TD BANK GROUP

RBC CAPITAL MARKETS CANADIAN BANK CEO CONFERECE

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PARTICIPANTS

Bharat Masrani
TD Bank Group – Group President and CEO

Darko Mihelic
RBC Capital Markets – Analyst

PRESENTATION

Darko Mihelic – RBC Capital Markets – Analyst

So, our next guest is Bharat Masrani of TD. And at this time, on behalf of Bharat, I'd like to caution our listeners that Bharat's comments today may contain forward-looking statements. Additional information can be found on TD's website, TD's Report to Shareholders as well.

So, Bharat thanks very much for joining us today.

Bharat Masrani – TD – Group President and CEO

Good to see you, Darko. Thanks for having me.

Darko Mihelic – RBC Capital Markets – Analyst

So, to kickoff Bharat, we've been diving right into oil in most cases, so why don't we just start off with that to dive into a low oil price and the possible impact on your provision for credit losses and if there's any update or anything has changed materially since Q4 given the volatility in the low oil price?

Bharat Masrani – TD – Group President and CEO

So, you're not going to talk about the snow outside, or the weather?

Darko Mihelic – RBC Capital Markets – Analyst

We could touch on that later…

Bharat Masrani – TD – Group President and CEO

Mark Chauvin actually at the last call gave and I thought quite a fulsome explanation of how we think about it. So, the numbers we've put out is that, if you look at oil, the stresses we have done, we will see potentially it depends on how long the stresses last, where the PCLs, or provision for credit losses at TD, would creep up between 5% and 10%. We're still comfortable with those numbers, but oil, as you can see, is very volatile. It may breach $30 or whatever that level might be. So, we look at this on an ongoing basis, quite regularly, obviously. So, that would be the picture from TD's perspective, but I think overall it is important to understand that, what is our overall exposure, direct exposure, to the sector relative to the overall size of the Bank, so I think it's important to note that.

Secondly, as oil goes through stresses, there are certain direct implications of that. The Canadian dollar obviously comes under pressure when that happens, which in a way is helpful to TD because of our size of U.S. earnings base. Secondly, with lower oil prices we're already seeing that in the U.S., especially where we are located in the U.S. in the Eastern Seaboard, that it is a stimulus there. And we're seeing some strength in those markets that traditionally you would have not seen through this stage in the cycle, so that is friendly to us.

And thirdly, I know you had this question previously, Darko, is the second order effects as to what is the direct exposure to oil and what happens. And by the way the stresses I mentioned includes the second order sort of implications on what happens to unemployment rates in the energy producing provinces, et cetera. In that regard, again, this is probably not a good thing in normal times but our share of those asset classes is lower than what our national share would be, i.e., that we are probably more concentrated in Ontario than perhaps we should be. But in the current environment from a financial perspective, that turns out to be not a bad situation to be. So overall, without a doubt, it's a negative factor and I've laid out the numbers as I just did, but it is important to realize the context of how this impacts the overall Bank.

Darko Mihelic – RBC Capital Markets – Analyst

And maybe taking that one step further, what about your outlook for the economy? We know we've heard TD's exposure to Alberta is relatively light, strong on Ontario and Québec. Has anything changed for you with this recent volatility? Do you think that there's possibly an even better impact on Ontario and Québec? Is that something that's possible in your view and is it something that maybe we should – as investors we should say to ourselves, hey, TD actually should, actually perform better than even last year given that disparity?

Bharat Masrani – TD – Group President and CEO

Overall, I know lower energy prices are negative for Canada, because they're a net exporter. And what happens to overall Canada impacts every part of Canada in some respect. So our view is actually the growth in Canada would be muted. We're looking at less than 2%, that's what TD is calling for. And obviously, there would be some volatility in the numbers as they play out. But having said that, given how Canada normally reacts to a shock like this is something that we have to keep in mind. So the oil sector itself is pretty good at adjusting. They do go through volatile times and I think people are forgetting that this is the same sector that has been through this a few times before and is still around. And so sometimes it gets forgotten when we're going through a shock, that this isn't different and yeah maybe it is, we'll find out.

Secondly, we've not yet seen and I think some of the policy makers have observed that as well, the benefits of a lower dollar yet. And I think time will tell as to when that will kick in. But in the meantime we're looking at an economy that is not going to have as robust growth level as what we might have expected if oil was much higher.

So your point is, Ontario going to be or Québec going to be much better than what people are expecting. I think, time will tell that. I think let's see what next few quarterly numbers come out as. I think the jobs numbers were not bad, were pretty good actually and lot of that were in this part of the country as you would expect. So you're seeing some good news coming out of this, but let's see how that plays out. Having said that the U.S. numbers are very robust, if you look at the jobs numbers that came out. We are seeing that within our footprint, we are seeing the confidence among our commercial customers and middle market customers pretty high. So we're seeing good momentum in the U.S., which you would expect now because we've had low oil prices for a while that have now translated into income or dollars for each household that is now being spent.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. So shifting gears then, one of the things that TD recently did was that another restructuring charge. And so wondering if you can maybe talk a little bit about the level of aggressive cost reduction plans that are in place, the second round, the impact that's having, and if you could provide an update for those in the room on your expectations? And I think one of the things that I get asked a lot from clients historically, how much are you expecting these restructurings to fall to the bottom-line? So maybe, if you can take a crack at giving us an idea, that would be very helpful.

Bharat Masrani – TD – Group President and CEO

So if you look at – I think, a bit of context again is important. If you look at our recent history for the past seven years, 10 years, we've had tremendous growth in the Bank and we've done that organically and we have acquired many companies in the U.S. and even in Canada. So over the past 7 to 10 years, as you would have expected, as you integrate those businesses, as you consolidate the growth you've had, there are opportunities to optimize your cost structure. An example would be, when you acquire an institution, there are reasons why you want to maintain it as a separate entity and not integrate it to the rest from a people perspective, from a process perspective, from a technology perspective, it just takes time to do it and I took the view, we took the view, that this was a time to optimize there and there are opportunities there. So we went through that as well. Secondly, as you get to the scale we are, there are certain process improvements that can be experienced and we've started to leverage those opportunities. Thirdly, we have invested, continue to invest, a lot of money in technology and there are savings available through that as well.

So now you're seeing those things play out, and hence some of the initiatives we took over the last 8 to 9 months or the last year or so. So that's what's playing out. And then, you know the numbers, Darko; we've said that the run rate of these savings will be around $600 million starting in around 2017. The flipside is that, we at TD have always taken the view that we will invest for the future. It is critical to our model, and it's critical to drive organic growth and those investments have always worked well for the Bank, and we will continue to do so. So we will use some of those savings to make further investments in our businesses, and a lot of it is related to technology, given what is going on in our industry and so on the opportunities that are available to us.

So, that's the way we are positioning the Bank. I think the way you asked the question, is you know it's hard to give you a specific number out of the $600 million what goes where, et cetera. But generally the Bank's view is that, we would like to generate positive operating leverage. But that does not mean that we missed a quarter or two that all of a sudden we've lost our backbone in that philosophy. If there are opportunities out there that make sense for the Bank over the longer term or the medium term, of course, we will take advantage of that. But generally, our philosophy is to generate operating leverage without compromising on this investment requirement, which is key to driving our model, which is centered around organic growth.

Darko Mihelic – RBC Capital Markets – Analyst

And so maybe just touching on the business units then, we'll just switch over to the U.S. segment, which is a material component of your earnings, a material part of your strategy. We think of it, we looked at the U.S. segment last year. I mean, it generated earnings growth in U.S. dollars of about 5% in what I thought was a fairly decent environment for U.S. banking. What is the longer term view on your earnings growth target for this business? Can you do better than that for shareholders in 2016 and 2017 or do we have to relook further out for something that's much higher in terms of a growth rate?

Bharat Masrani – TD – Group President and CEO

Our medium term growth target for the overall enterprise is 7% to 10%. And I would expect the U.S. when we start seeing a more normal type of environment, we're well within that range. I am reluctant to give out what exactly is 2016 and all that. I said from an overall Bank perspective, I think it'd be difficult to meet the medium-term target in 2016, given all the headwinds that I've talked about previously.

And I know every quarter, we go through that, now last year, I thought we wouldn't hit our 7% to 10% and we did. Certain things worked out better than what I would have expected in the marketplace. So, it's hard to give you a specific number. But, I'm very happy with how the U.S. franchise is evolving. It's a young franchise, and our retail entry, retail banking entry in the U.S. was – people sometimes may not know this – was 11 years ago. It's not as if we've been there for decades. And today, we have a premier franchise, about 1,300 locations, about $250 billion in assets in the U.S., a growing franchise, a profitable franchise. We are in the metros that matter to us, New York, Philadelphia, Boston, Miami, these are important centers in the U.S., and you've seen the numbers. We have above industry loan growth. We have above industry deposit growth.

So, I'm very happy with how this plays out. And there might be years where you say, wow, look at the growth there. It might be years, it might be muted, because we made certain investment decisions or there are certain market conditions that are playing out. So, overall, I would expect the U.S. to be well within the range, our medium term range, and I'd be very happy if we were able to deliver that.

Darko Mihelic – RBC Capital Markets – Analyst

But we just had a rate increase in the U.S. of 25 basis points, and we understand that you're sensitive to interest rates. Maybe provide an update on the sensitivity, if anything has changed there. But, if we have another couple of rate increases in the U.S. …

Bharat Masrani – TD – Group President and CEO

It would be helpful.

Darko Mihelic – RBC Capital Markets – Analyst

Wouldn't the expectation be that you'd be above 7%?

Bharat Masrani – TD – Group President and CEO

Certainly, certainly, it will be helpful given that with the way our balance sheet is positioned and the sensitivities, you know we've put the numbers out a couple of years ago, and they're largely accurate. They're off, might be off, in certain categories, but it is certainly helpful. But as usual, when we talk about rate increases, it's good to have it for the right reasons. It's good to have it in an orderly fashion.

If rates kind of spike up, because of bad reasons, that is not friendly either. So, I think it's important to keep the overall context in mind as we see it. But, in our U.S. like I said, we got 8.5 million retail customers now in these markets. And we are working very hard to deepen those relationships. It took us many years in Canada to build what we have. And so, give us time in the U.S., I think it's going to be a fantastic move by the Bank to have gone there.

Darko Mihelic – RBC Capital Markets – Analyst

And then, maybe switching gears, coming to Canada, where there is a potential for rate cut. Maybe you can talk about what would happen with TD's NIMs in Canada if we saw rates go down? And maybe just generally give us an outlook for the Canadian business as well?

Bharat Masrani – TD – Group President and CEO

So, again we – is this is for me or is this for you or?

Darko Mihelic – RBC Capital Markets – Analyst

This is for you, but we'll let you answer this one first …

Bharat Masrani – TD – Group President and CEO

All right, okay. Our Canadian Retail business last quarter generated about $1.5 billion in earnings. Last year, it was about $6 billion in earnings. Overall, folks know what shares we have, how we're growing our Canadian business.

Obviously, rate cuts don't help, a lot depends on market reaction to it, how competitive reaction to it, and we will see how that plays out. But, the fact that the Canadian economy is not growing as much, it will impact us. Given our market share, we've got 20%, 25% share, and if Canada, if our customers are suffering, then we suffer, that's the way our model works. So it will have an impact on us, and lower rates obviously will have an impact. But I'd expect our margins to compress further a bit, but nothing dramatic the way we position our balance sheet. Yeah, there will be a compression over the next few quarters. A lot will depend on how much, if there is a rate cut, how much is it? What is the competitive reaction to it? And how will the market settle down?

So, a lot of speculation whether there will be or there won't be. But my view is that, we will adapt to whatever environment we find ourselves in, we've done that now over many, many years and we'll manage the Bank through it, and the way we position the Bank, we should not be any different than overall industry from that perspective.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Now, the question from the audience came in, that was in the card that was sent to me. So it just takes us back to the U.S. strategy. Can you talk about your long-term strategy for TD Ameritrade?

Bharat Masrani – TD – Group President and CEO

TD Ameritrade, fantastic position to be in the largest online broker in the U.S. arguably the world. As all of you know, we own 42% of it. It plays an important role strategically for the Bank. Number one, as we are building out our business in the U.S. from a wealth perspective for our clients that have needs when they have investable dollars in excess of $75,000 or $100,000, our 1,300 stores would refer those clients to TD Ameritrade, and so that's important, from a strategic perspective, to have that offering, because our own wealth offerings that we're building in the U.S. kick in around $700,000 to $750,000 in investable assets.

So it's important to have that offering. Number two, we are looking at and have over many years and recently – and recent example would be, we just launched a TD credit card available to TD Ameritrade clients. So from a business perspective, strategically, it makes sense for the Bank and very useful. And I think critical, going forward.

I think the other part that sometimes not enough focus or conversation is put on it, is that TD Ameritrade is leading in the digital space from a technology perspective. It is at the leading-edge of where arguably financial services might go from a capability, from technology, from approach, from process, et cetera. And we are at there. We are a part of this. So again, very important that we are able to take advantage of that strength that we have at TD Ameritrade as we evolve in that space on both sides of the border.

So, and lastly, our wealth offerings here, there is a huge amount of interest in U.S. investments, U.S. capabilities, ability to invest in the U.S. for Canadians as well, where TD Ameritrade also plays a critical role. So very happy with what this does to the overall TD Bank Group, specifically on the wealth side, on the technology side, on capabilities side. So, that's how we are looking at TD Ameritrade, so highly strategic and happy with how it's performing.

Darko Mihelic – RBC Capital Markets – Analyst

Not to put words in the person who asked the question, but what about path to control? Is that important for TD? You got 42%. Can you really accomplish everything that you want to accomplish longer term with just a 42% position, is that important to you and do you think longer term there is a chance there is full control of TD Ameritrade, or not?

Bharat Masrani – TD – Group President and CEO

Well, it is TD, Ameritrade. It's, whatever is important from our perspective we are able to achieve through our ownership and involvement at TD Ameritrade. So happy with our position where it is. I mean, you asked me, would we ever do that, never is a long time. It could happen well after I'm passed or whatever the case might be, but it serves our purposes extremely well, the position we have.

Darko Mihelic – RBC Capital Markets – Analyst

Okay, thank you. The market volatility has been crazy in the beginning part of this year. Can you talk about the capital markets business and your outlook there?

Bharat Masrani – TD – Group President and CEO

Volatility helps for certain types of businesses and does not, is not helpful in others. We talked about energy; obviously that's a bit of a headwind for the capital markets business. I think in our case, we have been franchise players – that's how we repositioned the Wholesale Bank many, many years ago.

So, yes, it would have an impact on that business, some positive, some negative. I think the inroads we've made in the U.S. dollar business, I would say generally, very happy with that and that continues to be robust notwithstanding the volatility. But I think some of the headwinds on the oil and gas sector will continue and that will have impacts on different parts of the Wholesale business. It might be good for one part, but perhaps not so good for the other part.

So overall I think from a Wholesale business by its nature is volatile. I mean, that's why poor Bob Dorrance always struggles in giving out saying, what's your outlook on this. You tell me, what's your outlook on oil four days from now? And I'll tell you how that will play out. So, it is volatile, but happy with our positioning because of it's our franchise play; we are not a huge prop shop or bank that takes huge positions one way or the other. So if our clients are active, we will be active.

And the other good part for us is that we are building out more of our U.S. Wholesale business than what we were in the past given the size of our Retail business, Commercial business. The footprint we have from Maine to Florida allows us to now provide services, Wholesale-like services, to those clients for FX, for trade finance, for what I'd call vanilla derivative needs to fix the debt, et cetera. So, we have that opportunity and that has not disappeared, notwithstanding the volatility. So we continue to grow the business. The numbers will obviously get influenced by the volatility we see day-in and day-out.

Darko Mihelic – RBC Capital Markets – Analyst

So, maybe just shifting over to capital. You're positioned on the level of capital, and given the environment, what is your view with respect to risk-weighted assets' inflation, given the economic backdrop here in Canada? Maybe can you weave all that into where you're happy, where you're not happy on capital and ultimately where you think you have to go? And I know, we can probably, possibly weave in the CCAR test and the U.S. situation as well, all into one big answer within two minutes… so, ready, go.

Bharat Masrani – TD – Group President and CEO

You threw in four questions there…

Darko Mihelic – RBC Capital Markets – Analyst

It's like the conference calls where we have to ask one.

Bharat Masrani – TD – Group President and CEO

I would say, where we are in capital, we're happy with where we are. Let me start with that, I think that was your last point. Given our risk profile, given how we manage capital and what we think our needs are going forward. So, happy with the levels we are at. I think from an expectation perspective, I think we are now at a stage where it is more highly predictable or more predictable as to what the levels would be from a regulatory perspective, given all the changes that have occurred over the past few years. So that is useful input as well.

I think again when we look at our stresses and look at what will happen on risk weights, I think we touched on oil and gas, as there is migration over time on that as to what that does to risk weights. Again, we find that to be a manageable situation from a TD perspective, given the size of our exposures there and how we think they will play out over time. So, from a headline perspective, we are happy with our capital levels where we are. And it's important for us to have a relationship with our view of, what is our risk profile, overall risk profile in the Bank and what kind of capital we need to manage that risk profile. So, I think that is in sync with our thinking there.

I think on CCAR, in the U.S. you said, you'll weave that in. For us, again by way of background, this is the first year that TD will be subject to the CCAR test. We were not for the past few years, because of a particular exemption we had, when we entered the U.S. many years or when we did one of our acquisitions and through Dodd-Frank there was a grandfathering for a few years, which has now come to an end, and therefore we will be subject to the test. We're working very hard.

Traditionally the Bank, I remember from my risk management days, we've always had a stress testing mentality in the Bank, not just for our Wholesale operation, which I think most banks do, but for the overall Bank as well. So, I feel good that we've had a culture of stress testing our Bank, we've had a lot of processes in place. We've been at this in Canada for many years and frankly in the U.S. as well. CCAR is obviously more complicated, because of the requirements of data and automation and modeling, et cetera. So, we're working hard to be ready for it, and we'll see how it works out, but I feel good about how our readiness is continuing to evolve.

Darko Mihelic – RBC Capital Markets – Analyst

And I guess really the crux of the question is, with respect to, I mean, if you're going through CCAR for the first time, there would have been an anticipation at least from my end, maybe overall TD may think about holding itself to a higher capital ratio over time, just to be sure, just to be safe. It doesn't sound like that's the case here, it sounds like you're happy with the level that you are and it's just a matter of work to pass the CCAR.

Bharat Masrani – TD – Group President and CEO

There are two aspects of CCAR. One is, do you have adequate amount of capital for capital actions, right, that which is a numeric test. And then there is a qualitative test of how your processes work, et cetera, et cetera. And I feel comfortable that the overall level and the capital we have is more than adequate for the businesses and the risk we run. But we have to work hard to make sure that the expectations in the U.S. are met as to how you came to that conclusion and that's the part I talked about, but I expect us to be well capitalized from a U.S. perspective.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. And then maybe just because you are so large in Canada with respect to mortgages and overall residential lending in Canada, can you talk to the recent rule changes that we saw announced in December, from OSFI, from CMHC and so on? And give us just a general rough outline as to what you think the impact of that would be, if any?

Bharat Masrani – TD – Group President and CEO

There is an expectation of some impact obviously. I personally feel that, any strengthening of underwriting standards that applies generally to the whole industry is a good thing. We've had a fantastic run-up in real estate in Canada, over the past few years, and there is some concern that perhaps this, the way it's continuing may not be sustainable and one way to address that is the stronger underwriting. So, I think, from that perspective its good.

I think we have to just make sure that when these rules are changed that they apply to all the players in the industry, not just federally regulated players, because in the past we've had rule changes where a lot of the mortgages then gravitate towards the lesser regulated or differently regulated institutions. And I don't think that is useful from a systemic perspective.

But, generally B20 came a few years ago. I think that's strengthened the system and now what is going on will again further strengthen the system. But I think it is important that as this plays out, that we monitor that this is applying to the overall industry and not just certain players who might be regulated at the federal level, that's one.

I think generally speaking, Canada's home financing regime has turned out to be far more resilient and stronger than what we've seen in other countries. I myself was in the U.S. when lot of the sort of imbalances and pain was experienced. And I think when you look back, our Canadian regime, more predictable, more explicit in understanding who is carrying what risk, et cetera, et cetera is useful. So as we make these changes, I think it's important that, that part is not lost. And that from an overall systemic strength perspective and whatever has been done now actually reinforces that from my perspective. The segments that it is impacting are the right ones to impact also I feel, as to where the down payments will be required, et cetera.

So, overall from a TD perspective, I think, these are good moves by the policymakers. I think they address the points they would like to address, and this is the way to go rather than trying to influence market conditions out there, which will happen in the normal course. So we'll see how it plays out from a financial perspective, but I think from a resiliency perspective these are good moves.

Darko Mihelic – RBC Capital Markets – Analyst

Okay, thanks for that. That's helpful. So as I've been doing with every CEO, I always leave you with the last words. So, perhaps you can just give us an idea of what is the key message for shareholders today from TD?

Bharat Masrani – TD – Group President and CEO

We had a good last year. We had close to $8.8 billion in profits, which were up 8% from the previous year. We have a business mix that I'm very happy with, both from a U.S. versus Canada mix, the type of asset classes in which we operate, the type of model that we have traditionally deployed at TD, which is around customers and customer-centric model and how do we become more relevant to our customers. Happy with how that is continuing to play out.

The investments we are making and adapting to the environment that is changing in real-time is, again, I'm pleased with how we're responding to make sure that as some of this technological innovation takes place that we are on the forefront of that and when the economy slows down, how are we adapting to that and as customer needs change, how are we making sure that we're meeting those needs as our customers evolve. So in all those respects, I find that we've positioned ourselves well, and we should continue to be a growth company, which is what TD is all about.

I think from a concern perspective, yes, what is going on in Canada and obviously it's important to us, this is a big part of TD. This is where our home is, and we look at it very carefully and are assessing it, but feel that the risks associated with that are manageable given the size, scale, and the mix of the Bank, and very happy with how we continue to build out our U.S. platform and frankly given some of the headwinds we've talked about actually gives us opportunities to build that out even further. So overall, optimistic, but not blind to some of the headwinds that are out there, but feel that as a Bank, we're not only addressing them, but managing them without compromising on the investments that are necessary to continue to be the growth company in Canada.

Darko Mihelic – RBC Capital Markets – Analyst

Okay, excellent. Thanks very much Bharat.

Bharat Masrani – TD – Group President and CEO

Thanks very much. Thank you for having me. Well done.