TD BANK GROUP
Q3 2019 EARNINGS CONFERENCE CALL
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PRESENTATION

Gillian Manning – TD – Head of Investor Relations

Good afternoon, and welcome to TD Bank Group's third quarter 2019 investor presentation. My name is Gillian Manning, and I am the Head of Investor Relations at the bank. 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 were applied in making these forward-looking statements. Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the bank's shareholders and analysts in understanding the bank's financial position, objectives and priorities, and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes. I would also like to remind listeners that the bank uses non-GAAP financial measures 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 Q3 2019 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. Q3 was another strong quarter for TD. Earnings rose 7% to $3.3 billion, and EPS increased 8% to $1.79. All of our segments performed well in the quarter. We generated good revenue growth, as customers entrusted us with more of their business. Expense growth moderated, resulting in positive operating leverage. And we continued to invest in our capabilities, to serve our customers better, today and tomorrow.

These forward-focused investments are made possible by the strength of our business model. It has proven itself over time, delivering consistent earnings growth, anchored by a strong risk culture and robust balance sheet metrics. That includes a CET 1 ratio that held steady at 12% this quarter, after the repurchase of over 11 million common shares. This is a powerful testament to our ability to generate organic capital, and an important source of strength and flexibility. This impressive enterprise performance was built on positive results in each of our segments. Let me turn to them now.

Canadian Retail had another good quarter in Q3, with earnings up 3% to $1.9 billion. Revenue growth was strong, and the rate of expense growth slowed, contributing to positive operating leverage. We continued to elevate the customer experience, introducing a number of innovative solutions.

In the Personal Bank, we launched an international remittance tool that allows TD customers to send money via EasyWeb for cash payout at more than 500,000 Western Union locations around the world. It's a simple and intuitive experience, leveraging our digital and money movement capabilities, a great example of working together as One TD to help our customers more, particularly in the important "New to Canada" segment. TD Canada Trust also surpassed the 5 million mark for active mobile users this quarter, solidifying our leadership position as Canada's largest digital bank.

In our Wealth business, building on last quarter's Greystone fund launches, we introduced a new real estate pooled asset trust for high-net-worth clients, and seeded a global real estate fund. With these product innovations, we are staking out a leadership position in proprietary alternative offerings. On the Direct Investing side, we refreshed our Learning Centre with extensive online resources, including curated video learning journeys and live online workshops.

And in our Insurance business, the TD Insurance app is now powered by the same technology behind TD for Me, our banking app's digital concierge. It offers enhanced content and location management capabilities, including the ability to direct customers to the nearest TD Insurance Auto Centre.

Across our Canadian Retail franchise, we continue to win more business by making it easier for our customers to engage with us. Whether it's giving people the ability to send money to family and friends around the world; equipping investors with investment choices and educational resources to build their wealth; or providing support to drivers on the road – it's about being there for customers, when and where they need us, and providing them with the advice and capabilities they need to feel more confident about their financial lives.

Turning to the U.S., earnings in our U.S. Retail Bank rose 6% to US$747 million this quarter. Revenue increased 4%, reflecting strong loan and deposit growth and higher fee income. We generated over 100 basis points of positive operating leverage. And with the contribution from TD Ameritrade up 17%, segment earnings increased 9% to US$967 million, a new high.

We also continued to invest in our core infrastructure and digital platforms to power the next generation of personalized, connected, human experiences for all of our customers, including an active mobile user base that exceeds 3 million.

We launched a new digital mortgage offering to make the application process simpler, faster and easier. It combines self-serve tools for easier access, with face-to-face guidance when customers want it. And it has reduced processing times, resulting in higher customer experience scores.

We also delivered more convenience for customers who have accounts with both TD Bank and TD Ameritrade. They can now get an integrated view of their banking and investment accounts on TD's digital site, and access their Ameritrade accounts from the TD website or mobile app – a better experience for our customers, and another step forward in our strategic relationship with TD Ameritrade.

Our Wholesale Bank earned $244 million this quarter, up 9% from a year ago, as higher trading-related revenue offset lower advisory and equity underwriting fees. Our U.S. dollar strategy continues to show steady progress. Since the beginning of the fiscal year, and against a backdrop of softer industry-wide new issuance volumes, we gained market share; were lead bookrunner on more than a hundred U.S. Investment Grade deals; and more than doubled the number of U.S. ABS lead bookrunner mandates.

We were active in the green bond space again this quarter, participating in 12 green or sustainable bond issuances, including joint leads on the World Bank's inaugural Euro mandate; KfW's first sterling green SSA offering of the year; and LBBW's inaugural U.S. dollar green covered bond out of Europe.

TD Securities was named 2019 Canada Derivatives House of the Year by GlobalCapital for the second year in a row, as well as "Coming Force in SSA Bonds", reflecting the strides we've made in building our capital markets business.

And for a second year in a row, we tied for first place in Overall Canadian Fixed Income as a Greenwich Share Leader and Greenwich Quality Leader. These results demonstrate the success of our strategy to build long-term client relationships, as well as our commitment to quality service and excellence in execution to deliver for our clients.

All in all, a good performance by our Wholesale business, as we continue to execute on our strategy to add scale and diversification to our client-focused, franchise dealer.

Overall, I'm pleased with our performance at this stage of the year. Three quarters into fiscal 2019, EPS is up 6%, a good result given the uncertain macro environment and difficult start to the year in Wholesale.

As you know, macroeconomic uncertainties persist. Trade and geopolitical tensions continue to escalate; central banks are cutting rates; and yield curves have declined and remained inverted for longer periods. However, our diversified, retail-focused model has demonstrated its resilience in a variety of operating environments. And with the investments we've been making to modernize our operations and increase our efficiency, we are well positioned to continue meeting our customers' changing needs and delivering value for shareholders.

As ever, we move forward united by our purpose to enrich the lives of our customers, colleagues and communities. They are at the heart of everything we do. We expressed our commitment to them in a variety of ways this quarter.

In July, we celebrated #TDThanksYou – our annual Customer Appreciation Day. In particular, we recognized small business banking clients who've shown exceptional dedication and service to their local communities. The work they're doing, promoting female entrepreneurship, children's health, sustainable food practices, and employment opportunities for people with disabilities, to cite just a few examples – is an inspiration to us all.

We’ve always believed that we win the most customers at TD because we have the best people. So, we were proud to be named one of the top three employers in this year's Indeed Top-Rated Workplaces in Canada, and to make a big move up in DiversityInc's Top 50 Companies in the U.S. These rankings reflect many things – but above all, our unique and inclusive employee culture.

That culture was on full display this summer as we celebrated Pride 2019 in Canada, and World Pride in New York. Thousands of employees joined together for events in over 100 cities across North America in support of the LGBTQ2+ community.

And we launched the second annual TD Ready Challenge, focused on Better Health, one of four drivers of change we're supporting through The Ready Commitment, our corporate citizenship strategy. This year's 10 grants of $1 million each will go to organizations that are helping improve access to early detection and intervention for disease, with a goal of driving more equitable health outcomes for everyone.

To wrap up, I would like to thank our more than 85,000 people for their hard work and dedication. They live our purpose and shared commitments each day, and truly bring the TD brand to life. I am proud of what we've accomplished together, and I look forward to a successful finish to the year.

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

Riaz Ahmed – TD – Group Head and CFO

Thank you, Bharat. Good afternoon everyone and please turn to slide 7. This quarter, the Bank reported earnings of $3.2 billion, and EPS of $1.74. Adjusted earnings were $3.3 billion, and adjusted EPS was $1.79, up 8%. Revenue rose 6%, with increases across all our business segments. Provisions for credit losses increased 3% quarter over quarter. Expenses increased 5%, reflecting continued investment in employees supporting business growth, as well as strategic initiatives. Please turn to slide 8.

Canadian Retail net income was $1.9 billion, up 2% year over year, reflecting higher revenue and positive operating leverage. Adjusted net income increased 3%. Revenue increased by 6%, primarily reflecting volume growth and higher insurance and wealth fee-based revenue. Average loans increased 5% year over year, and average deposits increased 3%, reflecting growth in both personal and business volumes. Margin was 2.96%, down 3 basis points sequentially, reflecting a prior period refinement in revenue recognition assumptions in the auto finance portfolio and competitive pricing in term deposits. Total PCL increased 13% quarter over quarter, with increases in impaired and performing PCL. Total PCL as an annualized percentage of credit volume was 29 basis points, up 2 basis points quarter over quarter. Expenses increased 6%, reflecting higher costs supporting business growth and charges related to Greystone. Please turn to slide 9.

U.S. Retail net income was US$967 million, up 10% year over year on a reported basis and 9% on an adjusted basis. U.S. Retail Bank reported earnings rose 6% year-over-year on revenue growth of 4% and positive operating leverage. Average loan volumes increased 6% year over year, reflecting growth in the personal and business customer segments. Deposit volumes excluding the TD Ameritrade sweep deposits were up 5%, including 4% growth in core consumer checking accounts. Net interest margin was 3.27%, down 11 basis points sequentially, primarily due to lower deposit margins and balance sheet mix. Total PCL, including only the Bank's contractual portion of credit losses in the strategic cards portfolio, was US$191 million, up 12% sequentially, as a decrease in impaired PCL was more than offset by an increase in performing PCL. The U.S. Retail net PCL ratio was 48 basis points, up 3 basis points from last quarter. Expenses increased 3% year over year, reflecting business and volume growth and higher investments in business initiatives, partially offset by productivity and elimination of the FDIC surcharge. The contribution from TD's investment in TD Ameritrade increased to US$220 million. Segment ROE was 12.9%. Please turn to slide 10.

Net income for Wholesale was $244 million, up 9% year over year, reflecting higher revenue, partially offset by higher non-interest expenses and higher PCL. Revenue increased 13%, reflecting higher trading-related revenue, partially offset by lower advisory and equity underwriting fees. Expenses increased 12%, reflecting continued investments in the global expansion of our U.S. dollar strategy and the impact of FX translation. Please turn to slide 11.

The Corporate segment reported a net loss of $173 million in the quarter, compared to a net loss of $113 million in the same quarter last year. Net Corporate expenses were lower year over year, largely reflecting lower net pension expenses and lower enterprise projects in the current quarter. Please turn to slide 12.

Our Common Equity Tier 1 ratio ended the quarter at 12%, level with the prior quarter. We had strong organic capital generation this quarter, which added 41 basis points to our capital position. This was mostly offset by the repurchase of over 11 million common shares in the quarter and growth in RWA. Looking ahead to Q1 2020, we expect the implementation of IFRS 16 and the revised securitization framework to have a 20-30 basis point impact on CET 1 capital, which we expect will be mitigated by internal capital generation. Our leverage ratio was 4.1% and our liquidity coverage ratio was 132%. 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 13. The Bank's credit quality remained strong in the third quarter. Gross impaired loan formations were $1.46 billion or 21 basis points, stable quarter-over-quarter and up 3 basis points year-over-year. Please turn to slide 14.

Gross impaired loans ended the quarter at $2.9 billion or 42 basis points, down 6 basis points quarter-over-quarter, and down 3 basis points year-over-year. The Bank's $351 million quarter-over-quarter decrease in gross impaired loans, primarily reflects the sale of impaired loans in the U.S. Commercial portfolio attributable to the power and utilities sector, and resolutions outpacing formations in the U.S. Real Estate Secured Lending portfolios, partially offset by higher impaired loans in the Canadian Commercial and Wholesale portfolios. Please turn to slide 15.

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 $664 million or 38 basis points, stable quarter-over-quarter and up 3 basis points year-over-year. Please turn to slide 16.

The Bank's Impaired PCL was stable quarter-over-quarter, reflecting, credit migration in the Canadian Retail and Wholesale segments, offset by a decrease in the U.S. Retail and Corporate segments. Performing PCL increased quarter-over-quarter, largely reflecting normal course parameter updates in the Canadian and U.S. consumer lending portfolios.

In summary, as expected, we've seen some credit normalization this year in the Canadian consumer lending portfolios, and the Bank's commercial lending portfolios. Overall, credit quality remains strong across the Bank's portfolios, and we remain well positioned for continued growth.

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

QUESTION AND ANSWER

Operator

The first question is from Ebrahim Poonawala from Bank of America Merrill Lynch. Please go ahead. Your line is now open.

Ebrahim Poonawala – BAML – Analyst

Good afternoon. Riaz, if you can talk about just the margin outlook in Canada and the U.S., given that the forward curve in both markets are pricing in rate cuts? I would love to get your thoughts in terms of the magnitude of compression we should expect as we look out over the next year.

Riaz Ahmed – TD – Group Head and CFO

Ebrahim, thank you. As you know, in Canada, we've said before that margins will bump around for a variety of reasons, and while there are some very strong underlying economic fundamentals with employment and business investment, clearly Canada is going to be affected by what really happens in the U.S. If we turn to the U.S. geography, the U.S. segment, again, on the ground, as Greg will tell you, the activity is very good. We have a situation where employment is at record levels, consumer activity remains quite strong, and business investment is remaining quite positive and quite constructive, and you can see that in our performance in the loan and deposit growth in the U.S. But clearly, they are main macroeconomic uncertainties that are kind of driving our rate considerations and expectations that at some point perhaps we may see the economy slow. So, it's difficult really to give you any particular outlook on the rates, because if it turns out that we might see trade uncertainties dissipate, we may see a return to greater macro confidence which would also help the underlying business condition.

So, I think as a matter of general outlook, it will be difficult to give you a forward outlook. But clearly, if the forward curves do play out we would expect to see some margin compression as a result of that. But then, there are also mitigating factors that as interest rates come down, you might obviously continue to see loan volumes grow faster and credit performance should be better. So, I think you can see some very mixed conditions depending on which scenario you wish to outline.

Ebrahim Poonawala – BAML – Analyst

Understood. And the 11 basis points margin compression that we saw in the U.S. this quarter, was there anything one-off in there that might reverse itself next quarter, or is the 3.27% the right base to think about how the margin may turn from here?

Riaz Ahmed – TD – Group Head and CFO

It is the right base. There are no unusual items to point out in that, Ebrahim. About half of that is driven by just the rate compression that I talked about earlier and then the other half is due to balance sheet mix that materializes from continued volume growth.

Steve Theriault – Eight Capital – Analyst

I had a question on Canadian P&C, but first if I could just follow up, Riaz, on the NIM appreciating there as you can think about a lot of different scenarios. Do you think it makes sense at all to look back at either what your margin was or the delta in the margin following the last couple or few rate hikes of 2017 and 2018 to help us gauge future movements or has mix changed or anything else changed to the point where that you don't think that's a useful way to think about it?

Riaz Ahmed – TD – Group Head and CFO

No, I think that, Steve, doing a little bit of trending is always useful in taking a look at how things would change under various scenarios, and you can see the mix change in the balance sheet as well as we can because the loans and deposits categories are indeed disclosed. So, I think it would be useful to look at that trending. But you also have to keep in mind as I mentioned earlier that if you take a forward-looking view, you also have to take into account what changes that might bring along with volumes.

Steve Theriault – Eight Capital – Analyst

Yeah. That's correct. Thanks for that. And then, so on Canadian P&C, Teri, for the most part FTE has been for the last at least couple of years pretty range-bound between 27,000 and 28,000 and that's stripping away the Wealth component, so just looking at the appendix in the supplemental. But this quarter it jumped to, I think, just under 29,000. Is there anything temporary in nature in terms of that spike or maybe if you could just give us a bit of color on what's going on in terms of FTE in that division?

Teri Currie – TD – Group Head, Canadian Personal Banking

Sure. Thank you. So, if you look at our strategy around continuing to be a leader in acquiring new customers and then the embedded growth opportunity in the franchise, we've been working through in branch banking, as I'd mentioned before, our Future Ready strategy, around ensuring that we're elevating the capabilities of our people in the branch network and adding client-facing advisers both in my business and in Paul's business to meet the customer opportunity.

So, as we're doing that, we're seeing that sort of steady climb of client-facing advisers that we're adding. We've also been investing in more mobile mortgage specialists, so you're seeing the growth of them. And then, as we're implementing new initiatives to help the client experience, some of which Bharat talked about earlier, as the number one digital bank in Canada. Some of the investments we're making in that IT space wherein those capabilities are contributing to the growth.

And then, finally, we've been adding in the operations and adjudications space as we've had strong growth in lending in the franchise to ensure that we can get answers to our customers quickly when they make requests of us around loans, that's the most important thing to them, it's helping them to understand what they can afford quickly so that they can make their personal decisions. So, in combination, those are the strategic investments we've been making in business that have caused that increase in FTE.

Steve Theriault – Eight Capital – Analyst

Would you say there's upside from there as I think your intention is to continue to hire more mobile banking specialists and so on, and some of those things have been ongoing for a while, right?

Teri Currie – TD – Group Head, Canadian Personal Banking

Well, in this year, with the Future Ready strategy, we've, in particular, been adding financial advisers in the branch network at an accelerated pace. We had last year a slower pace coming into this year and more more vacancies, and then we were accelerating growth. So, you've seen some accelerated growth this year for financial advisers in the branch in particular. We will continue to add advisers and invest at a pace that makes sense to deliver both short-term and long-term growth. The pace would likely come down a little bit as we go into next year.

Many Grauman – Cormark Securities – Analyst

Hi. I wanted to understand a little bit better what was driving the parameter updates that were pushing up the performing loan provisions, if you could highlight some of the key movers here?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Thanks. It's Ajai. So, I would say we regularly, on an ongoing basis, look at our models and look at our parameters across our books. For this quarter, we updated our parameters for the consumer portfolio in Canada and the U.S., and there was a bit of an uptick because of that. The uptick was in Canadian auto, there was an uptick certainly in Canadian cards, and then in the U.S. cards as well, particularly in the performing category. On the impaired side in the U.S., we actually saw a benefit. So, really, what these parameter updates are doing is they are adjusting for under-prediction or over-prediction of PCLs, and they are a onetime true-up. So, it's pretty much normal course activity.

Many Grauman – Cormark Securities – Analyst

Okay. I guess, where I'm getting at is we saw a big move in the yield curve over the last while and a higher probability of recession. I'm wondering if those factors or factors like that changed or get captured in the modeling for performing loan provisions?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yes, we certainly consider macroeconomic changes, but the macro change impact, I would say, was slightly beneficial. So, macro is not driving this parameter-related increase.

Many Grauman – Cormark Securities – Analyst

And in terms of that net positive for macro factors, what were the key positives? I can think of a lot of negatives, what would be the key positives?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

That's a good follow-up. I would say that, in Canada, we certainly updated our 2019 GDP numbers. There were slightly better employment numbers in Canada, and as you're aware, home prices are firming up as well. And in the United States, in particular, our growth for 2019 was updated. Those were really the drivers.

Robert Sedran – CIBC Capital Markets – Analyst

Hello. Good afternoon. A question for Teri, please. I noticed the mortgage growth is starting to pick up a little bit after a period where HELOCs were definitely dominating the business mix. I know you've kind of talked about this a little bit in the past, but is this reflecting more of a maturation of the new HELOC product, or is it something a conscious decision to shift more business toward the mortgage product?

Teri Currie – TD – Group Head, Canadian Personal Banking

Thank you. On a customer by customer, basis, we will help them make the right decision about the mortgage product that makes sense for them or their RESL product that makes sense for them. And it is often the case that the hybrid HELOC product with its flexibility makes sense. We're seeing a little bit right now and just in terms of rates of people going to fixed rate versus float, and so that would explain a little bit of the mortgage growth. But, in general, I'm really pleased with the continuing of 5% growth in total RESL and the investments we've made in that business.

Robert Sedran – CIBC Capital Markets – Analyst

Is that a kind of growth rate, especially as Ajai noted, the prices are firming a little bit, is that a rate of growth that you think is reasonable as we look out? I know it's difficult to look too far out, but is 5% RESL growth something you're comfortable with continuing?

Teri Currie – TD – Group Head, Canadian Personal Banking

We're certainly comfortable with the business that we have done, and we've been at that sort of rate of growth over the last number of quarters, as you know. There's lots of factors to consider, but with the investments we've made in this business, we've talked about kind of mid-single-digit growth in this business, and that's certainly what we expect for this year.

Robert Sedran – CIBC Capital Markets – Analyst

Okay. Thank you. And just to clarify, Riaz, when you're talking about that Canadian margin, it sounded like the decline in this quarter was more about the prior period than it was about this quarter, is that right?

Riaz Ahmed – TD – Group Head and CFO

Well, I think in both quarters, there were some adjustments that contributed to that. And so, you're right, most of the decline would be due to those items. Fundamentally, we would have been down 1 bp.

Scott Chan – Canaccord Genuity – Analyst

Hi. Good afternoon. I just wanted to go to Wholesale Banking and on the expense side. I guess, for three straight quarters, it's been low double digits. And you called out continued investments in the global U.S. dollar strategy, does that dissipate at some point and should we expect expenses to normalize to a lower level?

Bob Dorrance – TD – Group Head, Wholesale Banking

Yeah. I think the run rate, as I've commented in the last couple of quarters, that we're seeing this year overall which has been sort of in that $600 million-dollar level, is what the steady state would appear to be. So, as that plays out, we've made a lot of investment in 2017 and 2018, and that's rolling through into 2019. That'll reduce, and I think the run-rate where we are now will be at that level. So, the year-over-year should come down that.

Scott Chan – Canaccord Genuity – Analyst

Okay. Thanks. And just on the U.S. side, I just noticed on commercial, it's a bit light on the quarter, and I noticed it's just one quarter if you kind of compare it to peers on the U.S. side. Was there something on the commercial side that you guys maybe pulled back on or should we expect this portfolio to still outpace personal going forward?

Greg Braca – TD – President and CEO, TD Bank, Americas Most Convenient Bank

Yeah. I just want to make sure I confirm the question. You said you saw it as a bit light?

Scott Chan – Canaccord Genuity – Analyst

The commercial, on the U.S. side it was up 1% quarter-over-quarter. But so, on a year-over-year basis, it still outpaced personal.

Greg Braca – TD – President and CEO, TD Bank, Americas Most Convenient Bank

Thank you. On a quarter-over-quarter basis, between pay-downs and movement and seasonality, that's going to move around a bit. But I would say fundamentally, we've actually been seeing strong and very supportive C&I in overall commercial loan growth. Commercial loan growth for the quarter was roughly 7% all-in with commercial real estate. And if we went back just a couple of quarters ago, we would have been talking about more moderate rates of growth. So it's good to see that we've actually been accelerating the growth in the C&I business over the last couple of quarters. The market's been constructive. We've been spending a lot of time on various strategies for middle market in the commercial bank and we think it's performing quite well right now.

Doug Young – Desjardins Capital Markets – Analyst

Thank you. Good afternoon. Just on the credit side, I wanted just two things, I guess there is an uptick in PCLs in gross impaired loan formations in Canadian Retail and I'm hoping that you can elaborate a bit on the drivers, and I think in the MD&A there was mention of insolvencies or whatnot. So, anyway, I was hoping you can unpack that, and then the second thing in credit, there was a reversal in performing loan PCLs in capital markets. I originally thought it was to do with PG&E, but I guess that's actually in the U.S. Retail. So, just wanted to understand what that reversal in performing loan PCLs in capital markets was related to you? Thank you.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Thanks for the question. So, first on Canadian impaired, yes there is an uptick. I'd say a fair bit of that is commercial, and really what's occurring in commercial, we are moving off some very low numbers. And it's across 4-5 industries and 4-5 borrowers. So, again it is off low numbers, but that's part of the numbers. And then, I would say in the rest of the book, in the personal book, there is an uptick particularly in unsecured credit, some in other personal, some in cards. In other personal, it's driven by some seasoning that's occurring because of select risk expansion we did a couple of years ago and there is an uptick in insolvencies that's also reflected there. And then the other category I'd call out is cards, again , a bit of an uptick because of insolvencies.

And then the second part of your question on capital markets, again the reversal there is largely model-driven, so we updated our ECL models in capital markets, and so that's a model-related release.

Doug Young – Desjardins Capital Markets – Analyst

And what was updated in the model that would have driven a release?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

It's all the parameters that would drive the release.

Doug Young – Desjardins Capital Markets – Analyst

Is there anyone in particular or is that just across the board?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

It's across the board.

Doug Young – Desjardins Capital Markets – Analyst

But it doesn't sound like in the Canadian Retail side, although you're noting you call out certain items, that doesn't sound like they're concerning to you, is that a fair statement?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yes, because again we are moving off very low numbers. If you actually go back and look at Q3 of 2018, we were at 24 bps; we're at 29 bps now. So, overall, we're still operating within a very acceptable range. But again, I would remind you we're late in the cycle and I do expect some gradual normalization in credit losses. In our Q1 call, I did message that and it's actually turning out as expected.

Doug Young – Desjardins Capital Markets – Analyst

I mean, would you say 29 basis points is normal or where would normalization land on the PCL rate for Canadian?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Good question. I don't think that's a number we've disclosed, but what I will tell you is that 25-30 basis points is still is a low number and normal would be higher than that.

Sumit Malhotra – Scotia Capital – Analyst

Good afternoon. I will start with a numbers related question for Teri in Canadian Personal and Commercial. Looking at your fee income line for the quarter up 1% year-over-year and we didn't see the normal seasonal increase from Q2 to Q3 which at the very least the day count usually helps. Was there anything that depressed the fee number this quarter that was out of the ordinary that maybe resulted in overall revenue being a bit lighter?

Teri Currie – TD – Group Head, Canadian Personal Banking

Thank you. There were a couple items this quarter and a couple items last year that would represent a couple of points in the other income. So, that would definitely be part of the story there. So, think of it more like 3% to 4% growth. And then, I'd say just to comment on the business itself, really strong core checking and savings growth at over 4% and Retail Card sales up 2%, so maybe a little bit lower, but certainly a good momentum there and we're still looking forward to the Air Canada partnership in the future.

Couple of small items; mortgage discharge fees were a little bit lower, I think that's probably timing, and our wealth referral fees were a little bit lower. And as we've gone through this change in the branch banking network, I think that's just really a sort of function of the change we're going through and it's not something that worries me. I'd say there's been a good trend on other income and I expect good business growth going forward.

Sumit Malhotra – Scotia Capital – Analyst

The 3% to 4% in your view is a more reasonable run rate expectation?

Teri Currie – TD – Group Head, Canadian Personal Banking

Certainly, we've seen good growth momentum and would continue to expect to see that.

Sumit Malhotra – Scotia Capital – Analyst

Thank you. And then across the border to U.S. Personal and Commercial for Greg, I think both in this quarter and also over nine months, your expense growth in the business is 3%. Off the top, Bharat mentioned the many initiatives that are underway in terms of technological spend and the offering to customers. When we take into account some of the comments on the rate backdrop and what that might mean for revenue, how are you thinking about your level of investment spend and expense growth in the business? Is 3% a reasonable level that you can keep or is it perhaps a little bit low in light of some of those investments that were discussed?

Greg Braca – TD – President and CEO, TD Bank, Americas Most Convenient Bank

Well, maybe just backward looking, I'll start with that. I think we've tried to strike the right balance and you've seen that bump around quarter over to quarter just in 2019 from first quarter to second quarter to third. And just given the nature of the business, you'll probably continue to see that bump around from quarter-to-quarter.

I do think it's part of the art as much as anything as how do we strike the right balance with making sure that we are building the digital bank for the next decade that we are making the right investments, that we're investing in frontline facing capabilities in employees and digital. And quite frankly, I think you're seeing that in the growth numbers play out real-time both in terms of the consumer bank, small business, the commercial bank and things we're doing around a Wealth business that is certainly we spend a lot of time and energy building the capabilities around that in the U.S. And a lot of these capabilities didn't exist 5, 7, 8 and certainly 10 years ago. So, do I think we're getting the right balance, right? I think we are.

I would also say that we're also trying to make sure we're as efficient as possible. So, we've talked before about the BAU [business as usual] expenses versus build the bank and making sure we're making those right investments. So how are we getting cost out, how are we digitizing the bank and using new tools and capabilities is just as important. I think that narrative has to continue to play out and we're going to be mindful of getting that balance right going forward.

Sumit Malhotra – Scotia Capital – Analyst

How does that balance take into account the fact that for a period of time your net interest income which is obviously the bulk of your revenue is growing at double-digits and now it's half of that in this new world order for interest rates? Does getting that balance right allow you to slow the level of investment spend, or is some of that expenditure already in the pipeline and set in stone so to speak?

Greg Braca – TD – President and CEO, TD Bank, Americas Most Convenient Bank

Well, the good news is that you've heard us talk about a number of investments that we've made over the last few years in platforms, in terms of capability, in building the infrastructure, we think that is awfully important and I think that's true. But we will continue to want to make investments going forward and we're going to have to balance the environment we're in.

And I think the leading organizations that get this right will be the ones that just don't fold up the tent because the environment they're in that they are still able to find the headroom by freeing up capacity or being efficient in other areas to make sure they are investing in their priorities. So, we shouldn't kid ourselves that the environment gets more difficult or the slope of the curve continues the way it is, we're going to have to be smarter around that going forward.

Nigel D'Souza – Veritas Investment Research – Analyst

Thank you. Good afternoon. I have two quick questions. The first is to circle back on a point you made earlier. I believe I got it correctly, the impairments that you were seeing on the Canadian commercial book that was driven by multiple sectors. And if I look in your supplement, I see automotive, construction, mills and mining and oil and gas, am I identifying the right sectors here that drove that? And is it correct that it wasn't driven by a single account? It was driven by a few sectors.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yes, sure. You're absolutely, right. It's a few borrowers across auto, industrial, other services. You would see a few dollars in metals. I think there's a bit in retail. So, there's no single borrower and there's no real theme. I'd say these are more idiosyncratic issues.

Nigel D'Souza – Veritas Investment Research – Analyst

Okay. So, that was my second follow-up. You still view it as idiosyncratic at this point in the cycle.

And the second question I had, and this is a more specific one and is the last one. For the commentary you had on your updates to your modeling, expected credit loss models under IFRS 9 for performing loans, I just wanted to check in with you whether those model updates and the true-up, did it include a change or update in your scenario weightings? In other words, are you weighting the adverse scenario more, have you changed that, and is that expected to change given the current conditions?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

We look at our scenario weightings every quarter as part of our governance. We did not change our scenario weightings for this quarter. Having said that, we believe we have an adequate weighting on the downside and our probability weighted allowance continues to be higher than our baseline.

Gabriel Dechaine – National Bank Financial – Analyst

Good afternoon. A couple of questions around the U.S. business, I'm sorry if I missed it, but the margin guidance for the U.S., did you provide any for the near term? And if not, can you tell me what the impact of the Fed rate cut will be on Q4 margins given that it took place at the end of the quarter? And then I got a follow-up, broader, more interesting question, I hope.

Greg Braca – TD – President and CEO, TD Bank, Americas Most Convenient Bank

Hi, Gabriel, it's Greg. Thanks for the questions. No, we did not provide guidance, if you missed the earlier part of the call and what our view is around net interest margin going out, but we did cover off that obviously the Fed rate cuts and the general slope of the curve is generally not favorable. And our quarter-over-quarter number that you saw us down 11 basis points quarter-over-quarter is a combination of lower short end rates in front-running the actual Fed rate cuts we saw in the market as well as balance sheet mix. So, that's how I answer that from a quarter-over-quarter perspective.

Gabriel Dechaine – National Bank Financial – Analyst

Another way, would you expect the linear relationship in your margin vis-à-vis Fed rate cuts, plural, or does it moderate over time because that's what another bank is saying?

Greg Braca – TD – President and CEO, TD Bank, Americas Most Convenient Bank

Yeah. So, I think what we've talked about in the past is what it means on the way up. On the way down, all things being equal, on the short end of it from a spot number, just for the U.S. Retail Bank I'm talking about now, in U.S. dollars, every 25 basis points of cut is worth roughly $90 million pre-tax.

Riaz Ahmed – TD – Group Head and CFO

And, Gabe, it should be, as Greg qualified, if all things being equal, given the same book and if you're dealing with the same float mix of the book, it should be linear.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. And my broader question. This issue combined with Ameritrade, let's say, because their revisions have been pretty substantially negative reflecting their more challenging growth outlook as well. The combination of your U.S. business and Ameritrade has been at least 20%, if not more of your growth over the past few years. How does the possible slowdown in these businesses affect your confidence in the 7% to 10% growth, maybe roll that out over the next year as well, perspective-wise?

Riaz Ahmed – TD – Group Head and CFO

Gabe, what I can tell you is that, first of all, when you look at the U.S. retail businesses over the course of the last three or four years, you're quite right in pointing out that they have been fabulous for us and for delivering the franchise growth. Now, the winning strategy for us over the years have been is that we've built a franchise that is focused on delivering its customers' needs, and we underwrite consistently through various cycles, and therefore, pick up market share. And sometimes when we've gone through down markets, you've actually seen TD do better.

So, I think if we focus on the right strategy, the macros will be what they will be. But as I've indicated earlier, when you see rates coming down, there can be a number of offsetting factors in volumes. The economy does a little bit better, you can see better credit performance. And you might see, for example, in brokerage spaces, that cash on IDA balances, et cetera, might actually increase. So, there can be some very good mitigating effects of rate declines.

Darko Mihelic – RBC Capital Markets – Analyst

Actually, just as a follow-up to that, maybe just – I mean, I get the IDA balances may go up, but I guess the – does a yield pickup that you have when the five-year U.S. dollar swap rate is over 150, I guess it's below that now. How does that factor into the numbers going forward? Is that just something that falls off slowly and gradually over the next few quarters? And am I right in thinking it's about $100 million or so of revenue?

Riaz Ahmed – TD – Group Head and CFO

You are correct, Darko, in saying that when those revenue-sharing arrangements that go with interest rates come into play, they do play out over the course of the tractoring strategies that are undertaken. So, it is a gradual slope up, and therefore, a gradual slope down. As to the quantification of it, we have not disclosed that before and I think you will be quite able to calculate it off the public disclosures.

Darko Mihelic – RBC Capital Markets – Analyst

Yeah. Okay. Thank you. I appreciate that. And then just a question for Ajai. On slide 16, I mean I appreciate the parameter updates on the U.S. portfolio was in the cards. The corporate though shows performing as negative, I mean, can you just help me understand? That's the partners share, right?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

That's right. So again, parameter updates can impact portfolios differently. So, what was happening on the strategic cards is, keep in mind, parameter updates are adjusting for either under-prediction or over-prediction. So, if we were over-predicting impaired for instance in strategic cards, it's correcting for that, if we were under-predicting performing then we would correct for performing. So, we actually saw a benefit in strategic cards because there was some over-prediction.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. And we're going into the seasonal pickup in PCLs I suppose because of the indirect auto and credit cards in the U.S. Is there any reason to think that this year will be different? And in terms of magnitude, like, should we sort of be expecting a similar normal sort of pick up in PCLs in Q4 for the cards and auto portfolio in the U.S.?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

So, I did give you some guidance for the full year, which was 40 basis points to 45 basis points, and I do expect for the full year we'll be near the higher end of the range and I'd say the main reason for that, I mean three quarters have played out is because U.S. tends to be high because of seasonality. So, I think you should look at history to see where that number will be, but Q4 tends to be a high number for us.

Sohrab Movahedi – BMO Capital Markets – Analyst

Yeah. Thanks. Ajai, you're a good guy to go to again. Just a quick question, I know there's been lots of investments on the technology side, but from risk management and collections in particular, are you adequately staffed or are you adding to your staff?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yeah, so what I would tell you is that we've done a very comprehensive downturn readiness assessment across the bank and we're continuing to invest in areas including collections, both from a technology perspective, and certainly I'd say from an FTE perspective, we would ramp up again depending on the situation. I don't think we'd ramp up too much in advance, but we'll certainly have a plan on how to deal with it.

Sohrab Movahedi – BMO Capital Markets – Analyst

So, in other words, you haven't ramped up right now and that's from a collections perspective?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

I think we're adequately staffed right now.

Sohrab Movahedi – BMO Capital Markets – Analyst

You're adequate staffed, okay. And Teri, do you think you can generate positive operating leverage next year?

Teri Currie – TD – Canadian Personal Banking

So, we've talked about this year. Our goal over the medium term is to deliver positive operating leverage and we expect to do that for this year.

Sohrab Movahedi – BMO Capital Markets – Analyst

Too early to talk about next year, is that right?

Teri Currie – TD – Canadian Personal Banking

I think my friends around the table would say yes.

Bharat Masrani – TD – Group President and CEO

Apart from that, Sohrab, this is Bharat Masrani. We've always said that we would like to continue to invest for the future. That's the hallmark of TD, that's how we've created the franchise that we have, that's why you see the growth you do. There will be instances where we may not have positive operating leverage for a particular period, because we are not going to compromise on great opportunities to invest. But our general aspiration and I think you've heard us say this before is to generate positive operating leverage, but we shouldn't focus too much on a particular period or a quarter or a year even if the right opportunities present themselves.

Sohrab Movahedi – BMO Capital Markets – Analyst

Bharat, since I just got you, any updated thoughts around inorganic capital deployment?

Bharat Masrani – TD – Group President and CEO

Generally, Sohrab, at TD, there's no doubt that we are good at acquisitions. I think we've showed that in our history. In fact, a lot of the franchises we have built outside of Canada have come through that. So, obviously, if there is any compelling opportunity that presents itself, we will always look at it very seriously. And in this current environment, with all these macro uncertainties, there's probably more opportunity that will present itself depending on how long these uncertainties continue. So, we will make sure that we look at all of those opportunities seriously.

Operator

There are no further questions registered at this time. I would like to turn back the meeting over to Mr. Bharat Masrani.

Bharat Masrani – TD – Group President and CEO

Thank you, operator, and thank you to all of you for joining us this afternoon. Once again, as I do every quarter, because it is important, I would like to take the opportunity to thank our 85,000 colleagues around the world who continue to deliver for all of our stakeholders every quarter, really appreciate all the effort they put into delivering for our shareholders as well.

Thank you and see you in 90 days.