TD BANK GROUP
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Ajai Bambawale
TD Bank Group – Group Head and Chief Risk Officer

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PRESENTATION

Brian Morton – Barclays Bank – Analyst

Good morning, and welcome back. Our next presentation is from Toronto-Dominion Bank. Here from the company, we have Chief Risk Officer, Ajai Bambawale. Welcome, Ajai.

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

Thank you.

QUESTION AND ANSWER

Brian Morton – Barclays Bank – Analyst

Going to start off, as Chief Risk Officer, maybe tell me what's top of mind for you right now?

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

Thanks for the question. So, with the risk environment so heightened, Brian, I mean there's naturally more than one thing that's top of mind for me but let me call out the top three.

The first is geopolitical risk. The landscape, as you know, is turbulent, and it's characterized by things like deglobalization, trade protectionism, there are ongoing conflicts, there's strained relations. And the way I'm looking at it is this risk is unlikely to abate anytime soon. And it comes with macro implications. It comes with business condition and business investment implications. And what we're doing as a bank is we're thinking about the different scenarios that could play out, and we actually run those scenarios and try and build resilience internally for TD.

The second is financial crimes, and that is our number 1 priority. And two things I'd call out there, which is why it's top of mind for me. The first is the very considerable remediation program that's underway at the bank, both in the United States and internationally as well. But the environment for financial crimes is also fraught with risk. You read and hear and see more and more evidence of drug trafficking, human trafficking, trade-based money laundering. So financial crimes for us, as I said the number 1 priority, but in the top 3 things for me.

And the third thing I'd call out is certain areas of non-financial risks like cyber and fraud. And I mentioned them on the investor call as well. With the geopolitical issues playing out, naturally, cyber risk is elevated – and so we've got to invest more and more in cyber – and then fraud. With a lot of emerging technologies, Gen AI, agentic AI, we're thinking very actively about our fraud program and how we continue to invest in our fraud program. So overall, risks are elevated and more than one thing is on my mind.

Brian Morton – Barclays Bank – Analyst

Great. Can you talk to us about the current macroeconomic environment and what you're seeing?

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

Certainly, I'll start by saying the macro environment is quite uncertain, and it's really driven by two factors. One is the policy and trade issues but the second is the geopolitical risk that I just mentioned. So, what are we seeing? I think we're generally seeing resilience, particularly in the U.S. economy. We're seeing resilience but what we're also seeing is more tempered forecast for economic growth.

We've seen in Canada in this last quarter business investments came off quite a bit. Our Q2 print, I think, was down 10.1%. But our Chief Economist, if I just maybe spend a few minutes on what we're forecasting – we're forecasting in Canada low economic growth in the next couple of years – 1.3% for this year, 1.4% for next year. We're expecting unemployment to tick up from these levels. We are at 7% – we're expecting it to go up to 7.3%. But we do see rates coming off, by 50 bps. And then housing, housing has recalibrated and it's coming back a bit.

For the U.S., again, lower economic growth – 1.7% and 1.8% in '25 and '26. We do see unemployment in the U.S. ticking up a little more to 4.4%, and we do see policy rates coming off 75 bps this calendar year and potentially another 50 bps next year. So overall, economies are resilient, but there is uncertainty about economic growth. But as a bank, we have taken that into account and we built quite a bit of reserves over the last 3 quarters, almost $600 million for this uncertainty. So I do feel that we're well positioned as a bank.

Brian Morton – Barclays Bank – Analyst

Great. Given the current environment, can you talk to us about TD's credit performance? The third quarter call, you mentioned that you expect impaired PCLs to increase. You also reiterated the 45 to 55 basis point range for total PCLs for fiscal 2025. Does that mean you expect PCLs to spike in Q4? Or is this something you're seeing that other banks are not seeing? Maybe you can touch on the trajectory of PCLs into 2026.

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

I'm glad you're bringing that up, and I'd like to elaborate. I start by saying that the credit quality across our portfolio is strong. We are not seeing any impact so far from tariffs at the borrower level. I do think it will come with a lag, and I'll come back to that point.

If I look at all our delinquency buckets and the trends, I'd call them generally stable. You look at impaired PCL overall for the bank, we've had 2 sequential orders of decreases, which again, I would view as positive. So, where we are right now year-to-date is 50 bps over 3 quarters – and what I said on the last call was I expect for the full year to be in the range that I gave the street, which is 45 to 55 basis points.

Let's talk a bit about Q4. I don't give guidance by quarter, but I'll give you some sense of what I see in Q4. So, in Q4, I expect from Q3 levels, a bit of an uptick. The reason I expect an uptick is that there is seasonality in the U.S. consumer credit book – and I've talked about that seasonality many times, but let me give you a few more points.

What happens is starting from the back-to-school period until the end of the holidays, spending increases. As spending increases, the delinquency pressure on cards increases. As the delinquency pressure increases on cards, we see the delinquency pressure on auto increase as well. So that happens in Q4 – it happens in Q1 – and then in Q2, what happens is customers get tax rebates and they become current on their payments. So, because of that, I do see a bit of an uptick in impaired PCLs for Q4.

And then you asked about 2026, and we are still working on our guidance for '26 and in Q4, we will give you guidance. But what I expect is a gradual increase in impaired PCL. Because of the tariff and trade actions, I see that playing out in '26. But as a bank, we are actually prudently reserved for that circumstance. We've built $600 million of reserves and we're intending to use it. And we will continue to reassess our PCL every quarter. And to the extent that things turn out to be more positive, we would even release that PCL. So overall, I think the message is the TD credit book is strong, and we are well reserved. We're sitting at 103 bps of reserves. We are well capitalized. So, I do feel – we're pretty well positioned.

Brian Morton – Barclays Bank – Analyst

Maybe you can give us a sense on how you think about the credit impact of the current tariff environment? And how do you think about potential credit outcomes given the uncertainty?

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

Yes. So, credit impact of tariffs is factored into our macro scenarios, and it's factored into our ACL numbers as well. And this last quarter, for our macro scenarios, we actually used a shallow recession for Canada and we used lower economic growth for the United States. We then have a downside case, which is, I would describe it a more typical recession, but it does factor in elevated risk from tariffs.

And then in addition to all of that, we've actually built overlays. We built reserves through overlays. And I mentioned it on the investor call. We have built a little over $400 million for the non-retail industries that could be impacted. And the way we did this is we actually looked at all the industries. We looked at which industries are exposed. We then looked at which borrowers are most sensitive to tariffs. We assumed credit migration and based on that credit migration, that drove our allowance numbers.

And then on the consumer side, so we didn't stop at non-retail, we looked at the impact of tariffs and inflation on rates, on unemployment, and we built close to $200 million for the consumer side as well. So again, this tariff risk is pretty much in our numbers. And I feel good about what we've done, the actions we've taken. And I think those that know us well will know that we're very prudent when it comes to reserve building.

Brian Morton – Barclays Bank – Analyst

Great. Want to contrast your build here to the pandemic. You added $4.1 billion in performing reserves during the pandemic compared to the $600 million you've built here for policy and trade. Maybe you can compare and contrast these for us?

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

I can. And I'll start by saying that no two scenarios are the same. And we all lived through the pandemic, and the pandemic was a very different scenario. The pandemic was a total shutdown of the economies and the return of the recovery path was so unclear. At one point, we really debated actively. Is it going to be a V? Is it going to be an L? Is it going to be a K? Is it going to be a U? This policy and trade matter, I think, is quite different. It is going to inhibit economic growth. It's going to have some impact on business investments. It could lead to lower economic growth. There is a possibility of a shallow recession in some economies like Canada, but it's a very different scenario.

The second thing I'd call out is fiscal stimulus. During the pandemic, there was significant fiscal stimulus provided. For example, in Canada, it was 12% of GDP. In the United States, it was 23% of GDP. In this current scenario that we're living through, we're not making those kind of assumptions. There is going to be fiscal stimulus, but our assumption is it's going to be very low. So again, no two scenarios are the same with the pandemic. And what we're living through, I'd say it's dramatically different.

Brian Morton – Barclays Bank – Analyst

Can you tell us about where you're seeing some of the pressure so far? Which industries do you see as particularly in focus?

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

I can. And as I said just a few minutes earlier, we're not seeing much impact right now at the borrower level. Today there's a bit in steel, in auto and aluminum. But as I said, I expect that to play out over a period of time.

We have looked at all our industries across Canada and the United States and really assessed which are exposed to tariffs. And I think this is in our disclosures, examples of that include automotive, agriculture, sundry manufacturing, food and beverage, retail, transportation, industrial construction and trade contractors. And again, you can get the details from our disclosures. And that amounts to about 9% of our gross loans.

We then went and said, out of these, which are the industries and the borrowers that are most sensitive to tariffs? And that is less than 1% of our gross loans. We took those names, and then we actually put them through some stress tests to see how they would potentially migrate. And then we took that migration and that drove the $400-odd million that I talked about reserves in non-retail.

And then as I said on the consumer side, we've assumed higher inflation and rates and unemployment to build some overlays there. So again, from my perspective, the uncertainty, the potential impact on industries, the reserves we've taken, those are all prudent actions, and the bank is very well positioned.

Brian Morton – Barclays Bank – Analyst

Great. And then maybe, how do you think about the potential for an economic downturn? How do you ensure that you're prepared?

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

You know, this is something that we do quite well as a bank. And we try to anticipate what's coming at us. And as I just said, no two scenarios are the same. So, what my team and I do, and again, the first line is very involved with us as well. We take a step back and say, what are the scenarios that could play out and how do we plan for those broad array of scenarios? And we've actually done that in the last few months.

We've looked at our playbooks. We've looked at what should be the industries of focus. We've looked at the consumer books, particularly the exposure, what I would describe as sitting in the tails because that's what's going to surprise you. So, we've looked very closely at that. We've looked at our key risk indicators saying, do we need any change in our key risk indicators? We've, of course, looked at our resource plans. We've stress tested various tariff scenarios to see how things could play out.

And then we don't normally stop at financial risk. We try to think about non-financial risk that may be impacted under such scenarios. And a good example of that is cyber and third party and how do we build those into how we think about scenarios that could play out. So again, we have a very good playbook. We have experienced talent that works with us in these kind of situations. And through the cycle underwriting standards also help us deliver results that are very acceptable to our investors.

Brian Morton – Barclays Bank – Analyst

All right. Turning to your consumer portfolios, TD is a large real estate secured lending portfolio in Canada at $407 billion. You've seen some strong growth in the third quarter. There's been this repeating narrative over the years that the shoe will drop at some point for Canadian RESL given challenging conditions for consumers, upcoming renewals and high home prices. Are you seeing any pressure on credit in RESL?

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

Let me get into some detail on RESL. I've been hearing that phrase, shoe will drop, for quite a long time. The RESL book in Canada, it is very much the cornerstone of our Canadian retail franchise. If you look at our customer base, I describe it as having a strong profile. And I'll give you two data points. One is the average bureau score of that book is 792. It's a high and a good number. The second one is really how our score is distributed and what's sitting in the tail. So, if I look at customers with a bureau score of less than 650 and an LTV greater than 75%, that number is less than 1%. So, the customer profile is strong.

Then if I think more broadly about the credit quality in that book, there are a few metrics that I am very focused on. One, of course, is the delinquency buckets. And what I'm seeing in the 30-to-89-day delinquency bucket is a bit of an uptick, but still numbers. Like when I talk about uptick, I'm talking about a bp, but numbers are still below pre-pandemic. If I look at greater than 90 days, a bit of an uptick, so at or below pre-pandemic. If I look at formations, it's at pre-pandemic levels. I look at negative amortizing balances, they're reducing. If I look at debt service numbers, they're trending down. So, these metrics only reinforce the point that the book is strong.

The other area we've been very focused on is rate reset risk. And we've been looking at rate reset risk on our fixed book, on our variable book for a while. We've been looking at what we would describe as high-risk customers and what could be different, and we've been building reserves for those high-risk customers.

If I look at 2026, 29% of the book is maturing, and that number is about $105 billion. And my team has run the analytics on it. So, if I look at 2026, 64% of customers are going to be renewing at lower payment rates and lower payments. 36% will have higher payments, but of that 36% that have higher payments, 93% are within the B-20 stress. That's very positive. And if I look at the percent of payment increase as a percent of income, it is 3.5%. So overall, I feel the book is strong. Yes, there's a bit of migration. The book is strong. Our reserve is at 11 bps. I'm very comfortable with our reserves.

Brian Morton – Barclays Bank – Analyst

There's been plenty in the news lately around pressure in the Canadian condo market. Can you speak on both the condo RESL portfolio and consumer as well as the condo developer's portfolio and CRE. Do you have similar concerns in the U.S.?

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

I'm happy to elaborate on the Canadian condo market. And I'll start with our exposure. So, our exposure is $62 billion. It's about 15% of our RESL book - and you're right in calling out, is there some pressure on the Canadian condo market? The answer is yes. What's driving that pressure in the Canadian condo market?

It's a few things. It's lower population growth. It's the policy and trade uncertainty. It's the macro uncertainty relating to unemployment and wage growth, like that's driving some pressure in the Canadian condo market.

What are the metrics we're seeing? We're seeing some increase in delinquency, both 30-to-89 and greater than 90-day buckets, but it's very much in line with the rest of RESL. So, I'm not seeing anything unusual here. We're going to continue to monitor the book. My team has actually gone and stress tested that book. And we've looked at the downside case, and I'd say that downside case is very manageable. So, I think the headline is we'll continue to monitor it, but nothing very unusual on the condo book right now.

You talked about the condo developer market in Canada. And I think I'll just make a few points there. Our exposure is fairly small. It's under $2.5 billion, and that's approximately 2% of our commercial gross loans. We don't have a huge amount of exposure. That exposure is diversified across 60 projects. A lot of them are GTA and GVA and a lot are with very strong and experienced developers.

The presales in Canada on this book are 60% to 70%, which is a very positive data point. And if I look at walkaway risk – this is where did the investors buy, where is the market at – I would describe the walkaway risk right now as low. And the last point I'd make again is we stress tested this book. We've looked at the downside. The downside is quite manageable.

Then you asked about the U.S. condo market. And again, I'd say our exposure there is fairly small. It's about 9% of U.S. RESL, which is US$4 billion. Again, the metrics are very much in line with the rest of RESL. And on U.S. condo developers, we really are not active in that space.

Brian Morton – Barclays Bank – Analyst

Right. I mean let's move to AML, a key focus for the investors. After going through such an event followed by a major overhaul of the risk infrastructure, can you talk to how the risk culture has changed at TD? You have a number of new people and new roles throughout the organization. How have you been working towards creating a unified risk culture? And then finally, can you talk maybe how the interaction between the 3 lines of defense changed following this?

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

I know there's a lot there, but I will say it's a very pertinent question. And I'll start by saying that from my standpoint, there's nothing more important than culture in any organization. And for a bank, it's risk culture. And I've been at TD for a little over 3 decades. And from my perspective, TD does have a strong foundation. It's centered to its brand, it's centered to its strategy. We've spent the last 2 decades trying to operationalize risk culture, push our risk appetite deep into the organization. We've also linked our risk behaviors to performance and compensation.

Having said that, what we've learned is you can't take the existence of a good culture for granted. It's something you've got to work on. And there's some real lessons that have been learned by our institution through this AML event. Those lessons, Brian, are being taken very seriously – and we also saw leadership behaviors that are inconsistent with our expectation. So that begs the question, what are we doing about this? And I'd say we're doing a lot. Let me call out a few things.

One is these lessons learned haven't been confined to 10, 15 people at TD. We've gone broadly to the organization and made sure those lessons have been shared with everyone. The second one is on leadership behaviors. We've again broadly communicated our expectations on leadership behaviors and there is leadership behavior training internally at the bank as well. The third thing I'd call out is roles and responsibility. They are much more clear across all lines of defense. The fourth thing I'd call out is ownership and accountability of risk is much better understood. And the fifth thing I'll say is the collaboration across the 3 lines of defense and the urgency and the responsiveness of dealing with risk matters is dramatically improved. So again, it is a very unfortunate event in our history. We're learning from it. We're taking it very, very seriously, and I do feel we're doing the right things around the path to recovery.

Brian Morton – Barclays Bank – Analyst

Great. And then can you also provide us an update on how TD is managing through your remediation program? Maybe talk about what your role is in the remediation program.

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

Absolutely. So again, I'll focus my comments more on the U.S., but you'd be aware that whatever we are doing in the U.S. also benefits the entire enterprise. So, we are where we thought we'd be on the remediation program. And we've said this publicly – that we expect a majority of our management remediation actions to be complete by the end of 2025, but there still is significant work and milestones to be achieved in '26 and '27. And the management remediation actions that we talked about are a broad set of actions to strengthen the AML and financial crimes program. And I would actually encourage investors to go and look at our disclosures to see how we define management remediation actions.

Examples of some of the milestones we've achieved. We have top talent at the bank – and that talent and the AML department is led by Jackie Sanjuas. If I look at our investigation's capabilities in the bank, they've significantly improved. We have new case management tools. We have more investigative analysts. We have better procedures and workflows. I think Leo, at a conference recently talked about transaction monitoring. We have a new transaction monitoring system in the United States. And there are 21 or 22 new scenarios that have been implemented. And we've started also implementing machine learning tools in the transaction monitoring environment so that we get efficiencies and are able to detect the risk early. So, and then there's a lot of focus on training and development.

I do want to emphasize that all of this work is subject to internal review and validation. It is subject to ongoing review by the monitor, and it is subject to review and acceptance by our regulators and the DOJ. So, the point I'd emphasize is the number 1 priority, it is a multiyear effort, we're very focused on it.

And the last point, what is my role? I mean, the AML department of TD Bank does report up to me, and it is my team, and Jackie Sanjuas does have a direct reporting relationship to me. It's her team that's leading the effort. But again, I do want to emphasize that all lines of defense are involved in this remediation. This is not just about the second half.

Brian Morton – Barclays Bank – Analyst

Great. Given the bank's strategic review, including the limitations placed on the bank in the context of the asset cap in the U.S. as well as the uncertainty presented as a result of the tariff landscape, have there been any changes in TD's risk appetite?

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

No. I mean risk appetite is not something that we change. We have a principles-based risk appetite, and we have a couple of core risk appetite measures. We don't go and change those. I mean, the lending and growth that we see are in areas that very much fit our risk appetite.

And we talked a lot about underwriting standards. We don't change our underwriting standards through the cycle. The only time we would change it is if you think there's going to be unexpected loss. And generally, what I found is that our underwriting standards, by keeping them consistent and being pretty rigid on risk appetite, that has served us well through cycles.

And you're going to hear more about the strategy refresh. The only comment I'd make there is that, I've been involved throughout, it's been fully vetted by the risk organization. There's no change in risk appetite. Whatever is going to be presented in the coming weeks is very much within the bank's risk appetite.

Brian Morton – Barclays Bank – Analyst

Great. Is there anything additional you can add with regards to the bank's strategic review?

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

Not a lot because the Investor Day is coming up in a few weeks. The point I'd make is that there is a lot of excitement internally, excitement with the strategy refresh, excitement with the change in leadership to Ray. There's a lot of effort that's gone in into the strategy refresh. As I said, it's fully vetted by my team, and the strategy refresh is very much within our risk appetite. So more to come. And as I said, we hope our investors like it.

Brian Morton – Barclays Bank – Analyst

Great. Why don't we open it up to the floor. Does anyone have any questions for Ajai? Any other closing comments you have, Ajai?

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

Well, the point I'd emphasize – AML is our number 1 priority. We're working on it. Majority of actions by the end of '25, but again, this is a multiyear endeavor. Significant work to happen in '26 and '27. And then the second point I'd make is on credit quality, I want to emphasize that the book is strong. We're very well provisioned. And then third is just on the refresh and Investor Day. I mean, we're very excited internally, those of us that are privy to the strategy refresh. So, I look forward to seeing everyone on Investor Day. Thank you.

Brian Morton – Barclays Bank – Analyst

Thank you, Ajai. Please join me in thanking Ajai for his presentation.