RBC CAPITAL MARKETS CANADIAN BANK CEO CONFERENCE JANUARY 7, 2025

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Insurance, and Wholesale Banking segments, and under the heading "2024 Accomplishments and Focus for 2025" for the Corporate segment, each as may be updated in subsequently filed quarterly reports to shareholders.

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PARTICIPANTS

Raymond Chun
TD Bank Group – COO

Darko Mihelic
RBC Capital Markets – Analyst

PRESENTATION

Darko Mihelic – RBC Capital Markets – Analyst

I'm joined by Ray Chun, the CEO or the soon to be CEO of TD Bank. Thank you for joining us. I just – before we begin, I just want to remind everyone that Ray'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.

So with that, we can kick off the session. Ray, good to see you. Thanks for joining us today.

Raymond Chun – TD – COO

Thanks for having me here today, Darko.

Darko Mihelic – RBC Capital Markets – Analyst

So I think there's an awful lot of things we can – ground we can cover today. I think I want to absolutely start with one of the things we heard in the fourth quarter call was that you're going to do a strategic review. And in that strategic view, you made the comment that all things are on the table.

So I want to start off there and think about – what does that mean? So for example, would you consider an exit of the U.S. business, would you consider a sale of the Schwab stake? Is anything like that being considered and/or probabilistic?

Raymond Chun – TD – COO

Well, thanks for having me here again Darko, Happy New Year to everyone here. And maybe I'll just step through the question the way you've sort of laid it out. If I think about the U.S. business – first and foremost, we are 100% committed to our franchise in the United States. It is a terrific franchise in the United States. And certainly, in the near term, obviously, our #1 priority in the U.S. is our AML remediation. But if you think about what have we built in the U.S. in the last 20 years. We're now a top 10 bank in the United States. We have scale in the top 10 MSAs. We play in 50% of them. 75% of our deposit business, we are top 3 market share in the markets that we play.

And so when you think about the fact that we've got 10 million clients, we service and advise to over 700,000 commercial banking clients. We are the #1 SBA lender in the United States in our footprint, #2 nationally. We're a leader in government banking. We're #4 in government banking nationally. And so all that to say, in 20 years, we have built a terrific franchise in the United States. And so we will continue to have a strong presence there. From the strategic review perspective – so what are we looking at in the United States? I have to say a couple of things: One is we've been very clear that with the asset cap restrictions that we're going to restructure our balance sheet. And we expect to have the restructuring of our balance sheet completed by the end of fiscal 2025. And then we're also looking to reposition our bond investment portfolio, and we're well underway with that. As we mentioned back on December 5 on our Q4 analyst call, we've executed on $6 billion of our bond repositioning already. That's netting us about US$175 million lift in fiscal 2025, and we expect to have the balance of the bond investment portfolio repositioning done in the first half of fiscal 2025.

But ultimately, in the U.S., as part of the strategic review, what you should be looking for is a renewed focus around delivering and optimizing on our ROE in the United States, which will mean that we'll probably look to exit some of our loan portfolios. And some of that we've actually shared on that piece of it.

Now if I move to your Schwab question and I know one that's certainly high on everyone's radar here. First of all, let me just say Schwab has been an excellent investment for TD over the years. There's two parts to the Schwab arrangement that we have. One is the deposit agreement and the other is obviously the 185 million shares approximately that we have in Schwab.

What I would just highlight to everybody is those are two independent agreements. And so regardless of what we decide to do with the Schwab investment, the deposit agreement would continue on, on a go-forward basis. And so if you think about the Schwab investment, that is part of the capital allocation review that we are doing as part of the strategic review. And so that will be part of the deliberations. And as we make those decisions, I'll be back to inform the Street.

One of the things that I should have said at our Q4 analyst call around the strategic review and our Investor Day is that I said that we'd be holding an Investor Day, Darko, the sort of back half of 2025. But every quarter, as we make decisions regarding the strategic review, we will share those decisions with all of you and our investors and certainly the Street. And so you should expect to hear more on some of these questions as we move forward. So I hope that answers on some of those questions that you've actually laid out.

Darko Mihelic – RBC Capital Markets – Analyst

Have you determined anything yet?

Raymond Chun – TD – COO

It's early days, early days. But I think the thing that we're moving against is the commitments that we made on October 10th, both on the AML remediation, but also on the repositioning of our balance sheet in the U.S. Those are actually in flight and we'll provide updates as we come along in the coming quarters, and our bond repositioning is going as expected.

Darko Mihelic – RBC Capital Markets – Analyst

And when we think about the deposit program that you have with Schwab, how critical is it for you? I mean it's going to come due in 2036, I believe. Is that something that you'd like to renew? Is it a business that is core? Or is that also being considered?

Raymond Chun – TD – COO

Listen, we'll look at it all, but it's a great relationship that we have with Schwab. On the deposit agreement, part of the agreement is that there's a floor and in September 2025, the floor on that agreement is $60 billion, the cap is $30 billion – plus $30 billion. And so the cap is $90 billion. The floor is $60 billion. And so certainly, it's something that we like and it's a good relationship that we have with Schwab.

Darko Mihelic – RBC Capital Markets – Analyst

And so as a result of the asset cap, the review, I've received some concern from investors that say, look, will TD immediately try and match the type of EPS growth that they've done in the past? Will they try and work hard towards a relatively high ROE? And in order to do that, could that involve a very aggressive push in Canada in any shape, form or fashion. So how would you respond to that sort of concern that some investors have that you might go a little aggressive in Canada?

Raymond Chun – TD – COO

Yes. So let me address that in a couple of different ways. First, I'd say is that we do not need to move from our risk curve, to continue to grow. That's the 70% of our business in Canada, and that includes our Canadian P&C business, our Wealth and Insurance business and certainly, our TD Securities business on a global basis, that don't have any of the asset cap restrictions. We see significant growth opportunities and significant momentum in all of those verticals. And I'll talk about that in a second. And we can capitalize on the forward growth in those businesses without having to extend in any way on the risk curve and stay within our risk appetite. If I just look at the momentum that we have in our Canadian Personal and Commercial Bank in Q4, record revenues. We had robust growth in loan and deposit side. If you think about from a chequing account acquisition, record chequing account acquisitions in 2024.

We delivered on our Investor Day commitment to grow our New to Canada acquisition by 50% relative to 2022, and we delivered that by the end of 2024. And so we are absolutely the leader in Canada and New to Canada acquisition, which is 100% of the growth of Canada. So it's a market space you have to win and it's a critical segment of customers, and we're focused on that.

You overlay the fact that we have the #1 credit card portfolio from active cards in market. We crossed a milestone in 2024, 8 million cards now in market. The #1 small business bank in Canada also. And so from a commercial banking perspective, now you've seen two consecutive quarters of deposit growth. Q4 on a quarter-on-quarter the deposit growth would have been peer leading on that side of it. And from a full year loan growth, we've outperformed the peer average in 2024. So terrific momentum in the Canadian P&C business.

On the Wealth side of the business, the business that I've had a chance to run both of these businesses, Wealth and Insurance. On the Wealth side of the business, again, record revenue for Q4 driven by strong asset growth. We're seeing higher trades per day. Just take a look at our Wealth business and the significant upside opportunity. I mean we have the #1 direct investing business in Canada, 40% market share when you look at the top 6 banks from an AUA perspective. We're continuing to lead in direct investing from an innovation. I think all of you would have seen that we've made a significant investment in our active trading platform. It is the most sophisticated leading active trader platform in the country, and we're starting to see significant uptick on that side of it. We then launched what we call partial shares or fractional shares. We're the only Canadian bank in direct investing that offers this capability. This is a game changer for retail investors. And so we're seeing not only significant wins from that side, but customers are switching their direct trading accounts because of this capability, and we're the only Canadian direct investing company or bank that has that.

And then you look at the fact that we're the #1 institutional asset manager in Canada, and that in 2024, we had the largest market share gain in ETFs. So terrific momentum across our Wealth businesses, Insurance and as all of you know, we're the only Canadian bank that has a general insurance business. We're now #3 in home and auto insurance in Canada, the #1 direct insurer. We have made significant investments into the Insurance business to modernize the platform from a technology perspective, and now we are the leading digital insurer. Darko, 40% all of our new business in insurance is done straight through processing. So the marginal cost of a new policy is significantly lower than our competitors. And so the expense advantage that we already had as a digital player is even more magnified now as we move forward. And I think that's a business that will continue to add terrific fee business for us.

And then finally, when I look at the TD Securities-TD Cowen integration, which has gone incredibly well. And it really is because we have two companies that had very different capabilities that are coming together.

On the TD Cowen side, we now have the equity capital management for the U.S. We have U.S. equity research in one of the leading research teams in America. We've entered new verticals like health care, biotech, that will be significant for us as we move forward. And so now, for the first time, we have a fully integrated North American dealer as we move forward.

And so on your question, on can we continue to deliver from an EPS, ROE. When I look at the momentum that we have in these businesses and the significant growth opportunities in those businesses, as we revisit how to reallocate our capital as a part of our strategic review, I think you should expect that we are going to accelerate our momentum and continue to outperform against our peers as we move forward.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Thank you for that. And I think I wanted to just come back to some of those things. But before I do, let me just – I mean, we could sit here and dance around the topic of AML, but let's not dance around it. Let's talk about it a little bit. So I wanted to give you the opportunity actually to talk about the AML remediation program. And maybe a couple of things that I think the audience would like to hear first and foremost is, what can you share about the efforts so far? I'm thinking about hiring, technology, monitorship. What is it that you can share so far on the program?

And then the second part of the question is: I have a concern, as many do, that although you've outlined these costs, these costs can creep as time goes on. So maybe you can talk about what you've done so far and then address the concept that there's going to be potentially some cost creep here.

Raymond Chun – TD – COO

So I'll tackle both. On the AML remediation, as we've been saying all along, it is the #1 priority for the organization. It is my #1 priority as the incoming CEO. And so – although the global resolution was announced on October 10, one thing I did want to get across to everybody is that we have been working on the AML remediation for some time now. And so we have a very detailed action plan with critical milestones laid out that we will need to achieve. And our expectation is that by the end of 2025, the majority of the management actions will be completed.

And so – and then you've got to go through some of the data, the technology, but also we then have to have the internal audit validation, sustainability. And obviously, we need to then have the regulators come in and test and do the sustainability there. So this is a multiyear journey. And we are making good progress on our AML remediation, but there's still significant work to be done. We have set up an AML remediation office, Darko, staff specifically to deal with the regulators, but also make sure that we stay on track with the milestones and the timelines.

What we'll commit to everybody here is that on a quarterly basis on our analyst call as we move forward is that we will update all of you on what milestones have been completed, what's the work that's required in the next quarter. And so that you have good transparency around the work and the pace and the progress and are we on track to deliver on our commitments on our AML remediation.

From a talent perspective, we have had terrific response in acquiring and attracting top talent in this space. And so whether it's AML subject matter expertise from other large U.S. banks that have now joined us, to law enforcement leaders, senior regulatory agency leaders that have come across, are adding the subject matter expertise. And so we've made a significant investment in talent, not just at the executive level, but at all levels, first line, second line, third line. We've added in risk, we've added in audit. From a technology perspective, we have already invested in enhancing our monitoring, our detection, our capabilities around analytics, data. And so we are making significant investments, and this is the progress that I'm talking about, Darko.

Having said all of that, I just want to keep reinforcing that it is a multiyear journey. We are on pace but we'll continue to update everybody as we go along on that side of it. From a cost perspective question, the one part that I would say as part of the consent order is that there is a look-back period over the next – and that we need to still go through. And so as we go through the look-back period, there may be some things that come up that will require additional investments.

But as I said, we've been at this for a while now. And so we have a good understanding of what the work is that's required, the resources that will be needed, and we now have the talent inside of TD to deliver against the milestones that we've laid out. From a monitorship perspective, we've made progress there. And if you go back, you'll see that from a monitorship perspective, we submitted our list of candidates for the monitorship to both the DOJ and FinCEN. And just fairly recently, they both have now approved using the same monitor on a go-forward basis. And so we look forward to working with our monitor to making sure that we are delivering a market-leading AML platform.

Now I would just remind everybody in the DOJ and FinCEN public notes that the conversations and the reports from the monitor are confidential. And so we probably won't provide any more updates with respect to the monitorship, but other than the fact that it has been selected and we're moving forward with the monitorship.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Great. Thank you for the detail. And so one last question before I leave this whole topic. But it's one that as I sat through and I went through all of the details of the DOJ and the consent order and so on, there was one revelation in there that stuck with me, which was one of the things that you've done over a long period of time in the U.S. was you had kept your AML budget flat over a very long period of time. And that was considered to be a fairly big breach of what they were looking for. But from my point of view, I thought to myself, well, if you did it for AML, it's possible you could be doing this elsewhere.

It's possible that this might actually be a cultural thing at TD and that you might be suppressing budgets everywhere. So maybe you can speak to the decision-making process that led to suppressing that budget and speak to – and I don't know how we can really dive into this, but speak to whether or not this is happening elsewhere at TD?

Raymond Chun – TD – COO

Sure. Fair question, Darko. So let me – I think there's two big lessons learned that have certainly come front and center as we've come through this AML challenge. And first is that you need to have talent that is commensurate with the size and complexity of a bank of TD in this particular space. This is a dynamic space. It's an ever-evolving space from an industry perspective. And so talent at the most senior levels in AML is absolutely one of the top priorities that we have as an organization. And I just talked to you about the talent that we've now attracted. We have a new Head of U.S. financial crimes and risk management.

We have rebuilt the entire AML team in the United States. And the reason I mentioned this is that matters. Because that talent then will determine what investments are required, what capabilities are needed, what tools, what platforms we should be using. The other learning that we had was the importance of external benchmarking.

And so the combination of having the right talent and consistently doing external benchmarking will allow us to make sure that we are providing the appropriate resource funding and support to make sure that we're staying relevant. What I would say, Darko, is that at a macro level, if you look at our expense budgets over the last – at our expense growth historically, TD Bank has been growing our expenses probably disproportionate to the industry. And so we certainly have not not spent money. And our expenses on that perspective is did we spend it in the right places with respect to AML. And so – and I think now that we have the talent in our house, it's clear that we have opportunities, and we are accelerating as part of the AML remediation, the spend that's required and the commitment that's required over the multi years. And so that's on that piece of it.

On the – did we underspend in other elements or other parts of the organization? Having – personally having led the vast majority of the Canadian businesses – I've led the global Wealth and Insurance business, I've led the Canadian personal banking business. Those two areas make up the bulk of the Canadian bank. What I can tell you is that we have a very disciplined process on where we allocate project funding to make sure that we are investing in the things that we are growing responsibly, prudently and not only are we delivering for our clients, but we're making sure that we're delivering for all of our stakeholders.

So I feel comfortable and good around the investments that we've made. Part of the strategic review that we're actually doing, though, is to identify, are there areas where we need to modernize our platforms faster? Are there areas that potentially did have some underinvestment and we need to accelerate those investments? And then most importantly, are there areas of growth that we can accelerate by reallocating capital? And so that is a big part of the strategic review, and I'll share that with you guys as we come along.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Great. Just one thing that popped into my mind, though, as you were giving the answer on talent and external benchmarking. From my point of view, you could have had the most talented person in the world sitting in that chair. But if you said, no, hold your budget flat, that person would hold their budget flat. So I would think that there also needs to be some sort of structural change so that the very talented people at AML have the freedom with which to increase the budget. What would your response be to that?

Raymond Chun – TD – COO

I think the conviction that when you have the right subject matter experts and the conviction that those leaders have on the importance. And having the external benchmarking gives you a real sort of clear view on where you are ahead, where you are meeting the obligations that the regulators have said and then certainly in areas that we are behind, that we want to raise. And so talent does matter in this space. And I do think having the right senior talent with the right credentials and conviction makes all the difference.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. I wanted to shift gears now back to Canada – you spoke about your strength in Canada. And – we had an interesting discussion with Dave earlier about the renewal situation and interest rates dropping and your bank has a very ambitious goal for mortgages in the country. So maybe you can talk a little bit about the state of the mortgage market as you see it and what it is that TD will be doing here in the next year or two in the face of the great renewal?

Raymond Chun – TD – COO

Sure, sure. Let me just start at the macro level and talk about the mortgage market in Canada. And certainly, we saw a noticeable pickup in Q4 in sales and mortgage volumes inside of TD and as an industry at large. And that was even before the full effect of the 250 basis points decline had really played through. And so you're starting to – we are definitely seeing forward momentum in mortgage sales. And I was talking with TD Economics the other day, and for 2025, TD Economics forecast is that home sales would be up 16% year-on-year, but price would be up only 8%.

And part of that is that we have still an affordability issue here, obviously, in Canada. But what you have in the housing market is a tale of two stories right now in Canada. The growth in sales is really – and the momentum is on the detached homes and you're seeing significant activity in detached homes. Countering that is the softness in the condo market. And so that's why you're seeing home sales up 16%, prices up 8%. To be honest, if the condo sales are stronger, the year-on-year sales for homes may even be higher. And so momentum there, and it's going to be a competitive market, I think, in Canada as we come into mortgage – spring mortgage season.

And I'll talk about that in a second. If you think about renewals, I think from an industry perspective and certainly from a TD perspective, about 55% of our renewals come up in the next two years, probably about the same each year, year 1, year 2. So significant amount of renewals as you mentioned, Darko, that's coming. We view this as a terrific opportunity both to make sure that we're adding value to our existing customers. But also significant opportunity from an acquisition, refinance capability in the marketplace.

A couple of things to keep in mind, everyone, and I thought this was an interesting fact that my team shared with me that about 30% or 1/3 of the mortgages that are actually coming up in the next two years, had already renewed over the last couple of years. Is just that people had renewed into short term, 1-year, 2-year anticipating interest rates coming down. And so not everybody is actually renewing to higher rates. 1/3 of the renewals are actually probably renewing from higher rates according to TD Economics down to lower rates. And so from a credit perspective or a credit risk management perspective, you're probably already have seen the higher end of the PCLs from a RESL perspective, mortgage perspective.

So what are we doing at TD Bank, both from a retention perspective, but also to capitalize on the mortgage opportunities or the housing opportunities as we move forward. And so we start from a place, a principal at TD that we are absolutely centered on our customers. And being there for our customers in the moments that actually matter to them is critically important to me and to the organization. And I can't think of a moment that's more personal, more important than when people buy their homes.

And so owning that relationship, to me, is critically important. And so you've seen our focus around mortgages over the past couple of years. And let me emphasize our focus is around profitable growth. And that we have been continually taking market share. And the reason for that, as I've said before, is that we are a through-the-cycle lender, and we always have been. We play in every single mortgage channel. And so that's through the broker, through our proprietary mortgage sales force, through our branches.

And we just launched – and we're the only Canadian bank that just launched a direct channel for mortgages, and we're seeing terrific results from the direct channel. Our closing rates in the direct channel are 3x to 4x better than our referral leads that we get from other channels. And so that, plus the execution and the investment that we have made in mortgages around our technology, data, analytics, speed.

The other thing that we just launched at the beginning of this year is a specialization model inside of our branch network across Canada, where we're now having mortgage specialists in our branches. In our highest volume branches across the country, we have dedicated mortgage specialists inside of our branches and dedicated investment advisers inside of our branches as we move forward. And we think that's going to drive better closing and certainly a better experience for our customers. So I look forward to an active season. But our goal is to make sure that we are growing profitably and continuing to take market share as we go forward.

Darko Mihelic – RBC Capital Markets – Analyst

And I'm going to try and quickly to jam in some more questions here as we're running out of time. So I promised I'd go to the floor, so I'll stick to my promise. I have a couple of questions on credit quality. But the questions from the floor, the first one that's been upvoted is under an asset cap does the Schwab IDA agreement have less value to TD?

Raymond Chun – TD – COO

No, I wouldn't say that. What I would tell everybody, is under the Schwab agreement, we have the ability to manage the IDA in the sense that the floor is $60 billion, plus $30 billion at the cap end. And so we know exactly what we need to manage on that perspective. It is a valuable asset to have. And as I said before, it's one that we value with Schwab.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. And the second question, I promised to do at least two from the floor. So how does TD – this is an interesting one because I'm going to listen intently to your answer on this one. How does TD combat the record discount its shares are trading relative to peers?

Raymond Chun – TD – COO

Well, listen, I – what I've said is that if I look at the momentum of our businesses across Canada and TD Securities, I think in time, hopefully, the Street will recognize the performance and the value – if you look at the performance even over the last year in all of those businesses, they are certainly, in many cases, outperforming our competitors. And so the AML remediation has to be a focus and will be a focus. And in 2025, we'll be committing additional expenses to make sure that we're moving along that the remediation work. But if you look at the rest of our businesses and compare them, I would expect that our businesses will continue to outperform. And hopefully, that will then play through to our share price.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. I got time to sneak in one more question. So I think the – you spoke earlier about you don't have to shift anything risk-wise. You don't have to go out the risk curve. So – and I think of that as meaning, okay, PCLs. That's my immediate focus. But there's another part of this, which is market risk, and you've just got Cowen. And so maybe you can speak to how aggressively would you be willing to pour more capital into the wholesale business because I've covered TD for a long time since 1999. And I can remember, wholesale wasn't a thing. Wholesale wasn't something that TD liked. And now you kind of like it. So what should we expect from you being the new CEO stepping in saying, "All right, all systems go or why don't you tap the brakes a little bit."

Raymond Chun – TD – COO

Listen, on the wholesale, as I said earlier, for the first time now, we have a truly integrated North American dealer – and so the part of the fact that TD was undersized in the wholesale bank was that we didn't have some of the capabilities that we actually needed for customers both in Canada and also in the United States. And so bringing the – doing the TD Cowen acquisition was critically important for the TD Securities business. And so now that we have the scale and the expertise and the talent in our equity capital management inside of our equity research, what I would tell you is that as part of the strategic review, one of the things we're looking at is how do we accelerate investments in areas like prime brokerage and global transaction banking.

And so certainly, the wholesale bank, as we come through the strategic review will probably be a net beneficiary of getting more allocated capital to accelerate the growth because we now have the talent, the capability, the scale and the business opportunity, both in Canada and in the United States as we move forward. So it's an exciting time and we're just getting started. And if you look at the TD Securities revenue line, I mean, we've gone from – on a quarterly basis, generating $1.2 billion in revenue to now consistently generating $1.8 billion. So it's up 50%. And as I've said, the wholesale bank is just getting started on this next chapter of their journey.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. That was a great discussion, Ray. So as always, I'm going to give you the last few minutes of the floor to leave us with the key messages that you'd like to leave us with.

Raymond Chun – TD – COO

Sure. Maybe first and foremost, I'd say incredibly excited to assume the responsibility of CEO for TD Bank. We have significant growth opportunities across our various business lines. We have scale in our businesses. We're competitively positioned in the markets that we compete in globally. And so I would say the fundamentals of our businesses are incredibly strong.

And so if I think about how do we grow from this in a year from now, Darko, when I'm back here spending time with you, what would success look like in my first year as CEO? And maybe I would flag it into – break it into 4 parts. Number one, that our AML remediations are on track and that we have delivered the majority of the management actions that are required in calendar 2025. Number two, our strategic review and where we're going to allocate our capital is going to allow us to – would have accelerated the momentum that we have in our Canadian businesses and TD Securities.

Number three, and if I think about our U.S., that we will have completed the restructuring of our balance sheet in the United States, we will have completed our bond investment portfolio restructuring and a renewed focus to making sure that we are optimizing the ROE of our U.S. business on a go-forward basis. And then I would say, finally, number four, that we continue – that TD continues to be the destination of choice for top talent, and that our existing colleagues and our existing talent are energized and excited to continue to build the premier forward-focused bank in Canada.

And so lots of work to do in the coming year, Darko. I'm absolutely energized to – and start writing the next chapter of TD Bank. You know, TD is an incredible franchise, everybody. I've been with the bank now 32 years, and I'm excited that our best years in TD are still ahead of us. So thanks for the opportunity, Darko, and I look forward to coming back here next year and hopefully delivering against all the commitments that we just made.

Darko Mihelic – RBC Capital Markets – Analyst

All right. Great. Thank you very much. Thank you.