# TD BANK GROUP
# Q1 2014 EARNINGS CONFERENCE CALL
# FEBRUARY 27, 2014

## DISCLAIMER



## FORWARD-LOOKING INFORMATION

From time to time, the Bank makes written and/or oral forward-looking statements, including in this document, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission, and in other communications. In addition, representatives of the Bank may make forward-looking statements orally to analysts, investors, the media and others. All such statements are made pursuant to the "safe harbour" provisions of, and are intended to be forward-looking statements under, applicable Canadian and U.S. securities legislation, including the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements made in this document, the Management's Discussion and Analysis in the Bank's 2013 Annual Report ("2013 MD&A") under the headings "Economic Summary and Outlook", for each business segment "Business Outlook and Focus for 2014" and in other statements regarding the Bank's objectives and priorities for 2014 and beyond and strategies to achieve them, and the Bank's anticipated financial performance. Forward-looking statements are typically identified by words such as "will", "should", "believe", "expect", "anticipate", "intend", "estimate", "plan", "may", and "could".

By their very nature, these forward-looking statements require the Bank to make assumptions and are subject to inherent risks and uncertainties, general and specific. Especially in light of the uncertainty related to the physical, financial, economic, political, and regulatory environments, such risks and uncertainties – many of which are beyond the Bank's control and the effects of which can be difficult to predict – may cause actual results to differ materially from the expectations expressed in the forward-looking statements. Risk factors that could cause such differences include: credit, market (including equity, commodity, foreign exchange, and interest rate), liquidity, operational (including technology), reputational, insurance, strategic, regulatory, legal, environmental, capital adequacy, and other risks. Examples of such risk factors include the general business and economic conditions in the regions in which the Bank operates; disruptions in or attacks (including cyber attacks) on the Bank's information technology, internet, network access or other voice or data communications systems or services; the evolution of various types of fraud to which the Bank is exposed; the failure of third parties to comply with their obligations to the Bank or its affiliates relating to the care and control of information; the impact of recent legislative and regulatory developments; the overall difficult litigation environment, including in the U.S.; changes to the Bank's credit ratings; changes in currency and interest rates; increased funding costs for credit due to market illiquidity and competition for funding; and the occurrence of natural and unnatural catastrophic events and claims resulting from such events. The Bank cautions 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 2013 MD&A, as may be updated in subsequently filed quarterly reports to shareholders and news releases (as applicable) related to any transactions discussed under the heading "Significant Events" in the relevant MD&A, which applicable releases may be found on www.td.com. All such factors should be considered carefully, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements, when making decisions with respect to the Bank and the Bank cautions readers not to place undue reliance on the Bank's forward-looking statements.

Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2013 MD&A under the headings "Economic Summary and Outlook", and for each business segment, "Business Outlook and Focus for 2014", each as updated in subsequently filed quarterly reports to shareholders.

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

## CORPORATE PARTICIPANTS

**Ed Clark**
*TD Bank Group – Group President and CEO*

**Bharat Masrani**
*TD Bank Group – Chief Operating Officer*

**Colleen Johnston**
*TD Bank Group – Group Head, Finance, Sourcing & Corporate Communications, and CFO*

**Mark Chauvin**
*TD Bank Group – Group Head and Chief Risk Officer*

**Mike Pedersen**
*TD Bank Group – Group Head, U.S. Banking*

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

**Riaz Ahmed**
*TD Bank Group – Group Head, Insurance, Credit Cards & Enterprise Strategy*

**Rudy Sankovic**
*TD Bank Group – SVP, Investor Relations*

## CONFERENCE CALL PARTICIPANTS

**John Aiken**
*Barclays – Analyst*

**John Reucassel**
*BMO Capital Markets – Analyst*

**Jason Bilodeau**
*Macquarie Capital Markets – Analyst*

**Michael Goldberg**
*Desjardins Securities – Analyst*

**Steve Theriault**
*Bank of America Merrill Lynch – Analyst*

**Rob Sedran**
*CIBC World Markets – Analyst*

**Peter Routledge**
*National Bank Financial – Analyst*

**Mario Mendonca**
*TD Securities – Analyst*

**Sumit Malhotra**
*Scotiabank – Analyst*

**Meny Grauman**
*Cormark Securities – Analyst*

**Darko Mihelic**
*RBC Capital Markets – Analyst*

## PRESENTATION

**Rudy Sankovic – TD – SVP, Investor Relations**

Good afternoon and welcome to the TD Bank Group's first quarter 2014 investor presentation. My name is Rudy Sankovic. I am the Head of Investor Relations for the Bank.

We will begin today's presentation with remarks from Ed Clark, the Bank's CEO, and Bharat Masrani, our COO, after which Colleen Johnston, the Bank’s CFO, will present our first quarter operating results. Mark Chauvin, Chief Risk Officer, will then offer comments on credit quality, after which we will entertain questions from those in the room and from prequalified analysts and investors on the phone. Also present today to answer your questions are Tim Hockey, Group Head Canadian Banking, Auto Finance and Wealth Management; Mike Pedersen, Group Head US Banking; Bob Dorrance, Group Head Wholesale Banking; and Riaz Ahmed, Group Head Insurance, Credit Cards and Enterprise Strategy. Riaz also has responsibility for the capital and treasury activities of the Bank.

Please turn to slide 2. At this time I'd like to caution our listeners that this presentation contains forward-looking statements. There are risks that actual results could differ materially from what is discussed and that certain material factors or assumptions were applied in making these forward-looking statements. Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes.

I'd also like to remind listeners that the Bank uses non-GAAP financial measures to arrive at adjusted results to assess each of its businesses and to measure overall Bank performance. The Bank believes that adjusted results provide readers with a better understanding of how management views the Bank's performance. Ed and Bharat will be referring to adjusted results in their remarks. Additional items on items of note, the Bank's reported results and factors and assumptions related to forward-looking information are all available in our Q1 2014 report to shareholders.

With that, let me turn the presentation over to Ed.

**Ed Clark – TD – Group President and CEO**

Thanks, Rudy, and welcome, everyone.

Bharat and Colleen are going to be up shortly to discuss our first quarter results in detail so let me just give you some of my thoughts about the quarter as a whole.

Well, frankly, TD performed very well in the first quarter. Earnings were up 6% on the year and crossed the $2 billion threshold for the first time. Earnings per share were also up 2% to a new high of $1.06 on a split basis. This impressive performance was driven by record retail earnings and a very strong quarter in Wholesale.

In addition to these positive results, we are all pleased to declare a dividend increase of $0.04 this quarter, which is equivalent to $0.08 on a pre-split basis. With this increase, our dividends paid for the fiscal year will rise by more than 13% year-over-year and our payout ratio will be much closer to the midpoint of our 40% to 50% target range.

As we said when we adopted the higher range in the third quarter 2012, we intended to reach the midpoint through steady dividend growth and we have delivered on our commitment, a great result for our shareholders. In fact, since the third quarter of 2012, our quarterly dividend will have risen by over 30%, including today's increase.

The $0.04 increase is larger than we have delivered in the past, and that is because it may be our only dividend increase this year. While we recognize our investors have enjoyed the recent pattern of twice per year dividend increases, we have decided to take this opportunity to give ourselves more flexibility with respect to the timing of dividend increases. Investors should not read anything into this shift. Clearly our dividends will increase in line with earnings and we intend to continue to be guided in deciding the size of dividend increases by the desire to move to the midpoint of our target range.

With respect to capital allocation, we ended the quarter with the Basel III common tier 1 ratio of 8.9%, almost level with last quarter. That is despite the impact of the Aeroplan acquisition, the impact of the CVA capital charge and IFRS Phase II.

Overall, I am very pleased with where we stand. They year is off to a good start and we have great momentum in our core businesses. The US recovery is gaining strength, enough that the Fed has begun tapering its quantitative easing program and it now seems clear that US GDP growth is likely to outstrip Canadian GDP growth.

We are well-positioned to benefit from this rebalancing in North American economic activity given our strategy of diversifying our earnings outside of Canada. In addition, the exchange rate has moved in our favor, which is obviously reflected in our results this quarter.

Low interest rates, slow personal loan growth in Canada and a demanding regulatory environment continue to affect the fundamentals of our business. On the other hand, we expect to see some normalization of interest rates in 2015. And as we have noted before, we will benefit meaningfully from that shift because of the structure of our business and the structure of our balance sheet.

Until then, we are focused on striking the right balance between managing near-term profitability and investing in future growth. Improving the productivity is obviously key. By finding efficiencies today, we can fund increased investment in our business and distribution channels.

Clearly expense growth was elevated in the first quarter. We remain committed to achieving positive operating leverage and expect expense growth to decline later in the year. We believe that the combination of positive operating leverage, the embedded revenue opportunities we have in our growth businesses and support from a favorable exchange rate, should enable us to reach the bottom end of our 7% to 10% target range for Total Bank EPS growth this year after adding back the insurance losses we announced in the third quarter of 2013.

We will have to work hard, of course, to make sure that we achieve that result. But of course, you would say that is what we are paid to do and we are feeling increased confidence that we will succeed.

With that, let me turn it over to Bharat.

---

**Bharat Masrani – TD – Chief Operating Officer**

Thank you, Ed, and good afternoon, everyone.

As Ed said, fiscal 2014 is off to a very good start with a record performance in our combined retail operations and a strong quarter in Wholesale. Let me review the key drivers of these results.

Our Canadian Retail segment delivered 5% earnings growth this quarter. Personal loan and deposit volumes were solid and business lending continued to grow at double-digit rates. Our Canadian credit card business saw higher transaction volumes driven by the Aeroplan acquisition and our Canadian wealth business benefited from healthy asset and fee income growth as well as stronger trading volumes.

Core net interest margins were stable. Earnings were further supported by continued improvement in credit, as well as positive operating leverage. Offsetting these positive drivers, our insurance business saw net income decline for the quarter as the severe winter led to an increase in weather-related claims, consistent with the experience across the industry.

Looking ahead, we continue to feel quite good about the outlook for Canadian Retail. As you know, this is our first quarter with Aeroplan and we are off to a great start with much stronger account growth than we had anticipated. We could not be more pleased with the first month of activity. As expected, the competitive response has been fierce. This is good news for consumers, but we feel very confident about our offering.

Our US Retail segment also had a good first quarter with net income up 5% from a year ago, excluding TD Ameritrade. The Target and Epoch acquisitions made a strong contribution as did our ability to deliver stronger organic loan and deposit growth than our peers, and underlying credit quality improved.

The major drag on growth in the quarter was a lower level of security gains. As we indicated on the Q4 call, this will be a factor for the rest of the year. As a result, while we expect good growth in our operating businesses and continued good fundamentals, we expect our US Retail segments to deliver a modest increase in US dollar earnings in fiscal 2014.

Our Wholesale segment delivered strong results in the first quarter, reflecting robust growth in trading related income and higher advisory and underwriting fees. ROE was 21%. TD Securities made further strides in building out its US dollar fixed income business globally. Being approved as a primary dealer by the Federal Reserve Bank of New York will be beneficial in this process. We are very pleased with the performance of our Wholesale business in the quarter. While trading revenue is likely to ease from this quarter's level, we expect our Wholesale segment can continue to deliver 15% to 20% annual returns.

To wrap up, the year has started on a positive note. Our core businesses are generating good organic growth and our earnings will get a lift from recent acquisitions, the first full-year of Epoch in the US wealth business and of Target and Aeroplan in our US and Canadian credit card businesses. As Ed mentioned, we are also benefiting from a stronger US dollar, partly reflecting the out-performance of the US economy.

At the same time, we face a difficult operating environment marked by low interest rates, heightened global volatility and a full regulatory agenda. It will take energy and hard work to navigate these headwinds and achieve our goals for earnings growth and expense management while continuing to invest in the future. But I'm confident that with a proven strategy, strong brand and experienced team we have everything we need to succeed.

With that, I'll turn it over to Colleen to review our results.

---

**Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO**

Thanks, Bharat, and good afternoon, everyone. Let me take you through our results.

Please turn to slide 4. And we'll start with highlights. We delivered record adjusted EPS of $1.06, up 6% year-over-year. Total Bank adjusted net income of $2 billion was also up 6%. This marks the first $2 billion quarter for the Bank.

Our segment results include retail adjusted earnings of $1.8 billion, a new record, up 8% over last year including the impact of a stronger US dollar. Wholesale net income of $230 million, up 44%, due to strong trading results. And the Corporate segment posted a loss of $38 million. Overall a strong result for the Bank this quarter.

Please turn to slide 5. This slide presents our reported and adjusted earnings this quarter with the difference due to five items of note. There are two items that I would like to highlight. The $196 million after-tax gain on the previously announced sale of TD Waterhouse Institutional Services, and the $115 million after-tax impact charges related to the acquisition of the Aeroplan Visa credit card program and TD share of the existing portfolio. Please note this item impacts Canadian Retail and not our Corporate segment.

Please turn to slide 6. Canadian Retail delivered a good quarter with record adjusted net income of $1.3 billion, up 5% year-over-year. The increase was driven by good loan and deposit volume growth, higher fee income, primarily in wealth, and favorable credit performance, partially offset by have higher weather-related insurance claims.

Loan and deposit growth was good this quarter. Total loan growth was 5% year-over-year with real estate secured lending volume up by 4% and business lending growth up a strong 13%. Card growth was strong at 14%, due mainly to Aeroplan. Personal and business deposits increased by 4% due to strong growth in core checking and savings accounts, partially offset by lower term deposit volume.

NIM increased 2 basis points sequentially mainly due to the Aeroplan card acquisition. We expect margins to be relatively stable over the next couple of quarters depending on product mix, seasonal factors or rate moves. Credit performance continues to be strong with PCL and personal banking down $17 million from last year, primarily due to lower bankruptcies, principally in credit cards. Business bank and PCL remains stable.

Adjusted expenses were up 5% due to the impact of merit increases, higher variable compensation, particularly in the wealth business, and the Aeroplan card acquisition. Operating leverage was positive at 50 basis points.

While we've consolidated the Canadian wealth and insurance businesses into Canadian Retail, we continue to provide disclosure on those businesses. The wealth business made a strong contribution with 19% earnings growth driven by strong asset growth with assets under management up $16 billion, or 8%.

The insurance business experienced severe winter weather in December and January, which has increased current year claims. February weather has also been harsher than prior years. Excluding the 44% decline in insurance earnings, Canadian Retail earnings rose 12% versus last year. Overall, a good performance for Canadian Retail.

Please turn to slide 7. US Retail, which includes the US personal and commercial banking businesses, US credit cards, US TD auto finance, US wealth business and TD Ameritrade, delivered 16% adjusted net income growth year-over-year. US Retail, excluding TD Ameritrade, had adjusted earnings of US$398 million, an increase of 5% over last year. The increase reflects the Target and Epoch acquisitions and good organic growth, partially offset by securities gains, which declined by US$52 million versus the same quarter last year.

Adjusted revenue increased by 24% year-over-year due to the Target and Epoch acquisitions, good organic loan and deposit growth, partially offset by lower net interest margins, excluding Target, and lower gains on securities sales. Excluding Target, average loans were up 9% year-over-year with a 10% increase in personal loans and a 9% increase in business loans. Average deposits increased by 9%.

Our net interest margin was down 6 basis points sequentially. The negative impact of acquired loan accounting more than offset an improvement in core margins. While deposit margins have steadily improved over the past several quarters, we are now facing pressure on loan margins, given the competitive environment. PCL increased by US$46 million due to the Target card portfolio, partially offset by improved credit quality and lower losses related to acquired credit-impaired loans.

Adjusted expenses were up versus last year due to Target and Epoch acquisitions, investments and growth initiatives, partially offset by productivity improvements. Earnings from our ownership stake in TD Ameritrade in US dollars were up 35% year-over-year, mainly due to higher underlying earnings.

All in, a good result for our US Retail business. While the fundamentals of the business remain strong, earnings growth in the US is expected to be modest this year as security gains in 2014 will be materially lower than in 2013.

Please turn to slide 8. Net income in our Wholesale business of $230 million was up 44% compared to the first fourth quarter last year. The increase in revenues was primarily driven by higher trading related revenue, advisory and underwriting fees that benefited from improved volumes and strong underwriting activity.

Revenue was up by 20% over last year due to strong trading related revenue and strong fees from advisory and underwriting businesses. Trading related revenue was $408 million, above our normalized level of $300 million. Non-interest expenses were up by 5% compared to last year due to higher variable compensation in line with higher revenue. ROE this quarter was 26%.

Please turn to slide 9. The Corporate segment posted an adjusted loss of $38 million in the quarter compared to a gain of $49 million last year. The Q1 loss represents a more normalized result in corporate segments. The change versus last year was due to lower gains from treasury and hedging activities, prior year positive tax items and reduction of allowance for incurred, but not identified, credit losses related to the Canadian loan the portfolio, partially offset by the gain in sale of TD Ameritrade shares.

Please turn to slide 10. Core expenses for the year, excluding the impact of foreign exchange and acquisitions, were up by 5.5% over last year. Excluding higher variable compensation, expenses rose 4%.

The elevated rate of expense growth this quarter was due to a number of timing related items, in particular, lower productivity gains, which are expected to increase as the year progresses. As such, our rate of expense growth is expected to decline as we move through the year. Expenses were down $159 million quarter-over-quarter, excluding FX, M&A and higher variable compensation. We remain focused on delivering positive operating leverage at the Bank level for the year.

Please turn to slide 11. Our Basel III common equity Tier 1 ratio was 8.9% in the first quarter, down 10 basis points versus Q4 of 2013, despite the inclusion of the CVA charge, the impact of pension accounting changes and the acquisition of Aeroplan balances. We are pleased to announce a dividend increase of $0.04, or 9%, from the current level on the heels of last year's 12% growth.

As Ed mentioned, the frequency of our announcements on dividend changes will not necessarily be twice a year. We've demonstrated our commitment to increasing our dividend payment payout ratio toward the midpoint of our 40% to 50% range. Starting this quarter, we are allocating capital to our businesses based on an 8% common equity Tier 1 requirement compared to 7% last year. Overall, we continue to remain well-positioned for the evolving regulatory and capital environment.

With that, I will now turn the presentation over to Mark.

**Mark Chauvin – TD – Group Head and Chief Risk Officer**

Thank you, Colleen, and good afternoon, everyone.

Please turn it to slide 12. Performance across the Bank's credit portfolios remained strong during the quarter with several notable highlights. First, annual loss rates in Canadian Retail real estate secured lending and commercial loans continue to run at very low levels as evidenced by trailing four quarter loss rates of 1 basis point and 13 basis points, respectively.

Second, completion of the Aeroplan cards acquisition at the end of December improved the already strong credit quality of the Canadian cards portfolio, resulting in a combined loss rate of approximately 3%. The Wholesale bank recorded another quarter of no credit losses coupled with a reduction in gross impaired loans to a very nominal level.

And lastly, improvements evident in US Retail credit quality during the past year contributed to material reductions in commercial gross impaired loans and credit losses during the quarter. The net result was a reduction of the Bank’s total credit losses on both a year-over-year and quarter-over-quarter basis when adjusted for acquisitions and a weakening Canadian dollar. While it is unrealistic to expect further improvements in credit quality, I believe credit quality will remain stable for the balance of the year based on current economic forecasts.

With that, I'll turn it back to Rudy.

## QUESTION AND ANSWER

**Rudy Sankovic – TD – SVP, Investor Relations**

Thank you, Mark.

We will now open it up for questions. To give everyone a chance to participate, please keep to one question and then re-queue if there is time. For those participating in the room, can I ask you to identify your name and firm before asking your question. Before ending the call today, I will ask Ed to offer some final remarks. So why don't we get started in the room then.

**John Aiken – Barclays – Analyst**

Colleen, you mentioned some disappointment in terms of the expense growth in the quarter stemming from productivity initiatives. Can you give us some sort of sense as to what these initiatives really are and what we're going to see in terms of potential revenue growth versus expense growth for the remainder of the year?

**Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO**

So just to take a step back, John, we do a very rigorous analysis every quarter of the sources of our expense growth and the reductions in that growth. So we look at what -- the increase in our base expenses is, our variable compensation, our projects and initiatives spend, any special or unusual items and then our productivity gains. So we have a very good handle on all of those various moving parts. And as I mentioned in my remarks, if we look at what we would call an elevated level of expense growth in the quarter, the fact is that we do expect our rate of productivity gains to increase as we go throughout the year.

So we did have the restructuring charge at the end of the year and a number of those items are still -- there's a bit of a lag effect in terms of when those actually start to affect our expenses. So we talked about the rationalization, for example, of some of our premises and some store consolidation and brands consolidation. We've really look across the Bank at a whole variety of other initiatives that will help to permanently reduce our cost base. So they really go right across the board.

We are looking at initiatives with our strategic sourcing area and the work that we do in terms of leveraging our scale and buying power. And we have some pretty significant savings coming from that as well.

So really the goal is to make sure that we can manage the rate of -- if you look at the project in initiative spend and our base growth is certainly to try to neutralize a fair amount of that through the productivity gains. So we do expect our rate of expense growth on a full-year basis to be below what you are seeing here today, excluding the effect of variable compensation.

**John Aiken – Barclays – Analyst**

Thank you.

**John Reucassel – BMO Capital Markets – Analyst**

Ed, just the dividend -- I guess you indicated you might not have another one this year and you just want more flexibility. Could you talk about why you feel the need, or the Board feels the need, for more flexibility now? What's changed now versus two years ago?

**Ed Clark – TD – Group President and CEO**

Yes. I think when we -- two years ago we were down at somewhat less actually than 40% payout ratio. And so we said well, let's start a program to get ourselves much closer to the new midpoint range. And that seemed to say well, I think if I was a shareholder, and as you know, I am a shareholder, a very large shareholder, it would feel better if we didn't sort of just every year do an increase, that we really said we're going to fast-track this and every two quarters do it.

And so then when we came to this year we said well, why not? We haven't got all the way here but we got a significant way here with a more significant -- really twice what we've been -- the pattern that we've had. Why don't we get that so the shareholders can see we're pretty close now to get there.

And it does have the added benefit that says -- who knows where the world would be in the next two or three years? But we can break this pattern of every twice a year always having a dividend increase. So it just seemed a prudent thing to do to achieve both goals, get ourselves more rapidly to the payout ratio and buy ourselves that flexibility that we get.

**John Reucassel – BMO Capital Markets – Analyst**

But just to be clear, if you expect EPS growth of 7% over time -- pick a number -- you'd expect dividends to grow in line with that earnings?

**Ed Clark – TD – Group President and CEO**

Absolutely. In fact, I think probably in our case still a little faster than the 7% but not as much faster as we have been doing because we are not quite there to the midpoint. So we would definitely -- we have a very strong view that dividends should grow in line with earnings.

**Rudy Sankovic – TD – SVP, Investor Relations**

Thanks, John. Jason --

**Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO**

But I think it's worth adding, and we've made this point, but if you look now at having done this large increase earlier in the year, if we don't increase the dividend, again in the year, that will still mean that our dividend growth on a year-over-year basis is about 14%. And if you take that versus, let's say, the low end of our 7% to 10% range, the dividend growth is literally double the EPS growth, which to Ed's point, does get us pretty close to the midpoint of our range. So we think it's great to get there sooner.

**Rudy Sankovic – TD – SVP, Investor Relations**

Jason?

**Jason Bilodeau – Macquarie Capital Markets – Analyst**

For Bharat and Mike, the outlook for US Retail seems pretty muted but it sounds like a lot of that has to do with the securities gains. So if we sort of look through those, can you talk about the core banking business? Given the volume growth that you guys got, is that going to be growing earnings year-on-year at a good pace? Or is the rate environment just still very challenging for you guys?

**Mike Pedersen – TD – Group Head, U.S. Banking**

No. I think the issue is the securities gains year-over-year. It's public, based on our previous disclosures that there were US$295 million of gains last year and it will be significantly less than that this year. You saw that in the first quarter.

In terms of the core business, as you can see, growth is very strong and significantly stronger than the industry in both loans and deposits. So we are clearly building the franchise. Colleen commented on margins and we held up well in Q1. And looking forward, we expect deposit margins to be fairly stable.

But we are seeing some industry pressure in loan margins in some categories. For example, in business banking, the competitors are being more aggressive both in terms of price and structure. We're being very disciplined in both respects and so far so good have both in terms of margin and in terms of our volumes, which continued to be strong.

But it is difficult right now to predict what the lending margins will be. There is noise and uncertainties, so that's why we've characterized it as Colleen did earlier.

**Jason Bilodeau – Macquarie Capital Markets – Analyst**

And then -- sorry -- I missed in your opening remarks you did, I think, mention something about a rate increase. Did you mean the US in 2015? Was that --

**Ed Clark – TD – Group President and CEO**

Yes. What I said in my remarks -- who knows? I think we are at a very unusual -- but we've been in a very unusual, economic position for some time and that continues. And I think there is uncertainty about -- is the US in a pause right? Or did it just have bad weather?

I think we come down that it's not in a pause. It just had bad weather and that, fundamentally, the US recovery is going there. But there is a question on that.

And I think how deep the issues are going to turn out to be for China, you can go either way. I hear a lot of experts either way.

But barring that, if our view, which is that China may slow down a bit but it's going to continue to have pretty good growth. The United States -- the Federal Reserve we do believe will continue its tapering program to get rid of the quantitative easing.

And if the US recovers, then I think most observers would say long end rates, which are not short end rates -- I think that's still a way away. But I think longer end rates, which are the key rates that affect a lot of our core deposits, should continue to back up in 2015. But we may be in for this part of 2014 -- a pause in the marketplace as the market tries to figure out the United States and China -- where this is going.

**Rudy Sankovic – TD – SVP, Investor Relations**

Thanks, Jay. Michael?

**Michael Goldberg – Desjardins Securities – Analyst**

Consumer lending is slowing down -- we see from all the banks that have reported, but business lending is more robust.

Ed, what do you attribute the stronger growth in business lending encounter to? And, Mike, if you want to comment -- are you seeing a similar trend in the United States?

And also, if I can ask, Ed, when you said -- who knows what the world might be looking like out over the next couple of years? What are the type of fears that you have about where the world might be over that time?

**Ed Clark – TD – Group President and CEO**

Well, to take your first question -- I think you would love -- I would love to be able to answer that 100% of the business growth in loans in Canada is all productive investments in non-real estate sector. I don't think that would be an accurate description. So I do think it is a mixture that we are continuing to see a fair amount of activity in the real estate side.

But we also are seeing productive investments. And clearly that's what Canada needs if it's going to participate in the upsurge in the United States and I think regain some of its export share in the American import market. We've got to have Canadian firms investing. And so this is a good thing that that growth is.

I don't think I have any particular insights into what I worry about. I think I worry about what I've always talked about.

I worry that can China manage this transition? Because it is often the case in economies like China and emerging markets, where you can get to one level of GDP and you find it hard to get to the next level because it requires fairly significant institutional shifts in your economy and in your political structure. And they're going through that -- how they make it a more market-driven economy and how they have a more market-driven banking system.

And so you always worry that that will stumble and I think we see that when China stumbles the emerging market world stumbles. I think that's pretty clear.

I think you worry could the United States stall? But as I come down -- my view is I think the United States has got -- now got takeoff momentum here. I think it's repaired its balance sheet.

I think what's going on in the housing market -- I think, again, you can see some pullback given how fast it's recovered. It's actually recovered faster than I think. But I'm very positive on the United States.

And I think Europe remains a mixed bag. I think there are parts of Europe that are clearly repairing themselves and getting out of their difficulties. And there are, obviously, a few countries that you continue to worry about and you hope they'll get a more reformist zeal because that's what they're going to have to do to continue to grow.

**Michael Goldberg – Desjardins Securities – Analyst**

Just to elaborate, are you seeing signs when your people talk to clients -- business clients -- of improving business confidence?

**Ed Clark – TD – Group President and CEO**

Yes. I think definitely. I think that -- I think the worry brows I think reduce significantly on both sides of the border.

**Michael Goldberg – Desjardins Securities – Analyst**

Thanks very much.

**Ed Clark – TD – Group President and CEO**

Mike, do you want to --

**Mike Pedersen – TD – Group Head, U.S. Banking**

Yes. So our loan growth was obviously very strong during the quarter, up 15% overall and 9% excluding Target. Personal lending was up 10%, lending up 9% -- within that 9%, excluding Target. And our lending growth, as I said before, was significantly higher than our competitors.

Industry-wide I don't see dramatic decreases in loan volumes. And I echo Ed's comments that I've seen a lot of clients in the last quarter right through our footprint Maine to Florida and there is improving sentiment when I talk to commercial and business clients.

The one area where I would say there's obviously a slowdown, is mortgages. So if you look at our year-over-year growth it was 12.3%, which is obviously still strong. But quarter-over-quarter, if you ignore the modest sale we made, it was more like 8% annualized. So that's a pretty fast rate of slowdown.

So we still believe we'll outgrow the market and that's because we are underpenetrated against our customer base and we are improving our sales force and our capabilities. But we are seeing a slowdown so industry originations were down 58% year-over-year. And the end -- the refi boom has clearly ended.

So it'll be interesting to see what happens in the spring selling season and after the winter weather. But our goal is to continue to outgrow.

And I would just point out that even with -- after the sales pretty flat mortgage growth in the quarter, we still had 9% lending growth overall. So we've got lots of loan businesses -- lending businesses where we are doing well and lots of diversification and opportunities for growth.

**Ed Clark – TD – Group President and CEO**

Tim, do you just want to comment on Canada, both personal and commercial?

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

On the business side, as you know we had strong growth, Michael, at 13%. We are seeing that in the industry overall, the market share numbers that we get, a few months dated would say that that growth in business lending in Canada is starting to slow down. It's starting to get in the high single's as opposed to low double-digit.

We've been gaining share, which has been contributing to that extra growth rate. We, frankly, are doing it in what we call the mid-market, the 1 to 5 range.

Small business is fairly flat for us. There is increasing consumer and business confidence, which is contributing to that. But, frankly, we're seeing the benefits of the investments we've made and just adding net new clients as opposed to individual existing clients look to invest more in productivity gains. So it's a good news general broad-based story.

Ag lending, for example -- agricultural lending -- up 27%. So some good underlying numbers.

On the consumer front, we are seeing some good consumer uptick. We had a stronger even ex-Aeroplan consumer lending growth. Real estate secured lending seems to be a nice story for us.

So where as we were seeing a year-over-year slide -- sort of inexorable over the last seven or eight quarters in personal lending growth, that actually has started to rebound a little bit. So that's good going into the spring markets. So generally on balance, a little bit of slowing perhaps on the business side but still good market share gains and a slight acceleration, perhaps, on the consumer side.

**Rudy Sankovic – TD – SVP, Investor Relations**

Great. Thanks, Michael. Why don't we go to the phones, operator?

**Operator**

Steve Theriault, Bank of America.

**Steve Theriault – Bank of America Merrill Lynch – Analyst**

A question for Riaz, if I could, on insurance. I don't think many of us are surprised this is a poor quarter for insurance given the weather that we've seen close to home here.

But looking ahead though, I was hoping, Riaz, if you could address earnings power. And I know you loath to give guidance but can you help us understand a bit how the combination of the poor weather this year, any move to reprice home insurance, any changes you've made or are looking to make to your positioning in Ontario auto?

How do you see that impacting your earnings power over the course of the next year or so? And is there any reason not to expect you get back to sort of that $150 million of core run rate sooner rather than later -- appreciating Colleen's comments that February was another difficult weather month -- but outside of that?

**Riaz Ahmed – TD – Group Head, Insurance, Credit Cards & Enterprise Strategy**

Steve, thank you. So you are right to point out that weather has been difficult from December and right through into February. And one of the things that is obviously of concern to the industry more broadly is the increasing volatility in the weather in the summer and the winter.

So I think that what you'd expect is that there will be a fair bit of repricing that is occurring, and, in fact, has already started. I think consumers are becoming more aware of their coverages and prices. And so I think all of that from a consumer education perspective is a good thing and the industry is going to need to work to make sure that it continues to earn decent returns.

I think in that respect, particularly on the auto and Ontario auto side, it is still early to say because, as you know, some of the industries participants already have their pricing schedules from FSCO, which they will just be starting to implement now and others have not. So we haven't really seen any market impact of that yet but I anticipate that it will be coming for the balance of this quarter -- and for the balance of this fiscal year, I mean.

And then the industry continues to be hopeful that Ontario will do more on the cost reform front. So I think there is a lot of uncertainty. And as you point out, we'll all be concerned to ensure that we are continuing to deliver good returns to shareholders. And it is hard to give you particular guidance on that because I think we're just right in the middle of it.

I'd also remind you that a fair bit of our business is life and health driven and a smaller part is general insurance. So I think, overall, I wouldn't be overly concerned about the volatility on the general insurance side of it.

**Steve Theriault – Bank of America Merrill Lynch – Analyst**

So I can appreciate it takes time. Would you say you are becoming any less competitive in any of your core markets? Are you moving -- is everybody moving at a similar pace in terms of say repricing on home side?

**Riaz Ahmed – TD – Group Head, Insurance, Credit Cards & Enterprise Strategy**

No, I think -- look, our objective is to make sure that our customers are getting the coverage that they need and we'll deliver it to them at the most competitive price. And what we want to make sure is that our book for whatever variety of reasons is profitable in all segments. And that we are not seeing unnecessarily adverse selection and those kinds of things that we want to protect in terms of our direct model. But, no, I think we don't plan on being uncompetitive in this space.

**Steve Theriault – Bank of America Merrill Lynch – Analyst**

Thanks very much.

**Rudy Sankovic – TD – SVP, Investor Relations**

Thanks, Steve. Next question, operator.

**Operator**

Robert Sedran, CIBC.

**Robert Sedran – CIBC World Markets – Analyst**

Actually just quickly, a point of clarification, Colleen. I guess is the reason that the average common equity in the US Retail has gone up almost US$2 billion -- is that the 8% from 7% move talked about in your capital slide?

**Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO**

So if you are talking -- are you talking a in US dollars now?

**Robert Sedran – CIBC World Markets – Analyst**

Yes.

**Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO**

So, yes. US dollars -- I believe the increase was smaller than that unless you are talking about old segment to new segment disclosures. So, yes.

There was a fairly large increase in the capital. It was over US$1 billion related to the move from 7% to 8%.

**Robert Sedran – CIBC World Markets – Analyst**

Okay.

**Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO**

That was the main reason for the increase.

**Robert Sedran – CIBC World Markets – Analyst**

Okay. And, Mike, my question -- it revolves around Target. I guess there was a fairly major data breach in the US during the quarter. And my understanding is that the financial implications to TD are immaterial and, in fact, maybe zero. So first can you confirm that?

And then second, just perhaps some color in terms of what its meant strategically from a spend and new card usage and new card development perspective and whether there's been any lasting impact on the numbers from that?

**Riaz Ahmed – TD – Group Head, Insurance, Credit Cards & Enterprise Strategy**

Robert, it's Riaz. I'll take that if that's okay.

So, yes, I'm happy to confirm that there has been -- we've seen very little impact in terms of fraud losses arising from that particular incident. And I can tell you how pleased we are with how the partnership is working out between Target and ourselves in terms of making sure that we have vigilance and appropriate response to this issue.

There is -- in terms of its impact on spending levels and balanced levels, we would expect that the growth rate might reduce a little bit. But I don't think it's going to be anything material. The program, overall, since we've acquired the portfolio has done fantastically well and a slight reduction in the growth rate won't change the fact that it will continue to be fantastic.

**Robert Sedran – CIBC World Markets – Analyst**

But you have seen a bit of a reduction in the growth rate but you are not expecting it to continue, basically.

**Riaz Ahmed – TD – Group Head, Insurance, Credit Cards & Enterprise Strategy**

Correct.

**Robert Sedran – CIBC World Markets – Analyst**

Okay. Thank you.

**Rudy Sankovic – TD – SVP, Investor Relations**

Thanks Robert. Next question.

**Operator**

Peter Routledge, National Bank Financial.

**Peter Routledge – National Bank Financial – Analyst**

Your common equity capital position is quite strong so I wanted to ask a question about non-common. First of all, it doesn't look to me like you have any worries about non-common this year because maturities are out into 2015 and later. So part A would just be can you confirm that?

Part B would be what are the prospects of the framework emerging for Tier 2 non-viable contingent capital in the next little while? And what are the stumbling blocks?

**Riaz Ahmed – TD – Group Head, Insurance, Credit Cards & Enterprise Strategy**

Peter, it's Riaz. So you are right that there, we don't have any urgency in terms of the need to issue additional Tier 1 or Tier 2 capital. We were pleased to see the preferred share market open in January with three substantial issues.

And so I think that removes at least some uncertainty in that part of the capital structure. And so we think that the market received those issues fairly well and those issues are trading quite nicely. So that was good to see.

As you know, we've spent a lot of time with institutional fixed income investors to do educational sessions around what the conversion features should look like and how that might affect their view. I think the good thing, overall, is that the amount of capital that supports the same risks through the Basel III transition has increased substantially. So overall, if you are a subordinated debt holder, the probability of default has gone down materially. And so the importance of the conversion features has diminished compared to the pre-Basel III world.

That being said, I think there is still a fair amount of work to do just to make sure that we get the alignment of the conversion features between the preferred shares and the sub-debt to preserve as much as we can the hierarchy of claims. And secondly, I think the industry is anxiously awaiting the Department of Finance's guidance on bail-in and we'll have to see how that plays out. So we hope all of that -- those developments come out a little more rapidly so that we can move ahead to resolve that part of the capital structure.

**Peter Routledge – National Bank Financial – Analyst**

Ultimately, you'll have to replace your sub-debt in particular with NVCC sub-debt.

**Riaz Ahmed – TD – Group Head, Insurance, Credit Cards & Enterprise Strategy**

Yes.

**Peter Routledge – National Bank Financial – Analyst**

Leaving everything aside, the cost of financing that part of your capital structure -- the way I see it, it won't be materially one way or the other. I.e. you won't get a benefit or you won't have a higher cost. Is that a fair assumption from -- sitting from here?

**Riaz Ahmed – TD – Group Head, Insurance, Credit Cards & Enterprise Strategy**

Yes. I would not expect it to be a benefit. And I think part of what we're working with the various participants in this -- the fixed income buyers is to say that actually it shouldn't cost a lot because the probability of default has dropped quite significantly.

So I would maintain that the quality of sub-debt that the banks are issuing today with the increased level of capitalization underneath it is actually better than what it was in pre-Basel III world. But I do think that initially there’s likely to be some premium to get the structure out, but over time I think I would expect it to settle back in.

**Peter Routledge – National Bank Financial – Analyst**

All right. That's very helpful. Thanks.

**Rudy Sankovic – TD – SVP, Investor Relations**

Thanks, Peter. Next question, please.

**Operator**

Mario Mendonca, TD Securities.

**Marco Mendonca – TD Securities – Analyst**

Colleen, first I need to understand how important the yield accretion is. These portfolios have been for around for a while now. Could you size the increment to NII from yield accretion this quarter in the US?

**Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO**

Mario, we don't tend to comment on the specific movements in accretion. But if you look at what happened quarter-over-quarter, last year we -- sorry, last quarter we had a positive number that was accretion related, in fact, to the Target portfolio. So that didn't recur this quarter and, in fact, we saw other amounts of accretion decline.

And as you know, part of this is really two things that are happening here. One of which is that you see a shift in the geography of the P&L. And that's really more accounting driven that, as you know, the good news when we have a better credit performance than expected on these acquired portfolios, the good news goes to net interest income but the bad news goes to PCL. So you can see a shift between those two lines. So there's that general noise.

And I would say accretion, to a certain extent, is declining slightly over time as the value of those -- or as the total amount of outstanding balances of the acquired portfolios decline as well. So as we've said that in fact the 6 basis point decline in the margin quarter-over-quarter was entirely due to accretion. In fact, if you excluded the increase, we were up quarter-over-quarter.

**Marco Mendonca – TD Securities – Analyst**

So looking at the PCL's then in the US, I can't tell whether that's related to the accretion -- essentially the bad news in the analogy you were using -- or was there something more fundamental going on with US personal PCL's? Because they did look elevated.

**Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO**

Yes. So what happened with PCL's in the quarter -- so on the face of it it looks like our PCL's are up in the US on a year-over-year basis. But if you exclude the impact of including Target -- the Target business, which just, obviously, was included in this quarter but we didn't have in Q1 of last year.

Our PCL was down on a year-over-year basis and as were our PCL's down in Canada as well. So PCL continues to be a tailwind for the Bank and part of that shift was in the NII.

**Marco Mendonca – TD Securities – Analyst**

Right. So not yield accretion then? It's essentially mostly Target?

**Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO**

No, there was another element that related to this as well. So in this case, the good news went to PCL.

**Marco Mendonca – TD Securities – Analyst**

I get it. Okay. One final thing then.

When Ed was talking about looking at earnings growth in 2014, he made it clear that you'd have to add back the insurance loss. When you talk about Total Bank operating leverage being positive for the year, would you apply the same basis that Ed is?

**Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO**

So, yes, I would. So in any of the numbers that we talk about, we assume that we've added back that \$0.45 impact on the old basis. And that's our new starting base for looking at how we performed in 2014.

The operating leverage calculations have changed as well now that we -- the claims line is shown separately than the revenue line in insurance. But that doesn't relate to the fact that we are in fact adding back all of the losses that we announced in Q3 last year and establishing the base earnings.

**Marco Mendonca – TD Securities – Analyst**

Thank you.

**Ed Clark – TD – Group President and CEO**

Come on, Mario. Are you trying to get some daylight between Colleen and me? (laughter)

**Marco Mendonca – TD Securities – Analyst**

I was. But thank you.

**Rudy Sankovic – TD – SVP, Investor Relations**

Thanks, Mario. Next question, please.

**Operator**

Sumit Malhotra with Scotiabank.

**Sumit Malhotra – Scotiabank – Analyst**

This question is for Mike Pedersen -- perhaps and for Ed as well. Looking at US loan growth in the quarter, specifically on the consumer side. I know you talked about the year-over-year numbers still being very solid, Mike, but when we look at resi mortgages, HELOC's, auto -- all relatively flat.

And the question I want to ask here is I think we can agree that TD has had a pretty good track record at avoiding some of the missteps in stepping out of the risk curve as some of its competitors. And when we hear about one of your larger US competitors starting to land in the subprime mortgage market again, we hear about some very aggressive terms and pricing in auto. How much of the slowdown in consumer loan growth is -- or in the US at least in the quarter -- is the fact that you may no longer be comfortable with some of the lending practices you are seeing -- or starting to get less comfortable with that?

**Mike Pedersen – TD – Group Head, U.S. Banking**

So I'll comment on mortgages and HELOC's and on personal lending -- I'll let Tim comment on auto. So I would say none of it.

We are not changing our underwriting approaches either for any reason or in response to anything that's going on in the industry and are still seeing nice growth. But it will slow down -- the housing related credit. But no changes in underwriting and we still think we'll outperform in terms of growth.

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

As far as the auto loan market in the US, it is still hyper-competitive. We've actually scaled back a little bit of both our numbers of dealers as well as our originations in the last quarter. So call it a $1.5 billion number down from 2-plus in the tail end of last year.

Our mix is changing little bit. We're actually going a bit more to the prime and super prime end of the market and certainly not going down market. But at the same time, we're is still building out the capabilities to feel comfortable with the risk profile of near prime lending at some point, but we're not there yet.

**Sumit Malhotra – Scotiabank – Analyst**

So the aggregate consumer growth sequentially is something like 1.5%. Given the -- let's call it the up-ticking and competition, is that a reasonable run rate for consumer? Or do you think that might be a little low just looking at a one quarter basis?

**Mike Pedersen – TD – Group Head, U.S. Banking**

It's hard to predict what's going to happen here given the speed with which things are moving around. But it would be a little low if for no other reason than we had -- we did have some mortgage sales during the quarter, which don't show up in that number.

**Sumit Malhotra – Scotiabank – Analyst**

Thanks.

**Rudy Sankovic – TD – SVP, Investor Relations**

Thanks, Sumit. Next question, please.

**Operator**

Meny Grauman, Cormark Securities.

**Meny Grauman – Cormark Securities – Analyst**

Earlier this week Jamie Dimon mused about how technology specifically is changing the size of branch networks, as specific to his company. But in the US in general, and appreciating that to your position in the US is one of growth. But I thought I'd ask as Canada's Jamie Dimon what he thought about that issue in Canada specifically in terms of how technology specifically is affecting the size and look of the branch network over the coming few years?

**Ed Clark – TD – Group President and CEO**

Tim, you want to start and then go to Mike?

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

Certainly. I don't think he was referring to me as Canada's Jamie Dimon but I will get back to you at the end. (laughter) I think there was somebody else on the table.

So in terms of branch format in Canada, then clearly just as we do in the US, we are constantly experimenting with branch format size. There is no question that the average square footage of a branch will be declining over time. And there are also changes in the nature of the transactions that happen. They'll move much more to sales transactions versus service transactions than we've seen, obviously, a remarkable increase in online, mobile and alternate forms of distribution growth.

I would say that to date, we still continue to see the vast majority of sales happening in the branches. So it'll be a question of managing that shift but we are seeing great success in the alternative formats we are seeing so far.

**Mike Pedersen – TD – Group Head, U.S. Banking**

Yes. I would just say that, first of all, it's clear that there are some important general trends. And in the US we have now seen the total number of branches flatten out and begin to decline.

But every bank's circumstances are different. And we have our own views about the roles of stores, and Tim just spoke to that. And we're also in a unique situation given that we have a fairly fresh store network, if you will.

And we also have 3,200 households per store versus the industry average of 1,400. That puts us in a very, very different position than our competitors in terms of our store penetration. In most markets it's our belief that we should still grow our store network and we are continuing to do that.

Consistent with what Tim said, the stores we are opening are smaller and cheaper and more oriented towards sales and advice. And as we are opening them, we are investing very fast as well in all the digital channels and online and mobile and capability for growth in retail and small business clients. We are very focused on all the industry developments around that.

But our view is stores are going to continue to be a very important tool to acquire customers and to sell products. So we are going to, I think, have more stores in the future than we have today.

**Rudy Sankovic – TD – SVP, Investor Relations**

Thanks, Meny. We have got time for one more question so, operator?

**Operator**

Darko Mihelic, RBC Capital Markets.

**Darko Mihelic – RBC Capital Markets – Analyst**

My question is for Colleen. I'm looking at slide 14 of the presentation, the items of note. And I just wanted to ask a few questions with respect to some of these items.

**Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO**

Sure.

**Darko Mihelic – RBC Capital Markets – Analyst**

The first question is next quarter, will we see -- or in any quarter for that matter -- the subsidy that you paid to CIBC, will that be highlighted as an item of note? And secondly, I guess how long are we going to see the integration charges from MBNA Canada? And then I guess third, why was the Ameritrade sale, or gain on sale, not considered an item of note for this quarter? And for that matter, it's probably not going to be in next quarter. But I'm just curious as to what the thought process was around that. Thank you.

**Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO**

So why don't we go in reverse order. So I think on the Ameritrade gain we see that as a normal part of our earnings. So obviously with the items of note, we're taking out items that we don't see as being sort of indicative of underlying earnings. And that one we would see as being part of our underlying earnings that we will from time-to-time have small -- sell parts of that equity, in this case to provide a bit more head room for them. So we've consistently treated that as core earnings.

On the MBNA integration, that item of note will continue for the balance of the year. And that probably does appear to be a rather long item of note with a rather long life. But I would tell you that part of the reason for that and how we've rationalized that is that when we came along to do the Aeroplan to acquire that program and go through all of that effort and integration that did have an impact on the rate of our efforts around MBNA. So we felt that was appropriate to continue to recognize that as an item of note just to manage all of the operational risks around that.

And then the other question I think you had was around the CIBC -- the Aeroplan. So obviously that's a large item this quarter. And the largest item in that is the commercial subsidy that we paid to CIBC. We would not expect to see that ongoing -- the net impact of account transfers to be included in the item of note -- simply some of the ongoing set up and integration costs, which will definitely be a lot smaller as we go forward.

**Darko Mihelic – RBC Capital Markets – Analyst**

Okay. Great. Thanks, that's helpful.

**Rudy Sankovic – TD – SVP, Investor Relations**

Thanks, Darko. And, Ed, over to you for final remarks.

**Ed Clark – TD – Group President and CEO**

Well as I think we said at the beginning, this is a great way to start off the year. We're quite pleased where we are. And we expect to have a good year this year. Thank you very much.

**Rudy Sankovic – TD – SVP, Investor Relations**

Great, thanks, Ed. And with that, we will conclude the meeting and thank everybody for joining us today.