# TD BANK GROUP
# Q4 2013 EARNINGS CONFERENCE CALL
# DECEMBER 5, 2013

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## PRESENTATION

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

Good afternoon and welcome to TD Bank Group's fourth quarter 2013 investor presentation.

My name is Rudy Sankovic, and I'm the Head of Investor Relations at 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 fourth quarter operating results. Mark Chauvin, Chief Risk Officer, will then offer comments on credit quality, after which we will entertain questions from those present and from prequalified analysts and investors on the phone.

We'd like to keep the call to a maximum of one hour given how busy the day has been for the analyst community. Also present today to answer your questions are Tim Hockey, Group Head, Canadian Banking, Auto Finance and Wealth; Mike Pedersen, Group Head, US Banking; Bob Dorrance, Group Head, Wholesale Banking; and Riaz Ahmed, Group Head, Insurance, Credit Cards and Enterprise Strategy.

As you know, we shifted executive responsibility for some of our businesses effective July 1. It might be helpful to provide guidance on who will address your questions this quarter. For Canadian P&C and Wealth, Tim, for US P&C, Mike, and Bob will cover Wholesale. Riaz is also available to answer questions with respect to Insurance and Credit Cards.

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 disclosed 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 any 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 information on items of note, the Bank's reported results and factors and assumptions related to forward-looking information are all available in our 2013 annual report.

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

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

Thank you, Rudy, and welcome, everyone. Thank you for joining us this afternoon. Colleen is going to be up to discuss our fourth quarter results, but I'd like to start by talking about the year as a whole.

So 2013 was a strong year for TD's key retail franchises in terms of their fundamentals. But that did not translate into strong earnings growth for the Bank. Total bank earnings were up 1% for the year and earnings per share were flat, as record results in Canadian and US retail banking and Wealth were largely offset by challenges in our Insurance and Wholesale businesses.

These headline numbers are not what we would have hoped for. But excluding the impact of the Insurance losses we recorded in the third quarter, adjusted EPS would have been up a solid 6% for the year. And the strong performance of our large Retail businesses and the investments we have made in future growth mean we are very well positioned for 2014 and beyond.

Our Canadian Personal and Commercial Bank had a very good year in 2013, earnings were up 11%. Personal loan volumes held up well, business lending rose are robust 12%. And we made further investments in our growth strategies. Most notably, signed the agreement to become the primary issuer of Aeroplan Visa credit cards starting January 1, a deal that entrenches our number one position in credit cards in Canada.

We also delivered great results on the expense front achieving a record low efficiency ratio. And we did all this while continuing to be recognized by J.D. Power and Ipsos as a leader in customer service across our distribution channels from branches to ATMs, phone, online to mobile. In mobile, we ranked first for the number of mobile customers in Canada.

Wealth had a record year with our direct investing, advice and asset management businesses all performing well. We continued to grow net new client assets and now have over $1 trillion in assets under administration, asset under management when you include TD Ameritrade.

On the manufacturing side, a number of our retail funds were recognized for their strong risk adjusted performance at the Lipper Awards again this year. And we completed the acquisition of Epoch Investment Partners, strengthening our competitive position in investment management and adding capabilities to advance our US Wealth strategy.

One year after announcing the acquisition of Epoch, we couldn't be more pleased with how the business has performed. Assets under management have grown steadily from the $24 billion that we announced at closing to $40 billion today, including some funds transferred to Epoch from internal and external advisers. In addition, client retention has been excellent. We've won several new mandates and investment returns have been strong. In short, Epoch is delivering everything for which we hoped and the combined team is working very effectively together.

As you may have seen today, we announced that we have extended the TD Ameritrade stock holders agreement. We like our current ownership structure in TD Ameritrade. This provides the public shareholders with increased certainty around what will happen in January 2016. We also announced that we plan to sell 5.5 million shares we currently hold in TD Ameritrade.

Our US Personal and Commercial Bank had a landmark year in 2013, achieving the US$1.6 billion earnings target we set out three years ago. Bharat will have more to say about this remarkable achievement, but let me take this opportunity to say how proud I am of our team at TD Bank, America's Most Convenient Bank for meeting this ambitious goal despite the headwinds, very significant headwinds. We succeeded by delivering on our promise of legendary service and convenience, executing on our take share strategy and building the business with acquisitions like Target, a signature win that has put us in a position to win more business while providing strong support to our bottom line results.

In addition to this impressive performance in our larger retail businesses, we did face some challenges in 2013. Our Insurance business had a difficult year. We continue to see good premium growth, but the loss we recorded in the third quarter related to severe flooding in Alberta and an increase in reserves for Ontario auto had a significant impact on our full-year results. As we said at that time, we believe the Auto Insurance business in Ontario can be a good business and one that strengthens our franchise. However, the operating environment remains challenging, and so we continue to refine our business model.

Our Wholesale bank also saw a drop in earnings this year, largely due to higher levels of securities gains last year but also related to lower trading revenue this year. Nonetheless, the business did produce a return equity within our 15% to 20% target range, and I'm very pleased with how we managed to continue to deliver on our strategy of being a top three integrated dealer.

Finally, on the expense front, we ended the year above our 3% target for core expense growth excluding acquisitions and FX. While I'm disappointed with this result, I am comfortable with the reasons for it. The additional costs were partly related to litigation matters connected to a commercial dispute in our

Wholesale business, as well as higher variable expenses in our Wealth Management business reflecting stronger than expected revenue growth. This is a good problem to have.

Adding it all up, I'm pleased with our performance this year. The strength of our underlying earnings is reflected in our robust Basel III capital position, which ended the year at 9%, while absorbing the impact of the repurchase of 9 million shares. As we suggested last year, when we increased our target payout ratio, we also delivered healthy dividend growth. Dividends paid are up 12% in this fiscal year, which helped drive a 22% total shareholder return for the year.

We also announced the 2-for-1 stock split today, which will take effect in January. In order to facilitate the split, we increased the dividend by $0.01. It has almost been 15 years since we last split our stock, in July of 1999, and during that time investors in TD have enjoyed a compound annual total shareholder return of 11%.

Let me now turn to the year ahead. At the start of this fiscal year I said we would have to work hard to get into the 7% to 10% range. And we came close, as I said earlier, delivering 6% EPS growth excluding the Insurance losses, following 8% EPS growth in 2012. I think we'll have to work just as hard next year to get into the bottom end of that medium-term range measured against our 2013 earnings excluding the Insurance losses. We'll have some wind at our back from the investments we made in our growth strategies like Target, Epoch and Aeroplan, but the operating environment remains challenging and we don't expect much relief in 2014.

Interest rates are still low in absolute terms, and persistent weakness in Europe and Asia suggests that the low rate, and therefore lower revenue environment, could be with us for some time longer. And while the US economy is showing welcoming signs of recovery, we expect more subdued growth in Canada reflecting a slowing housing market and continuing consumer deleveraging.

So let me talk about what all that means for each of our businesses. We feel quite good about Canadian Retail's growth prospects, which will include Wealth and Insurance next year. On the banking side, we expect solid volume growth, stabilizing margins and continued good expense management. And we expect to compliment that with stronger growth in Wealth, leveraging the power of the TDCT relationship, as well as in Cards as we bring Aeroplan on board.

We're also feeling very good about the long-term prospects of US Retail, but we won't see those long-term prospects fully reflected in earnings growth next year. Loan volumes remain very impressive and we are starting to see the stabilization improvement in core margins as we had expected.

Target is also expected to continue to perform very well, but this strength in core earnings will be offset by a smaller contribution from security gains, given the back up in longer term rates. Overall, we expect our US Retail bank, which will include US Wealth and Epoch next quarter, to deliver modest earnings growth in 2014.

In our Wholesale bank, we will continue to focus on delivering 15% to 20% returns while continuing to build out our franchise model in Canada and the United States.

To wrap up, we delivered good results in 2013 and invested in our businesses and distribution channels to power future organic growth. With our deposit-rich balance sheet, we are well positioned to benefit from a normalization in interest rates when they occur, but we are not basing our planning on assuming that they will. Rather, we are focused on integrating the businesses we acquired, leveraging organic growth to maximum effect, and improving operational efficiency.

We'll also continue to streamline our cost base, with a goal of reducing core expense growth excluding acquisitions and FX to well below this year's levels. The payout from the work we've already done on this front is significant and will allow us to maintain an even higher project and initiative spend next year, as we strive to improve customer experience and extend our leadership position across North America.

It's an exciting time to be at TD and I'm very proud of our people, almost 90,000 strong. You have made TD the best customer-driven banking franchise in North America. On behalf of the senior management team, thank you for your hard work. I can't wait to see what you're going to accomplish for us together next year.

With that, let me turn things over to Bharat, who as you know, is our incoming CEO. He's been back in Canada since July and he's going to share a few thoughts with you on how the tradition – the transition, not tradition – but everybody else is going to maintain the tradition, is going. Bharat.

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

Thank you, Ed, and good afternoon. It's great to be back in Canada. The transition is going extremely well. As you heard since returning in July, I have spent much of my time reacquainting myself with our Canadian operations. This has included traveling across the country to meet with employees and customers.

Everywhere I go, I see evidence of the tremendous expansion in our Canadian franchise over the last decade. I am so impressed with what the team has achieved in building our businesses and laying the foundation for future growth.

The key message remains one of continuity. And so the TD story will continue to be about growth, about building great franchises, about creating real value for our customers and clients and sustaining a work culture that unlocks the full potential of our employees.

As you know, for the last seven years, I have been focused on growing our US operations, and as Ed said, we recently reached a milestone there. I want to take this opportunity to salute my US colleagues for their outstanding effort in delivering on our US$1.6 billion earnings target. When we announced the target at our 2010 Investor Day, we were yet unaware of all the hurdles we would have to overcome.

At the time, a starting point for full-year earnings was US$900 million. In the three years since, we lost about US$650 million in net income to the unforeseen effects of Reg E, Durbin and Dodd-Frank, as well as margin pressure from the low rate environment. But we found ways to replace the lost income and generate an additional US$700 million in net income after tax.

Security gains as part of our capital management activities helped, as did improved credit conditions and a series of acquisitions that enhanced our capabilities and expanded our footprint. But over and above this, we delivered peer-leading loan deposit and fee growth. In fact, our underlying organic growth was well ahead of our 2010 target. None of this would have been possible without the hard work and dedication of the entire team at TD Bank, America's Most Convenient Bank. I know this is just the beginning for our incredible US team.

I'll now turn it over to Colleen to review our results. Colleen.

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

Thanks, Bharat, and good afternoon, everyone.

Let me walk you through our results. Let's start with a brief review of 2013. For the full year, total bank adjusted net income was $7.2 billion, an increase of 1% from 2012. And adjusted EPS was $7.45, flat year over year. These results were negatively impacted by the Q3 Insurance losses related to severe weather-related events in Alberta and Toronto, and increased general insurance claims, which totaled $0.45 per share. Excluding this impact, adjusted EPS would have increased by 6% compared to last year, and Canadian Retail results would have increased 11% year over year.

TDCT had a record year delivering $3.8 billion in adjusted earnings, up 11% over 2012, driven by good volume growth, lower credit losses and effective cost management. Wealth Management delivered record results with earnings up 15%. Higher fee-based revenues, improved trading activity, and the Epoch acquisition all contributed to the growth in earnings.

Our Insurance business had a difficult year with earnings down 61%, due to the charges I mentioned previously. We believe the Auto Insurance business can be a good business. However, the operating environment remains challenging and we continue to refine our business model.

US P&C had a record year with adjusted earnings of US$1.6 billion, up 13% as a result of strong loan and deposit volume growth, higher fee-based revenue, increased gains on sales of securities, and the acquisition of Target's card portfolio, partially offset by higher expenses to support growth, and lower margins excluding Target.

Wholesale Banking had a softer year with earnings down 26%, primarily driven by lower security gains and a tougher trading and investment banking environment, partially offset by lower expenses.

We finished the year with a strong pro forma Basel III Common Equity Tier 1 ratio of 9%. Overall we were pleased with our results in a number of our businesses.

Please turn to slide 5. Turning to Q4, we delivered adjusted EPS of $1.90, up 4% year over year. Total bank adjusted net income of $1.8 billion was also up 4%. Our segment results include retail adjusted earnings of $1.8 billion, up 19% over last year. Wholesale net income of $122 million, down 61% largely due to lower security gains and elevated expenses. And the Corporate segment posted a loss of $53 million. Overall, a very strong result for our Retail businesses with a softer Wholesale quarter.

Please turn to slide 6. This next slide presents our reported and adjusted earnings this quarter with the difference due to seven items of note. There are a few items this quarter I'd like to highlight: litigation charges were related to the previously announced regulatory settlements; restructuring charges of $90 million after tax. We indicated last quarter that we were going to take a harder look at our expense base in order to drive permanent efficiencies for the future. More on this to come in a moment. Set up costs of $20 million after-tax for Aeroplan, as we get ready to become the primary Aeroplan Visa card issuer in January 2014.

Please turn to slide 7. Canadian P&C delivered a strong quarter with adjusted net income of $948 million, up 14% year over year. Loan and deposit growth was good this quarter. Total loan growth was 5% year over year with real estate secured lending volumes up 4% and business lending growth up a strong 12%. Personal and business deposits increased, due mainly to strong growth in core checking and savings accounts, partially offset by lower term deposit volume.

NIM was down by 2 basis points sequentially, mainly due to lower deposit margins from the low rate environment. We expect modest downward pressure on NIMs, with quarterly margins bumping around in 2014 depending on product mix, seasonal factors, or rate moves. Credit performance continues to be strong with PCL and personal banking down $66 million from last year, primarily due to lower bankruptcies, principally in credit cards. Business banking PCL declined by $16 million due to higher commercial recoveries.

Adjusted expenses were relatively flat versus last year as volume growth and investment in the business were partially offset by broad-based productivity gains. Operating leverage was 250 basis points due to good expense management. Overall, a great result.

Please turn to slide 8. Looking at our Wealth and Insurance segment. Wealth had a record quarter with earnings up 26% year over year due to higher fee based revenue from growth in client assets and market appreciation, improved trading volume and a positive contribution from the Epoch acquisition.

Our Insurance business reported earnings of $141 million, an increase of 50% over last year due to higher Insurance revenue primarily from premium volume growth. Insurance claims increased by 3% primarily due to higher current year claims and volume growth, partially offset by lower unfavorable prior-year claims development and lower cost of weather-related events.

Wealth and Insurance expenses increased from last year primarily due to the inclusion of Epoch and higher variable compensation. The contribution from TD Ameritrade was $77 million, up $26 million, or 51% from last year due to higher trading activity, increased fee-based revenue, and increased investment gains.

Please turn to slide 9. The US Personal and Commercial Bank had a good quarter with adjusted earnings of US$384 million, an increase of 7% over last year. The increase reflects the Target acquisition, strong organic growth, and improvement in credit quality. Adjusted revenue increased by 18% year over year due to the Target credit card acquisition, strong organic loan deposit and fee growth, partially offset by a lower margin and lower gains on security sales.

Excluding Target, average loans were up 10% year over year with a 14% increase in personal loans and an 8% increase in business loans. Average deposits increased by 11%. As we mentioned last quarter, our level of security gains at US$15 million was significantly below the US$60 million to US$80 million guidance.

We expect that next year's gains will be meaningfully lower than that range per quarter, as there's much less need to sell securities at an elevated pace. We believe we've now immunized our AOCI as much as we can through security sales, reclassification to held to maturity, and more capital friendly hedging strategies. As well, the recent spike in long rates has reduced the gains in the portfolio.

Our net interest margin was up by 9 basis points sequentially as a benefit of recent increases in long-term rates and the positive impact of acquired loan accounting more than offset loan margin pressures. After normalizing for acquired loan accounting, we expect our margins to continue to stabilize or improve slightly from the current level.

Driven by the improvement in credit quality and business loans, adjusted PCL decreased by US$25 million, or 12% from the elevated level last year. PCL is likely to move up from these levels over time. Adjusted expenses were up versus last year due to Target expenses and investments in growth initiatives partially offset by productivity improvement. All in, a strong result for our US business.

Please turn to slide 10. Net income for our Wholesale business of $122 million was down 61% compared to the fourth quarter last year. This was driven by lower security gains, higher non-interest expenses in the quarter and a higher effective tax rate.

Revenue was down by 17% over last year due to lower security gains in the investment portfolio, partially offset by higher trading-related revenue. Trading revenue was driven by improved fixed income markets. Trading revenue in Q4 was $342 million, above our normalized level of $300 million.

Non-interest expenses were up by 13% compared to last year due to litigation matters associated with a commercial dispute, partially offset by lower operating costs.

Please turn to slide 11. The Corporate segment posted an adjusted loss of $53 million in the quarter compared to a loss of $29 million last year.

Please turn to slide 12. Core expenses for the year, excluding the impact of foreign exchange and acquisitions, were up 3.9% over last year. We ended the year above our 3% expectation driven primarily by litigation expense in Wholesale and higher variable expenses in Wealth due to higher than expected revenues in the fourth quarter.

It might be helpful to provide you with a breakdown of our 4% core expense growth this year. Productivity initiatives reduced our cost base by over 2%, offsetting underlying growth in base expenses. Increased investment in the business and higher pension costs driven by low interest rates drove the overall increase in expenses year over year.

I mentioned earlier that we've taken a restructuring provision in the quarter. This is expected to help optimize our branch network and to streamline other operations across TD to drive permanent efficiencies. We anticipate these actions will reduce our run rate next year, but be partially reinvested in the business. We're targeting a 2014 core expense growth well below 2013 levels including the savings realized from productivity initiatives.

Please turn to slide 13. Our Basel III Common Equity Tier 1 ratio was 9% in the fourth quarter, an increase from 8.9% in Q3, primarily due to organic growth, but partially offset by our share buyback program and volume growth. We expect the Q1 2014 Basel III CET 1 ratio to decline modestly due to the previously announced Aeroplan card acquisition from CIBC and the phase-in of OSFI CVA rules.

We were pleased to announce our stock dividend, which will have a 2-for-1 stock split effect in January. To facilitate the split, we're adding $0.01 to our quarterly cash dividend. We've repurchased over 9 million shares under our share repurchase program. This should help EPS growth by approximately 1% next year, all things being equal. Overall, we continue to remain well positioned for the evolving regulatory and capital environment.

Please turn to slide 14. I'd like to briefly comment on two items. Starting in Q1 of 2014, we'll be presenting our Retail segment slightly differently. There will be two Retail segments. In Canada, the realigned segment will include Canadian Wealth, excluding TD Ameritrade and Epoch, and Insurance in addition to the current Canadian Personal and Commercial Banking business. The US Retail segment will include the existing US P&C business, but add US Wealth, Ameritrade and Epoch. There will be no changes to either Wholesale or the Corporate segments.

In order to facilitate transition to the realigned segment presentation, we plan to continue to provide net income information for the Canadian P&C, and Wealth and Insurance businesses. We also plan to restate the two-year historical information before the end of Q1 2014 so that everyone will have time to understand the impact before we formally start reporting on this new basis.

Also, the Enhanced Disclosure Task Force has been working hard on improving risk-based disclosures, and in October of 2012 published 32 recommendations. This was a major priority for OSFI and the Canadian Banks during 2013. Sincere thanks to the TD team for their extraordinary efforts in making this happen. We've outlined the recommendations and references to TD's disclosures on our IR website. Additional enhancements to these disclosures are expected in 2014. Our IR team will be happy to review any of the 32 disclosures with you.

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

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

Thank you, Colleen, and good afternoon, everyone.

Please turn to slide 15. Q4 continues to reflect the strong credit performance we've seen throughout 2013. Total PCL for 2013 was just under $1.6 billion, an improvement of $188 million, or 11% over 2012 after absorbing increased credit losses resulting from the Target acquisition. At the same time, loan volume grew by $36 billion, or 8%. This translates into a full-year PCL rate of 37 basis points for 2013 versus 46 basis points last year.

Canadian gross impaired formations remained flat year over year with strong volume growth in the Personal and Commercial portfolios. Canadian Personal and Commercial loss rates are at the lowest level experienced during the last five years. And in the US, a recovery in real estate has led to improved loan to values across the residential real estate portfolio, and commercial credit quality continues to improve.

Looking forward, I expect more of the same consistent strong credit quality throughout 2014, which should translate into stable loss rates assuming the economic environment plays out as we expect.

Now I'll turn the presentation back to Rudy.

## QUESTION AND ANSWER

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

Thank you very much, Mark.

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

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**Michael Goldberg – Desjardins Securities – Analyst**

I only seem to get the short end of the stick by asking first, so I've got a two part question. We recently saw Manulife do its fourth sub debt issue in two years, but looks like given the uncertainties of the NVCC and bail-in, you and other banks are shut out of the sub debt market. Could you give us your thoughts on how you think that this is going to evolve and when it's going to evolve for you?

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

Michael, as you know, it is expected that the Federal Government will issue guidelines on bail-in fairly shortly. We don't exactly know what those guidelines are going to say, but over time I think as the market transitions into NVCC and with the bail-in framework, the good news on this is that the whole industry has to finance the same way. So I do expect with the credit quality that the Canadian banks have, that we will be able to tap the market successfully, but I don't think there's a particular hurry for us to do so.

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**Michael Goldberg – Desjardins Securities – Analyst**

Okay. And the second part is what do the operational efficiencies look like that you discussed in footnote 19 of your press release?

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

Are we talking about the restructuring charge now, Michael?

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**Michael Goldberg – Desjardins Securities – Analyst**

That's right.

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

Yes. So there were a number of initiatives really across the Bank. The ones I would call out in particular were some optimization of our branch network in both Canada and the United States, and a number of other initiatives that are intended to reduce costs permanently and take those costs out of our base going forward. So that was the essence of the $90 million restructuring charge this quarter.

**Michael Goldberg – Desjardins Securities – Analyst**

Can you be a little more explicit about what that optimization – those changes amount to?

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

Yes, this has really been part of a program that we started a couple of years ago, and as we mentioned last quarter, we were intensifying the effort. So we've been really focused on making productivity a competitive advantage for TD, and a lot of that is about leveraging our scale and buying power to reduce our cost base, really looking for efficiencies right across the organization, whether it be in terms of distribution, in terms of structure, in terms of various activities in our Corporate areas, or operations areas as well. So the charge that you're seeing is really quite broad-based, but I would call out the fact that we have fine-tuned the network a bit on both sides of the border.

**Michael Goldberg – Desjardins Securities – Analyst**

It doesn't sound like this means branch closures or consolidations, or does it?

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

We would call it optimization. I can refer to my colleagues here, but we would refer to it really as optimizing the network, because we are in fact continuing to increase our branches and open new branches. But it's really a matter of optimizing, and in fact consolidating branches is the way we would characterize it.

**Michael Goldberg – Desjardins Securities – Analyst**

Thank you.

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

Thank you, Michael.

**John Aiken – Barclays – Analyst**

John Aiken, Barclays Capital. Question for Mike. Mike, very impressive loan growth in the US Retail platform. Can you talk to the competitive landscape that you're seeing particularly in auto, but of course on the other lines, and whether or not you think that you can sustain your relative growth or your market share gains while simultaneously protecting the net interest margin gains that you've been able to produce?

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

Yes, there's no question that the growth is slowing but we're continuing to see that we're outperforming and the slowing is mostly in mortgages and auto. But we're still significantly higher than the industry, so we expect slower growth going forward, but we still expect to outperform.

**John Aiken – Barclays – Analyst**

Are you seeing competitive response, though, in terms of pressure of what's being offered on loans?

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

Yes, there's significant competitive pressure whether it's on commercial loans or mortgages or in auto, but we're still able to compete and still able to take share.

**John Aiken – Barclays – Analyst**

Then what does that mean for the outlook for margins outside of what the contribution from Target has had to the portfolio?

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

On loans?

**John Aiken – Barclays – Analyst**

On loans, yes.

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

There's pressure on loan margins, but in our case that's not quite as bad as it might be given that we're disproportionately deposit heavy. And our deposit margins are looking better which is leading to our view that margins overall will be stable to improving going forward.

**John Aiken – Barclays – Analyst**

Great, thanks, Mike.

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

Thanks, John. So why don't we go over to the phones. Operator, please.

**Operator**

Steve Theriault, Bank of America/Merrill Lynch.

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

A quick follow on the auto question and then if I could ask a question on the US branch network. So just to continue on John's question, I'd noticed that the loan growth this quarter in indirect auto in the US was $300 million, and the run rates pretty consistently for now the better part of a couple of years has been $600 million to $1 billion. So I guess the question is, is there a structural deceleration there and the growth levels, given tighter margins or for whatever reason, will be slower on a run rate basis looking out the next year?

And the other piece, Mike, was I've been hearing that branch hours are being scaled back somewhat in the US getting into all some of the branches that were open until 8:00 PM are being scaled back to 5:00 PM some days of the week. So maybe you could talk a little bit about that, and maybe this dovetails into the restructuring question as well, but maybe you could discuss any initiatives you have to scale down branch hours in the US?

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

Steve, it's Tim. Let me take the auto finance question. No question, the US, as we said before, is a very competitive environment. We're actually reacting to that environment and to the thinner margins by – now that we have over 9,000 US dealers and we've had a little bit of time to operate with those dealers – optimizing that network because as you can imagine, there's a little bit of an 80/20 rule at play. So as a result, we expect that going forward we'll have an actual smaller number of dealers as we concentrate our efforts from a servicing point of view on those dealers that really want to partner up with us. And so as a result, we expect to have slower originations over the next few quarters as we make that transition.

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

It's Mike. There's no change in our hours strategy. We, from time to time, tweak our hours but always on the basis of what customers want, need and on the basis of customer usage. This is a very important differentiator for us and we continue to have the best hours in every market we operate in and that'll continue to be our goal.

In terms of stores, we expect that our store network will continue to grow on balance so we'll open stores in high growth markets where we're underrepresented in terms of stores or branches. So for example, this year we'll open an additional 15 stores in New York City. I'm aware that there are US competitors that are closing hundreds of branches, but our situation is a bit unique in that we're newer and growing. Our average households per store is 3,200 versus the industry average of 1,400. So other things being equal, we're not really over branched.

And I'd also say that we are of the view that in the distribution system of the future and with all our investment in mobile, online and so on, that stores will have a slightly different purpose, that they'll look different and so on. So in that sense, the stores that we're opening this year are about 35% smaller in terms of square footage compared to stores we've opened in the past.

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

Thanks for the color, guys.

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

Thanks, Steve. Next question please, Operator.

**Operator**

Gabriel Dechaine, Credit Suisse.

**Gabriel Dechaine – Credit Suisse – Analyst**

A couple quick questions here. So you have disclosed the pension cost adjustment for 2013, that's not a real big number. That's not my point. I just want to know what kind of increase in rates and what do we need to see for those expenses to start going the other way? And then Colleen or Mike, on the US margin, excuse me, you mentioned something about, and I see it now in your MD&A, acquired credit impaired loans and debt securities classified as loans. What was the accretable yield this quarter and what is meant by increased NII from debt securities classified as loans?

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

Gabriel. Hi, it's Colleen. I'll take both of those. So the last question was around the language related to the NIM. So normally I think that was probably a lot of words to say the more accounting driven versus what we would call core margin. So if you look at the 9 basis point increase in the quarter, we would say that just over half of the increase was more accounting driven relating to acquired loans, in particular Target. And then the remainder was an increase in the core margin as we've talked about, which is due to the expansion of deposit margins, partly offset by a bit of a decline on the loan side

And your first question was on the pension item. So we have disclosed the impact of the new accounting rules and as you say, our impact does seem to be somewhat smaller perhaps than the other banks. We believe that's because of the fact that we had a smaller gap between our discount rate and our assumed rate of return, which is really what the new standard is focused on. So the impact on that, as will be for these new standards obviously, we'll be restating last year's results and that's going to have about a $22 million impact. So as we move forward, our assumption at the moment based on where rates were at the end of the year, we're assuming that our pension expense after this adjustment, IFRS adjustment, is going to be relatively flat next year. So whereas this year our pension expense increased by about $140 million, as I said earlier in my remarks it was about 1% of our expense growth of 4%. We expect that to not be a factor as we move into 2014.

**Gabriel Dechaine – Credit Suisse – Analyst**

Right, what kind of rate movement do we have to see before those expense increases become reversals? And I didn't quite get the acquisition comment on Target. So you acquired Target, you got all it's NII. It's not like any accretable yield, right? It's just their contribution?

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

Yes, so back to Target. When you acquire loans, there does tend to usually be some small accounting adjustments that happen as the portfolio seasons. So that was a relatively small adjustment but this is the same general phenomena that we have around acquired credit loans or acquired credit. And back to the pensions, again, if rates rise, if long rates rise, then we will see a reduction in pension expense going forward.

**Gabriel Dechaine – Credit Suisse – Analyst**

Thank you.

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

Thanks, Gabriel. Next question please.

**Operator**

Peter Routledge, National Bank Financial.

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

Couple questions about Ameritrade. First of all, it sounds like the Ricketts are selling off their position. I had two questions. Will another large shareholder, maybe not as large as TD, replace them or will it just be widely held? And then the follow on would be do you guys have – I understand your goals with respect to the ownership stakes staying the same – but do you have more flexibility as a result of this ownership change?

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

Sure, let me just answer the first question. So if you look out, basically this agreement provides for, is that in 2016 what you'll see is if the Ameritrade board will consist of five TD representatives, six independents plus the CEO. And so that will be the composition of the Board and the agreement provides for that to carry on for the next five years. I wasn't sure what your second question was.

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

I mean, my perception was always with the Ricketts on the Board you were very unlikely to accelerate taking a larger share in Ameritrade, if that's what you wanted. With a sizable minority shareholder not there any more, don't you have more flexibility if you chose to, say five years from now?

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

I'm not sure either way on that, but I guess what I think we're saying is if you look at the interaction of the Basel rules with our ownership, that this is a pretty optimal structure that we have right now and we're quite content to stay with this structure. And really that's what this agreement does is say we're going to clearly stay with this structure the next five years.

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

And then final on this, the sale of the Ameritrade shares, will there be any gain on that?

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

There might be a small gain.

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

Small gain. Okay, thank you.

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

Thank you, Peter. Next question, please.

**Operator**

Brad Smith, Stonecap Securities.

**Brad Smith – Stonecap Securities – Analyst**

I guess this is probably a question for Mike. With respect to the TD Ameritrade insured deposit accounts, which I think ended the quarter at about US$73 billion, these are the fastest growing deposits of the Bank and it's my understanding that you're paying a fairly hefty fee for them, I think it's probably something north of 125 basis points a year. With the struggle for margin in the US, my first question is, number 1, can you make a positive return on these deposits? And number 2, what are the types of investments that you can actually fund reasonably with these deposits with respect to the maturity duration issues and things like that? Thanks.

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

I think you've got it all upside down. So the answer is no, we do get a fee of 25 basis points from Ameritrade. We have to pay them LIBOR for these, and so there's a margin that's left to us between that and where LIBOR trades. And this was an outstanding deal for Ameritrade because they get to gather these deposits and not put up capital and it's an excellent deal for us. So it's a big win on both sides.

**Brad Smith – Stonecap Securities – Analyst**

Yes. But, Ed, aren't you paying something north of US$700 million a year in fees to Ameritrade?

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

Well, I think what you're trying to say is what are we paying in LIBOR, where we pay LIBOR on US$70 billion.

**Brad Smith – Stonecap Securities – Analyst**

I'm saying what are you paying in fees relative to the deposits themselves, and I believe it's north of 125 basis points.

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

No, we pay no fees to Ameritrade, no fees to Ameritrade, what we pay them is LIBOR on these deposits. And the question is, can we invest their deposits at LIBOR, and we think we're smart enough to be able to actually do that.

**Brad Smith – Stonecap Securities – Analyst**

Okay. Thank you.

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

Great. Thanks, Brad. Next question, please.

**Operator**

Mario Mendonca, TD Securities.

**Marco Mendonca – Stonecap Securities – Analyst**

A broad question on capital. Four of the five large banks that have reported so far put up Basel III Common Equity Tier 1 ratios of 9% plus including your Bank. And while I don't think we're going back to the heydays of 4% or 5% share buybacks, is there something the industry is waiting for, looking for, before the pace of buybacks accelerates?

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

Mario, it's Riaz. Well, I think what you're seeing is that the whole capital question on a global basis isn't completely settled. We know, for example, that OSFI has issued guidelines which give the Canadian banks particular direction. We know that by 2016 there is a 1% surcharge that is to be introduced as a result for those banks that are being designated as G-SIFIs. And so I think what you're seeing is banks holding more flexibility than you might otherwise just to deal with more global uncertainties as questions around leverage ratios, for example, are still raging and questions related to ring fencing around the various jurisdictions are still going around. So I think you're just seeing banks hold more flexibility for now.

**Marco Mendonca – Stonecap Securities – Analyst**

Where do you think the Basel III Common Equity Tier 1 will settle at when everything settles down including information about the leverage ratio, which I understand is coming along fairly well, OSFI's being, or at least intimating, that they're not going to treat that as a regulatory minimum but rather a tool, a regulatory tool. Where do you think the Basel III ratio shakes out for the industry, Canada, that is?

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

Yes, I would say Mario, your guess is as good as ours. I'd say the information that you have around the convergence of leverage ratio and the whole debate around the US leverage ratio and the BCBS leverage ratio in use of US GAAP and IFRS GAAP is about the same as I understand it – that there is a desire to bring together a greater convergence. But where it ultimately settles out, your guess is as good as mine.

**Marco Mendonca – Stonecap Securities – Analyst**

Thank you.

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

Okay, thank you, Mario. Next question please.

**Operator**

Cheryl Pate, Morgan Stanley.

**Cheryl Pate – Morgan Stanley – Analyst**

A couple of quick questions. One first on the expenses. I know you had spoken to expecting a seasonal uptick of around $100 million in the fourth quarter and obviously there were some items that impacted that this quarter. How should we think about that seasonal pattern in 2014?

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

Cheryl, it's Colleen. So yes let me step back from expenses generally – it is my favorite topic. So I think first of all, we've been talking all year long about the idea that we wanted to start to even out our level, in particular our level of project and initiative spend as opposed to seeing it skewed so much towards the end of the year. And I think we achieved a lot of success in doing that this year. Our underlying project and initiative spend is much more even and we think that is ultimately a wiser way to spend money and to pace our implementation, so we're happy with that.

When we talked to you last quarter, we said we thought we could come in within the 3% increase in core expenses for the year. And clearly that didn't happen. So embedded in that 3% growth we expected expenses to be up about $100 million quarter over quarter. What you did see is that the increase in adjusted expenses was up about $220 million. So if you take out some foreign exchange we would say that versus our expectations, the miss was about $100 million. And we've already called out the litigation-related charges in the Wholesale bank and then performance related or direct drive that was in the Wealth business.

So if you combine that, that was really the lion's share of the $100 million – the amount that was over our expectation. So I think going forward, what you should see in the first quarter is you should see our expenses down, I would say probably somewhere in the $150 million plus category or range. But going forward, we're going to continue to work to say let's achieve more evenness in our expenses throughout the year. But I think you'll probably see a slight skew towards higher expenses in the fourth quarter.

**Cheryl Pate – Morgan Stanley – Analyst**

Okay. Thanks, that's helpful. And then a quick one for Mike. On the mortgage business, which has obviously been an area of really strong growth for you guys and slowing a bit, obviously given the environment now, can you maybe give us some more color on how you differentiate yourselves in terms of product? And is your mortgage product more targeted towards a purchase market or how should we think about that as the dynamics of the industry change as mortgage rates move up from here?

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

So I think our advantage is more in our distribution network and the fact that we're growing our store network and expanding into markets where mortgages are easier to get. And we have a particular advantage because having grown as we have, we're very deposit focused and less than 3% of our customers actually have mortgages with us. And customers like dealing with TD. We have fantastic customer satisfaction. So as you go to them and open a conversation about a mortgage, they're very inclined to speak to us. So that's the real upside we have just being very underpenetrated in this business in our US bank.

**Cheryl Pate – Morgan Stanley – Analyst**

Okay. Thanks very much.

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

Thanks, Cheryl. And I think we got a couple of minutes and I'm going to let Ed wrap up with final remarks.

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

Well, I'm going to make it very short and sweet. From our point of view, while this wasn't a perfect year – there was obviously a miss on Insurance – in terms of the fundamentals of putting this Bank in place to continue to grow rapidly and to continue to serve our customers, we're very pleased with what we've been able to accomplish this year. And I hope you all have a good holiday season. Thank you.

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

Thanks, Ed. And with that, we will end the meeting and thank you for joining us today. So good day, thank you.