TD BANK GROUP
SCOTIABANK FINANCIALS SUMMIT
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Material economic assumptions underlying the forward-looking statements contained in this document are set out in this document under the heading "How We Performed" and in the Q2 2020 MD&A under the heading "How We Performed" including under the sub-headings "Economic Summary and Outlook" and "Impact on Financial Performance in Future Quarters", which update the material economic assumptions set out in the 2019 MD&A under the headings "Economic Summary and Outlook", for the Canadian Retail, U.S. Retail, and Wholesale Banking segments, "Business Outlook and Focus for 2020", and for the Corporate segment, "Focus for 2020", each as may have been updated in subsequently filed quarterly reports to shareholders.

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PARTICIPANTS

Bharat Masrani
TD Bank Group – Group President and CEO

Meny Grauman
Scotia Capital – Analyst

FIRESIDE CHAT

Meny Grauman – Scotia Capital – Analyst

Glad to be back with everyone. My next guest is Mr. Bharat Masrani, President and Chief Executive Officer of the TD Bank Financial Group. Bharat, thanks very much for being here.

Bharat Masrani – TD – Group President and CEO

Good morning, Meny, and nice to be with you in this difficult circumstance, I guess. But hey, we are managing. It's a good thing.

Meny Grauman – Scotia Capital – Analyst

We're managing and definitely adapting to the new conference reality. So again, thank you for being here.

I'll jump right into it. And I think the best place to start really is with the U.S. business, it's definitely in focus here. I was just talking to your peer at BMO and talking about how U.S. exposure was something that Canadian bank investors couldn't get enough of. And now definitely, the outlook has changed a little bit. Margin pressure is on top of people's minds. Certainly political risk and social unrest, unfortunately, are part of the equation as well. So I'm just hoping to start off just to get your refresh of your U.S. strategy. Where is this business going, especially in the wake of the AMTD transaction? And how do you see the business evolving from a bigger picture point of view, and then we can get into some of the more short-term considerations?

Bharat Masrani – TD – Group President and CEO

Well, Meny, we are thrilled with our U.S. business. We entered the retail banking business in 2005, 2006 or so. And today, we have nearly 1,200 locations from Maine to Florida. We are one of the largest banks in our footprint. We have a terrific brand in TD Bank, America's Most Convenient Bank. And we have a positioning that is unique, the WOW! culture and what TD is all about, and we serve more than 9 million Americans on the retail side. I'm very proud of our franchise in the U.S. It's a very important franchise, and it's a growing franchise.

If you see what we've been able to do by increasing the number of customers that deal with us, we are one of the best banks in the country that's able to attract customers on an ongoing basis. We have very large checking bank down there. And that provides us with an anchor product, which helps us to deepen those relationships. So I'm very happy with the franchise. I think over the long term, it gives us terrific growth prospects. We are a young franchise there. We can deepen those relationships with more offerings to those customers. And we are in markets that are the top markets in the U.S., in New York, Boston, Philadelphia, Washington, D.C. and Miami, and not counting the South Carolina as well, where we are very large. Overall, I'm thrilled with the franchise. I think the items you've noted, over the short term, when going through the pandemic, the issue that New York had was extraordinary in nature. It shut down the whole economy. It shut down the whole city, and that had an impact on us.

We saw that happen in Florida as well. But I think if you get past that, this crisis at some point will end. And when it ends, what growth prospects does that market offer? And we think that it offers us terrific growth prospects. So I'm happy with that. Of course, with the way the rates are, rate sensitivity is an issue. But as long as we keep on growing, I'd be very happy, and that's what we've shown that we can do even through this period. I think from a metrics perspective, I'm quite happy with how we are performing. I think it's important in an environment that we have, that we are well provided, that our PCLs are getting ahead of the problem. And that's what we've been doing over the past couple of quarters in the U.S. and frankly in all of TD. My view is that we're very happy with the U.S. business. I'm so happy that it is a big part of TD because I think over the long term, it provides us with a unique growth opportunity.

Meny Grauman – Scotia Capital – Analyst

In terms of those growth opportunities, would the focus still be on building out the branch network? Is a deposit-rich, branch-focused distribution model still the way to go in the U.S. in 2020? Or does that have to be rethought? How much is hype and how much is actual change on the ground?

Bharat Masrani – TD – Group President and CEO

Ours is an omni-channel approach. We will do what our customers want us to do. Our stores or branches in Canada play an important role in that, as does digital, as does the phone channel and ATMs. They play an equally important role. Our view is that the omnichannel strategy that TD has been embarking on is the right strategy. I think through this crisis, it has even reinforced in our mind that this the right way to go. And most of our network in the U.S. remained open through the pandemic, particularly, where we have drive-thru facilities, folks can drive through and about 85% of our locations have that. So for the most part, we've been open, and we've seen good activity out of our store network down there.

So I think that's the way to go, deposit rich. Yes, deposit rich, but a further detail for us is the checking rich, which is to attract those core checking relationships that allow us to deepen those relationships with other offerings that the bank has. And traditionally, everybody has been talking over many years that the checking relationship becomes the core franchise relationship, and that's what we are good at. I'm very happy with that as well. And yes, rates will, at some point, reverse themselves. And our focus is more on volume growth because we can offset some of these rate headwinds by just putting on more volumes, and that's what we've been doing.

Meny Grauman – Scotia Capital – Analyst

That is a good segue to the next question I wanted to ask – in terms of the franchise's margin sensitivity. And I guess it applies to both Canada and the U.S., but maybe if we focus on the U.S. And the question is, rates are a short-term phenomenon, but unfortunately seem to have been a long-term phenomenon since the financial crisis. At what point do you have to maybe think about taking down the rate sensitivity of the business? And I guess, a more pointed question. Theoretically, if you were to deploy capital in the U.S., would a priority be to find more fee income effectively in the U.S. rather than net interest income?

Bharat Masrani – TD – Group President and CEO

Well, you pointed out that rates have been under pressure through the financial crisis and even after that. And I think we, at TD, showed that we can continue to grow, notwithstanding that headwind. And we've proven that, and I have no doubt that we will prove that again. I think the part that sometimes gets missed when we talk about NIM is yes, of course, with the mix we have there will be pressure on the NIM, but it doesn't mean that we cannot grow our NII. Because as we get more checking relationships in, it might be dilutive to our NIM, but it's NII accretive because we are still making money off it, just not as much as we might like to. I think that's an important concept to keep in mind as to how we manage our balance sheet.

I think your point on M&A. I think that's what you're getting into. As said, we have very strong capital levels. We have a great franchise. We have a proven bank with respect to M&A in the past. And my view is that as a result of the pandemic, there will be opportunities. And if those opportunities make strategic sense for TD, if they make financial sense for us, then, of course, we'll look at it very seriously. And our interest is in growing our franchise in the Southeast of the U.S. We think that's a very attractive market. Should something emerge there, we will look at it very seriously. And on the asset side, we've been very clear that if a good asset generator were to become available, we'll also look at it seriously. And I think this crisis finally might reveal some that might become available before this is all behind us.

Meny Grauman – Scotia Capital – Analyst

I wanted to talk more about expenses in Canadian Retail and cards. But first, since that we were kind of moving towards M&A and capital, in general, I wanted to ask a few questions about that. You have the highest capital ratio of the group. So how are you thinking about capital now? In terms of the statement, do you believe you have too much capital? And given the outlook and the uncertainty tied to the pandemic, how do you view your excess capital position right now?

Bharat Masrani – TD – Group President and CEO

I think going through any crisis, any downturn, any recession, I think for TD, at least, I can say, it's very important to have strong capital levels because we're not clairvoyant. We can't predict the future perfectly. We know this pandemic is a lot different than any other crisis we may have encountered, so I think having strong capital levels is important. It gives the bank a lot of flexibility. Traditionally, TD is at strong capital levels, even in normal times. This pandemic, I think it's even more important that those capital levels be even higher.

And then we talked about M&A. It does provide flexibility if a compelling opportunity presents itself. So I like the positioning we have, that we have very strong capital levels. Given all the uncertainty around us, that provides lots of flexibility for the bank. It's a good thing to have, as is making sure that we are more than adequately reserved. Because we just want to make sure that as we manage through this downturn that the bank is adequately reserved and we have strong capital levels, which are two items that are critically important in a period like what we are experiencing.

Meny Grauman – Scotia Capital – Analyst

I wanted to ask in terms of capital, where buybacks fit in? Obviously, buybacks are not allowed. But I guess, really two questions here. One, do you have any sightline into when you will have the opportunity to or at least the potential to do buybacks again? And then in a more theoretical scenario, if OSFI allowed buybacks tomorrow, would that be something that you would do given the capital levels that you have? Or is your outlook sufficiently conservative that, that would not be on the menu at this stage right now?

Bharat Masrani – TD – Group President and CEO

I mean we've not been shy to buy back our shares when it is appropriate. I think I've said this many times. We have a capital deployment framework that has worked with TD very well. Our first priority is to make sure we support all our agreed-upon strategies for RWA growth. If we're able to deploy capital to grow certain businesses, and we have many of those, I want to make sure we have more than sufficient capital for that. We want to make sure that any capabilities that we may need, that if we need to deploy capital to acquire it or build it, that we have more than sufficient capital. And then, of course, we make sure that from a resiliency perspective, if there are any opportunities from an acquisition perspective that we have flexibility. And if all those are exhausted, then we are not shy to buy back our shares, and we've shown that over the past few years.

I think your question is a bit hypothetical, Meny, as it's hard to say exactly how this crisis plays out. I think it's probably premature to start talking about buybacks at this stage. I think we need to get into some form of normalcy here and make sure that we've got good momentum as a country, as a continent before we say, "All right, we are back to the good old days." I think there's a bit of time. But at some point, we will get to that point as well. And if we do, then the framework that I just outlined will apply to TD. And if it means buybacks make sense based on that framework, then we will certainly look at it very seriously.

Meny Grauman – Scotia Capital – Analyst

And one final question on capital deployment is just the capital markets business, which is smaller on a relative basis than peers. Over the last two quarters, in particular, we've got a new appreciation for what capital markets revenues can provide, the counter-cyclicality. But do you view your positioning of capital markets sort of as underpenetrated? Is this an area where you would consider deploying additional capital either organically or through some other means?

Bharat Masrani – TD – Group President and CEO

We've been building out the business for the past 4 or 5 years. I've talked about and Bob Dorrance has talked about building out our U.S. dollar strategy. And that has worked out remarkably well through this pandemic. I'm so happy that we did that. We made that call 4 or 5 years ago and that has meant a lot for the bank.

I think it's important to keep the perspective right. Our capital markets business, relative to all of TD as a percentage is what you're saying, "Well, you're smaller than others from that perspective." But as an absolute business, last quarter, it generated $442 million. And if you compare that on an absolute level to what others have generated and you'd say, "Wow, these folks are serious players in this market."

So I have no problem in saying that we are large. We can effectively compete with anybody out there with respect to capabilities and scale and the TD brand and the TD capital that we have. I think we're on a good path there. Of course, I'd like it to be bigger. I've said that over many years, as a percentage of TD. But the growth it has had on an absolute level, I'm very happy with. And the investments we've made are bearing fruit, which is good to see. It's a business that is core to the TD strategy. We have a terrific team, and the businesses we have at TD Securities are the ones that have worked very well for us in good times and bad times.

Meny Grauman – Scotia Capital – Analyst

I wanted to talk about Canadian Retail. On the Q3 call, Teri Currie noted that TD was third in RESL market share in Canada this past quarter and talked about how the bank was more conservative in branch openings. She noted that the drag would fade as more branches were being opened or most branches were being opened by the end of September. I guess the first question here is, did the strength of the housing market through this pandemic take you by surprise a little bit? Is it something that you didn't foresee? And I'm trying to understand the conservatism in the branch closures. Was that just something that was unrelated to the way you view the market? Or was there a little bit of a miss? Let's call it, most people wouldn't have forecast the housing market to be as strong as it has been coming through this pandemic.

Bharat Masrani – TD – Group President and CEO

So the closing down of a portion of our network and reopening of our network is solely driven by the health and safety considerations for our own people and for our customers. We have locations that might be different. We have dynamics in certain jurisdictions that might be different, and you're seeing that play out. At the pace at which we've been opening, yes, it's been slower perhaps than others as I noted in the quarterly calls. But by the end of September, as Teri said, we should be virtually open right across Canada. Our U.S. network, like I mentioned earlier, more than 90% of our U.S. network is open because of the drive-thru phenomena. We were never close in many of those locations. But even in locations where we have to shut down the lobby hours have now generally been opened up either by appointments or people ability to walk in, et cetera. So I think we'll get back to our normal share as we become more normal in that respect, and I expect that to happen relatively quickly. It was not driven by miscalling of what the market might do or not do. I mean it was solely driven by the health and safety considerations at TD.

Meny Grauman – Scotia Capital – Analyst

Understood. I wanted to talk about cards in more detail. The outlook for unsecured lending broadly and what the strategy is there? And specifically, tying it in to a discussion of the Aeroplan deals. Maybe starting there in terms of the travel card space. Travel seems to be one of the spending areas that's taking the longest to come back. And I'm just wondering, you're obviously very close to the real-time data. What are you seeing there? And what's your expectation in terms of a normalization?

Bharat Masrani – TD – Group President and CEO

I mean every month, things are getting better in card usage, even in the travel category, compared to what we had in the end of March and April, so that's a good thing. But without a doubt, travel will take longer to come back to its pre-pandemic levels and understandably so, given the impact that all of us have experienced. But it's a terrific category. I don't think Canadians will stop traveling for the rest of their lives. Once this pandemic is behind us, it would be a terrific program. I'm thrilled with the new program that Air Canada announced, which should be launched in November. I think we are all looking forward to it, and it will create a lot of momentum in that category.

I think the other important aspect for us has been about 3 years ago, 4 years ago, I think we had talked about this with our investors, that we were relaunching our offerings in the card space. We were redoing our entry-level card. We were going to have a new Cash Back offering, et cetera. And all that has been terrific because the Cash Back card has been very popular through this pandemic, as you would expect. We're seeing very good volumes in that respect.

In other categories -- and I should note it's not unsecured, but in our auto finance business, we are seeing very good volumes as well on both sides of the border. And that shouldn't surprise folks because we saw that through the financial crisis that if you lose your car, then it's hard to get to work. And particularly with the pandemic, there appears to be a higher comfort in using personal cars than to use transit in many cities. I think we're seeing good momentum in that asset class as well.

Meny Grauman – Scotia Capital – Analyst

I'm curious about the Aeroplan agreement specifically, and whether there have been any changes made because of COVID to that agreement or to the economics of that agreement? Any insights you can provide there in terms of that?

Bharat Masrani – TD – Group President and CEO

It's a long-term agreement, Meny. We became the primary partner with Air Canada, through this program, and we have a long-term deal with Air Canada. It's a terrific program, and we are very happy with it. And I think some of the things that have already been announced are very compelling. I'm very happy with how that has worked out. And I'd say it's a core part of our card business and continues to be and I'm very happy with it.

Meny Grauman – Scotia Capital – Analyst

Is it a less valuable business because of COVID, even once we come out of this crisis?

Bharat Masrani – TD – Group President and CEO

I think time will tell as to how quickly things revert back to the mean. I think what history has shown us is that every crisis is different. But one thing is common among every crisis. It ends. And after it ends, things get somewhat back to normal.

And it is a category that is very popular in Canada, and the offering is very compelling. I have every confidence that over time, the program will reclaim the share of wallet that it has traditionally had. I mean it is a very popular program. It is the largest of its kind in Canada, and it continues on. The satisfaction levels we see out of it, the numbers we see, the engagement people have with the program, are all very positive. We continue to be excited.

Meny Grauman – Scotia Capital – Analyst

I wanted to talk about expenses, definitely a key focus here, especially given the outlook for what's likely to be a slower revenue growth environment for the foreseeable future. One pushback that I get from investors when it comes to TD is that people say, TD doesn't have expense savings in its DNA. That it's been spoiled by its success and is not focused on expenses as much as its peers. I'm wondering what's your response to that?

Bharat Masrani – TD – Group President and CEO

Well, I disagree with it. I think I like our DNA a lot. Look at our business mix. Look at our record. Look at our brand, our value proposition, our customer centricity. Those things are critically important, and it has shown us what it can do for us and how successful it has been. And none of those things change. I think on expense management, of course, the environment we are in, you should expect us to be disciplined, and we will be. That does not mean that we will stop investing in projects or areas that we feel are important for our franchise and for the future growth prospects of the bank. And we've always been consistent about that, and we continue to do that.

Our strategies are well-articulated as to the areas in which we would like to grow and where we are continuing to make investments. In Canada, for example, we've said our future-ready initiative for our branch network here and become more advice-focused continues, notwithstanding the pandemic because we think it's important for the long-term well-being of the bank, and that's what our customers want from us. So that's how I would position it. I disagree with the DNA in articulation. We are disciplined bank and I expect us to show that going forward.

Meny Grauman – Scotia Capital – Analyst

And if I could get a little more detail in terms of how aggressive do you think the bank can be with expenses in 2021? What kind of expense growth is reasonable to expect in 2021?

Bharat Masrani – TD – Group President and CEO

We always strive for positive operating leverage, but there will be times because of circumstance when we will not meet it. I think the pandemic has meant expenses in certain areas that would have been unexpected just to deal with the crisis. On the other hand, we see the investments we made in our technology and our platforms have really been advantageous to the bank. We were able to adapt to this new reality in a matter of days where tens of thousands of TD bankers were working from home. 85% of our call center people are working from home, and we were able to revert to that very quickly upon the start of this crisis. There are certain types of expenses that are more transient in nature. I don't expect the pandemic to be there forever.

I think some of the deployment in technologies and platforms, the core investments we had made, which give us opportunities for more efficiencies because it provides tools to our people to be more productive. I think some of the impact of the pandemic will change customer expectations. We've seen take up on our digital properties to be terrific. There's great engagement for downloads. We continue to be Canada's largest digital bank by number of users. All those things are very positive and will have an impact in terms of where we will continue to make investments and where we may pull back. I think you'd expect from TD to adjust to the environment we find ourselves in rather than hoping, praying and wishing we go back to the good old days because I think it's going to be hard to get back to the same things we used to do many years ago, and we will adapt to this new world.

Meny Grauman – Scotia Capital – Analyst

And then one final question on expenses, but really in terms of investment decisions. One question that I'm curious about, I'm asking all of your peers, is just how you make investment decisions in this kind of uncertain environment and how you make the trade-offs between investing in the business and watching the bottom line? And are there certain metrics that you look at? How does this pandemic change that analysis, which I'm sure happens all the time, but now it's becoming more complicated to do?

Bharat Masrani – TD – Group President and CEO

Yes. I think the last point you made, I mean, those investments are critically important to watch, even during good times. Think of investments, at least the way I think about it, and I would put them on 3 categories. The first category is you need to make an investment to meet regulatory requirements and security, like cyber, et cetera, to protect the bank. And I think those become critically important. And at TD, you will not expect us, and we will -- you shouldn't expect that we will short change that investment envelope because I think it's important for the well-being of the bank over the long term.

I think the second category is strategic investment. And there are certain ones that are critically important, such as having enough capacity from a digital perspective, having enough flexibility for our sort of call center people is one example of being able to manage through an event that we just went through and those become strategically important. Some of the advice businesses that we're investing money in will continue because it's strategically important to the bank.

And the third category, I would put as more discretionary, nice to have, but not necessary to have today. And that's the category we will look at very closely because there are flexibilities there to defer. I'm not saying that in previous years we've wasted the bank's money in those categories. But it's not critically important that those capabilities be available today. They can wait for a year, so we will sequence those. We will sort of pace those in a manner that makes sense based on what we see in the environment. So that's the way I look at it from an investment perspective. It's a very important topic in the bank. This is a topic that all senior executives are very much part of because we want to make sure we do the right thing for the long-term well-being.

Meny Grauman – Scotia Capital – Analyst

I wanted to hopefully throw in one last question. The clock is winding down. But you had a nice picture in the Globe and Mail earlier this week, and there was a quote about how the clock is ticking to recapture lost spending. And I'm just hoping you could go into more detail there in terms of how do we make sure that time doesn't run out on us, and what TD or maybe even the broader banking sector in Canada can do to help make sure that the time won't run out on us?

Bharat Masrani – TD – Group President and CEO

Well, so, I mean, the pandemic -- I mean, it's interesting. A lot of people talk about scenario planning, but this one is certainly different. And I think what we've seen is a profound impact on society and our economy. When you look at our deposit numbers -- and yes, there's been a huge amount of stimulus out there, but people have stopped spending and unless the government makes it more legal to leave your home, it's hard to spend money. And you only spend on what is necessary. So you have this huge amount of liquidity sitting there with the percentage of our population that have a high propensity to spend. My point is that the sooner we get out of this lockdown and sooner we get into a normal cycle, there is a good probability that a lot of those dollars are going to be spent. And if they are, that's terrific for the economy.

They will provide the stimulus that is absolutely necessary. The longer this goes, it's problematic because we will have certain jobs that will disappear permanently. There will be dislocations. That will be even more severe than what we've experienced to-date. The timing does matter. I think the sooner we get to a solution sooner, the science catches up here, I think it's better for everybody. And I think what is different in this downturn, is just the amount of liquidity that Canadians and Americans have. We're seeing this on both sides of the border. The question is how quickly will the liquidity get spent? And if it gets spent quickly, then, of course, it's going to be great for the economy. So that's been my point. I think the quicker this is behind us, it will help the economy because of just the amount of funding that is in the system.

Meny Grauman – Scotia Capital – Analyst

And does that mean that large employers like TD have more of a responsibility to try and bring people back to work and back to normal quicker, obviously, health considerations notwithstanding? But is that part of getting back to normal that you're referring to?

Bharat Masrani – TD – Group President and CEO

The bank is operating, Meny. The fact is that we don't have people at the TD Tower, although I'm sitting here, there are very few people at the TD Center here. And that doesn't mean the work of the bank has stopped. It's continuing. We are fortunate that we are able to adapt to the world. And I think for TD, bringing back people into the offices, et cetera, I mean the paramount consideration is health and safety, and we've been guided by the health and safety officials, the public policymakers. We have our own Chief Medical Officer that provides terrific guidance, and we are using a balanced approach as to how many people we bring back. And I think all the banks are doing this in an orderly fashion.

Meny Grauman – Scotia Capital – Analyst

With that, we're out of time. But I want to thank you very much for speaking with us and looking forward to speaking again very soon.

Bharat Masrani – TD – Group President and CEO

Well, thank you, Meny, for having me. I enjoyed the conversation. And congratulations, by the way, on your appointment. All the best.

Meny Grauman – Scotia Capital – Analyst

Thank you very much.