TD BANK GROUP
CORMARK SECURITIES INVESTOR CALL WITH ED CLARK
OCTOBER 17, 2013

DISCLAIMER

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

Ed Clark
TD Bank Group – Group President & CEO

Darko Mihelic
Cormark Securities – Analyst

Stanislav Lopata
Mawer Investment Management Ltd.

Dimitrije Mitrinovic
Capital World Investors

Andrew Pink
Lawrence Decter Investment Counsel Inc.

Mamta Kohli
Picton Mahoney Asset Management

Jamie Keating
MFS McLean Budden

Bill Dye
Leith Wheeler Investment Counsel Ltd.

Tim Johal
Investors Group

QUESTION & ANSWER

Operator

Good morning, ladies and gentlemen and thank you for standing by. Welcome to the Cormark Securities Investor Call with Ed Clark. At this time, all participants are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] I'd like to remind everyone, this conference call is being recorded today, Thursday, October 17th, 2013 at 10:00 AM Eastern Time.

I would now like to turn the conference over to Mr. Darko Mihelic, Analyst, Cormark Securities. Please go ahead, sir.

Darko Mihelic – Cormark Securities – Analyst

Great. Thank you very much and good morning, everyone. Thanks for joining us on this call today. We're delighted to have Ed Clark, the CEO of TD Bank, with us today to talk – to give us an update basically on TD. As you all know, Ed's a straight shooter and doesn't duck questions, so we're excited to have him here and we're really hoping you all ask some questions.

Before we begin, I have been asked to remind you that Ed 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.

At this stage, I'm going to pass it over to Ed for some opening remarks. And Ed, if I could ask the first question to kick it off...

Ed Clark – TD – Group President and CEO

Right.

Darko Mihelic – Cormark Securities – Analyst

Right after your remarks, that would be great and then we'd love to have – as I said earlier – we'd love to have questions from the callers. So, Ed, over to you.

Ed Clark – TD – Group President and CEO

So – and I don't think I have anything new to say. I think every one of us are watching all the drama that's going on in the United States and obviously, that does have an implication for us, mainly to do with what interest rates are and so you have to think – the drama around tapering and drama around where the fiscal position has resolved.

If you want my, sort of, opening views on this, I mean, I think it's inevitable that we're going to see eventually a back-up in interest rates, so we're really talking timing here, not whether. I look at the position of the Federal Reserve and I think what's interesting is that clearly, they were shocked when they started to talk tapering about how much they have been distorting the markets.

I think Bernanke reacted to that shock perhaps differently than I might have reacted to it. He reacted to it, oh, my gosh, if I'm distorting them that much, maybe I can't do anything for the moment. I think my reaction is that eventually, this degree of monetary stimulus has negative consequences and you're seeing how big they potentially are. And therefore, you have to eventually start to taper. And it's pretty obvious within the Fed that those two views are split.

And clearly, the fiscal debate and the political debacle is feeding in. So, I think you have to work on the assumption that this is going to take a little longer to get resolved. If you step back on it and say, I'm a bit of an optimist, this was so badly handled by the Republicans that it may well be that they have taken the debt ceiling debate off the table now. And that instrument, as an instrument to put pressure on the government, has been destroyed. Because it's hard to believe that you would go back in the New Year and, re-tracking the government, that you're going to default.

So I think that's a good thing and therefore, you get down to more the continuing resolution debate as a debate that is in the right domain that, obviously, the House of Representatives and the Senate have the right to pass legis or not past legis. So I think that's a legitimate debate. And hopefully, so if you get my perfect optimism, is that the Democrats decide not to overplay their hand and that you might even get, if you were lucky, you might even get tax reform, corporate tax reform coming out of this, because there's a pretty clear sense – consensus around what should happen. And in fact, Mr. Romney ran on a program that wouldn't be bad if Mr. Obama – and I'm not sure Mr. Obama fundamentally objects to, and of course, obviously for us, that would be spectacularly valuable to us if they could take the margin tax rate down.

So, I think we're going to go through another two or three months of uncertainty. But if I look at the end, we don't tend to run the company in two or three month stints. If you sit there and say, do I think – I think the interest rates have to back up. That's obviously hugely beneficial for us. And that, there is some hope, you can either fall in the camp that the United States is just completely dysfunctional politically or you can fall in the camp the Republicans have been so damaged that we'll actually get some settlements out of this. And I probably lean that the second has now a real possibility, which I wouldn't have thought a few months ago.

With that, why I don't I open it up, not really on the business, but since it is – we live in this odd world where if I look at all of the challenges that we faced, they're not business challenges, they're all to do with political challenges and regulatory challenges and sort of an odd way to run a company, but it's the world we live in.

Darko Mihelic – Cormark Securities – Analyst

Thanks very much, Ed. Maybe just to steer the question back to TD specific...

Ed Clark – TD – Group President and CEO

Yes. Yes.

Darko Mihelic – Cormark Securities – Analyst

So, and over the weekend, we've seen some reports on...

Ed Clark – TD – Group President and CEO

I thought you might give me five minutes.

Darko Mihelic – Cormark Securities – Analyst

No, let's stir it up right now. I mean, you were pretty unequivocal in the earlier part of the year that, that wasn't on the table. Are you still unequivocal...

Ed Clark – TD – Group President and CEO

I don't – I wonder whether I made a mistake in being so open about the discussion, but I don't know how to avoid that. I mean, normally, you like to just say no comment. Don't talk about rumors, bang, bang, bang, bang, but that had got to such a crescendo that we thought we had to deal with it.

What I said is still where we would be today, like you want – the company wants to come and say to us, here is a deal that we would love to do and we would – obviously, if there is a deal that you have to. I can't – I mean, it'd be ridiculous for me to say, there is a price at which if someone said, I'll offer you this franchise, it sits on top of your franchise, that you would have to look at. But it would have to be a deal that the markets say, whoa, you can't afford to turn that deal down, because there is obviously probably not quite as substantial as some people think, but there is still going to be a substantial equity raise there and the markets have to endorse the deal, because we don't need a deal.

So you're doing the deal because the deal is financially great for the shareholders and as one of the largest shareholders in this bank, I don't want to do a deal that isn't good for the shareholders. Despite all the stories, I don't know whether that's going to happen in the future. It has not happened at this point, but whether it will happen, who knows.

And that's the annoying part is that you just sit there and say, well, if you really want to do a deal, then say, here is the deal and here is the price and then we can either say yea or nay, but that's not happening. There is a lot of politics in all of this.

Darko Mihelic – Cormark Securities – Analyst

Okay. Well, that's a great answer and I've promised not to take up too much time and leave questions for clients. So, have we given instructions on how to queue up for a question? Matt, have we given instructions?

We have? Okay. All right. So maybe just following up on that same line of reasoning, can you talk – is there anything new or updated you can tell us on the Aeroplan side? Have clients received any sort of – I mean, I'm an Aeroplan card. I have not received anything in the mail.

Ed Clark – TD – Group President and CEO

No. So there is a scheduled rollout for all that, but I would say, I think it's gone extremely well from our point of view. I think that people aren't – the biggest risk was in the confusion with people there, I think people got the message, okay, this card is continuing. I don't have to do anything, this will all happen automatically to me.

And so, I think we – from our point of view, we achieved exactly what we wanted. We wanted to have that file just seamlessly come over to TD and say, we're your provider. We're not allowed to go out and do aggressive marketing to the general public until the New Year. We're allowed to do – there will be joint marketing with CIBC and Aimia and ourselves prior to that keep people informed. And that will be very much directed towards the Aeroplan customer base to say, relax, this is coming. These new features all come into effect in January, all of that stuff. So you'll see that rollout happen. But I have to say, it's gone as well as we could have dreamed of, frankly, up to this point.

Darko Mihelic – Cormark Securities – Analyst

And does it curb your appetite for more credit card deals or how does it...?

Ed Clark – TD – Group President and CEO

I think we clearly are going to run out of space to do more. I don't think we've completely run out of space, so there will be a few things that we would still do in Canada. In the United States, I think we still have lots of room to do deals. I think if we take a look at the three deals – big deals that made it material, MBNA, Aimia and Target, these are, I guess, not to exaggerate, but these are to-die-for deals. They are basically all three no-goodwill deals, I mean, nominal goodwill. I mean, what is interesting really since after the Commerce deal, all the deals we've done have been close to no – minimum premium deals, since the Commerce deal. So it's been a long time since we've actually paid any, other than the only one that I should put as an exception to that was Epoch, which was clearly in a different category. But in terms of buying deposits or assets, The South [Financial Group], FDIC deals, Chrysler, all of the deals are essentially minimum goodwill deals.

So, to get high ROE, no-goodwill deals are pretty good things, and that's how you do make money – that's a good way to make money. And I think the other feature of them is when you look for us is equally important is you look at the combination. If you take those three files and put them all together and say, okay, what have you done to your risk appetite, because no point in making lots of money if you've actually gone out of your risk appetite – outside your risk appetite.

If you look at them, they've been structured in a way or they inherently are in a way that they can survive severe economic events and still make you money if you put the three portfolios together, and so that's how we tend to look at it. And so, if you look at expansion beyond that, we would ask – we ask a question, every time we run a deal, one of the key elements of our process is to say, suppose the world fell, we're back in 2008, 2009, how would I feel about this deal? And does it change the risk appetite of TD Bank? So, I think as we look going forward here, we like the balance we have now. We're going to look – they would be akin to the deals that we've been doing that say, no, this actually in some cases help your risk appetite, they don't hurt your risk appetite. So can you – you want to look at the structure of the deal to make sure.

So, Aimia as a portfolio has such a good rate of return that it can sustain a very severe downturn and not going to lose you any money. That's an unusual card portfolio and so, it actually adds to your earnings cushion, not reduces your earnings cushion.

Darko Mihelic – Cormark Securities – Analyst

And to-date, you see nothing in terms of competitive response to alter the risk profile of that deal?

Ed Clark – TD – Group President and CEO

No, the risk profile was obviously – and that's why having a low premium helps you enormously. I mean the risk is not – is in-board. Do you lose customers, so the people go to an alternative card? And so far, that's not turned out too material. I think that is why if you go and say, why do we not just go and take the whole file and go to war, business war versus this one, it is because obviously this solution dramatically strengthens our hands against other competitors coming in and stealing that file.

Because for the – I mean, this is a file of people who have stuck with the Aeroplan card even as it became less competitive over a long period of time. And so as part of the deal, what we said is, well, we're not going to sign up for a card that gets less competitive over time. So you have to dramatically improve its competitiveness and we have certain safeguards and continue to improve its competitiveness. And then, we'll do this deal.

And so, you know you're dealing with the population that doesn't ever want to give up that card. And so we said, well, then, what we really want to do is seamlessly get back question where you say, and now, nothing changes for you. All that happens is you get a different brand on the card, what do you care? So, to me – and then, you're obviously inheriting a significant population, probably 80% of which or 75% of which don't bank with us.

And so, when else do you get people who say, I'm going to come to you and buy this product. Doesn't mean cross-selling credit cards to other products has not been – has been a difficult task historically in the banking system. But we have one of the best retail franchises in Canada, or if I was in a hubris mood, I'd say, the best retail franchise in Canada. So it's not as if we don't have a lot of things that we can do to say, well, if you're coming on over to TD, why don't you come all the way over to TD, and really make this an exciting change for you.

Darko Mihelic – Cormark Securities – Analyst

Does the outlook economically, was that a – I mean, one of these things I want to ask you today...

Ed Clark – TD – Group President and CEO

Yes.

Darko Mihelic – Cormark Securities – Analyst

...is your business outlook...

Ed Clark – TD – Group President and CEO

Yes.

Darko Mihelic – Cormark Securities – Analyst

...for the P&C business in Canada, there's been a lot of chatter that your 7% to 10% EPS target maybe needs to expand the lower bound a little bit as we get into a weaker environment and so on. Can you give us a bit of an update of how you see the world unfolding within Canada with respect to loan growth, margins, expenses, maybe starting with the most important the Canadian retail bank?

Ed Clark – TD – Group President and CEO

Yes, yes. So we definitely had ourselves mood swings around that topic. If you think back, back to April, even April of this year, so only six months ago, think of where five-year Treasury rates were versus where five-year Treasuries are now. They've slipped back down, but they're still twice what they were back in April. And so I don't want to reduce it to a single number, but if you think of the core of our franchise, I mean, what we do better than everyone else?

We give better service than everyone else and how does that translate to the shareholders is, well, we originate more basic checking accounts than anyone else. So when people are choosing where they do their core banking, they choose us because people like better service. And so, we just take market share in that category. We're number one in that category, and we grow our market share every year. That's what it translates into.

That's the good news. The bad news is, where do you make money on the core checking account? You're making it on the deposit balances. And so I always say, we are in the gold mine building business and someone just devalued gold, that hurts. And so, I think our pessimism has been around, we knew the mortgage business is slowing down and actually, I think that slowed down a little less than we might have thought it did.

I think it's hanging – the Canadian economy just keeps on hanging in there. So, the fundamentals, our Business Banking still takes market share every year. It's just been a business miracle, how can you do this well in a space that's so highly contested. Our Wealth Management business has had fantastic earnings growth this year.

So all those businesses, but the fact is if your core business, what you earn on your deposits, stays low, stays at those kinds of rates. So I think the bounce-back up at the rates has made getting into that target zone a lot more likely than it would have been even six months ago, and so that's what I think causes the mood swings.

And what's hard – I can't tell the analysts or the investors what interest rate assumption. They've got to figure out themselves if they think rates are backing up and then they say, woo, they got a lot of upside here. If they think rates are going down, then I'd say, well, then you've got to assume that that's going to make it harder for us to stay in that range.

Darko Mihelic – Cormark Securities – Analyst

And the interesting thing with your case is earlier in the year, I think it was Q2, you provided sort of a supplemental view on interest rate sensitivity, and I think Colleen got on there...

Ed Clark – TD – Group President and CEO

Yeah. Yeah.

Darko Mihelic – Cormark Securities – Analyst

That 25 basis points and then, we checked it against your supplemental and it was far more sensitive than what your supplemental would suggest, which is an interest rate risk sort of measure.

A couple of questions on that. Does that still stand, your interest rate sensitivity? Are you getting more sensitive to interest rates?

Ed Clark – TD – Group President and CEO

Well, I don't want to get into our complete balance sheet management issue. But clearly what we said to the marketplace is when interest rates were going down and getting very low, we said – we made a conscious decision that said we're not – we've been running a tractor system where a laddered bond portfolio style of managing and says if you've got this very large amount of non-interest rate sensitive deposits, you treat them almost like equity and you put them in over a five-year rolling period.

And so we made the choice to say, even though extremely painful from a short term earnings point of view, to say, I personally am not prepared to buy five-year GICs at these rates. So why would I put my shareholders' money in, which is my money, in those same rates? And so I'm going to hold back and we held back and built up float and NIM.

Now in Canada, that's not as painful a decision as it is in United States, because you've got the 1% interest rate. But in the United States, it's extremely painful and it's extremely – and you saw it in our NIMs, you know, you take the NIMs down. Since then, rates backed up and as rates backed – started to back up and the way I put it internally is, when we were at 65, 70 basis for five-year Treasuries, you really have asymmetrical risk. The chances that rates will be zero versus they will be 1.30% are not equal.

And so even though historically, we run the Bank to say we don't take any interest rate risk, I said well, you are taking interest rate. You're not kidding yourself, because these are so out of balance now that we're betting that there's just as much – same chance of being zero as there is 1.30% and I don't believe that and none of the people who would ever run their personal finances on that and that's not the right way to run the Bank. So let's not worry about short-term earnings impact, let's do the right thing for the Bank over the next five years, not over the next five months.

But as rates move up, then you say, okay, now that asymmetry is decreasing and you have to start moving back. So that's what we do, as rates move up, then we say, well, let's roll some more of the money that we didn't grow and put it to work. And so that obviously we were able to do that. Over the summer, rates moved up quite well. And that obviously then enhances our view to say, wow, okay, we're back in the game here. I think that's going to make a difference in terms of earnings.

Darko Mihelic – Cormark Securities – Analyst

And, Matt, maybe you can re-queue for questions on the line.

Operator

[Operator Instructions]

Darko Mihelic – Cormark Securities – Analyst

Okay. And maybe while we are waiting for the queue, just to follow up on the Canadian scene, one of the things that's always separated TD apart from the peers is the initiative spend. And you seem to be getting more aggressive as a firm talking about keeping expenses below certain growth rate. At the same time, what I'm hearing is there is an awful lot of technology spend that's required these days. There is regulatory cost and so on. Can you talk to that a bit and are you jeopardizing anything here by trying to keep expenses that low, or do you feel you are so far ahead of your peers on technology spend that this is not an issue? And lastly, I have heard some talk that the regulators are now looking at banks a little bit different in perspective to technology?

Ed Clark – TD – Group President and CEO

Yes.

Darko Mihelic – Cormark Securities – Analyst

And operational risk. Can you wrap that all?

Ed Clark – TD – Group President and CEO

Yes. Yes. I'd say the two are completely integrated and that's – we have been characterized by – we do spend a lot on initiatives. And if you went back historically, pre the financial crisis, they would have been very much driven by okay, let's grow, and if you grow, you'll get your efficiency ratio down. So you'll just constantly widen your lead against everyone else. And so, when you look at our revenue numbers, our revenue numbers were always higher than our competition and you'd say, that's a very good place to be.

I think as you get into this tougher economic environment, it is harder to outgrow yourself on the revenue line. Just – when we were growing revenue of 10% and your competition is growing 7%, you can do that, but when the world's growing revenues at 4%, it's not obvious that you're going to have as big a differential. And so, we started to shift in the last three or four years to say, okay, we have to spend more of our initiative dollars on getting our cost structure, reducing our cost structure.

And always when you grow rapidly, I think there is opportunities to sort of say, let's go back and reengineer the process. And then, we are dealing with structural changes in the banking business, where the number of people that we need and the branch distribution system, the service people is being reduced, because as you know, we are the number one leader in mobility in Canada. And so we're ahead of everyone else there, but that also means our customers have the ability to do more things on their mobile apps than our competitor's customers and that's going to impact our branches. And so that has meant that we've got to take people out of the – reduce the branches and the people in the branches.

So, yes, what you're seeing is that we are spending, we have to spend more money and then at the same time, as you said, you have a long – where the regulators said, you know that budget you had on technology, we'd like about a third of that budget to be spent. They don't say that, but that's the implication of what they did between Dodd-Frank, and it goes on and on, Basel and CCAR and all that stuff.

And so you say, I got to devote more time there. But the only way to devote more money on that is to actually get better at cutting your cost structure. So we look at the world every year in a waterfall and we say in 2013, what are we doing in 2013 in investments that will reduce cost in 2014 and 2015? And then, we take those savings and frankly, instead of saying, well then, let's just pocket those savings, we say, okay, now, let's use them to do the investments that let you do that for 2015 and 2016. Let's assume that you have to keep that waterfall going and you've got to fund the regulatory changes and you've got to continue to grow your branch network and you've got to continue to upgrade your technology and you've got to spend more money on mobility to stay there, because the world is shifting on you.

And so, it is a delicate balance here and we set out the 3% target for this year and we said for next year, we'd like to be under 3%. We're not trying to get, we've never been, okay, let's get down to zero and make Ed Clark look good for one year. I don't really believe in running the Bank that way. So you say what's a reasonable number given our revenue forecast, I'd say that's where we ought to be and the 3% number looks like kind of the right number. But it has a different mix. The ongoing operational costs are growing dramatically less than 3% and the initiative spend has actually gotten bigger in this period, because it's had to absorb the regulatory and it's had to absorb more expenditures to reduce costs going forward.

Darko Mihelic – Cormark Securities – Analyst

If I put that question on its head and said, what if rates went up by 100 basis points next year and your NIMs expanded by, I don't know, 25 basis points, would your expense base rise? How much would fall to the bottom line?

Ed Clark – TD – Group President and CEO

No, well, I think, would I say we would not do anything more aggressive in terms of growing the Bank, and what we might. On the other hand, just as when we were in tough times, we say let's not have fire drills and try to sell tough times there. Equally, if we were to suddenly say, well, let's go for 5% now because we have this huge bonanza coming in on the expense rather than 3%, you create a culture and an operation that's hard to slow down. I mean, the thing that I – in retail banks, which is what we are fundamentally, this is very slow-moving ships and you can't send new messages every week when you wake up as to what's going on. And so you just have to say, no, no, this is the world we live in.

Now, obviously, in the real world, it's hard to explain if interest rates explode and in some areas, are growing 12% and we were cranking down all over the Bank, you have to go out and people say, hey, buddy well, like, what are you doing to me? Like, why are you doing this? But I think it would be a mistake. But would the 3% ease up to a 3.5% or something? Maybe, but we're not territory here. I think you really want to run consistent things, not move around rapidly.

Darko Mihelic – Cormark Securities – Analyst

Okay. Great. We do have some questions lined up on the call. So, Matt, if you like to run that for us.

Operator

Your first question comes from the line of Stanislav Lopata from Mawer. Please go ahead.

Stanislav Lopata – Mawer Investment Management Ltd.

Hi, Mr. Clark. Just the key challenge for TD over the coming decade?

Ed Clark – TD – Group President and CEO

The key challenge for?

Stanislav Lopata – Mawer Investment Management Ltd.

TD over the coming decade.

Ed Clark – TD – Group President and CEO

Well, putting aside the interest rate, which is what I said, I think it's managing the confluence – the regulatory overhang that sits on you and I would say, and not losing your way as a result of that. I do think that – I think we have a better business model. I think we have a better culture. We have a conservative risk appetite with an aggressive, let's do things right for the customer. And what I always worry about it that you have all of these external pressures, let's say forget all that, I want to do this, this and this.

And so, I think the biggest challenge is just that you stay the course here, that in the end of the day, if you look after the customer and do what's right, that you're a winner. So I would say is that's the biggest challenge. In a pure business sense, I have to say, you have to watch, because all CEOs say, well, we're pretty perfectly positioned here.

But we didn't get here by accident. We got here by design. Despite all the issues, if you take a look at the retail banking space and say, in terms of both consistencies and level, I like the ROEs in that business. Just chunk along here, the game is flowing in our way. I think we're at least two-thirds of the way through the worst of the after-effects of the Great Recession, whatever you want to call it, and so, I think we're on our way up, not on our way down here.

Stanislav Lopata – Mawer Investment Management Ltd.

Okay. Thank you.

Operator

Your next question comes from the line of Dimitrije Mitrinovic from Capital World Investors. Please go ahead.

Dimitrije Mitrinovic – Capital World Investors

Thank you. And Darko, thank you for organizing this and Ed, thank you very much for taking the time.

Ed Clark – TD – Group President and CEO

You're going to give me an easy question, I hope. You're not going to give me a hard one?

Dimitrije Mitrinovic – Capital World Investors

Yes. I will this time. I just wanted to go back to Citizens question.

Ed Clark – TD – Group President and CEO

Come on, that's not playing fair.

Dimitrije Mitrinovic – Capital World Investors

I guess, one of the criteria that you mentioned in the past is that you would need to have a deal here that's attractive enough for markets to like it and therefore, to make it financeable, because it would involve probably a significant amount of equity. And so, I tend to think that if you announced a deal next week that's 2% accretive, that the market may say, well, this is a lot of work for relatively small gain, but on the other hand, if you announce something that's 20% accretive I don't know whether that's mathematically possible, but if you did, the market would say, this is really good. And so, how do you think about the threshold of how accretive a deal needs to be for you to justify the amount of work and headache that you would need to go through?

Ed Clark – TD – Group President and CEO

Yes. So I hate being drawn into what is clearly a completely hypothetical theoretical discussion, unless you have information that we do not have, but if you know...

Dimitrije Mitrinovic – Capital World Investors

I do not have. No.

Ed Clark – TD – Group President and CEO

From our information, we are talking a completely speculative event here. But if you put it in that context, I don't think that – I mean there are two criteria. There is, what is the deal inherently worth, and there, I think your criteria very much comes around, if you're buying a franchise, it doesn't matter that it's Citizens, let's just talk generically.

If we buy in-market franchises with large cost-cutting synergies, you have to believe that you can execute that, that you can actually take those costs out, because if you don't take the costs out, then the deal doesn't work. And then secondly, you have to have some view about interest rates. And so if you believe that interest rates are going to stay flat forever or go down from here, it probably gets hard to make the deal work a lot.

I mean, you might be able to get your cost of capital out of it. But as your point is, if you work that hard just to get your cost of capital out of it, then you've really giving the cost savings to the seller and not got them to the buyer.

So you have to believe, A, you can get the costs out and B, that there is some, some upward movement in interest, not that the world turns around here. I don't believe we're going back to anything like the interest rates that we had 2007, but could you get two-thirds of the way back or half of the way back or a third of the way back, is there a territory? So, I think those turn out to be the critical things.

And then, the second thing is, we live in a real world here, even if the deal was – there is a deal that I always say, would we do this deal if we owned the bank 100%, and then, can we do this deal, because the market doesn't really like acquisitions, they don't like large deals, the market gives mixed views on the U.S. strategy and so even though you say – one says to management all the time. Well, don't listen to the analysts and don't listen to the market, because if they were running the company, they had kept me in structured products, they would have had me done sub-prime lending, they would have had me do asset-backed commercial paper.

On the other hand, in this case, you have to listen to the market, because you have to go ask the market to finance this deal. Now, as I said, probably not as much as I think people think. They haven't worked their way through all the arithmetic, but still in the end of the day, I'm not going to do a deal that says for the next two or three years, the market says, I hate TD. That's not a responsible thing to do if you don't need to do the deal. If I'd really thought I would do the deal, then I'd say, go pound sand, I'm going to go do the deal anyway.

But if you don't need to do the deal then you have to do that. I think that's not actually hard for us to figure out. Helpfully, enough of our investors, and we run a pretty open, as you know, we talk to investors all the time. I talk to investors directly. I'm open and I listen to the investors. I think like an investor. So, I think everybody kind of intuitively knows the deal that the market says, if you can get at that price, that would be a good deal and you can't get it at that price, I wouldn't do the deal. Don't know whether that helps you, but that's sort of the answer.

Dimitrije Mitrinovic – Capital World Investors

That's very helpful. Thank you.

Darko Mihelic – Cormark Securities – Analyst

And maybe just for fun, if everybody could email me the level of accretion necessary, where you could be happy with the deal. Please feel free to do so. Go ahead, Matt.

Operator

Your next question comes from the line of Andrew Pink from LDIC. Please go ahead.

Andrew Pink – Lawrence Decter Investment Counsel, Inc.

Yeah, just wondering if Ed has any updated comments regarding the Canadian housing market and mortgage volumes, origination volumes?

Ed Clark – TD – Group President and CEO

Yeah. So, as I said, I think everything is developed, and this is not new news from the quarter end. Clearly the market hasn't sagged as much as people thought it might sag. I think, as you know, our view is, we're never looking at a disaster here. I did take a strong view and I continue to have that view is that, it is not in Canada's competitive interest to have housing prices constantly grow faster than they grow with our competitors.

And that this is a competitor issue and that you can't ask Canadian workers to try to compete for jobs in Canada with a par dollar and then tell them they're going to have buy houses for twice the price that everyone else in United States gets to buy. And so as a government policy, I don't get trying to gun this market all the time, even though from TD's short-term interest, gunning the market is good for us. But TD Bank gets more out of Canada being well-run than it will ever get out of a short-term strategy for that.

But I would say, I think we've manage to accomplish exactly what we were looking for is, let's take some of the edge off this market without destroying it and so, I think we're now getting to kind of normal volume growth consistent that you could say, okay, I can live with that world. I do think that what is amazing is the resilience of the Canadian economy. I have worries about that. We have moved from a large current account surplus to a large current account deficit, it's clearly a domestic demand-driven market and so I think you have to hope that what we can do is that the United States grows more strongly and that, that takes that pressure off being so much domestic demand-driven.

Again, I'm optimistic. I mean, the fundamental private sector growth in the United States is impressive. The amount of fiscal drag that they've absorbed and kept growing has been really amazing. So I am optimistic that we're going to skate through here and that the United States is going to – I think will absorb its fiscal drag and the economy is going to keep on growing and that will then start to rebound into Canada positively. But right now, the housing market numbers are slightly better than I would have thought they'd be at this time.

Andrew Pink – Lawrence Decter Investment Counsel, Inc.

So, you like your positioning in the U.S. for the continued growth and hopefully, a rise in mortgage originations?

Ed Clark – TD – Group President and CEO

Yeah, I mean, I don't think you can outrun – the United States mortgage market has been traditionally a market where you have these massive refi booms. And the refi boom has significantly played itself out here. And so, I don't – and that accounted for a significant share historically of our volumes. That share is shifting dramatically now. And so purchases are now becoming more our volume and so, we like our long term position in that basis, because what we are – you'll either get – I always say, you could either throw up when you look at our franchise or celebrate.

We're a very thin franchise. We have the core checking account of people. That's what the franchise was built around, your classic American junior bank, get the deposits in and do commercial lending. And we're obviously been shifting that mix by trying to cross-sell people. So we know we have millions of customers that bank with us that don't have their mortgage with us. And that's a long process of cross-selling those customers and announcing to them, because three years ago, we weren't in the mortgage business. And so, that's happening and we can see that our purchase volumes are going up and that we're gradually making progress on that.

But will our mortgage volumes grow less quickly, they really haven't slowed down heretofore, because we have such a backlog of business that is going to carry us for a while. But if interest rates, if I'm correct, and interest rates back up in the United States, then you have to believe that your mortgage volumes will grow more traditionally at a pace of purchase volumes, not with the refi boom. On the other hand, if interest rates back up, my deposit base is worth a heck of a lot more, so I'm a pretty happy camper.

Andrew Pink – Lawrence Decter Investment Counsel, Inc.

Right. Okay. Thank you.

Operator

Your next question comes from the line of Mamta Kohli from Picton Mahoney. Please go ahead.

Mamta Kohli – Picton Mahoney Asset Management

Hi, Ed, how are you?

Ed Clark – TD – Group President and CEO

Good.

Mamta Kohli – Picton Mahoney Asset Management

I wanted to delve a little deeper into the P&C business.

Ed Clark – TD – Group President and CEO

Yes.

Mamta Kohli – Picton Mahoney Asset Management

And just in terms of how the penetration of the TD client base has evolved over time and whether you're getting more of your own client base to buy the P&C product and whether it has opened doors in terms of improving the products per client above and beyond P&C?

And then just on the auto business, the claims trends that we've seen in Canada, especially in Ontario, what's your thought process around how much of that is cyclical versus structural?

Ed Clark – TD – Group President and CEO

So, the first question is around Canadian P&C and cross sell?

Mamta Kohli – Picton Mahoney Asset Management

The P&C insurance business.

Ed Clark – TD – Group President and CEO

The personal and commercial market?

Mamta Kohli – Picton Mahoney Asset Management

Yes. The personal – the insurance?

Ed Clark – TD – Group President and CEO

The insurance, property and casualty?

Mamta Kohli – Picton Mahoney Asset Management

Yes.

Ed Clark – TD – Group President and CEO

Okay. So, I wouldn't say, if your question is how successful are we, is this in the way of originating our relationship with TD using the insurance arm to go out and get non-TD customers, that then we cross-sell TD banking products, I'd say minimal at this stage. What has been the case is that as a P&C company, it gets the benefit of the TD brand and that TD customers say, well, if I'm going to have insurance, why wouldn't I have it with TD? So I would say that's how the cross-sell relationship fits.

As I've mentioned on the credit card, historically, any cross-selling monoline customers, banking relationships hasn't been a very successful strategy for banks worldwide. That's historically been the case. The only think that I think may over time change that is that you are – particularly with the baby-boomer population, there is, as you get older, a tendency to do consolidation of your financial products and even in the United States, you can see this going on.

And so, I think there is a tendency more to do that, but I would say we have no evidence that selling, that we've been successful so far as using this as a customer origination. That's not our core issue. I mean, we out-originate our competition in terms of new customer acquisition, that's kind of our basic business model. So I think it bothers us less. I mean, I'd love to be able to do that, but cracking the nut that hasn't been cracked by other people is probably not my goal.

As for the auto insurance business and your question was there was, do I think it's cyclical or – so I think, no. The issue is all around, there was a fraud problem in Ontario, that the government did some good things to reform that problem. And as always in this, people – the bad guys – and there are two kinds. There's the bad – the pure bad guys that are just gangs and then there's the average citizen, where they meet a lawyer that says, you know, you sure your back isn't hurting you after that accident, like it looks to me like your back – and I know a clinic that if you go to them, they'll certify that you have a back problem. And you could probably get six weeks off holiday in Cuba paid for by your insurance company.

So then you – so it's not all just straight gangs, it's a combination of people doing bad things. That – where they do that stuff has shifted and they've found new ways around the law. And I think we're working our way through that. I mean, what we decide to do and it's definitely our style, it's not everyone's style, I'm not arguing it's the right – necessarily the right style.

But when we see a problem, we just say, clean this up. I don't care what it costs, figure out what it costs, do it conservatively, put a number against it, get this problem behind us and start charging yourself heavily that this problem is going to be around for a while. I think we've done that and I think now, we've got ourselves back to the asymmetry where there is more upside now than downside here getting ahead of the problem.

Mamta Kohli – Picton Mahoney Asset Management

And then when you look at your product suite, has the [indiscernible] changed at all in terms of what needs to be owned versus products that can be, I don't know, maybe white labeled or sold through other channels in terms of how to best serve your customer base? Like over the past 10 years, has that changed in terms of the products you'd want to own versus the products that you'll be willing to sell others?

Ed Clark – TD – Group President and CEO

For us, is it – no, I'm not quite sure where you're going here. I'm not sure that I get, since I don't see that as a – in the sense of, are you saying that in insurance, whether – do we believe we have to be a manufacturer of insurance, is that really your issue?

Mamta Kohli – Picton Mahoney Asset Management

Yes.

Ed Clark – TD – Group President and CEO

Yes, okay. That's obviously a debate that we hold internally all the time. And so, obviously, you have very successful banks in Canada that aren't in this business. We're in a unique position in this business. We are the number one direct player in this business. We believe the world is going to more direct generally and so, we are the number one, as I said, mobile app player in Canada. So the shift to all this stuff direct is something that we've said a long time ago we believe in.

We're the number one affinity player in this business. We're also the number one affinity player in the credit card businesses. So we like the basic core positioning, but as I said on the call when we were announcing the increase in reserves, I can't stand up and say the franchise would be disadvantaged strategically if we didn't have this. And so we looked at this business and say, it's a good business. It's a business that anybody that's in this business would die for if they could have our position. They all would love to have our position.

So, but we believe this is a business that can earn a good 15% to 20% ROE on a consistent basis properly run and so, it has a good – why not stay in it. But I can't tell you but we have to do this business.

Mamta Kohli – Picton Mahoney Asset Management

All right. Thank you.

Operator

Your next question comes from the line of Jamie Keating of MFS. Please go ahead.

Jamie Keating – MFS McLean Budden

Good morning, all. I hope I can go back to the RBS discussion just for one minute.

Ed Clark – TD – Group President and CEO

Come on Jamie, come on.

Jamie Keating – MFS McLean Budden

I knew...

Ed Clark – TD – Group President and CEO

There's a knife into my heart here that you would do this to me.

Jamie Keating – MFS McLean Budden

This is highly speculative, of course. No, I am curious strategically and the – you mentioned earlier the long drive to build cross-sell through the existing franchise and how that's going and the changes you've made. And it strikes me that going longer that cross-sell, which I believe is what RBS would be, it would be a combination of going longer the inherent cross-sell and longer the deposit that on spreads, on rates, as opposed to what looked to me as an interesting and logical strategy earlier where you were picking up specific incisive asset purchases, Chrysler, Target and so on. And I'm just curious, juxtaposing those two strategies, curious about how the RBS fits into that?

Ed Clark – TD – Group President and CEO

Well, I certainly wouldn't want to be considered uninteresting and illogical. So let me try to – yes, so I don't disagree with you. So it's not like, as I keep saying, and let's take the one name off, because there is more than one bank that sits in our footprint that could be up for sale at some point. So there is multiple banks that fit in this category. And not like you've seen us chasing banks in the United States over the last four years, as I said. And it's not like we've have been out paying big goodwill premiums for things. So we basically like where we are. And it's a perfect world for us to just keep on doing what we are doing, because that's been working for us.

So it's only when you come along, though, and say at any retailer, if someone comes along and says, I have a franchise sitting in a state that you're in and it sits the branches there and you could take out half the branches and get dumped into the existing branches you have. And yes, we haven't been done any better at cross-selling them than you've done better at cross-selling them. And in this case, you have to – I actually have more assets than I have liabilities. So I'm in a slightly different position than you are. Do you want to buy this and – do you want to buy this and I won't charge you a goodwill premium to buy this, you have to pause and say, at least I should take a look at it. I mean, what do I think the cost synergies are worth, what would I earn and stuff like this.

But there's a cost of doing it, which is, you've got energy and time, which is the big cost, that's you're going to be spending getting those costs out and getting that there. And so, you've got to make it worthwhile for me to do this and I have to believe the cost synergies get me a deal that the market says, I like this deal. I mean, you really – it may not be exactly what I would do next if I was living in a world – a theoretical world, but it's a world in which you say, would you really walk away from that?

But until actually someone ever says, well, that to me, then it is theoretical and no one is saying that to us, like no one's saying, why don't you take this off my hands?

Jamie Keating – MFS McLean Budden

And just to be a little more specific on the – you mentioned earlier on cards, you felt you've kind of been there, done that or full up in Canada, maybe not so much in U.S., did I hear that correctly?

Ed Clark – TD – Group President and CEO

Yeah, so what I said, don't rule out that we would do other deals in Canada. But if you said where is the context in which we're doing deals, the framework we use is where does this all fit in our risk appetite? And do we have room and what are the nature of deals that we add that would keep us fully within our risk appetite and give us great rates of return? Those are the two criteria.

And if deals come along that fit that, we'll do them, and if they don't get that, we don't – we obviously don't need to do them. We're the number one player in Canada and we're the top 10 player in the United States – or North America on an overall basis. And so that's how we're going to look at things.

I think the opportunities are obviously – there aren't that many opportunities left in Canada, though obviously, the United States is almost infinite. But, so would we do another Target-like deal, I think we would look at doing another Target-like deal. It's operationally low from our point of view, that isn't a big drain. It's good ROE and it fits in our risk appetite.

Jamie Keating – MFS McLean Budden

Thank you, Ed.

Operator

Your next question comes from the line of Bill Dye of Leith Wheeler. Please go ahead.

Bill Dye – Leith Wheeler Investment Counsel Ltd.

Hi, Ed.

Ed Clark – TD – Group President and CEO

Hi.

Bill Dye – Leith Wheeler Investment Counsel Ltd.

I have a question on your U.S. P&C business. We've talked a lot about the things you can't control like NIMs and regulatory issues, but in terms of the things that you can control, where is the U.S. franchise relative to where you want it to be and where are your largest opportunities for improvement there?

Ed Clark – TD – Group President and CEO

Yeah. So, I think we've done I think a spectacular job in getting a franchise that covers the territory that we want; getting our brand and presence up. It's really remarkable when we look at our brand surveys of where our brand is in our core market. In some sense, our brand is bigger now than what we are, it is dramatically bigger than what we are. So all of those are good.

We got lots of just straight operational things that we've been talking about that says, we have a fantastic, a very large customer base. And we just have to work at penetrating that customer base step-by-step and that requires, and I think the core thing is, we built a franchise – the franchise itself was built when they were independent banks and then subsequent with us, but let's give you great service and they do give you great service. And they give you fantastic service.

But now, we have to over time get the staff confident and comfortable we're saying, but we could give you even better service if you wanted to take this product from us or that product. And doing that shift from a pure service model to a service-sales model, where the employee frankly understands that they are giving good service, if you go to someone who can't get a mortgage and you say, you can get a mortgage here, that is doing them a favor.

That's not trying to be a used car salesman and jamming a mortgage down them. And that just takes time. You have to educate your staff. You've got to make them comfortable. But that's clearly the next four or five-year challenge is to exploit what we have.

Bill Dye – Leith Wheeler Investment Counsel Ltd.

And so I know when you put together CT and TD, there was a number of areas where you were underserved, certain products you just were below your natural market share. What would those products be in the States? Would they just be the mortgage market?

Ed Clark – TD – Group President and CEO

It's hard for me to say this, but almost every – so it's quite a different. In Canada as you say, we've systematically gone and done that in Canada and that what we're doing. But you start and you say, we don't have our share of mortgages. We don't even have our share of savings account. We don't have our share of credit cards. We don't have our share of wealth products, and so, there's the whole, so that's why I say, you can either throw up or say, wow! Just every one of these are incremental profit dollars if you just do them.

And so – but it's a long list of – it's a thin – think of it as a pure checking account franchise that the people love banking with us, but they get their mortgage someplace else or their wealth managed somewhere else. And every time we dip into it and try out and say, what about this, we are just astounded by how many customers say, geez, if you do that, I'd love to do the business with you, because I love your bank.

Bill Dye – Leith Wheeler Investment Counsel Ltd.

Okay. Thanks.

Operator

Your last question comes from the line of Mr. Tim Johal of Investors Group. Please go ahead.

Tim Johal – Investors Group

Hi, good morning, thanks for the call. Ed, I just wanted to know, you're obviously in constant communication with your regulator in the U.S. and just back on the M&A, you talked about several market in-footprint banks that you'd be willing to look at. How willing – I know that you're not part of the CCAR process right now, you had some exemptions there. How willing in this world of too big to fail, how willing is your regulator to allow a sizeable deal to happen?

Ed Clark – TD – Group President and CEO

Yeah, just to correct here, I didn't say that we were looking at. What I said was, obviously, if someone came along in those markets and said to us, we want to get out of here, would you look at us, I think I have an obligation to look at it. But that's not where we're – we're not spending our time trolling the M&A market in the United States, calling people up and saying, any chance you'd give me your bank? We're not doing that. We're running the Bank here. And so, we've been basically absent the deposit-gathering buying business for the last three or four years.

But we, obviously as I say, it'd be irresponsible if someone called and said, I got a deal you can't turn down, then we would say, well, we can and we're not even going to look at it, that would be irresponsible. So I would say, we don't want a – who knows where the regulator is going to be? I mean, this is a pretty moving piece in the United States. But I would say – I think I can report that if you asked, if you took a general temperature of regulators about where TD fits in the regulatory spectrum in the world, regulators see us as clearly one of the best-run banks in the world.

And if they were going to allow anybody to do any acquisitions, then they would look at us and say, well, you're a pretty good candidate. It's harder to see what could look better than you. That doesn't mean that they come along with a view that says they – the political atmosphere changes in the U.S. to say, we want no banks doing acquisitions. I think that's conceivable. That's not how we read either the politicians or the regulators. I think a more accurate reading of the world is that the world is – when people talk about too big to fail, they are not talking about U.S. Bancorp or PNC or BB&T or Capital One.

They are talking about the big, complex multicenter bank. That is what this whole debate is about. And in fact, I think if you talk to bankers in the United States, there's a growing frustration under those that do the business of traditional banking to say, well, why don't we give them a different name, because every time you talk about this, people think you're talking about us when you're not really talking about that. And I think there's a growing recognition in Washington that that is true, and that they've got to start making even crisper distinctions and you can see it especially in the leverage test as an example, where they said, okay, we're going to have more and more special rules to deal what we actually think was a core problem.

So, I'd say if you said a general read, do people – do the mid-tier banks, and we're again, I think it's fair to say we're a smaller bank in United States when you look in the numbers, because we do have that $70 billion in deposits from Ameritrade, and you really ought to take that out and say, okay, what's your deposit base relevant to Capital One, BB&T, PNC, U.S. Bancorp? And we're smaller than them at our core – in our core franchise. So I don't think U.S. regulators looks and says, you're massive now. They look and say, okay. You're in the – you're obviously in the top 10 bank in the United States, but you're at the bottom end of the top 10 banks. But I don't think any of those four banks that I cited, if they went and said, we'd like to buy something, and I have no idea whether the regulator loves them or doesn't love them, but if the regulator loved them, would the U.S. government say, well, we're going to block you in principle, that's not the messages that we're getting from the United States.

Tim Johal – Investors Group

Okay, great. Thank you.

Darko Mihelic – Cormark Securities – Analyst

Okay. Great. Thanks, everybody, for joining us this morning. Ed, did you have any final …?

Ed Clark – TD – Group President and CEO

No, I thought we had a deal. We weren't going to talk about our favorite topic. But, obviously, that deal lasted not a microsecond, right?

Darko Mihelic – Cormark Securities – Analyst

Fair enough. Thanks again, everyone, and thanks, Ed. It was a pleasure.

Ed Clark – TD – Group President and CEO

Thanks. Goodbye, everybody.

Operator

Ladies and gentlemen, this concludes the Cormark Securities Investor Call with Ed Clark today. Thanks for participating, please disconnect your lines.