TD BANK GROUP
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PARTICIPANTS

Bharat Masrani
TD Bank Group – Group President and CEO

Darko Mihelic
RBC Capital Markets – Analyst

FIRESIDE CHAT

Darko Mihelic – RBC Capital Markets – Analyst

Thank you, and welcome back everyone to our session with TD Bank. We have Bharat Masrani, the CEO of TD here to have a discussion. But 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 out of the way, welcome Bharat to the conference. Thank you for joining us this morning.

Bharat Masrani – TD – Group President and CEO

Nice to be here, Darko. Good to see you looking well and looking forward to a great discussion.

Darko Mihelic – RBC Capital Markets – Analyst

So, given that the day started with the regulator, I feel compelled to start every discussion on capital, and in your case, on a fully loaded basis, your Common Equity Tier 1 ratio really hit an extraordinarily high level at the end of the year, 15% – 15.2% on an otherwise regular basis. Now, what's interesting on that front with you is that's an awful lot of excess capital. We've had some banks announce an acquisition and bring the ratio all the way down to 11%. So, where do you want to operate your bank? 15% seems a little too high. Could you get it down to 11% and how do you get it to a more optimal level? And so, first and foremost, what's your optimal level and how do you get there?

Bharat Masrani – TD – Group President and CEO

Great question, Darko. But first, we should talk about the strength of TD. I know we say it, but through this pandemic you've seen it really play out – that when you have restrictions on capital actions like we've had for the past year and a half or so, you saw how quickly TD's capital grew. So, it just shows the earnings power and the way the business model works at TD. So, I think it's important to keep that in mind because– we've talked about it in the theoretical sense but we've seen it play out, this is the strength of the franchise, strength of the scale, the strength of the business model, and what it means to be a customer-centric bank and so we feel great about that.

I think with respect to capital, with the levels we have, it gives us tremendous flexibility to invest in organic and inorganic opportunities that might be out there. And of course, with the level we have, you could, without a doubt, partake in acquisitions that can quickly use up some of this capital. Or on the organic side, we've said that we will keep on investing. There's a consistent framework that I've talked about over many years that we like to invest in our stated strategies to grow share. We will always keep capital for opportunistic opportunities out there. We will use our capital where we think we have a capability gap. And, of course, we'll look at M&A being a key sort of a plank of what we've done over many, many years.

And when you go through all that thinking and if there's still capital left over, then we're not shy in buying back our shares and we've done that consistently over the past few years. A few weeks ago, we announced a 50 million share buyback program through an NCIB which was approved last week. So, whenever we've said we would buy back, generally we complete our buybacks and that's been a record. And so, I like the position we are in. And of course, yes, based on the way we see the economy and the risks out there, you should see us use it, based on that framework going forward.

Darko Mihelic – RBC Capital Markets – Analyst

But it still seems like there aren't that many opportunities inorganically left. I mean, what we've seen is some acquisitions have been made, seems like there may be a little bit of a push back down south in the US where there's some difficulty in getting some M&A done. Are there opportunities big enough for you to actually use all of that excess capital? Or should we start thinking about even more buybacks, maybe perhaps another buyback after this one, maybe perhaps a special dividend? I mean, it's just from a modeling perspective, as I look at the model and I think about your earnings prospects as you mentioned, you generate a lot of capital every year. Is it even possible to bring your capital ratio down? And I'm still going to pin you down, where is your optimal capital ratio, do you think, for running the bank?

Bharat Masrani – TD – Group President and CEO

No. I think in earlier calls you talked about, would 11% make sense, and I think your questions just started with that. Yeah, of course, it would make sense. Like, it would be way above where the minimum requirements are after you impose the D-SIB buffer that was increased recently. So, it would depend on our view at the time of what the economy looks like, what our credit profile might be, what risk we see in the marketplace.

But overall, would you be comfortable at running at those levels? Yeah, of course, we would be based on what we see in the economy. There might be times where we need to run it at a higher level because we think the economy has some weak spots and we need to make sure that we've got more than enough capital to withstand any shocks that might come out of that.

With respect to opportunities out there, Darko, it's hard to say. Every time people say that there are no opportunities, something does come up. In our case, the great position that TD is in is that many years ago when I was in the US – that you and I had lots of discussions then – there was no choice but to acquire because we were a subscale player, we were just starting out and you needed a foundation. You needed a minimum sufficient amount of scale from which to grow.

I'm happy to report that now we are not subscale. We are a huge bank domestically in the United States. I think we're the seventh largest or the eighth largest domestic bank. We've got a fantastic franchise on the Eastern Seaboard. We have a value proposition that is second to none – we're called the Wow Bank. And if you look at the numbers out of our franchise in the United States, look at checking growth, customer growth, we might be – on the Eastern Seaboard, we rank among the very best nationally in the United States.

So, the great thing with TD is that we don't actually need to acquire just to get scale. We have the terrific scale and we have now learned – it has taken us a long time – to take advantage of our North American scale. And we keep on making good progress there. So, I feel great. But that doesn't mean that if something were to present itself that made strategic sense, financial sense, risk sense and, frankly, cultural sense that's important to us, we will look at it very seriously because it would accelerate our growth. And frankly, we've seen that in acquired entities, we've been able to bring tremendous value and accelerate that growth.

So, I don't want to discount the possibility of acquisitions, notwithstanding some of the environmental things that you talked about. But on the other hand, if there are no acquisitions available, and I explained my framework many times over, then we will not be shy to buy back our shares. And would it make sense for us to do another NCIB? In fact, in our history, you've seen us even upsize existing NCIBs because it kind of makes sense. So that, of course, is a great position for the bank to be that we have such flexibility.

On special dividends, yeah, I never say never. I mean, circumstances could change. We pride ourselves in adapting to the environment we find ourselves in, rather than hoping, praying, wishing that we go back to the good old days. But generally speaking, intellectually, I'm not a big fan of special dividends. I think dividends should have some kind of a relationship with your earnings power on an ongoing basis because I think that makes sense to me. And frankly, that's the way you can maintain consistency on your payout ratio, as you know, over time. So that's the way we are thinking about it from that perspective, Darko.

Darko Mihelic – RBC Capital Markets – Analyst

No, that's great. Thank you. And I only asked about the special dividend just because of the sheer amount of capital that you have. So that's great. And I want to sort of stick to the overall larger theme before I dive – because I want to dive into the US. But one of the things that when we look at TD in 2021, we look at the performance. After a few accounting adjustments, we had pre-tax pre-provision growth around 3% let's say. But the group average is a bit higher, but one of the things that you'd mentioned was that you believe that your bank was built for recovery. So, in thinking about that, and as we think about going forward into 2022, do you think that in this sort of economic recovery, should we think about your pre-tax pre-provision earnings growth as starting to creep higher from here and potentially getting better than peers? And how much of your confidence in terms of the built for recovery is based on higher interest rates? Because we know you're quite rate-sensitive. So long question, there's a lot of different mechanics in there, so parsing it together, PTPPE growth for 2022, stronger, is it just rates or is there more behind it from where you sit?

Bharat Masrani – TD – Group President and CEO

Yeah. And so, let's – like you said, this is a lot of issues you've covered. So, let's start with each one of them. Let's talk about PTPP for a minute. Yes, I think it was 3% for the whole year, but when you look at the shock of the pandemic and what happened with interest rates, interest rates went instantly to zero as you know. So, that, in fact, yes, we are very sensitive because we have a fantastic franchise and we are a huge deposit gatherer, big chequing bank on both sides of the border. So, obviously the interest rate sensitivity, happy to have that because it is not that we're taking a view in markets. It is because of the core part of our business, which is to attract more customers and more of the chequing relationship, which is a key product – which is the anchor product to actually grow that relationship. So, that is our business model and that is terrific.

But when you have rates go down instantly to zero for year-over-year until that kind of goes through our – rolls through our numbers, we are going to be seen as suffering more. So, yes, for the year, particularly in the first half of the year, that effect was quite profound and you saw that in our numbers. But let's look at what happened in Q4 because by that time, this thing had rolled off, quite smartly. And if you look at PTPP growth from a TD Bank Group perspective from Q4 to Q4, we were up 10%. So, it just tells you how this works from a core volume growth, customer engagement, how that plays out in our numbers. So, very happy with how this is playing out. We generally don't talk about PTPP guidance for the future but I'm very optimistic as to how we're seeing volume growth, customer engagement, the type of customers we have been attracting to our franchise. So, terrific in that regard.

Now, I want to be mindful that a month and a half ago, nobody had heard of Omicron. So there could be an impact of that but after that, there's hopefully not a dramatic impact, that this does sort of fizzle out over the next few weeks or a month or so. But we like the momentum that we're seeing in our business and I think year-over-year comparison sort of explains what happened to us from that perspective.

I think on interest rate sensitivity, again, the reason is because we have a deposit rich franchise, then this net interest rate sensitivity you're talking about at the bank level 100 basis point parallel shift would equate to $1.9 billion of additional NII in the bank. And again, that's why when you look at the pent-up demand that is in the economy, the growth you should expect out of that. And now you're seeing inflationary pressures, no doubt. And some of it is transitory, I will not deny that. And I know you have a terrific guest after I'm done in

Mohamed El-Erian, and I'm sure he'll talk about that. But there are, as well, other factors. Demand is very strong because of the fiscal stimulus you've seen out there. And then of course, you have labor shortages, part of it pandemic-driven, part of it is just the demographic moves that have happened in the economy and that wage growth is more sustained. So, there's a lot of built-in inflation which would mean high end rates. And if you look at TD's situation which is that we are more rate sensitive perhaps than some others and that should have a positive impact.

So that's the way I look at those components that you asked me. I think the way the year played out right at the onset of the pandemic, of course, the impact on TD was more so because of the sensitivity to risk that we have. But as we are coming out of it, we see great momentum and feel pretty good from a volume and growth perspective moving forward.

Darko Mihelic – RBC Capital Markets – Analyst

And so, sounds like there's some momentum here. One of the things you mentioned – you don't really have a PTPP guidance. But one of the things you did mention is you do have sort of an outlook on operating leverage and you do expect it to be, clearly, positive going into 2022. Potential here that it could get very wide if we get a few rate increases, as you're mentioning, and you get that sort of impact running through. So, the question then becomes, well, when I think historically of TD, I think of expenses. I think of you guys having constantly reinvested. What are your assumptions on the expense side? And again, you touched on it. Inflation as well, how much is that creeping into your thought process on what you are expecting from expense growth in 2022 at TD?

Bharat Masrani – TD – Group President and CEO

We talked about positive operating leverage. That is our goal – when we run the bank. And I've been very clear on this, we don't run the bank on what the quarter-over-quarter expense number is going to be. Yes, we absolutely want to have positive operating leverage, but over the medium term. We do not want to sort of compromise on the investment opportunities or to build our platform stronger than what it might be on technology investments or more capability investment just because the number one quarter or for half year is not going to be looking that impressive.

So, I think that's the way you should look at it. And, of course, we have – through this unpredictable environment, we've continued to invest. If you look at our capabilities, what we're doing on the homeowner's journey, what we've done on the infrastructure side, what kind of offerings we have out there, we've continued to make those investments. And frankly, that is really helping us to grow our business. We have more customers today than we had yesterday, and I have every confidence we'll have more tomorrow than what we have today and that happens with that investment cycle.

So, are there going to be opportunities? Should there be a requirement to be cutting back on expenses? Of course. Expenses – you should look at expenses in three categories. One is that there is a proper amount that is required to run our shop. We want to make sure we have enough people to serve customers, et cetera. The second one is, of course, we want to make the necessary investments to continue to grow our franchise. And the third category is that where we have more flexibility, can we defer some of that expense growth down the road when the environment might be more friendly? Absolutely.

And so, we have that flexibility. And whether we would exercise it or not will depend on our view on where the economy is, what kind of environment we are looking at over the medium to long-term rather than to reacting what is the next three months or six months because that's not the way we're running the bank. We are running a bank on a consistent basis for the long-term creation of value. And you've seen that from us consistently, and that's how you should look at TD.

Darko Mihelic – RBC Capital Markets – Analyst

Okay, great. I wanted to touch on Canada. One of the things that we saw last year was, I would say, starting off the year, slightly lower than peer group growth in mortgages, but it accelerated throughout the year. And so, as I think about going into 2022 in a period of rising rates, how do you see – I mean, you're a large mortgage lender, obviously, in Canada – how do you see the mortgage market playing out and how do you see your performance in particular? Do you think you can get back up above industry average mortgage growth rates in 2022?

Bharat Masrani – TD – Group President and CEO

Firstly, it's a great business; love our position in the marketplace. In fact, you say that maybe we had a slow start and, yes, we did. But for the year, we had record originations in 2021. I feel great about that. If you look at sequential growth, even stronger, because of, I think the point you made that maybe we start at a slightly slower start, but we caught up very quickly.

We continue to make investments. We have over the past few years – homeowner's journey comes to mind, which is an end-to-end digital offering there, and account management on renewals. We're using new techniques on how we provide the precise advice in the moment that is personalized, connected to that customer, and that's been a terrific initiative at the bank.

And then, of course, we've also made investments in building our offerings. If you look at FlexLine, which is a – talk about mortgages and HELOC, a combined product. We're just piloting that for our broker channel, and that should provide us good momentum. So, we feel great about the business. I think our position is enviable in that product. We continue to do very well, and I expect that to continue into 2022.

Darko Mihelic – RBC Capital Markets – Analyst

And maybe just shifting gears and thinking about the US business now, we've just had somebody new step into the role. Leo Salom is now managing the US business for you. I've known Leo for quite some time and I know he was – comes from a wealth background. Is that – how should we think about that going forward? Is he going to bring more of a wealth focus to the US business on a go-forward basis?

Bharat Masrani – TD – Group President and CEO

I'm glad you mentioned him. He might be new to the US business, but he's not new to TD. He's been with us for many years and does a great job. And by the way, regarding Leo, before he became a wealth banker, he was a personal and commercial banking expert at other institutions prior to joining TD. So, it's not a new business with him. I think it's important because you could ask the same question about Canada with Michael Rhodes. This is not to be viewed as a change in strategy for the bank, absolutely not. We are very happy with our strategy. Leo is a terrific executive as is Michael and are others. And this is giving more development opportunities as folks retire and move on to other roles and that's how we should look at it.

Having said that, Leo, because of his bias on wealth, do I expect him to perhaps spend a few more minutes every day thinking about wealth than he might have otherwise? Absolutely, but it doesn't mean that we are looking at a major change in direction. Wealth in the US has been a key sort of strategic imperative for us. It's not an easy business to build out, but I feel very happy as to where we are in that journey. We are going to be hiring and I think it has started already. I don't know exactly where we are on a precise number, but we indicated we're going to hire 150 to 200 advisors right through our network there. That's a critical investment for us. And frankly, it's a slight tweak to our model to have that offering coming through our stores as well and having those advisors available at the moment when customers are there is critical.

Now, these are meant to – which is what the customer requirement is on the wealth side – in our footprint from Maine to Florida – is when they love products, you have ETFs with a TD wrapper around it. So, I'm expecting good outcomes through that initiative, which has been in the works for the past two or three years.

Darko Mihelic – RBC Capital Markets – Analyst

And how does that evolve with the Schwab relationship, if at all, going forward?

Bharat Masrani – TD – Group President and CEO

Schwab relationship is terrific. This is a – it's turned out well for us. This is a strategic investment for the bank. We are proud owners of 13.5% of the company. We have a long-term deposit arrangement with Schwab. We use platforms that are critically important for our businesses and we continue to explore different ways of how can we expand this relationship? But in apart from it being advantageous for TD or Schwab in those relationships, you also want to be sure that it makes sense for our customers. That becomes a big, big consideration as what would customers want and what offering would make sense. So very happy with that relationship. It is working remarkably well for us and we like how that has turned out since our involvement with that terrific player, one of the largest and the highest profile and a great, great business model in the United States.

Darko Mihelic – RBC Capital Markets – Analyst

Okay, great. Maybe at this point, I'm going to turn over to a couple of questions from the floor that we're getting through the Slido app. The first question coming from the audience is: Why did you not go into the buy now, pay later space in the US? Or maybe asked slightly differently, would you consider going into the buy now, pay later space in the US?

Bharat Masrani – TD – Group President and CEO

Well, we look at anything that has developed in the marketplace and we are a major player. We do have in our retail card services – so, this is where we do private label credit card business with many retailers. With one of them, we actually have come up with, at the point of sale, a buy now, pay later type of an offering. So, we're seeing how that is playing out, what kind of take up we are seeing. But this is an area we keep on looking at and on an ongoing basis to see whether this makes sense for the bank. Happy to report for our card businesses, we do have for the MBNA platform in Canada already an installment plan – that's what our customers want. And for the TD visa cards, such a capability will be rolled out in the current year – in the current fiscal year.

So, we are looking at this on an ongoing basis, see what customers really want, how is this going to evolve both from a market acceptance perspective and a regulatory perspective that has got to be a key part of our consideration set. So, it's an area that we're watching. We are already in it in different forms. But how extensive or how pervasive this becomes as part of the payment ecosystem is a place to watch. I don't think there is a real sort of agreement as to how this is going to evolve. But if it becomes a major part, rest assured, TD will be a major player in it, and we keep on looking at it from that perspective.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. And another question from the floor, do you see open banking as a threat or an opportunity? How are you positioned?

Bharat Masrani – TD – Group President and CEO

I think open banking depends on how it is rolled out. So, what's going on in the US, very happy with it. We are part of the – I think 20 banks have come together there and formed something called Akoya which effectively can share banking data in a safe, secure and even respecting privacy rules. And I think that's the way to go. It's an industry solution, and very happy. And I think in that respect, it could be advantageous for TD because it is done in that manner. It is not putting customer data or cyber type of risk or not having adequate consents down the road and then does harm to a relationship and, frankly, can cause major sort of macro issues as well.

Now, I'm hoping a similar model appears in Canada. I know Canada – the government is – the Department of Finance is looking at what model might make sense. As long as it is done in a safe and secure way through APIs and not through screen scraping and, again, proud to say TD does not partake in that. And so, it is important for us that this is done in that manner with that consent from our customers and consent that has little more detail to it as to what kind of information to share for how long and the like. If it's done in that manner, I think is an advantage and it'd be a good thing for the industry and for TD as well. If it's done where there are unsafe practices, where consents are not clear, then I think you're creating a systemic issue that will require a cleanup down the road, and that will not be good for anybody.

Darko Mihelic – RBC Capital Markets – Analyst

Okay, thank you. I think we have time for one more question from the floor. This question was upvoted. So it's: With plans to add advisers in the US, are there plans to grow the advisor base in Canada as well? And I think really what that means is, I mean, you've identified pure numbers in the US of how many you want to hire. Is something like that – similar like that in the works in Canada or apart from just regular advisor growth?

Bharat Masrani – TD – Group President and CEO

So, in Canada, you should think of our – we and Teri Currie were talking about it three or four years ago, our pivot to Future Ready. If you look at traditionally, TD's brand was terrific, from a service proposition, the WOW Bank. And then we pivot it. So now, how do we pivot? In our branches and in all our channels, how do we grow from terrific service proposition to service and advice? And Future Ready is what we worked on for our business in Canada.

So, if you look at the advice business in Canada, you can split it into three. We've got the IAs, which are investment advisers that will sell anybody's product. They are the ones who are advising customers, et cetera. Then you got the financial planners which are attached to all our branches in Canada and they bring specialized knowledge. And then you have branch personnel that also provide advice.

And so, Future Ready was an initiative to make sure that we are doing the right things in each of these touchpoints, depending on customer need, the size of their relationship, what products might make sense, what kind of training, what kind of technologies should be made available to them.

So, in Canada, we feel great as to what we've done. You can look at the growth in our wealth business because of this pivot and how we've become the destination for advice in Canada. It's just been remarkable. In Canada, you should look – and we will continue to invest. We are continuing to have more financial planners, more financial advisors in our branches, and that continues. Nothing that I said about the US should mean that there's a difference in Canada, no. We will continue to do that. We think we've got tremendous opportunity given our franchise and feel very happy about how we can grow that part of the business which is already showing remarkable growth.

Darko Mihelic – RBC Capital Markets – Analyst

Okay, great. Maybe I've got time for one more. So why don't we just throw one more in at you? This is an interesting question. So again, goes to Leo. With Leo Salom managing the US business, can we expect to see any co-branded wealth products with TD and Schwab? And I'm assuming that that question means in the near future.

Bharat Masrani – TD – Group President and CEO

Listen, I think let's look at opportunities out there as to what might make sense. If there is a need in the market of a particular product and we need to work from a different perspective than what we might have done before, we'll look at it seriously. But I think these things are something that, from a long-term perspective, what makes sense for our customers, what's the brand positioning, what does that brand stand for? All those things matter to us.

So hard for me to right now say we will co-brand this and co-brand that. We've been quite happy to co-brand on the credit card side. That has worked very well for us. We have a retail card service business that we like in the US. We have these major relationships with Target and Nordstrom that we are very happy with. And so, the credit card side, we've been – we've gotten ourselves very comfortable. As a business model, that makes sense for us. The risk-sharing is wonderful. And it works from a balance sheet perspective and a return perspective as well.

On the wealth side, I think it's a different situation. We are fairly new to the retail wealth business in the US. And so we would want to make the assessment as to what makes sense for our customers before, making pronouncements that this is what we'll do and this is what we will not do. So, give us time, I think, we will, over time, once we become more mature, have a better view on what is precisely good for our customer base. We should be – by the way, we have 10 million Americans that bank with TD America's Most Convenient Bank. So, I think the wealth, the mass affluent, segment is very important to us, it's very valuable to us and a huge opportunity. But we want to do what is right for the customer base, over time, and we feel very happy where we are today. And then, give us more time as to how we can do more with the customer base going forward.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Great. So, we're going to butt up against the end of our time together and like I'm doing with every CEO, I am going to turn the floor over to you and just ask you for what are the key messages that you want shareholders to take away today about TD?

Bharat Masrani – TD – Group President and CEO

I think, Darko, firstly thanks for having me. This has been terrific, great discussion, great points that have been raised. At TD, all I'd say is, the core part of our strategy is we are a proven business model. And I think what this pandemic has thrown against us is that it has shown strength of TD, not only is it a proven business model, but we've been able to show as to the earnings potential of the bank, the earnings engines that we have, the scale businesses and the market share and the value proposition from a brand perspective for our customers. And that's why you see, the build-up of capital. I think it was an under-appreciated part. We used to talk theoretically in the strength of TD and how much you can actually generate through earnings and build up capital. I think the pandemic showed that we can do that and quite frankly, do that in a fairly quick manner. And then, of course, our purpose matters to us, the customer-centricity is critical to us as to what it means and then, of course, making the investments for the future.

So, I think when we say we are really custom made for this recovery, we mean it. I think that what the pent-up demand, what the scale we have, the brand we have; I feel very optimistic about the future. Yes, there will be ups and downs. Don't want to declare victory against any virus. This year could be more difficult than perhaps people are anticipating. Credit losses may normalize. There might be other factors at play. So, it's hard to precisely say exactly what's going to happen quarter-over-quarter, but feel very good over the medium term as you know what the prospects are as we emerge from this pandemic because that's the strength of TD and we'll be able to see that with formal interest rates and a general economic growth cycle that we will likely be in.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Great. Well, thank you for that. That's going to wrap-up this session. Bharat, thanks again. We'll talk soon, and we'll leave it there. Cheers.