates aligned with our enterprise strategy this quarter, acting as jointly on the World Bank's C$1.5 billion Sustainable Development Bond, the largest Sovereign Supranational

Agency bond issued in the Canadian market. Our role in the issuance reinforces the strength of our relationships in the SSA space.

Taking stock of TD's position one quarter into fiscal 2019, market conditions clearly impacted the bank's start to the year. On our Q4 call, we said we thought we could continue to deliver adjusted EPS growth for 2019, inside our 7% to 10% medium-term target range. But we also identified certain factors, including market uncertainty, which, if they intensified, could affect our view. As we look ahead to the balance of the year, subject to the same factors and assuming the improving market conditions we are now seeing are sustained, we believe adjusted EPS growth will be closer to the low end of our medium-term range.

To wrap up, TD's business model is strong. A Retail-focused strategy and lower risk deposit-rich balance sheet continues to prove their resilience and our purposeful investments in people and technology are powering a continued transformation of the banking experience for our customers and colleagues. This quarter, we were honored to be included in the Bloomberg Gender Equality Index for a third consecutive year. The Index recognizes companies for their commitment to transparency in gender reporting and advancing women's equality.

TD was also named one of Canada's top employers for young people by Mediacorp, reflecting the initiatives we've launched to cultivate TD's younger colleagues. Their fresh perspective is helping us shape the bank of the future and we're investing in their development to help them acquire the skills and experience they need to reach their full potential supported by leaders who inspire them.

At TD, we've always said our people are our greatest asset. They bring the bank's unique and inclusive culture to life and by living our shared commitments each day, they are proud ambassadors for the TD brand. I would like to thank them for their hard work, dedication and unrelenting focus on delivering for our customers every day. It's a privilege to work alongside them as we continue our journey to make TD the better bank.

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

Riaz Ahmed – TD – Group Head and CFO

Thank you, Bharat. Good afternoon, everybody. This quarter, the bank reported earnings of $2.4 billion and EPS of $1.27. Adjusted earnings were nearly $3 billion and adjusted EPS was $1.57. Revenue increased 7% reflecting higher margins and volume growth in our Retail businesses, partially offset by lower revenue in Wholesale.

Provisions for credit losses increased to $850 million, primarily reflecting seasonal trends in the U.S. credit card and auto portfolios, with the largest quarter-over-quarter increase being in the Retailer's share of PCLs for the strategic card portfolio which is recorded in the Corporate segment.

Expenses increased to 20% on a reported basis, including charges of $607 million relating to the agreement with Air Canada and $31 million associated to the Greystone acquisition. Adjusted expenses increased 8%, or 5% excluding the impact of foreign currency translation.

Canadian Retail had a very strong quarter. Net income was $1.4 billion, and adjusted for the Air Canada and Greystone charges, net income was $1.9 billion, up 6% year-over-year. Revenue increased 8% reflecting higher volume growth, margin expansion and higher insurance and fee-based banking revenue.

Loans grew 6% and deposits grew 3% reflecting growth in personal and business volumes. Wealth assets increased 6% including the addition of Greystone. Margin was 2.94% flat to the prior quarter, reflecting rising interest rates partially offset by lower loan margins and a 3-basis-point impact from a refinement in treasury allocation methodology.

Total PCL increased to $310 million, reflecting higher performing as well as impaired PCL. Total PCL as an annualized percentage of credit volume was 29 basis points, up 4 basis points quarter-over-quarter. Expenses were $3.1 billion and adjusted for the Air Canada and Greystone charges, expenses were $2.4 billion or up 6%.

U.S. Retail net income was US$935 million, up 25% year-over-year on a reported basis and 16% on an adjusted basis. The U.S. Retail Bank reported earnings rose 5% on strong revenue growth of 6%, partially offset by higher expenses and PCLs.

Average loan volumes increased 3%, reflecting growth in the personal and business customer segments. Deposit growth was 2%, including strong growth in core consumer checking accounts of 6%, partially offset by a small decrease in TD Ameritrade sweep deposits.

Net interest margin was 3.42%, up 9 basis points quarter-over-quarter and 23 basis points year-over-year, primarily due to higher deposit margins.

Total PCL, including only the bank's contractual portion of credit losses in the strategic cards portfolio was US$230 million dollars. PCL impaired increased US$57 million quarter-over-quarter, reflecting higher provisions for the commercial portfolio and seasonal trends in the credit card and auto portfolios. This is partially offset by a decrease in the performing PCL, reflecting migration from performing to impaired in the commercial portfolio. The U.S. Retail net PCL ratio, including only the bank's contractual portion of credit losses in the strategic cards portfolio was 59 basis points, up 9 basis points from last quarter.

Expenses increased 6%, reflecting higher investments in business initiatives, business volume growth and increased employee-related costs partially offset by productivity savings and the elimination of the FDIC deposit insurance surcharge. And the contribution from our investment in TD Ameritrade increased to US$235 million.

Segment ROE increased to 12.6%, up 140 basis points on a reported basis and 60 basis points on an adjusted basis from a year ago.

Net loss for Wholesale was $17 million, reflecting lower revenue and higher non-interest expenses. Revenue decreased 35%, reflecting challenging market conditions. The volatility in rates, equity and credit markets resulted in a difficult trading environment, lower client activity and a meaningful slowdown in debt and equity underwriting, particularly in Canada. Trading margins declined, reflecting yield compression on high-quality assets relative to funding costs.

Non-interest expenses continue to rise reflecting continued investments in our U.S. dollar strategy and the impact of FX translation, partially offset by lower variable compensation accruals. We also had a benefit in the prior period from the revaluation of certain liabilities for post-retirement benefits.

The Corporate segment reported a net loss of $192 million in the quarter, compared to a net loss of $634 million in the same quarter last year. The decrease in reported net loss was primarily attributable to the impact of U.S. tax reform in the same quarter last year.

Our Common Equity Tier 1 ratio was 12% at the end of first quarter, consistent with the fourth quarter of last year. We had strong organic capital generation this quarter, which added 36 basis points to our capital position. This was offset primarily by the impact of the Air Canada and Greystone transactions, as well as the repurchase of common shares and actuarial losses on employee pension plans in the quarter.

Effective this quarter, we increased CET1 capital allocated to business segments to 10% from 9%. Our leverage ratio was 4.1% and our liquidity coverage ratio was 131%.

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.

Credit quality was in line with our expectations for the first quarter. Gross impaired loan formations were 1.7 billion or 26 basis points, up 5 basis points quarter-over-quarter and up 6 basis points year-over-year. The quarter-over-quarter increase in gross impaired loan formations reflects formations in the U.S. commercial portfolio, primarily attributable to an idiosyncratic event in the power and utilities sector, and seasonal trends in the U.S. credit card and auto portfolios, partially offset by lower formations in the Canadian Commercial portfolio. Consistent with recent quarters, there were no new formations in the Wholesale segment.

Gross impaired loans ended the quarter at $3.5 billion or 53 basis points, up 6 basis points quarter-over-quarter, and up 4 basis points year-over-year. The primary contributors to the quarter-over-quarter increase in gross impaired loans were new formations in the U.S. Commercial portfolio and season trends in the U.S. credit card and auto portfolios. The Wholesale segment maintained a zero-impaired loan balance quarter-over-quarter.

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 credit losses recorded in the Corporate segment are fully absorbed by our partners and do not impact the bank's net income. The bank's PCLs for the quarter were $855 million, up 9 basis points quarter-over-quarter, and up five basis points year-over-year. The $180 million quarter-over-quarter PCL increase primarily reflects $127 million in the U.S. credit card and auto portfolios, largely due to typical seasonal trends.

As experienced in previous years, PCLs in the U.S. credit card and auto portfolios generally peak in the first quarter post the holiday shopping season. Balances and delinquencies historically decrease in the second and third quarters as customers catch up with their payments.
Canadian Retail drove the balance of the quarter-over-quarter increase in PCL with contribution from the Canadian credit card, other Personal and Commercial portfolios. Overall, credit losses for the segment remained low.

Of the $180 million PCL increase quarter-over-quarter, $158 million is attributable to impaired PCL, largely reflecting U.S. seasonal trends as already mentioned and provisions in the U.S. Commercial portfolio primarily in the power and utilities sector. The total performing PCL for the bank is stable quarter-over-quarter.

In summary, credit quality remained strong across the bank's portfolios and we remain well-positioned for continued growth.

With that, I will turn the call back to Bharat.

Bharat Masrani – TD – Group President and CEO

Thanks very much, Ajai. Before we open it up for questions, let me ask Bob Dorrance to provide some additional color on our Wholesale results.

Bob Dorrance – TD – Group Head, Wholesale Banking

Okay. Thanks, Bharat.

Obviously, given the loss in the quarter, I thought it would be of benefit to give some context as to what happened in the period. First, I'd like to reiterate what our strategy is.

We are focused on building a client-focused North American dealer with global reach, and we have been investing in this strategy in a meaningful way, particularly in the last couple of years. Our geographic business mix however, remains heavily weighted towards Canada and on the revenue side, our mix is 70% global markets. Our objective is to continue to diversify this mix.

We've been growing our U.S. dollar businesses, investing in people, products and technology. Most of this investment, as I mentioned, has been in recent years. This was obviously a tough quarter, but we have good momentum in our strategy. We are executing on building client relationships and we are growing our U.S. dollar earnings power.

So why was there a loss in the quarter? First, we saw a significant decline in client activity due to increased volatility in credit and equity markets. This was a continuation of a trend that impacted our Canadian business in the second half of 2018. Equity and debt issues were very weak in the quarter, cash trading the same. But it also caused a significant slowdown in U.S. dollar trading and origination flow in this particular period.

From a trading perspective, we did not experience any meaningful losses, but nor did we have any desks that made significant gains. Most of our trading businesses didn't perform as we were expecting. We also had lower revenue from our short-term balance sheet businesses due to margin pressures. There were fewer opportunities in the marketplace to deploy balance sheet profitably.

In addition to falling short on revenues, we also had higher expenses partly due to the investments that we're making in growing our businesses and partly due to the post-retirement benefit item that Bharat mentioned in his remarks, which we had realized in the first quarter last year and identified then.

So how does one contextualize the loss simply? There are a couple of items in our results that I would single out. On the revenue side, approximately half of the revenue decline came from what we would think of one-time items. These include higher TEB in the prior period, as well as income volatility related to accounting for various strategies we have in place to hedge our books and stabilize earnings which would typically all wash out.

On the expense side, we had the post retirement benefit that I mentioned. We also had higher FX impact on our costs. Without these items, expenses would have been flat year-over-year. If you put the items together, we still wouldn't have had a great quarter, but it would not have resulted in a loss.

Looking forward, how does this impact our strategy? We remain committed to executing our strategy despite the disappointing results for the quarter. We have established a top Canadian franchise and we've built a meaningful foundation under the U.S. dollar platform. We are now focused on achieving the expected earnings power from these investments.

We will also continue to review and respond to the ongoing changes that are occurring in our overall business model. The impact of regulatory, competitive, political and economic trends represent both challenges and opportunities. Our focus remains on providing value to our clients, being a great place to work, working with our bank partners and earning an attractive return for our shareholders.

I will now ask the operator to open up for questions.

QUESTION AND ANSWER

Operator

Thank you. The first question is from Sumit Malhotra with Scotia Capital. Please go ahead.

Sumit Malhotra – Scotia Capital – Analyst

Thanks. Good afternoon. This is probably for Bob, maybe for Riaz. Just hearing you talk about the expense items in Wholesale, it seems like you're making a reference to maybe some of the factors that were there a year ago, that pension revaluation, but the absolute level at something like $600 million in the quarter – I would have thought that just given the delta and the revenue, you would have seen more of a offset in terms of how you accrue.

I guess thinking about it on a run-rate basis, are these investments that you've had to undertake in the U.S. more of a fixed cost that we should expect to stay with the bank going forward? And is that absolute level that we see in the business in Q1, that $600 million-or-so Canadian, is that more representative of what expenses look like going forward?

Bob Dorrance – TD – Group Head, Wholesale Banking

Good question. I think it's fair to say that we have made the expenses in people, and that is a permanent increase to the cost base. We would expect that we'll fund some of that investment from productivity and savings that we will get elsewhere and we are very focused on that.

I would say that it's it remains to be determined how much productivity we can get in order to fund that increase in expense.

We did cut back on the accrual, given that we didn't make the revenue. So, we would expect that from a efficiency perspective, that with higher revenues, that we would be generating return on those costs as well. But the cost level that you see in the quarter, you shouldn't look at that as an ongoing run rate, but it's a run rate that, if it's going to be reduced, is probably more likely to come from productivity than it is to come from people.

Riaz Ahmed – TD – Group Head, CFO

And I'll just add to that, Sumit. When the FX rate moves around, that can have an impact of as much as 3% to 5% on this. When you look at $600 million dollars as a run rate, just sort of keep the FX translation in mind as well.

Sumit Malhotra – Scotia Capital – Analyst

Yeah. I think I have that in. I want to give others a chance, so maybe, Riaz, I'll finish with one for you. You've given us something to think about by stating that the 7% to 10% range is still applicable for 2019, although maybe on the lower end of that. You and I have discussed on these calls in the past that there has been some back and forth in the absolute level of expense growth with TD. And I think, again, on a basis we look at not adjusting for FX, it's something like 8% percent this quarter. Is it fair to say that as you get into the second half of the year, it's at that point you're expecting a step down, if I can call it that, in your core expense growth, relative to what we've seen for the last couple of quarters now?

Riaz Ahmed – TD – Group Head, CFO

Yeah. So as I said, I think in the past we've always reiterated, Sumit, that the 7% to 10% medium-term target should be thought in the context of the medium term, and then we sort of give you a perspective on that every once-a-year or every now and then.
But on the expense side, I'll just kind of go back to the translation as well. I mean, you're seeing an 8% expense growth, but as I mentioned in my remarks, FX translation adjusted, the expense growth was 5% which is very much in line with our expectations. But since last year, we had an increasing expense trend by quarter. It'll be reasonable to expect that growth rate would level as we go into Q2 to Q4.

Gabriel Dechaine – National Bank Financial– Analyst

Good afternoon. So clearly, this capital market business is going to be topical, and this quarter looks to be an anomaly. I'm just wondering if – and you've done this in the past, give a sense of what a – kind of a run-rate for earnings is. I know – and this is going back a few years, but is $250 million a quarter is something more attainable and that's going to dovetail into my real question.

Bob Dorrance – TD – Group Head, Wholesale Banking

I think what we've said historically, Gabriel, is that we are focused on earning attractive return on capital and I think we would be confident and continue to say that that's our objective. Whether that happens in any given quarter obviously is very much dependent on market conditions and activities and other factors. So that's not easy to forecast, but I do think that we have the earnings power to continue to produce an attractive ROE over time.

Gabriel Dechaine – National Bank Financial– Analyst

Well the last couple of years we've had a bit over $1 billion of earnings, and that does work out to about over $250 million; I'm just wondering can we at least replicate that performance in the past couple of years?

Bob Dorrance – TD – Group Head, Wholesale Banking

I don't think I add anything by forecasting what the earnings are going to be. That's what our business produced in those two years. The business model has evolved. It's changing. We're investing in other markets. We've lost some of the earnings that might have been in those periods because of changes to tax regimes, et cetera. So, I think a way to look at it is that we can continue to earn attractive return over time and I will not be in the forecasting game.

Gabriel Dechaine – National Bank Financial– Analyst

Well because we do have a guidance number, 7% to 10%, or a target, I should say, for the overall bank, and this is for Riaz as well to pipe up, but, slow start, so I'm not surprised to hear you say you might be at the lower end of the range, but that's still a pretty heavy growth number we've got to average over the next three quarters to get to that 7%, but my math is 10% or 11%. If capital markets just does what it normally does, then the other businesses have to step up, is that what you have in mind as well or how do you see getting there?

Riaz Ahmed – TD – Group Head and CFO

I think Gabriel we do expect that as the capital markets environment improves and that there will be a steady improvement in the businesses. And I think mathematically you're correct that when you look at a 7% to 10% growth rate with the first quarter as it is, to be at the low end of 7% would suggest about a 10% growth rate for the next three quarters.

So, as Bob was indicating, I think without giving you a sense for, or without getting into forecasting segment by segment, we remain that we're – that we can affirm within our medium-term target range and feel confident that we can achieve it.

Bharat Masrani – TD – Group President and CEO

Just to add to that, in my comments I did say that we are seeing some improvement in market conditions, and if they are sustained, that's why we are feeling that we can get within the range that we've outlined. I think it's important to keep that in mind. I mean obviously, if market conditions change dramatically, then we'll have to rethink the number.

But let's not forget that notwithstanding a small loss in Wholesale, the bank EPS is still just under 1% up year-over-year. That tells you the earnings power of our overall franchise, the diversification we have, the mix of businesses we have, and the geographic diversification as well. So that's the best way to look at how we are feeling for the rest of the year.

Rob Sedran – CIBC World Markets – Analyst

Hello, good afternoon. I'd like to switch course a little bit and get to the U.S. business. Greg, the fee income this quarter was a touch weaker sequentially and I guess year-over-year, and there's some explanation for it in the MD&A. So, I wonder if you could provide a little more color on that, but more importantly, do you expect some of that to be recaptured in coming quarters?

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

Yeah Robert, so thanks for the question. You did correctly call out, we did make note, and on a year-over-year basis, non-interest income was down. And I just want to just highlight a couple of the main drivers to why it was down year-over-year. First and foremost, I'd talk about – might be a little less familiar to folks up here – but the Low-Income Housing Tax Credit (LIHTC) program that the bank has been involved with for a number of years; it supports our real estate development projects, it supports our Community Reinvestment Act, and most banks provide tax credits to projects that are under development, specifically in low- to moderate-income – or areas that are being developed in given geographies. And we make those tax credit investments, and what you saw in the last quarter was just a spike in the normal depreciation or value of those tax credits that we get equity in, when we make those investments.

So, the formula becomes a little complicated, but it does get run through the non-interest income line and that was a big driver. The second big driver in year-over-year would have been a reduction in our wealth fee income, and the big driver of that would have been that we continue to see the migration in the markets from a strategy of active to passive and you would have seen under the assets under management line, a decline year-over-year in AUM in the U.S. wealth business.

Notwithstanding the institutional assets under management, we're still very comfortable and confident in all of our activities as we, on a de novo basis, build out our private banking and client business under that wealth franchise. But if you add those two pieces back alone, you get back into positive year-over-year noninterest income and in general, what I would say is, we saw reasonable fee income growth in our core businesses, in Commercial and Retail. And in a few businesses, I'd say we saw a little bit softer fee income through the end of the year. But that's how I'd give you, at least the big meaty part of that.

Rob Sedran – CIBC World Markets – Analyst

So abnormal and it should start to come back to more normal levels of growth?

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

I guess I'd say particularly from the low-income housing tax credit piece, we do believe that should normalize in subsequent quarters.

Rob Sedran – CIBC World Markets – Analyst

Okay. And just, I guess, on a related note, there's big bank mergers in the U.S. and some partly in your footprint, and I guess that creates a short-term opportunity and you could argue, a longer-term threat. I'm wondering, I don't know if this is for you, Greg, or for Bharat perhaps, but just talking about how you think about scale in a North American context and whether it is in fact a longer-term threat as the market consolidates around you a little bit?

Bharat Masrani – TD – Group President and CEO

Yeah, so this is Bharat. I mean, of course, anything happening in any part of our footprint, we look at it very seriously. I think this particular deal that you're talking about, there was good rationale, the scale is important in our business, given the investments required, et cetera. We feel pretty good, like you said, of course, there's always opportunities when there is major consolidation going on, but over the long-term, we feel good because some of our scale advantages are North American in nature.

In my remarks, I talked about some of the platform builds that we have, which are more North American in scale. From a competitive position, we feel pretty good that we are able to take advantage of our Canadian and U.S. combined scale, which puts us at par with any major institution in North America. So that's one way to look at it, but anyway, we will be watching this for the next couple of years by the time it fully integrates, gets approvals; in the meantime, the market will provide more opportunities. That's how we're looking at it.

Darko Mihelic – RBC Capital Markets – Analyst

Hi. Thank you. Good afternoon. I just wanted to clarify some of the commentary that Bob was giving us. With respect to half of the decline in the revenues, it was a result of two things: one was TEB and the other was an accounting anomaly.

So, first of all, I think you were looking at year-over-year, is that how you're describing this decline?

Bob Dorrance – TD – Group Head, Wholesale Banking

Yes, that's right.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. So, I can track about $84 million on the TEB which means a big chunk of it is accounting. Can you maybe touch on what the accounting anomaly is? And I guess more to the point, is there something that could reverse this accounting anomaly going forward and what should we be keying in on, or some sort of market metric that we can look at that might help us understand what would reverse this accounting anomaly?

Riaz Ahmed – TD – Group Head and CFO

Yeah, I think I'll take that, Darko. I think I'd characterize these things as anomalies and because there are a number of different strategies that we utilize to, among other things, manage our trading positions, capital et cetera, which, sometimes, one side of that transaction can end up in P&L and another side of the transaction can end up in OCI.

We talked about the trading deposits mark-to-market in the third quarter, which you know we've changed the accounting for, and prospectively that should reduce an impact, but that started prospectively in November 1 so, about a quarter of the book now is fair value to P&L with own credit being in OCI.

And we also would have this risk capital type of hedging transactions which are not perfect hedges, where one part of the index may move one way in relation to the underlying and in this particular quarter, with the kind of dislocation we saw, those kinds of things which typically wash themselves out, big picture, they all moved one way negative. So, I don't think that they're kind of accounting items in the way of saying that they were created by accounting things, but the mark-to-market regime, as you know, has a number of anomalies and those particular anomalies this quarter were more atypical than you would see in a more typical quarter.

Darko Mihelic – RBC Capital Markets – Analyst

And so, just a follow-up is, have any of these anomalies already started to reverse?

Riaz Ahmed – TD – Group Head and CFO

Well, I don't think that I want to get into Q2 on our Q1 call, but because of the very nature of them, it's not easily forecastable. So, they're just subject to usual market risk trading uncertainties and in this particular quarter they just went all against us.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. And then just last question, just going back to the expense side of Wholesale business. I think I understood your answer, Bob, but I guess the other question, the add-on question to that is, I think in your opening remarks, you had mentioned that you want to continue to build out the business. So, is there more hiring, more people to come, and shouldn't we expect, therefore, the expense item, the expense line to actually grow over time or maybe how can you contextualize that for me?

Bob Dorrance – TD – Group Head, Wholesale Banking

Yes. Thanks, Darko. I would say that where we are right now, in this phase of our growth, that we have seen significant adds in the last two years, and we're now into incremental additions where it makes sense to round out a business. So, I would say the pace of additions for a period of time is definitely going to slow.

We're also looking at how we fund those adds in businesses where we don't see the growth that we have. So, I was thinking after Sumit's question, I mean, I think the way to look at it in some ways is that I wouldn't take $600 million as a permanent number. If the revenue doesn't grow as we expect, it certainly won't be a permanent number, but we do expect that we will grow revenue in order to support the level of investment that we've made.

Meny Grauman – Cormark Securities – Analyst

Hi, good afternoon. Just following up with Bob, understanding that you're repositioning the business, but did you make or are you considering making any material changes to the business as a result of this quarter's results? And I'm thinking about specifically either personnel or given what you were talking about to Darko's question, specific trading strategies that you're discontinuing?

Bob Dorrance – TD – Group Head, Wholesale Banking

I don't see us discontinuing anything, Meny. I think we continuously look at how best to allocate balance sheet, for example, and to the extent that some of the balance sheet strategies in businesses that we've been in, don't return the requirements that we have, we're looking to grow other businesses.

So, I think you should see ongoing growth in Prime Services, for example. As to where we will deploy balance sheet, and will we be taking it from somewhere else, we continuously monitor the profitability of the businesses and I think the real determination is assessing what is cyclical and what is secular, and clearly there are both trends underway and we're managing that out. But I think the objective is to manage it out on a continuous basis as opposed to reacting in any way to any business that we have and suggesting that's it's a non-permanent business.

Riaz Ahmed – TD – Group Head and CFO

I think, Meny, I'd add to that. It's Riaz. In Bob's remarks he did point out that throughout the quarter, you don't see any particular large loss days or any particular trading strategies that created outsized losses. To your point about strategies and changes in strategies, I think it's important to keep in mind that there were not any of those kinds of indicators.

Meny Grauman – Cormark Securities – Analyst

That's helpful. And then you note that the CET1 capital allocated to business has increased to 10% from 9% and just wondering why you made that change and what the implications of that change are?

Riaz Ahmed – TD – Group Head and CFO

I think, really, Meny, it was kind of an update that we do from year-to-year, to have a look at our capital, including some of the regulatory capital that is relevant to the business and our own risk assessments and we felt that 10% was now a better indicator in aggregate.

So, fundamentally, it really doesn't change anything from the aggregate TD Bank point of view because we still have 12% CET1 capital. It just means that more of that capital is being allocated to the segments and less is being held as excess capital in the Corporate segment.

Sohrab Movahedi – BMO Capital Markets – Analyst

Just a couple of quickies. Bob, you mentioned, I think the mix of the business is about 70% global markets. As you build out, is that mix going to stay about 70% global markets, or do you think that mix is going to change a little bit?

Bob Dorrance – TD – Group Head, Wholesale Banking

I think it will change. That is definitely part of what we're attempting to accomplish in terms of investing in the Corporate space in the United States in particular. We're also investing though, in the product parts, because we need product partners to – the businesses work together to create the revenue. So, I don't think it'll change rapidly, but it will change, it will migrate to be less global markets. When global markets continue to grow, one would expect that Corporate investment banking will grow more rapidly.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. And then just as far as the revenue outlook, let's say, more immediately for your business, Bob, as opposed to kind of longer term, how much of that is what I'll refer to within your control versus just needing the markets to kind of rebound, so you revalue the marks on the inventory; is that the right way to think about it? How much of it is in your control as opposed to outside of your control?

Bob Dorrance – TD – Group Head, Wholesale Banking

I don't think I really have the answer to that question, Sohrab, it's a complicated business as you know to forecast, because it's very much driven by what activity levels, and activity levels are driven by markets and how markets are performing and not performing.

And I think the real challenge is, notwithstanding what markets are doing, is having strategies such that you can add value to clients, so that they want to reward you with business. And that really is the underlying driver of earnings power. The rest of it is harder to forecast.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay, if I can just sneak one in for Teri, she's been awfully quiet on this call; Teri, the revenue growth, quite nice, and I'll think of it as the Canadian P&C proper, obviously year-over-year nice spread or NIM expansion, maybe just a little bit around the outlook for NIM, maybe revenue growth in your segment, or in the P&C segment specifically, and the likelihood of operating leverage being positive again this year?

Teri Currie – TD – Group Head, Canadian Personal Banking

Sure. Thank you. So, definitely pleased with the growth and the revenue performance in the first quarter for the Canadian Retail business, as you mentioned. I would say, from a NIM perspective, also pleased that notwithstanding receiving the gift of the allocation from Treasury as the allocation methodology was refined, those margins held up for Canadian Retail.

As we think about NIM, for the balance of the year, for the full-year of 2019, we do expect higher NIM than for full-year 2018. We obviously, in the earlier part of 2019 are experiencing a tailwind from the rate increases that happened in 2018. If there were not to be additional rate increases throughout the year, we could see some compression in the fourth quarter. So, from a NIM perspective, TD Economics is still projecting one more interest rate increase this year, but I would say we're positive for the full year-over-year. We could see some compression at the back end.

As it relates to expenses, it is worth noting that Q2 expenses in 2018 were just on an absolute level very low. From an expense growth perspective in Q2, we would expect to see higher growth. When we look at the full year, very comfortable that we're managing prudently and investing opportunistically, and we are still targeting positive operating leverage for the full year. That's inclusive of the investments we have noted that we need to make for our Air Canada partnership that we're very pleased with, and inclusive of the fact that we may not see interest rate increases this year.

Scott Chan – Canaccord Genuity – Analyst

Hi. Good afternoon. Thanks. Perhaps I could kind of ask the same question, just on the U.S. Retail side. Just in terms of the margin, the margin was up nice sequentially, up very nicely in fiscal 2018, and perhaps just maybe some of the items in the quarter and just the outlook for 2019 on the margin front.

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

Scott, thank you. So, you are correct. We were up 9 basis points quarter-over-quarter and much of that is because of simply higher rates and the way we would describe is our on/off investment book of what we're investing those deposits in, whether in loans or in securities versus what's rolling off. And as we've always said from quarter to quarter, this number could bump around, but in 2018, we generally said with the rising rate environment and four rate hikes, we would generally continue to see higher rates and year-over-year, that's certainly what you saw.

With the Fed now on pause, I would normally say that rates, all things being equal, will be certainly more flattish than you saw in 2018, and it'll depend on a whole series of things that play into this. It gets very complicated, the mix of the business; the growth of deposits versus loans; and where is the long end of the rate curve and how that plays into it. So, we would certainly expect where we are now, given the recent Fed guidance, that you'll see far more muted growth in the NIM story for 2019.

Scott Chan – Canaccord Genuity – Analyst

Okay, great. And just on U.S. Wealth, we talked about AUM declining and when I kind of look at the ending balances, down $19 billion year-over-year, I think it was $46 billion it closed at, and if I look at the U.S. equity markets, it was down modestly in the fiscal year. And I think in the remarks you talked about something on a strategy on U.S. money markets, but I just want perhaps a bit more clarification on the large variance that we're seeing, ex the market.

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

Sure. And just to be very clear, Scott, I think your question is on a full year, year-over-year basis?

Scott Chan – Canaccord Genuity – Analyst

Year-over-year, yeah because every quarter seems to be going down, especially the last two. So, maybe it's the same kind of theme, but I'm just kind of curious on the year-over-year.

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

Yeah, so, for much of the year, what I would say, Scott, is that what you saw was the migration of assets from the active strategy that's been in the U.S. to passive strategies that are less fee income. And that dynamic in the institutional markets continues to play out for many money managers, not just us, that have seen that.

What you did see in the last quarter though, was the choice for TD to exit a complex of money market funds in the U.S. That's a scale business, low-margin business. And if you look at AUM, the biggest driver quarter-over-quarter was the exit of money market funds. But certainly, the combination and primarily, the assets leaving from the active to passive strategy is the primary reduction on the fee side.

Doug Young – Desjardins Capital Markets – Analyst

Yes. Good afternoon. Just on – back to Teri, I think in the shareholder report it was mentioned that part of the increase in PCLs in Canadian Retail was related to just the personal lending portfolio on the impaired side. And given your touch into the Canadian consumer, just hoping to get a bit of an update as to what you're seeing. Are you starting to see any cracks in any particular segment? Just hoping to get an update on that.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yeah. It's Ajai. I'll take that question. So, I would say credit quality in Canada is strong. If you look at our overall PCL rate, there is a bit of an uptick, but we're very much in the range we've been over the last five years, which is 25 to 30 basis points.

The uptick we saw, a bit of it is coming from other personal and that's some seasoning of our portfolio. There's a bit coming from cards and that's higher utilization, some migration; and then a bit from commercial again, some migration occurring there. But again, I think the message is the quality is pretty strong.

I do, however, recognize that we're late in the cycle so we need to monitor developments, but the quality is strong here.

Doug Young – Desjardins Capital Markets – Analyst

So nothing abnormal? It doesn't sound like.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

No.

Doug Young – Desjardins Capital Markets – Analyst

And then, the seasonality in the U.S. strategic card portfolio, and I do get the full fact that it's seasonal, but was the seasonality as you expected or was there an abnormal increase this time around? It just looked like the PCL build year-over-year was quite significant, but maybe that's normal. Just wondered if there's anything abnormal in there.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yeah, so good question. I would say, most of the increase in the U.S. PCL came from cards and auto, and it is seasonality. So almost 60% to 70% would be seasonality, but there are mix and seasoning changes occurring, particularly in the strategic cards portfolio. I think that contributed to some of the increase as well. But what you got to keep in mind, especially with relating to strategic cards, is that our economic interest in those portfolios is actually quite low.

Doug Young – Desjardins Capital Markets – Analyst

When you say mix change within the strategic card portfolio, there's a mix change within the portfolio?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

That's right. Think about like these are store cards, and so the customers coming to those stores, the mix of those are changing. So, you could have more discount shoppers, for example. You have more coming in through an online channel and the risk profile of those customers could be a little different. So because of that you're seeing a higher loss rate.

Doug Young – Desjardins Capital Markets – Analyst

But you're saying because your economic interest is relatively low, that's not having as big an impact on you, but it does have an impact on the corporate PCL which is what we see?

Doug Young– Desjardins Capital Markets – Analyst

Exactly.

Bharat Masrani – TD – Group President and CEO

Thank you, operator, and thank you, everyone, for joining us this afternoon.

I know Bob had a lot of questions, I thought I should comment on that. We, at TD Securities, obviously had a rough quarter in Q1, but we have the strategy we have committed to, we believe in this strategy, and you should see us continuing to build out the dealer as outlined by Bob, with the right investments. And so, it is a core part of TD and we are happy that we are not going to change and make any dramatic shifts because of one quarterly event. In fact, our business for many, many years, given the type of business we've been doing, with the risk appetite we have set, has been consistent, and has delivered what you would expect from the dealer at TD.

So, once again, thank you for joining and I would like to take this opportunity to thank our 85,000 TD bankers around the world for once again delivering for all of our stakeholders, including our shareholders.

Thank you and see you in 90 days.