TD BANK GROUP

BARCLAYS GLOBAL FINANCIAL SERVICES CONFERENCE

SEPTEMBER 11, 2012

DISCLAIMER

FORWARD-LOOKING INFORMATION

From time to time, the Bank makes written and/or oral forward-looking statements, including in this presentation, 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 regarding the Bank's objectives and priorities for 2012 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 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 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, and other risks, all of which are discussed in the Management's Discussion and Analysis ("MD&A") in the Bank's 2011 Annual Report. Additional risk factors include the impact of recent U.S. legislative developments, as discussed under "Significant Events in 2011" in the "Financial Results Overview" section of the 2011 MD&A, as updated in the Third Quarter 2012 Report to Shareholders; changes to and new interpretations of capital and liquidity guidelines and reporting instructions; increased funding costs for credit due to market illiquidity and competition for funding; the failure of third parties to comply with their obligations to the Bank or its affiliates relating to the care and control of information; 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 2011 MD&A. 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 presentation are set out in the Bank's 2011 Annual Report under the headings "Economic Summary and Outlook", as updated in the Third Quarter 2012 Report to Shareholders; for each business segment, "Business Outlook and Focus for 2012", as updated in the Third Quarter 2012 Report to Shareholders under the headings "Business Outlook"; and for the Corporate segment in the report under the heading "Outlook".

Any forward-looking statements contained in this presentation 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.

PRESENTATION

John Aiken - Barclays Capital - Analyst

Okay, ladies and gentlemen. Carrying on with the Canadian retail theme, we have Tim Hockey, Group Head Canadian Banking, Auto Finance, and Credit Cards, a member of the TD Bank Financial Group. Tim, thank you very much for joining us. Really appreciate it.

I guess just to open this up, we had one of your competitors here earlier talking about their outlook for growth in the Canadian retail business. I was wondering if you could elaborate for us TD's strategy and what you're actually seeing in terms of the challenges and the opportunities over the next two years or so.

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Sure. So if you know of TD, you know what we stand for, and that is whether it be in the US or Canada, we hang our hat on one very simple premise, well executed, and that is comfort or service and convenience. We think that's a more important strategy to deliver on excellently than trying to compete on price or going out the risk curve or product proliferation.

So it's worked well for us certainly in Canada. And as those of you in the US know, it's worked well for us here in terms of a brand position. It resonates well with consumers, and it actually drives higher growth.

If you looked in Canada and went back the last 10 years, we think that strategy actually works beautifully in good times, but it actually works even better in the tougher times. Through the financial crisis that we had in Canada, obviously, it was muted compared to what was going on in the rest of the world. We took our relative risk adverse strategy and actually doubled down on some of our businesses like our business banking. We added 30% to 50% over the timeframe of commercial bankers, and we took a lot of market share because we knew our conservative risk appetite actually would work well for us.

And it did. We gained lots of share in that space.

Looking forward, if you said, what's the environment we're facing, well, clearly, everybody thinks that there is a slowing economic growth outlook globally, let alone in Canada. We've recognized that coming for quite some time. And we have had the benefit of outsized revenue growth for almost a decade, usually 2, 2.5 points higher than the competition. That's given us an advantage, and the advantage has been that we're able to spend a little more of that revenue to invest in the future. So we think that's actually an investment that will continue to pay off over the next little while. But it's clear we have to all react to a slowing growth environment, and as a result, our financial paradigm doesn't change. If your revenue growth isn't as strong, then your expense growth isn't as strong, either.

John Aiken - Barclays Capital - Analyst

Well, I guess it wouldn't be a session where I'm allowed to ask questions if I didn't ask about the US auto finance since it's part of your purview.

I mean, we're a little bit -- pretty far down the path after the acquisition of Chrysler Financial. Can you expand upon what the success has been and where the challenges may have laid that you may not have seen when you actually first undertook the acquisition?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

So Chrysler Financial was a great acquisition for us for a couple of reasons. As you know, we have a lot of excess deposits in the US that this is a ready-made machine to deploy. We bought it at a time where it was a fantastic opportunity to get what had been essentially a dormant origination engine and then turned that on. All they really needed was gas, if you will. Deposits is the gas for that engine.

So we went from about CAD100 million in originations in the first month after acquisition when we turn the keys on and to literally just under CAD1 billion a month now. So that's been a great story.

We've also moved our dealer penetration up from what we originally thought our goal was to be around 5000 dealers in the US, and we're tipping over 8500 dealers now. So dealer acceptance of the proposition is very strong.

We're now at the stage where some of the things that needed to be worked on were things like, well, they were a captive, non-bank-owned, dormant, auto lender. So, as a result, you had to turn them into an independent, i.e. multi-OEM service provider, bank owned and get them back up into -- and now they are originating CAD1 billion a month.

So that transition takes quite a bit of time. There's lots of remediation and lots of regulatory work that has to get done. That's well under way. It feels like we're making great progress on that front.

And I'd say the other surprise to your point about what didn't we expect, pretty much right after we entered the marketplace, the margins notably in the prime and super prime space got very thin. We're not the only bank out there that realized this was a very attractive lending or asset class post the recession. And, as a result, the market got pretty frothy. So those margins thinned out.

I'd say that competitive behavior is not lessened too much. What we are doing is now that they've gotten quite comfortable with our super prime and our prime lending is we're looking at, okay, how do we feel about the margins in the near prime space, and are we comfortable with our risk-adjusted margins that we get now that we've had the benefits of 12, 18 months of cohorts that are maturing.

So great progress. We're thrilled that we took, what five years ago in Canada was a small bit number five player, and now we are going to be a top three player in North America over the next few years in auto lending.

John Aiken - Barclays Capital - Analyst

Is there actually anything that you can pull cross-border from the transaction, other than the handful of assets?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Capabilities are actually really quite helpful to us. We find this in all of our businesses. Because both our US bank and our Canadian bank are frankly, very large, then the amount of sheer synergies you get from scale is, frankly, less than you might think, given you can get north of -- you can get purchasing power, that sort of stuff; negotiation power with things like the payment networks.

But where it really pays off across North America is just talent and the quality of talent you're able to attract. So we got a great management team when we bought Chrysler Financial, bolstered it to our Canadian team, and combined they can actually run a really interesting North American organization that can compete well on both sides.

Our acquisition of MBNA, another great story where not only did we get an incredibly complementary set of skills and capabilities to what we have been able to build up in our traditional branch-based credit card origination business, but we bolstered that with additional talent. And we've now created, I think, a fantastic team to drive the North American credit card business. You do this partly by great hires and partly by acquisitions that you integrate and really take advantage of.

John Aiken - Barclays Capital - Analyst

Very good. We will open up the floor if there're any questions for Tim.

QUESTION AND ANSWER

Rue Bulb *- [Salero Investments] - Analyst*

[Rue Bulb], [Salero Investments]. Canada has seen a big increase in the pricing of the real estate markets in the last several years, and many affordability ratios and statistics suggest it is an over-valued market. Despite that, of course, the strength continues, and the loan quality, etc. remains very robust. And I know you have a lot of measures built in to prevent you experiencing what the US experienced.

Having said all that, there's still that exposure in the knock-on effects. Could you talk about how you think about that for your business?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Yes, great question and something we have been thinking hard about over the last number of years. So, if you went back literally three or four years now, literally at the crisis when clearly Canadian housing values continued to climb when the rest of the world and notably the US declined. When we looked at it and looked at our risks we said, this is actually less of a risk to the bank's earnings and stability because of the structure of the Canadian marketplace, and frankly, it's more of a risk to the Canadian economy.

And so we believe at TD what's good for the country is good for the bank and the other way around, too. And so we actually did quite a bit of work and some lobbying efforts that says that the best way to handle this as a country is actually to take a little bit of the heat off the boil, if you will.

So our Finance Minister over the course of about four years pretty much on schedule, once a year, implements a number of changes that are absolutely taking effect. It might not seem like it when you still see some of the pricing increases that you have year over year, but when we model out the alternative of not having had these impacts, then you would have had a much higher debt to income ratio, much higher housing costs.

So the short answer is, some of the fuel has come out of that growth.

Our belief and our economics team would say there's probably 10% to 15% over-valuation in the market. The most recent changes -- so that would be both the Minister's changes around amortization rates, HELOC loan-to-values -- have just kicked in, literally, just in the last couple of months. So we've yet to see the impact of that. But when you project forward of all of the number of years of changes, our belief is that that will have probably the most curtailing effect, which is why we are all expecting to have lower loan growth going forward.

The balancing act, of course, is to try and make sure that you take the heat off, but, in fact, you don't tip the economy over because you take so much steam out of the housing and the builders market because it's a large part of the economic growth engine.

So I think the balancing act has been done very well. If you ask me how do I feel about the outlook and the risks of tipping over in the housing market, three years ago I was very worried; two years ago I was worried; last year I was a little less worried; and right now, I'm actually feeling that it's quite balanced and quite measured. Because I think the industry has caught on to this idea, and I think the government has reacted and our regulator has reacted very prudently.

Rue Bulb *- [Salero Investments] - Analyst*

I have a follow-up question, actually. At the recent conference, Ed Clark mentioned that you were a lot earlier you had implemented B20 guidelines earlier than your own peers. I think you've mentioned something that you haven't really seen the impact. But my follow-up question, if you can maybe elaborate a little bit on that, and have you seen any impact yet and where you expect the impact and when?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

So there're actually two things that are going on. Both the B20 guidelines, but as well our regulator went across to all of the institutions and did a deep dive on all of our practices and policies. And it was quite helpful for the industry, and they came out with a series of recommendations. Some are implementing them at a certain pace; some others are implementing at a different pace.

Our sense is that we are actually implementing some of these changes perhaps faster than the competition. It's not like we share notes on who's doing what at what time, but there is anecdotal evidence that say there are some things that we will no longer true in terms of a deal that might still get done at some of the competition. Our own salespeople are saying that.

Now, we always have to take that with a grain of salt, but I feel like this is a calibration issue, a timing issue in the industry, and it will all settle out in the next, call it, couple of quarters, because there is a much more stringent set of guidelines both from B20, as well as exception management practices, equity lending, all of those things that you have to implement.

So I think it is sort of short-term calibration pain as opposed to why I'm feeling more comfortable that the overall state of the economy is better protected with this set of new guidelines.

So, as I said earlier, the wanting to make sure that we flow the rate of real estate secured lending growth as a country, it was the desire a number of years ago both of government and I think largely of prudent bankers. We believe that is our position as well. So, on the one hand, we've achieved that. On the other hand, we're now dealing with the implications of that, which is I'm sure, a follow-on question, which is where are you getting your revenue growth from in the future years with a much smaller level of mortgage growth rate.

John Aiken - Barclays Capital - Analyst

It seems to be the questions coming from the back row. A question on the credit card side. You mentioned the MBNA acquisition. I just really wanted wondered I know you had a little bit of time to integrate that team. Could you just update us really what your strategy is in terms of the credit card business in North America generally, where you see positioning the group and how you intend to control risk?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

All right. A couple of comments just on the MBNA acquisition. As I said earlier, a beautiful fit for a complement to what we're already good at, and it gave us a completely different set of skills that we will take into the US because that is really where our growth opportunity is from here.

MBNA took us from a branch-based, number five player in the marketplace to a both branch and direct-based multi-issuer organization, arguably number one and number two in the marketplace in Canada, and gave us a completely different set of skills.

So what have we found since we bought MBNA? Clearly, compared to what we modeled, the credit quality is much better. Both the performance of the cohorts from what we expected in the deal model is substantially better, and the outlook is better. So you could argue that's being conservative on our end, or it could be that the actual economic performance has improved. Both are true.

But I also think that a great learning for us is, when you buy capability and people who are very deep in expertise that you don't have, and you say that's a strategic set, they teach you things. And so the management team at MBNA, 100% of which came over to TD, has the opportunity to pitch us, for example, on the economics of the promo loan business. So this is a business that we basically said, "We don't think we like that." And they said, "Okay, let us tell you about the economics of why this makes sense to do in terms of a teaser rate and what drop-off you get in the loans when the rate jumps back up after a period time." And they make a very compelling case.

So the great news is they have the capabilities and they're convincing us of those capabilities that we, frankly, didn't factor into the upside from the model.

If you look to the US, we see this as being an incredible greenfield for us. Because the Canadian banks generally are very good at lots of sales productivity metrics, notably through bank branches. If you look at our sales per FTE, sales per square-foot, sales per branch, Canadian banks generally and, I think, TD in particular are very efficient when it comes to -- one of the stats I use all the time is our branch in Canada would sell about 50 cards per branch, per month to Canadian consumers. That is a high number by anybody's estimation of throughput.

If you look at our store system in our 1300 stores in the US, that number wasn't 50, it was one, two years ago. And so if I double that number, I still feel that I've got lots of upside.

Well, a couple of years ago it was one. And now we've done, I think, a bit of the groundwork around getting it out there. And in some cases, we will be broaching three, four, maybe five in a given month.

Now, I don't think given the credit profile and our appetite in the US, that it will get to 50. It's just differing markets, but you just know that there's lots of upside from two or five. So we think there's fantastic opportunity to grow.

Unidentified Audience Participant

Just trying to clarify, do you intend, though, also to pursue direct credit card marketing in the United States or to concentrate on the branches that you have?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Yes, the short answer is, we're not sure, but it certainly is a longer-term strategy for us. The way I think of it is we have so much upside in our low-hanging fruit. We have this incredible asset called TD Bank, America's Most Convenient Bank. And it's got all of this pent-up capacity and a multi-million customer base to cross sell to. That's the place where we should target our energy. At the same time, as I said, we're getting more comfortable with how to optimize the risk-adjusted returns of things like direct acquisition, and we will perfect that before we look to go too deep to that in the US.

Unidentified Audience Participant

In terms of asset quality and the coverage ratio, it seems to me that in the past last couple of cycles, the bank has operated very conservatively, building coverage ratio when asset quality is good and maybe letting it come down a little bit when asset quality deteriorates.

Given the change in the business mix, acquisitions in the last cycle, are you looking to start building coverage ratios from here?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

The short answer is, we certainly have not changed our risk appetite and our generally conservative, as you say, approach to things. This is, frankly, one of our greatest strengths. As probably everybody knows, we are the only AAA rated bank left in North America. It is largely as a result of having that conservative approach. We have a phrase that we like which is we try not to make bad loans in good times, so we can continue to make good loans in bad times. And that philosophy of being there for our customers through good and bad is what really pays off. So we don't play at the margin in the best, most frothy times, and we don't make some of those marginal decisions, which you regret immediately after. And in times when things are pretty tough, we try and make sure that we're there to take share.

So the thing applies to when you build up buffers and when you don't come is the short answer.

Response on whether we believe -- with our acquisition of Chrysler Financial and more of the credit card business whether we've changed our risk profile, we don't think so. There's no question that we've gone to higher volatility business as a business mix. I mean credit cards being one. But when we look at the base operations, we completely believe that's within our risk appetite, and the operations of that business will continue to serve us well from a risk-adjusted returns point of view.

Unidentified Audience Participant

I was very surprised to hear you describe the US card landscape as greenfield.

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

For us.

Unidentified Audience Participant

Even so, the issuer basis has gotten a lot more concentrated here over the last few years. Balances haven't grown in, I don't know, what, five or six or seven years. It's been a long time since hard balances actually grew. Can you describe the opportunity why you think this is greenfield?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Yes, so --

Unidentified Audience Participant

It seems like in order to get to any sort of decent size in this business you're going to have to take business away from other people, and the best way to do that is to put the wrong price on a product.

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Yes, so that's generally not the strategy we play. The strategy we tend to play is -- what we found in Canada and we think this is also true in the US is that once you've got a customer as a relationship customer with your entity, then you have a better than even chance to be able to cross-sell customer that additional product.

So, as I said clear, we've got quite robust systems to identify the risk of our existing customers using their activities with us, their deposit balances, their account behavior. And to have systems if you walk into a store and it says, "Hey, you are actually prequalified for a credit card," we know enough about you to say, that's a very high-quality customer, and we get a chance to do that over and over and over again.

When you've got the millions of customers we have with that sort of smarts in a business, you are absolutely right. We will be taking other -- we will be taking cards away from other competitors.

This is not like I would say our auto finance business, just to juxtapose the two. Because our auto finance business is bouncing off of a multi-year trough of lending. So, therefore, the card sales are going to be increase such that we can get additional volumes and don't necessarily have to take share. We will, because we weren't active, but all boats are going to float on that tide.

In credit cards, it is going to be much more a taking share from others, but we're adding capabilities essentially to deepen our relationship with our existing customers.

Unidentified Audience Participant

And is the idea to have a balance-driven strategy? You tiered out the auto business, and it is a super prime and -- your term -- near prime.

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Yes.

Unidentified Audience Participant

Are you going to take a similar approach with cards?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Yes.

Unidentified Audience Participant

Are you looking for a more spending-centric customer? How are you going to do this?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Yes. It's going to be less tiered. Frankly, we're still at relatively early days in our card penetration. You have to remember in the US we have a bankcard business, and we have a store card business. They are both of equal size, but we're only talking just over CAD1 billion in assets now compared to the CAD14 billion, CAD15 billion we've got in the US. So when it comes to our bankcard business, it really is more to it, what's the credit worthy consumers that are already walking through our stores, and can we get our salespeople to just offer them that card?

You find when you do origination through bank branches versus through direct-mail and other tools that the risk-adjusted returns are fantastic, frankly, and their propensity to pay you back is much higher. And they are usually fully franchised or getting to be franchise customers as well. So it's really -- we've got an opportunity to deepen that market before we start to experiment in others.

Unidentified Audience Participant

On the auto lending, when you made the acquisition, you targeted a greater than 100 basis point ROA on that business, and you showed a 20% return on invested capital. Given the surprise, I guess, as you have pointed as to how tight the spreads have become in that market, would you say that you're still generating the type of return that you expected at acquisition?

And then on the other side, I think you reference not extending the risk curve. But I think at the acquisition time, aren't you focused the discussion around the prime quality of these assets, and now we're moving into higher-yielding but subprime auto financing.

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Right.

Unidentified Audience Participant

Is that because of -- do you feel like that's because you're gaining the experience and know-how in that business? So you feel more comfortable there, or is it also a little bit of a yield risk chasing?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

No, we wouldn't go there if we weren't comfortable and getting more comfortable with the risk. What clearly we are learning is that when banks get into this business and they say, "Okay, I'm going to be targeting after prime and maybe little bit of near prime," then if you go to the dealer with that proposition, you will be marginalized versus those suppliers of credit that say, "I'm going to be a full-spectrum lender." Because dealers are just like the rest of us, which is, if you've got somebody who provides you for a good portion of all of your needs, then you tend to give them a disproportionate share of all of those things. By being just in the prime or super prime space, you're actually playing too narrow of a game.

But to move into near prime, which is what we're experimenting with now, is you have to be confident that you have the risk analytics and that there's actually risk-adjusted margins that you can take in that space.

In Canada, we're quite comfortable with that. If you look at our Canadian business, we have pretty much the optimal mix of prime, near-prime, and subprime. Sort of 70%, 20%, 10% is what the industry would say it feels like it's about the optimal mix. So we've got that experience in Canada. Not quite comfortable being that mix in the US yet because they do have different market forces. So we're going to take a look at that and experiment as we go out and prove to ourselves that we have the ability to play well and smartly in that space.

Unidentified Audience Participant

I think that your guidance for the full year implies that growth in year-over-year EPS growth in the fourth quarter is going to be relatively flat. If you look into 2013 to get to your 7% to 10% guidance, what would be different in 2013 from the trends that are affecting Q4 that will allow you to reaccelerate EPS growth into 2013?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

At the all-bank level, I think we're quite comfortable, as I said, that 7% to 10% is our target, and we're targeting the bottom end of that range. As we look at -- we're right in the middle of our planning process, if you will. We're fairly confident that a combination of greater restraint on expenses for next year, that is the trajectory that has been going down.

We don't have the -- we have maybe a bit more credit tail winds that are left to us in 2013 and a few other revenue opportunities to play with. And, as I said, auto finance will continue to grow at a super rate. In our particular business, our commercial business will grow faster. We have got the benefit of MBNA on our books primarily completely this year, but a little bit of a tail wind into next year.

So on balance, probably the macro driver that we've got available to us is that we're going to slow our rate of expense growth. It has been a trend we had started for quite some time, and our philosophy is this is an environment that we're going to be facing for the next few years. So we have to take a look at not just relatively short-term constraints, but, frankly, some more fundamental structural reasons for how can you actually run this place more efficiently going forward.

Unidentified Audience Participant

Is there anything unique about Q4 that will drive more or less flattish EPS growth?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Yes, we tend to have a phenomenon of fairly substantial expense growth at the tail end of the year. I think Colleen, our CFO, said that we're looking at about a CAD250 million bump in the last quarter. We've done that in the last few quarters -- sorry, fourth quarter of the last number of years. We examine it -- 40% of that feels like it's pretty structural and it's just sort of a timing issue. We've got a bunch of initiatives that are resulting in about another 40%, and then there's an increased marketing spend of about another 20% of that spend.

So, if you look at those things and you say, "Okay, do you have to do that every year?" No. Do you wish it was more smooth throughout the quarters? Yes. But it is a phenomenon we tend to have a bit more uniquely in the fourth quarter.

Unidentified Audience Participant

In the US, are you presently holding all residential mortgages in portfolio, or are you selling some of them in the secondary market?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

I think we're holding 100%. It's not my business, but I believe we're holdings 100% on the balance sheet.

Unidentified Audience Participant

Yes. I know commerce had that, too. I think they sold some, but they held a lot. And I guess that's a tradition in Canada, there's no secondary market, so you hold them on portfolio?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Yes.

Unidentified Audience Participant

I know you're doing a lot of business in refinancings and modifications as well, in which you charge a fee to modify. Do you hedge that? And if you do, how do you hedge it? How many years you go out? Let's say somebody is five, six, seven years into a 30-year loan, and they do a modification. And the person is breakeven after a year. I notice you've increased your fee from, I think, 0.05% to 0.625% for those that are more than five years out. And I think it's over a point --

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Let me stop you there. You are asking more detail than I can give you because I am the Canadian guy.

So the short answer is, in our US business, yes, we do hold primarily on balance sheet. Yes, we're growing that mortgage business quite fast, and I think our mix is a lot of 15 year versus 30 year. We found, I guess, a way of trending that product more to a shorter amortization.

But I would say that your point about hedging -- I don't know the specifics about how we're hedging our breakage risk, but I can tell you our general philosophy is that we don't take risks that we can't hedge. So our treasury and balance sheet management team, I'm sure, has found a way to hedge away a good portion of the risk that you're talking about. I just couldn't answer anything more than in the theoretical, I'm afraid.

Unidentified Audience Participant

Just one other thing, in terms to the US market, when there're some of your branches or you call on the phone and you go on your website, you are very competitive in the 15- and 30-year fixed. And you go into some of your competitors, the Citis, the Chases and Bank of Americas of the world, and they may have 0.125 lower, but you don't charge points, it seems and they charge 1 point or so. So you're very competitive in our residential mortgage market in the area.

Unidentified Audience Participant

Tim, there was an interesting transaction that happened in Canada recently, where --.

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Which one was that?

Unidentified Audience Participant

Yes, ING was the essentially branchless high interest savings account. Did TD kick the tires on that? And in absence of that asset now, is there any focus on maybe looking at that as a strategic avenue for growth and deposits?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Well, short answer is, anything of that size that comes up, of course, we look at it. Canada is a market in such that they are so few properties of scale left that you can't look at every one and say, "Okay, strategically this is a fit." I mean obviously with MBNA, it was a classic thing. Now that is such a great fit.

ING, in our case, was not a good fit. So going forward, it will be interesting to see the effect it has on the marketplace. I mean, clearly, Scotia has declared how they're going to operate it. And so time will tell as to whether it continues to be a good fighter brand for them, commensurate with their main brand.

It will be interesting to see whether that changes the dynamics of the competitive market for around deposits, which seems to be the frothiness at maybe a little less so now, but certainly in the beginning part of the year, it was a lot frothier. So it will be interesting to see how that changes.

Many banks have tried direct engines from an acquisition point of view. They tend to be not very sticky deposits, as you know. And the proposition has to be very few or very, very well executed for it to resonate with consumers because you do make some trade-offs as to the breadth of offering. So we'll see.

Unidentified Audience Participant

And, Tim, you've been actually very good on net interest margins. I mean, there's been some compression. Obviously, MBNA did help on that. What's your outlook for margins if we continue to be in such a low interest rate environment?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Our guidance is that we expect onesies and twosies per quarter from here on in. It will be mostly a direct function of the low interest rate environment. And, again, when we look forward, we feel like it's best to suppose that that is going to be maintained for a number of years. We will certainly see a troughing of margins as that rate tends to average out over the duration of our tractors, and that feels like it's probably more into the 2014 timeframe. But in the meantime, barring any different competitive behavior, that is what it will feel like for the next little while.

Unidentified Audience Participant

And you touched upon the strategic approach that you have on expenses. In Q3 -- after Q3 does not look -- make it seem like we're actually in a slowing revenue environment. But if that is truly the case going forward, how much more difficult does it be to being able to generate a positive operating leverage, strong positive operating leverage when your revenue growth is capped at single digits?

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

I think we have strengths and weaknesses when it comes to that or advantages and disadvantages. The primary advantage is that we've had the benefit of this strong revenue growth, a couple of points higher than the competition for almost a decade.

The advantage that that has created is a fairly sizable buffer that I think of as being a project portfolio. In our operating expense any given year, we've got a fairly substantial portfolio of projects that as one gets implemented, one new product, new implementation, then we go to the next to fund on the list and then that gets going.

If you've had 2, 2.5 points of expense growth greater than the rest of your competitors, my belief is that you build up the portfolio of size over years that gives you a buffer, and then if you have to tighten that back, you have the opportunity that maybe the competition doesn't have quite as easily. On the other hand, that same buffer of projects that have been implemented over the last number of years will continue to generate returns. So that's another advantage.

I'd say the disadvantage is that we have been very much focused on growth. We are a revenue growth engine organization. And, as a result, there's a cultural inertia around growth and doing more.

So the approach we're taking -- and I'm sure you've heard Ed and others, Colleen, talk about it -- is rather than a fire drill, we think that's very dangerous for cultures and for companies when you say, "Okay, we're going from growth to next quarter/your expenses and stop watering the plants." That type of philosophy is very dangerous to an organization.

So we've said fairly simply, "Our strategy has always been the same, which is if your revenue growth decreases, so does your expense growth; now what are you going to do to bring your expense growth in?"

The good news is that in parts of our organization, notably our back offices and our operations units, there's a really high degree of capability that has been built around things like Lean Six Sigma; reengineering; global sourcing; offshoring. Those capabilities and the people that run those units are widely available now for other parts of the bank to draw on. Parts of the bank that might have been much more focused on revenue growth and now realize, oops, I've got to find some opportunities for reengineering and for productivity gains.

And, frankly, there are some greenfield opportunities on that front, too, internally.

Unidentified Participant

I think we have time for one final question.

Unidentified Audience Participant

Yes, on the MBNA acquisition, how does that affect US operations? I think you implied that it might. I thought that was just the Canadian credit card operation -- the US was integrated into Bank of America.

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Yes, the way to think about it is, what was -- in credit cards, what do we have? We had a number five player in Canada that was really good at originating in branches.

What did we buy with MBNA Canada? Well, obviously, a non-branch-originated, affinity-based, very analytically-oriented organization with very complementary skill sets. You put them together, and you've got the skill sets of a fully fledged card operator.

Now it wasn't -- they had no operations in the US. But the skills and capabilities that we bought, we absolutely believe we can bring to the US in terms of our card footprint there and our operating strategy.

Unidentified Audience Participant

Okay. Thank you.

Unidentified Participant

Thank you, Tim. Thank you very much. We really appreciate it.

Tim Hockey - TD Bank Group - Group Head, Canadian Banking Auto Finance and Credit Cards & President and CEO, TD Canada Trust

Thanks for having me.