RBC GLOBAL FINANCIAL INSTITUTIONS CONFERENCE
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Material economic assumptions underlying the forward-looking statements contained in this document and/or on the conference call held to discuss these matters are set out in the 2024 MD&A under the headings "Economic Summary and Outlook" and "Significant Events", under the headings "Key Priorities for 2025" and "Operating Environment and Outlook" for the Canadian Personal and Commercial Banking, U.S. Retail, Wealth Management and Insurance, and Wholesale Banking segments, and under the heading "2024 Accomplishments and Focus for

PARTICIPANTS

Kelvin Tran
TD Bank Group – Group Head & CFO

Darko Mihelic
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PRESENTATION

Darko Mihelic – RBC Capital Markets – Analyst

Everybody, thank you for joining us this morning to continue the conference. And with me, to my left, is Kelvin Tran, the Group Head and CFO of TD Bank. So welcome to the conference, Kelvin.

Kelvin Tran - TD - CFO

Thank you for having me. It's great to be here.

Darko Mihelic – RBC Capital Markets – Analyst

So I think we're just going to dive right into questions right off the bat, and obviously, the big question of the day is going to be tariffs.

So we'll spend a little bit of time talking about tariffs and potential impacts. And I guess the first thing is maybe you can discuss your expectations and what you're thinking today and how you think you're going to manage through this period of what could be a lot of volatility.

Kelvin Tran - TD - CFO

Yes. Very topical. It changes by the day, as you can tell. So when I think about tariffs, obviously, it's generally negative for the economy. But we're a strong bank. We're well capitalized. We have lots of balance sheet flexibility. So our thoughts are really about our customers and our clients. Banks see different cycles over time, and we know how to manage this. And there's always going to be uncertainty. We just need to be nimble and agile. But our customers and clients, this may be their first take at this uncertainty.

So we want to make sure that we're here for them. Some would need advice, some would need contingency planning, some may need balance sheet and capital support. So the first thing is making sure that our customers and clients are okay.

Then to navigate through uncertainty, we think about managing cost. And in this time, I'm thinking about two types of costs. There are credit costs and then operating costs. Operating costs is continuing to drive productivity and prioritizing our investments. And then on credit cost, it's really about, first and foremost, prevention. If you're fretting about credit risk at this point in time, it's too late. It is about having years of responsible growth, having a consistent through-the-cycle underwriting standard, being prudent, being adequately reserved. And in Q1, we built a reserve of about $150 million to take into account some of this uncertainty, and we'll see what's going to happen in Q2.

But credit cost is top of mind. We're very comfortable with the credit quality of our book due to factors that I mentioned earlier. And also, we do stress testing and we run scenario analysis. We know what to monitor and what to look for. And we're also ready. We have a downturn readiness playbook. We monitor different leading indicators and we have action plans, so we're ready.

And then I would say the rest is about managing the different impacts to our balance sheet and income statement. And there are some negatives but there's also some positive coming out of this. If you indulge me, I'll spend a little bit of time on that.

Darko Mihelic – RBC Capital Markets – Analyst

So let's go, I want to hear this one.

Kelvin Tran - TD - CFO

All right. So on the pressure, obviously with uncertainty, businesses are pausing. They're holding back on their investments. So that would put pressure on loan growth, especially on the corporate and commercial side. It could also impact on consumer confidence if that spreads wider. So that would impact spending, maybe travel as well. Now the good thing for us is that our credit card space is in travel and luxury. And so it's a different type of customer and they may be less impacted by these events in the short term. And then if the central bank cuts rates, that would have a negative impact on margins.

And then for Wealth and TD Securities – the capital markets business – if equity indicies drop, then that would impact the levels of fees and then maybe on advisory businesses in capital markets. But on the flip side, you would have seen last year, as rates were coming down, you see less migration from core deposit to term. And so with an uncertain market, you would expect people to save more. And so that would mean further lower rates, less migration to term but then growth in core deposits. And we're very strong in that space. That's a high-margin business so that's good for us.

And then with market volatility, there's going to be more trading, and that would be helpful to the Global Markets business in TD Securities and also for Wealth, where we have the direct investing business. And in this environment, you see a stronger U.S. dollar. So that means the translation of our U.S. dollar business net-net is a positive for our bottom line.

And then also for advice across all of our clients. They're seeing uncertainty, they understand the value of having a strong bank supporting them, strong bankers providing advice. So I think that is actually an opportunity for us to further solidify these relationships, deepen those relationships and acquire new clients. So those are some of the positives and negatives.

Darko Mihelic – RBC Capital Markets – Analyst

It's a pretty good laundry list. But I think on balance, do you come out positive or negative?

Kelvin Tran - TD - CFO

On balance, it would be negative in the short term. But then I would say we don't think about customer relationships at just one quarter or the next quarter. We think about these as a great opportunity to deepen those relationships for life.

Darko Mihelic – RBC Capital Markets – Analyst

That makes sense for sure. So maybe just sticking with the credit quality theme. And for those of you in the audience, the banks reported last week. So we saw the results just last week. So in many ways, I'm still actually digesting some of the stuff that I saw. One of the things that I didn't see was a large build of reserves. So maybe you can discuss that. And for context, there was a scare on tariffs and then it kind of went away and then it came. So you must have been running scenarios and have some idea. So maybe you can talk to why there was no large build? And what would it take to build a large reserve?

Kelvin Tran - TD - CFO

Sure, sure. So I'd say at a high level, there's still quite a bit of uncertainty, think about Q1, early talks. And then even this week, it changes quite a bit. So we'll monitor that. We're running scenarios obviously internally. We think the exposure is manageable. In terms of builds, it is based on the IFRS 9 model, and that is a forward-looking model. We have a forward view, you do a base case, an upside and the downside case. And so the way I think about it is anchoring on changes to economic forecast.

Because if you start from the base case, that is the economic forecast on GDP growth and the unemployment rate; the unemployment rate being a big driver of consumer delinquencies. And so if you see significant downgrades of the economy through economic forecasts, then the base case would drive a higher PCL. And then depending on the variability of potential outcomes, then the probability and the severity of the downside case could widen as well. And so I'll watch for that as an indicator for driving a higher performing PCL level.

Darko Mihelic – RBC Capital Markets – Analyst

And so the concept of significant uncertainty, in my mind, would suggest that maybe you have to put a higher weighting or higher probability on the pessimistic case. Is that something that you've done? And can you maybe discuss the possibility that these tariffs come off and on and off and on, and we have strange outcomes here? Is it possible that even if they come off tomorrow and today that we still end up in a place where there's so much uncertainty that you have to put a higher weighting on the pessimistic scenario. Is that possible?

Kelvin Tran - TD - CFO

Yes, it is possible. Because the downside scenario, you look at it two ways. You look at how severe the downside scenario is and then also the probability. And so when you have high variability, on one hand, you can say, I'm going to make the downside even more severe. So that could be a driver. Or you're saying, well, the downside is already severe enough, but because there's so much variability, so much uncertainty of different outcomes, that may drive a different weighting. And so those are the two factors.

Darko Mihelic – RBC Capital Markets – Analyst

And then there's, of course, the expert credit judgment overlay.

Kelvin Tran - TD - CFO

Yes. So the expert judgment, **–** a very good point **–** is whatever is not embedded in your model. And so then you use your expert judgment to provide an overlay on top of that.

Darko Mihelic – RBC Capital Markets – Analyst

And so maybe just stepping away from the reserving model and that sort of black box and thinking about, well, here we are. We've got a pretty difficult set of tariffs in place for Canada. A lot of economics teams are suggesting it could be very harmful to the economy. So maybe you can give us an idea as to what parts of your business are rather sensitive to what we just are enduring right now? And give us an idea of your sort of exposure to places where we think there will be issues like aluminum, auto, manufacturing, forestry. I mean, is there anything you can provide today to give us a sense of how sensitive you are to this?

Kelvin Tran - TD - CFO

Yes. I'd say that banks are, in a way, a proxy of the general economy. And so there's first order effect and then secondary order effect. And so the immediate impact would be on non-retail exposures. So we look at sectors such as auto, agriculture, manufacturing. And since the tariffs impact is quite broad, you could actually go on, the list could be quite long. We actually disclose the different sectors and the exposure that we have in our investor slides at quarter-end. So if you go there in the appendix, you could actually see each of those areas.

And then if this gets prolonged and there is a change in consumer sentiment and businesses dial down their investment or divest and really shrink, then you have higher unemployment rates. Then that seeps into the bigger economy. And there, what we will be looking at is credit card exposure and auto loans. So those would be the ones that we would look at. And RESL could be impacted, but you have a good collateral there. As a matter of fact, with rates coming down, if consumer confidence improves, that could actually be a benefit over time.

Darko Mihelic – RBC Capital Markets – Analyst

And so is it something that TD is contemplating that there could be layoffs coming relatively quickly on the back of this? Or what is your base case sort of view right now as we sit here today?

Kelvin Tran - TD - CFO

There's still a lot of uncertainties. I mean, is it on, is it off? What's the percentage? So we're going to monitor it closely and see how this plays out.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Fair enough. And by the way, I will take questions from the audience. So don't be shy. If anybody has a question, please raise your hand and we can lob it up here at Kelvin.

Kelvin Tran - TD - CFO

Sorry, so right now, we've been talking about tariffs, but we haven't really seen government and central bank actions yet. That would be important to take into account into our model as well.

Darko Mihelic – RBC Capital Markets – Analyst

It's something I thought about, too. I mean, could we see, for example a reemergence of deferrals, things like that? Like mortgage payment deferrals, for example, to help the consumer out, I don't know, take it a step further, try doing something like that with a commercial broker.

Kelvin Tran - TD - CFO

Anything is possible. You look at what people do, they look at the tool kits that are available to them. And actions are taken by different parties during the pandemic could all be on the checklist. The challenge for governments and central banks would be to use those toolkits too prematurely. Because if you do it too early, before a real crisis happened, you could actually shock the system. Like what do they know that the rest of us don't know? And so they have to take the appropriate measure at the right moment, and that's why it's a little bit tricky to have a quantification at this point in time. Let's see how that plays out.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. So maybe moving away from credit and talking a bit about your U.S. business. I'm sure everyone is well aware that there is an asset cap that's been imposed on TD and its U.S. business. And you've now brought your assets down well below the asset cap, and you've been undergoing some balance sheet repositioning that's been helping you out as well. So I think maybe if you can just discuss the progress that you've made with the balance sheet repositioning, what you've done in the balance sheet. And maybe you can speak to sort of next steps with respect to the repositioning and any other next steps with respect to the U.S. business while operating under this asset cap.

Kelvin Tran - TD - CFO

Sure. So when we were going through the quarter, we're very pleased with the progress. I looked at what we needed to do, check, check. So let's talk about the balance sheet size. So our goal was to reduce the balance sheet by about 10%. At the end of the quarter, the U.S. balance sheet was about US$402 billion versus a cap of US$434 billion. So that's about US$30 billion of room that we created. And then post quarter end, we sold about US$9 billion of corresponding lending mortgages and loans, which is expected to close in Q2.

So combined, we've created about US$40 billion of room. We're very pleased with that. That gives us room to support our customers and the community. And we're not done yet. There's still opportunities to look at other assets that are less profitable over time. And then on the bond portfolio repositioning, also very pleased with the progress. We repositioned US$19 billion of bonds. Our goal was to generate about US$300 million to US$500 million in additional NII for the year. And we believe that once this program is completed, so by mid of this calendar year, we'll be at the upper end of that range. So think about the upper quartile box.

In terms of how much and where we'll do more, it's going to be part of the strategic review that we're doing, looking at asset allocation, simplifying our portfolio, looking at capital and where we would be deploying it, and based on those, we'll make decisions accordingly. And then in terms of U.S. businesses – and as you know, AML remediation is our top priority. But we're here for the customers and we see opportunities to deepen those customer relationships in Wealth, continue to add advisors, getting referrals from the consumer bank, adding to consumer loan exposure, that would be credit cards, we like that space, and then continue to leverage all the relationships on middle market commercial banking clients and working very closely with TD Cowen. So those would be the three areas.

Darko Mihelic – RBC Capital Markets – Analyst

And maybe just to follow up on some of the things that you were just chatting on. First, with respect to the bond portfolio repositioning – what about the losses on the sales? Have they been within the range? And how comfortable are you with it?

Kelvin Tran - TD - CFO

Yes, they're within the range. So we said the losses on an after-tax basis for both the sale of the loans and bonds to be about US$1.5 billion on an after-tax basis. And we're within that range.

Darko Mihelic – RBC Capital Markets – Analyst

And so clearly now with the sale of the Schwab stake, you have plenty of capital. Now maybe you can give us -- you can size this for us, just for those of you in the room, they have just under US$400 billion balance sheet, repositioning US$50 billion. How much more can you reposition? How much more bonds are in that? What's the possibility? What's the upper end of the balance?

Kelvin Tran - TD - CFO

So we haven't disclosed that yet, but it really depends on the level of interest rates and the credit spreads that are available in the market. And so we'll see as it goes.

Darko Mihelic – RBC Capital Markets – Analyst

And so there's a few other things that we can do here at TD that you have at your disposal because you've got lots of capital. Now first of all, maybe you can touch on the buyback and just give everybody a reminder and how active are you on the buyback. I think it just started, right?

Kelvin Tran - TD - CFO

Yes, we just started the buyback. And our goal is to buy back up to 100 million shares, about $8 billion in capital that is allocated to that over the next 12 months.

Darko Mihelic – RBC Capital Markets – Analyst

And you were able to generate capital in the quarter organically.

Kelvin Tran - TD - CFO

Yes.

Darko Mihelic – RBC Capital Markets – Analyst

So conceptually, even though you have a very large buyback and you intend to use it, you still have the capacity to actually build capital. So I think you guys left the door open to more buybacks after this one is complete.

Kelvin Tran - TD - CFO

That's right. So our process is to go through the strategic review, look at the asset allocation, which businesses we want to grow. And then after that, depending on the environment, if there's room, then we will definitely consider it.

Darko Mihelic – RBC Capital Markets – Analyst

And then the other thing that we heard about potentially is the potential for restructuring. But as I sit there, I think it's going to be – when I think of the structuring, I think of maybe bank-wide. Or were you guys thinking more – I just want to clarify, were you thinking more U.S.-oriented sort of restructuring? Or is it really TD bank-wide?

Kelvin Tran - TD - CFO

So restructuring is really an outcome on how we want to run the business rather than a goal itself. And so as part of this strategic review, we're also thinking about, well, how do we organize ourselves? And you would have heard Ray talk about moving accountability closer to the business. And so depending on that, whether there's any outcome, but also on whether certain businesses are being exited or not. And then we continue to drive productivity. So we have to think about which space we can take productivity and get savings out of to reinvest in other areas of priority.

Darko Mihelic – RBC Capital Markets – Analyst

And so maybe just touch on the, since we're still speaking mostly about the U.S. business, the AML remediation. Can you just give us a bit of an update on where you are in that program? And when I think of the AML remediation, I'd love to hear your – there's a lot of work being done this year and then you kind of move into a different phase. And what I'm curious about and what most investors are curious about is, is there any phase in the AML remediation process where it's perhaps more likely that you have expense overruns or the chance that you actually exceed your budgeted expense for the AML remediation? So maybe you can give us an idea.

Kelvin Tran - TD - CFO

Sure. AML is top priority for us. And what's important to know is that this is a multiyear program. And there's no magic or silver bullet. I think that's the key point here. It's going to be a series of improvements, enhancements that we need to make and altogether makes up a robust program. And so if you look at our investor update at the end of Q1, we're pleased with the progress we've made. And when we look out, we provided additional disclosure on what to expect for Q2 and Q3.

And the areas are continuing to enhance our investigative capabilities. So that would mean adding talent and also just refining our procedures on how to investigate and analyze customer transactions. So that will be one. Another one would be continuing to implement more scenarios to help transaction monitoring. So that's really important as well. So we continue to advance in that regard. And then third would be leveraging machine learning on data analytics capability. So again, these are examples of things that we want to do. And together, it would enhance the entire ecosystem.

Darko Mihelic – RBC Capital Markets – Analyst

And is there any kind of stage at which we should be a little more thoughtful about costs?

Kelvin Tran - TD - CFO

They're all thoughtful. I'm watching it carefully, but we need to spend what we need to spend. And as you would have known, we have appointed a monitor in place. We're working with them. So those are important steps that we need to take.

Darko Mihelic – RBC Capital Markets – Analyst

I appreciate it's very early in the process. So there's a lot of time and this could be...

Kelvin Tran - TD - CFO

Yes. That's right. We're being mindful of the expenditure but also hitting the right metrics at the right time.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. And then maybe turning around and speaking about not the U.S. business, so the other businesses. So given the capital situation now at TD, you have a very robust capital position. The question that I get frequently from investors is, will TD really try to deploy that capital aggressively in other parts of the business, whether it's Canada, whether it's TD Cowen, you name it? But the environment isn't really one that's conducive to a lot of organic growth. It doesn't feel like it anyway. It feels like many of your customers would be right now paralyzed. So what would you say to that? First comment is, is TD aiming to deploy that capital aggressively in certain businesses? And how would you respond to that? And then second, I'll probably have some follow-ups, but...

Kelvin Tran - TD - CFO

Sure. I mean, to be honest, there's never a good time to be too aggressive on anything, whether it's a good environment or bad environment. There's a saying internally that we don't do bad loans in good times so that you could do good loans in bad times. So even in good times, you don't want to be aggressive. It's just not the right thing to do. But we see a huge amount of opportunities to grow organically just on a One TD approach. So if you look at just in Q1, we have great business momentum across all of our businesses in Canada, Wealth and Wholesale Bank. In CAD P&C, we're able to grow both sides of our balance sheet while maintaining stable margins. And those are key metrics.

And we continue to invest in the branches like adding more mortgage specialists. In our credit cards, we had record card spend and active accounts. So that continues to perform. We had record auto origination in Canada, and we added a number of dealer floor plan relationships. And so that continues to do really well. And then on Wealth, record earnings, revenue in our first quarter. Insurance, gross premiums grew at 13% year-over-year. And then for the Wholesale Bank, it was a good quarter. It was not a knockout quarter, in terms of environment. But we had a record revenue quarter. We hit $2 billion in the quarter for the first time. So I think we have a huge amount of opportunity to deepen client relationships, acquire new clients without going out on the risk curve or pricing aggressively.

Darko Mihelic – RBC Capital Markets – Analyst

So I don't think of it as going out on the risk curve. That's not what I typically envision you potentially doing. What I envision is potentially staying within your risk appetite but pushing up the cost of acquisition of a customer a little bit. Like why not, right? If you've got the capital and if you're TD and you're really strong with your customer relationships, push the cost of acquisition up a little bit. Is that not something that...

Kelvin Tran - TD - CFO

Well, we'll do it if it makes sense, right? Like when we look at customers, if you have customers on the list, somebody that you wanted to acquire for a long time or deepen those relationships. If it's worthwhile through – when you think about the life of the customer, then it may be worth your while. But that's not something that we set out to do. Every day, we go out, do business, support the customer and do what's best for them.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Any last chance from the audience? Because I'm going to wind down here with a couple more questions. So if anybody has anything, raise your hand now or – no? Okay. And so maybe just on that, with our last couple of minutes here. I did want to touch on loan growth and what you're seeing. What is the early read here from your customers on – I mean, have you got a bit of a temperature of the customer in the middle of all this uncertainty? And do you think there's a chance here that loan growth disappoints in 2025?

Kelvin Tran - TD - CFO

For sure, the customers are pausing right now. I mean, coming into the quarter before all this discussion about tariffs, even if people think the economy is slowing, you will see customers going, "Okay, well, even if the economy is slowing, it could be still a good time for me to invest and maybe to drive productivity so that my cost base is lower." But when you have a huge amount of uncertainty, people just pause and step back and wait, take a wait-and-see approach. So hoping that this gets resolved one way or the other, that would remove the uncertainty so that customers can then make the right decisions.

Darko Mihelic – RBC Capital Markets – Analyst

But you haven't had much feedback yet? Is it fair to say? It's still too early?

Kelvin Tran - TD - CFO

Well, we've seen some, and that's the wait-and-see approach that we've heard.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. And so what would be your key takeaways here for everybody? Recognizing that it's a very volatile time. You just reported earnings last week, so the numbers are there. What would be your key sort of message to shareholders today?

Kelvin Tran - TD - CFO

Yes. I would say if you look at the economic cycle over time, I've been in my role now since 2021, and I don't remember any particular year where we don't talk about uncertainty. There's always something that bothers people. There's always some uncertainty out there. We're a strong bank. We are agile, we're nimble, we will adapt. And so it's making sure that we're doing the right thing for the customer and being consistent through the cycle. And that's how we'll win.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Great. Well, with that, we're in our last minute here. So we'll wrap it up there. And thank you very much, Kelvin, for your time to speak with us.

Kelvin Tran - TD - CFO

All right. Thank you, Darko. Thanks, everyone.