TD BANK GROUP
CIBC EASTERN INSTITUTIONAL INVESTOR CONFERENCE
SEPTEMBER 18, 2013

DISCLAIMER

THE INFORMATION CONTAINED IN THIS TRANSCRIPT IS A TEXTUAL REPRESENTATION OF THE TORONTO-DOMINION BANK'S ("TD") PRESENTATION AT THE CIBC EASTERN INSTITUTIONAL INVESTOR CONFERENCE AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALL. IN NO WAY DOES TD ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON TD'S WEB SITE OR IN THIS TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE WEBCAST (AVAILABLE AT TD.COM/INVESTOR) ITSELF AND TD'S REGULATORY FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

FORWARD-LOOKING INFORMATION

From time to time, the Bank makes written and/or oral forward-looking statements, including in this document, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission, and in other communications. In addition, representatives of the Bank may make forward-looking statements orally to analysts, investors, the media and others. All such statements are made pursuant to the "safe harbour" provisions of, and are intended to be forward-looking statements under, applicable Canadian and U.S. securities legislation, including the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements made in this document, the Management's Discussion and Analysis in the Bank's 2012 Annual Report ("2012 MD&A") under the headings "Economic Summary and Outlook", for each business segment "Business Outlook and Focus for 2013" and in other statements regarding the Bank's objectives and priorities for 2013 and beyond and strategies to achieve them, and the Bank's anticipated financial performance. Forward-looking statements are typically identified by words such as "will", "should", "believe", "expect", "anticipate", "intend", "estimate", "plan", "may", and "could".

By their very nature, these forward-looking statements require the Bank to make assumptions and are subject to inherent risks and uncertainties, general and specific. Especially in light of the uncertainty related to the physical, financial, economic, political, and regulatory environments, such risks and uncertainties – many of which are beyond the Bank's control and the effects of which can be difficult to predict – may cause actual results to differ materially from the expectations expressed in the forward-looking statements. Risk factors that could cause such differences include: credit, market (including equity, commodity, foreign exchange, and interest rate), liquidity, operational (including technology), reputational, insurance, strategic, regulatory, legal, environmental, capital adequacy, and other risks. Examples of such risk factors include the impact of recent U.S. legislative developments, as discussed under "Significant Events in 2012" in the "Financial Results Overview" section of the 2012 MD&A; changes to and new interpretations of capital and liquidity guidelines and reporting instructions; changes to the Bank's credit ratings; changes in interest rates; increased funding costs for credit due to market illiquidity and competition for funding; the occurrence of natural and unnatural catastrophic events and claims resulting from such events; the failure of third parties to comply with their obligations to the Bank or its affiliates relating to the care and control of information; disruptions in or attacks (including cyber attacks) on the Bank's information technology, internet, network access or other voice or data communications systems or services; and the overall difficult litigation environment, including in the United States. We caution that the preceding list is not exhaustive of all possible risk factors and other factors could also adversely affect the Bank's results. For more detailed information, please see the "Risk Factors and Management" section of the 2012 MD&A, as may be updated in subsequently filed quarterly reports to shareholders and news releases (as applicable) related the transactions discussed under the heading "Significant Events" in the relevant MD&A, which applicable releases may be found on td.com. All such factors should be considered carefully, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements, when making decisions with respect to the Bank and we caution readers not to place undue reliance on the Bank's forward-looking statements.

Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2012 MD&A under the headings "Economic Summary and Outlook", and for each business segment, "Business Outlook and Focus for 2013", each as updated in subsequently filed quarterly reports to shareholders.

Any forward-looking statements contained in this document represent the views of management only as of the date hereof 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 as at and for the periods ended on the dates presented, and may not be appropriate for other purposes. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf, except as required under applicable securities legislation.

PARTICIPANTS

Tim Hockey
TD Bank Group – Group Head, Canadian Banking, Auto Finance & Wealth Management

Rob Sedran
CIBC World Markets – Analyst

FIRESIDE CHAT

Rob Sedran – CIBC World Markets – Analyst

Welcome back, everybody. Tim Hockey is the Group Head of Canadian Banking, Auto Finance & Wealth Management at TD Bank. That list is around 60% of the earnings mix – give or take a few percent. Canadian banking is also a part of the Bank that is allegedly slowing, though it would be tough to find too much evidence of that in the recent results. Tim has spent 30 years at TD working in mutual funds, retail distribution, IT, core and small business, credit cards, personal lending – a little bit of everything. So, welcome back to the conference, Tim.

Before we begin, I have been asked to remind you that Tim may make forward-looking statements that represent management's views as of today, and these statements are meant to assist listeners in understanding TD's financial position, objectives, priorities, and anticipated financial performance and may not be appropriate for other purposes. Actual results could differ materially from what is discussed and listeners should consult TD's regulatory filings for the risk factors underlying these statements, which are available on TD's website and filed with securities regulators in Canada and the U.S.

That's the part I normally ignore on the conference calls by the way.

So, with that, again, welcome back to Montreal, and I'll give it to Tim to make some opening comments if you'd like.

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

Great. Thanks, Rob. Happy to be here again.

As you've mentioned, we've just come off a strong third quarter, and maybe even more important to me than perhaps to you on that that we are able to announce that we just want our eighth in a row, J.D. Power Award for the Best Customer Service of the big banks, and that's something we hold very dear. And so, our team is feeling good. We're feeling like the market has a fairly decent level of momentum. Of course, we were able to announce earlier this week our deal with Aeroplan in CIBC. So, we're quite happy about that. It's the culmination of a long growth plan in our credit card business. So we're feeling quite good and I'm happy to answer whatever questions you've got.

Rob Sedran – CIBC World Markets – Analyst

Great. And if there is any questions from the audience, please feel free to throw your hand up by, I'll repeat the question for those on the webcast, but please do feel free to interrupt at any time.

Why don't we start with the credit card issue, because it's obviously been highly topical for months now. In terms of the growth of the business, is there any downside at all in terms of the credit profile or through

the cycle profitability or when you think of the risk profile of the credit card business and how it fits in with TD Bank, how should we think about it in terms of now being the largest credit card bank?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

This has been a 10-year, well, actually 13-year journey for us and while we talked about this many times over the years, if you go all the way back to when TD bought Canada Trust, of course, we were the smallest of the credit card players in Canada. It was largely a result of having to be forced to sell off the Canada Trust portfolio at that time. If you remember Visa / MasterCard wasn't allowed to be issued by the same bank. So, the journey forward, and many times when we look at this strategically was to say, do we like credit card space not just in Canada, but, in our case, in North America? And we very much like the credit card business. So we spent many years growing organically in Canada, and in the last few years, a few opportunities to grow not just with the purchase of MBNA, which is a great acquisition for us, but also the acquisition of the Target business. And now, of course, I think the sort of 'capper' if you will for the Canadian aspirations is the Aimia / Aeroplan deal. We continue to think we have great growth opportunities in the United States, obviously less so in Canada.

When we stress the credit card portfolio through the cycle – and look at the returns you get, again, through the cycle – we're very comfortable with the profile and it matches up well for our aspirations. If you look at our opportunity in the U.S., we think it's just enormous, not just because of our retail presence, but because of the rebound in the card market and our position to be able to grow there.

Rob Sedran – CIBC World Markets – Analyst

I want to get to the U.S., but I'm going to stick with Canada for a second. We've got the state of the Canadian household balance sheet, and clearly we hear a lot about consumer leverage. Is the Aerogold or the Aeroplan program – excuse me, the Aeroplan program – I guess it's a different type of program in so far as people paying down balances and carrying fewer balances. Is the benefit really just one of the charge volume, than it is on the NII that will be earned off of this, and so it becomes almost, say, less cyclical or less interest-rate dependent?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

In fact, we would have assumed that these were high earning, high spend cards, but in fact, the profile is that there is quite a group that carries nice high balances and yet the risk profile is quite attractive. So, you almost get the best of the both worlds. It's not 100% correlation across the entire card portfolio, but we were pleasantly surprised at the balance and the revolver traffic, not just the spend.

Rob Sedran – CIBC World Markets – Analyst

Is it still a growth business, though? Notwithstanding whether you can grow it, for the industry more generally, why would someone carry a credit card balance when you might have a line of credit alternative or a cheaper credit alternative? We actually are seeing, generally, those balances in decline in many parts of the industry. So, is it the specific offering you have that makes it a growth vehicle for you, or do you think you can outgrow the market by that much?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

We look it as 20 years ago when the Aeroplan program was first launched, it was, like in all countries, having the points and loyalty program with the national air carrier is always the cachet business in credit cards, and that's also true in Canada. 20 years have gone by and there have been a lot of points

programs come to the marketplace, and all the banks have come up with – as have we – alternates to that particular program.

Our First Class travel program is a great program and it grows well, and it has an ability – and we'll continue to sell it – to allow for travel beyond just Air Canada. But there's a certain cachet that always comes with having the relationship with the national air carrier. And over those 20 years, Aeroplan holders have been very loyal to that point accumulation program, and that spend, and so that's why the actual deal was hotly contested and why we're thrilled to win it and why Aeroplan or Aimia has just launched their Aeroplan 2.0 refresh because that team would be the first to admit that the actual offering itself, in light of all the competitive offerings, has gone a little stale.

So, they have actually upped the spend in the investment in that program, they say we want to still be relevant and still be the number one points program in Canada.

Rob Sedran – CIBC World Markets – Analyst

It's interesting you mentioned the existing card that you had in the travel space and that it was because from all I could see it was very competitive in terms of the offering that it had. Why wasn't it larger, it was a just a question of the difficulty of growing organically in a credit card book?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

Yeah, I think it was growing well. It was relatively small. It was only launched a few years ago, but again why wasn't it larger? Well, it was competing in a crowded space with other non-Aeroplan programs and so when we did this deal, we looked very much at, what would be the business case for growing organically with our existing travel suite? And then we said, what's the opportunity to get those very loyal, deeply passionate Aeroplan holders?

I'm going to give you a quick anecdote. I was at the gym this morning. I was talking to a friend who, he said, okay, I read all this stuff in the paper about my Aeroplan Gold card. I don't know if I'm staying with CIBC or going with you. He says, but just tell me. And his point was, I will either stay or I will go with TD, but I'm going to stay with the Aeroplan program.

Rob Sedran – CIBC World Markets – Analyst

Okay.

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

So, he is a very loyal user and accumulator of those points, and so he just wants to know which is my new card bank.

Rob Sedran – CIBC World Markets – Analyst

And then you mentioned the opportunity in the U.S., without having a national carrier that you're linked to, without having the same cachet. I mean what will drive the credit card growth in the U.S. beyond just being underpenetrated in the branch network?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

Well, that, first of all is a huge opportunity for us, because literally our sales in our per store basis versus Canada is quite small. I think we're up to maybe five, six cards per store per month versus the 40 to 50 we do in Canada. So, enormous organic penetration opportunity, it's not going to get to those levels, but it will get close over the new few years. So that's some big upside, but we also have a few other platforms. We have this glut almost of low cost deposits, which are a great funding source. And the Target deal in particular, that particular partnership with retail, the structure with a retailer, the structure and target is the cachet retailer to have that relationship with. That really set us as a very credible partner for those types of private label or the co-brand type relationships in the United States. So we're talking to many other retailers now to grow in that huge marketplace. So we really have those two, both the bank card as they call it opportunity for growth as well as the strategic partners – partnerships with retailers.

Rob Sedran – CIBC World Markets – Analyst

Again if there's any questions from the crowd, please feel free to throw your hand up.

I want to ask a bit of a thematic question around this topic, because I find it interesting that the Bank has separated out credit cards almost as an individual line with an individual, directly reporting to the CEO or to the President on it. The Bank has historically had a customer focus to it rather than a product line focus to it and banks that have had more of a product line focus have not been as successful in getting the cross-sell which has been sort of the Holy Grail in the TD strategy. So, should shareholders be concerned that there seems to be a little bit of migration towards a product focus rather than the customer focus or is my reading too much into this?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

I think you're reading too much into it because in fact, the way we are organized internally is we have – I hope is the best of both worlds – we have a very, very strong customer-focused culture and yet organizationally inside the Bank, we have EVPs and Senior Vice Presidents of product monolines. And what that gives you is that what I call the discipline of the monocline inside the institution to grow their business, get their market share and yet, we all share this ethos of customer service that is just in our bones.

What you often find, sometimes, especially with relatively small community banks, back when we brought Commerce Bank a number of years ago. They were very customer-oriented as a U.S. regional player, but they didn't have that discipline of monoline. So, they didn't actually know in many cases how much their products made or lost in any given year, but they were very strong on the customer side.

We have, I think, the best of both worlds. We have that discipline of monolines plus we have this very strong customer orientation. So, your point about splitting out the credit card business from the rest of the retail bank, which is I think the point you're making, that's really just load balancing of effort if you will. Riaz Ahmed, who runs that business now has Michael Rhodes, who is a fantastic card executive, world-class. Because that's a North American business and because Riaz was our Head of Strategy and Corporate Development, was very involved in many of the deals that we have done over the last little while – MBNA, Target, et cetera.

So, the growth platform for our card business in the past, he has been very much involved in. So, as you said, 60% of the earnings are currently in my bucket, which is the great opportunity for fantastic executive in Riaz to really grow that business on North American basis.

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

The question was, what's the current view on Canadian housing.

Current view is that, as we often hear from our Finance Minister and others, all of us as an industry as well as our regulators are keeping it under a close watch. We're actually quite comfortable that it continues to moderate.

If you ask me how I am feeling about the chance of a crash, our view would be that there's still a bit of overvaluation in home prices, but nationally, that feels like it sub-10 now versus what was 15% plus before, and our belief that there will be any form of hard landing is actually diminishing, because the industry and the government, in particular, has been able to show that when we see signs of that, we'll implement additional steps that we'll put a dampening on.

We're actually feeling quite good, and corollary to that, of course, is all right, so what do you think growth is going to be in that market if it doesn't crash and it does feel like around the levels we're at, is where we will moderate. 20 to 25 year history in growth in mortgages, we'd say it bottoms out at around 2% to 3% level, and we're slightly over that. So, it feels like we'll be slightly over that as an industry in the next little while and we certainly hope and plan to gain share.

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

[Question from audience inaudible] Good luck rephrasing that.

Rob Sedran – CIBC World Markets – Analyst

I'm going to try in a couple of words because it's a great question. It's something that we always worry about, I guess, which is the regulatory environment. Even insofar as not just the rules, but getting specifically down into pricing and whether they're going to be a little bit more hands on when it comes to the kind of margins and spreads you can make. Does that come close?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

We've had every signal, so far, from the government that they would like not to intervene on the pricing side, they much prefer to have good regulation on safety and soundness of the banks and let there be a competitive market. And so are we concerned? No more so than we ever would have been in history, I guess, as opposed to – and frankly I think this government also recognizes that when there have been price interventions, so let's give you an example. Australia is often pointed to in terms of the intervention by government into interchange and yet it's largely been recognized as a failure and now fixes need to be put in place because you have the unintended consequences of that intervention.

I think this government is playing it very smart in terms of making sure that we are very well regulated that we operate, have lots of conversations about the 'what's best for the future of our country' and that very, very seldom would include any form of price regulation.

Rob Sedran – CIBC World Markets – Analyst

It is a bit of a peculiar country that can have banks getting yelled at after rates being too low, look like there were mortgages …

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

That was an interesting time.

Rob Sedran – CIBC World Markets – Analyst

But, I guess, to the regulatory aspect of it, when you see, and I guess, I don't know how much of this is just in response to having seen the mortgage rates rise as there's lot of rate guarantees, we have seen a bit of volume surge during summer time that probably caught some people off guard. When you see that kind spike, should we be nervous that there is yet more regulatory change that maybe they changed the amortization period on non-insured loans as they continue to try to slow a market that may already be slowing? Is there a risk that they go too far, and from the chatter, do you think, that's something else might be coming?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

There's always been a risk that would go too far. And I guess, the question about the state of the housing prices. For me and for the industry, this goes back four or five years when we first started having conversations about do we believe that Canada could fall victim to the same fate as other countries that went through a housing crash. And so, the great thing about what happened is there were a series of steps, almost annually, that were put in place by either our regulator or our finance minister that help take the pot of the boil.

There are a series of other things that could be implemented. So, as an industry, I am sure every bank has taken a look at. Okay, if you change certain features either individually or as an industry, so for example, take non-high ratio mortgages, conventional mortgages, down to 25-year amortizations, the industry is currently at 30. That would have an impact on the amount of originations. So, have we done this as an industry yet? No.

The Finance Minister has other options at his disposal that he could implement and he is keeping a very good watching brief on trying to find the right balance. So, frankly, I give our regulator and our government kudos for having found exactly the right levels and they have lots of conversations with us as an industry about what would do just enough because, to your point, too much could well tip the economy over, which nobody wants either. So housing market is an important part of the growth of our economy.

Rob Sedran – CIBC World Markets – Analyst

When we think about volume growth generally in the Canadian side, I guess, more loan growth generally in the Canadian side, you mentioned hoping to gain share. But there are some other banks that have been putting up some pretty strong asset growth and TD has been not the leader at least in the last couple of quarters or last few quarters. Is it question of the risk profile with the margin alone is not there, is it a question of the B20 regulations having had an impact? Like what's been the driver and where do you see yourself shaking out versus the industry in the next little while?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

In terms of relative growth?

Rob Sedran – CIBC World Markets – Analyst

Yeah.

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

Well, our belief is and we like to say we continue to make good loans in bad times. And the point is that we like to make sure that when the market is at its frothiest, we don't go all the way out the curve. That's actually in some cases happening to us now, we would find in some commercial deals. We look at either the rate or the terms and we say we're actually not comfortable going there and so we're pulling back a little bit and that's why our loss rates in our commercial book are well below the industry average and have been for many, many years.

Having said that, that is a business that continues to grow at into the teens in terms of year-over-year. We think that will moderate over the next little while. As I said, our belief on the mortgage book is that we'll continue to be in the low singles probably for next year and some more signs of life, as you said, it took us all a bit by surprise in the summer, so that might rebound.

Our credit card book, notwithstanding the acquisition of the backbook and on the Aeroplan deal, had bottomed out in terms of growth in Q2 anyway, because if you remember, we said that we would run off much of MBNA book because we didn't like to risk profile. So, that's now starting to rebound. We're winning small deals on that front that will continue to grow.

Consumer lending – other categories like Auto Finance here in Canada, and the unsecured lines of credit. Consumer loans are actually going to have a bit more of a growth profile going forward. So, all in, our belief is that we will compete, but not at the frothy edges of any individual market. That's just not, we are generally a bit more risk averse than that.

Rob Sedran – CIBC World Markets – Analyst

Okay. I want to ask about expenses.

The bankers always use an operating leverage lens to look at the expenses, and with all due respect, when revenue is growing at 10%, and it's not that hard to grow expenses at only 7% or 8%, but as revenue growth has slowed and now it's become more a question of taking expenses out or re-engineering processes and all the rest, has there been a cultural impact? An impact on the employee morale or an employee on their outlook as you shifted from one way of looking at things to a bit of a different way of looking at things? Can you talk about how the organization has responded to it?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

We've described this is a slow moving train in the organization as in you can see it coming from a long way away. So it gives you a chance to get prepared.

In my business, traditionally, the juggernaut if you will, there is a revenue stream that you can tend to see very far in the distance. So, our financial paradigm as you've said, has not changed in over a decade: you grow your revenue and then you grow your expenses less than that. That's how we continue to get what is now middle 40s expense ratio from what was in the 60s a decade ago. That continues to be our financial paradigm.

What has happened over the last couple of years is there has been very much a focus on a productivity agenda. We do not believe in fire drills. We are not a bank that says, oops, let's slash expenses in the next quarter, because we – all of a sudden, had a surprise on the revenue front. We think that's very bad for the organization. You make uneconomic in the long-term decisions.

Having said that, given that we saw the revenue slowing, we have been implementing now a productivity agenda for my business two or three years and it's not on any one topic. It's not a particular approach.

There are a series of different initiatives on multiple fronts. So, it can be as simple as leaning out processes – a six sigma approach to making sure you take out waste in your process, and there is a lot to take out. It can be an opportunity to work with your vendors to lower your cost. There are lots of these various different streams.

The good news is that if you had asked me this time last year how I was feeling about 2013, I would have said, okay, well , I'm little worried about the revenue, in fact if you remember, I would have said something like we always target a 7% to 10% earnings growth, and we would have had to work very hard to get into the bottom with that range.

Well, now, we must have been working very hard, because we're well into that range and we're feeling quite confident. Obviously, we had a good third quarter and we expect to finish the fourth quarter strong. So, then how did we do that? Well. Our expense growth continues to be nicely constrained, as a result of these initiatives bearing fruit. And as I look forward to 2014 and even at this point, I have a bit glide path in 2015 that we'll have a lots of initiatives that we feel quite confident that from a planning paradigm we still expect interest rates to be low and growth to be relatively slow. So, in order to continue to grow our earnings, we have to keep our expense growth flat and we feel quite good about it.

Rob Sedran – CIBC World Markets – Analyst

So from a planning paradigm, you're not looking forward into rising interest rates, better margins and therefore better revenue. So it removes some of the urgency from it, I guess. You are planning for these kind of margins going forward and if you get better revenue, then you get better operating leverage?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

Right. Our approach is simple. We think it's the most prudent to assume a flat interest rate environment, because the change to your point about a cultural change, the change of having everybody in the organization focused on productivity is virtuous whether you have high revenue or low revenue. Because it's not about saying we're going to not invest to grow our revenues, we're saying any part of our business is more profitable if you can take waste out.

So the analogy I use internally is, a productivity agenda is usually not very prevalent in a service industry or in a bank. But it's prevalent in a place like a manufacturing job. If you are running a tire company, you would expect every year your factories to get 2% to 3% more productive. But then if they happen to get a huge new tire order, of course your revenue growth would go up and of course your expense growth would go up. But you would have the benefit of those extra 2% or 3% productivity points. That's an actually healthy cultural change for the organization. Once that's inbred in the bones, it shouldn't be dependent on your interest rate outlook. And that takes a few years to get that culture inbred in the organization.

Rob Sedran – CIBC World Markets – Analyst

This clock is moving faster every time I look at it. But there are a couple of things I still want to get to.

I'm going to get to Auto Finance first, which is a business that you entered into. Not entered into, but the Chrysler acquisition clearly was a transforming one in the U.S. Talk about how it's going because we don't hear as much about it anymore. It seemed like a really strong start and then competition got pretty intense. So where are you in that business?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

So the start was we had a great backbook and a portfolio that actually generated a lot more earnings in the first couple of years than we expected in the deal model. And then the competition came back fierce, almost the day that we closed. And so margins have dropped pretty much to 10-year lows.

So, what also happened is the existing book we purchased was run off faster and we've been originating volumes on the new platform, if you will, and so we're sort of in a trough year as we think of it in 2013 with thick margins, the infrastructure that's still being tooled at too high of a level and if you will i.e., the entire portfolio that we aspire to get to in a few years.

The strategic question for us is, okay, so what is the level of profit. We have huge buy-in from dealers. We thought we'd get 5,000, we're at 9,000, and yet the dealer profitability varies by state, by individual dealer, by OEMs. So, a lot of these marketing smarts that you start getting and say now, let's be very tactical about which dealers do we want to deal with because some are better for us than others.

So, a bit of a strategic retooling in a time where it's a bit of trough year for us. But we still like the space, we certainly love it in Canada, the margins are thicker and we've got a much more dominant position in terms of market share and as a player. And if we deepen that relationship because of our acquisition and a number of dealer relationships on the wholesale side as a result of market disruption, but the U.S. is quite a competitive space, so we're retooling.

Rob Sedran – CIBC World Markets – Analyst

You get, presumably, pretty good at the replacement cycle in the U.S., which should be a pretty strong one still, so should we think of it then as: better volume than you might have thought, less margin than you might have thought, more or less the revenue you would have thought?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

No. The margins have dropped in less than the volumes were getting. So, as a result, we're getting less revenue. Our costs are coming down, but because there is largely a fixed base platform. So we haven't got yet to the sort of $25 billion level that we were originally aspiring to, and so as a result, our operating expense ratio is higher than we want at this stage, but it will come down since we build our volumes up. So, all in, our revenue is less than what we would have expected at this point in the cycle.

Rob Sedran – CIBC World Markets – Analyst

And I know that a lot other competition ends up being web-based in terms of your interface with the dealer, is it all just price competition? I mean, what's....?

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

No, not at all. The great thing is that this service of convenience that we stand for in our retail banks and our commercial bank, both in Canada and the U.S. also works, but it's more about the service to the dealer, and the manager in that F&I shop that has to make a decision as to who he is going to deal with. And that comes from being a full service partner. This is why it's so helpful for us here in Canada. If you are their commercial bank, if you are their floor plan financier and if you are their retail paper provider, that deepens the relationship in total and makes that dealer itself more a franchise dealer, if you will, for you.

In the U.S., we don't have a national footprint on all three of those things. And so you're trying to eke out what is the best way to be a retail only national player, and right now, we're in all states. That might not be the best strategy going forward depending on where you can best optimize your deal and mix and your states.

Rob Sedran – CIBC World Markets – Analyst

All right. Well, we're out of time. So I didn't get to end of my questions, but we're out of time. So, Tim, thank you very much. It was a great session. I really appreciate your participation.

Tim Hockey – TD – Group Head, Canadian Banking, Auto Finance & Wealth Management

Thank you.