TD BANK GROUP
CIBC EASTERN INSTITUTIONAL INVESTOR CONFERENCE
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PARTICIPANTS

Teri Currie
TD Bank Group – Group Head, Canadian Personal Banking

Robert Sedran
CIBC World Markets – Analyst

FIRESIDE CHAT

Robert Sedran – CIBC World Markets – Analyst

Okay. Our next participant is Teri Currie; she is the Group Head of Canadian Banking at TD Bank, most of you would know that as TD Canada Trust by the way. She's been with the bank since 2004 and the current role now, is it three years – is that I want to say?

Teri Currie, Group Head, Canadian Personal Banking

This is my third year.

Robert Sedran – CIBC World Markets – Analyst

Third year. So there we go. So three years in the current role. I thought what we would do is turn it over to Teri for a bit of the state of the nation and then we'll get into Q&A from there.

Teri Currie, Group Head, Canadian Personal Banking

All right. Thank you. Delighted to be back with the fireplace again this year on the hot seat, and last year I was just saying we were reminiscing on both being math-geeks. So, it's good to be here. Just to give you a couple of headlines, obviously we're delighted with the performance of TD and the performance of Canadian Retail year-to-date. Feeling good about the growth in our businesses, credit conditions are performing quite well. And perhaps the topic of conversation also delighted with the evolution of our digital capabilities across our businesses on both sides of the border. So, maybe turn it over for you.

Robert Sedran – CIBC World Markets – Analyst

So I think it might be good just to sort of start with an outlook discussion. I don't want to spend too much time on the macro, but you mentioned TDCT has actually had some – and Canadian Banking has had some really strong results, it's been a really strong backdrop for those results. All of a sudden as we look out between the impact of global trade, the impact of the energy infrastructure, the foreign investment challenges we've had. Unfortunately, the listed issues is not bank specific just Canada specific has grown. When you look forward do you see some of the revenue opportunity that you saw or are things getting harder?

Teri Currie, Group Head, Canadian Personal Banking

So, in terms of targets we tend to talk about 2019 targets in our Q4 call. So it'd be back to that medium-term guidance for our business of kind of the mid-single digits over the medium-term for adjusted earnings growth. As we look at the balance of risks, obviously the economic context has been more supportive this year than we planned on or thought it would be coming into the year and employment is still holding up well, wages growing well. Credit as is mentioned very benign, so employment really matters there and that seems to be very strong.

Obviously, there's risk on the horizon and unknowns are around trade, I think our thesis is this gets resolved, but nobody knows until it happens. We plan accordingly, I think we're very prudent risk managers at TD and sort of pride ourselves in continuing to do good lending across the cycle, so we don't make bad loans in good times so that we can do good loans in bad times.

And we're very prudent risk managers. And as I look at the portfolios, they're performing well. When I look at revenue opportunity, it is still TD economics view that there will be another interest rate increase this year into next year. That's obviously supportive to NIMs going forward, all other things being equal, so good revenue prospects and good embedded growth opportunity.

The thing that people don't necessarily know about Canadian Retail are those opportunities where we really feel like we've got embedded growth in the investing side of the business. Some provinces in business banking where we're under penetrated, so some really good opportunities to grow across our businesses.

Robert Sedran – CIBC World Markets – Analyst

Okay. I'm not going to try to repeat the slogan, but my view has historically been on your bank specifically that you're a little more cycle agnostic than the average bank in that, we're just looking for good business to grow and we'll take the loan losses and lumps when they come will be bigger on the other side of the cycle. Is that a fair way of characterizing it?

Teri Currie, Group Head, Canadian Personal Banking

What I would say is that we're very purposeful in that sort of adjudicating conservatively or prudently across the cycle. In that, you may recall in early 2016 in my business in the Real Estate Secured Lending business, we were making some changes to our credit policies. We actually tightened the number of financed rental units we'd have with any individual borrower. And that caused us for a period of time to be under-indexed in terms of growth relative to our competitors, particularly in the GVA and GTA at the time.

And we've continued to look at and sort of tightened some policies along the way, in some markets sliding scales is something we look at in terms of how much we'll lend against a certain priced home in some markets, we'll be perhaps a little more conservative there. If Paul Douglas were here with the Business bank, he'd say in the Commercial mortgage space that's an area where we're seeing some competitors either very long amortization or interest-only loans, so we'll stick with core customers through the cycle, but we'll be careful to continue to fine tune over time.

Having said that, I'm delighted with the performance of our lending books, not only the credit quality but actually the relative growth.

Robert Sedran – CIBC World Markets – Analyst

Are there any asset classes right now that are particularly either flashing green or flashing red like the Commercial bank seems to be – the Business bank seems to be an area where there's an awful lot of anticipated growth coming from. Is it more of that with a little more cautious on the consumer or is it the consumer's flashing green too right now?

Teri Currie, Group Head, Canadian Personal Banking

Yeah. We don't have any portfolios today that are flashing in any color other than green. And so we're feeling comfortable across the books. Obviously, we continue to stress test and understand them. And we do have some real pockets of growth opportunity well within our risk policies and risk appetite. TD Auto Finance has been a business that we've continued to grow. We've been growing relationships with OEMs. We've been growing primarily in the prime subvented space, which is a higher quality space.

We have purposefully been deploying bankers in markets where we can do the Wholesale financing with the dealer again within our risk appetite. So, that's been a good asset class for us. In Real Estate Secured Lending, as you know, we needed to shore up our home equity line of credit product and we did that a few years ago. And so, we have had great growth and really risk appropriate growth for customers who love us for day-to-day banking, but had their borrowing elsewhere. So, good opportunities continue to grow within the risk appetite.

Robert Sedran – CIBC World Markets – Analyst

I've always liked the concept of natural market share when it comes to TD. It's always been the way that your bank has talked about where it should be in different products. And you mentioned perhaps there is some Business banking in certain provinces. When you think about areas where you are not at your natural market share, where you do see opportunity, maybe highlight two or three that are perhaps the most important opportunities.

Teri Currie, Group Head, Canadian Personal Banking

So, if my lawyers were here, we don't talk about natural market share. We talk about embedded growth opportunity. And so, our embedded growth opportunity is higher in areas like mutual funds where while we're number two in share relative to the competition, it's about a 9% share. So quite a bit of opportunity there, and we've been growing financial advisors in the branch, we've been growing financial planners in Leo Salom's business. We've been improving our capabilities even for self-directed investors in the direct investing space. And we've continued to add – we've newly added in the personal bank, Retail investment specialists. So, these would be, call it, analogous to a mobile mortgage specialist in the investment space, really hunters to go out and acquire assets to the bank. So a lot of good strategies around building in that area where we are under our opportunity.

Unsecured lending and the personal bank would be another one where we know these customers from day-to-day banking. I caught the tail-end of Ernie's presentation. We know these customers and our personal banking relationship with them. We can pre-approve them confidently within our risk appetite and we're using more digital strategies or self-service strategies there to increase. We've been outgrowing the competition in share from a, call it, lower than where we have been in some of our stronger products. And we've been doing that with techniques like pre-approving a customer, and when they come to the ATM with the right disclosure, a yes/no, they can increase their limit or they can actually get an unsecured limit that we've pre-approved for them over the phone channel or face-to-face with our customer-facing people in the branch.

Robert Sedran – CIBC World Markets – Analyst

All right. I didn't mean to offend the lawyers with the natural market share.

Teri Currie, Group Head, Canadian Personal Banking

No, I'm just making sure that those words did not come out of my mouth.

Robert Sedran – CIBC World Markets – Analyst

I understand. Okay. If there's any questions in the audience, please do feel free to put your hand up or shout it out, I'll keep going with mine otherwise. The technology side, some of your competitors talk a lot more about the dollars they're spending and the importance of technology and all their things they're doing to transform the bank. The language has certainly picked up of late. We haven't gotten quite as much chest-thumping, I guess, in terms of how much TD is spending and all the rest. But you're as big if not bigger than many of these. So perhaps give us a sense of how you think about the technology spend and where you are deploying it?

Teri Currie, Group Head, Canadian Personal Banking

Okay. And if you'll indulge me maybe I can walk back. I did have Technology reporting to me for a period of time and it was one of the people that helped us sort of on this transformation for technology. We don't give an absolute dollar spend of Technology and let me give – this is not the number, but if I told you it's $10 billion, you would have no idea and what you do with that, right, because you don't – you can't tell with that number whether that's good quality spend or not.

And so the way that we've talked about this is in about 2012, 2013, the mix of that technology spend was much more towards run-the-bank. Both 75% of the spend was run-the-bank, 25% change-the-bank. Today, the mix is 40% change-the-bank. So a significant change in a small period of time.

And the way that we've gone up at is you would know particularly for our Retail customer facing businesses, most of the product systems grew up as silos, historically. So we had disconnected systems. We had technologists who reported into the business as opposed to reporting centrally. So they made independent decisions across our businesses in terms of applications, architecture, et cetera. And over the last number of years, we've really ensured that we are taking advantage of the scale not just within Canada but on a North American basis of our bank to centralize many things that makes sense; the architecture for sure; to leverage scale by building things once and using them across our businesses.

So we've rationalized the number of applications, we standardized our application stacks, we've modernized. So many of the back-end systems probably never need to be replaced and they don't need to be replaced in the kind of medium-term. But we have to be able to run our front-end at the pace of the customer and the pace of the market. And so lifting logic that's inherent in some of those back-end systems in either a middle layer or to be able to get through APIs to the front-end to work with customers seamlessly in the user interface. So we've done a lot of that work. That's important not only to be able to run our business more efficiently and effectively, get that change-the-bank investment spend envelop up, but it's also important for safety and soundness and for cyber security reasons.

It's very important that we know across our network where are our servers, what's on all of them, and if you have to deploy security patches, you want to be able to do that very quickly and not across many versions of the same kind of technology all across the bank. Layers of defense are deployed in a way that's consistent across our applications. So quite a lot has been done to industrialize and improve the efficiency of that spend, so that we can shift a lot more of it to the digital capabilities and the end-to-end journey capabilities that our customers are looking for across the business.

Robert Sedran – CIBC World Markets – Analyst

We often get asked about those core systems, the legacy systems and when the banks are going to be ripping them out and replacing them. It sounds like it's not a wise thing to do. They're good enough even for the medium-term to continue to run and you can layer on top. I guess, I'm surprised by that. Is it just the risk isn't worth it?

Teri Currie, Group Head, Canadian Personal Banking

It's interesting, some of the global banks that have done those fairly well-known large systems replacements are at now a point of replacing some of them again. If you think that way, it – never say never or never say something is consistent for everything. But our experience has been we've managed to be a number one digital bank in Canada, having more customer engagement than any of our peers with our client facing mobile banking apps and our WebBroker application and our TD Insurance capabilities without having to make that end-to-end change right into the back-end systems.

We've been able to partner effectively with other organizations fintechs or big techs, if you want, by using API capabilities that allow us to have information within inside the bank to outside. So we've been able to, I think, become efficient and effective at the front-end without having to make that change that you talk about.

Robert Sedran – CIBC World Markets – Analyst

Okay. You talk about the need to invest, the need to invest and the fact that the digital part of the bank – you want to be a leader in the digital part of the bank, embedded in your brand promise though has always been longer hours, high-touch service and the rest. How do you marry those two things without – in some ways, having to erode, the comfy green chair part of the brand?

Teri Currie, Group Head, Canadian Personal Banking

Absolutely. So those who have heard me before, I'm very bullish on branches and continue to think our customers, I know it from focus groups, I know it from research, people choose our bank and we out acquire the competition for checking customers on the basis of branches hours and digital capabilities. And for us hours is a real advantage that we will continue to protect.

As you think about how we thought about our digital journey, we really wanted to protect to your point that convenience element of our brand and we've been evolving it to confidence as customers are looking for more advice, when they come into the branches. That convenience element is a lot around design. In the past, that design advantage was longer hours, better locations, we still have that 90% urban network, better hours in all markets. But that definition of how you deliver personal, connected experiences across channels is really where we're focusing. We've got a great design capability in our digital team, behavioral anthropologists, like quite a number of people who help us to ensure that we're delivering engagement first in our digital strategy. So TD MySpend that we deployed, one of our first properties in the Canadian marketplace that allows customers as they're living their life to get spending advice from us and to track how they're doing. TD for Me, a geo-located capability so they can get offers and advice in moments that matter.

We went after engagement first in our digital strategy because we had that service and convenient space and we wanted to protect it and we wanted to continue to be relevant in our customers' lives. And then as we thought about how we would deploy digital sales for checking, for credit cards, for savings, for unsecured lending and for our end-to-end homeowners' journey, we've built platforms, we've leveraged what we've built in WebBroker to actually build EasyApply for our checking and savings digital capabilities for our unsecured lending and for credit cards.

And we did that at a different pace than some of our competitors because we didn't want to lose engagement and we wanted to build platforms versus point-to-point solutions. A lot of our competitors built a capability to sell checking, a capability to sell card, a capability to sell unsecured lending. In that, if you think about your digital experience in the rest of your life, really if you have a customer centric design, the customer can come in, we can understand them and then we can fulfill across their needs as opposed to independent experiences.

And so we've really built our omni-channel journey, if you will, with the customer in the center the same way that we used to compete with longer hours and better branch locations and we haven't lost that as we've built the omni experience.

Robert Sedran – CIBC World Markets – Analyst

And so as much as somebody might look at the hours and the branch network as an efficiency opportunity, TD is just not viewing it that way, this is not a source of potential expense savings down the road?

Teri Currie, Group Head, Canadian Personal Banking

It has been in the sense that if you go back – we've been very prolific in our optimization, we're a physical network. If you go back to about 2012 to today, about 400,000 square feet of real estate has come out in that period of time, we've evolved to five branch architects. If you look at new branch openings, relocations and mergers, we'd be number one or number two in each of those categories against our competitors in terms of how much of that we're doing.

So new branches in growing markets, optimally positioned branches, i.e., relocations if we think that's better for customer behavior patterns, smaller square footage, more advice oriented. And so the efficiency part has come somewhat from the real estate piece, but also as customers' behaviors have changed, about 90% of total transactions, 80% of financial transactions happen self-service, so we've been able to have fewer service people in front of our customers and then more advisors because when people come into the branch, they're looking for help with the problem or advice.

Robert Sedran – CIBC World Markets – Analyst

Okay. So when we talk efficiency, again this is an area where I think your bank has been a bit different in terms of the operating leverage, it always felt like was an output of revenue assumptions and you invest for growth as opposed to trying to become more efficient and get that efficiency ratio lower. It just happened to be a byproduct of the investing for growth.

Has that paradigm shifted at all as the revenue environment has changed? I mean I know you've had a good couple of years here, but I think most people would probably agree that the consumer is perhaps not as much of a revenue opportunity in Canada as it was 20 years ago.

Is there more of a focus on pure efficiency or is it still the operating leverage model we should be following?

Teri Currie, Group Head, Canadian Personal Banking

So on the consumer piece, I would say given our prowess in acquisition and our opportunity to deepen relationships with customers, I still see quite a bit of revenue upside in those opportunities for embedded growth that we talked about.

On the operating leverage, we continue to target positive operating leverage for a full year, but you have experienced and we do make decisions as we go along that creates some lumpiness in expenses over time. And we are pretty purposeful in saying if our bank is performing well and we at an enterprise level know how we want to invest for the future and what trade-offs we might have made coming into the year, we will release additional funding to ensure that we're growing the business not just for the next couple of quarters, but for the next couple decades. And so that's sort of all of the business leaders would know where they'd sort of tilt next.

In my business, we have continued to invest in client-facing advisors, so mobile mortgage specialists, Leo's business, financial planners, phone channel to support both WebBroker and insurance digital capabilities, more financial advisors in the branch. Those have been more, if you call it, permanent customer facing additions to the expense base, but when we make that decision, we make it with an eye to revenue growth as well in the future.

And then, there are elements of expense that I can make a decision on because many of our digital evolutions, our journeys are running in an agile way. And so, I can actually knowing what we might want to do in 2019 pull forward a portion of that investment and get it up and down in a short period of time to take more expense in this year perhaps, but not necessarily have it affect the long-term expense base. And the other thing, digital marketing is a great tool for us to be able to make offers to customers. We can ramp that up and, if you will, ramp it down at a time when we might not be feeling that we wanted to spend the same level.

Robert Sedran – CIBC World Markets – Analyst

And it's an interesting balance right because you think about as you started to answer the question talking about adding financial advisors and adding front office staff and that's all pre-loading expenses forever and technology expense, advertising, some other things tend to be more one-off.

So when you mentioned that if the years coming in better, we want to dial it up a little bit, we're talking about the other I assume, we're talking about more advertising a little bit more pricing power, a little bit more technology spend is that accurate?

Teri Currie, Group Head, Canadian Personal Banking

To your point, it's a very careful balance because we're often looking at how are we thinking about revenue in the medium term and then how are we thinking about it in the short-term? And on the medium term, we can make those longer term kind of people investments. The other thing that we're spending a lot of time on is where are the opportunities, while we don't talk too much about efficiency ratio, where are those opportunities to get efficiencies. And digitization is a great way and the use of in the right places, robotic process automation, so in our credit centers for instance. There's elements of how you would approve a loan that are – take a piece of data from here and a piece of data from here and a piece of data from here in different systems and put them together and then apply the judgment. Well, that first part of picking the data doesn't have to be done by a person.

And so we're really supporting our adjudicators who we continue to grow to do the judgment part of the job and not so much the administrative part of the job and that gives us efficiencies as well.

Robert Sedran – CIBC World Markets – Analyst

Okay. So, room to take that efficiency ratio still lower, can it get into the 30s at some point you think?

Teri Currie, Group Head, Canadian Personal Banking

I'm sure that we can continue to pay attention to it over time and do the right thing for our business for the short-term and the long-term.

Robert Sedran – CIBC World Markets – Analyst

Another one of those things that I said and you didn't I guess. Okay, let's talk a little bit with the time we have left on some of the products that you've touched on already, the auto product it's funny some of the banks in Canada swear by it, some of the banks in Canada think it's more risk than they want to take on, you're one of the ones that likes the product both in terms of the Commercial side and the individual side.

What is it that you like about the product and what is it that should make us feel comfortable with the risk profile of it?

Teri Currie, Group Head, Canadian Personal Banking

Yeah. So, I think we try very hard to have the right people capabilities and technical capabilities before we go after an asset class that is sort of new to us, if you will. And so we very much leverage the experience we had in the U.S. market before we started to grow the auto finance business more in Canada. We've very much targeted as I said like prime subvented growth which is great relationships and partnerships with manufacturers turning into a great client relationships. So very much within in our risk appetite.

It isn't – from a personal perspective it has not so far been the kind of business that it used to deepen relationships with the customer as much. It's certainly from a dealer perspective in the Wholesale financing, that's certainly a client facing strategy for the Commercial bank. So, I would say one of things I think TD does a particularly good job of is partnering, whether it's in the credit card space with Nordstrom and Target and some of the U.S. cards deals that you'd be familiar with, with fintechs like Moven for MySpend or Flybits for TD for Me. And I think in the dealer space again, it's an opportunity for us to help Canadians achieve their goals and be a partner in that relationship, grow our business within our risk appetite.

Robert Sedran – CIBC World Markets – Analyst

Okay. I'm going to flip back and forth on the balance sheet for a little bit, here I want to talk a bit about the deposit franchise and for many, many, many years when interest rates were very, very low, the value of your core deposit franchise just was not being realized because all money was free.

As rates have started to rise, what kind of behaviors can you talk about in the marketplace that you've seen? Has the value of that franchise started to resurface because your customers are behaving differently than the market?

Teri Currie, Group Head, Canadian Personal Banking

Yeah. So I would say again if you go back to the acquisition space, we out acquire and continue to the competition for core checking customers in Canada and our personal non-term deposit share. So checking and savings, non-registered is number one in Canada, it's over 25%; it's continuing to grow and/or widening the gap to the competition. That's a great source of not only deposits – valuable deposits but valuable customers and more opportunities to deepen relationship.

We tend to be kind of in the middle of the pack on term deposit market share and we very much a disciplined pricing bank. And so we don't tend to follow the hot money and you will have heard Greg say that on the call for the U.S. at our last call and it's the same thing in Canada. So we'll stick with relationship customers around pricing but what we are seeing more recently in that total deposit part of our business is non-bank players, pricing to take that money for a period of time.

We saw it within some of our core competitors earlier in the year and then when they stopped the specials then the money came back. So we don't kind of tend to really react to that in the moment.

From a Business banking perspective, if Paul Douglas was here, he would say a couple of large commercial clients when tax changes happened in the U.S. did take some funds across the border, but he hasn't seen it as a trend and so we feel comfortable with our opportunity to continue to gather deposits effectively.

Robert Sedran – CIBC World Markets – Analyst

With a 25% share, I wouldn't have expected it to be an embedded growth opportunity to continue.

Teri Currie, Group Head, Canadian Personal Banking

The customers that make up that share provide us with the opportunity on the other products.

Robert Sedran – CIBC World Markets – Analyst

But I wouldn't have thought that continuing to widen the gap on the checking account was something that we'd be seeing at this stage and it's got to be something more than just the hours, you've had the hours and everything else for a while.

Teri Currie, Group Head, Canadian Personal Banking

Yeah. So again it has continued to grow over time and this is probably why you hear me being so bullish on our physical network strategy in addition to our omni-channel strategy. Those customers that we research say they come for branches and hours that convenience and availability and even when we did research around the potential launch of just an e-only account where you had no branch access. Customers told us they didn't want that they wanted a real bank.

So people would put secondary money there, but they want the ability to and perception of the power of and the strength and the safety of the real bank, if you will. And then, the other piece on the attraction is the digital capability. So it all matters. And I know that our engagement in the digital space outstrips the competition and continuing to evolve those capabilities to matter for our customers over time. That's how we're continuing to grow that share. And we pay a lot of attention to primacy, not just empty account widgets, but actually accounts where we've captured things like direct deposit and bill payment and digital.

Robert Sedran – CIBC World Markets – Analyst

And that is gaining as well?

Teri Currie, Group Head, Canadian Personal Banking

Yes. So, mobile active users are growing at about 16% year-over-year.

Robert Sedran – CIBC World Markets – Analyst

Okay. So, last question from me is to flip back to the other side of the balance sheet again and talk about the RESL growth that you've been seeing. And, I think there was almost a perception in the market that you would de-emphasize the product where I think you had a product gap that you were closing in and have now closed and the growth has really accelerated since then.

How central is that to the customer acquisition strategy and how important is this to your future growth profile?

Teri Currie, Group Head, Canadian Personal Banking

Yeah. So for Real Estate Secured Lending I feel kind of great about how we're positioned on this where we've been placing investments, the mobile market specialists that I talked about, our end-to-end homeowner journey. So we've really done research with customers to understand right from researching all the way through to funding. How did they emotionally think about that journey, and then how did they actually behaviorally go through that journey.

And so, we really concentrated on the front-end research and shopping to fill the funnel, if you will, of new potential customers, and what you learned through the customer research is customers have two things going through their mind, first and foremost obviously is, can I get approved for this? Can I make my dream come true? But the second one is will I get judged? Will I, if I come in and ask for that amount of a loan from somebody in a branch, will they have their own view about whether I should or shouldn't be doing that based on my circumstances?

And so, the shopping and buying tool actually takes a lot of that away for people, they can through a self-service experience understand the full cost of homeownership, understand what they qualify for, if they are a customer of ours that information is pre-filled through their credentials from WebBroker or EasyWeb. And then they actually can hold the rate for 120 days. Our phone channel mortgage concierge calls them, connects them with mobile mortgage specialist or a branch specialist or helps them along the journey. And so the investment we've been making digitally, we only started advertising this capability about a month ago as we've been building it and had it deployed a few months earlier and over a 1.2 billion in decision volume just through that funnel.

And so, the investments in digital, we've invested in the credit operation centers to improve our time to, yes, for our customers to keep that happening, because again they want to know that important answer, will I get qualified. And then we've invested in the training for our branch folks. So, in combination I feel like the product is there to your point about the home equity mortgage substitute product. The distribution is there and the experience is there.

Robert Sedran – CIBC World Markets – Analyst

We are exactly out of time. Thank you so much, Teri.

Teri Currie, Group Head, Canadian Personal Banking

Thanks for the opportunity.