TD BANK GROUP

NATIONAL BANK FINANCIAL CANADIAN FINANCIAL SERVICES CONFERENCE

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PARTICIPANTS

Bob Dorrance
TD Bank Group – Group Head, Wholesale Banking

Peter Routledge
National Bank Financial – Analyst

PRESENTATION

Peter Routledge – National Bank Financial – Analyst

We're back, everyone. Thank you. To my right, we have Bob Dorrance who's Group Head of Wholesale Banking for TD Bank Group, and Chairman and CEO and President of TD Securities.

Bob, thanks for being here and pleasure to have you.

Bob Dorrance – TD – Group Head, Wholesale Banking

Thank you, Peter.

Peter Routledge – National Bank Financial – Analyst

Maybe I'll just ask you to start with what are your key messages that you'd like investors to take away from today's session?

Bob Dorrance – TD – Group Head, Wholesale Banking

Great. It's very nice to be here. I think it's a good idea to have a wholesale day. It's not often – I can't remember the last time I've been on stage, but I think it might have been because the performance last time wasn't that great, so we'll see.

The key message is TD Securities has significant growth opportunities ahead of itself. I think we have grown well. And a lot of the growth you've seen has been more focused on getting ourselves aligned with TD Bank and the TD Bank partners overall. I think that has worked well and will continue to work well. And I think there's a lot of opportunity to continue to grow the dealer aligned with the bank both in Canada and the U.S.

In Canada, I kind of liken it to what's our Canadian dollar strategy, if you want to put it that way. The journey has been first to broaden the bank or the dealer out to make sure that we're covering all parts of opportunities that existed in the Canadian marketplace, because traditionally we hadn't; I think we now do. So the opportunity in Canada is just to continue to up-tier. We're covering all the white space we need to in corporate, government and institutional marketplaces. And now the focus is, how do we lead more business in the origination? I think that's a blocking and tackling type of strategy and execution strategy.

There is no kind of magic wand that one can turn on to get where we want to, but I do think that we have all the capabilities, we have the focus and we'll continue to grow the Canadian franchise as more of a market share franchise. Our Canadian dollar strategy outside of Canada has been similar to most banks; bring

Canada to the world, bring the world to Canada. I think we do that well. We have very strong offices in New York, London, Singapore and Hong Kong, where we extend our Canadian franchise.

The focus I think where we see the most growth opportunity is in the U.S. The fact that we now have a large U.S. bank position gives us a very solid anchor in which we can build a wholesale bank. And so effectively, again sort of a simplistic way to look at it, how can we build the U.S. dollar strategy as a wholesale bank. Obviously, the U.S. dollar strategy has significantly more opportunity than a Canadian dollar strategy. However, it comes with a lot more risk and a competitive marketplace. So I think the real key is to say, how does one ground one's strategy and advantage and my view is that, if we can start to replicate what we did in Canada in the U.S., then over time we can build a franchise-oriented client-driven investment dealer in U.S. dollars.

And I said over time because it is a longer journey – you're building sort of one client at a time type of thing as opposed to parachuting in and offering up a balance sheet to say here is my balance sheet and you can have it and then I'll build the clients.

What we're doing with the U.S. bank is seeing on the corporate basis, as they grow their corporate loan book, which they are doing in a reasonably constructive fashion, we'll be the investment dealer to that corporate banking relationship. What we've done in the U.S. is we've segmented the market between what TD Bank, America's Most Convenient Bank will cover and what TD Securities will cover. And we will cover energy which we've always done, so Houston and Calgary. We'll do media and telecom which again we've mostly always done. And we'll do all the big multi-national cross border types of accounts. They will develop corporate relationships within their footprint. Their focus is more on BBB type of average portfolio relationships, sometimes above, sometimes below and corporate clients in the footprint.

The focus currently has been and will continue to be in the near term. The products that we will help them sell on our behalf will be things like foreign exchange, derivative hedging, balance sheet hedging, debt capital markets, trade finance and products like that. They in turn, as corporate banking, selling cash management, corporate lending, in-store banking, stuff like – those types of products.

So to me that's white space. It's not market share. It's not a market share strategy. The opportunity is all about how to grow the relationships. And that is all about getting into the top tier of a lending syndicate. If you are in the top tier of a lending syndicate, you have earned the ability to cross-sell different products. If you're in the bottom third of the lending syndicate, you're there just for credit and between – you're 50/50.

Really, we've up-tiered people, put focus on getting into those corporations where we think we have the opportunity to be a top tier participant in the lending syndicate. That's the focus. We're also growing our government U.S. dollar strategy both in the U.S. Treasury market and also importantly in the SSA space broadly speaking, in the supranational sovereign agency in U.S. dollars. And again, it's because we have a U.S. dollar franchise. And that's gone remarkably well and provides lots of opportunity to broaden product.

So I'll stop there. I think what we have is still opportunity in the Canadian dollar part of the business. And we have some organic growth opportunities in the U.S. dollar part. I think we have a very long inventory of opportunity. We just have to execute on that.

QUESTION AND ANSWER

Peter Routledge – National Bank Financial – Analyst

Right. Maybe I will ask you to step back and think about your business as a business distinct from TD's Wholesale Banking division. And a lot of investors and analysts like me have argued that this business is prone to earnings volatility, is subject to very opaque sources of risks that sometimes even management doesn't understand, and therefore merits a loan multiple, and it's a business that banks should almost apologize for. Can you give us your perspective on the truth and untruth or the accuracies or inaccuracies of that point of view?

Bob Dorrance – TD – Group Head, Wholesale Banking

Okay. It's all inaccurate.

Peter Routledge – National Bank Financial – Analyst

There we go.

Bob Dorrance – TD – Group Head, Wholesale Banking

That was a big picture question. I think this is a very good business. This is my belief; I've been in it for quite a while. I think it has the potential and should earn good returns for shareholders. I think there have been different models over time. And I think some of those models haven't worked and they've caused some of the negative parts of your question, Peter.

I think the model that's evolved in Canada has served us very well, all the banks. We're effectively six universal banks; the dealer part of the banks is not overly sized relative to the overall capital and risk. I think what's been important is to align the dealer with the bank and ensure that the dealer has similar strategies, similar risk appetites, similar cultures. And so that kind of can and should solve the strategic part. That's not to say that all dealers have to be part of banks. I think there are also very good models where a dealer can be a boutique or a standalone and those models work as well.

I think there's no doubt when you try to say what the multiples should be on a wholesale stream versus a retail stream. There is an important part of our revenue in earnings that is fairly repeatable that occurs as a function of coming to work every day and markets are there and customers are there and clients are there. But to me that's similar to a retail stream of revenue and earnings.

And then there is a part of the business that is driven off how markets are performing, how active markets are, how active clients are, et cetera, et cetera. And that by definition is more cyclical. It doesn't have to be as volatile as it was but it is more cyclical. And I think you have to say, okay, well how much cyclicality do I want, and what's the amplitude of the cyclicality. If I'm going to have cyclicality, how is it created, is it because our clients are quiet for a period of time, it's not a bad thing – that happens. So you just have to adopt your model to that part, and my view has always been that that's a place where a dealer and a bank can make money over time, but that's not going to be linear. It's going to have volatility.

Peter Routledge – National Bank Financial – Analyst

I'll jump back to the audience to see if we have any questions for Bob. Just here on the left.

Unidentified Audience Member

My question concerns the pharmaceutical and the healthcare area. Is that something that TD Bank in Canada or the United States would like to focus on?

Bob Dorrance – TD – Group Head, Wholesale Banking

I think actually, no. It's a relatively small sector in Canada. We have some involvement in it. Our bank in the U.S. has a strong presence in healthcare not-for-profit businesses. I think they have an interest in expanding into for-profit types of companies, but it's in very early stages.

Peter Routledge – National Bank Financial – Analyst

Any others? Okay. I'm going to maybe come back and ask sort of a TD question to follow up on my last one which is, TD's messaging to the market has been we like our capital markets business, but we sort of like it at its current size which is sort of around that 10% earnings contribution range. And I've argued in some of my research that I'd like them to depart from that limitation and allocate more capital and drive higher earnings growth. So how would you respond to that?

Bob Dorrance – TD – Group Head, Wholesale Banking

Well, in my career at TD, I have never felt constrained for capital. So I think the way we look at it is we don't like saying, it should be 20%, it should be 25%, or it should be 10%. I think the capital that gets allocated should be based on what the business opportunity is that you have to deploy that capital to. And what's happened to TD – I think everybody in the room would understand – is that we've grown very rapidly or we've grown with some big acquisitions in the retail part of the business, and that's where we allocated and made a decision that we wanted to grow whether it was buying a couple of banks in the States or whether it was buying asset portfolios in the card space or the auto space, et cetera.

So that's a lot of the capital that we've generated either internally or externally; it was allocated up against those strategic opportunities. While we were doing that, we in fact were exiting some businesses that we wanted to get out of it, because they weren't strategic. So we exited structured products, we exited very large proprietary credit rating business, we exited private equity, et cetera, et cetera, and we redeployed that capital back into the things that I was talking about earlier – the strategic client facing corporate businesses.

As a function of that, in terms of allocated capital or in terms of regulatory capital, the dealer was 20% prior to buying all these things in retail and we're now roughly 10%. During the whole period, I've never felt constrained that if there was an opportunity to grow business and grow revenue or net income that I couldn't have gotten more capital. It's just that one part was growing so quickly. And we were redeploying capital from some parts of our business to other parts of our business. And so look at it and go, we probably have as much capital in Canada, investing in our business as anybody else does.

In the United States, some of the capital that might be in another bank's dealer is in our bank because that's where we want to book loans. And what we really want to do is find those opportunities to grow so that we can redeploy or reinvest capital and go faster. Trust me, there is a lot of pressure that comes from the senior management saying, we want to see franchise and revenue and earnings growth. And so we're executing on that as aggressively as we think we should. And my guess is that if we do it successfully, we could outgrow the rest of the bank and therefore the percentage of capital could go up.

Peter Routledge – National Bank Financial – Analyst

One thing I noticed in the last few quarters is a marked increase in the rate of growth in your corporate lending book. And I wonder is this a signal that maybe the appetite for capital markets risk at TD is increasing?

Bob Dorrance – TD – Group Head, Wholesale Banking

I think it's more a signal that there is more opportunity. And so it's been a fairly active corporate lending market in the last three years, especially in the U.S. So we've been positioned and are attempting to take advantage of that as much as we can. Corporate lending is also growing in Canada during the period. So I don't see it as sort of, let's flick the switch on and know we have more risk appetite. I think we actually have the capability of executing on the risk, so let's take advantage of it.

Peter Routledge – National Bank Financial – Analyst

Okay.

Bob Dorrance – TD – Group Head, Wholesale Banking

But you're right in your observation, it has grown. And it could continue to grow just as, I was talking earlier, the U.S. bank's loan book has grown quite aggressively.

Peter Routledge – National Bank Financial – Analyst

Okay. And you went into this bit in your opening statement, but I wonder if you can contrast your Canadian strategy with your U.S./international strategy. So outside of Canada, how is your go-to-market value proposition different than what you do inside Canada?

Bob Dorrance – TD – Group Head, Wholesale Banking

Sure. So quickly, inside of Canada where we have all the products and all the services, we want to get as much business from all those product lines. So that's the fully integrated approach to the client. Outside of Canada, in U.S. what we have is more of an FX fixed income derivative platform in U.S. dollars and we do sell Canadian product to American institutions, but U.S. dollar product is the products I've just described. And so, when we cover U.S. institutional investors, those are the products we're selling and providing to them. And when we cover corporate clients, we're basically saying here is what we can help you do. And it is fixed income, currency, precious metals, et cetera.

And then in the rest of the world, very similar. What we're trying to do is, as I mentioned earlier, we're extending our Canadian dollar franchise around the world. Now that we're building the U.S. dollar franchise, we're also extending it around the world. So we're selling U.S. dollar product to non-North American investors.

Peter Routledge – National Bank Financial – Analyst

Right. And as you go to market in the U.S. and...

Bob Dorrance – TD – Group Head, Wholesale Banking

Sorry Peter. And then what that means is the flipside, so what don't we have. We're not building an integrated equity capability in U.S. dollars. So we don't have sales trading research. We don't have M&A, et cetera. So I see those as second order of magnitude investments. And we have to get the first part right because that is closer to the bank and also probably less complex and less expensive.

Peter Routledge – National Bank Financial – Analyst

Okay. One issue I've noted with TD is, you have this amazing base of deposits in the U.S., so I guess the question is, could that be a source of funding for your wholesale banking funding activities in the U.S.?

Bob Dorrance – TD – Group Head, Wholesale Banking

No, it cannot be a source for booking loans in the dealer, because that's prohibited, which is why we want to have a lending capability in the corporate side in the bank.

So I think as you know, we're on the asset side of our balance sheet in the U.S., we continue to look for loan-oriented types of assets or asset classes that yield more than the investments we do these days. So the corporate loan book is just one part of that vertical. It's not to say that just like within the TD Securities platform we can underwrite a loan in the U.S. dealer and we can offer it to the bank and they independently can assess and decide whether they want to take it or not. If they do, great, and if they don't we'll book it in the dealer.

Peter Routledge – National Bank Financial – Analyst

Okay. Maybe I'll ask you an unfair question and I'm asking everyone so I guess I'm distributing the unfair questions equally. In the lead-up to last financial crisis, structured credit was a source of instability. And it was a source that most people didn't see coming, although you were right to point out in your opening statement, actually TD did foresee the risks in that product and got out well before the day of reckoning.

Bob Dorrance – TD – Group Head, Wholesale Banking

I don't know that we foresaw it. We just weren't making any money in it, so it was a good decision on then...

Peter Routledge – National Bank Financial – Analyst

It was a pretty good decision.

Bob Dorrance – TD – Group Head, Wholesale Banking

People who aren't here made it. So I should give them the credit.

Peter Routledge – National Bank Financial – Analyst

So the unfair question is where might the next source of unforeseen stress come from in the market. If you had to – where you sit today, what would you hypothesize might be a source of risk that we don't see?

Bob Dorrance – TD – Group Head, Wholesale Banking

I think the things that you learn in your business career in these businesses, is a lot of the large losses, whether it's market or credit, tend to come from leverage, too much leverage.

And so if you look at the structured credit, it was a complex issue, partly the structured credit of subprime lending was the bad asset side, but the amount of leverage in that market was extraordinary. And there was no room for any loss based on correlation, et cetera. So I guess appropriately leveraged there would have been significant losses, but we would not have had the financial crisis that we did.

So what concerns me always is, where is the leverage in the system and can you spot that and can you see that? And it's not necessarily easy to follow but from running your own business, we focus on that a lot. Where the manifestation of the excess happens, oftentimes it's hard to point to one. Was it going to be structured credit or emerging markets, et cetera, but I think the concern therefore is, with the amount of QE that we've had in the world is we've created leverage.

Peter Routledge – National Bank Financial – Analyst

Okay. Let me ask you another question that gets a lot of people's attention; it's high frequency trading. Do you see that activity as an unfair advantage or a vital source of market liquidity?

Bob Dorrance – TD – Group Head, Wholesale Banking

I think it's one of these things – you get lost in the definition of high frequency trading. I think that the part of the fuss over high frequency trading that related to predatory high frequency trading was very appropriate. How you solve for that is more difficult. I think, yes, this market in particular is a very complex market structure. So I kind of look at it – electronic trading is very beneficial to the marketplace in terms of reducing costs, and in many cases improving liquidity. But just how do you structure the market such that the electronic trading aspect doesn't incent predatory trading, or if it does, how do you get that out of the marketplace?

Peter Routledge – National Bank Financial – Analyst

I'll come back out to the floor to see if there are any other questions. Up front here.

Unidentified Audience Member

Thanks. You said earlier that TD Securities concentrates on the energy sector in Houston. I'm just wondering what you're seeing there. What you're seeing in terms of pricing, cost of credit. And if you're involved also north of the border up here in Canada?

Bob Dorrance – TD – Group Head, Wholesale Banking

Yes. We actually run our oil and gas energy business from Calgary, and so Houston reports to Calgary. Our energy practice in the U.S. is a relatively small footprint. We have two corporate bankers and nevertheless it's been a good business. It's primarily in Houston, primarily a borrowing base type of business. And so it's certainly seen stresses in the marketplace in general. I think the positive thing that we saw more recently is that equity started to come into the American market in that space as well as first lien lending, higher lending, so we're fairly constructive with the client book that we have.

I think one always worries when you're seeing that price drop, so a precipitous swing, as to what happens to the growth in that business over the next couple of years. I think that's going to be a headwind, whereas in Western Canada, we're a fully integrated, we're lending to pipeline utilities. We're lending to the majors, the large Canadian mid-cap space service companies. So it's a more integrated dealer. Our business in Houston is much more of a niche.

And you're seeing stress. I think you're seeing activity slowdown. I think my personal view is that it will take more time. I don't think there's opportunities. I think what's been good is that any opportunity where markets have rallied companies that should and have been able to, have issued capital. So that's a good thing but that also means that there is more capital available in the industry. And the industry is not going to slow down as quickly as people think it's going to slow down.

Peter Routledge – National Bank Financial – Analyst

Any other questions? Okay. I think with that, Bob, thank you for joining us.

Bob Dorrance – TD – Group Head, Wholesale Banking

Thanks, Peter.

Peter Routledge – National Bank Financial – Analyst

Wish you all the best 2015.

Bob Dorrance – TD – Group Head, Wholesale Banking

Thank you.