TD BANK GROUP
Q4 2021 EARNINGS CONFERENCE CALL
DECEMBER 2, 2021

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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.

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PRESENTATION

Gillian Manning – TD – Head of Investor Relations

Thank you operator. Good afternoon and welcome to TD Bank Group's fourth Quarter 2021 Investor Presentation. We will begin today's presentation with remarks from Bharat Masrani, the Bank's CEO, after which Kelvin Tran, the Bank's CFO, will present our fourth quarter operating results. Ajai Bambawale, Chief Risk Officer, will then offer comments on credit quality, after which we will invite questions from pre-qualified analysts and investors on the phone. Also present today to answer your questions are:

- Teri Currie, Group Head, Canadian Personal Banking;
- Greg Braca, President and CEO, TD Bank America's Most Convenient Bank; and
- Riaz Ahmed, Group Head, Wholesale Banking.

Please turn to slide 2.

At this time, I would like to caution our listeners that this presentation contains forward-looking statements, that 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 would also like to remind listeners that the Bank uses non-GAAP financial measures such as "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. Bharat will be referring to adjusted results in his remarks.

Additional information on items of note, the Bank's use of non-GAAP and other financial measures, the Bank's reported results and factors and assumptions related to forward-looking information are all available in our Annual 2021 Report to Shareholders.

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

Bharat Masrani – TD – Group President and CEO

Thank you, Gillian. And thank you, everyone, for joining us today.

Q4 was a great quarter for TD, and it caps off a strong year. Earnings were $3.9 billion for the quarter, and EPS was $2.09, up 31 per cent from a year ago. On a full-year basis, earnings were $14.6 billion, and EPS was $7.91, up nearly 50 per cent, reflecting higher revenue and a recovery in provisions for credit losses.

Our retail businesses recorded strong volume and fee income growth, as we added new customers and deepened existing relationships in an environment of rising activity. Our wholesale bank built on last year's record performance, winning key client mandates and continuing to advance our U.S. dollar strategy. And our CET 1 ratio ended the year at 15.2 per cent, up more than 200 basis points from the fourth quarter last year.

Reflecting these strong results, we declared a 10-cent dividend increase today, bringing our dividend to 89 cents per share. And we announced our intention to repurchase up to 50 million common shares for cancellation, subject to regulatory approval. We are pleased to be able to return capital to shareholders, while retaining significant flexibility to continue investing in organic and inorganic growth opportunities.

I am proud of what we've accomplished this year. We've stood shoulder to shoulder with our customers, colleagues and communities: supporting them through the worst of the pandemic, and helping them participate in the recovery. There is still much work to do to ensure that this recovery is sustained – and sustainable. But we meet the challenge from a position of strength: powered by our proven business model, guided by our long-term strategy, and investing purposefully in our businesses to position them for future growth.

Our Canadian Retail segment earned $8.5 billion this year, with higher revenues across the banking, wealth and insurance businesses.

- We delivered record real estate secured lending originations, card retail sales, wealth assets and insurance premiums – and we extended our lead in deposits and personal money movement, as customers responded to our expanded advice and product offerings by bringing us more of their business.
- We're winning with customers with the capabilities we've developed to deliver legendary experiences:
    - Our TD Aeroplan Visa Infinite and MBNA Rewards Platinum Plus cards received top billing in several industry reviews, reflecting the investments we've made to enhance the depth and breadth of our premier suite of credit cards.
    - In addition to being named Best Digital Bank in North America by Global Finance, we were named Canada's Best Consumer Digital Bank, ranking #1 in seven categories, including best mobile banking app, best information security and fraud management, and best open banking APIs – as well as Most Innovative Digital Bank for the third year running.
    - And as the # 1 financial institution patent filer in Canada, with over 300 patents granted to date, we're investing in the R&D to help keep TD at the forefront of shaping the future of banking.

Our U.S. Retail Bank earned US$3.3 billion in fiscal 2021, with improving top-line growth throughout the year, as strong deposit volumes, PPP loan forgiveness, and a steady recovery in consumer lending and fee income helped offset continued margin pressure.

- We built on our lead in core deposits, ranking eighth nationally, supported by further market share gains.
- We saw personal loan volumes rebound in the latter half of the year, with higher year-end balances in mortgages, cards and indirect auto.
- We ranked #1 for SBA lending in our Maine-to-Florida footprint for a fifth year running – and we were the #7 PPP lender nationwide, helping small business customers obtain forgiveness for nearly 100,000 loans with a gross carrying value of almost US$9 billion. While this is weighing on loan balances in the near term, it has strengthened our leadership with the small business customers in our footprint that are the heart of our One TD strategy.
- That One TD strategy also helped us earn two J.D. Power awards this year:
    - TD Bank America's Most Convenient Bank ranked first in J.D. Power's 2021 Small Business Banking Satisfaction Study in the South Region – our third win in this category.
    - And TD Auto Finance took top spot in the 2021 Dealer Finance Satisfaction Study for Non-Captive Lenders with Prime Credit, for the second year in a row.

- And we continued to deliver on our omni-channel strategy, amplifying 'unexpectedly human' customer experiences with enhanced digital capabilities, including:
  - launching new robo-advisor solutions for our wealth clients;
  - and entering into a data access agreement with Akoya designed to help customers share their data with fintechs and aggregators safely and securely – as we continue to demonstrate principled leadership on open banking.

Our Wholesale Banking segment delivered strong results this year, with earnings of $1.6 billion. Over the last several years, TD Securities has made significant strides building on its strengths in Canada and investing in the global expansion of its U.S. dollar strategy. The dealer has grown its revenue base by almost 35 per cent since 2018; added over a hundred new corporate lending clients; and expanded its product, industry and ESG advisory capabilities. The progress is evident in strong client activity across the dealer's footprint.

- This quarter, our Canadian banking team acted as Financial Advisor to Agnico Eagle on its pending merger with Kirkland Lake Gold for a combined market capitalization of US$24 billion – the 2nd largest gold M&A transaction ever, and the largest gold 'merger of equals' transaction.
- In the U.S., we've grown our U.S. Prime Services business, adding 27 funds and U$8B in gross assets over the last year.
- And in Europe, TD Securities was one of 5 joint lead managers – and the only Canadian dealer – on the European Union's EUR 12 billion inaugural green bond, the largest green bond issue ever.

Overall, I'm very pleased with our performance this year. We see continued upside to volumes and fee income as the recovery progresses, as well as the potential for higher spread revenue from rising rates. Coupled with our proven business model, the growth opportunities in each of our businesses, and our ability to deploy capital, we believe we can grow adjusted EPS by 7-10 per cent over the medium-term. While we have good momentum entering the year, the road ahead is likely to be bumpy, and it will be challenging to meet our medium-term objective in 2022. In addition to a complex macroeconomic environment, we are likely to see normalization in PCL's, insurance claims and wealth trading activity, along with declining revenue related to PPP loan forgiveness.

As always, we will stay focused on our long-term strategy and continue to execute on our enterprise priorities:

- Delivering more value for customers across our distribution channels
- Leveraging our data, analytics and AI capabilities to elevate the customer experience
- Transforming the way we work to achieve better, faster outcomes
- Investing in our colleagues to ensure they have the skills and resources to grow and succeed in a changing world
- And continuing to embed ESG in everything we do – from meeting our commitments to increase the representation of women, Black and Indigenous people in our executive ranks; to executing on our Climate Action Plan and helping build the sustainable future the world urgently needs

To wrap up, I'm proud of the strong financial results and returns we generated for shareholders this year. I'm equally proud of the value we delivered for all our stakeholders.

- Last month, TD was named to the Dow Jones Sustainability World Index for the 8th year in a row – a measure of our long track record of good environmental stewardship, social responsibility, and corporate governance.

- We were also recognized as an employer of choice in numerous surveys:
    - one of the World's Best Employers in 2021 according to Forbes
    - a top diversity employer according to Canada's Best Diversity Employers and DiversityInc in the U.S.
    - home to a top team and two executives in American Banker's 2021 Most Powerful Women Program
    - and a member of the Bloomberg Gender Equality Index for 5 years running.

But the greatest recognition is the 90,000 bankers who choose to make their careers at TD. They are the real force behind our success, and the reason I am confident we will continue to build on these achievements as we pursue our shared vision to Be the Better Bank. I thank them for their hard work and dedication.

And finally, a word to our customers, colleagues and communities in British Columbia affected by the devastating flooding. We are thinking of you and will continue to focus on providing whatever support we can through this upheaval.

With that, I'll turn things over to Kelvin.

Kelvin Tran – TD – CFO

- For 2021, the Bank reported earnings of $14.3 billion and EPS of $7.72, both up 20%.
- Adjusted earnings were $14.6 billion, and adjusted EPS was $7.91, up 47% and 48% respectively.
- Revenue decreased 2%, which includes the impact of the $1.4 billion pre-tax net gain on the sale of the Bank's investment in TD Ameritrade in the fourth quarter last year.
- Adjusted revenue increased 1%, or 3.4% ex-FX and the insurance fair value change, reflecting strong fee income and volume growth, partly offset by lower retail margins and a decline in wholesale trading revenue from 2020's elevated levels.
- Provision for credit losses was a recovery of $224 million, lower by $7.5 billion, primarily reflecting a performing PCL recovery compared with last year's build.
- Expenses increased 7%, mainly reflecting an increase in the retailer program partners' net share of the profits from the U.S. strategic cards portfolio, primarily due to lower PCL.
- Absent this, adjusted expenses increased 1.8 per cent, or 3.7% ex-FX, reflecting higher employee-related expenses, including variable compensation, and higher spend supporting business growth.
- Because of the large YoY change in PCL, the accounting for the U.S. Strategic Card Portfolio continues to have a significant impact on total bank expenses, pre-tax, pre-provision earnings and operating leverage. Slides 25-27 show how we calculate total bank PTPP and operating leverage removing this impact, along with the impact of foreign currency translation, which was significant this year, and the insurance fair value change. Slide 26 shows that after making these adjustments total Bank PTPP was up 3% from fiscal 2020, reflecting strong revenue growth in the retail segments, partly offset by lower wholesale revenue.

Please turn to slide 11.

- For Q4, the Bank reported earnings of $3.8 billion and EPS of $2.04, down 26% and 27%, respectively.
- Adjusted earnings were $3.9 billion, and adjusted EPS was $2.09, up 30% and 31%, respectively.
- Revenue declined 8%, which includes the impact of last year's pre-tax net gain on the sale of our stake in TD Ameritrade.
- Adjusted revenue increased 5%, or 6.5% ex-FX and the insurance fair value change, reflecting strong fee income and volume growth in the retail businesses, partially offset by lower wholesale trading-related revenue from Q4 2020's elevated levels.
- Provision for credit losses was a recovery of $123 million, with impaired PCL more than offset by a performing PCL release.
- Expenses increased 4% year-over-year, including an increase in the retailer program partners’ net share of the profits from the U.S. strategic cards portfolio, primarily due to lower PCL.
- Absent this, adjusted expenses increased 2.2%, or 3.9% ex-FX, reflecting higher employee-related expenses including variable compensation and higher spend on professional and advisory services and marketing, as we positioned ourselves for future growth, partially offset by higher corporate real estate optimization charges in the prior year.
- Total bank PTPP with the modifications shown on slides 25-27 was up 10% year-over-year on strong revenue growth. PTPP was down 2% quarter-over-quarter, mainly reflecting higher sequential expense growth.

Please turn to slide 12.

- Canadian Retail net income for the quarter was $2.1 billion, up 19% year-over-year. On an adjusted basis, net income was up 17%.
- Revenue increased 8%, reflecting higher volume growth, and higher fee-based revenue in the wealth and banking businesses , partially offset by lower deposit margins and a decrease in the fair value of investments supporting claims liabilities which resulted in a similar decrease in insurance claims.
- Average loan volumes rose 8%, reflecting 8% growth in personal volumes and 11% growth in business volumes.
- Average deposits rose 11%, including 8% growth in personal volumes, 17% growth in business volumes, and 12% growth in wealth deposits. Wealth assets increased 24%, reflecting market appreciation and new asset growth.
- Net interest margin was 2.57%, down 4 bps compared to the prior quarter, reflecting lower mortgage prepayment revenue.
- Total PCL of $53 million declined $47 million sequentially, reflecting a larger recovery in Performing PCL this quarter.
- Total PCL as an annualized percentage of credit volume was 0.04%, down 18 bps from the fourth quarter last year.
- Insurance claims increased 3% year over year, primarily reflecting less favourable prior years’ claims development and higher current year claims from business growth, partially offset by improved current year claims experience.
- Reported non-interest expenses increased 8% year over year, reflecting higher spend supporting business growth, including technology and marketing costs, higher employee-related expenses and variable compensation, partially offset by prior year charges related to the Greystone acquisition. Adjusted expenses increased 10%.

Please turn to slide 13.

- U.S. Retail segment reported net income for the quarter was US$1.1 billion, up 66% YoY.
- U.S. Retail Bank net income was a record US$897 million, up 123%, primarily reflecting lower PCL and higher revenue.
- Revenue increased 8% year over year, reflecting accelerated fee amortization from PPP loan forgiveness, growth in deposit volumes, higher valuation of certain investments, and higher fee income, partially offset by lower deposit margins.
- Average loan volumes decreased 6% year over year, reflecting a 10% decline in business loans, primarily due to PPP loan forgiveness, paydowns, and lower line usage. Personal volumes were down 1% year-over-year, but up 2% sequentially, with growth in all major asset classes.
- Average deposit volumes, excluding sweep deposits, were up 14% year over year. Personal deposits were up 16% including 23% growth in consumer checking and business deposits were up 11%. Sweep deposits declined 2%.
- Net interest margin was 2.21%, up 5 basis points sequentially, reflecting higher investment income and accelerated amortization from PPP loan forgiveness. On slide 30, we've added new disclosure on the impact of the PPP program, showing its contribution to U.S. Retail Bank NII and NIM. This quarter, PPP revenue contributed about US$110MM to NII and 16 basis points to NIM. While the exact timing of loan forgiveness is difficult to predict, we expect most of this benefit to have faded by the second quarter of next year.
- Total PCL was a recovery of US$62 million, higher by US$12 million sequentially, reflecting a smaller recovery in performing PCL.
- The U.S. Retail net PCL ratio, including only the Bank's share of PCL for the U.S. strategic cards portfolio, as an annualized percentage of credit volume was -0.15%, higher by 3 bps sequentially.
- Expenses increased 3% year over year, primarily reflecting higher incentive-based compensation and higher investments in the business, partially offset by productivity savings.
- The contribution from TD's investment in Schwab was US$195 million compared with a contribution of US$255 million from TD Ameritrade a year ago.

Please turn to slide 14.

- Wholesale net income for the quarter was $420 million, a decrease of 14% compared to a very strong fourth quarter last year, reflecting lower revenue and higher non-interest expenses, partially offset by lower PCL.
- Revenue was $1.2 billion, down 8% year-over-year. At $510MM, trading related revenue was down 33% from the elevated levels seen in Q4 2020. Partially offsetting this, lending revenue, advisory fees and equity underwriting all increased year-over-year.
- PCL for the quarter was a recovery of $77 million, lower sequentially on recoveries in impaired and performing PCL.
- Expenses increased 13% year over year, primarily reflecting higher employee-related costs from continued investment in Wholesale Banking's U.S. dollar strategy, and higher variable compensation.

Please turn to slide 15

- The Corporate segment reported a net loss of $150 million in the quarter, compared with reported net income of $2 billion in the fourth quarter last year.
- The year-over-year decrease was primarily attributable to the net gain on the sale of the Bank's investment in TD Ameritrade of $1.4 billion ($2.25 billion after-tax), partially offset by lower net corporate expenses and a higher contribution from other items.
- Adjusted net loss for the quarter was $65 million, compared with an adjusted net loss of $213 million in the fourth quarter last year.

Please turn to slide 16.

- The Common Equity Tier 1 ratio ended the quarter at 15.2%, up 74 basis points from Q3.
- We had strong organic capital generation this quarter, which added 49 basis points to CET 1 capital.
- We gained another 13 basis points from a reduction in non-significant investments above the 10% threshold deduction, reflecting the combined impact of an increase in the threshold from CET 1 capital growth, and a decrease in net holdings of equity securities in Wholesale Banking.
- Lower RWA net of FX and other items added a further 12 bps to capital, mainly attributable to lower Credit Risk RWA.
- Credit Risk RWA declined $6.4 billion, primarily due to improved asset quality in U.S. commercial and auto loans.
- The leverage ratio was 4.8 percent this quarter, and the LCR ratio was 126 percent, both well above regulatory minimums.

I will now turn the call over to Ajai.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Thank you, Kelvin and good afternoon everyone. Please turn to slide 17.

- Gross impaired loan formations were stable quarter-over-quarter at 11 basis points, remaining at cyclically low levels.

Please turn to slide 18.

- Gross impaired loans decreased $240 million or 3 basis points quarter-over-quarter to a new cyclical low of 32 basis points.
- The decrease was across all segments, and related to the ongoing impact of:
    - Support programs
    - Customer resilience, and
    - The economic recovery.

Please turn to slide 19.

- Recall that our presentation reports PCL ratios both gross and net of the partners' share of the U.S. strategic card PCLs. We remind you that PCLs recorded in the Corporate segment are fully absorbed by our partners and do not impact the Bank's net income.
- The Bank recorded a PCL recovery $124 million in the fourth quarter, reflecting:
    - A performing allowance release,
    - Partially offset by continued low impaired provisions.

Please turn to slide 20.

- The Bank's Impaired PCL was $219 million, lower by $25 million quarter-over-quarter, and reaching a new cyclical low.
- Performing PCL was a recovery of $343 million, compared to a recovery of $279 million last quarter. The current quarter recovery reflects:
    - Additional allowance releases across all segments.
    - For 2021, the Bank's full year PCL rate was a recovery of 3 basis points, compared to provisions of 100 basis points in 2020, as credit performance has outperformed our initial expectations.

Please turn to slide 21.

- The Allowance for Credit Losses decreased $462 million to $7.2 billion quarter-over-quarter, reflecting:
    - Further improvement in credit conditions, and
    - The impact of foreign exchange.
- Now, let me briefly summarize the year:
- Credit performance trended positively in 2021 as we've progressed through the pandemic, as evidenced by cyclically low:
    - Gross impaired loan formations,
    - Gross impaired loans, and
    - PCLs.
- I expect PCLs to be higher in 2022, increasing from unsustainably low levels this year, as the benefit from support programs subside and credit conditions begin to normalize.
- However, credit results may vary by quarter, and
    - Low PCL levels may persist in the near-term, benefitting from:
        - Low impairments, and
        - The potential for further performing releases.
- To conclude, TD remains well positioned given:
    - We are adequately provisioned,
    - We have a strong capital position, and
    - We have a business that is broadly diversified across products and geographies.

With that, operator, we are now ready to begin the Q&A session.

QUESTION AND ANSWER

Operator

Thank you. We will now take questions from the telephone lines. [Operator Instructions] The first question is from Gabriel Dechaine with National Bank Financial. Please go ahead.

Gabriel Dechaine – National Bank Financial – Analyst

First question, lots of pressure. Okay. The PPP balances there of US$4.8 billion at period end fell about US$4 billion from Q3 levels. Can you give me a sense of when do you expect that to fully run off? Is it going to be next quarter or are you going to take two, and would there be a commensurate or linear revenue impact as those are repaid?

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

Gabriel, how are you, and thanks for the questions, it's Greg Braca. I would say we continue to progress, and I'll remind you of the kind of comments I made during Q3 was that we expected the majority of this PPP run off to really come to conclusion by the middle of 2022. It's playing out the way we thought. We did have a bit of further acceleration of forgiveness during the fourth quarter and we had over US$3 billion of loans forgiven during Q4 alone. With that said, we've got a little over US$3 billion left for forgiveness as we come into the start of 2022 fiscal and we expect the majority of this is done by Q1 and Q2 of next year.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. But it's spread out over two quarters evenly?

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

Correct. A lot of this depends on the customers coming into us and making sure the documentation is prepared. We've got to obviously coordinate all of this with the SBA. They've got to give us final sign off on it. But all things being equal, I think you'd tend to see more of it get done in Q1 or Q2. By the end of the second quarter, we should probably be out of it.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. Thanks for that. My second question is for Bharat. Pre-COVID, you reviewed the dividend every Q1. For obvious reasons you did it in Q4, and I'm glad to see that. I'm just wondering what the future holds. Would you be evaluating the dividend in Q1 2022 or is this quarter a sneak peek of that? And if that's the case, we wouldn't see another dividend increase potentially until Q1 of 2023. If you could clarify, please?

Bharat Masrani – TD – Group President and CEO

Yeah. Gabe, it's good to hear your voice and I hope everything is well with you. We look at our dividends on an ongoing basis as to what makes sense. It's tough to give you a particular timeline on that. But it was important this time around, given that the restrictions on dividends were lifted, that we do increase our dividend in line with what our expectations are. But it's not a bad assumption that we like to look at this on an annual basis, and then hopefully we get into that cycle. But it doesn't mean that we will not periodically look at it on a different cycle based on circumstance and the environment we might be in.

Gabriel Dechaine – National Bank Financial – Analyst

So, I don't know how to interpret that?

Bharat Masrani – TD – Group President and CEO

Well, you're asking me next quarter and I don't think so, that would be my modeling. But I can't precisely tell you when do we look at our dividends. Generally, our cycle has been annual and that has worked out reasonably well for us, but it will depend on the environment going forward, because we are looking at a lot of changes to the environment than what we had pre-pandemic.

Gabriel Dechaine – National Bank Financial – Analyst

Is it unlikely that we have to wait until 2023, or is that a distinct possibility?

Bharat Masrani – TD – Group President and CEO

I can't tell you exactly, Gabe. It's hard to predict the whole year out there. But our general practice is to look at this once a year, we like that, but it will depend on the environment that we are in.

John Aiken – Barclays Capital Canada, Inc. – Analyst

Good afternoon, Bharat. I understand your reticence about the medium-term EPS target with respect to hitting it in 2022, given the success that Ajai has had in provisions in 2021. But would you be willing to make a commentary about pre-provision pre-tax earnings, whether or not you think the medium-term target could be hit on that, on that basis in 2022?

Bharat Masrani – TD – Group President and CEO

No doubt. As I've said in my remarks, we've got good momentum, our business mix is terrific, our businesses and the momentum we are seeing are suited for this type of a recovery. So, we like that. So, we ended the year with good confidence. But as I've said in my remarks, there is a lot of uncertainty out there, a lot of bumpiness, nobody had heard of this new variant as of a week ago, so things can change quite dramatically. But I feel comfortable that with our business mix, the way we're positioned, the different territories we're in and our footprint, that we feel good to maintain our medium-term earnings growth target of 7% to 10%. But it's very hard to put a pin on one particular year, given all the uncertainties around it regarding provisions, regarding the variants, normalization of activity, whenever that might happen or not happen. So, in all those respects, your guess will be as good as mine.

John Aiken – Barclays Capital Canada, Inc. – Analyst

I think your guess is better than mine, Bharat! Thanks, and I'll leave the capital question up to somebody else. Thank you.

Doug Young – Desjardins Capital Markets – Analyst

Hi, good afternoon. First question is on regulatory capital. Credit risk RWA is down about 8% year-over-year and it looks like around half of this is driven by an improvement in quality. Quality improvement looks like it's added about 47 basis points to the CET1 ratio over the past year. The question is, are you purposely de-risking or what's driving this in particular?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Well, thanks for the question. It's Ajai, so I'll respond. What I would say is we're seeing improvement in credit quality pretty much across the Bank in all segments. We're seeing lower PDs. We're seeing an improvement in LGD as well. And a good example of that is our U.S. auto business where car prices and used car prices have been going up. On the non-retail side as well, again, on all commercial businesses we're seeing upgrades in ratings. So, generally positive credit migration is occurring, but as Kelvin said, a big piece of this is the U.S. and U.S. auto is an important contributor. I hope that's helpful.

Doug Young – Desjardins Capital Markets – Analyst

Yeah. And a follow-up on that, is mix a big part of this as well, as you start to get a pickup in commercial lending, start to pick up in credit card revolvers, and we start to kind of see that mix shift start to drag down?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Well, I'd say mix is a factor. For example, if your growth is coming from, let's assume RESL, which it is, you're not seeing as much RWA against RESL. But if you have quality improvements and other asset classes, which attract a higher RWA, then yes. So, I think mix is a factor. I think it will continue to be a factor even going forward.

Doug Young – Desjardins Capital Markets – Analyst

Okay. And then, Bharat, you mentioned in your opening remarks just using capital for inorganic means, so I'm going to use that as a doorway to go in. But my question is, are you still primarily interested in targets in the U.S., East Coast and Florida, or are you more willing to look outside of your current US footprint? And I ask the question just because I'm getting asked that question.

Bharat Masrani – TD – Group President and CEO

Yeah Doug, again, like with Gabe, nice to hear your voice and hope everything is well. Our approach to looking at inorganic opportunities or acquisitions has not changed over the years. We've said that we have our capital deployment framework that looks at what needs do we have, et cetera, et cetera. So, I won't repeat and bore you with that.

With respect to specific acquisitions, we've also been very clear that it has to make strategic sense, it has to make financial sense, it has to be within our risk appetite, and of course, it has to be aligned with the TD culture. Those are very important criteria for the Bank.

And so, yeah, of course, doing something within our footprint is terrific, because it helps us financially and actually helps us become more of a scale player in certain markets where we are building scale and it will just accelerate that. But we've not been shy in looking at opportunities outside of our footprint as well. Our auto business that started with the acquisition of Chrysler Financial, with the National business in the United States, our credit card business, our partnership with Target and Nordstrom is national in nature. So, it depends on the opportunities but it has to meet our criteria. It's very important to us that it does make the strategic sense and financial sense and risk and culture. So, that's the best way I can sort of give you more insight as what our thought process is.

Ebrahim Poonawala – BofA Securities – Analyst

Good morning. I guess, Bharat, I take it from your last response that if something meets all your criteria and ends up let's just say in California, that would still be fair game?

Bharat Masrani – TD – Group President and CEO

Yeah. As long as it makes sense with all the criteria I've laid out, then of course we'd look at any transaction that comes our way or is on offer. I mean, that's how we look at it and it's been our approach for a few years and it has worked well for us.

Ebrahim Poonawala – BofA Securities – Analyst

Makes sense. I guess another question, at the end of October you announced pretty meaningful executive changes. Just talk to us in terms of how we should read into that. I understand part of it was just bringing in the next generation of talent into leadership roles. But as we think about execution, does it change anything in terms of the pace at which you move on things or strategic priorities maybe tactically being a little bit different? Would love any perspective you can share.

Bharat Masrani – TD – Group President and CEO

Ebrahim, the great thing about TD is the strength of our bench if you look at the executives that we have, and that's a huge blessing and a huge advantage for the Bank. So, I'm so proud of the team. You saw what we've delivered for us, all of our stakeholders, including our shareholders, last year and frankly over many years. So, I don't think you should view this as a change in strategy or approach at all. This is just taking advantage of the terrific talent we have in the Bank. And of course, we once in a while have retirements as well. So, we've got to work that into our thinking and make sure that as a bank we are well positioned for the great opportunities we have going forward.

Paul Holden – CIBC World Markets – Analyst

Thank you, good afternoon. So, first question relates to the commercial loan growth in the U.S. The additional disclosure on PPP is appreciated and it gives us an opportunity to back out the non-PPP loans, which were down again quarter-over-quarter. I'm just wondering what's the outlook there in the near-term now that PPP program is over? Do we expect the non-PPP will start to recover?

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

Thank you. And Paul, nice to hear from you and thanks for the question. So, we provided the additional disclosure because we thought it was important. But backing out PPP, what you generally see on the commercial side is, you're seeing the slowdown in loan growth and a negative year-over-year loan growth really mirror itself on the opposite side of the balance sheet with the tremendous growth in deposits.

In the U.S., not unsimilar to many of our peer banks as they reported Q3, you're seeing a lot of pressure on commercial loan outstandings. And that really translates into what we see day in and day out of record low utilization rates. We used to think utilization rates on the commercial book in the low-30% range was very low and now we're in the high-teens. So, it's just one indication that there's a lot of liquidity. And with rates so low, you continue to see that long-term structures are being done in the capital markets, especially for larger commercial borrowers.

Notwithstanding all of this, I would say that the origination volume that the teams are processing are very strong again. Demand is back; it's just credit and credit securities are getting retired quicker and with capital markets debt. We would expect to see this beginning to normalize in Q1 and Q2 based on everything that we can see in the market pipelines and activity that's going on.

Paul Holden – CIBC World Markets – Analyst

That is helpful, thank you. Second question is with respect to capital. It feels like every quarter you surprise us with a positive update on CET1. When I look at the internal capital generation number of 49 basis points, I wonder if there is a scenario where you'd be able to generate enough loan growth, enough RWA, to actually consume all of that internal capital generation. Can you envision such a scenario, or even under a more robust loan growth you expect you'll continue to accrete CET1?

Bharat Masrani – TD – Group President and CEO

Paul, this is Bharat. Hard to put a specific number on what that would be, but I mean this is an indication of the earnings power of TD Bank Group and that's how our business model is positioned. We do generate excess capital and we can also absorb good loan growth. So, I don't think I can give you specific guidance as to how much of our capital will be used on what level of loan growth. But suffice it to say, as I've said many times before, for our capital deployment framework, our priority number one is to support our existing strategies, and that entails use of or increase in RWAs on an ongoing basis because we're a growing franchise and we have lots of opportunities. To have the flexibility we do is a great advantage for the Bank.

Meny Grauman – Scotia Capital – Analyst

Hi, good afternoon. Just keeping on the capital theme, just wondering how aggressive you intend to be on the buyback and could we see a scenario where you use up renew your buyback within the year?

Bharat Masrani – TD – Group President and CEO

Meny, good to hear from you. In our case, it's terrific that we've announced this NCIB buyback. It's one of the largest ones we've announced in recent history, at least that's my recollection. And the important thing to note for us is that when we announce we do execute. So, we'll be busy doing that. It's hard to give you specific scenarios in the future, particularly given the uncertain environment. It's hard to predict what's going to happen a year from now or six months from now or even a quarter from now. And hopefully, for the sake of all of us, there's no more variants coming down the pike here because things can change quite dramatically. It's hard to give you specific scenarios like that, but very happy that we've announced this buyback, because I think it is meaningful and our intention is to complete it.

Meny Grauman – Scotia Capital – Analyst

There's no doubt the buyback is large historically, but when I look at the kind of capacity that you have, the kind of excess capital you have, it seems like you could do multiples of that buyback and still have a reasonably high capital ratio. So, maybe another way to think about it is, what capital ratio are you managing to and why not be more aggressive on the buyback? What are the considerations that you have? How much of that is M&A related?

Bharat Masrani – TD – Group President and CEO

Yeah. Again, I don't think I can give you precise numbers or that it makes sense to try and predict and forecast these numbers. I think the fact that we can announce a buyback of this magnitude and still have the flexibility tells you the strength of TD, and that's a good position to be in. So, it's hard for me to give you precisely what numbers we are working through, and what the scenario might be a few quarters or a year or two down the road. So, time will tell, Meny.

Nigel D'Souza – Veritas Investment Research – Analyst

Thank you. Good afternoon. My first question was on your allowance levels. When I look at allowance for performing loans, they're still fairly elevated as you noted. I'm trying to understand, given the improvement in credit quality that you've cited, excess liquidity for your clients, and just a generally low level of impairments and delinquencies, what's preventing higher releases of those allowances? To put it in another way, if I look at your forward-looking indicators that have improved substantially over the last year or so, I'm wondering why that hasn't translated to the higher releases of allowances on performing loans. So, what's offsetting that?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

It's Ajai. So, let me respond. Our allowances really reflect our view of the expected credit loss, and in determining that view we certainly have taken into account all the uncertainty that still exists. That uncertainty, as Bharat just said, includes existing variants, new variants, potential for inflation that's actually already here, the ultimate economic trajectory is an unknown, and the post-stimulus impact on customers is also going to play out in the coming quarters. So, we feel we have the appropriate level of allowance. However, each quarter end, we're going to relook at it. We're going to look at the changing macro situation. We're going to look at the forward-looking uncertainty and to the extent there are improvements, we certainly will consider releases in the future. But we're quite comfortable with where our allowances is right now.

Nigel D'Souza – Veritas Investment Research – Analyst

Okay. And functionally, the improvement in FLIs, has this been offset by management overlay or a higher weighting to the downside scenario?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Well, we didn't make any change in our weightings quarter-over-quarter. I would say the overlays over time have reduced, but the overlays still exist. And I would finally say, overlays remain an important part of our allowance process.

Nigel D'Souza – Veritas Investment Research – Analyst

Okay. If I could just quickly finish on a different question on your trading income. When I look at the Bank level, there's a loss there, and I know that's not what you want us to track in terms of Wholesale Banking trading revenue. But could you just fill us in on what's driving that loss on the Bank level? Is that fair value losses related to securities held for trading?

Kelvin Tran – TD – CFO

So, I think we should look at the trading-related income because looking at just the trading line in itself does not include all of the hedges that you have that would come through in NII, for example. And that's why we actually do provide that information separately.

Lemar Persaud – Cormark Securities – Analyst

Thanks, I just want to continue on the M&A and capital discussion. If there is something that makes sense from an M&A perspective, what CET1 ratio would the Bank be comfortable going down to finance the deal?

Bharat Masrani – TD – Group President and CEO

Again, that would depend on what kind of risks are we assuming, what is our view of what scenarios might be at play over the short- and medium-term. That would guide us to what level of capitals we need to have in the Bank. So, hard to exactly put a pin on what's the number. It would depend on circumstance at the time, and particularly, if there was an M&A, as to what actually are we pursuing and what kind of risks are we assuming.

Sohrab Movahedi – BMO Capital Markets – Analyst

Hey, thank you. Just a couple of maybe clarifying questions. Greg, I'm sorry if I missed it, but when you were talking about the PPP loans, did you also mention what's the remaining unamortized fees on that?

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

Hi. Thank you, Sohrab, nice to hear from you. I did not. But we would generally look at the unamortizing fees. Again, some of this depends on how long these loans are outstanding, because if they don't get forgiven then they continue to amortize over the life. But we expect the vast majority of these to be forgiven in the next couple of quarters. About US$100 million would be the rough estimate of unamortized fees for forgiveness left to go.

Sohrab Movahedi – BMO Capital Markets – Analyst

US$100 million left to go. Okay, perfect. And then, Kelvin, from your perspective, I think you drew our attention to page 27 I think of the slide deck where you were talking about adjusting to get a purer view of the pre-tax pre-provision earnings of the Bank, adjusting for the partners' value and so on and so forth. Is it fair to say you're going to continue to give this slide indefinitely? In other words, when things normalize, so to speak, on credit and the mechanics with the partners' share, will we be able to see this on an ongoing basis? You didn't just conveniently give this to us over the last number of quarters, and then you're going to take it away in the future when it may be a little bit more of a tailwind to the Bank, are you?

Kelvin Tran – TD – CFO

It depends on how much you're willing to pay! So, we would continue to provide the slide as long as it is relevant. But the thing about this slide is that the PCL related to the partnership is volatile, and when that's volatile, it creates the other offset on the expenses. You could actually see this amount in the Corporate segment PCL. That's mostly where the volatility is. So, even if the slide is not there, you could pick up these numbers. And then, we would provide all of the details, now the end note to this deck, that you can pick up in our supplemental pack.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay, I think it would be a good idea to continue to provide it for an extended period of time. Bharat, to come back at Lemar's question, I can think of historically the Bank not being shy about, I'll call it, transformative capital deployment, maybe going all the way back to the acquisition of Canada Trust and, obviously, the Commerzbank acquisition. First of all, are you in pursuit of something transformative? And then secondarily, if you found something transformative, do you think you will be able to do it with resources on hand or would you be inclined to also go to your shareholders?

Bharat Masrani – TD – Group President and CEO

Sohrab, I see the trend of all the questions here on capital. First I would say, that's a fantastic position for TD to be in. It gives us lots of flexibility in deploying our capital for organic and inorganic opportunities.

Regarding your question, transformative or not transformative, if it meets our criteria, we will certainly look at it very seriously and see whether it makes sense for us. We have not been shy in acquiring entities that are sometimes pure capability builds for the Bank. Layer 6 comes to mind, which was an AI company and had nothing to do with banking at the time. It turned out to be a terrific acquisition for the Bank. So, sometimes we can talk about transformative or not transformative, but our view is that we would want to make sure that it's within our strategy, it makes sense for the Bank over the long-term, and it would create tremendous value for all of our stakeholders.

Now, your point about capital deployment at the moment, I will remind folks when we did those transactions that you just talked about, we were not shy to go back to our shareholders and asking for money. Those acquisitions made sense in their own right. It was not like our excess capital was burning a hole in our pocket, and I think you should see that as a continuation at TD. That's how we look at any potential transaction.

Scott Chan – Canaccord Genuity Corp. – Analyst

Good afternoon. Moving back to that slide 26, Kelvin, on the yearly PTPP. With all the adjustments, you get 3% in fiscal 2021 and 3% in 2020. I know you don't have a crystal ball, but when you think about fiscal 2022, how should we think about expenses or target expenses heading into 2022?

Kelvin Tran – TD – CFO

Yeah. So, we don't necessarily have a specific target for expense growth. The way we look at it is that we need to deliver value for our shareholders in the medium and long term, and that means that we need to continue to invest in the business. And so, that means you have to prioritize what are important projects, and that at the end of the day it's driving growth. So, our goal is to drive positive operating leverage, having revenue growing faster than expenses.

Scott Chan – Canaccord Genuity Corp. – Analyst

Okay. And Bharat, maybe just sneaking one more on capital and M&A. One of your competitors talked about expanding wealth management distribution capabilities. I know in the past you had bid two large Canadian independents. Is that an area of interest for you? Are you looking at that piece of the segment, especially in this marketplace where it's been pretty hot?

Bharat Masrani – TD – Group President and CEO

You were breaking up a bit there, Scott, but I think I got your question. I've said this before, anything in Canada in the financial services space we would look at it very seriously, because there are not many opportunities that present themselves. And whenever they have, TD has been there. I think the Aeroplan business comes to mind over the recent past. In wealth management as well, of course, Greystone comes to mind. So, of course we will look at it. I think that's what you meant, but our view on M&A is not confined to one specific business within our portfolio and mix of businesses, it would be any part of the Bank.

Darko Mihelic – RBC Capital Markets – Analyst

Hi, thank you. I think this first numbers question is for Kelvin. If you can just give us an idea of how much you guys feel that insurance claims were below normal? I'm just trying to understand what kind of a headwind you might face if claims normalize.

Teri Currie – TD – Group Head, Canadian Personal Banking

It's Teri. So, I'll take the question, Darko. So, clearly, sequentially, there were a number of factors that impacted claims going down: more favorable prior-year development, we had lower cats in Q4, better claims experience, decrease in the fair value of investments supporting claim liabilities. Then we did have some offsets to that.

I think your question as you look forward, again, there's a lot of moving parts as many of my colleagues have said. I think there is a question around return to the office and commuting, and when commuting actually returns to a more normalized level. So, our expectation would be that in a normalizing environment, we would see an increase in claims. I would also say that our cost of claims has been coming down and it's better than pre-pandemic levels. So, if that sustains, I'd say that's a positive.

Darko Mihelic – RBC Capital Markets – Analyst

Okay, thanks for that. I'll try and work with that. Another question, picking up on the theme of management change as we think about the three units that have been affected, and I'm including Riaz here. Is it fair to say that there's going to be a period here of significant review and potentially restructuring charges in 2022 or something of that sort, or do you think that line of thinking is way off-base and we should really not think about large changes in the year ahead?

Bharat Masrani – TD – Group President and CEO

Certainly I'm not thinking about it, Darko. We are very happy with the strategies we've deployed over many, many years and I expect that to continue. So, you should not view management changes meaning to fundamentally change the way this Bank is. Absolutely not. I'm reluctant to say it's never going to happen, but I certainly am not thinking about it the way you positioned it.

Ebrahim Poonawala – BofA Securities – Analyst

Hi. Kelvin, a follow-up question and apologize if I missed it. With the Bank of Canada expected to move on rates and the U.S. Fed probably moves in July, remind us in terms of the NII lift we should expect to see from a 25 basis points or 100 basis points rate hike both in Canada and the U.S.

Kelvin Tran – TD – CFO

Hi, Ebrahim. So, the 25-basis-point hike in the short rate would be about CAD $370 million and that's split about 50/50 U.S./Canada.

Ebrahim Poonawala – BofA Securities – Analyst

And is the 50% in Canada as immediate as it would be in the U.S., or would it take time to flow into given the duration of the asset side?

Kelvin Tran – TD – CFO

That would be immediate, because it's a short-rate move and that would have immediate impact.

Ebrahim Poonawala – BofA Securities – Analyst

All right. So, CAD $370 million. Another smaller question. We saw Capital One come out yesterday to end overdraft fees. Bharat, you've talked about this in the past. Any updated views around overdraft fees and how you're thinking about that product in the U.S.?

Bharat Masrani – TD – Group President and CEO

I'll pass it on to Greg, but just to start, we review this, Ebrahim, on an ongoing basis as to what makes sense. We introduced this terrific product in the U.S., Greg had talked about it, with TD Essential Banking and we're very happy with how that is attracting customers to the TD franchise in the U.S. Greg, I don't know whether you want to add anything, but we review all of our offerings to make sure we're competitive and meeting customer needs. Greg, is there anything else you wanted to add?

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

No. I think you covered it really well. Ebrahim, nice to hear from you as well and thanks for the question. I would say that we rolled out the TD Essential product, which is a non-overdraft checking product for our consumers. We rolled this out only in August and had terrific take-up from this product already. In fact, roughly 10% of our new accounts are coming from this. So, we look at how the product is positioned. In some cases, overdraft is a product that our customers want, they want to be able to utilize from time to time if it's needed. But certainly, we do look at how these things are structured. We've made changes in the past, and as the market moves, we would consider changes again in the future.

Ebrahim Poonawala – BofA Securities – Analyst

Got it. And one last one if I could squeeze in. Bharat, can you comment on potential for any strategic deepening with the Schwab relationship? It's been a great asset for you, but I'm just wondering is there anything on the lending side, et cetera, that you could be doing with Schwab, or we shouldn't be thinking about that?

Bharat Masrani – TD – Group President and CEO

It's been not only a great investment, but a great relationship. As you know, we have a long-term deposit agreement. Our thinkorswim platform in Canada is supported by Schwab. So, already it's a very good and a very productive relationship for TD, and we like our position very well. We keep on looking at different things and want to make sure we do what makes sense for the clients we may have. So, that's an ongoing review and where appropriate, of course, we would offer where it made sense. Hard to give you any more detail than that, but the existing relationship in itself is pretty sizable.

Operator

Thank you. That is all the time we have for questions today. I will turn the meeting back over to Mr. Bharat Masrani for closing remarks.

Bharat Masrani – TD – Group President and CEO

Thank you, operator, and thank you to all of you. Great questions and great engagement. I know there were a lot of questions on capital, but I view that as a positive given the flexibility it provides the Bank in making the right investments for the future. I'd also like to once again thank our 90,000 TD bankers around the world for everything they've delivered for all of our stakeholders, including our shareholders, customers, clients and communities, both in Q4 and in fiscal 2021.

Before we wrap up, I wanted to take a moment to recognize two of our executives on today's call. I think a couple of you already mentioned it, and as we recently announced, you would all know that Teri would be retiring from TD at the end of January of next year after an extraordinary 35-year career. In addition, Greg will be assuming a new role as Vice Chair of our U.S. Bank effective January 1st. As this will be their last quarterly earnings calls, for both Greg and Teri, I'd like to invite each of them to say a few words. Greg?

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

Well, thank you, Bharat, very much. And I'll be brief in my comments, but it is kind of hard to believe that it's been already a little over five years since it was announced that I was taking over just the U.S. business. And I really do want to thank, Bharat, yourself, the boards, both the parent and the U.S. boards, and the entire senior executive team for your counsel, your guidance and collaboration, certainly, over the last five years and really over the 20 years I've been here with the organization.

I'm really proud to see what's been accomplished and built in the U.S. and particularly what we're investing in and the momentum we built real-time in the U.S., and that momentum has really been accelerated throughout the pandemic, which is hard to believe, and we believe we'll be coming out of this stronger than when we went into it two years ago.

Finally, I really do want to make sure my comments are closed off here by thanking my leadership team in the U.S., as well as the 25,000 colleagues we have at America's Most Convenient Bank that drives these outcomes day in and day out. I'm really proud of what's been delivered, particularly over the last two years, real-time in this pandemic and the momentum we're building.

And finally, I would just say that Leo will make a terrific leader for the business in the U.S., and he and I have been working on the transition for the last month and we'll continue to work on it over the next month and months more to come. I look forward to the next role as Vice Chair, and in particular, being able to get out and spend more time with clients and thinking through M&A, Bharat, with you, and Leo and the rest of the team. So, all the best, and over to Teri.

Teri Currie – TD – Group Head, Canadian Personal Banking

Thanks, Greg. I want to start by thanking Bharat for his support over the years, but particularly for his support while I was working through my decision to retire, and then he asked the Bank for me to join the U.S. board, which will keep me connected which I'm really excited about.

Everyone around the table knows I'm still an arm-chair HR-person, and so some of your questions were around the SET moves and the additions to the SET, and I have to agree with what Bharat has said. It really is a tribute to the leadership bench at this Bank, and you will all benefit from the great people with these new moves, as well as the new people who have joined the senior executive team, and seeing Kelvin today on the call, you've been able to witness that.

I am delighted that Michael Rhodes is going to lead the Personal Bank in its next chapter. He's an amazing leader, he's a great partner, and I know he's going to build on the current momentum and ensure that we remain a unique and inclusive culture and a strong growth engine for the Bank.

The hardest part about retiring is, obviously, leaving the people, so my senior executive team colleagues, but also just the amazing people in the Personal Bank and across the Bank. And I just feel immense pride on how all of you and all of them have stepped up for Canadians over the last 20 months and dealt with all the personal challenges at the same time as really focusing on the needs of our communities and our colleagues and our customers. And I thank you, your challenge to us has made us better and your support for the Bank is incredible, and I hope you have a wonderful holiday season, and that you're able to safely enjoy time with friends and family this year.

Bharat, back to you.

Bharat Masrani – TD – Group President and CEO

Thanks. Thanks, Greg, and thanks, Teri, and no pressure on Michael and Leo, based on what I just heard and we'll redo the plan for next year. Greg, all the best in your new role, and Teri, of course, congratulations once again on a fabulous career and your well-deserved retirement, I look forward to seeing you at the U.S. board starting in February, so that's terrific. Thank you, everyone, for a great call, great engagement as I said, stay safe and wishing you all the best for the holidays and the New Year, and we will see you in 90 days. Thank you.