TD BANK GROUP
Q4 2019 EARNINGS CONFERENCE CALL
DECEMBER 5, 2019

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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.

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PRESENTATION

Gillian Manning – TD – Head of Investor Relations

Good afternoon and welcome to TD Bank Group's fourth quarter 2019 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 fourth quarter operating results. Ajai Bambawale, Chief Risk Officer, will then offer comments on credit quality, after which we will invite questions from prequalified analysts and investors on the phone. Also present today to answer your questions are:

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

Please turn to slide 2. At this time, I would like to caution our listeners that this presentation contains forward-looking statements, that there are risks that actual results could differ materially from what is discussed and that certain material factors or assumptions are applied in making these forward-looking statements. Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the bank's shareholders and analysts in understanding the bank's financial position, objectives and priorities and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes.

I would also like to remind listeners that the bank uses non-GAAP financial measures to arrive at adjusted results to assess each of its businesses and to measure overall bank performance. The bank believes that adjusted results provide readers with a better understanding of how management views the bank's performance. Bharat will be referring to adjusted results in his remarks.

Additional information on items of note, the bank's reported results and factors and assumptions related to forward-looking information are all available in our 2019 MD&A and fourth quarter 2019 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. 2019 was a good year for TD. We continue to add volumes in our retail segments winning more customers and taking share with a differentiated customer experience. We made further progress in our wholesale banking U.S. dollar strategy growing the corporate and investment banking and global markets businesses. And we continue to invest in our people and our capabilities to meet our customers' evolving needs.

While we accomplished much, the operating environment was challenging, marked by lower interest rates, volatile markets, and normalizing credit conditions from historically low levels, resulting in more modest earnings and EPS growth.

- Fiscal 2019 earnings of $12.5 billion and EPS of $6.69 were up 3% from the prior year
- And Q4 EPS of $1.59 was down 2% year-over-year.

Let me elaborate on the main factors that affected our results this quarter.

- First – with declining rates and heightened macro concerns pointing to a more subdued outlook for industry revenue growth, we took some restructuring charges this quarter. We are accelerating ongoing efforts to modernize our operations and improve our efficiency. The charges which were booked in each of our segments totaled $0.06 of EPS.
- Second – while we otherwise had a very good performance in our wholesale bank revenues were reduced by derivative valuation charges which Riaz will discuss.

- Third, while PCL was within our expectations the ongoing normalization of provisions for credit losses clearly weighed on earnings growth this quarter and for the year as a whole.

Overall, EPS growth for 2019 was more modest. We stayed focused on our long-term strategy, and I feel good about what we accomplished this year.

- We executed well on our enterprise priorities, continuing to serve our customers and clients within our risk appetite.
- We generated consistent organic capital ending the year with a strong CET 1 ratio of 12.1% even after the repurchase of 30 million common shares.
- And we created significant value for shareholders, increasing our dividend paid by 11% on a full-year basis and delivering above-average peer total shareholder return for the 3-, 5-, and 10-year periods.

We achieved these good results while positioning ourselves for future success. All year long, I've been sharing examples of our forward focused investments:

- In more frontline advisors supported by enhanced education and training to give our people the capabilities they need to help our customers feel more confident about their finances
- In new platforms and end-to-end journeys to make customers and colleagues lives easier.
- In data and analytics, they deliver better insights and create new sources of value for our customers and our business.
- And in state-of-the-art technology systems and architecture to enhance the security of our operations and transform the way we do business.

In October, we opened the TD Fusion Centre, a multidisciplinary agile workspace in Toronto that will strengthen our ability to detect and respond to cyber threats. It's the latest addition to a global support network we've put in place focused on protecting our assets, safeguarding our customer's privacy and recruiting and developing the next generation of experts in this critical field.

This quarter we launched first-in-Canada credit card feature that gives cardholders the ability to temporarily block any in-person international charges through the TD app. And we are leveraging Layer 6's predictive AI capabilities in our TD Helps program to identify customers who may be facing financial hardship and reach out with proactive advice and solutions. As our digital evolution proceeds, it will continue to be informed by a commitment to develop industry best practices for the use of powerful new AI and machine learning technologies, as we discussed in our recent responsible AI report.

I'm proud of the disciplined choices we've made guided by our one TD strategy, to drive continued leadership and innovation and customer experience – at the enterprise level and in each of our businesses. Let me turn to them now.

Our Canadian retail segment earned C$7.4 billion in 2019 up 3% from a year ago. We strengthened our market leading position in key product lines and took advantage of solid top line growth to fund strategic investments:

- We continued our journey of distribution transformation through our Future Ready branch strategy and digital Homeowner Journey and the launch this quarter of our TD Wheels app which gives Canadian customers a personalized digital car financing experience that is seamless, simple and convenient.
- In Wealth, TD Asset Management continued its track record of investment excellence with seven Refinitiv Lipper awards, including recognition in the fixed income, balanced, equity, and ETF categories. We also expanded our product capabilities with the launch of 16 ETFs and several real asset alternative investment solutions for our high-net-worth and institutional clients.
- And we successfully upgraded our client servicing and underwriting insurance platform.

Turning to the US. Our U.S. Retail Bank performed well in 2019 with earnings up 6%. We continue to drive our peer leading growth in non-interest-bearing accounts, an anchor product that reflects our focus on acquiring high-quality primary customers. It's a similar story with our small business banking strategy where we've amplified our community-centric model with investments in enhanced data, insights and infrastructure, like the digital Next Generation Platform we introduced earlier this year. Customers are responding by bringing us more of their business with TD ranking number #1 in SBA lending in our Maine-to-Florida footprint and taking top spot in Customer Satisfaction for Small Business Banking in the South Region by J.D. Power.

We also continue to make our business more efficient, achieving positive operating leverage this year and reducing our efficiency ratio by another 100 basis points.

At the segment level, with another strong contribution from TD Ameritrade, U.S. Retail earnings increased 10% for the year – or 14% in Canadian dollars, to just shy of C$5 billion. And we were delighted last week to announce our support for the acquisition of TD Ameritrade by Charles Schwab. This is a transformative deal that will deliver significant value for TD and give us an ownership stake in one of the most innovative and highly regarded investment firms in the U.S.

Rounding out the picture, our Wholesale bank earned C$608 million this year, bookended by market volatility in Q1 and derivative valuation and restructuring charges this quarter. While this was clearly a disappointing result, I am pleased with the progress we are making across our business:

- We increased our leadership position in the Canadian market, occupying the #1 spot for M&A announced and completed, syndicated loans, and government debt underwriting. And the #2 spot for corporate debt underwriting and equity options block trading.
- We also built on our leadership position in domestic M&A with TD Securities advising on several marquee transactions including this quarter's C$5.2 billion recapitalization of Garda World Security, the largest by a privately-owned Canadian company.
- We made strides with our U.S. dollar strategy, onboarding 60 new corporate clients, adding senior leaders to support our technology, power and utilities and sponsored clients; and leading 72 US investment grade, corporate bond deals.
- And we were active in the green and sustainability bond space, a growing segment of the market that is well aligned with the bank strong ESG profile and commitment to support the transition to the low-carbon economy of the future.

Looking ahead, we expect the operating environment to remain challenging with continued geopolitical and trade tensions, further normalization of credit conditions with historically low levels and late cycle concerns, keeping interest rates under pressure and the financial markets on edge. We will also feel the effects of the move by U.S. discount brokers to eliminate online equity trading commissions, which will impact our equity pickup from TD Ameritrade. Overall, while we will continue to execute on our strategy, guided by our medium-term objectives, we expect EPS growth to be more moderate again next year.

Despite these uncertainties, the fundamentals of our business remain strong and I'm confident that we can continue leveraging the investments we made to add customers, increase volumes and continue to grow our business.

As always, we remain constant in our purpose – to enrich the lives of our customers, colleagues and communities. One way we are supporting our colleagues' development is by empowering them to contribute to their communities and our customers is through the launch of the TD Ready Commitment Network. The Network enables colleagues to track their personal goals and engage in meaningful volunteer activities, including our recently announced initiative, TD Mindpower, which pairs non-profit organizations with a dedicated team of skilled TD data and analytics employees, who collaborate to help them leverage data and grow their community impact.

This is just one of many purpose-driven initiatives we've launched in 2019. You can find more highlights in our Annual Report. I invite you to read my Letter to Shareholders and the pages that accompany it, which present our strategy in more detail and the transformative investments it is enabling.

To close, I'm proud of what we achieved in 2019. I'd like to thank:

- our more than 85,000 colleagues for their hard work and dedication to our vision, purpose, and strategy;
- our customers, for the opportunity to serve them;
- and our shareholders, for the confidence they have placed in us.

I look forward to another year of accomplishments in 2020.

With that, I'll turn things over to Riaz.

Riaz Ahmed – TD – Group Head and CFO

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

- In 2019, the bank reported earnings of C$11.7 billion and EPS of C$6.25, up 3% and 4% respectively. Adjusted earnings were C$12.5 billion and adjusted EPS was C$6.69, up 3% for the year.
- Revenue increased 6%, reflecting volume growth and higher margins in our Retail businesses, higher insurance and wealth fee-based revenue and the impact of FX translation, partially offset by lower trading-related revenue in wholesale. Expenses increased 9% on a reported basis, reflecting charges related to Air Canada, Greystone and this quarter's restructuring.
- PCL increased 22% primarily reflecting higher PCL in the consumer and commercial lending portfolios and volume growth.
- Canadian Retail and U.S. Retail delivered net income of C$6.9 billion and C$5 billion for the year respectively. And Wholesale reported approximately C$600 million in earnings.

Please turn to slide 8.

- For the fourth quarter, the bank reported earnings of C$2.9 billion and EPS of C$1.54. Adjusted earnings were C$2.9 billion and adjusted EPS was C$1.59, down 2%.
- Revenue increased 2%. Provisions for credit losses increased 36% quarter-over-quarter. And expenses increased 3% including C$154 million of restructuring charges.

Please turn to slide 9.

- Canadian Retail net income was C$1.7 billion, level with the prior year. On an adjusted basis, net income increased 2%.
- Revenue increased by 5%, primarily reflecting volume growth and higher insurance and wealth fee-based revenue.
- Average loans and deposits increased 5% year-over-year reflecting growth in both personal and business volumes and wealth assets grew 14% or 9% excluding Greystone.
- Margin was 2.96% consistent with the prior quarter.
- Total PCL increased 27% quarter-over-quarter with increases in impaired and performing PCL. Total PCL as an annualized percentage of credit volume was 37 basis points up 8 basis points quarter-over-quarter.
- Extensive increased 4% reflecting higher cost supporting business growth and charges related to the acquisition of Greystone. On an adjusted basis, expenses were up 3% and we delivered 200 basis points of operating leverage.

Please turn to slide 10.

- U.S. Retail net income was US$900 million up 5% year-over-year on a reported basis and 3% on an adjusted basis. U.S. Retail bank reported earnings were flat year-over-year.
- Average loan volumes increased 7% year-over-year reflecting growth in the personal and business customer segments. Deposit volumes excluding the TD Ameritrade sweep deposits were up 5% including 4% growth in core consumer checking account.
- Net interest margin was 3.18% down 9 basis points sequentially, primarily due to lower deposit margins and largely in line with US peers. We expect margins to continue trending downwards reflecting the impact of the recent Fed rate cuts.
- Total PCL including only the bank's contractual portion of credit losses in the strategic cards portfolio was US$223 million, up 17% sequentially as an increase in impaired PCL was partially offset by a decrease in performing PCL.
- The U.S. Retail net PCL ratio was 55 basis points, up 7 basis points from last quarter.
- Expenses were flat year-over-year, reflecting restructuring charges of US$52 million and business volume growth, partially offset primarily by productivity savings. The contribution from TD's investment in TD Ameritrade increased to US$219 million.
- And segment ROE was 11.8%.

Please turn to slide 11.

- Net income for wholesale was C$160 million, down 44% year-over-year, reflecting lower revenue, higher expenses, and higher PCL.
- Revenue decreased 9%, primarily reflecting derivative valuation charges. This quarter we implemented a new derivative valuation system and related methodologies, which will enhance our ability to manage risk and pricing.
- Expenses are C$600 million, reflecting restructuring charges of C$23 million, higher securities lending fees and software costs and the impact of FX translation, partially offset by lower variable compensation.

Please turn to slide 12.

- The Corporate segment reported a net loss of C$240 million in the quarter compared to a net loss of C$181 million in the fourth quarter last year. The increase in reported net loss was primarily attributable to lower contribution from treasury items and non-controlling interests, partially offset by lower net corporate expenses.
- Net corporate expenses decreased, largely reflecting lower net pension expenses in the current quarter, partially offset by restructuring charges of C$51 million.

Please turn to slide 13.

- Our Common Equity Tier 1 ratio ended the quarter at 12.1% consistent with the prior quarter.
- We had strong organic capital generation this quarter which added 32 basis points to our capital position. This was mostly offset by the repurchase of over 8 million common shares in the quarter as well as growth in RWA and actuarial losses on employee pension plans.
- Our leverage ratio was 4.0% and our liquidity coverage ratio 133%.
- During the quarter, the board approved the launch of a new NCIB to repurchase up to an additional 30 million common share subject to regulatory approval.
- Looking ahead to Q1 2020, we expect the implementation of IFRS 16 and the revised securitization framework to have 28 basis point impact on CET 1 capital in line with the guidance we provided last quarter. We expect the impact to be mitigated by internal capital generation.

I will now turn the call over to Ajai.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Thank you, Riaz and good afternoon everyone. Overall, credit quality was good across the bank's portfolios in fiscal 2019. And credit losses were in line with our expectations.

Please turn to slide 14.

- Gross impaired loan formations were C$1.5 billion or 22 basis points, stable quarter-over-quarter and year-over-year.

Please, turn to slide 15.

- Gross impaired loans ended the year at C$3 billion or 43 basis points, stable quarter-over-quarter and down 4 basis points year-over-year.

Please turn to slide 16.

- Recall that our presentation reports PCL ratios both gross and net of the partner share of the US 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 C$893 million or 51 basis points, up 13 basis points quarter-over-quarter and up 10 basis points year-over-year.
- The quarter-over-quarter increase reflects:
    - The U.S. credit card and auto portfolios largely due to typical seasonal trends.
- As experienced in previous years, these yields in the U.S. credit card and auto portfolios typically rise in the fourth and first quarters due to back-to-school and holiday shopping. Balances and delinquencies historically decrease in the second and third quarters as customers catch up with their payments.
- The balance of the quarter-over-quarter PCL increase is largely reflected in:
    - The Canadian Retail and Wholesale segments primarily due to credit migration.

Please turn to slide 17.

- The banks impaired PCL increased C$151 million quarter-over-quarter largely related to:
    - the U.S. credit card and auto portfolios reflecting seasonal trends,
    - and credit migration in the Canadian commercial and auto portfolios.
- Performing PCL increased C$78 million quarter-over-quarter driven by:
    - The Canadian Commercial Canadian cards and wholesale lending portfolios primarily due to credit migration, and
    - Seasonal trends in the US credit card and auto portfolios, partially offset by the impact of prior quarter parameter updates in the consumer lending portfolios.

For 2019 the full year rate is 45 basis points, up 6 basis points from 2018.

The increase in total PCL in 2019 largely reflects:

- Ongoing credit normalization in the Canadian Retail and Wholesale segments from prior years' cyclically low levels, and
- Volume growth across the bank's portfolios.

In summary, we've had good credit quality across the banks' portfolios in 2019 and are well-positioned for continued growth in our lending portfolios.

- Looking to the year ahead, the period of cyclically low loss rates are likely behind us.
- Subject to quarterly seasonal fluctuations and provided economic conditions remain supportive, I expect fiscal 2020 PCL to be in the neighborhood of 50 basis points.

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

QUESTION AND ANSWER

Operator

The first question is from Ebrahim Poonawala from Bank of America. Please go ahead.

Ebrahim Poonawala – BAML – Analyst

Good afternoon. I guess, Riaz, if you could start on the margin outlook. You talked about the Fed rate cuts impacting the U.S. margin. If you can give us a sense of the cadence of incremental margin compression that you expect next quarter and if the Fed is truly done for the time being, when do you expect the U.S. margin to begin stabilizing or do you expect a continued drift lower?

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

Ebrahim, thank you. This is Greg Braca. Thanks for the question.

I'll just start by saying, as you know, we've had three rate cuts starting in July then September and then at the end of October, 25 basis points each. And over the next quarter you'd generally expect that the margins would continue to trend lower given the fact that the last cut just occurred at the last day of the fiscal year end on October 31 and the second rate cut only had the effect of being in the fourth quarter for half the quarter.

So, all things being equal, obviously there's a lot that goes into this including the mix of the business and what the long end of the rate does, and on/off rates, and things that we've talked about before. But given those three rate cuts, and certainly to impacting Q4 to what would be Q1 you would generally see a glide path to lower margins in Q1.

Ebrahim Poonawala – BAML – Analyst

Got it. And if I may, one more just in terms of capital, it sounds like you should be able to absorb the IFRS 16 impact relatively easily in the next quarter. As we think about capital deployment and with sort of some clarity on the Ameritrade front, any updated thoughts – Bharat – in terms of as you think about M&A opportunities in the US be it within the Northeast within your banking footprint or nonbank M&A?

Bharat Masrani – TD – Group President and CEO

No change, Ebrahim. As we have said previously, we look at capital deployment on a holistic basis. Obviously, we want to support the strategies we have laid out; that is organic growth, the RWA growth that follows. We want to also make sure that we have capital flexibility should we need to build out any capabilities that are more appropriately done through acquisitions rather than trying to organically build them. I think Greystone falls into that category quite nicely.

We also said that we'll always make sure that we have capital flexibility should some opportunities present themselves. And you've seen TD participate in those transactions. There are so many, over the past few years that have turned out to be terrific for us.

And then finally, yes, we are interested in acquisitions. We've said the Southeast is particularly attractive to us given the potential there, in the U.S. We also said, we would look at others that makes sense from a strategic and a financial perspective. So, nothing has changed from that perspective. And I'm sure with the type of environment we are seeing and what we are calling for, which is challenging, that certainly may give us opportunities more so than it might have previously. So, we will keenly watch the space. And should anything compelling present itself, we'll be looking at it seriously.

Meny Grauman – Cormark Securities – Analyst

Hi, good afternoon. Question on the restructuring charges, wondering about what expense savings you expect to recognize from that restructuring for 2020 and 2021?

Riaz Ahmed – TD – Group Head and CFO

Meny, it's Riaz. As you would have noted in our supp pack over the course of 2019, we've added almost 3,500 FTEs in various frontline and technology projects and corporate functions. And the businesses do, from time to time, take the opportunity to look at ways of optimizing how we work, modernizing our operations and improving our efficiency.

If you look at the expenses that we have reported over the last five quarters, excluding the effects of restructuring charges, the expenses have been relatively stable. So, I think you should look at this more and more as an optimization exercise within a context of a growing bank and not necessarily driven to create additional productivity.

Meny Grauman – Cormark Securities – Analyst

Got it. And then just in terms of the charge related to the derivative systems upgrade. Just wondering if there's any revenue lift that you expect from that change? You mentioned better pricing. So, I'm wondering if there's a benefit that you see from that will be material or noticeable.

Bob Dorrance – TD – Group Head, Wholesale Banking

Meny, it's Bob Dorrance. I think by better pricing what we're talking about is faster pricing; being able to respond more quickly. I think the benefit that we will achieve, because we'll have a real time mark-to-market of the portfolio and all the various parameters in a complex portfolio, is the ability to hedge the portfolio better. So, the expectation is that we work with this system over the next year, that we'll be able to reduce the volatility that we've experienced in marking the book to market once a month.

Meny Grauman – Cormark Securities – Analyst

So just as a follow up, is it going to be observable at all in your results, this kind of upgrade, or is it more just sort of behind the scenes?

Bob Dorrance – TD – Group Head, Wholesale Banking

No, I think we'll wait and see in how that plays out, Meny.

Gabriel Dechaine – National Bank Financial – Analyst

Good afternoon. I just want to ask about your risk appetite. We got margins coming down, we got PCL ratios normalizing and does that affect your risk appetite at all? I know a couple of years ago you were talking about expanding fairly ambitiously in the unsecured personal lending space in Canada. Has that changed at all? And what would need to happen for you to maybe dial back?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yes, it's Ajai, thanks for the questions. So, let me start. I think you're aware our risk appetite statement is a principles-based risk appetite statement. But it is also informed by all the stress testing work that we do.

And quite frankly, risk appetite is not something that we keep changing. So, there's got to be something significant to happen for us to want to change our risk appetite. So, we're not changing our risk appetite. Having said that, if there are opportunities that are within our risk appetite, like I believe personal lending is, we will certainly explore that.

So, no change in risk appetite but there are enough opportunities for us that are within risk appetite. Maybe I'll turn it over to Teri for a few comments.

Teri Currie – TD – Group Head, Canadian Personal Banking

Yeah. Thanks. Maybe I would just add, there are a number of areas as we've talked about before where we have embedded growth opportunity well within our risk policies and our risk appetite.

You cited unsecured personal lending. We still have the HELOC hybrid market share in fourth place where we have the opportunity and continue to seek out business with our own customers.

In Paul's business, the Business Bank, there are geographies where we're continuing to add bankers where we have opportunity and industry segments where we can do more. So definitely we're open for business and growing well within those risk policies.

Gabriel Dechaine – National Bank Financial – Analyst

Okay how about the glass-half-full perspective. And it's easy to get down in the dumps these days but rates are down a lot, bad for margins, and we've spilled a lot of ink on that, but from a credit risk standpoint, that should help, right?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yes. It's Ajai. I think if the rates come down, at some point it will help credit. But it could take some time.

We believe lower rates in the longer run could help credit, yes.

Gabriel Dechaine – National Bank Financial – Analyst

Thanks, and happy holidays.

Bharat Masrani – TD – Group President and CEO

You as well, Gabe. This is Bharat, just to add something. I mean, Ajai and Teri covered it off well. I mean, risk appetite is not something that is fleeting or changing quarter-by-quarter. It is very principles-based, as Ajai noted, and something that we take very seriously.

And within our risk appetite, you know the size of our bank, the scale of our bank, and when we say we want to grow certain parts of our business, it is not based on indications in one quarter or two quarters. It is a plan, it is a long-term plan, and we execute against that plan.

Of course, it would be adaptable, should there be a fundamental change in the environment. But you should not expect from TD a knee-jerk reaction in changing our risk appetite because of one particular quarter, you get one indication.

Gabriel Dechaine – National Bank Financial – Analyst

Okay, I'm going to have to rewrite that section – just kidding.

Sumit Malhotra – Scotia Capital – Analyst

Thank you. Good afternoon. I just want to pick up with Ajai, please. Going from 45 basis points to 50 for a bank your size, it's not the biggest deal in the world. But I just wanted to dig in a little bit, since you're giving us such a specific forecast in and around that range for 2020.

I mean, when I look at some of the underlying metrics in credit for your bank. And there are a lot of things that can move around, but your gross impaired loan balance hasn't really moved that much for a few quarters. Your formations have been relatively well contained. And to the extent these are some of the first factors we look at, they seem to be okay. What parts of your portfolio do you look at and say; this is a portion of the book that we can reasonably expect loss rates to migrate higher in the near-term?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Well, thanks for the question. So, let me tell you how I get to the neighborhood of 50 basis points. I'm basically assuming that certain portfolios which I believe are not yet operating at normalized levels will continue to normalize.

- And in my mind, Canadian Retail is one of them. If you look at Canadian Retail, three of the last four quarters, we operated between 25 bps to 30 bps. To me, that seems cyclically low. And for the full year, we were at 31 bps. So, I expect that to continue to normalize.
- The second book is Wholesale. You look at Wholesale losses and I believe in the first three quarters, it was like C$2 million dollars. So, if I look out, I think Wholesale will continue to also gradually normalize.
- And the third book is US Commercial. So, if I look at US Commercial, I've seen no or very little losses in that book for a few years. So, I am assuming because we are late in the cycle that we'll continue to see normalization in that portfolio.

So, if I look at all three portfolios, that's what kind of gets me to a number closer to 50 bps. And I should also clarify that from our economic perspective, I'm generally assuming stable economic conditions consistent with our disclosures.

Sumit Malhotra – Scotia Capital – Analyst

Well, that's very specific and I appreciate that, because when we go one step further here, for example you're right, your Wholesale provision is higher this quarter. But the bulk of that came from the performing provision.

And when I look at TD the last two years that we've been under the new standard, your provisions on the performing portion of the book have been 5 to 6 basis points respectively. And I think in every quarter, the bank has had an actual provision in the performing, the Stage 1 and Stage 2 buckets, which hasn't been the case for all of your peers. I know there's different approaches to this. It was different setup costs across the sector. This is a – I'm going to ask you to give a simple answer to something that's a complex question. But why do you think it is that your bank has been so consistent in having provisions in the performing portfolio and that hasn't necessarily been the case across the group?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yeah. Well, I can't speak to my peers but I can certainly tell you what's occurring at TD.

So first, let's ground ourselves in what are the drivers of performing PCL. One is volume, two is credit migration, three is parameter updates, and four is macroeconomic changes.

So, if I look at our allowances, and this is all disclosed in the allowance tables, our allowance year-over-year went up by C$378 million. Of that, performing is actually C$399 million, and let me just explain that to you. Stage 1 is C$237 million. So, what that is telling you is most of our allowance build is volume. And some of that is also parameter updates.

We then have C$162 million in Stage 2 and that is partly credit migration and partly parameter updates. So the migration, some of it is occurring in Canadian Commercial. There's a bit in Canadian Cards, but a big part of it is actually parameter updates. There's a bit in U.S. Cards and there's a bit in Wholesale.

Then if I turn to Stage 3, the increase for us is only C$61 million, which tells you like we've actually built Stage 3 allowances in the past. And the offset to that, is C$82 million in ACI or debt securities.

So, I hope that helps. But volume is the bigger story here.

Sumit Malhotra – Scotia Capital – Analyst

No, and I'll stop there. I guess the thing is volume in and of itself, we would expect the dollar amount of provisions to rise and not necessarily the ratio. I guess when I look at you guys, you have provisioned so much more than you've charged off. Your allowances have continued to rise, so it is somewhat surprising to me on a lot of these quarters that we see your build continue at that pace.

But I think you're saying to me volume is part of it. But perhaps some of the parameter updates you're applying are more conservative than what we're seeing across the group.

That's more of a statement on my part. So, I will leave it there and I thank you for your help.

Rob Sedran – CIBC Capital Markets - Analyst

Hi. Good afternoon. Just first quickly a point of clarification. Ajai, that 50-basis point number, that's for the total provision, not for the provisions on impaired, correct?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

That's correct, total. I'm not giving a specific number, I said in the neighborhood of...

Rob Sedran – CIBC Capital Markets - Analyst

Understood. Understood. I just wanted to make sure if that was what you're speaking of and not just provisions on impaired. So, that's great. And then – and maybe for Riaz. The card services line in noninterest income looked a bit light this quarter. I don't know if there's an element of seasonality, if there's something else going on. And then can you tell us what happened on that, please?

Riaz Ahmed – TD – Group Head and CFO

Sure, Rob. From time to time, as we look at how card-holders engage with us, we have a revaluation of points liabilities, reward points liabilities, etcetera. So it's mostly in this quarter reflective of those revaluations.

Rob Sedran – CIBC Capital Markets - Analyst

So absent that impact, it will be something closer to what a normal run rate for that line would be, is that fair?

Riaz Ahmed – TD – Group Head and CFO

Yeah. That's fair.

Teri Currie – TD – Group Head, Canadian Personal Banking

And, it's Teri, maybe the only thing I would add is that's driven obviously by our customers being more engaged with the program and doing more business with the program. So, I think that's – while it is an adjustment, it's a positive.

Scott Chan – Canaccord Genuity – Analyst

Good afternoon. I always like looking at the AUM on a fiscal year and annual basis. And when I look at the U.S. segment for you guys, the numbers are a bit perplexing versus peers. U.S. AUM was down another 17% year-over-year and I think peers are kind of in the high teens.

You talked about the headwinds of active to passive, and I think that is kind of less of a tailwind going forward. But perhaps you can explain what is going on there and if there's any kind of actions to kind of stop those outflows.

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

Sure. So thank you. It's Greg Braca. Thank you for the question. So first, I would like to just start off by saying that wealth and Epoch and asset management in the U.S. continues to be an important part of our growth strategy long term, and we are spending a lot of time discussing it. And you correctly pointed out that there is an industry dynamic going on from active to passive and that's part of the story.

But I think a couple of quarters ago, I also mentioned that we made the strategic decision to exit some money market funds. That does drive the top-line AUM number, and we've called that out in the past and it was a strategic decision. They're very, very low-margin business. They weren't strategic to us long term and we did exit that. So, I'd say if you think about it, half of that story is roughly AUM and the active-to-passive story, and the other half is really related to the exit of those money market funds.

Nigel D'Souza – Veritas Investment Research – Analyst

Thank you. Good afternoon. So, I have a few more, I guess, housekeeping items. So, one question I have for you is you noted that, that impact that we had from the derivatives valuation charges in Wholesale Banking, an offset to that was a higher trading revenue, I believe. But when I look at your disclosure, it looks like trading revenue actually declined sequentially. Is it – am I misinterpreting the numbers there or is there something I'm missing here?

Riaz Ahmed – TD – Group Head and CFO

No, Nigel, in aggregate, the derivative valuation charges in Q4 were C$96 million and they were taken through the trading-related line. So if you want to get the impact, you would have to gross that back up onto the trading related – on the fixed-income line.

Nigel D'Souza – Veritas Investment Research – Analyst

Got it. That's really helpful. And then the second point I had is more so on your dividend payout ratio. So looking at your supplement, the adjusted payout ratio is at 46.5%. I understand that includes those restructuring charges which weren't in fact backed out this quarter. But even if we do back that out, it's still I believe higher than the run rate we've seen in prior quarters.

So does that have any impact? I know it's early to talk about it, but does that have any impact to your future dividend policy decisions in 2020 or is this just a one-off decision in 2020 or is this just a one-off item that we should be looking at?

Bharat Masrani – TD – Group President and CEO

Let me take that, Nigel, this is Bharat. You know, we look at our dividends generally speaking once a year and we'll do so again. You know our general policy is to be within the range of 40 to 50%. There have been times when we said you know our ratio will be more influenced by trying to get to the middle of that range. But sometimes we're not the greatest forecasters. And you know it comes in lower than that. I think what you saw this quarter because of these various charges, it should not be viewed as a pattern from TD.

Nigel D'Souza – Veritas Investment Research – Analyst

And the last question I have, speaking of those charges, the distribution across the segments is higher in U.S. Retail and lower, and a lower allocation to Canadian Retail. So is this – you know, like you mentioned, is this merely repositioning in a normal, I guess, restructuring event? Or do these charges tie in at all to the macro? Because I think you'd expect more headwinds in domestic banking relative to the U.S. banking.

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

Yes. So it's Greg and I'll just start off on the U.S. portion that we've called out. We had US$52 million pre-tax in restructuring charges in the US. And I'd say it's probably half and half as I think about our franchise and store distribution and how we're optimizing that and real estate costs. And the other half of that charge would be around how are we driving more efficiencies, how are we investing for the future. And if you've seen the trend over the last several quarters and over the last year, you've seen us getting more and more expenses out, being more efficient as an operation to really allow us to invest in the things that are core, including investments in new platforms in digital and technology. And I think, we made some major strides in 2019 on that front. So I divide it up to half and half as I just described for the U.S.

Sohrab Movahedi – BMO Capital Markets – Analyst

Thank you. Ajai I just wanted to come back to you. We talked a lot about normalization of the credit. Is there any reason to believe loss content by product category, whether it's credit cards or other lines of consumer credit lines, that loss content as we go into the next cycle will be any more punitive or higher than it may have been in prior cycles?

Ajai Bambawale – TD – Chief Risk Officer

I don't have any reason to believe that. I mean, but consumer leverage is high in Canada, so you could see a little more severity on the Canadian side. That's the only comment I would make.

Sohrab Movahedi – BMO Capital Markets – Analyst

But that's not something that is necessarily that you've explicitly kind of factored into your build up to that plus or minus 50 basis points.

Ajai Bambawale – TD – Chief Risk Officer

Not necessarily, but I've certainly taken into account that insolvencies in 2019 are higher than 2016, 2017 and 2018. They are much lower than 2009 but I'm certainly assuming we'll continue to see that. And in my mind, the driver of that is the consumer leverage in Canada.

Sohrab Movahedi – BMO Capital Markets – Analyst

And not to belabor the point, but from what very limited stuff you've already seen, is there any reason to believe it's going to have a more severe loss content?

Ajai Bambawale – TD – Chief Risk Officer

I don't believe so.

Operator

Thank you. There are no further questions registered at this time.

I would now like to return the meeting back to Bharat Masrani.

Bharat Masrani – TD – Group President and CEO

Thank you, operator, and thanks to all of you for joining us this afternoon. Just to conclude, in a very challenging environment it was great to see that we continue to make progress on our enterprise priorities, and I do want to take this opportunity to thank our 85,000 colleagues around the world for once again, delivering for the bank and for our shareholders.

And to our folks who participated on the phone, happy holidays, in case we do not meet before, and see you in 90 days. Thank you.