TD BANK GROUP
RBC CAPITAL MARKETS CANADIAN BANK CEO CONFERENCE
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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

Okay, with that out of the way, Bharat, why don't I just ask you a very open-ended question about 2020 and reaching your objectives. I mean, one of the things you discussed was moderate EPS growth in 2020.

So, maybe just provide a little bit of color on what the challenges are, maybe what potential upside there is to that in 2020, if you may.

Bharat Masrani – TD – Group President and CEO

Well, generally speaking, we've talked right through the year about a lot of uncertainties in the operating environment due to geopolitical events that are going on, although in some cases those have settled. For example, on the trade front, the situation may be more stable going forward than what might've seemed to be the case three months ago. With the U.S., Canada, and Mexico deal, probably getting through China, at least the tweets would suggest that by January 15 we'll probably have a phase-one deal with Japan, South Korea, et cetera. So, it looks like that major geopolitical worries that were out there appear to be settling down. On the other hand, on the geopolitical front, what happened over the past few days, who knows how that plays out. So, there continues to be that uncertainty.

The second big sort of influencing factor at least from a TD perspective is what's going on with the rates. So, it looks like moving forward that there appears to be more stability with respect to that. But having said that, some of the rate cuts that we experienced last year were towards the latter half of the year. So, the impact of that playing through this year will weigh on our growth numbers in 2020.

And then we have one event, which is more sort of applicable to TD, as to what happen with commission rates in the United States. That went down to zero, and that impact is not immaterial for our U.S. business. Of course, overall, TD is large, but our full growth out of the U.S. would be dampened because of that. So, that's why – if you were to take that into perspective, it gives you a sense that earnings would be more moderate than what we might have delivered in cases where these factors did not exist.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. So, it was a fairly large transaction last year for TD, so I wanted to touch a little bit on TD Ameritrade and that impact. It's set to close later this year. I think one of the things that I've been asked from clients is, forgetting the short term, if I think three to five years out, what are you expecting your wealth business to look like in the U.S.? And maybe if you could marry – is Schwab a significant part of that in three to five years from now, in terms of your wealth strategy for the U.S.?

Bharat Masrani – TD – Group President and CEO

Well, let's look at what we have in the U.S. with respect to wealth. We have a very large personal and commercial banking business, as you know, in TD Bank, America's Most Convenient Bank. And on the wealth front of it, we already have 130 advisors that are scattered right through our footprint. We've got about $30 billion in assets under management, not counting TD Ameritrade or the combination of TD Ameritrade and Charles Schwab.

We are in the process of converting lot of, what we call, the FSRs in our stores (our retail outlets) into more of financial planners. The plan is to have over the next few years approximately 400 to 500 of those, right through the system, that would essentially be providing managed products to our customers in the U.S.

Now, we have about 9.5 million customer accounts or customers as part of TD Bank, America's Most Convenient Bank, and arguably about 1.5 million or so of them would be classified as mass affluent. So, we are now addressing that market. Now, TD Ameritrade did play a meaningful role in the segment you would consider as customers or clients that need services to the tune of $100,000 to $750,000. So, as part of this transaction, of course, we are in good discussions with Schwab as to how will we provide that service to those clients going forward. The deal has just been announced, [so] we have just started those discussions. We'll see how they play out, but I'm very encouraged that with the combination, the type of breadth of products and services that the combined entity in Schwab and TD Ameritrade provides that this is a powerful combination. We will already have a deposit arrangement with the combined entity, which is meaningful and long term. So, we already have a strategic relationship, and we will start talking about how do we expand that, and I'm encouraged by how that may play in the future for us. But regardless, we have been building the wealth capabilities within TD Bank, and that will continue.

Darko Mihelic – RBC Capital Markets – Analyst

One of the things with the transaction, there appears to be more capital flexibility for TD, or there's a thought out there that perhaps there's more capital flexibility. So, one of the questions that cross my mind is even if you're happy with holding Schwab, you only have 9.9% voting of the stock – of the percentages, and this is a proportion of non-voting shares. And so the question naturally arises; 'why hold on to the non-voting?'. That to me seems like a very quick and easy way to release capital if you so chose and perhaps it's even possible to do in the marketplace. So, first off, just generically thinking, do you now think of yourself as having more capital flexibility under the new arrangement and would it pertain to that non-voting component?

Bharat Masrani – TD – Group President and CEO

So, the first part of your question, TD has always had capital flexibility. We generate very good organic capital. We have a very sort of disciplined way of deploying our capital. I've said this many times before. The first thing we look at is; do we have enough capital to support our stated strategies, growth aspirations, RWA growth, et cetera. We are a 164-year old growth company. So, we'll always make sure that we allocate more than enough capital for that. We've not been shy in using our capital wherever appropriate to build out capabilities where we think we are lacking one. Where it is more suitable or more viable to acquire rather than organically build, we will use our capital. Greystone is a good example of that. Layer 6, our artificial intelligence acquisition is another good example of that. We would always want to have capital in the Bank for opportunistic plays, and Aeroplan comes to mind there. We were able and were happy and had the capital flexibility to do the transaction. And then, of course, we want to make sure that we have flexibility should a compelling M&A opportunity come up.

So, I think from a capital deployment perspective, I wouldn't want the way you frame the question, suggesting that TD is lacking capital and somehow this transaction is framed in generating capital because it needs capital elsewhere, it should not be viewed as such.

I think your point on the voting versus non-voting, that is a regulatory construct. In the U.S., the issue of control is important. One bank buying a substantial stake in another bank holding company creates what you call control issues at the Federal Reserve. And here, the core part of the transaction we need from the Federal Reserve, and that's the application we've made, is that there should be a non-control determination because TD does not want to be viewed as controlling Schwab in any way because that puts obligations on us, and frankly it puts obligations on Schwab.

And one of the constructs which has been well tried and based on guidance that the Fed has had in the market for a while would suggest that a 9.9% voting and the rest being non-voting would provide for such a transaction to occur. The non-voting part is purely for that reason. From an economic perspective, it is no different. And frankly, if TD – like you just surmise, if we chose to sell that stake, those particular shares in the hands of a non-TD entity would become voting automatically. It would convert to becoming voting.

Once the deal closes, we'll become the single largest shareholder of Schwab, and that's a strategic position. We've got board representation, we have a long-term deposit agreement there, and we're already in discussions regarding other strategic initiatives. So, you should view this as a strategic holding. And if it turns out it is not, then of course we will consider whatever other options we need to, but for now, I view this as a strategic holding and we don't have an intention to sell.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. And I guess one of the things that comes with the deal is the deposit agreement, and maybe this is a good way to segue into the U.S. business. One of the things that's going to happen with the deposits is it's going to have about a $10 billion outflow per year. So, can you talk to how you manage around that? What the impact will be on TD Bank USA in terms of managing a deposit outflow like that every year? And does it change TD Bank USA's strategic focus? I think in the past there was a view that you're very deposit-rich and perhaps you'd think about stuff like Nordstrom and Target to bolt on for these excess deposits. Does that change now with this deposit agreement?

Bharat Masrani – TD – Group President and CEO

The simple answer is no.

We are not lacking funding for strategic reasons in the U.S. business. So firstly, just to clarify, the way the deal has been structured, the combined entity of Schwab and TD Ameritrade have the option to reduce the deposits by up to $10 billion. So, whether they do or not, time will tell depending on what markets are and this starts a couple of years down the road once the deal closes and once they start integrating the broker-dealers et cetera. So, from a timing perspective that's important to outline.

But I think your more fundamental point that once these deposits run down to, say, $50 billion, which is what's out there, would that impact our strategic views of building out our U.S. franchise? The answer is absolutely not because we're not lacking funding. Even if the whole amount of what is allowed under the agreement to run off, you look at our loan to deposit ratio, we still have ample room.

Darko Mihelic – RBC Capital Markets – Analyst

Although one would think that you would have to manage a little bit differently. Presumably you would assume that you would have a deposit outflow, so you probably have to hold more liquidity or any other impact that we should think about for TD Bank USA as a result of that?

Bharat Masrani – TD – Group President and CEO

The organic growth of deposits at TD Bank, America's Most Convenient Bank is quite impressive. I think a better way to look at U.S. deposit growth for all the banks is to segment those deposits, how much of this is money market deposits or CDs versus core checking that are retail and non-retail, et cetera. So, once you look at that, the most attractive part there is what we call consumer checking, the non-rate-sensitive part of it. And that's where our Bank is particularly good at. We'd be ranked as among the top still attracting those deposits.

And given the growth we have with the number of stores, the number of customers that we keep on growing in our U.S. franchise, how many new checking accounts we open, I feel pretty good as to our capability of attracting core deposits into our franchise. As we have shown over many, many years, and that'll continue, not stop.

Darko Mihelic – RBC Capital Markets – Analyst

So, then switching to the asset side of the balance sheet, the growth in the U.S. was relatively stable in 2019, around mid-single digit level. Commercial loan growth was around the same level that your peers reported; in the double-digit range. What is TD doing differently? What is your strategy to grow U.S. balances? And does it change with the rate environment? Does it change with any USMCA deal? Does anything change for you shorter term on the commercial loan book side?

Bharat Masrani – TD – Group President and CEO

So, you're defining peers as our Canadian peers?

Darko Mihelic – RBC Capital Markets – Analyst

Yes.

Bharat Masrani – TD – Group President and CEO

Yeah. So, I think that's probably not the most accurate way of looking at it. Because each of the Canadian banks, whomever is in the United States in a meaningful way, are in different markets. And the U.S. is a lot different with Chicago versus LA, versus New York, Philadelphia and Boston, which is where we are, and Miami and Washington D.C.

So, if I were to compare our loan growth versus our specific peers in the U.S. footprint, I feel pretty good. We are actually outperforming both on deposits and on the loan side. So, we've got a growth franchise, if you will talk from a relative perspective, and with a substantial base, with 9.5 million customers, a very big balance sheet and 1,240 or 1,248 locations from Maine to Florida.

So, I feel very good about where we are, the growth we are experiencing and the momentum we have in the markets we are. I mean, we are now a serious player in the City of New York. Others who are ahead of us had a 150-year head start, so give us some time to make even more headway. We are doing very well in the Philadelphia market, in the other markets, in Boston, et cetera. So, very happy with the growth prospects for the U.S. as long as the markets we are in continue to experience growth. And historically, that's been the high-growth area for banking business in the United States, and we are actually seeing that great momentum in the markets we are in.

Fundamentally, in fiscal 2020, there's a couple of issues that I talked about with reduced earnings out of TD Ameritrade because of zero commissions. Which, by the way, we start to earn back when the deal closes and the synergies start to get delivered out of the combined entity. But, from a point in time perspective, that's the headwind we have. From a fundamental perspective, we have great momentum going, more customers today than what we had yesterday, and I expect that to continue.

Darko Mihelic – RBC Capital Markets – Analyst

I guess where I was coming from, not to use the peer comparison, but when I look at the Canadian banks in the U.S., they are meaningfully growing their books higher than industry average.

And that's where I thought when I looked at your growth versus the industry growth in the U.S., the delta is not anywhere close to the delta that we're seeing at Bank of Montreal or CIBC.

So, I guess that – the sum of the question is, you seem to be content to grow at market rates?

Bharat Masrani – TD – Group President and CEO

So, couple of points there. So, in our case, for the most part, our lending is confined to the footprint we are in. I'm not sure how the other banks do it, but our national lending in the U.S., we have national credit card exposure through our partnership deals with Nordstrom, Target, et cetera. We would have national auto lending exposure because we are right across the United States and the dealers we deal with. Our Corporate & Specialty Banking as part of TD Bank, America's Most Convenient Bank, to some extent, would be national, although most of it would be within footprint. And the rest of our lending, which is predominantly the major part of it, would be within our footprint.

And so, when you talk of national averages, I talk of my footprint averages because that's the stated strategy we have. Now, maybe it might make sense for TD Bank, America's Most Convenient Bank, to be more of a national lender? I don't think so. I still have my memories of being the Chief Risk Officer. I think particularly in the United States, local knowledge of markets, where you are, is critically important, and that's where we are mainly focused because that's part of our strategy and part of our risk envelope.

Darko Mihelic – RBC Capital Markets – Analyst

And maybe just the last question on the U.S. Severe NIM compression, a bit of a headwind going into 2020. But it's run its course, hasn't it? I mean, there should be a little bit more here in Q1 and we should see a stabilization, or how should we think about that?

Bharat Masrani – TD – Group President and CEO

Yeah. Well, the three rate cuts in the U.S. happened in the later half. So, that lingering effect has to play out. The last rate cut happened in October. So, that's a full-year impact we'll experience. So, absent other rate cuts, I think you'll see more stability towards the later half of the second half of the year.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Fair enough. And so, switching gears to Canada, we've seen P&C loan growth decelerate a little, it's still decent, but towards the lower end of the peer range. In Canada P&C, it decelerated a little bit in 2019.

What's your outlook for 2020? And I've been asking a lot of CEOs this question, are there any areas that you feel particularly concerned about or you're seeing late cycle behavior where you may want to be pulling back in terms of loan growth in Canada for 2020?

Bharat Masrani – TD – Group President and CEO

So, let's segment lending in Canada in two different categories. In the commercial banking business, there are some parts where TD traditionally is less concentrated, I think that's the best way to position it, like small-ish to mid-sized commercial mortgage business. We've never been big in it, but that has experienced good growth. And so, the fact that we were not big in it, that's going to be an area where we are not growing as fast.

Or, a big portion of cash flow lending in the commercial bank, TD generally would have been more of a secured lending with borrowing base type of lending in that space. But now I guess the new way is do a lot of cash flow lending even for that space. So, again TD would be less focused there because our traditional strengths would be doing other types. We do the other forms of lending, but mainly at TD Securities.

So, if those areas grow, or super grow then you'll see TD probably not keeping up with the growth levels. And over the past few months at least, we've seen lot of growth in those areas. But that's fine. That's our strategy, that's how we've configured our bank and we think over the long-term, it works pretty well.

I think on the retail side, I feel quite good on the mortgage front. We have introduced lot of capabilities with our Homeowners' Journey, with all the digital capabilities we've introduced, with digital end-to-end mortgage applications, we've seen good take up on that. We are already a very large player in that space, we like the position we are in.

I think on credit cards, we went through about a three-year period, particularly with our MBNA business where we did reposition that business. We did let some of our portfolios run off because they were actually not in keeping with the TD brand or the TD risk appetite. These were teaser rate loans et cetera. It's not something worth keeping with the TD brand, so we ran off those portfolios.

There were also certain businesses, that were part of that acquisition that were not as retail-focused, they were more providing the card services to a credit union, so we've cleaned that up. But now, all that is behind us and our new and renewed relationship with Air Canada starts to hit towards the end of the year.

I feel pretty good about cards, generally speaking. We are already Canada's largest card business, and I expect that to continue. Now, given that we've cleaned up our portfolios with all the capabilities, digital and others that we've introduced, hopefully, some of you got the chance to go to Rizwan. I think you had a session yesterday, to see what's coming from TD.

Unsecured lending is a key focus for us in the Canadian space, but we are relatively small there. So even if we super grow it, it's going to be a relatively small base. So that's giving you more detail than you probably asked for, but it gives you a sense that we are interested in growing segments that are in line with our strategy and our risk appetite. And if that means that growth is going to be subdued I'm okay with that because we've been consistent underwriters through this cycle, usually consistent numbers from TD. And hopefully our experience on what we've been posting over many years tells how we look at the markets at a point in time.

Darko Mihelic – RBC Capital Markets – Analyst

And so on the back of that, you took a restructuring charge in Q4. It wasn't a massive one, but it was one. And so there are some places where you're looking for some savings, but you've, kind of, positioned it as a normal course kind of restructuring.

Bharat Masrani – TD – Group President and CEO

Yeah.

Darko Mihelic – RBC Capital Markets – Analyst

And with another bank, Bank of Montreal in particular just to name names, it was a larger one and it was the last one. So, is your approach a little different here that maybe we should expect from time to time restructuring charges?

And on that topic, some of it was going towards corporate – quite a bit towards corporate. So if you can just touch on what's happening there? It's an open-ended question but I'd like to hear your view on that.

Bharat Masrani – TD – Group President and CEO

From a TD perspective, what's going on in the marketplace? You're seeing the level of technology innovation that's out there is massive. And as a bank, we are embracing that innovation that's out there. When I talk of all the digital – like TD MySpend has about 1.8 million, 1.9 million Canadians using this service on where you're tracking your spending and making sure that it's within your budgeting, et cetera.

And so, as we find new ways to deliver those legendary experiences to our customers, we are seeing that the jobs within TD are changing quite dramatically, and we are finding ways to automate repeatable, mundane type of roles and transform them into more capacity on the front lines. And as we are doing that, that requires us to restructure certain parts of our bank. And so, therefore, when that happens, we say it and that is what we are doing. And so, it should be viewed in that manner.

Now we've had restructuring charges previously that have been massive. So, there's one which was 'spans and layers', right through TD Bank Group. It did not spare any area. And that, we talked a lot about it, I think, a few years ago. When I was here, we talked a lot about it. But I think, the phase we are in, you should expect, call it, restructure, call it something else, whatever it is. But this becomes more regular until the level of innovation is going to slow down quite dramatically. Because this is going to be an ongoing phase.

But our view is that whatever that expense is, call it, expense A or expense B, that we got to be innovative. We are already Canada's largest digital bank, with the number of users out there. We will continue to make more headway in that respect and making sure we're creating the capacity in the bank that is relevant not only now, but for many years to come.

Darko Mihelic – RBC Capital Markets – Analyst

In conjunction with that restructuring charges, you guys didn't really outline any sort of cost savings, is that also something that we should expect going forward, or is that just par for the course?

Bharat Masrani – TD – Group President and CEO

Yeah. Of course, there's efficiencies, but we've also been quite clear that we're making large investments that come with it. So, when we say 'no cost savings'. I think, immediately, when we say that, you say, is it going to run to the bottom line? And we have models changing. I think my point has always been, even when we took the larger ones, that you should expect the level of investment. TD's hallmark here, part of our legacy, has always been investing for the future. That's why we became Canada's largest digital bank. Which came as a surprise to a lot of people, that as a 164-year-old traditional bank, you are the largest digital bank? Yes, because we've started investing in those capabilities for many years.

I think that cycle is the one which we mean that – I don't want you to go and change your models. You did $111 million, it's going to be $82 million in this and that and all. That was the point there. You will see a continual investment that goes on, ultimately generating more returns for our shareholders and frankly for all our stakeholders, providing capabilities out there that are important for our customers.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. So, maybe switching gears to capital, you just renewed your buyback program for another 30 million shares. Now, you ended 2019 with one of the highest capital ratios, 12.1%. It actually was the highest, but stable year-over-year. So, the question is, what is the optimal ratio for you and should we expect an aggressive buyback from TD, given your leadership position with respect to the capital ratio?

Bharat Masrani – TD – Group President and CEO

I think I touched on this earlier as to how we think about capital deployment in the bank. Very quickly, we want to make sure we have more than enough capital to support our strategies and growth aspirations. We want to make sure we have capital when there are capabilities available that we need. We want to make sure we have enough capital should unexpected opportunities emerge. And we've said, we are interested M&A. Any opportunities in Canada, we would look at seriously.

People ask me, really, in which space? Well anything that comes, because in Canada not much comes up. But when it does, we will look at it seriously. In the U.S., Southeast of the United States continues to be attractive to us, Florida particularly, because not only is it very much in line with our Northeast franchise in the U.S., but we have been able to really leverage our Canadian franchise with our Florida presence. So, that is very attractive, but again, given the size we are already and the scale we have, we don't have to chase acquisitions. We'll only do the ones where there's strategic logic, where financially it makes sense, timing, et cetera.

When I add all those things up should something come up? We'll look at it. And frankly anything that comes up within our footprint would be of interest to look at, but it'll have to meet those guidelines before we look at it seriously. And credit cards continue to be an attractive space for us in the U.S., given the size of our balance sheet, particularly the partnership deals, which are attractive to us because we've been good at it. So, absent all, if nothing is available out there, of course we'll buy back. In the past three years, we have been doing that. And I don't feel uncomfortable with that, but that's how I think about it.

As to what's the optimal part here? I think from a TD perspective, could we run the bank at less than 12.1%? Absolutely, given the risk profile we carry in the bank. But as you know, where we are on that would depend on circumstance, opportunities, how we see the markets playing out, et cetera.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. So, we're going to turn to some of the questions asked by the audience. The number one up-voted question is, do you foresee zero commissions coming to Canada, if so, within what timeframe?

Bharat Masrani – TD – Group President and CEO

So, I don't. I think the Canadian market, it is different. If you look at TD Direct Investing, which is the business we have in Canada, we have a ~40% market share. It's a different business than what, say, TD Ameritrade had. This is very much part of our overall wealth offering in the U.S. It has services and offerings, the whole wealth platform there. It's got more than 1,100 locations that supports it, 24/7 call center support. A lot of those customers are already TD customers. They have other relationships with the bank, et cetera.

So, I see the Canadian business is very much part of a retail offering rather than a monoline offering, which was more of the case in the United States. So, I don't see it coming here. I think we already see some players in the market, where commissions are lower than what TD would be charging. And we are not seeing any substantial movement in accounts or business. So, I don't expect that to happen in Canada.

Darko Mihelic – RBC Capital Markets – Analyst

And maybe just one more. TD Ameritrade has been a strong contributor to growth over the last few years. How will you look to replace its contribution to growth of the bank organically and/or inorganically?

Bharat Masrani – TD – Group President and CEO

Well, with our holding in Schwab, once the deal closes, we'll own 13.5% of it. I think a lot of people have already done the math as to what the contribution is to TD out of that. And in fact, not only do we recover the zero commission once synergies start to come in, but we see a higher growth trajectory going forward because of the breadth of offerings there.

So, in a way, replacing TD Ameritrade with the combined TD Ameritrade/Schwab earnings stream becomes healthier and arguably, even stronger going forward because of the dynamics of the market. And I think the part that's important to realize is that, in that industry, the cost synergies are not only proven, but as is the timeline within which they get delivered, as TD Ameritrade had already shown with the Scottrade transaction.

So given all that, we expect, once the transaction closes and some of the synergies start to flow, that it is business as usual and arguably even a stronger growth profile with respect to that segment of our U.S. business.

Darko Mihelic – RBC Capital Markets – Analyst

So, it's just a matter of time?

Bharat Masrani – TD – Group President and CEO

A matter of time, yes.

Darko Mihelic – RBC Capital Markets – Analyst

Yeah. So, did you have any closing messages for shareholders today?

Bharat Masrani – TD – Group President and CEO

Well, firstly, thank you for having me and I'm sorry I'm suffering from a really bad cold and struggling to go through my one-on-ones today. But with TD, it's more of the same, call us, 'boring' TD. But we are 164-year-old growth company.

We have a stated strategy. Just in simple terms, it's a **proven business model** that is heavily weighted towards retail banking that provides consistent growing earnings over a cycle and with a risk discipline that is understood by all our stakeholders.

Our strategy also encompasses us being **purpose-driven**. We think this is an important component on what we are, customer centricity, doing the right thing for our customers, and having an internal culture that is very much in keeping with what our customers would expect out of TD. And I think that has been proven over the years, including what we do for the communities in which we live in and operate.

And we are **forward-focused**. Hopefully, many of you got the chance to experience the investments we are making, not only in our digital properties, but we believe in the omni experience going forward. We look at the investments we are making in our physical locations, as important to us as it is in digital banking and mobile banking and the like. When I put all this together, including our business mix, geographic, retail versus wholesale, with the momentum we have now, with the transaction we've announced in the United States, I feel pretty good and hopefully you do too as our owners. And thank you for listening to me.

Darko Mihelic – RBC Capital Markets – Analyst

Thanks very much, Bharat. Appreciate it.