TD BANK GROUP
BANK OF AMERICA MERRILL LYNCH
CONFERENCE CALL WITH BHARAT MASRANI
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QUESTION AND ANSWER

Operator

Good day, ladies and gentlemen, and welcome to today's investor conference call with TD Bank U.S. P&C Group Head, Bharat Masrani. Please note that this conference is being recorded. For opening remarks and introductions, I would like to turn the conference over to Mr. Steve Theriault. Please go ahead, sir.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

Thanks Holly. Good morning everyone and thanks so much for dialing into our call this morning with TD Bank's Bharat Masrani. As most of you know, Bharat is Head of TD's U.S. Banking Division. He is also a member of TD Bank's Board of Directors and has previously served as Chief Risk Officer and other senior roles within the bank. Bharat, unfortunately, has come down with a bout of laryngitis, and so also joining us on the call this morning is Steve Boyle, who is EVP and Chief Financial Officer of the U.S. Bank, and he will help Bharat weigh in on the Q&A as we go forward here.

So I will start with a couple of housekeeping items. First, on the Q&A, I have pooled investors for questions in advance of the meeting. I've got a few here but we certainly encourage your live questions. After Bharat's brief introductory remarks and a few questions from me, I will ask the operator to poll for questions.

If you don't, your punishment will be you will be stuck with me for the next 45 minutes or so. I have a couple of disclosures I need to make. First, before we begin, may I remind you that the speakers, at today's event, may make forward-looking statements that represent management's views as of today. Any statements are meant to assist listeners in understanding the Company'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 the Company's regulatory filings for the risk factors underlying these statements, which are filed with the Securities Exchanges and on their websites.

Then on my end, I need to relay that conflict disclosures related to the individual companies or securities discussed on this call today can be found on the conference call invitation. So with that excitement out of the way, Bharat and Steve, thanks so much for speaking with us this morning. I will turn it over to you, Bharat, for some opening remarks before we get to Q&A.

Bharat Masrani – *TD Bank Group - Group Head, U.S. P&C Banking*

Thanks very much, Steve, and thanks to everyone for taking the time to join us today. I really appreciate it. My apologies - I am one of the few ones, I guess, or a lot of people are afflicted with this flu epidemic. But more importantly, I lost my voice and I've been asked to ration it as much as I can. So I have Steve Boyle, as Steve mentioned. He's our CFO in the U.S. He will try and quarterback most of the questions, and obviously, I'll try to help when I can.

I think most of you are familiar with our U.S. business, but let me give you just a brief overview. We have now more than $200 billion in assets, more than 1,300 stores, more than eight million customers from Maine to Florida, and more than $170 billion in deposits and $90 billion in loans. This is our U.S. business. We continued to grow organically, and last year, opened 41 new stores and have plans to open 35 or so in the current year. Our model, built on providing our customers with legendary service and unparalleled convenience, has allowed us to consistently grow right through the financial crisis and the recession.

2012 was another record year at TD Bank, America's most convenient bank. We contributed $1.4 billion in net income after tax, up 10% year-over-year to TD's bottom line. Year-over-year, we grew our loans by approximately

12% and our deposits by 8%. We made excellent progress in mitigating the negative effects of Durbin and other regulatory challenges. We have experienced some margin pressure, and I'm sure will you ask me more about that. Largely, to the low interest rate environment, especially for our deposit business, and we'll talk more, and Steve will give you some insight as to how we're repositioning our balance sheet as well.

As I look forward, the operating environment is not particularly friendly to banks. We face a number of headwinds including the low interest rate environment, as I said earlier. Regulatory uncertainty, the fiscal cliff has been replaced by uncertainty around the national debt, slowdown in China, the sovereign debt crisis in Europe, all threatened the fragile U.S. economic recovery.

But we are well-positioned to meet these challenges. We have momentum on our side. We continue to invest in our franchise, and have plans to open approximately, as I said earlier, 35 new stores in fiscal 2013. We continue to take share and have more customers today than we had yesterday. I'm sure we'll have more tomorrow than we have today.

Our regional banking model, designed to deliver the entire bank, has allowed us to consistently grow when others contracted their balance sheets. We look forward to continuing that outperformance in 2013 and beyond. I know this will be a question later on, so I might as well say it. We remain committed to our $1.6 billion target for 2013 and are working hard every day to deliver despite the headwinds we face. With that, happy to open it up for your questions. Thanks very much. Over to you, Steve.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

Thanks, Bharat. I thought I would start us off with a couple, and I thought maybe we could begin with a bit of an update on some of your key geographies, so metro New York, Boston, south Florida. Those have been some of the key areas of focus for you. So could you go through your plans and outlook for those particular regions this year? How many branch openings, what's the competitive backdrop looking like regionally? What are some of the specific challenges in each of those distinct regions?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

Okay. Thanks a lot, Steve. As you mentioned, this is Steve Boyle. I'm the CFO here in the U.S. Bharat is keeping a close eye on me to make sure I answer as he would. You hit on some of the key points, which is we look at our various markets that we're in, and we've targeted certain geographies as high growth markets. That's where we're trying to concentrate our growth.

So as you mentioned, right now we're looking at New York, Boston, and south Florida as key growth markets. We've talked in the past about our take New York strategy. Our goal is to become the fifth largest retail bank in New York over the next few years, and so we're concentrating our store openings there. I think Bharat mentioned that we're planning on opening 35 stores in fiscal 2013. Of that, about 12, we would expect to be in metro New York. So a very significant impact there. We really like our growth dynamics in New York, and that appears to be going very well. So that's about a third of the openings next year.

The second third would be the other two growth markets. So between Boston and south Florida, you would see that we would have another 12 or so stores, and then the final third would be filling in key geographies in our other markets as we go forward. Obviously, they are very different markets. New York is very urban, very wealthy, very large stores.

Boston, we're trying to fill in the urban core there. We have a great suburban franchise, but we're trying to fill in the urban core in Boston. And then Florida, you have good demographic trends with growth down there that we want to try to exploit. We have a good foothold in Florida, and particularly south Florida. But we want to try to build on that through our successful de novo plan, and that's exactly what we're doing.

Bharat Masrani – *TD Bank Group - Group Head, U.S. P&C Banking*

The only thing I would add with south Florida is that it plays very well with our Northeast concentration. A lot of our customers from the Northeast do bank with us in Florida, as well as play extremely well with our Canadian business. We recently launched something called a North American account for our Canadian clients, and that allows the clients in Canada to get U.S. type of functionalities for the U.S. dollar account. That's early days, but I'm extremely excited as to the potential for that business. So the south Florida continues to be a key market for those additional reasons.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

Someone e-mailed in a question that's related. It was how do you think about branch openings and geographies that are overbanked already where the marginal utility must be deteriorating from a return on invested capital standpoint? Is that an issue for you as you build out in some of these regions?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

Yes, so we clearly look at the competition in each region as we go to look at whether we want to open new stores or not, but generally, the key focus for us has been, we have a take share strategy. So we're focused on what the deposits are available in the market, and we need to feel confident that we'll be able to steal share from the other banks in that market. So it's less about what the demographic growth in the area is or how under banked or over banked it is. It's more about the competitive dynamics. We feel that there's three stores on a key corner, and we're going to open on the fourth corner. Our model is going to allow us to take share from those other three competitors. That's the key dynamic that we work with, and that would be a good reason why, for example, in New York, we've been so successful.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

Okay. Before we turn it over to the phone lines, I wanted to ask a couple questions on expenses. Ed Clark said recently, that the executive team has now proposed their 2013 investments that they think will improve cost structure for 2014. It sounded like an annual process to me. So I was hoping you could talk about some of the initiatives from last year that will impact the business in 2013. Then turn to some of your more recent proposals and action items that you would have coming down the pipe in 2014, all with the vein of thinking about how the cost structure could be improved.

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

Okay, great. Thanks, Steve. First, let me just say one of our tenants that we are thinking about as we put together our plans for each year is that we want simultaneously to be improving our productivity in our core ongoing operations, while maintaining our investments for the future. So it's a fact, I think, that we've been able to invest consistently through the downturn that has enabled to us keep our momentum as we move forward.

If you look back at 2012, some of our critical investments, one that we're particularly proud of is teller image capture. This was a real win-win-win for us. We were able to automate at the teller on the capture of the transactions. It provides better service to our customers, fewer errors in the back office, and we've seen about 60% savings and item processing cost and actually improved resiliency when we have snow storms and things like that. So that was a huge win for us. We're trying to find other projects like that, that are going to be equally successful.

We've done a lot of other things as well. We began our refresh of our ATM fleet. What we've seen there is that the machines are much easier to work with for our customers. They're all image-enabled and so they can see their deposit images. That's helping to migrate some of the routine transactions from the teller line to the ATM, and is allowing us to optimize the staffing in some of our stores. Similarly, we invested in online account opening, and so more of our accounts are now being opened electronically. Obviously, that reduces our costs as we move forward.

As we look towards 2013, we're continuing that ATM roll-out. We're continuing to enhance our online offerings. We're also dealing with some other things like consolidating some of our back office real estate facilities that allow us to be more efficient in working together and to reduce the costs of those operations through smaller number of facilities.

We're also investing in many of our lending systems to reduce the amount of manual intervention that we have in our lending processes. Again, that improves our speed. It reduces our errors. It allows us to be more efficient as we put more volume on, which I'm sure we'll talk about later. So those are really the key initiatives we had for last year and for this year. And then beyond the investments, we have a real focus on process improvement and reengineering our processes. That also is showing tremendous pay-off for us.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

So when you boil it all down, there are definitely some moving parts in the segmented disclosure but how do you feel about operating leverage? Your level of confidence in achieving, like, now that you have gotten to critical mass, are you starting to get a higher level of confidence [in] achieving year in and year out positive operating leverage? Is that a realistic goal over the course of the next few years?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

Yes, so I think so, Steve. Obviously, we'll talk probably a little later about the Target acquisition, and that will add a bit of noise to our numbers as acquisitions always do. But if you boil down to the core underlying numbers, obviously, we have a pretty significant uptick in our earnings expectations for the year. We would expect that you'd see some modest positive operating leverage during the year. Hopefully, we'll continue that momentum into the future, despite the significant headwinds that we're seeing from the rate environment.

Bharat Masrani – *TD Bank Group - Group Head, U.S. P&C Banking*

The only thing I would add is that, Steve, we open, as I mentioned, and Steve has talked about, lots of new stores as well. That has a negative impact on our expenses. So that always puts pressure on what you're talking about. But it's an important part of our strategy that we will continue to invest for the future. So we've got to balance out as to what we're trying to achieve. So that's a component that folks should keep in mind, as they look at our expense growth.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

Okay. So why don't I pause there, and operator, could you pool the lines for questions, please?

Operator

James Keating with MFS Investments.

James Keating - *MFS Investments - Analyst*

Quick question -- it's Jamie and Bruce Murray here. Quick question on non-organic. Can you give us some reassurance you don't have a mega-deal out there, RBS Citizens, or something like that, that we're all focused on going forward, Bharat? Also curious about, if you can talk to specific competitors a little bit, you don't have to name names necessarily, but just give us a little feel for how many of these peer banks are making a comeback? It feels to me like the U.S. banking system is replete in liquidity and ready to rock and roll. I don't know if that reconciles with the way you mentioned, Bharat, before, with the constricted balance sheet but maybe I'm seeing it wrong.

Bharat Masrani – *TD Bank Group - Group Head, U.S. P&C Banking*

Sure. So I guess I better take this one. Firstly, the second part of your question, I think that is a fair assessment. I think the competitors do have repaired balance sheets and a lot of them have repaired their reputations. Frankly, the space we are in is, all of a sudden, quite fashionable, which is retail and commercial banking. So, without a doubt, the competitive dynamic has changed compared to what we saw through the depths of the financial crisis, where we did have an advantage, where others were otherwise occupied.

But that doesn't mean that we don't have opportunities to compete effectively. We do have a unique model. When we say that our model is centered around legendary service and unparalleled convenience, we do mean that. That's why you consistently see that we've been able to take share, both on the asset side and on the deposit side. Frankly, I don't see that disappearing.

Secondly, Steve Boyle mentioned earlier, when we open new stores, our model is centered around taking share so he used the example of the junction where there's three banks. We actually love going into a market that is over-banked, and a lot of competitors, as long as it has got lots of deposits and lots of banking transactions, because we know, with time, we will get share, based on our model, the way we operate, et cetera. So yes, in a competitive environment, without a doubt, is more intense than it might have been previously, but I think we still continue to have good opportunity. Given our model, I feel good that we will get good growth, and we will be able to outperform. The metrics that I worry about is, are we getting more customers? Do we have good asset growth? Are we getting a bigger share of our customers' business, etcetera, etcetera. So that will be the general comment I would make.

In acquisitions, I think Ed has been very consistent and has made it very clear as to what acquisition strategy we've been following. Firstly, the great news here is that we don't have to do any deals. We have sufficient scale in the markets we operate. We have an organic growth strategy and engine that has been proven and shows that it consistently can grow in a lousy environment. So the good news is that we don't have to - you're not strategically challenged from that perspective.

Second point is that, yes, we've had a constant appetite, and we've done deals on the asset side of our balance sheet, given the structure of our balance sheet, the amount of deposits we have, etcetera, the liquidity we have. Our assets do make sense to us, and Target and the Auto Finance business is a good example of that. Thirdly, we've also said that where we can find tuck-ins that are going to accelerate our organic growth, like in south Florida, we will look at those deals seriously. We did, with South Financial.

As far as large deals go, I know there's lots of speculation out there, but again, I think what Ed said in our earnings call is what we are. Yes, the outlook in the U.S. appears to be improving than what it might have been, but it is still not, as if we are back to the pre-crisis, or pre-recessionary, levels so there's a cautious situation there. We've said that, yes, compared to two years ago, are there better prospects? Yes, perhaps. But if we were to even look at anything like that, then it would have to meet our full criteria. Does it make strategic sense? Does it make financial sense? Is it a market type of a deal? Is it financeable from a market perspective?

So there are a lot of hurdles out there. I cannot speculate because there's no deal available, but these are the general framework that I would provide you. I tell you where I sit. I'm not staying up nights looking for deals and all that, because we are busy organically growing our bank, and that's what we're showing every quarter. So that's how I would respond to you.

Steve Theriault – ***BofA Merrill Lynch Canada - Analyst***

As a follow-up, as you can imagine, incoming e-mail questions, there were a number on acquisitions. Bharat, conceptually, as the U.S. Group Head and a member of the Board, conceptually, how do you feel about this situation where you could have close to 40% of your earnings coming from the U.S.? If at some point, the stars aligned and a large deal, at some point, was executed on, and that became a bigger part of the business? The concern is, isn't that too high, given the regulatory environment pressures, uncertainty? Just would like to hear how you think about that.

Bharat Masrani – ***TD Bank Group - Group Head, U.S. P&C Banking***

First to clarify, Steve, I'm not a member of the parent Company Board. I'm a member of the U.S. Board only. So that's just a point of clarification. Secondly, yes, I think people do think of what metrics with TD use - but we are in the space. We said we would be. We've been consistent from day one that we want to be a scale growing credible player in the personal and commercial space in the U.S.

The metrics in the U.S. are compelling. The growth over the long term has been excellent. The fragmentation of the market allows our model to resonate. We've shown that, and we will continue to do that. So I don't worry about exactly what percentage of retail earnings come from the U.S. or Canada. Obviously it's a consideration. Yes, the regulatory climate is quite challenging, and can sometimes be difficult to manage. But these things have a timeframe on it. My view is that the U.S., over the long term, is a very attractive market for a bank like TD. What I mean by that, our model resonates, our strategy has been clear, and we'll be continuing to deliver on that.

If that means that our U.S. business will be a growing part of the bank, that's a good thing. So I don't worry about, does it have to be 33.1% or 38.5%? I think if it fits our strategy, and we continue to grow, then that's a good thing. Perhaps my wish is and I know Tim Hockey would love this as well, that organically, this becomes a much bigger part of TD Bank. We're not going to stop organically growing our banks. That's the best way I can describe it, Steve.

Steve Theriault – ***BofA Merrill Lynch Canada - Analyst***

Okay. Thanks for that. Could we go on to the next question, please?

Operator

AJ Grewal with bcIMC.

AJ Grewal - ***BCIMC - Analyst***

My question is around the new definition of qualified mortgages. I want to get a sense of, one, how you think the industry has been behaving, or will behave, and two, what does this mean to you? The question is, now that the industry has a good sense of what qualified mortgages are, and it would seem to me there was a reluctance over the last few months for banks to extend credit, because they didn't know how that liability would pan out. Now that you do, does this mean you are going to start to make more loans, or is it going to be increased volume, or is this just the same as the last few months that you see going forward?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

Thank you very much. So I'm going to try to limit my comments to our bank, which I feel like we're pretty qualified for. Perhaps we can get back to you on the industry viewpoint with some of our mortgage experts. But in terms of how we look at the mortgage market and the impact of the qualifying mortgage rules, we feel like it's very consistent with the way that we've always operated our bank. We're studying the rules, but we think that the vast majority of our loans will be qualified mortgages that we're, well within the sweet spot of those regulations. We don't think it will really have any impact at all on deals that we do or on our transaction flow.

We do have a de minimis amount of private banking loans that are interest-only that would be non-qualified. We anticipated that going in. Those are underwritten to extremely high standards. So we think, for us, this is largely going to be a non-event that will be more of an operational issue in terms of making sure that we have a strong compliance and documentation and those kinds of things. But it really won't change the way that we approach the business or the types of loans that we do or how we underwrite them.

AJ Grewal - *BCIMC - Analyst*

Just to follow up, does this increase the pool of, for lack of a better word, border line or sub-prime loans, or near prime loans, where you could -- the banking industry could raise the spreads or put a higher yield on them? Obviously, that would help in the long run, and the returns would be better. I would think the returns would be better over the cycle, given that we are now coming off a pretty large unforeseeable event over the past four or five years.

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

As you know, we're a prime or super-prime lender. We really don't play at all in the non-prime space. I think if you read the papers and look at the analysis, I think it would say that the CFPB was trying to make sure that the restrictions weren't so onerous that you'd see a big choke-off in credit available to folks. So I think that you will see that probably you'll maintain a pretty similar flow that, that's not going to have a dramatic impact. I think that was the intention. That's our best guess as to what you are going to see.

AJ Grewal - *BCIMC - Analyst*

Okay. If I can just switch gears here for a second. The industry's margins have been under pressure for a few quarters now. I think you guys alluded to some balance sheet mix - remixing, I guess. What can you do on your end to mitigate or lessen the pain on that front?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

So I would say a few things. First of all, we have somewhat of a unique balance sheet here in the U.S. bank relative to our peers. So we have significantly more deposits than we have loans. So when we're in a period like we were last year where we're growing our loans much faster than our deposits, instead of increasing the denominator in our net interest margin, we were essentially getting a favorable mix benefit, where we were having loans replace securities on our balance sheet.

So you saw, while we were experiencing a lot of the trends that the industry is experiencing and seeing our deposit spreads compress, you didn't see as big a decline in our net interest margin percentage. So for example, fourth quarter this year versus fourth quarter last year, we saw about 12 basis points of compression as opposed to, like, linked quarter, I think it was about 11 basis points of compression. Having said that, we are feeling the same pressure that the industry is feeling. Rates are as low as they've ever been, and that's compressing the spreads on our deposits.

As you look forward, one of the things that we are looking at is that rates are so low that we're going to try to manage the duration of our balance sheet. We're looking at shortening the duration of our investments somewhat. As that happens, you may see that we'll take a somewhat higher level of security gains than you've seen historically. That really has two impacts. So that helps to offset the NIAT impact of margin compression, but it will probably reduce our NII as we execute that strategy. So you will see probably some additional pressure on the margin, and that's really the net balancing act that we're going through. We're trying to manage through this challenging interest rate environment.

AJ Grewal - *BCIMC - Analyst*

I'm sorry, don't mean to monopolize here, but I just had one more question on the NIM. When does that accounting noise go away?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

So we have a diminishing pool of loans and securities that we have the complex accounting -- on the purchase accounting treatment, so we inherited some non-agency CMOs from commerce. Those are very long-dated securities, but they are still on our books, and so those amortize down each period, and the impact of that is less and less. Then in terms of the material acquisitions that we did, we had the Florida banks that we bought, and TSFG. Those were three or four years ago, so those continue to amortize down, and the noise will continue to decrease on those as well. So I think you will see that it will be with us, but it will be diminishing over time as we move forward.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

Do you have a sense, Steve, when it slips into immateriality?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

I would say if you compared this year versus last year, the noise might be half in terms of in order of magnitude, and I won't say that it's going to be immaterial. But I'd say it's going to be much less significant, probably in another year or two, I would say, hopefully you won't hear us talking about accretion anymore.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

I had one more quick follow-up to AJ's question which came to me via e-mail. What would you think of in terms of a more normal deposit spread? That's certainly tricky but can you help us understand at all your current deposit spread versus where you think that might normalize? Obviously, there's competitive questions, but anything you can provide us there?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

Yes, I think it's really hard to say, because it all depends on when rates turn. If you look at the forward curve, which is probably the best indicator of rates, we should start to see an uptick in 2015, 2016. But even those forward curves don't really show a normalization back to the good old days when we would see a bond ladder at 4% or 5%. So it's really the overall level of interest rates that impacts our overall margins.

I think you are going to see when rates do come back up, margins are actually going to expand pretty significantly on deposits. So it's really a call on when rates are going to change. I think the key thing, when you look at our balance sheet, is that we have a very, very low cost of deposits, and a very, very significant amount of demand deposits and non-maturity deposits that aren't rate sensitive. So when rates do start to normalize, we're going to have a significant benefit from that on the upside.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

I thought it would be interesting to ask, you mentioned the 12 basis point Delta Q4-to-Q4. Again, trying to gain some insight on what the structural changes in the balance sheet are doing. Could you ballpark at all what the drop might have been without a change in mix, like how much mix would have helped over the course of those 12 months?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

Yes, so I probably should have mentioned before, if you look at that period of time, loans grew 17%, whereas non-Ameritrade deposits grew 7%. So you had a very significant replacement impact. I don't have that number in front of me, but I think it's fair to say that your compression would have been more significant, and perhaps we could give that number to you afterwards.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

Okay, thanks. Operator, can we go to the next question?

Operator

Absolutely. Yassen Dimitrov with Dynamic Funds.

Yassen Dimitrov - *Dynamic Funds - Analyst*

My question is just a follow-up on the net interest margin. So we had the 3.5% to 3.75% guidance range before, and obviously, we're going below that. Are you prepared to give a new range for the NIM, and how much lower than 3.5% do you expect to go as a result of the balance sheet restructuring and the continuing pressure?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

So I don't think we've updated that range. I wouldn't want to do it on this call. But it can bump around by several basis points each quarter, and the mix impact. Maybe a better answer to the question would be - we've done our analysis that would say if loans and deposits grew at the same amount, and you kept NII the same, you could see a 20 or so annual basis point decline in the margin. So I think you could see some further decline in the margin, but I don't think we're giving out a range at this point.

Yassen Dimitrov - *Dynamic Funds - Analyst*

Okay, thank you. And that's excluding the impact of Target.

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

I'm sorry, yes, that's vis-a-vis the Target. I'm sorry, that's before the Target acquisition.

Yassen Dimitrov - *Dynamic Funds - Analyst*

That's what I'm saying. That's excluding the Target impact.

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

Once we do Target, maybe I'll just speak a little bit about that. So we would expect probably to close the Target acquisition next quarter. That's going to have a material positive impact on our margin. So all those comments were really ex-Target.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

Next question, please, operator?

Operator

Nicolas Caron with GE Asset Management.

Nicolas Caron - *GE Asset Management - Analyst*

You referred to having new branches in the U.S. in order to grow the market share but I'm thinking as well, looking at where banking is heading, is probably finding the right balance between branches and online and mobile banking. So could we have an update what you're doing there? I'm thinking as well if you want to be the most convenient bank, probably you want to have a better platform than competition so where do you see yourselves versus the others in the U.S.?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

So I think you're absolutely right. We don't just want to be America's most convenient bank in our stores. We want to be America's most convenient bank across all of our channels. I talked about investments before. Clearly, we're making substantial investments in all our direct channels, whether it's phone banking, the ATM, or our online offering. We have a number of improvements that are coming out in our online offering. I talked about online account opening. We're rolling out enhancements to our online bill pay system.

We are working to make our website more friendly and convenient to our customers, and increase the ease of use. I think one of the biggest areas where we've seen a huge amount of uplift is in mobile. So we introduced a mobile app last year. We've seen tremendous uptake there. I think that the new volumes, that the usage is overtaking some of our online banking usage. We have continued enhancements that we plan to roll-out this year as well.

Nicolas Caron - *GE Asset Management - Analyst*

Do you have a ratio of how many of the clients would use alternate means of banking?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

Yes, so it's increasing significantly. I don't have that number with me. Unless you know, Bharat.

Bharat Masrani – *TD Bank Group - Group Head, U.S. P&C Banking*

Yes, it's a big percentage. The way our model works, we're generally agnostic. So the same client who might come into our store may use mobile or online in the evening and the following day, is back in our store. So we are less of a monoline online player like some players might be out there. We are a multi-channel Company. So that shows that there is -- I don't have the exact number of how many of our 8 million customers are also online registered customers. I don't have that number.

But my suspicion is that we would be no different than any other major player, but Steve mentioned, we're making a very large investments in the space. It's important that we do. It is a very important channel. The take-up has been very impressive. So you will see us continue to enhance our offerings there and make sure that not only are we convenient, but that we are well up there with major competitors there on functionality, on product offerings, on what we can do from a sales perspective in these channels, because these are all new areas.

I don't know whether recently you've seen, we have a new campaign in the U.S. as to what TD America's most convenient bank stands for. Using our online channels for that campaign is as important to us. So it's a long way of saying that we recognize how important that is. We want to become a leader in the space. So arguably, we are not a leader, but, on the other hand, nobody is, but we continue to make investments. You will see that focus ongoing for the next few years.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

You mentioned good uptake a couple of times, Steve and Bharat. Could you give us any numbers around that, like how many of your customers have downloaded either the Android or the Apple app for mobile banking?

Bharat Masrani – *TD Bank Group - Group Head, U.S. P&C Banking*

It's a huge number, Steve. I don't recall, Steve, do you?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

No, we've won some awards for our offering, and I think it's in the millions, but I don't have an exact number.

Bharat Masrani – *TD Bank Group - Group Head, U.S. P&C Banking*

Maybe next time we get together with you, Steve, and your clients, maybe we'll have those numbers available to you. I don't have it offhand, but I know we're doing pretty well. We're not disadvantaged as to what I hear from my people on what the market might be doing.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

Okay. Next question, please. Thanks, guys.

Operator

Charles Ellwein with Capital Group.

Charles Ellwein - ***Capital Group - Analyst***

I had a question, going back to the NIM comments you were making. Steve, when you talk about the rate increases, I would be curious on how you are thinking about also the shape of the yield curve. If the rate increases drive the flattening of the yield curve, do your comments around getting a lift in NIAT still hold? How does the NIAT opportunity differ if the entire yield curve increase versus the short-term rates increase?

Steve Boyle - ***EVP & CFO, TD Bank, America's Most Convenient Bank***

So we'd love to see increases anywhere on the yield curve that we could get them, but to your question, there's actually a bigger impact for us at the lower end of the yield curve right now. So we have lots of money market and savings accounts, the two that we saw an increase in LIBOR. We'd be able to lag those rates up, and we'd see a very dramatic improvement in our numbers. To the extent that we see increases at the long end of the curve, it is going to help us over time with our investments. We'll see that as we average those new investments in over time, we'll see a gradual lift in the margins. But you actually see a better improvement if it happened at the short end of the curve.

Charles Ellwein - ***Capital Group - Analyst***

Let me also just follow-up. When you talked earlier about selling the whole bank……

Operator

I'm sorry, there. I apologize. Charles, could you requeue at this time?

Steve Boyle - ***EVP & CFO, TD Bank, America's Most Convenient Bank***

I think what we were going towards was to cross-sells, and we do have a very significant emphasis on cross-sells. One of the huge benefits of our model is that we acquire lots of customers through DDAs, and through mortgages, which are both anchor products. Then that enables to us sell lots of other products, whether it be savings, credit cards, or wealth offering, other types of loans, home equity. So that's a huge area of emphasis for us, and area where we continue to get better and better as we move forward.

Steve Theriault – ***BofA Merrill Lynch Canada - Analyst***

Charles, is your line open? Did that answer your question?

Operator

Charles, your line is open.

Charles Ellwein - ***Capital Group - Analyst***

I was also just wondering on the success of that cross-selling versus in Canada. Some folks have mentioned that the U.S. consumer doesn't resonate as well through the cross-selling opportunity as they do in Canada.

Steve Boyle - ***EVP & CFO, TD Bank, America's Most Convenient Bank***

I'd say that we're more of a personal and commercial bank in the U.S., and so we're building out our wealth offering. I think there are certain products in the U.S. that tend to be more concentrated in monolines, perhaps, than in Canada. A credit card might be a good example. So we've had good growth in our credit card business, but lots of U.S. consumers still have what would -- at least, once were monoline-type credit cards. But I think, fundamentally, it's the same business, and we're seeing very strong improvement in our cross-sells as well.

Steve Theriault – ***BofA Merrill Lynch Canada - Analyst***

Next question, please, operator?

Operator

Craig Jerusalim with CIBC.

Craig Jerusalim - ***CIBC World Markets - Analyst***

To follow up on the question that Steven asked about reaching critical mass and being able to start focusing on operating leverage. Is that actually a strategic change in how you're thinking about the business in terms of changing focus from that ramp-up mode where costs are higher, and now you're starting to see the fruits and the benefits of that prior higher spend?

Steve Boyle - ***EVP & CFO, TD Bank, America's Most Convenient Bank***

Yes, I think the way we would look at it, is it's not like a strategic reversal or major change in the way of thinking. But as we evolve, our base is bigger. So the number of new stores that we have is a smaller percentage of the total, and so it's a bit less of a drag each year as you move forward. So I would say it's much more of an evolution than a strategic change that we have.

Steve Theriault – ***BofA Merrill Lynch Canada - Analyst***

Next question, please.

Operator

Tim Johal with Investors Group.

Tim Johal - ***Investors Group - Analyst***

Just had a question around, a follow-up on one of the other questions related to the shortening of the duration of the securities portfolio. Can you quantify what kind of margin pressure that will cause in terms of NIM compression into next year? Then, along the same lines, last quarter we saw a pretty good example of what kind of securities gains would come out of shortening that duration. If we think about earnings in 2013 and delivering on the $1.6 billion, will a component of that come from higher securities gain? How are you thinking about that? What would the Delta be year over year on potential securities gains in 2013 over 2012?

Steve Boyle - ***EVP & CFO, TD Bank, America's Most Convenient Bank***

So I'd say a couple of things. I don't think we're going give any specific margin ranges going forward so I don't really want to comment specifically on the securities piece. But I think if you think about it, if our securities portfolio has a three-year duration, and you saw a fairly long-dated security, you are going to take more of that income in the short term and then that's going to be lesser NII over the longer term.

The second part of the question, we had a reasonably significant amount of securities gains in 2012. So you will see a bit of a lift probably year over year, but not a dramatic number, I think. So clearly, the securities gains will be elevated, but it's not going to be significant number. I think the point I should have mentioned before, when I was talking about the securities gains, is that really, the reason that we are doing this, in addition to shortening duration, is that under Basel III now, the AOCI is a significant component of our capital. To the extent that, that if rates do go up in the future, that could have a significant negative impact on our capital. So a key part of the strategy here is to crystallize some of those gains and make sure that we take some of the volatility potentially out of our capital number.

Steve Theriault – ***BofA Merrill Lynch Canada - Analyst***

Next question, please.

Operator

AJ Grewal with BCIMC.

AJ Grewal - ***BCIMC - Analyst***

I just wanted to get a sense of - the Canadian banks have traditionally charged higher for checking accounts. What I mean by that is they have minimum balances and charge for checking accounts. The American banks, up until recently, traditionally really haven't done that because of the competition. My question is, does your experience in Canada give you any sort of differentiation one way or the other in how you deal with your clients in the U.S.?

Steve Boyle - ***EVP & CFO, TD Bank, America's Most Convenient Bank***

Yes. So I would say that one of the things that we've found is that while our customers and our business models are very similar in Canada and the U.S., the competitive dynamic is quite different, and it really needs to be tailored to the individual environment. Having said that, we have the industry. We have been looking very hard at our product offerings in light of the difficult environment and other changes that are going on in banking. We introduced a new product suite last year that really rewards customers that do lots of banking with us, that have multiple products, and also make sure that we are getting fairly compensated so we have appropriate minimum balances and whatnot.

The key to that, for us, is that we always want to make sure that we have a superior value proposition to our competitors. Our fees had been on the low end and so we've been able to do that in a way that's very customer friendly, and we've been able to continue to see very strong growth.

Bharat Masrani – ***TD Bank Group - Group Head, U.S. P&C Banking***

The only thing I would add, I haven't spoken for a bit, so my voice seems to be a little better. The only thing I'd add is that even in the U.S., historically, if you look at, I think it was in the '70s and '80s, a lot of the retail banking fees came from maintenance fees on accounts or transaction-based fees, et cetera. Then you had the advent of overdrafts and debit fees. So the banking system adapted to that, where you had free checking, et cetera, et cetera, because most of the income was coming through overdrafts and/or debit fees.

Now, since those are under pressure somewhat through change in regulation, and all that, you can already see a movement back to, like you said, minimum balance fees or maintenance fees or some other transaction-based fees in the accounts. You can see, and I would maintain that, yes, there will be bumps in the road, as the model changes, but banks -- the consumers do need banking services. They do need checking accounts, and banks will adapt to the new environment. Some banks will do it faster than others. But I see that, that's how this will play out, and if overdrafts and debit fees continue under pressure, then maintenance fees will go up.

The math works pretty straightforward. It may take a quarter or two but that's how I see it playing out. It's pretty consistent from that perspective except you've got to be, as Steve said, more mindful of the environment you're in. You don't want to rush into a new space without some measured approach and all that. But to follow over the long term, I see all these fees that are under regulatory pressure in the U.S. getting replaced with some other forms of income through those accounts.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

We're starting to bump up against 11.00. Operator, we could maybe take one more question, if there's something in the queue?

Operator

We have no further questions in the queue at this time.

Steve Theriault – *BofA Merrill Lynch Canada - Analyst*

Maybe I will just take one quick second before we finish for one last question since we didn't really touch on it here, on the Target credit card acquisition. This gets you more substantively into U.S. private label credit cards. Do you think that this will help you leverage, that you will be able to leverage Target into more deals and more wins? I would like to know if you think that part of your business is going to get bigger. I would be interested to know, would we see deals of this nature, do you think, where a lot of the economics stays with the retailer, or more straightforward purchases going forward?

Steve Boyle - *EVP & CFO, TD Bank, America's Most Convenient Bank*

Thanks, Steve. So the Target deal is a great deal for us. I think it plays perfectly into our strategy and our balance sheet, where we have fantastic deposits, and we want to deploy our assets into higher yielding assets. In terms of the structure, I think we're really excited about the Target structure. We like the profit-sharing and the loss-sharing components of the way that, that's modeled. It has been great for us already to be associated with such a high-quality name as Target, such a leader in the industry.

I think it does have the potential to open up a lot more opportunities for us. I think, in terms of the structure, we'd love to do more deals like the Target transaction and that kind of structure. But we are still open to more traditional purchases of credit card assets, to the extent that we think those have ongoing business flows with them. We're not really looking for run-off portfolio. So that's, I think, our key criteria.

Steve Theriault – ***BofA Merrill Lynch Canada - Analyst***

Thanks for that, Steve. So, yes, I think we need to leave it there. We're, I think, a couple of minutes past the hour. So thanks everyone so much for dialing in, and thanks Bharat and Steve, for your time this morning. Bharat, I hope you can get some rest over the weekend.

Bharat Masrani – ***TD Bank Group - Group Head, U.S. P&C Banking***

Thanks very much, Steve. Appreciate it, and good call. I appreciate it.

Steve Theriault – ***BofA Merrill Lynch Canada - Analyst***

Thanks. Have a great weekend, everyone.

Bharat Masrani – ***TD Bank Group - Group Head, U.S. P&C Banking***

Thank you.

Operator

Thank you. Again, ladies and gentlemen, that does conclude our conference for today. We thank you for your participation. You may now disconnect.