TD BANK GROUP
Q1 2020 EARNINGS CONFERENCE CALL
FEBRUARY 27, 2020

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Material economic assumptions underlying the forward-looking statements contained in this document are 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 be updated in subsequently filed quarterly reports to shareholders.

Any forward-looking statements contained in this document represent the views of management only as of the date hereof 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 as at and for the periods ended on the dates presented, and may not be appropriate for other purposes. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf, except as required under applicable securities legislation.

CORPORATE PARTICIPANTS

Bharat Masrani
TD Bank Group – Group President and CEO

Riaz Ahmed
TD Bank Group – Group Head and CFO

Ajai Bambawale
TD Bank Group – Group Head and Chief Risk Officer

Greg Braca
TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

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

Bob Dorrance
TD Bank Group – Group Head, Wholesale Banking

Gillian Manning
TD Bank Group – Head of Investor Relations

CONFERENCE CALL PARTICIPANTS

Meny Grauman
Cormark Securities – Analyst

Ebrahim Poonawala
Bank of America Merrill Lynch – Analyst

Sumit Malhotra
Scotia Capital – Analyst

Doug Young
Desjardins Capital Markets – Analyst

Nigel D'Souza
Veritas Investment Research – Analyst

Gabriel Dechaine
National Bank Financial – Analyst

Sohrab Movahedi
BMO Capital Markets – Analyst

Darko Mihelic
RBC Capital Markets – Analyst

PRESENTATION

Gillian Manning – TD – Head of Investor Relations

Good afternoon and welcome to TD Bank Group's first quarter 2020 investor presentation. 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 first 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 are 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 Q1 2020 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. Q1 was a solid quarter for TD. Earnings rose 4% to $3.1 billion, and EPS was up 6% to $1.66. Revenue increased 6% on strong volume growth and record Wholesale revenue, as the investments we've been making in our people and capabilities enable us to continue acquiring more customers and doing more business with them.

We maintained a strong capital position, with our CET 1 ratio ending the quarter at 11.7%, including the impact from IFRS 16 and the repurchase of over 4 million common shares. We also declared a 5-cent dividend increase today, bringing our dividend per share to 79 cents for the quarter – up 7% from a year ago, for a five-year compound annual growth rate of 9%.

I'm pleased with our performance this quarter, which saw us earn through some significant headwinds. Let me highlight a few accomplishments that speak to the power of our strategy and our success in executing on it:

- In December, TD Bank, America's Most Convenient Bank, ranked #1 in the J.D. Power 2019 U.S. National Banking Satisfaction Study. This is our first-ever national trophy – in the first year that we were eligible for the survey. The win is all the more meaningful given the peer group, which includes some of the nation's largest and most storied banks, many of which operate coast to coast. We've followed a disciplined strategy since entering the U.S. market, keeping our customers at the centre of everything we do. I couldn't be more proud of our team. It's their relentless focus on providing legendary, "unexpectedly human" experiences that has earned us this milestone recognition.

- In the J.D. Power survey, TD ranked best among national banks for both store experience and online satisfaction. That's what our omni-channel strategy is all about. At TD, we're delivering for our customers in branches and stores, as well as online and mobile. Customers love our design-centred digital tools and the personalization, convenience and security they offer. In Canada, our banking app consistently ranks #1 for adoption, engagement and customer satisfaction – and in the U.S., our app is ranked in the top 10. We're the largest digital bank in Canada, and our active mobile user base is up 12% from a year ago across our North American footprint – to 5.4 million users in Canada, and 3.4 million users in the U.S.

- Our omni-channel strategy is about giving customers the advice they need to feel more confident about their financial future. That's the promise behind the TD shield – and it's a message that is being heard loud and clear. This quarter, TD was named the #1 brand in Canada, and the 13th most valuable banking brand globally, according to Brand Finance. Our brand promise is a commitment we take seriously – in each of our businesses. I'll turn to them now.

Canadian Retail delivered earnings of $1.8 billion this quarter. We saw strong volume growth, offset by continued normalization of credit provisions, as well as higher expense growth as we continued to invest in our business – including adding nearly 1,500 advisors and customer-facing colleagues across our businesses. By the second half of the year, we expect the rate of expense growth to moderate, given that the dollar level of expenses has now stabilized. We continue to make significant progress winning more customers, helping them "get to yes" faster, and "making it more personal" through our focus on end-to-end journeys and omni-channel platforms.

- In Personal & Commercial banking, our Future Ready branch transformation strategy is equipping our front-line teams with the resources and training to support more advice conversations. And tools like Easy Apply, Homeowners' Journey, and TD Clari are enabling customers to engage with us in their channel of choice. We're seeing the benefits in robust loan and deposit growth, including record RESL originations this quarter.

- We also continue to extend our leadership in the card space. Building on the successful re-alignment of our consumer card line-up over the last two years, we refreshed our suite of business cards this quarter, with features that provide customers with greater flexibility – like more affordable interest rate options, and ways to accelerate accumulation of rewards points. We're also gearing up for the roll-out of our TD Aeroplan cards, when Air Canada unveils its new loyalty program. We look forward to sharing more with you soon.

- Our Wealth Business recorded 7% earnings growth and 40% retail net asset growth, as customers entrusted us with more of their business. For the second year in a row, TD Direct Investing won top spot among Canadian banks in the Globe & Mail's annual ranking of online brokers, with WebBroker recognized for tools that help people understand how their portfolios are performing, and how well they're doing relative to their financial goals. And on the heels of last quarter's multiple wins at the Lipper Awards, TD Asset Management won 8 awards in multiple asset classes at the Fundata FundGrade A+ Awards, demonstrating TDAM's commitment to delivering exceptional long-term investment solutions for clients.

- In our Insurance business, the investments we've made in our claims platform are paying off in top-line revenue growth and stronger share of voice – with gross written premiums up 15%, and TD Insurance having the strongest brand power in Canada, as determined by Millward Brown's latest Brand Dynamics survey.

Turning to the U.S., our U.S. Retail Bank generated earnings of US$717 million this quarter – up 2% from a year ago, as strong volume growth was offset by margin compression as we absorbed last fall's three Fed rate cuts. With the contribution from TD Ameritrade down as expected following the elimination of trading commissions, segment earnings declined 7% to US$869 million.

While U.S. Retail Bank earnings growth was more subdued this quarter, we continue to add new households and grow core accounts. We're driving volume growth through our store network, as well as online and digitally. The digital mortgage offering we launched last fall is seeing increased take-up, and we've added a digital home equity functionality, accessible in desktop and mobile formats.

Overall, across our North American retail businesses, the investments we're making to enhance our capabilities, improve our productivity and transform the bank for the digital age are delivering tangible benefits for our customers today, while positioning us to serve them better in the future.

Our Wholesale Banking segment had a strong quarter, with $281 million in earnings. Revenue was $1 billion on higher trading-related revenue and underwriting fees, as we continue to grow and up-tier banking and corporate lending relationships and take share in related product areas, reflecting investments in our U.S. dollar strategy.

- Our Global Markets business performed very well, with broad-based strength across products and geographies.
    - In the SSA space, a core area of strength for TD Securities, we led the debut sterling benchmark bond issue for the World Bank's International Development Association arm.
    - We also made further progress diversifying our U.S. dollar investment grade DCM business, with several new Corporate origination mandates this quarter – serving as bookrunner on Duke Energy Florida's US$700 million, 10-year green bond and Deutsche Telekom's US$1.25 billion 30-year benchmark transaction.
- Our Corporate and Investment banking business had a solid quarter, with several key wins:
    - Our flagship Canadian franchise was the sole advisor to Dream Global REIT on their C$6.2 billion acquisition by Blackstone, signifying the trust we've earned with key clients in the industry.
    - We acted as co-lead arranger and joint bookrunner on Logistec's $300M 4-year revolving credit facility, enhancing our competitive position in the Montreal market.
    - And we strengthened our North American real estate investment banking franchise with the addition of a team from Kimberlite Group, a strategic real estate advisory and private capital raising firm based in New York – elevating the advisory capabilities we can offer our North American Real Estate client base across TD Securities and our U.S. Retail Bank.

We're off to a good start in fiscal 2020. As we said on our Q4 call, we expect full-year EPS growth to be moderate again this year. But the path there may be bumpy on a year-over-year basis given our 2019 quarterly EPS profile, and as we continue to absorb last fall's Fed rate cuts and the higher level of expenses in our retail segments in the first half of this year. While macroeconomic conditions continue to fluctuate, and emerging risks like the coronavirus are creating uncertainty and market volatility, we will remain focused on our strategy – harnessing the strength of our diversified model to grow our business and fulfill our purpose of enriching the lives of our customers, colleagues and communities.

We've had many opportunities to do that over the last quarter:

- In December, we announced the 10 grant winners of the TD Ready Challenge. They received $1 million each for their work advancing medical innovations across North America and mitigating geographic, financial and other barriers to healthcare.

- And we just wrapped up our 10th annual TD Black History Month Series. This year, we sponsored nearly a hundred events celebrating music, arts and culture across Canada and the U.S. – providing a platform for leaders and artists to share their personal perspectives on the ongoing effort to build more inclusive communities.

- The diversity we celebrate in the communities around us is a reflection of who we are at TD. We were honoured this quarter to be recognized for our unique and inclusive employee culture on several fronts – as one of Canada's top employers for young people by Mediacorp; one of Forbes' Best Employers for Diversity in the U.S.; and a member of the Bloomberg Gender-Equality Index for a fourth consecutive year.

Our people are our greatest asset – and the best ambassadors of the TD brand. I would like to thank all of them for their passion and dedication to making TD The Better Bank every day.

With that, I will turn things over to Riaz.

Riaz Ahmed – TD – Group Head and CFO

Thank you, Bharat. Good afternoon, everyone. Please turn to slide 7.

- This quarter, the Bank reported earnings of $3.0 billion, and EPS of $1.61. Adjusted earnings were just under $3.1 billion, and adjusted EPS was $1.66.
- Revenue increased 6%, reflecting volume growth in the Retail segments and record revenue in Wholesale.
- Provisions for credit losses increased to $919 million, up 3% from the prior quarter on higher Impaired PCL.
- Expenses decreased 7% on a reported basis, reflecting prior year charges related to the agreement with Air Canada. Adjusted expenses increased 5%, reflecting higher spend supporting business initiatives and volume growth and changes in pension costs, partially offset by continued productivity savings.

Please turn to slide 8.

- Canadian Retail net income was $1.8 billion, up 30% year over year reflecting charges related to the Air Canada loyalty agreement a year ago. On an adjusted basis, net income decreased 2%, as revenue growth was offset by higher expenses, credit losses and insurance claims.
- Revenue increased by 4%, primarily reflecting volume growth.
- Average loans grew 4% and deposits increased 7% year over year, reflecting growth in both personal and business volumes. Wealth assets grew 10%.
- Margin was 2.94%, a decrease of 2 bps from the prior quarter, reflecting seasonality and the impact of interest expense relating to lease liabilities recorded upon adoption of the IFRS 16 standard for leases.
- Total PCL decreased 2% quarter over quarter, with decreases in impaired and performing PCL.
- Total PCL as an annualized percentage of credit volume was 36 basis points, down 1 basis point quarter over quarter.
- Expenses decreased 15%, reflecting prior year charges related to the Air Canada agreement. On an adjusted basis, expenses rose 7% reflecting higher spend supporting the business initiatives that Bharat described earlier, volume-driven expenses, and changes in pension costs, partially offset by a reduction in operating expenses resulting from the adoption of IFRS 16.

Please turn to slide 9.

- U.S. Retail net income was US$869 million, down 7% year over year.
- The contribution from TD's investment in TD Ameritrade decreased to US$152 million, primarily reflecting reduced trading commission fee rates and higher operating expenses, partially offset by higher trading volumes.
- U.S. Retail Bank reported earnings were up 2% year-over-year reflecting loan and deposit growth and a lower provision for income taxes, partially offset by lower deposit margins and higher PCL.
- Average loan volumes increased 5% year over year, reflecting growth in the personal and business customer segments. Deposit volumes excluding the TD Ameritrade sweep deposits were up 7%, including 6% growth in core consumer checking accounts.
- Net interest margin was 3.07%, down 11 basis points sequentially, primarily reflecting lower deposit margins and the impact of interest expense relating to the adoption of IFRS 16.
- Total PCL, including only the Bank's contractual portion of credit losses in the strategic cards portfolio, was $243 million, up $20MM from the prior quarter.
- The U.S. Retail net PCL ratio was 59 basis points, up 4 basis points from the last quarter.
- Expenses were flat year over year, primarily reflecting higher employee-related and volume-driven expenses, partially offset by productivity savings and a reduction in operating expense resulting from the adoption of IFRS 16.
- Segment ROE was 11.1%.

Please turn to slide 10.

- Net income for Wholesale was $281 million, an increase of $298 million from the net loss of $17 million recorded in the first quarter last year.
- Revenue was a record $1 billion, reflecting higher trading-related revenue and underwriting fees, much improved from Q1 of last year, when the business experienced challenging market conditions.
- PCL decreased quarter over quarter, as a decline in Performing PCL – reflecting migration from Performing to Impaired – more than offset higher Impaired PCL.
- Expenses were $652 million, reflecting higher variable compensation, securities lending fees, and underwriting costs, consistent with increased revenue.

Please turn to slide 11.

- The Corporate segment reported a net loss of $227 million in the quarter, compared to a net loss of $192 million in the first quarter last year.
- Reported net loss increased primarily due to a lower contribution from other items and non-controlling interests.
- Other items decreased primarily reflecting a $43 million after-tax adjustment relating to hedge accounting which will be earned back over time, partially offset by higher revenue from other treasury and balance sheet management activities recognized in the current quarter.
- Adjusted net loss was $168 million compared with an adjusted net loss of $125 million in the first quarter last year.

Please turn to slide 12.

- Our Common Equity Tier 1 ratio was 11.7% at the end of the first quarter, down 37 basis points from the fourth quarter.
- We had strong organic capital generation this quarter, which added 35 basis points to our capital position. This was more than offset by RWA growth, the impact of IFRS 16 and the revised securitization framework, and the repurchase of 4.2 million common shares in the quarter.
- The 34 basis point decline in CET 1 attributable to RWA growth was primarily a reflection of volume growth, particularly in Wholesale Banking, reflecting strong client activity.
- Our leverage ratio was 4.0% and our liquidity coverage ratio was 137%.
- Effective this quarter, we increased CET 1 capital allocated to the business segments to 10.5% from 10%.

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. Overall, credit quality continued to be good across the Bank's portfolios in the first quarter.

Please turn to slide 13.

- Gross impaired loan formations were $1.69 billion or 24 basis points, up two basis points quarter-over-quarter and down two basis points year-over-year.
- The quarter-over-quarter increase in gross impaired loan formations was primarily driven by:
    - Borrower specific idiosyncratic events in the Wholesale segment

Please, turn to slide 14.

- Gross impaired loans ended the quarter at $3.2 billion or 45 basis points, up two basis points quarter-over-quarter, and down 8 basis points year-over-year.
- The quarter-over-quarter increase in gross impaired loans was primarily reflected in:
    - The Wholesale segment

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 $923 million, or 52 basis points, stable quarter-over-quarter and up two basis points year-over-year.

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- The Bank's Impaired PCL increased $69 million quarter-over-quarter, primarily driven by:
    - The Wholesale segment due to credit migration, and

- The U.S. Credit Card portfolio, largely reflecting seasonal trends,
    - Partially offset by lower provisions in the Canadian Commercial portfolio
- Performing PCL decreased $39 million quarter-over-quarter, largely related to the Wholesale segment, reflecting:
    - Prior quarter provisions, and
    - Current quarter credit migration from performing to impaired,
- Partially offset by higher provisions in the U.S. commercial portfolio
- In summary,
    - Credit quality continued to be good across the Bank's portfolios this quarter, and
    - We remain well positioned for growth in our lending portfolios.

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

QUESTION AND ANSWER

Operator

The first question is from Meny Grauman from Cormark Securities. Please go ahead.

Meny Grauman – Cormark Securities – Analyst

Hi. Good afternoon. Just wanted to ask about the margin outlook, definitely rate expectations are changing quickly. Now, it looks like the market is pricing in three cuts in the U.S., and two in Canada, I'm wondering what the implications of that would be for your outlook on margins in the U.S. and Canada?

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

So Meny, maybe I'll start and maybe turn it over to Teri from there, but in the U.S, obviously you know we're watching this real time, and as of a month ago, there were really no rate cut expectations for the foreseeable future and this is happening real time and we continue to watch along with yourselves.

We've given guidance in Q4 about what the impact of a rate cut means to us. And you know what we've seen for the first three rate cuts that happened in the latter part of 2019, we believe would continue to apply to any future rate cuts in 2020.

And we've generally said those rate cuts for a 25 basis point cut annualized over the course of the year would be worth somewhere around US$90 million on the short end, just on the short end. And you know so far that's what we've seen play out. Teri?

Teri Currie – TD – Group Head, Canadian Personal Banking

From a Canadian perspective, just in general we're expecting a downward pressure on margins. We built into our plan one cut and so that's the starting point, and we would have thought downward pressure, the rate environment, RESL and term competitive pricing and then IFRS 16 would round out the reasons why. Our equivalent of the US$90 million would be C$150 million for a 25 basis point cut at the short end with an immediate effect.

Meny Grauman – Cormark Securities – Analyst

Thanks and then just on capital, you talked about the allocation to businesses from 10% to 10.5%, is that just reflecting the increased buffer or is there something else there?

Riaz Ahmed – TD – Group Head and CFO

Well, it wouldn't be right to just relate it to the increased buffer because obviously that is now sitting at 10.25%, but we just felt that as capital expectations are rising, that it's appropriate to increase the allocation to the business segments, Meny.

Meny Grauman – Cormark Securities – Analyst

And just thinking through it in terms of sort of practical implications, can you just kind of talk to that if there's anything, in terms of a practical implication from that change?

Riaz Ahmed – TD – Group Head and CFO

No, I don't think so. Because as you know, we look at the capital at the top of the house and we've always been carrying this capital and we're simply making an allocation change here, which essentially takes capital from the Corporate segment into the business segment. So I think in terms of our business activity, there wouldn't really be any notable or material changes in how we run the businesses across the segments.

Ebrahim Poonawala – BAML – Analyst

Hi. good afternoon. I guess, Greg, I just had a follow up question on the U.S. margin first. So, when I look at your margin, 3.07% in the first quarter, compared to 3.08% back in 2015 before the Fed started raising rates. Just trying to understand what in the balance sheet mix has changed so drastically, if you are already there when the Fed was at zero. It doesn't sound like you expect any improved margin defensibility for any incremental related cuts. So I would love any color on that.

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

Sure. So you're taking us back a number of years now, five years or so. And as we've talked about, generally, we're always commenting on the impact quarter-to-quarter and what that looks like, or the changes that have been made over the course of a year. When you go back over four or five years as you would know, we've talked about this previously, there were many other inputs than just what the Fed funds rate would be, it would be mix of the business, it's long-term rates, it's tractoring, the general strategies of the business, and that mix of the business. So there's a lot that's gone into that over the last four or five years.

I would generally say that, over the last quarter and over the last year the decline you've seen from the high generally fits with what we've been calling out and it really is playing out on the short end the way we would see it.

And in the last quarter quite frankly our quarter over quarter decline pretty much is in keeping with peers in the U.S. that we would have seen especially if you consider the fact that we had one more month in this quarter versus their reporting cycle ending on December for the last Fed cut.

Riaz Ahmed – TD – Group Head and CFO

Ebrahim, I think it's also worth pointing out that in the quarter over quarter analysis that Greg was talking about the adoption of IFRS 16 would have also put a 4-basis point pressure on margin in the U.S. segment.

Ebrahim Poonawala – BAML – Analyst

Understood, that's helpful. And I may get what you mentioned about the mix but when I look back four years ago your commercial book was 42%, it's about 41% today. So maybe I can follow up offline to better understand the drivers of the mix change.

I guess just moving to Canadian Retail. We noticed a very decent slowdown in the HELOC growth and we've seen a pickup in fixed rate residential mortgage growth. Can you can talk about what's going on there and the implications of that mix shift, should we expect that trend to continue? Is that by design and what does that mean for the incremental margin?

Teri Currie – TD – Group Head, Canadian Personal Banking

Sure. Thanks. If you look at the originations in Q1, the total portfolio had about 4.4% growth on a spot basis year over year, and the FlexLine growth would have been 4.5%, so just slightly higher. I think the other relevant statistic to your question is that more than the growth of the portfolio, so 5.6% year over year was the combination of mortgage and fixed HELOC. What we are seeing is in a lower rate environment, customers taking the decision to lock in rates.

In terms of HELOC overall, that is slightly more than mortgage, and that would still be the fourth place share that we've talked about in terms of hybrid HELOC mortgage, and 96% of that origination is actually to TD Canada Trust customers, and we're still quite comfortable with what we're originating there in terms of how this will play out over time. Every time we meet with a customer, we help them to make the right decision around the right product that meets their needs. And so as the environment shifts, you can see some shifting in the mix.

Sumit Malhotra – Scotia Capital – Analyst

Thanks good afternoon. So I'll start with Ajai please. You were pretty specific with us on the Q4 call in thinking about where the provision ratio would trend in 2020 in and around 50 basis points. I just wanted to get your view with early days obviously but with the impact of the COVID-19 virus is having on some economic growth estimates and perhaps business activity.

Has it changed the way you're thinking about the provision outlook for the bank this year and that may relate to the performing portfolio as well? And is there any change in the traditional pattern of seasonality in and around the credit card and auto portfolios as far as your visibility on that is concerned?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yes. So let me start with COVID. So what I would say is, as you're aware the situation is still playing out. Certainly, from a credit perspective, up to now, we haven't seen any material business impact. We are however continuing to monitor developments and really looking at different scenarios that could play out. So as of now from a credit perspective, there's nothing in our forecast relating to PCL. We have however, been spending time on things like our employees and our customers and certainly, the health and safety and business continuity. Continuity, I think that's been quite important.

So, I'll come back to guidance. So my guidance which was in the neighborhood of 50 basis points subject to seasonality and subject to supportive economic conditions, for now remains unchanged.

And then your third question was about seasonality. So Q1 as you know, tends to be a high seasonal quarter and if you look at the U.S. segment and the Corporate segment on a combined basis, you'll see an increase and that increase is largely because of seasonality. However, I do acknowledge the seasonality wasn't as much as we've seen in the previous years. And the reason for that is we've actually taken some risk reducing actions in those portfolios and this is particularly for U.S. cards. So a bit of that is playing out.

Sumit Malhotra – Scotia Capital – Analyst

Thanks for that. And the second question is for Riaz or Teri and I'm thinking about the expense outlook for the personal and commercial bank. So again, this is another area where we're we usually have seen over the past with TD. There's some seasonality when you start the new year and usually we see a reset in the expense level. You've talked about the spending required for the Aeroplan refresh and some other project activity you have. I just want to ask a question because you did take a small restructuring charge, small in the context of TD as a whole. And I know it didn't impact this segment as a whole, but it does seem like the restructuring conversation has picked up for the sector again. As far as TD is concerned in your view Riaz, are the restructuring initiatives now complete for the bank and is what we see on the expense line going to be more run rate or is there a contemplation that to fund some of the project activity you have in mind you may need to reduce another layer of structural costs?

Riaz Ahmed – TD – Group Head and CFO

There are maybe two or three things I might point out in relation to that question, Sumit. So you'll recall that in Q4 that I had mentioned that at the bank-wide level, expense levels and expense growth had stabilized for four or five quarters in a row and that has continued to play out this quarter so we continue to be very happy with the expense performance in the aggregate and the growth in Q1, reflecting the investments that we need to make.

And secondly on the seasonality point, we as you know, have been working quite hard to remove that from our expense profile and have now gone a fair ways to achieve that. And what you're seeing now is not so much seasonality but more in the timing of when those expenses are incurred.

So for example, in Canadian Personal Bank, Teri had started talking about increasing investments in branch transformation, as well as the kind of investments that you referred to in the middle of last year and you see expenses reflecting back into Q3, Q4 and then Q1 where we're stable again. So that in personal and commercial banking in the second half of the year, you'll see growth rates and expenses moderate a fair bit.

I think as to the matter of restructuring charge, you'll recall that in Q4, I said that our restructuring charge was not particularly related to expense savings or productivity but it was a continuing exercise in optimizing processes and procedures that we've been building as we undertake the various transformation exercises.

And I would say that that's going to continue in the bank as technology changes, the effect of disruption, the investments that we're making in the omni-channel delivery of our products and services to our customers that changes in the environment may from time to time cause us to review how we do business. And it could be that we may see restructuring charges in that order from time to time.

Sumit Malhotra – Scotia Capital – Analyst

Last point though and just to go back to something you said, the way I look at expense growth on an all-bank level year-over-year this quarter was 5%, and that's the same as we had in 2019 again at least the way I look at it.

Is that, in your view, a reasonable level for us to expect in terms of a run rate all-bank expense growth mark for TD?

Riaz Ahmed – TD – Group Head and CFO

I would say that it gives a sufficient envelope to make the investments that we feel that we need to make to continue to build on our leadership positions in the market.

Doug Young – Desjardins Capital Markets – Analyst

Hi. Good morning. Sorry, been a long day. Good afternoon. Just on CET1 ratio, when I look at your slide 12, Riaz, and I look at internal capital generation and risk-weighted asset growth, I mean essentially there was no organic internal capital generation this quarter.

So, I'm just trying to get a sense of was there something abnormal or unusual in the RWA increase that may not continue? Because I look at your growth in your Canadian Retail and U.S. Retail, it didn't feel like it was that. I think you mentioned Wholesale. So, just trying to get a sense of that. And as we look forward TD's ability to generate internal organic capital, has it changed in your view?

Riaz Ahmed – TD – Group Head and CFO

Thank you for that question, Doug. No, I think in this particular quarter, the organic RWA deployment, as you point out, is somewhat elevated. It isn't, in my view and in my expectations, a run rate level of quarterly RWA investment, but from time to time, there are situations where we can take advantage of certain positions. We have our normal client growth, and then we have opportunities to increase investment every now and then. In this particular quarter, we had some very good opportunities to look at certain exposures and adjust them to increase our productivity on capital deployed.

Doug Young – Desjardins Capital Markets – Analyst

Can you elaborate on what those interesting opportunities were? Is this more – is this repo? Is this – I just want to get a little more detail.

Riaz Ahmed – TD – Group Head and CFO

think it's mostly in the Wholesale segment, and I don't think it's going to be particularly productive to point them out other than to say that there were some interesting opportunities for us to deploy some capital.

Doug Young – Desjardins Capital Markets – Analyst

Okay. And then, just capital markets and there's a sizable new gross impaired loan formation. I'm just hoping to get a little bit more detail on what that related to, I think it was mentioned in idiosyncratic related events that occurred in the quarter. Just hoping you can flesh that out a bit.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yeah. It's Ajai. I'll respond to that. So we did have three impairments in capital markets. Two of them were in pipeline oil and gas and one of them was in media. And they're all idiosyncratic events. I don't really see any theme or trend here. And you'll have also noticed that we had already built a part of the provision. So that's the reason why some of the performing provision is moving to impaired.

Doug Young – Desjardins Capital Markets – Analyst

Okay, yes, that was my other question. And then, Ajai, you talked about taking risk reducing actions in the U.S, card portfolio. Can you give a little more detail on that?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

I can. So it's a combination of things. I'd say one is investment in collections. Second is just refining the buy box, a little. So, being more selective with clients. A third good example would be credit line decreases. So, we did a combination of things on that portfolio.

Nigel D'Souza – Veritas Investment Research – Analyst

Thank you. Good afternoon. I just have one quick question for you. If I could turn to the U.S. Retail segment, I noticed that the effective tax rate this quarter for that segment was fairly low at about 4.5%. Could you just provide us some color on what's driving that lower effective tax rate this quarter and how should we think about the run rate for your effective tax rate in U.S. Retail going forward?

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

So, Nigel, thank you for the question. As you would know, we take various estimates on our tax liabilities over several exposures, and we'll regularly update the provision based on new information, resolution of tax matters and changes in regulations. These kind of events would be fairly common quarter to quarter and will move around a little bit. In aggregate this quarter, they tended to all be favorable. And at the same time, they all tended to be more significant of an impact for this quarter than would be typical in a usual quarter.

Nigel D'Souza – Veritas Investment Research – Analyst

And what run rate do you expect going forward for 2020 on the tax rate?

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

I think it would be helpful to look at the normal quarterly run rate over the last year since tax reform. That is probably a good guide.

Gabriel Dechaine – National Bank Financial – Analyst

Good afternoon. A question for Teri. OSFI in a recent speech talked about how they're taking a closer look at the HELOCs and an issue with re-advanceable loans. Can you maybe tell me how you interpret that commentary and what TD, given the size of its HELOC book, exposure there might be and how you see this issue playing up?

Teri Currie – TD – Group Head, Canadian Personal Banking

So thanks for the question. I think we're very comfortable with the way our product is designed in terms of 65% of the loan-to-value portion being able to be re-advanceable and then up to 80% fixed. We obviously as OSFI looks at this issue would participate as we would in any consultation if there was the opportunity to do so. I think if we just step back and look at how we've been originating business in the HELOC book as we've talked about, it's again largely been to TD Canada Trust customers who we know well and who make up 96% of the recent quarter in originations as I mentioned. We are quite comfortable with the quality of the borrowers.

And if we look at the specifics of the product over time, we've seen very little increase in the actual utilization of those HELOCs over time. In fact, slightly down quarter-over-quarter in Q1 of this year and only up very marginally year-over-year. And so, I think you know the onus is on us to ensure that as we're talking to customers we're putting them in the product that makes the most sense for them. And that they understand the product that they've purchased from us and that's how we're spending our time and attention.

Gabriel Dechaine – National Bank Financial – Analyst

So you're not seeing any increased, I guess stubborn levels of indebtedness, so people are actually paying it off rather than as the LTV goes down they're not tapping into it more?

Teri Currie – TD – Group Head, Canadian Personal Banking

So in Q1, 88% of HELOCs and 95% of total RESL would have been paying down the principal, as an example, just to give you a sense of how the book is operating.

Sohrab Movahedi – BMO Capital Markets – Analyst

Thank you. A couple of questions. Maybe one to start off with Bob Dorrance. Bob, the lending book in the Wholesale bank was up about 13% year-over-year. Would the RWAs have been up about the same?

Bob Dorrance – TD – Group Head, Wholesale Banking

No, they would not have been up about the same. The majority of that growth still would be in investment grade lending. And that tends to be revolving credit, to a large amount. So, we did have good growth in RWA, as Riaz commented. Some of that would have been in corporate lending, some of it in markets, and some was in fact – probably two-thirds of our growth was business-driven, and we had another third that was related to a regulatory change.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. And in the past, I think you had said that as far as the segment expenses C$600 million or so quarterly is probably the new norm. That's still valid?

Bob Dorrance – TD – Group Head, Wholesale Banking

That's a good question, Sohrab. We ran at C$600 million most of the year last year. And as you recall, we had a very difficult first quarter last year. So, in a better quarter 12 months later, variable comp was up. Those numbers will have a different rate of growth year-over-year because last year the trend improved.

So I would not expect that there'd be the same magnitude of growth in variable comp on a year-over-year basis. So that should level out. There was an accounting change in how securities lending fees and underwriting costs get recognized. Last year, they would have been a contra revenue; this year, they're in expense.

So between the increase in the variable compensation pool and that item, we would have been roughly flat, but there's some inflation. We're not expecting any growth in FTE this year. We continue to invest in our systems and projects significantly related to just the regulatory change that is still going on. I think you see that in all of the dealers on both sides of the border, though we're trying to maintain that at an appropriate pace – and at the same time, we're also looking at productivity to help fund that part of what we're doing. So, that's a long way of saying it may be slightly higher than C$600 million a quarter. If it is, it would be...

Sohrab Movahedi – BMO Capital Markets – Analyst

Revenue-driven.

Bob Dorrance – TD – Group Head, Wholesale Banking

Growth – yes.

Sohrab Movahedi – BMO Capital Markets – Analyst

If I can just sneak one more in for Ajai. I think in the Canadian Retail risk discussion in the shareholder report, anyway, you call out credit migration in auto portfolios. Can you comment a little bit about exactly what that is and if that's going to have any bearing around future growth prospects for the portfolio?

Ajai Bambawale – TD – Chief Risk Officer

Yes. What's occurring is really that business is growing, so some of the credit migration is also linked to higher volumes. And then there are mix changes occurring as well. So, there's more prime non-sub vented in that portfolio. It's a combination of volumes and mix changes that are driving that. I remain quite satisfied with the book and the underwriting standards in that business.

Sohrab Movahedi – BMO Capital Markets – Analyst

And so, Teri, you're okay to continue to originate I guess with whatever risk standards there are? You can maintain the growth rate?

Teri Currie – TD – Group Head, Canadian Personal Banking

The business is continuing to drive good growth in that business. I feel quite comfortable with the relationships that we've built and the business that we've done.

Darko Mihelic – RBC Capital Markets – Analyst

Hi. Thank you. My question is for Teri and it's just rather straightforward. I think we had some discussion around elevated spend. I just wondered if you can maybe provide us a little more color on when you expect the revenue benefits from these initiatives and how quickly it ramps up?

Teri Currie – TD – Group Head, Canadian Personal Banking

Sure. Thank you for the question. So maybe I can take a step back. I'd start with saying I feel like we're quite well positioned with the investments we have been making and continue to make in the business, not only for all of our customers' omni-channel needs. And I think Bharat mentioned some of the investments, Air Canada and Future Ready, in particular, and as did Riaz, and then the shape sort of implications on the expense side, as you've noted, the Q2 to Q3 step-up and then a relatively stable pattern following and expected going forward.

The PCL piece also is something that we haven't talked about but if you look at kind of through 2019 we kind of got to a C$400 million PCL level in the business and that is from a year over year perspective for this quarter and next quarter. So that will be something that'll be a year over year headwind. And then on the revenue side, there was some softness this quarter and I would say a couple things played into that.

One thing is, as we went through the transformation and continue to transform under our Future Ready strategy, that was a very significant and continues to be part of the transformation of our business to elevate it by increased customer and colleague confidence and meet more customer needs.

And in late 2018, we brought all branch managers from across the country together for the very first time. We did not do that post the TD Canada Trust integration and we kicked off this very significant change. And the change was to roles and responsibilities in the branch, it was to the performance ecosystem. It was to invest more in client-facing advisors. And Bharat mentioned across Canadian Retail, we have almost 1,500 additional FTE in Q1 of this year versus last year. And primarily, that growth in P&C is around the Future Ready strategy.

We've invested in tools and training. We've added new roles, a senior financial advisor to continue to grow the capabilities and enable career progression for our very best advisors. We've added more district leaders so that our leaders have and continue to train and provide tools to them so they can coach and support our people better.

In combination, it is a quite significant change and not surprisingly when we were in the early part of last year as our colleagues were absorbing that change, we did have a bit of softness in branch sales which then takes a little bit of time to actually play itself out in revenue so the jump-off coming into this year was a little bit impacted.

I give you that background because I would say we ended the year with really good momentum in branch banking. Across all of our channels, but in branch banking in particular. And to sort of give you some sense of Q1, it was already mentioned the record real estate secured lending originations up 22% year-over-year.

Our credit card accounts sales were up, active accounts are up 21% year-over-year. We have rolled out a multi-holding account capability and a better conversation tool for our in-branch advisors to use with their customers and we're seeing significant year-over-year growth in the number of Canadians who are choosing to have an RSP or a TFSA with us for the first time. And we're also continuing to see the investments we're making in the cards business more broadly play out and we'll continue to see that hopefully. We saw an appreciable increase in Air Canada Aeroplan cards in 2019 and we obviously have the program coming at the end of this year.

So simply from a branch banking perspective, I feel confident that the momentum that's been building will serve us well going forward. And then you add to that the very consistent real estate secured lending volume growth, the very strong core deposit growth in both the Business bank and the Personal bank at 6%. And I would say our number one digital banking capabilities as Bharat mentioned. Bharat also mentioned the growth in Canada, we have a leadership position at 7.65 million digital active users, 71% of those are mobile active users and the digitally active are up 6%.

And in Q1 versus last year over 6% of financial transactions have come out of branch banking. We've seen that increase in customers making financial transactions using our digital capabilities, that Bharat mentioned have the highest engagement in Canada and high ratings.

And so I feel like with the investment in branches supporting investments in the phone channel that have helped our service levels and those number one digital capabilities, and the proof points that we're seeing that we're well positioned for revenue growth going forward.

Darko Mihelic – RBC Capital Markets – Analyst

And is it fair to say then that this momentum is kicking in now, so I should be seeing it as early as next quarter?

Teri Currie – TD – Group Head, Canadian Personal Banking

I think these things do take time to season. But I think you'll see this in the financial results in the later part of the year. We do expect barring any macro events, positive operating leverage for the second half of the fiscal year and continued mid-single digit volume growth in loans and deposits.

Operator

Thank you. This concludes the question period. I will now like to return the meeting back over to Mr. Bharat Masrani. Please proceed, sir.

Bharat Masrani – TD – Group President and CEO

Thank you, operator, and thank you all for joining us this afternoon. Just to reiterate, I am very pleased with the performance, particularly given the significant headwinds that we had outlined in Q4 for this coming year. Not to repeat everything that got said on the call, with the reduced earnings of TD Ameritrade to the tune of US$300 million for this year, I should add that the run rate will be recaptured once the Schwab deal is closed and we start seeing some of the synergies flow through.

Then of course Greg talked about the three rate cuts in the United States that happened in our fiscal Q4. Given our sensitivity to rates particularly in our U.S. business, it's not surprising that that's a headwind for us.

And then of course, we have and will continue to invest in Canadian Retail. That is a core part of what we want to do and we are starting to see great results out of it. So overall, given the fundamental performance with volumes and what we are seeing on customer metrics, we are very happy with how the bank is performing.

So once again, thank you for joining us and I would like to take this opportunity to thank our close to 90,000 colleagues around the world for continuing to deliver for all of our stakeholders including our shareholders. Thank you and see in you in 90 days.