

TD BANK GROUP
RBC CAPITAL MARKETS CANADIAN BANK CEO CONFERENCE
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PARTICIPANTS

Bharat Masrani

TD Bank Group – Group President and CEO

Darko Mihelic

RBC Capital Markets – Analyst

PRESENTATION

Darko Mihelic – RBC Capital Markets – Analyst

And welcome back. We are now joined by Bharat Masrani from TD. He's been the CEO of TD since 2014.

And before we begin, I've been asked to tell you that Bharat's comments today may include forward-looking statements. Actual results could differ materially from forecasts, projections or conclusions in these statements. Listeners can find additional details in the public filings of TD Bank Group.

With that, welcome Bharat to the conference this year, good morning.

Bharat Masrani – TD – Group President and CEO

Good morning, Darko. Nice to see you virtually. It feels like it's the same type of meeting you had last year, but good to see you.

Darko Mihelic – RBC Capital Markets – Analyst

Good to see you too. And I wish it was in person, but here we are virtually.

So maybe I'll start with the questions in a similar order that I've asked the last couple of CEOs – which is on credit quality.

Often the questions I get from investors is: 'Why did TD not provide sort of guidance for 2021 around PCLs, what stopped you from doing that?' And, was there any color that you could provide as the CEO to investors today in terms of what we should be expecting from PCL over and above what you guys discussed on the fourth quarter conference call?

Bharat Masrani – TD – Group President and CEO

First, I'd say I feel good that we've built up strong reserves in 2020. Our allowances went up by about \$4.4 billion, which I think is appropriate given the uncertainty in the economy. So, overall, having stronger reserves I think is a good thing. Our tradition at the bank has always been to be conservative, and that has not changed through this crisis.

I think going forward, on the one hand, where we were 90 days ago versus where we are today, we're in a much better position. Vaccines were in people's dreams then and now vaccines are here. The science has caught up and vaccines that appear to work quite well and they are being rolled out. And as usual, with the rollout of this magnitude, there is lots of uncertainty and things are not going as well as people might have liked. But overall, the fact that we have vaccines and they're being put in people's arms is a good thing.

On the other hand, as you would expect, wintertime, et cetera, that things are pretty bad. We are talking of lockdowns in the markets we are in, although in the US, we see less of that, but in Canada, there is more talk of lockdowns. So, I think over the short term, things are going to be not as good as one might have hoped.

But overall, I think we are probably slowly getting more positive as the year goes by, because of the vaccine. Overall, I would expect PCLs to be not as high as we had in 2020, although given all the uncertainties it is hard to predict. There'll be a lot of choppiness quarter-over-quarter and I expect that they will remain elevated compared to the pre-pandemic levels until we have more certainty and more sort of signals that we are back to more normal times.

Darko Mihelic – RBC Capital Markets – Analyst

And you mentioned the build-up of the \$4.4 billion of allowances throughout 2020. Maybe you can talk a little bit to how you expect those allowances to progress throughout 2021. Do you think they will lumpy or do you think they'll be more of a general flow of releases of Stage 2 reserves throughout 2021 and if you had to guess, do you think more of it happens this year or next year in 2022?

Bharat Masrani – TD – Group President and CEO

I think it's probably premature to talk about releases when we are still in the midst of the crisis. I think a lot will depend on how the health crisis progresses.

Ajai Bambawale, our Chief Risk Officer, mentioned in the Q4 call that his view is that the first half will likely, from a credit perspective – On the one hand, you have the lousy circumstances, on the other hand, the government programs will continue to provide support, and you'll probably see some issues in the latter half of 2021 or perhaps even into 2022. So, I think our models are still biased towards the negative and I expect that to be the case until there is more clarity around what the timeline might be of a comeback.

Having said that, I think with the level of government support out there, with the level of savings you see in the economy, you see that bank balance sheets, the level of deposits, I think there's a huge amount of demand that will be unleashed once we get people out there and the economy is opening up widely. So those are the positives. But in the meantime, we have to get there and it's hard to predict exactly when that's going to happen.

And I think it's probably, Darko, it's good to have the level of reserves we have, and I hope we will never have to use them. But they've been built should the circumstances turn out to be worse than what people might think and that's how we've been running TD for many, many years and it will continue to be the case.

Darko Mihelic – RBC Capital Markets – Analyst

And so then maybe that's a good segue into the recovery because you mentioned it's clearly more back-half oriented. And maybe just a general question first, I mean are you actually bullish on the recovery? And do you see bit of a difference between the US and Canada? I get that question a lot for your bank because of your large US presence. And so maybe you can just touch on your initial views on the recovery. Are you bullish relative to consensus or are you a little bit more, let's say, cautious on the recovery?

Bharat Masrani – TD – Group President and CEO

I think a lot will depend on how quickly we get the vaccines rolled out and how quickly we can open up the economy. And that's – one cannot say with certainty. But like I mentioned earlier, the fact that we have vaccines, the fact that they've been rolled out, yes, there are bumps in the road, but hopefully all those can be sorted out. The fact that in the next two or three months, the expectation is that these vaccines are going to be more widespread and – I heard a new phrase recently something called a vaccine glut that might be upon us in the next two or three months as more vaccines are approved.

Well, if you believe all that, then obviously there's going to be a recovery here in the second half with the economy opening up. And once it opens up, like I mentioned earlier, with all the savings that are lying in

bank deposits in Canada, our Deputy Prime Minister has already said she plans to have a further stimulus geared towards job growth, et cetera, in the US, similar, with the political winds that have now shifted, there's a likelihood to be higher stimulus. All that, on a more macro perspective bodes well for the economy.

But exactly when the pivot happens, it's hard to predict. But overall, I feel good that we are probably better off today in saying there is going to be a steady improvement here than we were 90 days ago because at that point nobody knew whether there is going to be an effective treatment or a vaccine. Today, we have that.

It's hard to say exactly when. I think between the US and Canada, our view is that the numbers that are relatively similar. But the US should see more because they're opening up more quickly. In Canada, as you probably all of us know, living – many of us live in Toronto, that there is more talk of further lockdowns, further restrictions, and of course that will have a short-term impact on the economy. So, I'd see probably the US coming back faster because of the lockdowns that were not as severe in the second wave as we've seen in Canada. But I think a lot will depend, Darko, on springtime and summertime, and the hope and expectation is that this vaccine will be really widely available. And if that is the case, I think you see a better second half.

Darko Mihelic – RBC Capital Markets – Analyst

And with that as a backdrop, we can maybe talk a little bit more specifically about your views on balance sheet growth, loan growth. And one of the things that became very apparent last year was there was a lot of compression in your net interest margin, I think 26 basis points in the US and I think the peer average was 13 basis points. So maybe you can provide a little bit of an outlook on the loan growth that you're expecting, and then will it be enough to overcome any further NIM compression and actually give us net interest income growth in 2021 and specifically now gearing towards the US?

Bharat Masrani – TD – Group President and CEO

When you look at our balance sheet, we are a deposit-heavy bank. And so we're going to have more impact when rates dropped the way it did. It's probably appropriate to assume that what has happened on rate sensitive deposits or what we call, the ones that we do no tractor, that effect has already been felt because the rates are dropped so dramatically. I think we'll probably see further compression as our tractors are repriced at these low levels during the year. But that's how I look at it from a rate perspective.

I think from a loan growth perspective, I think through this period, it was great to see we were there for our customers right through the depth of the crisis, we were able to provide the support that they needed. I think the government programs – we participated in all of them and had good discussions with governments as they were being rolled out – in the US the PPP [Paycheck Protection Program], we have more than \$8 billion in PPP loans and those are on balance sheets. We saw that at work. In Canada, the CEBA loans are not on balance sheets, so you don't see that being played out in loan growth as much. But overall, I feel good about loan growth.

And I would point out that notwithstanding the compression you talk on the NIM side, more than 70% of that has been offset by volume growth – loans, having more customers, having more activity with those customers. Our business model continues to adapt to this environment of low rates.

And there is talk now with all the stimulus and all the demand that's out there that there might be a demand-led pressure on perhaps inflation. So, we'll see what happens on rates as well. So overall, I'd say as the economy starts to repair itself and starts to see some form of growth here, we should see good activity, good loan growth, because there is pent up demand. A lot of businesses have, as you would expect, have not been taking on debt because they are worried about the economic environment. So if there is more certainty, you should see more activity and that should help given the size and scale of our business on both sides of the border.

Darko Mihelic – RBC Capital Markets – Analyst

And do you think that 2021 can see something similar, in terms of the 70% of the NIM compression being offset by volume growth or do you think that this 2021 maybe a bit more challenging just because it's off to a real tough start?

Bharat Masrani – TD – Group President and CEO

I mean it's hard to project or predict perfectly, but one hallmark of TD has been that we adapt to the environment we find ourselves in, rather than hoping, praying and wishing that we go back to the good old days. I think it was through the financial crisis, through a very low rate environment, we were able to adapt to that world and make sure that our business model continues to be compelling. And I would expect the same thing to continue going forward. I expect TD to adapt to this environment and we've done it before and there's no reason why we should not be able to do that again.

Darko Mihelic – RBC Capital Markets – Analyst

And with respect to your business model, I mean one of the things that sets TD apart is very heavy consumer focus in Canada. You've got a strong large credit card business; you launched your travel rewards card in the middle of a pandemic. So maybe you can talk a little bit about your outlook on credit cards and in both cases too, I mean we'd love to also hear your take on how things will play out with the Target in the Nordstrom cards in the US? Are you seeing any evidence of a change in behavior yet from consumers or do you really think this is a back-half sort of pickup in balances in 2021?

Bharat Masrani – TD – Group President and CEO

I think, first, let's talk about Canada. Our business, as you rightly point out, is biased toward the high end, the travel sector, which is very popular among Canadians and our deal with Air Canada is a terrific deal and the program has been relaunched now. Obviously, through the pandemic when the whole tourism sector or travel was shut down, that resulted in a real slowdown on credit cards.

The flip side is that about three or four years ago, Darko, I think we have talked about it, we relaunched our credit card portfolio. We had made sure that for every need out there that we had an offering and part of that was a cash-back card as well. We've seen very good take up on the cash-back card through the pandemic. But without a doubt, we've had an impact on our credit card business because of the humongous amount of pressure on the travel sector. As another highlight, we launched the Amazon card through our MBNA platform and that has done remarkably well in Canada.

I see once we get to the new normal where there is more travel, more activity, more restaurant going, et cetera, which hopefully happens towards the second half of 2021, I see that that category coming back and that should really help us with the new Aeroplan launch which is a terrific program. I'm very excited about it. So, yes, it has had some moments, but I see a comeback in Canada as the economy starts to open up and we get into some form of normalcy here.

In the US, if you look at Target, we're seeing continued spend on that because Target is geared towards essential requirements for our customers. On the Nordstrom side, which is more discretionary, we've seen more pressure. And on our bank card, which is the TD branded card in the US, which again like Canada, is more biased towards travel, we've seen some pressure. But overall, yes, it's been a grind, but I see a gradual comeback on the credit card side.

I know you didn't pose this question, but on the flip side, we've seen strength in our auto finance business. As you know, we are large in that asset class on both sides of the border, and we've seen very good strength in that. In fact, at times, we've seen record numbers, on both sides, with respect to auto financing.

Darko Mihelic – RBC Capital Markets – Analyst

And do you expect the auto finance business to continue? Is it still pushing strong already into the early part of the year, or do you think that this is – there is only more upside towards the back half of 2021?

Bharat Masrani – TD – Group President and CEO

It continues to be strong. I think what this pandemic has shown us is that people are more comfortable driving rather than taking transit or other forms of transportation. And that has helped the auto finance business tremendously. If you look at originations, if you look at the number of units that are sold on both sides of the boarder, we're looking at some big numbers here.

Given our size and scale, that has been very positive from a growth perspective. And we like the business we are putting on, we like the credit quality, the profile of our customers, et cetera.

And to go back to the credit card side, I think over the long-term, to have the position that we do in the travel category is terrific, we wouldn't want to trade that away because that's where the high end cards are, that's where the relationships are and we are so glad with our positioning in that sector with Air Canada.

Darko Mihelic – RBC Capital Markets – Analyst

And so why don't we just finish off the discussion on loan growth with business and government. In the US, it was rather high in 2020 relative to peers. Do you expect momentum in 2021 or do you think that commercial could be, notwithstanding the PPP, outside of that, do you think the strength can continue and what are your thoughts on industry-leading growth in the US on the commercial side?

Bharat Masrani – TD – Group President and CEO

Yeah. The markets we are in, as the economy starts to open up, I see organic growth opportunities. As you know, we've been building this for a few years in partnership between TD Securities and TD Bank, America's Most Convenient Bank®. As how do we go after those clients that have commercial banking needs on an ongoing basis, but also require more wholesale capabilities and that business I think will continue to show strength as the economy opens up.

I think your point on the PPP side of it – that has been a big sort of tailwind for us, with about more than \$8 billion of outstandings there. Through this latest stimulus, there is a further extension of that program, so we'll see how that works out. The details are still not out. And so we're not seeing much by way of outstandings yet. But there are also forgiveness criteria that is now being announced and about to be announced so that will impact on what the existing balances are. How much of that gets forgiven and all that. So, lots of moving parts. But in the US, I think it's safe to assume there is pent-up demand. There is pent-up demand for investment. The economy comes back. As we have seen in the US, the system restructures in real time. It's very painful for certain companies, individuals, but it comes back much quicker and I expect that to continue. And given where we are on the Eastern Seaboard, I'd expect us to benefit from that.

In Canada, we've seen a lot of them – and I know you're asking me about commercial but the other asset class I should have talked about, is the growth in our mortgage business, so on both sides of the border.

In the US, a lot of the refinance activities – we've experienced record originations through our stores and through our mortgage loan officers. In Canada, likewise, we've seen record numbers coming out of our mortgage book. So overall loan growth, if you take all these asset classes and aggregate them, it's been pretty strong, and I expect that to continue given where we are in this recovery.

Darko Mihelic – RBC Capital Markets – Analyst

One of the questions I frequently get for TD is that, there's a change in administration, and that there could potentially be more higher taxes, there could potentially be an impact on overdraft fees. And of course, there is some difficulty out there with the commercial real estate sector. So maybe you can touch on these three things in the US for us if you might, Bharat, in any particular order is fine.

Bharat Masrani – TD – Group President and CEO

Well, we've been in the US many years now, Darko. And, like I said, one of the hallmarks of TD is we adapt to the environment we find ourselves in.

We continued to deliver for all our stakeholders, including our shareholders, when tax rates were higher than what they are today. So we'll see how that plays out.

I think given the political climate in the US, it's hard to predict exactly what's going to happen. But I feel that given our business model, the way we operate, the way it's a growth-oriented brand in the US and delivers more customers every day than when we started in the morning. So, I feel pretty good that regardless of which administration is in office that we'll adapt to the environment and we will continue to deliver. That's what we have done through various administrations before. I don't expect that to change with the new Biden Administration that will start on January 20th.

Darko Mihelic – RBC Capital Markets – Analyst

And any comments on the commercial real estate sector? I mean, there's difficulties – it's a sector that we think that you have a large exposure to. So maybe you can touch on the commercial real estate side?

Bharat Masrani – TD – Group President and CEO

Yeah. Without a doubt, there will be some pressure on commercial real estate. There is talk about work from home, how much of that is going to stick, how much is not going to stick. Lots of debate as to the need going forward.

As we have said, one of the impacted industries here when we were building out our reserves has been commercial real estate. We've been cautious in ensuring that as we look at that sector and our exposures, that are we adequately reserved and we feel that we are. For us, our concentrations, particularly in the US are in major metropolitan areas. We are largely in, what I would call A-rated type of commercial real estate. And hopefully, all those factors turnout to be positive for the sector. But then as has been written quite extensively, there's going to be bumps in the road for commercial real estate given the slow recovery phase, and how extensive work from home becomes, and frankly until there is confidence for people to start using public transit and things become more business as usual.

The flip side, if you talk to real estate clients, and I do many times through these few months of surviving in this environment. There's also a view that with social distancing requirements that might be here for many months or years, that the need will be different, that people will find a need to be in the office. Pre-this pandemic, TD and all the institutions talked about the importance of teams coming together to co-create and provide agility and provide new platforms and new offerings in the digital age. And I don't think everything is going to stop. There'll be some new balance that will emerge. And as we get to that world, there is going to be some stresses for certain types of players. But overall, over the long term, at least from a TD perspective, my expectation would be that the exposures we have are manageable. And we are well-reserved, should the situation turnout to be a lot different than what we are expecting.

Darko Mihelic – RBC Capital Markets – Analyst

So maybe just switching gears to capital, your Common Equity Tier 1 ratio of 13.1%. Let's even think about 12.6%, as the fully loaded measure. It's very high and probably generating capital as we speak, and there's restrictions in place.

So, a few things that I've been asked to ask you. Most investors are very interested in understanding. What can you do to improve the ROE? Are you ROE or EPS growth oriented? And maybe provide a little bit of an overview on your view on deployment of capital in an inorganic fashion once restrictions are lifted.

Bharat Masrani – TD – Group President and CEO

Your first question, the EPS and ROE, what are we oriented towards? And the answer would be both. Now, when rates are where they are, there's going to be pressure on our returns. But having said that, we're generating 14% or so of ROE. If rates go up by 100 basis points, our ROE would go up by 100 basis points or slightly higher than 100 basis points. So, I think the math there is pretty compelling as to what you should expect from us. We are also a 165-year old growth company and I don't expect us to change that through this crisis. TD delivers consistency in how we think about this. And I don't expect us to radically change our strategy.

Our strategy makes sense. Our strategy is anchored towards a proven business model, and we've shown that. We're purpose driven, which has been hugely positive for us. And we are forward focused. Investments we made prior to this pandemic have turned out to be terrific. We've been able to manage through this with downturn readiness, et cetera. I feel great as to how we are managing the bank from a strategic perspective, but how we implement against that strategy needs to change given what you've seen in that pandemic. The type of investments we make, the priorities we set, et cetera. There isn't a magic formula between EPS growth and ROE. I think, we're delivering both for our shareholders. And we are delivering it with a business model that's been compelling over many, many years and that's not going to change.

I think on M&A – firstly, let's start with the capital levels. Traditionally, TD, and I have been very clear on this. From a capital perspective, you should expect TD to be conservative and that's what we do. And I was once the Chief Risk Officer, and I think it's always a good thing for the bank to have stronger capital levels. It provides better protection, better strength and allows for organic growth, it allows for investments when the need is there, and it allows us to play an important role in the economy. All those things matter.

M&A, again, we have been very consistent. TD, if you look at our history, we are good and disciplined acquirers. Frankly, when there has been a major downturn that has resulted in dislocations, TD has taken advantage of it. We could not have acquired Canada Trust. We could not have acquired Commerce Bank in the US or many other examples, if it wasn't for us taking advantage of the dislocations that take place in major economies when major events take place. You should expect us that should there be a compelling opportunity, you would want us to look at it. And compelling would be defined as to make financial sense, strategic sense, risk sense and culture sense. We're not saying, just because we have strong capital, let's go buy something. It has to make sense to us. And that's what we've always been able to show.

Darko, if something makes sense, I've said this for a few years now. Yes, if there are inorganic ways to accelerate our growth in the US, would we look at it? Yes, we would. But it has to make sense as I just talked about. And in the interim, we have been acquiring. We bought Greystone. We bought Layer 6. We bought Scottrade through TD Ameritrade. We did the deal with Schwab, a major M&A transaction. We've been busy but doing the right things. And all these deals, I mean, I could not be more thrilled as to how we have turned out for the bank. And going forward, should there be an opportunity – and I expect something will show up given the level of dislocations that have taken place, but that does not necessarily mean that we'll do the deal. We'll only do a deal that makes sense for TD.

Darko Mihelic – RBC Capital Markets – Analyst

Thank you for that. That's actually a very good segue way into the questions that are coming in online. The number one voted question is what are the strategic benefits of holding the Schwab stake long term? And what factors would compel you to exit your stake?

Bharat Masrani – TD – Group President and CEO

So, we are thrilled with our position. I mean, Schwab, what a player in the market. Over \$6 trillion in client assets, just a prolific business model, great brand and does a terrific business in the United States. It is the largest by far. And TD is the single largest shareholder in it. I'm very happy with how this has turned out. We are in discussions now on expanding our strategic relationship. And I think there are good opportunities for both companies. This is a core investment for us. That's how we thought about it when we did the deal. As you know, we have a long-term deposit agreement with Schwab, which will continue. You should view this as a terrific investment and a terrific position for the bank and a strategic investment for the bank. And through this phase actually, our investment has turned out to be very good for TD.

Darko Mihelic – RBC Capital Markets – Analyst

And can maybe – can you maybe quantify that? Because the next question ties in and it makes sense is a lot of investors are thinking about how much capital you have tied in to Schwab? And do you view the return on the Schwab investment as a good return for your shareholders? And that's the question that's come in and makes a lot of sense to me. And maybe I'd add a corollary to that. In the past when you had Ameritrade, we used to have to think about the deposit, not just equity accounted earnings, but also what you would get from the deposit agreement. But the deposit agreement now is separate. So I suppose when we think about the answer to this question is as the CEO, how much capital do you have in Schwab? And is the ROE or the return on it a good source of return? How do you measure it? And maybe you can talk to that?

Bharat Masrani – TD – Group President and CEO

Well, there's a return in the strategic advantage of having it and what are strategic benefits for TD, and frankly, for Schwab. So, you have to look at it from a holistic perspective. And you got the return on earnings and you got the deposit arrangements and whatever other strategic arrangements that we are working on. So – and it allows us – we offer some of the legacy TD Ameritrade offerings to our Canadian clients, which are continuing under the Schwab arrangement. The overall benefit here is compelling for us. And I'm quite happy with the returns and the investment with – the day the deal closed as to what the stock price was at Schwab versus what it is today. I think our shareholders should be pretty happy.

Darko Mihelic – RBC Capital Markets – Analyst

And is that the primary measure that you use as just the value of the stake? Or is there another primary measure there that you would use?

Bharat Masrani – TD – Group President and CEO

Well, listen, you would have asked me if the value had gone down, so I think you should also ask me when the value goes up. At closing [Schwab] was worth \$36 or \$37 per share, and now it's worth \$58 or \$59. And if it had gone the other way, as to what happened, you would have asked, Bharat, how does this make sense? We should look at it from both sides. But I think fundamentally, the point is that we have a large holding in a premier, prolific wealth player in the US, an investment company in the US. We are the

single largest shareholder of that company, where there's strategic advantage for both companies. And that's the way to look at it. And the returns are fine. You have the earnings, the pickup and you also have the deposit arrangements and you also have other relationships that – some of them already in place and others, I'm sure will be put in place in the future.

Darko Mihelic – RBC Capital Markets – Analyst

Okay, great. So with that, we've come to the point of the discussion where I hand over the floor to you for some final closing remarks and maybe you can share with us the key messages that you'd like shareholders and investors to take away from today's conversation.

Bharat Masrani – TD – Group President and CEO

Darko, great to see you and thank you for having me. I'd say, I could not be more proud of 90,000 TD bankers around the world as to how they managed to operate the bank and frankly, deliver for all of our stakeholders including our shareholders through this pandemic.

Our strategy is anchored around three specific pillars, a proven business model and I think we've shown that through this crisis that we have a proven business model and we can deliver financial performance. We are a purpose-driven company, which has been hugely important to us through this phase, and that will continue to be the case. We have our customer centricity. We have a unique and inclusive culture. And we are community oriented and that has been very positive. And we are forward focused. And when I look back, the investments we made over the past five or six years, it's turned out to be all good, as to how we manage through this crisis. So that's what you should expect from TD. You should expect that we are consistent in our approach. We have a strategy that made sense for us and frankly, has delivered.

And going forward, as we get more into a recovery our business model will be even more compelling because it is centered around having more customers and more clients in the bank. And I feel great about it. And I appreciate investors that are on the call, we appreciate your confidence in the bank and look forward to engaging in a one-on-one at the appropriate time. And Darko, it would be good to see you in person. You're looking great in a suit there. I should have worn a tie here, just to be consistent with you, but it's good to see you and you're looking well.

Darko Mihelic – RBC Capital Markets – Analyst

Thank you very much, Bharat. Always a pleasure chatting. And I do look forward to hopefully meeting you and doing this in person next year. Thanks very much for participating today. And with that, we will close this session. Thank you.

Bharat Masrani – TD – Group President and CEO

Thank you.