TD BANK GROUP
Q4 2020 EARNINGS CONFERENCE CALL
DECEMBER 3, 2020

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FORWARD-LOOKING INFORMATION

From time to time, the Bank (as defined in this document) makes written and/or oral forward-looking statements, including in this document, in other filings with Canadian regulators or the United States (U.S.) Securities and Exchange Commission (SEC), and in other communications. In addition, representatives of the Bank may make forward-looking statements orally to analysts, investors, the media and others. All such statements are made pursuant to the "safe harbour" provisions of, and are intended to be forward-looking statements under, applicable Canadian and U.S. securities legislation, including the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements made in this document, statements made in the Bank's Management's Discussion and Analysis ("2020 MD&A") in the Bank's 2020 Annual Report under the headings "Economic Summary and Outlook" and "The Bank's Response to COVID-19", for the Canadian Retail, U.S. Retail, and Wholesale Banking segments under headings "Key Priorities for 2021", and for the Corporate segment, "Focus for 2021", and in other statements regarding the Bank's objectives and priorities for 2021 and beyond and strategies to achieve them, the regulatory environment in which the Bank operates, the Bank's anticipated financial performance, and the potential economic, financial and other impacts of the Coronavirus Disease 2019 (COVID-19). Forward-looking statements are typically identified by words such as "will", "would", "should", "believe", "expect", "anticipate", "intend", "estimate", "plan", "goal", "target", "may", and "could".

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Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2020 MD&A under the headings "Economic Summary and Outlook", and "The Bank's Response to COVID-19" for the Canadian Retail, U.S. Retail, and Wholesale Banking segments, "Key Priorities for 2021", and for the Corporate segment, "Focus for 2021", 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

Gabriel Dechaine
National Bank Financial

Ebrahim Poonawala
BofA Securities – Analyst

Scott Chan
Canaccord Genuity – Analyst

Mike Rizvanovic
Credit Suisse Securities – Analyst

Nigel D'Souza
Veritas Investment Research – Analyst

Lemar Persaud
Cormark Securities - Analyst

Sohrab Movahedi
BMO Capital Markets – Analyst

Meny Grauman
Scotia Capital – Analyst

PRESENTATION

Gillian Manning – TD – Head of Investor Relations

Thank you operator. Good afternoon and welcome to TD Bank Group's third 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 third quarter operating results. Ajai Bambawale, Chief Risk Officer, will then offer comments on credit quality, after which we will invite questions from prequalified analysts and investors on the phone. Also present today to answer your questions are:

- Teri Currie, Group Head, Canadian Personal Banking;
- Greg Braca, President and CEO, TD Bank America's Most Convenient Bank; and
- Bob Dorrance, Group Head, Wholesale Banking.

Please turn to slide 2.

At this time, I would like to caution our listeners that this presentation contains forward-looking statements, that there are risks that actual results could differ materially from what is discussed and that certain material factors or assumptions 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 2020 MD&A and fourth quarter 2020 earnings news release.

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.

2020 has been a year without parallel. Whoever you are, wherever you live – each one of us has felt the impact of COVID-19 in our personal and professional lives.

Once again, we extend our heartfelt thanks and gratitude to the tens of thousands of healthcare workers, first responders, and others on the front lines – including TD Bankers – still working tirelessly to provide essential services throughout this crisis.

COVID has also been a transformative experience for TD. It has showcased our greatest strengths, as we came together in force to support our customers, colleagues and communities. And it has tested our resilience, as the pandemic and the recession it unleashed had a profound impact on our financial performance and operations.

This year, we delivered earnings of $10 billion and EPS of $5.36, both down 20% from last year – a good result given the extraordinary circumstances, and helped by a strong finish in Q4. Our personal and commercial banking businesses showed the expected pressures from a downturn that affected households and businesses so deeply. But our Wealth, Insurance and Wholesale businesses had their best years ever – with record revenue and earnings. Our balance sheet also ended the year in robust form, with a CET 1 ratio of 13.1% and a liquidity coverage ratio of 145%.

These results demonstrate the strength of our proven business model and customer-centric strategy. I couldn't be more proud of how we showed up for our customers – how thousands of TD Bankers adapted and pushed forward, providing advice, delivering bank relief programs, and facilitating access to the government support that has been a lifeline for so many. And in turn, our customers trusted us to help them meet their financial needs.

This fall, we conducted our annual colleague survey and logged the highest engagement scores in our history. I've often said that our people are our greatest asset. Colleagues across TD remain committed to the Bank and our purpose. This year, we have provided additional financial support to recognize their contributions, including a special bonus for non-executive employees. We've also redeployed several thousand TD bankers across the organization – meeting urgent needs in our business, and opening up new career paths for our people.

And because we're only as strong as our communities, we launched the TD Community Resilience Initiative – part of the TD Ready Commitment – to bring the Bank's resources and capabilities to those communities most affected by the pandemic.

Amidst this year's unprecedented disruption – and the enormous work effort it has required – I'm especially proud of the climate action plan we launched last month, including our target to achieve net-zero greenhouse gas emissions in our operations and financing activities by 2050. We all recognize the urgent need for businesses of all sizes, and in every industry, to find new paths to sustainable growth. TD is positioned to play a central role in this effort, building on our long history of environmental leadership. Clients, shareholders and other stakeholders have responded very positively to our announcement – and we look forward to working with them on our shared journey to a lower carbon future.

We also took steps this year to reinforce a cornerstone of our culture: an inclusive workplace where all can thrive. We continued to increase the number of women in leadership roles; made new commitments to grow minority executive representation; and launched Bank-and community-wide efforts to tackle the impacts of anti-black racism.

It is a hallmark of our purpose-driven, forward-focused strategy that we have continued our work to build more sustainable, inclusive futures, even as we transformed our day-to-day operations to meet the COVID challenge. Like all great crises in history, COVID will not last forever. As stewards of this 165-year-old growth organization, it is our responsibility to manage for today – and plan and build for tomorrow.

We have been, and are continuing to, build our operations for the digital age, increasing our agility and customer-centricity. We continue to scale our ability to execute with speed and impact for customers, helping strengthen and deepen relationships with the 26 million customers we have today – and the new customers we are adding every day.

We're also continuing to improve our platforms and technology infrastructures. These investments were critical in enabling our rapid response to COVID – equipping 60,000 colleagues, including many contact centre employees, to continue supporting our customers while working remotely; absorbing surging mobile sales and service volumes; and introducing new digital advice and support capabilities overnight. We are accelerating these investments to further improve the stability, security and agility of our operations and enhance our enterprise capabilities to better to serve our customers.

Alongside these enterprise-wide innovations, we continued to create new sources of value in each of our businesses:

In Canadian Retail:

- We grew market share in personal deposits, maintained our leadership position in payments and continued to differentiate our offering with the launch of TD Global Transfer this quarter, a best-in-class money movement capability.

- We achieved record RESL originations, and built on our leadership in Cards, announcing our refreshed suite of TD Aeroplan credit cards, and crossing the 100,000-customer mark with our Amazon MBNA Co-Brand card.
- And we continued to support millions of customers through the CEBA and CERB programs, as well as through our TD Ready Advice Centre.
- Our Wealth business had a banner year, with record earnings, assets and trading volumes. We added more than 120 new investment advisors, private bankers and financial planners in our Advice businesses; launched new sustainability funds and ETFs in TD Asset Management; and built on our leading Direct Investing capabilities with the introduction of TD GoalAssist, our new mobile self-directed investing app.
- And our Insurance business had record earnings while delivering substantial COVID-related relief for customers. Our new General Insurance platform and enhanced digital self-service and advice capabilities drove a second consecutive year of double-digit premium growth.

In U.S. Retail:

- We continue to build the next generation of customer-service and advice excellence with #BeLegendary, helping our people get closer to our customers and meet their changing needs. And we've complemented this with enhanced digital capabilities, including a new customer financial assessment tool, as well as a capability to order replacement debit cards for curbside pickup.
- We ranked #1 in SBA Lending in our Maine-to-Florida footprint for a fourth consecutive year, and we were the #6 PPP lender nationwide, funding approximately 86,000 loans worth over US$8 billion for small business customers – the bedrock of our community banking strategy.
- And we were delighted to support the TD Ameritrade / Schwab transaction, which closed this quarter – bookending our fiscal year with this transformative deal. TD is now the largest shareholder in a pre-eminent U.S. wealth services firm with US$6 trillion in client assets.

Our Wholesale Bank earned a record $1.4 billion in 2020, reflecting a strong year for our Canadian franchise and the multi-year investments we've made in U.S. dollar origination across corporate, government and pension clients, as well as growing product capabilities in our Global Markets business.

- With the diversified, global product base we've built over the last several years, we were able to actively participate in constructive market conditions and continue to grow and deepen client relationships.
- We were also proud to launch our Sustainable Finance and Corporate Transitions Group, through which we will continue providing clients with advisory services and transition and sustainability-focused financing globally, aligned with the Bank's climate action plan.
- We recently exceeded the US$100 billion mark for international bond underwriting, which includes all bonds that are registered to be sold internationally during the year. This is a significant milestone for the dealer. It represents a more than doubling of volume and a 60 per cent increase in market share over the last five years.
- And just last month, TD Securities was a lead manager on the European Union's second social bond financing of the SURE programme. At EUR 14 billion, this offering was the second largest social bond ever issued in the debt capital markets, representing a historic milestone for our entire global franchise.

Overall, fiscal 2020 was a year of unprecedented challenge, during which we rallied together to deliver on our highest purpose – enriching the lives of our customers, colleagues and communities – while making foundational investments to power our next leg of growth.

Last quarter, I said a measure of cautious optimism was warranted. That continues to be true today. While a second wave of infections has forced some jurisdictions to pause on re-opening measures, each day brings more promising news about potential vaccines. And we can see the impact in improving customer confidence and activity levels.

The outlook remains uncertain. The pandemic could bring new setbacks, and we expect the recovery in earnings to be uneven. But we emerge from fiscal 2020 with momentum in our businesses. As we move through 2021, we expect to benefit from lower PCL, as well as an ongoing recovery in customer activity. Together with continued expense discipline, this should help offset some further deposit margin pressure and a potential moderation in volumes and capital markets activity. Overall, we feel positive about the power of our franchise. As the economy recovers, we're confident that our strong customer base and the continued investments we've made in our businesses position us well to execute on our growth opportunities.

As ever, we will stay true to our long-term strategy and continue to focus on our strengths: a diversified business mix, a deep customer base, a powerful brand – and the very best people. I'll finish by thanking them again for their steadfast commitment and dedication in this most extraordinary year.

With that, I'll turn it over to Riaz to review the numbers in more detail.

Riaz Ahmed – TD – Group Head and CFO

Thank you, Bharat. Good afternoon everyone. Please turn to slide 8.

- For fiscal year 2020, the Bank reported earnings of $11.9 billion and EPS of $6.43, up 2% and 3% respectively. Reported earnings and EPS include a $2.3 billion net after-tax gain on the sale of the Bank's investment in TD Ameritrade, as well as prior year charges related to the Air Canada agreement.
  - The $2.3 billion gain is comprised of:
    - A non-taxable revaluation gain of $1.95 billion based on Schwab's October 5 closing share price of US$36.94; and
    - A $0.3 billion gain on the release of a related deferred tax liability
  - We also released foreign currency translation and hedging impacts related to our investment from AOCI, which netted to a loss of approximately $550 million on a pre-tax basis and neutral on an after-tax basis.
- Fiscal 2020 adjusted earnings were $10 billion and adjusted EPS was $5.36, both down 20%.
- Revenue increased 6%, including the pre-tax net gain on the sale of TD Ameritrade. Adjusted revenue increased 3%, reflecting record Wealth, Insurance and Wholesale revenue and volume growth in the personal and commercial banking businesses, partially offset by margin compression and lower fee income in the banking businesses.
- Provisions for credit losses were $7.2 billion for the year, up $4.2 billion, primarily attributable to higher Performing PCL, due to the significant deterioration in the economic outlook relating to COVID.
- Expenses decreased 2% year-over-year, primarily reflecting charges related to the agreement with Air Canada a year ago. Adjusted expenses increased 1%.

Please turn to slide 9.

- For the fourth quarter, the Bank reported earnings of $5.1 billion, and EPS of $2.80. Reported earnings and EPS include the TD Ameritrade net gain. Adjusted earnings were $3.0 billion and adjusted EPS was $1.60.
- Revenue increased 15%, including the pre-tax net gain on the sale of TD Ameritrade. Adjusted revenue increased 1%.

- Provisions for credit losses decreased 58% quarter-over-quarter to $917 million, reflecting declines in impaired and performing PCL.
- Expenses increased 3% year-over-year, including Corporate real estate optimization costs of $163 million and investments supporting business growth.

Please turn to slide 10.

- Canadian Retail net income was $1.8 billion, up 3% year over year.
- Revenue decreased 2% from lower deposit margins and lower fees in the banking businesses, offset partially by volume growth and higher wealth and insurance revenue.
- Average loans rose 3% reflecting growth in personal and business volumes. Average deposits rose 20%, reflecting double-digit growth across all businesses. Wealth assets increased 2%, reflecting new asset growth and market appreciation.
- Margin was 2.71%, an increase of 3 bps from the prior quarter.
- Total PCL decreased by 74% quarter over quarter, reflecting lower Impaired and Performing PCL.
- Total PCL as an annualized percentage of credit volume was 0.22%, down 64 basis points quarter over quarter.
- Expenses were up 2% reflecting higher spend supporting business growth.

Please turn to slide 11.

- U.S. Retail segment net income was US$658 million.
- U.S. Retail Bank net income was US$403 million, down US$278 million.
- Revenue decreased by 8%, reflecting lower deposit margins and fees, partially offset by volume growth.
- Average loan volumes increased 7% year over year, reflecting growth in personal and business volumes, with significant increases in SBA PPP loans. Deposit volumes excluding sweep deposits were up 26%, including 30% growth in core consumer checking. Sweep deposits were up 35%.
- Net interest margin was 2.27%, down 23 basis points sequentially, primarily reflecting lower deposit margins and balance sheet mix.
- Total PCL, including only the Bank's contractual portion of credit losses in the strategic cards portfolio, was US$433 million, down 34% from the prior quarter.
- The U.S. Retail net PCL ratio was 1.01%, down 50 basis points from last quarter.
- Expenses decreased 1%.
- The contribution from TD's investment in TD Ameritrade was US$255 million, up 16% primarily reflecting higher trading volumes and lower operating expenses, partially offset by reduced trading commissions and lower asset-based revenue.
- As you know, we report our share of TD Ameritrade's earnings with a one-month lag. We will be following the same convention for Schwab, and we will begin reporting our share of Schwab's earnings on this basis in Q1 of fiscal 2021.

Please turn to slide 12.

- Wholesale net income was $486 million, an increase of $326 million.

- Revenue was $1.3 billion, up 48% primarily reflecting higher trading-related revenue, higher loan fees and higher debt underwriting fees.
- PCL decreased by $129 million from the prior quarter on a recovery in impaired PCL and lower performing PCL.
- Expenses were $581 million, down 3%.

Please turn to slide 13.

- The Corporate segment reported net income of $2 billion in the quarter, compared with a net loss of $240 million in the fourth quarter last year. The increase was primarily attributable to the net gain on the sale of our investment in TD Ameritrade.
- Adjusted net loss was $213 million compared with an adjusted net loss of $178 million in the fourth quarter last year, reflecting an increase in net corporate expenses, partially offset by a higher contributions from treasury activities.
- The increase in net corporate expenses reflects the impact of corporate real estate optimization costs of $163 million in the current quarter, compared with restructuring charges of $51 million in the same quarter last year. This quarter, we made the decision to vacate approximately 1.2 million square feet – or 11% – of our non-retail space, related to real estate optimization plans that pre-date COVID.

Please turn to slide 14.

- Common Equity Tier 1 ratio ended the quarter at 13.1%, up 62 basis points from Q3.
- We had strong organic capital generation this quarter, which added 30 basis points to our capital position. We also added 6 basis points each from actuarial gains on employee benefit plans and OSFI's transitional arrangements for expected credit loss provisioning.
- As previously communicated, the Schwab transaction had a roughly neutral impact on CET 1 capital.
- RWA declined this quarter before the impact of the Schwab transaction on lower Credit and Market Risk RWA. RWA was flat quarter over quarter including the impact of the Schwab transaction.
- We have set out the details of Schwab's impact on CET 1 capital and RWA on slide 37.
- Leverage ratio was 4.5% this quarter, and LCR ratio was 145%, both well above regulatory minimums.
- As a reminder, OSFI's transitional adjustment to CET1 capital for ECL provisioning is currently subject to a 70% scalar factor, which declines to 50% in Q1 of fiscal 2021. We expect the impact on our CET 1 ratio to be approximately 10 bps in Q1/21.

I will now turn the call over to Ajai.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Thank you, Riaz and good afternoon everyone. Please turn to slide 15.

- Gross impaired loan formations decreased 8 basis points quarter-over-quarter, primarily reflecting:

    - The ongoing impact of bank and government assistance programs on the consumer lending portfolios, and
    - Lower formations in the U.S. Commercial lending portfolios.

Please turn to slide 16.

- Gross impaired loans were $3.2 billion or 42 basis points, decreasing 9 basis points quarter-over-quarter, primarily related to,
    - Resolutions outpacing formations in the:
        - Canadian and U.S. consumer,
        - U.S. Commercial, and
        - Wholesale lending portfolios
    - Wholesale resolutions were largely in the Oil & Gas sector.

Please turn to slide 17.

- 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 PCLs in the quarter were $921 million, or 49 basis points, decreasing $1.3B, or 68 basis points quarter-over-quarter, and down 2 basis points year-over-year.
- For 2020, the Bank's full year PCL rate was 100 basis points, up 55 basis points from 2019, due to:
    - The impact of COVID-19, and
        - Deterioration in the economic outlook, including the impact of credit migration.

Please turn to slide 18.

- The Bank's Impaired PCL decreased $469 million quarter-over-quarter, largely reflecting:
    - The ongoing impact of bank and government assistance programs in the consumer lending portfolios, and
    - Prior period impaired provisions in the Wholesale segment.
- Performing PCL decreased $799 million quarter-over-quarter, due to:
    - A smaller increase to the allowance for credit losses this quarter
- Current quarter performing provisions were primarily recorded in the U.S. Commercial lending portfolios, across
    - A number of industries, including Commercial Real Estate.

Please turn to slide 19.

- The Allowance for Credit Losses increased $157 million or 2 basis points quarter-over-quarter, to 126 basis points, driven by:
    - The Business & Government portfolios, reflecting:
        - An increase in the U.S. Commercial performing allowance,
        - Partially offset by a lower Wholesale segment impaired allowance largely related to resolutions in the Oil & Gas sector
- I remain satisfied with the Bank’s allowance coverage, which reflects:
    - Our current economic outlook, and
    - Our portfolio and geographic mix.

Please turn to slide 20.

- Loan balances under bank-led deferral programs decreased $41 billion from the third quarter, as most deferrals have now expired.
- In terms of deferral related credit impact:
  - The significant majority of clients that have graduated from deferral programs are current with their payments, and
  - Graduated deferral delinquency rates are elevated relative to our broader portfolios, but remain within expectations.
- We will continue to monitor our portfolios closely to assess the ongoing impact as customers return to regular payments.

Now, let me briefly summarize the year.

- We continue to operate through challenging conditions given the unprecedented impact from the COVID-19 pandemic.
- Bank-led and government assistance programs have had the desired effect of helping our customers, however,
  - The shape of the recovery, and
  - The magnitude and timing of the ultimate credit impact remain uncertain.
- While I expect PCLs to be lower in 2021, reflective of our significant performing allowance build this year,
  - Given the degree of ongoing uncertainty, they may remain elevated from pre- COVID-19 levels and could vary by quarter.
- To conclude, given:
  - The significant addition to our allowance this year,
  - Our strong capital position, and
  - Our broad diversification across products and geographies,
- We remain well positioned to manage through these difficult times.

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

QUESTION AND ANSWER

Operator

Thank you. We will now take questions from the telephone lines. [Operator Instructions] And the first question is from Gabriel Dechaine from National Bank Financial. Please go ahead.

Gabriel Dechaine – National Bank Financial – Analyst

Bonjour. First question for Bharat or Riaz, dividend increases and buybacks are frozen until OSFI says otherwise. I just want to clear up the possible confusion around M&A. Is that more of a case-by-case deployment option, as in you could potentially do something?

Bharat Masrani – TD – Group President and CEO

Well, Gabe, nice to hear your voice. It's been a while since we got together. Hopefully, we do get an opportunity given all the good news that all of us have been seeing on TV.

On M&A, and I've always said this for the past few years, we look at our capital deployment outlook, as how we think about capital, how we deploy capital. And we've been consistent that we are interested in acquisitions that are compelling and make sense for us. As long as they make strategic sense, financial sense, risk sense, culture sense, we are very open to acquisitions and there have been specific areas we pointed out that are of particular interest, parts of the United States where we do have organic opportunities, but we think through acquisitions, we could accelerate those opportunities. If there's any asset generating type of opportunities available, we'd be quite interested. And obviously, anything in Canada would be of great interest. Our view on this has been consistent and that has not changed here.

I think if you look at what's going on through the pandemic, what appears to have changed, and probably will change, is the number of opportunities may go up as we look at how the environment evolves here. And a lot of banks or financial services companies in general are facing dislocations. I'm sure there are lots of boards out there looking at their strategic sort of opportunities one way or the other. And that may throw off more deals in the picture. And then, our view is that we do have very good capabilities in our bank. There are areas that would be of particular interest.

We are good acquirers. We can work well. We integrate well. We create great franchises at the other end of it. And our history has been through major downturns and dislocations. If there had been opportunities, TD has taken those opportunities and they've turned out to be pretty good for us. So that's a long answer to say that nothing has changed. And we like the flexibility that we have given our balance sheet, given our brand, given the type of scale we already have in various markets in which we operate.

Ebrahim Poonawala – BofA Securities – Analyst

Good afternoon. I just wanted to follow up on credit, around PCLs. One, Ajai, if you could talk about the performing PCL. I heard you mention commercial real estate driving the PCLs in the US this quarter. Just tell us around, is this more of a function of portfolio review or are there any factors from a macro standpoint that led to this performing PCL build in the US this quarter?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Thank you for the question. So, let me just elaborate. One I would say is macro was not a driver of our allowance build this quarter. In fact, if you go and look at the macro variables, you'll see there's some deterioration in the nearer quarters, in both Canada and US, unemployment GDP and also Canadian housing. If you go to the later quarters, you're actually going to see an improvement. We didn't change any of our weighting. And a downside, like I said last quarter remains a "W". So bottom line, it was not macro.

As you're aware, we look at our portfolios on an ongoing basis and we repeat that every quarter. And so, we did migrate parts of our book in the US and commercial real estate is part of that, but it isn't only confined to commercial real estate. It was a few other industries including other professional sundry manufacturing. So, there were a few industries. But the performance allowance build is based on credit migration. Hope that's helpful.

Meny Grauman – Scotiabank – Analyst

Hi, good afternoon. We see excess cash balances very high, [on] both sides of the border [with] both consumers and businesses, in the deposit data. I'm wondering what the implications are for credit as you think ahead. And also for loan growth, does this unwind? How long does it take? What's your view of how this will impact both credit and loan growth?

Bharat Masrani – TD – Group President and CEO

It might – Ajai, why don't you cover the credit side and then perhaps Teri and Greg can talk about what they're seeing from their clients?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

I will, Bharat. So, I'd actually take you back to my comment last quarter where I had indicated that my view was that we're really going to see impairments start in the second half of the year. Part of the reason was we're sitting on all these cash balances. So, till the stimulus ends and we start seeing the cash balances come down, we're not going to see the impairment. And that's the other reason why even in our prepared remarks, we said PCL will vary quarter by quarter. We could see a situation where PCLs remain low for a couple of quarters, and then start rising. So, at least for the near term, these cash balances, I would call them a credit positive.

Bharat Masrani – TD – Group President and CEO

Great, Ajai. Maybe, Teri, we can start with you, talk about loan growth in Canada.

Teri Currie – TD – Group Head, Canadian Personal Banking

For sure. Thanks, Bharat. So just to follow on to what Ajai has said, our business loans actually held up pretty well this quarter. But where we did see lower utilization, part of that would have been due to the subsidies for sure and then that was offset by some good growth in real estate construction, multi-unit residential and agriculture.

On the personal side, certainly in the unsecured lending space, we would have seen less utilization as a result of the money in play, the cash that is there to be activated. From a deposit growth perspective, obviously, we benefited, and we're focused very heavily on ensuring that we help our customers put that money to good use over time, investing it for their future aspirations, and we're quite focused on that.

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

Meny, it's Greg. I would just add that we are seeing pretty decent loan growth given the state of the economy and what we've been through for the last few quarters. In the consumer side of the loan book, it's really kind of a tale of a couple of stories. You've got very, very strong growth in the mortgage business, as you'd imagine right now, not only because of new home purchases because of low rates but because of another refinance boom going on. But you're also seeing a drag in credit card and outstanding balances and spend and far more muted growth, pretty flattish growth in the auto business from what we would generally be seeing pre-COVID.

In the commercial space, as you know, business loans are up 10%. Now some of that is driven by the PPP small business program for smaller businesses. But really throughout the second, third, and even into the fourth, although it's come down somewhat, you've seen good activity on the commercial side, folks' businesses looking to raise liquidity and make sure in some cases that they have excess liquidity on their balance sheets or taking advantage of opportunities.

On the deposit side, the story is quite strong and you're rightfully to point it out, we would have thought deposits would have started to more normalize after Q3. But just from a year-over-year standpoint, deposits excluding sweeps are up 26% year-over-year in the US, just very, very strong growth. 35% up in the commercial businesses. So, businesses, small medium and large companies are putting liquidity on their balance sheets. They are making sure they're either prepared for opportunities or making sure they're prepared to downsides, depending on the industries that they're in.

On the consumer side, consumer checking balances are still quite strong. And I do think this lends to some of Ajai's comments about why we're still seeing delinquency rates quite muted. Deposit BDA balances in our consumer space is up 30% still year-over-year. And quarter-over-quarter, Meny, we're still up quite a bit, another +US$7.5 billion even from Q3 to Q4 across consumer and commercial. So, quite a strong story still.

Scott Chan – Canaccord Genuity – Analyst

Good afternoon. I got a two-part question on US retail. After fiscal Q2 kind of in terms of profitability, you showed nice momentum over the past two quarters. How do you see that trajectory kind of near-term in terms of potential improved profitability going forward? And maybe tying it into the credit side, which is the obvious delta and your experience on your deferral programs and how important is further fiscal stimulus near-term on that outlook?

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

Scott, thanks for the question. Yeah. We too are pretty pleased, notwithstanding the large drop in earnings obviously because of the onset of the pandemic in Q2, strong recovery in Q3 and that continued right through Q4. While certainly not back to pre-COVID levels, we are quite pleased with that trajectory. I would just add that we're going have to see how this goes. And we're quite happy with customer activity.

As we've heard a few times, delinquency rates continue to remain quite muted. We are pleased to see that liquidity is still very much at a surplus in both consumer and commercial checking accounts. I do think that bodes well. We are seeing a recovery in fees and credit card and debit activity. That bodes well for the overall economy. And you're seeing that play out in the unemployment rates in the US as well as various indicators across the commercial segments. But I do think it's still early to say how the next couple of quarters, at least the next quarter or two [will play out] until the vaccine is fully rolled out.

There's going to be some bumps in the road over the next couple of months that we want to be mindful of. But what we're seeing real time from our customers is that they're in a reasonable position. I think a stimulus is an important discussion point to have that bridge until the vaccine is more fully out there. And that there's some conclusion around that both on the consumer side as well as any relief for impacted industries on the commercial space. So, as we think about the earnings trajectory, it's obviously something we're going to be watching. We're going to be managing through. So far, our customers are holding up quite well. And I think the next 90 to 120 days will be instructive around stimulus and how we get to the other side of that vaccine, Scott.

Sohrab Movahedi – BMO Capital Markets – Analyst

Thank you. Greg, I actually wanted to pick up from where you left off and be a bit of a nervous Nellie and see where do you see concerns around fee pressures maybe? So, you talked about credit card and debit card recovery in fees, but are you worried about fee compression outside of margins anywhere?

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

Well, we're bankers, right. So, I guess we get paid to worry and we spend quite a bit of time talking about downside scenarios as you know. And I think we're doing all that we can, all of our employees across TD Bank Group to make sure we're as prepared as we can be. And that includes how do we serve our customers as we're hearing about more lockdowns and spikes in infection rates especially in the US over the last several weeks.

So, we continue to watch all of these things closely both for our employees as well as for our customers. I do think the biggest thing to watch for will be do we get to another stimulus package that does bridge the vaccine, especially if we get more shutdowns, particularly around affected industries. Restaurants, travel and leisure industries and things like that have been hit particularly hard. So, we continue to watch that.

But overall, I would say is that the attitude and the mood seems to be that folks are beginning to think about what the other side of that pandemic is and the expectation that the vaccine whether it's in two months or whether it's in four or five months does begin to get rolled out and we do begin to get back to normal. So, it is quite instructive and positive I think that folks are thinking about brighter times and more of a recovery mindset and how are we going to act and invest and grow our businesses effectively on the other side of that. I do think that's quite positive.

Mike Rizvanovic – Credit Suisse Securities – Analyst

Hi. Good afternoon. A question for Greg, I just wanted to see if you can maybe break out the margin decline sequentially, just in some of the components? It's a pretty sizable move and it's a bit confusing to understand where this is headed because we've seen such significant differences among the peers on US exposure.

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

Sure, Mike. So, let me just take a step back. If we take a look at this, obviously, we all know that in the US bank, we're a deposit rich organization. We also know that we have had excess liquidity and we haven't had to rely on wholesale funding or wholesale deposits to fund loan growth, which has certainly been a positive thing from how we think about the bank in the US. The other positive side to this is regardless of whether rates are up or down, we believe good core fundamental deposit growth is actually a strength of the organization, notwithstanding where rates are.

So when I put all of those things together, as you'd imagine, it's the reason why I was so specific by calling out some of the growth rates of the deposit business, 30% all-in, 26% without Ameritrade deposits even factored in. But I always call out the quality of those deposits that we think is awfully strong with consumer DDA up 30% in and of itself. So this is again that quality story I've been talking about for the last several quarters of that growth, we think does bode well long term.

As far as the margin goes, when you have deposits as you know really outweighing the growth of the loan book, especially in this environment, we wouldn't expect too many banks to be growing loan books in the double digits, let alone growing at 25% or 30% to absorb this excess liquidity. You're going to have a decline in margins and we're going to get hit particularly harder than what you might see as the headline number around that.

But underneath that number, too, though, I would just mention is that other organizations are going to have the ability to pay down wholesale deposits which would offset some of the impact on margin, as well as perhaps removing some of the wholesale deposits they would have raised. Since we don't have that, that margin compression would hit us a little bit harder. But overall, the deposit story, especially if it's good quality DDA growth from consumer and commercial, we think is a good story long term.

Nigel D'Souza – Veritas Investment Research – Analyst

Thank you. Good afternoon. I wanted to touch on your wholesale banking segment. And you had a pretty strong net interest income for this quarter as well. In fact, it's up quarter-over-quarter. And I was wondering if that's at all tied to repo market transactions. And the reason why I ask is, when I look at your balance sheet, interest bearing deposits with banks has increased substantially over the last few quarters. So, am I thinking of that correctly as a driver?

Bob Dorrance – TD – Group Head, Wholesale Banking and Chairman, CEO and President, TD Securities

Yes we have, Nigel, had a good repo or an active repo business this year in the latter couple of quarters and that has been of help to the NII.

Nigel D'Souza – Veritas Investment Research – Analyst

So, any commentary then on how you expect that to play out over the next few quarters? Is that going to wind down with lower deposit balances?

Bob Dorrance – TD – Group Head, Wholesale Banking and Chairman, CEO and President, TD Securities

Yeah. Our view is that that will be one of the headwinds that the business will face in fiscal 2021.

Nigel D'Souza – Veritas Investment Research – Analyst

Okay. I appreciate the color. Thank you.

Lemar Persaud – Cormark Securities – Analyst

Thanks. My question is for Ajai. You had mentioned that PCLs could remain elevated from pre-COVID levels. Can you help us pin down a range that we should be thinking of for total PCLs for 2021?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Sure. Let me give you my view. We're not giving any guidance this year. So, I don't think I'm going to be able to give you a range. However, let me just talk about the uncertainty, and it's because of the uncertainty we are unable to give you a range. There are several factors at play. Some of them are positive; some of them are negative.

And, for example, the level and timing of impairment is uncertain. But I have talked a bit about that. I expect it to be more in the second half or at least start in the second half. And then the shape of the recovery can be influenced by a number of things, including the second wave, stimulus timing in the United States, and the quantum of the stimulus, and the availability, distribution, and public acceptance of the vaccine.

So from my perspective, the range of outcomes is quite broad. What you should take some comfort from is we have built significant allowances this year, okay, and we're going well positioned into next year, and we believe the numbers will be lower for PCL. But I can't give you any specific range.

Gabriel Dechaine – National Bank Financial – Analyst

Hi. Just a follow-up on the US margin there and, Greg, you kind of alluded to it, the excess liquidity, I guess. We're seeing that in the loans to deposits. It was running 60-percent-ish pre-COVID. Now it's at 50%. I'm just wondering do you think we've hit a bottom or that ratio is going to be in the steady state there, 50% loan-to-deposit ratio? And then you kind of got to grow back into a higher number before we start to see margins recover, barring a rate increase or something like that?

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

Gabriel, thanks. Thanks for the question again. Yeah, so I would just say that these things are awfully going to be hard to predict, right? So, I would have thought that we would have been getting a bit compressed in the deposit growth after Q3, but they continued to fund quite strongly into Q4 as I've already noted.

I think part of the story going forward is, is there another stimulus package? Is there another round? And that might affect or spike to deposits even further. But I do think as you start getting back to a more normal state or if there isn't another round of stimulus that's meaningful, I do think both small businesses and consumers will begin to eat into their deposit reserves. And I think they're going to be doing it for a number of reasons whether they're affected from financial performance or they're going to be thinking about where there are opportunities to begin to reinvest excess liquidity. So, I think we're going to have to watch it over the next couple of quarters before we begin to get back to a steady state, Gabriel.

Ebrahim Poonawala – BofA Securities – Analyst

Yeah. Thanks for taking the question again. Just wanted to follow up on your response earlier regarding US M&A and particularly, specifically of how you've talked for a long time about liking the southeast market and Florida, in particular. Having said that, there aren't too many retail franchises that really kind of deliver that standalone. Just talk to us, when you think about the US retail market, given some of the digitization, given what you've learned from COVID, how do you think about TD franchise? Is it still best to think about it as an East Coast, Maine to Florida franchise and that's what you want to do? Or does the crisis and the shift in the rate backdrop, et cetera, that you talked about the challenges for the banks create an opportunity to make this a more national franchise?

Bharat Masrani – TD – Group President and CEO

Ebrahim, a great question. Listen, there was a – during normal times, pre-pandemic, the opportunities were not that many and who knows what happens post-pandemic or through the current period. And our desire is that the markets we are in are terrific markets, they are high-growth markets. We are I think in the top states from a growth opportunity perspective, so very happy with where we are. But would we look at opportunities outside our franchise? I think that I've been around long enough to say never say never. If there is a compelling opportunity, of course, you would want it, as one of our bank analysts and representing a lot of our investors, to look at any opportunity that made strategic and financial and risk and cultural sense.

So, I don't want to say that we'll never look at it because there are certain businesses we have that are national in scale. If you look at our credit card business, particularly, the partnership business, that's national in scale. Our TD Auto Finance business is national in scale. Some of our specialty lending does go outside of our footprint. Of course, the TD Securities business is quite national from a US perspective. So we do have experience in dealing with more broader businesses in the US. And we'll see how this plays out. And I think the great thing for TD is that we are not compelled to do because we don't consider ourselves to be subscale. We've got a fantastic position, great brand, a customer proposition that is second to none. And therefore, we can look back and see what makes sense for us. And so that's a luxury we have with, I mentioned earlier, the capabilities, the capital levels. These are all great advantages to have in a very uncertain market environment.

Sohrab Movahedi – BMO Capital Markets – Analyst

Thanks. Wanted to try that one again, maybe ask a little bit more specifically. Banking service fees, securities brokerage commissions, those are two of your larger fee items that would be rich in bottom line contribution. Can I please get an outlook commentary on those for both Canada and the US?

Bharat Masrani – TD – Group President and CEO

Yeah. So, listen, the market continues to evolve. Different products play different roles in different markets. Our belief is that we go where our customers go. We're a customer-centric bank. The business mix, we have we are very happy with it. We have scale businesses on both sides of the border which I think is important. We're a full-service provider. It is not just one product or a mono line. We are a full-service provider again on both sides of the border. So that's the type of franchise we are building. I think I mentioned in my remarks, we've got 26 million customers that we serve on the retail side. And plus, if you add Bob's business and Paul Douglas' business and in Greg's business, there's lots of other types of customers that we serve.

I think we have great advantages here. Through the pandemic, there were times when being a deposit-heavy bank, it seemed like, wow, this was one circumstance where things might not look as advantageous for us. But again, when we look back, we have the checking relationship. This is where the core relationship starts with our customers from which we can build. Ours is a franchise that is enduring through different times. And, Sohrab, my view is – can't talk specific on what might make sense in the future. But we got a fantastic foundation here. And we'll see how this plays out over the next little while.

Meny Grauman – Scotiabank – Analyst

Hi, again. Just on buybacks. Given your capital ratio, is there a case to be made for allowing buybacks now? Do you feel that that would be a valid argument that you could make to whoever would listen, the regulator, I guess? Is that something that makes sense?

Bharat Masrani – TD – Group President and CEO

I think this is – OSFI and other regulators have spoken on this. And I can fully understand from a regulatory perspective, it was not too long ago when the world went through the global financial crisis. And I'm sure those memories are fresh in regulators and many other stakeholders mind. I think it's a prudent thing to do until this crisis is behind us. And I'm sure this question is better asked of our regulators.

Operator

Thank you. There are no more questions in the queue at this time. I would now like to turn the meeting back over to Mr. Bharat Masrani for closing remarks.

Bharat Masrani – TD – Group President and CEO

Thank you, operator, and thank you all for participating today. We really appreciate the good, engaging conversation. And once again, your bank has delivered for all of our stakeholders and I could not be more proud of our 90,000 TD bankers around the world who have not only managed through this difficult crisis but have been there for our customers, for each other and for the communities in which we live in and work.

So once again, folks, thanks for joining. In case we don't get a chance to connect, happy holidays to all of you and stay safe. Thank you.