TD BANK GROUP
Q1 2021 EARNINGS CONFERENCE CALL
FEBRUARY 25, 2021

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Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2020 MD&A under the headings "Economic Summary and Outlook" and "The Bank's Response to COVID-19", for the Canadian Retail, U.S. Retail, and Wholesale Banking segments, "Key Priorities for 2021", and for the Corporate segment, "Focus for 2021", each as may be updated in subsequently filed quarterly reports to shareholders.

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

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PRESENTATION

Gillian Manning – TD – Head of Investor Relations

Thank you, operator. Good afternoon and welcome to TD Bank Group's third quarter 2021 investor presentation. We will begin today's presentation with remarks from Bharat Masrani, the bank's CEO, after which Riaz Ahmed, the bank's CFO, will present our third quarter operating results. Ajai Bambawale, Chief Risk Officer, will then offer comments on credit quality, after which we will invite questions from prequalified 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
- Bob Dorrance, 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 are 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 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. Bharat will be referring to adjusted results in his 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 Q1 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.

It's been almost a year since the COVID-19 pandemic transformed our lives. As we continue to witness its uneven impacts on the world around us and our own results, I'm proud of how the Bank has managed through this period – and of the resilience and commitment shown by our 90,000 colleagues around the world.

TD started the year strong, as we continued to execute on our strategies in an uncertain environment. First quarter earnings were $3.4 billion, and EPS was $1.83 – up 10 per cent from a year ago. Provisions for credit losses declined significantly, reflecting an improving economic outlook, as well as the impact of ongoing government fiscal and monetary support for the economy, and the sizeable addition to our allowance for credit losses last year. While spending and payment volumes in our banking businesses remained below pre-crisis levels, fee income pressures eased, and deposit growth remained strong. And our Wealth, Insurance and Wholesale businesses had another banner quarter, reflecting continued high levels of customer engagement and market activity. These strong results further bolstered our balance sheet, with our CET 1 ratio climbing 50 basis points to 13.6 per cent, and our liquidity coverage ratio ending the quarter at 139 per cent – overall, a powerful testament to the strength of our diversified business model.

At TD, we believe banking serves a higher purpose – and we continue to fulfill ours: enriching the lives of our customers, colleagues and communities. From the depths of the crisis last spring, to the recovery that is now emerging, we have empowered our people to execute with purpose and impact on behalf of our customers and clients; we have helped facilitate the government programs that remain a lifeline for so many households and businesses; and we have provided ongoing support for our communities.

We know the recovery is not yet on solid ground. COVID-19 and its new variants remain a reality. Many households are still struggling, and businesses – especially small businesses – will need additional support after these long months of disruption. It is too early to predict when we will see a full recovery, but we are encouraged by the progress on vaccination globally. As it proceeds, accompanied by effective testing and improved treatments, the foundation for a sustained recovery will continue to take hold. We are seeing the evidence already – in rising consumer and business confidence, increasing customer activity levels, and a steepening yield curve. While we expect that households will maintain their high level of savings in the near term, there is significant pent-up demand to spend after these long months of inactivity – as well as the capacity to do so. And we will be there to support and advance that recovery, standing by our customers in good times, as we did last year in those most difficult circumstances.

In the meantime, we remain vigilant. Across the Bank, we are maintaining and enhancing measures to protect and serve our customers and colleagues – adding new digital and advice capabilities to deliver the financial services they need, while supporting the recovery in all our markets. We are also investing in a better future. We know that healthy economies require healthy communities – and that an inclusive and sustainable recovery is the only path to long-term prosperity. That's why, last fall, we launched an ambitious Climate Action Plan to support the global effort to achieve net-zero emissions by 2050. We are also intensifying our focus on diversity, inclusion and anti-racism, working to remove barriers and create opportunities for everyone to thrive – and continuing our internal conversations about what each of us can do, most recently through our Black History Month events and initiatives.

And in every community across our footprint, we are investing in new programs – bringing our financial resources, talent and know-how to help solve problems, and partnering with community organizations to build their resilience. This quarter, that included providing $10 million in grants to fifteen organizations through the TD Ready Challenge to help them develop innovative solutions to address the inequities laid bare by the pandemic. And through the TD Ready Commitment, we continue to make progress toward our stated target of $1 billion in giving by 2030. Collectively, we are putting the power of TD's proven business model in the service of a better future for everyone.

We are also transforming the way we work today. COVID has led to accelerated change across our business and our footprint. Shifting customer demands, colleague aspirations and economic realities are creating new challenges and opportunities. And we are meeting them head-on – with new investments to improve the speed and agility of our operations, nurture and develop our talent, and grow our businesses.

These forward-focused investments are already delivering concrete outcomes across the Bank, strengthening our connections to customers and clients, and seeding the next phase of our growth.

Let me share a few highlights from each of our businesses.

Our Canadian Retail segment earned $2 billion this quarter.

- In the Personal Bank, the power of our omni-channel strategy was on full display, as we generated very strong mortgage originations and chequing account growth, while maintaining our digital leadership. TD's banking app took top spot for customer experience, engagement and adoption according to App Annie, Comscore and Novantas/Ipiphany, respectively. And we made further enhancements this quarter, integrating AI into the app. In two recently launched use cases, eligible customers receive personalized, proactive advice based on their transaction patterns, including low balances and upcoming payments, providing further support for their financial well-being.

- Our Business Bank continued to be the #1 CEBA lender, with nearly $10 billion in loans funded as of January 31. We also advanced our growth strategy this quarter, announcing an agreement to acquire Wells Fargo's Canadian Direct Equipment Finance operations. The transaction, which we expect will close in the first half of calendar 2021, subject to regulatory approvals and closing conditions, will expand our mid-market presence in this key business line and add scale in new geographies.

- In our Wealth business, we had another strong quarter for customer acquisition and generated a record $12 billion in retail net asset growth across the franchise. In TD Direct Investing, customers are responding to the enhancements we've made to our industry-leading WebBroker platform, including expanded educational resources to help them build their investing knowledge. Addressing the growing appetite for sustainable investing, TD Asset Management also added three new ESG ETFs to its product line-up.

- And in our Insurance business, our direct-to-consumer, digital-first offering continued to drive strong customer acquisition and premium growth.

Our U.S. Retail Bank earned US$615 million this quarter.

Core consumer checking growth remained exceptionally strong – up more than 30 per cent from a year ago – as customers continue to choose TD for their banking and savings needs.
Reflecting our commitment to the small business recovery, we continued to facilitate access to the PPP program, accepting over 25,000 applications representing US$2 billion in funding, as round two of the program got underway.

- Delivering more of the Bank to our 9-million-plus commercial and consumer customers is central to our continued success in the U.S. market. To that end, we merged our Corporate and Specialty Banking teams with the Commercial organization this quarter, to strengthen our competitiveness in key industry verticals and drive further portfolio growth. Combining CSB's expertise in priority growth areas like Asset Based Lending, Equipment Finance, Healthcare and Commercial Real Estate with the Commercial Bank's capabilities in middle market, community and small business lending will help us scale our core businesses and build the Commercial Bank of the future.

- We were also proud to see TD Auto Finance receive the highest ranking in Dealer Satisfaction among National Non-Captive Lenders with Prime Credit, according to the J.D. Power 2020 U.S. Dealer Financing Satisfaction Study.

- And we booked our first share of net income from Schwab this quarter. It contributed US$161 million in earnings, bringing U.S. Retail segment earnings to US$776 million, or $1B C$.

Our Wholesale segment had another strong quarter, earning $437 million, as the investments we've made to broaden and deepen our client base and product capabilities enabled us to do more business across our global platform.

- In our Canadian business, we were proud to be lead left bookrunner on Air Canada's C$912 million share offering.

- In the U.S., we advised Nasdaq on its US$2.8 billion acquisition of Verafin.

- And from our new Dublin base, we acted as joint lead manager on the European Union's 2nd SURE issuance, a dual-tranche 5-year and 30-year transaction with total volume of EUR 14 billion. It's the largest SSA transaction TD Securities has underwritten to date – and highlights our continued growth and success serving our European clients.

Overall, I'm very pleased with our start to fiscal 2021. As I look ahead to the balance of the year, I am encouraged by the gathering evidence of a recovery, and our ability to make the most of it. My confidence is reinforced by the power of our model, the clarity of our purpose, and the strength of our people.

I'll end by thanking them. Our people are our greatest asset. Through a challenging year, they were there for each other and our customers, sustaining and strengthening our winning culture.

Together, we've come a long way over the past year. And, as One TD, we are well-positioned to meet every challenge and continue to build the Better Bank.

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

Riaz Ahmed – TD – Group Head and CFO

Thank you, Bharat. Good afternoon everyone. Please turn to slide 8.

- This quarter, the Bank reported earnings of $3.3 billion and EPS of $1.77. Adjusted earnings were $3.4 billion, and adjusted EPS was $1.83.
- Revenue increased 2%, reflecting volume growth in the personal and commercial banking businesses and higher wealth, insurance and wholesale revenue, partially offset by lower margins in the retail businesses.
- Provision for credit losses was $313 million, down $604 million sequentially, mainly reflecting lower performing PCL.
- Expenses increased 6% year-over-year, primarily reflecting an increase in the retailer program partners' net share of the profits from the U.S. strategic cards portfolio reflecting lower PCL, and store optimization costs.

Please turn to slide 9.

- Canadian Retail net income was $2.0 billion, up 14% year over year. On an adjusted basis, net income increased 12% year over year.
- Revenue increased 1% reflecting higher wealth and insurance revenue, and higher loan and deposit volumes, partly offset by lower margins.
- Revenue up reflecting higher transaction and fee-based wealth revenue, higher insurance revenue, and higher loan and deposit volumes, partly offset by lower margins.
- Average loan volumes rose 4% reflecting growth in business and personal, including record RESL originations. Average deposits rose 21%, reflecting double-digit growth across all businesses. Wealth assets increased 7%, reflecting market appreciation and new asset growth.
- Margin was 2.65%, a decrease of 6 bps from the prior quarter, reflecting changes in asset mix and the impact of lower rates.
- Total PCL was $142 million, down 43% sequentially, reflecting lower performing and impaired PCL.
- Total PCL as an annualized percentage of credit volume was 0.12%, a decline of 10 basis points quarter over quarter.
- Reported expenses increased 1%, and adjusted expenses increased 2%.

Please turn to slide 10.

- U.S. Retail segment reported net income was US$776 million.
- U.S. Retail Bank net income was US$615 million, down 14%, primarily reflecting lower revenue and higher expenses, partially offset by lower PCL.
- Revenue decreased 5%, reflecting lower deposit margins and fees, partially offset by volume growth and income from SBA PPP loans.
- Average loan volumes increased 5% year over year, mainly reflecting growth in business loans relating to PPP originations. Deposit volumes excluding sweep deposits were up 28%, including 33% growth in core consumer checking. Sweep deposits were up 38%.
- Net interest margin was 2.24%, down 3 basis points sequentially.
- Total PCL, including only the Bank's contractual portion of credit losses in the strategic cards portfolio, was US$103 million, down 76% from the prior quarter.
- The U.S. Retail net PCL ratio was 0.25%, down 76 basis points from last quarter.
- Expenses increased 9%, primarily reflecting US$76 million in costs associated with the closure of approximately 80 stores announced during the quarter. The bulk of the closures will occur in Q2 and will result in approximately US$60 million in additional costs next quarter.
- The contribution from TD's investment in Schwab was US$161 million compared with a contribution of US$152 million from TD Ameritrade a year ago. Amortization of acquired intangibles and acquisition and integration-related charges associated with the Schwab transaction are reported in the Corporate segment.

Please turn to slide 11.

- Wholesale net income was $437 million, an increase of 56%, reflecting higher revenue, partially offset by higher non-interest expenses.
- Revenue was $1.3 billion, up 25%, primarily reflecting higher trading-related revenue and higher loan, underwriting and advisory fees.
- PCL increased by $26 million sequentially, reflecting an increase in impaired PCL relative to recoveries in the prior quarter.
- Expenses were up 9%, primarily reflecting higher variable compensation.

Please turn to slide 12.

- The Corporate segment reported a net loss of $197 million in the quarter, compared with a net loss of $227 million in the first quarter last year.
- The year-over-year decrease reflects a higher contribution from other items, partially offset by acquisition and integration charges related to the Schwab transaction.
- The increase in other items primarily reflects higher revenue from treasury and balance sheet management activities this quarter and an unfavourable adjustment related to hedge accounting in the same quarter last year.
- Net corporate expenses were flat compared to the same quarter last year.
- Adjusted net loss for the quarter was $94 million, compared with an adjusted net loss of $168 million in the first quarter last year.

Please turn to slide 13.

- The Common Equity Tier 1 ratio ended the quarter at 13.6%, up 50 basis points from Q4.
- We had strong organic capital generation this quarter, which added 37 basis points to CET 1 capital. Actuarial gains on employee benefit plans added 9 basis points, and unrealized gains on FVOCI securities another 5 basis points.
- The 5 bps increase in CET 1 attributable to lower RWA net of FX was primarily a function of lower Credit Risk and Market Risk RWA.
- As noted last quarter, OSFI's transitional adjustment for ECL reclassified from Tier 2 to CET1 capital was previously subject to a 70% scalar factor, which declined to 50% for 2021, effective this quarter. This reduced our CET 1 ratio by 14 bps.
- The leverage ratio was 4.5 percent this quarter, and the LCR ratio was 139 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, Riaz and good afternoon everyone. Please turn to slide 14.

- Gross impaired loan formations were 16 basis points, stable quarter-over-quarter at cyclically low levels, reflecting:
    - The ongoing impact of bank deferral and government economic support programs.

Please turn to slide 15.

- Gross impaired loans were $3.06 billion or 42 basis points, stable quarter-over-quarter.

Please turn to slide 16.

- Recall that our presentation reports PCL ratios both gross and net of the partners' share of the U.S. strategic card credit losses. We remind you that credit losses recorded in the Corporate segment are fully absorbed by our partners and do not impact the Bank's net income.

- The Bank's provisions for credit losses in the quarter were $316 million, or 17 basis points, representing a 15-year low, reflecting:
    - The ongoing impact of bank deferral and government economic support programs, and
    - A performing allowance release.

Please turn to slide 17.

- The Bank's Impaired PCL increased $106 million quarter-over-quarter, primarily reflected in:

- The U.S. credit card portfolios, and
    - Largely recorded in the Corporate segment.

- Performing PCL decreased $711 million quarter-over-quarter, largely due to:
    - Lower provisions in the commercial lending portfolios, and

- Allowance releases in the consumer lending portfolios.

Please turn to slide 18.

- The Allowance for Credit Losses decreased $437 million to $8.9 billion quarter-over-quarter, reflecting:
  - The impact of foreign exchange,
  - Resolutions of impaired loans in the Wholesale segment, and
  - Performing allowance releases in the consumer lending portfolios, related to:
    - Improvement in our macroeconomic forecasts and client credit attributes, partially offset by
    - Management overlays to address ongoing elevated uncertainty.

- Now, to summarize the quarter:

- Key credit metrics, including gross impaired loan formations, gross impaired loans, and the provision for credit losses were all at cyclically low levels this quarter.

- Going forward, we may see credit results vary by quarter, as
  - The ultimate magnitude and timing of the pandemic related credit impact remains uncertain, and
  - There is a wide range of possible outcomes.

- To conclude, we are well positioned to manage through these challenging times, given:
  - The significant addition to our allowance last year,
  - Our strong capital position, and
  - Our broad diversification 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] And the first question is from Paul Holden from CIBC World Markets. Please go ahead.

Paul Holden – CIBC World Markets – Analyst

Thanks. Good morning. I have a couple of questions for you, I guess, related to expenses. So, you highlighted the branch optimization in the quarter and the costs that you're going to run through this quarter and next quarter related to that. What I want to ask you about is, what is the expected cost savings on the other side? Will that flow through? Will that be offset by ongoing investments in technology or otherwise? And then, where do you think you can ultimately take the efficiency ratio for the US banking segment over time?

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

We did have a notable item, obviously, in the quarter for store restructuring. And obviously, it was a larger impact to the number of stores that we will be closing relative to the normal pruning we would do annually for the last several years.

So, we've announced that we'll be shutting down 82 stores. And the impact of those 82 stores, given the IFRS accounting rules for the charge for the real estate, for the closure of those stores, will be charged from the couple of quarters between the time it's announced and the time they're actually closed.

So, obviously, once we announce those closures, we have a 90-day disclosure period and all sorts of regulatory checkboxes that we must include and most of them will be closed later in April. You'll also see an impact of that, as you noted, in the second quarter.

The way I think about those is really the view of how do we see our network from Maine to Florida over the next several years? Which are the stores that we believe were either redundant or that we could optimize with other nearby locations? And how do we think about harvesting that expense save and really making sure we're reinvesting that back into the business for further growth.

And as we've been talking about it for the last several quarters, really for the last several years, investing in digital platforms on the consumer side, small business initiatives, and certainly growth in our commercial and wealth businesses.

I think the one thing that COVID has taught us is that our customers want access to us but they want it in always. They do want physical. And we're seeing many of our customers return into the store and we're bullish on that. And you'll see markets in future years where we continue to invest in new stores. But what you're also seeing is the need for investment in digital and digital capabilities, and we're doing just that.

Paul Holden – CIBC World Markets – Analyst

Okay. Thank you. And then the second part of the question was with the longer-term outlook for the operating efficiency ratio in US banking.

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

Yeah, there's obviously two parts to that, and I'll let Riaz jump in if he wants to add anything to this. But, obviously, the efficiency ratio over the last several quarters has crept up, but that's mostly because of the revenue line. And as you've noticed that if you back out the notable item here for the stores, the way we like to think about it is we're running something close to breakeven expenses from a year-over-year perspective. And those numbers will obviously bump around from quarter-to-quarter, depending on initiatives. But efficiency ratio will come back down as we see volumes come back up and as we see any relief on the rate side or we continue to grow out of it from a volume perspective. I think if you went back pre-COVID, you would have seen the efficiency ratio in the low- to mid-50% range.

And I don't know, Riaz, if you have anything else you want to add to that?

Riaz Ahmed – TD – Group Head and CFO

No. You've covered it, Greg. I think, Paul, as we see rates starting to normalize again, I think it's entirely possible to get back into the low-50%.

Meny Grauman – Scotia Capital – Analyst

Hi. Good afternoon. Riaz, when I do the straight math on your PTPP earnings, looks like it was down 4% year-over-year. But I'm wondering how you think about it. And specifically, I'm curious about the impact of the strategic card portfolio on this calculation and also on the leverage ratio.

Riaz Ahmed – TD – Group Head and CFO

Thank you, Meny. Look, I think there are three things that you should look at when looking at PTPP and operating leverage.

First is the currency impact. So, if you simply take our expenses for the US segment from Canadian dollars to source currency, that would be the first adjustment that I'd suggest would be worth looking at.

Secondly, I think the store closure costs that Greg just mentioned, to the extent that one can think of those as onetime costs, I don't think they should, in our view, figure into PTPP or operating leverage.

And then the strategic card portfolio, which I'll just walk through in a second, the component of the payment that we make to the retailers that goes to change in PCL should also perhaps be adjusted out of those calculations to the extent that we're trying to figure out what pre-tax, pre-provision earnings are. So, I think when one looks at it on that basis, on a year-over-year basis, our PTPP actually grew by just under 5%. And on a quarter-over-quarter basis, the growth is mid-6%. So, quite a bit better than what the headlines would look at, at the top of the house and the way you look at it.

I think on the matter of the strategic cards portfolio and the PCL relating to that, if you look on page 26 of our slide where we have for the last few quarters laid out an example that if you had a credit card portfolio for C$1 billion that earned a revenue of C$150 million and has PCL of C$50 million, so that the risk-adjusted profit were C$100 million. And if the sharing arrangements were such that we retained 20% of the risk-adjusted profit and paid to the retailers 80% of that, then, from a GAAP perspective, we would record revenue in the financial statements of C$150 million, PCL of C$50 million, noninterest expenses for the portion that we paid to our retailer partners of C$ 80 million, so we retain C$20 million.

In the segment accounting for US Retail, we record our net share of that, so retail revenue would be C$30 million, PCL would be C$10 million, and net income would be C$20 million. And in the Corporate segment, we record revenue that our retailers enjoy from that portfolio being C$120 million, their share of the PCL at C$40 million, and then the amount that we pay to them in noninterest expenses is C$80 million.

So, if it turns out that in a subsequent period revenue was still C$150 million, but PCL was C$0 million, then what you'd get in the Corporate segment is revenue of C$120 million for the retailer partners' share, PCL of C$0 million, the net payment would be C$120 million. So, our noninterest expenses would go up by C$40 million, reflecting the component of the retailers' share of the PCL reduction. So, in order to get an apples-to-apples comparison of revenue to expenses on a PTPP or an operating leverage basis, we would tend to add back the amount of PCL that is in the Corporate segment to our expense line.

So, as I said, I think if you look at that on that basis, Meny, which I think is the right way to look at it, our PTPP has actually been quite strong quarter-over-quarter and year-over-year.

Meny Grauman – Scotia Capital – Analyst

Just as a follow-up on that, what kind of pre-tax, pre-provision growth do you expect for the year as a whole? Under your calculation at 5%, as you mentioned, is that something that can be sustained throughout the rest of the year? How do you view that in fiscal 2021?

Riaz Ahmed – TD – Group Head and CFO

I think if you look at fiscal 2020, what we have highlighted is the fact that we have a diversified and an integrated business model in US Retail Banking and Canadian Retail Banking. And so where, in Canada, in particular where margins have compressed, we have seen the benefit of that coming through the wealth and insurance revenue because we position our bank against our Canadian Retail customers in a holistic way where somebody may have a checking and savings account and credit cards and mortgages with Teri, and they may have wealth products with Leo, and they also may be buying their home and auto insurance from us.

We were thrilled at the fact that through 2020, Canadian Retail NIAT grew by 12% year-over-year, which is just a stunning accomplishment, in my view, in how our customers trust us and how our customer acquisition engine is working. And then, of course, we had the very strong wholesale revenues in a period when interest rates have been very low and customers have been taking advantage to complete their financings and their M&A activity. So, I think we really tend to highlight the diversification in our business model and its customer centricity.

Gabriel Dechaine – National Bank Financial – Analyst

Hey. Merci. So, as a quick clarification here, Riaz, the IDA agreement with Schwab, I think the new fee structure kicked in at the end of last quarter. So this would be the full effect reflected in your results this quarter?

Riaz Ahmed – TD – Group Head and CFO

Yes, that would be correct because the transaction closed on October 6.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. And then starting July 1, that's when Schwab can start, I guess, sweeping those deposits under the hood, $10 billion or so a year to their balance sheet. But since the amount of deposit is so much higher, it's a much longer path to get to that $50 billion minimum level I guess. Is that how we should be looking at it now?

Riaz Ahmed – TD – Group Head and CFO

Yes, that's right. I think from the time that we announced the transaction to the time that we closed, there was a significant increase in IDA balances. So you are right, the degree to which those balances from closing would be closer to US$50 billion will have become longer. And so, in this first period on July 1 after closing, Schwab can take back, if they wish, the amount of the balances as of closing plus US$10 billion. So the difference between the balances to US$10 billion minus the amount on closing is what they can take on July 1.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. I might have to follow up on that, but I got the gist of it. Now, question for Greg. Obviously, the US has the new administration now. They have a new Head of the CFPB as well. And I'm just wondering what you're thinking of these days when it comes to potential regulatory actions that could have a negative impact on your fee income line, similar to what we saw after the financial crisis, if there's any whispers of actions taking place there. And even if it there's not, are you taking another look at how you – your fee structures in the US and how you're charging for certain services there and how that might evolve over the next year?

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

Gabriel, thank you for the question. And certainly, a lot going on in the US these days that we all continue to watch. But what I would just remind everyone is that whether it was the last administration or eight years before that or even before that, we found a way to continue to grow the bank and add customers and grow revenue and grow the bottom line and continue, most importantly, to take share and service our customers and stack up the J.D. Power awards that we so much love behind my desk and do those sorts of things. And that's our continued plan regardless of the environment.

I think one of the things that we get called out for is some of our fee income drivers. And one of the things we're keenly focused on, given the maturity of the bank that we're building real-time, is how do we find other ways to grow fee income. And the good news is we believe we have terrific upside across the US and across segments, certainly in wholesale, certainly in our wealth business that we're collaborating on with Leo. And how do we leverage this new partnership with Schwab, how do we do more in our traditional everyday middle market and commercial banking businesses and small business and treasury management.

So, yeah, I mean, there'll be puts and takes with every change that occurs. But we do believe we will find ways, most importantly, to add new households and new customers that will blunt any one particular area.

Ebrahim Poonawala – BofA Securities – Analyst

Hey. Good afternoon. I had a question around credit card lending. One, if you can just talk to your expectations on when credit card growth comes back both in the US and Canada? And secondly, talk to us around the risk from these buy-now-pay-later companies which are emerging. You're a partner with Target, but Target has kind of partnered with one of them called Affirm. I'm just trying to get a sense, Bharat, like, do you see these new companies as a risk to credit card lending and to your business, and to what extent do you see that risk? Thank you.

Bharat Masrani – TD – Group President and CEO

Ebrahim, this is Bharat. And I'm going to pass it on to Teri to talk about the Canadian business and then Greg perhaps can comment on the US. And then I'll come back and provide you an overall view. So, Teri?

Teri Currie – TD – Group Head, Canadian Personal Banking

Okay. Thank you. Thanks, Ebrahim. So, let me start with sort of the strengths of the card business in Canada. So, obviously, in the more immediate term, we've seen customer liquidity resulting in pay-downs. We've seen the COVID impacts of lockdowns. And then, January is seasonally a lower volume period. Having said that, I look at a couple of aspects in thinking about the business and its potential to capture pent-up demand once economies reopen and activity resumes.

From an acquisition standpoint, if you think about the Canadian cards business and then sort of think about half of our customer base as travel and luxury, and half of the base as other categories of spend such as everyday spend and cash-back, we invested over the last number of years and have a very strong lineup against cash-back, and that's performing well year-over-year despite the circumstances and in light of the circumstances.

We've got a very strong partnership with Amazon that is paying big dividends for us and our customers since the launch of that partnership, and there's more opportunity there. And then, obviously, larger ticket purchases in the travel and luxury space have the opportunity to come back. And we have our fantastic partnership that we only launched in November with Air Canada. And in fact, in January, our TD Aeroplan Infinite Visa Card was named the best airline card in Canada. And so, that along with our proprietary travel offering, positions us I think across the board incredibly well as demand returns.

The other piece to think about that is, while we have better line of sight now into the economic circumstances, some of the acquisition strategies that we had on pause in 2020 we've resumed, and those will allow us to build balances even, I would say, during a period where the activity has not returned. So, overall, when I look across the strengths of our offering, obviously we don't know the timing of the rebound, but I believe we're well-positioned for the pent-up demand.

Maybe just a comment on buy now, pay later. We have in our MBNA portfolio post-purchase capabilities in terms of customers being able to put an installment plan. And there are in the US, and maybe I'll pass to Greg, at point-of-sale capabilities in this regard.

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

Teri, thank you. I would just say we've certainly saw balances come down from their peaks a year ago, Ebrahim. And as the economy begins to heat back up and things begin to open back up, and we're certainly hearing a lot of anecdotal data from that, not only from the folks that are on the economic side, but also our customers directly and businesses. And there's certainly pent-up demand to go a little bit back more to normal. And as that activity picks back up again, we'd certainly expect to see card volumes follow suit, as folks can get out and about again, especially from a travel and leisure standpoint, certainly from a restaurant standpoint in some geographies.

What I would just tack on to the buy now, pay later, we're already in that business effectively. And we have a business called Retail Card Services as part of our portfolio. It's a couple of billion dollar portfolio and we partner with national retailers and provide point-of-purchase finance. So it's a business we're certainly staring down, but it's a business we're already in.

Bharat Masrani – TD – Group President and CEO

And Ebrahim, this is Bharat. I mean, there's no need for me to add more than what you've already heard. Overall, our card business is a key business for us. It's a very important business. And we're thrilled with how our business has evolved in Canada. As to what we've become, yes, we are heavily travel-oriented, which, when we get off this pandemic, may turn out to be an advantage once again. And some of the other work the teams have done, what Teri has done, is to become a player on the Cash-Back Card as well, which has been very, very useful through this period.

In the US, our business is very young. Yes, we have these partnership deals. But what Greg and his team are really working on is our bank card offering and that is growing quite well. This is the TD-branded cards through our retail network there. So, overall, a very important product. Yes, it's evolving. The whole payment space is evolving very fast. But rest assured, we are keeping up with all those trends and, where appropriately, we're making the investments to make sure that we too have those capabilities. And given our brand, I expect us to have our fair share of the market.

Doug Young – Desjardins Securities – Analyst

Hi. Good afternoon. I guess, this question is going to be for Teri, and Riaz I think mentioned it in his remarks. Just the strength in the wealth and the insurance side was very noteworthy. And I would have expected the P&C insurance to have a really good quarter, given everything that we've seen, and there's a publicly traded comp that we can look at. But it looks like the wealth business was actually the bigger contributor. Anyway, Teri, I'm just hoping you can dig a little bit more into what you saw. Maybe if you can parse out some of the pieces, that would be helpful.

Teri Currie – TD – Group Head, Canadian Personal Banking

Certainly. Thanks for the opportunity, Doug. So, let me start with insurance since you started there. We've been investing in this business, and we have both a phone capability, but a probably industry-leading end-to-end capability in this business that we've been investing in. And so, we've had strong business growth for the year-over-year, and a good claims experience. And we've been able to manage also helping customers as they've gone through this difficult time.

What I would say is that the other element of this business that's unique is our collision centers across the country. In the auto business, when our customers do have an accident, there are oftentimes TD centers that can help make that a better experience for those customers. We've been investing in our capabilities. We are doing a great job as an online insurer. We have, I think, the business model and capabilities and customer experience for the future. And in Q1, we had record earnings in that business.

On the wealth side, obviously, just strengths across the board. We did have the highest wealth output levels on record across Leo's and my businesses. Our mutual fund results were very strong. And obviously, trading levels continued to be at record levels. It's possible that some of that trading activity could become more normalized. Although I think we do continue to see new investors in this space. And I believe we've got best-in-class capabilities not only for them to understand what they're doing, our education and learning capabilities that people take up are helping our investors to understand what they're doing, and we feel strongly about that capability being available for them. But also, just their ability to interact with us digitally, with their advisors, or as a handoff from our branch colleagues, we feel like we've got great capability there.

We've been adding advisors for wealth and in my business in the personal bank and through our TD Ready Advice strategy, we really work hard as One TD to help our customers who are often right now sitting on more liquidity than they had planned for to invest with us for the long-term and to help them do that in a way that they feel confident. And we have GoalAssist available for self-directed investors to look at setting up a low-fee solution to their goal planning. So, it is very comprehensive.

One of the real strengths of TD, Riaz mentioned, is our One TD approach. And I can tell you that with COVID while we've needed to manage how many colleagues can be in our retail branches, the colleagues in both Leo's wealth business and Paul's business banking business can't wait to get back into our stores with our branch bankers because that's where the magic happens.

Doug Young – Desjardins Securities – Analyst

And, Teri, just to follow up, you've never broken out how much your online brokerage business contributes to wealth. I would imagine that's where a lot of strength came through or the broker business?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, clearly, the online trading which is reported in our wealth segment was a strong contributor, but Leo and we all pay close attention to the other parts of this business and they're growing nicely as well

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Doug Young – Desjardins Securities – Analyst

Okay. And then, Greg, just on the US NIMs, a little bit stronger than I would've thought. Is there anything unusual in there, like, how do you see this unfold? And I know there's some prepayments and the PPP is having an impact. If you can provide a little color, that would be helpful. Thanks.

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

Sure. So, it is good to see that stabilize. But like we've been saying, I mean, the pressure that has been on is because of rates, but it's also the mix of the business. And we believe we're growing good fundamental deposits and we're going to continue to do that. And we want to take share in a deposit-based business.

What I would add on to your question, though, more directly, yeah, you've got some PPP that's in that NIM number which contributes a little bit to it. But you're also seeing positive margin on the loan growth side and positive margins on the loans we are putting on the books is also helping. So, a good news story on that front.

Nigel D'Souza – Veritas Investment Research – Analyst

Thank you. Good afternoon. I wanted to touch on Wholesale Banking, and it looks like you had another strong quarter for trading net interest income. And I was wondering if you could provide some color of how you think that would perform in a rising yield environment. So is the steepening of the yield curve, do you see that as a tailwind, a headwind, or is that neutral, or not that material for trading NII in that segment?

Bob Dorrance – TD – Group Head, Wholesale Banking and Chairman, CEO and President, TD Securities

Hi, Nigel. I would say there's pluses and minuses and that steepening yield curve definitely helps on the corporate NII and other things related there too, securitization, etcetera. It can have the temporary negative impacts on some of the shorter-term trading businesses. But net-net, I think it would be more neutral.

Scott Chan – Canaccord Genuity – Analyst

Good afternoon. Maybe, Greg, just a clarification question. So did you state that there would be an additional US$60 million in the cost to hit the P&L on the branch closures that you announced today?

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

Correct. And that'll take effect in Q2.

Scott Chan – Canaccord Genuity – Analyst

Q2. Okay. And as you did this exercise in the US, I've noticed your Canadian branch count has been pretty stable over the past, call it, two years. Is there any opportunities with COVID to rationalize the branches in the Canadian network?

Teri Currie – TD – Group Head, Canadian Personal Banking

Yes. So, let me talk about branches. Obviously, our operating contexts are very different in the US versus Canada. And we, like Greg, would on an ongoing basis, look at the network and think about where we might merge, where we importantly would open new locations or relocate branches.

What I would say in Canada, I mentioned the strength of One TD, and also Greg mentioned this, our customers, every channel managed to our customers. And you will see some more modest activity in Canada, more analogous to what you would see from us on an ongoing basis. Our branch network is predominantly urban in priority urban markets. We have just over 170 billboard locations that drive strong brand recognition and the ability to house our partners to meet customers' needs across all their TD channel and business needs. And again, they are the home to One TD.

And through the pandemic, even at times like we're experiencing with lockdowns, customers are coming into the branch and we're meeting their needs. And so, we're pretty well positioned as we think ahead.

Ebrahim Poonawala – B of A Securities – Analyst

Hey. Hello, again. I guess just another question, Bharat, in terms of strategically on M&A when you're sitting on a pile of capital at 13.5%, we've seen transactions happen in the US in the banks and the nonbank space. But TD has generally historically been active and very opportunistic in terms of capital allocation.

Just talk to us in terms of when you look at the US market today, what's your appetite in terms of acquisition, and does that all have to wait till we get the green light from the OSFI to actually deploy capital?

Bharat Masrani – TD – Group President and CEO

Thanks for the question, Ebrahim. No change in our outlook. I think I've said this many times before. We certainly are open to acquisitions in the US market and in the Canadian market as well, I might add. And the way we think about it is, obviously, anything we do has to make strategic sense, financial sense, timing sense, etcetera. So, we are open. And if a compelling opportunity were to present itself, we will look at it very seriously. As you said, we have flexibility because of our strong balance sheet and capital levels, etcetera. We would seriously look at anything that we thought was compelling.

But the important point is that we are not strategically challenged. Our US business is of scale and we are in the markets we want to be in, with the size and region, the brand recognition that we have. There's not as if that we are spending all our time thinking about how do we go and spend our capital looking for acquisitions. But, on the other hand, if there is something that makes strategic sense and financial sense, then, obviously, we'll look at it very seriously.

Mario Mendonca – TD Securities – Analyst

Good afternoon. Riaz, if we could just fast forward three months, and I listened to your explanation for the partners' share really carefully. And if we apply that explanation to three months from now, would it be correct to say that unless PCLs and the partners' share increase significantly, what we saw this quarter in terms of the difference between operating leverage and pre-tax, pre-provision earnings growth will be far more significant next quarter.

Specifically, because of the significant increase in performing loan PCL in Q2 2020 related to the partners, are we just setup for another really uncomfortable looking headline number unless we're willing to go to the mental gymnastics of this partners card? Again, are we just set up for another really tough headline number?

Riaz Ahmed – TD – Group Head and CFO

Yes. Mario, you would be correct about that. And as I highlighted in my remarks, the reason we call out the strategic cards portfolio is just always to keep reminding you of that. But on page 12 of our supp pack where we show you the Corporate segment results, I mean, the PCLs there are virtually all in relation to the partners' share in the credit card portfolio. And then you can see the expenses that move with that, so that it gives you a decent explanation.

So, every quarter, as we think about PTPP and operating leverage, to my point earlier that in a diversified model, when margins come back perhaps, other income and wealth and etcetera might be lighter. But if you keep reminding yourself to add back the change in the allowance in the Corporate segment to your calculations, I think you'll find that actually it's much, much more consistent. And you'll rid yourself of this pain to keep calculating this. But maybe we'll take also an opportunity to include a slide on that in the future.

Mario Mendonca – TD Securities – Analyst

Right. Because I've built it for myself to understand it, but it is by no means something that you can do sort of the cuff. So, yeah, anything you can do next quarter to make it clear for us would be appreciated. Thank you.

Riaz Ahmed – TD – Group Head and CFO

Yeah. And similarly, we may take the opportunity. We'll consider taking the current calculations that I just mentioned and post them on our website.

Meny Grauman – Scotiabank – Analyst

Hi. Thanks for taking me again. Just a quick question. Teri, I think it was maybe not in Q4 but Q3, you talked about having fewer branches opened than three of your four competitors. Is that all back to normal now? I just wanted to check in on that in terms of the status of the branches, especially relative to peers.

Teri Currie – TD – Group Head, Canadian Personal Banking

Thanks, Meny. And yes, we're pretty much reopened. There are onesies and twosies. And I'm certain that that would be the case across Canada for our competitors as well in terms of just incidents that happened health-related. And probably a good time for me to recognize the fact that we are all, I think, looking ahead to what we're seeing in the global vaccination success, with success in enhancements to treatment and testing enhancements. And those are all great things for us to think forward for personally and for our businesses.

It's good to remember that our frontline folks have been throughout almost a year now and continue to be still dealing with a variant in the virus and some of the constraints and ensuring their own and their customers' safety. And so, it's a good time for me to thank them for what they have done on behalf of our business, on behalf of Canada.

Operator

Thank you. There are no more questions in the queue at this time. I would now like to return the meeting back over to Mr. Bharat Masrani for closing remarks.

Bharat Masrani – TD – Group President and CEO

Thank you very much, operator. And wow, Ajai, no questions for you. And I should say to both Mario and Meny, those are great questions on the partners' share. And I know it is counterintuitive, but when our expenses go up stemming from our payment to our partners on the credit card portfolio, that's a good thing, and I know that's counterintuitive. So, as Riaz said, we will provide more explanation of that in the future, so it's more clear for all of you.

But, overall, we're very happy with the start to our fiscal year. And, yes, it's too early to declare victory against this tragic and terrible pandemic. But I think, given that the vaccines are rolling out and there will be bumps in the road going forward, but overall, I'd say we're headed in the right direction.

I would like to take this opportunity, like Teri just said, to thank our 90,000 colleagues around the world. They keep on delivering regardless of the environment. They keep on delivering for all of our stakeholders, including our shareholders. So, thank you. Thank you for everything you do for TD and our shareholders.

With that, folks, nice to have spoken to all of you, and look forward to ongoing engagement through the quarter or at quarter-end 90 days from now. Thanks very much.