TD BANK GROUP
TD BANK GROUP ANNOUCES RESOLUTION OF AML INVESTIGATIONS
OCTOBER 10, 2024

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Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2023 MD&A under the heading "Economic Summary and Outlook", under the headings "Key Priorities for 2024" 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 "2023 Accomplishments and Focus for 2024" for the Corporate segment, each as may be updated in subsequently filed quarterly reports to shareholders.

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 law.

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PRESENTATION

Brooke Hales – TD Bank Group – Head of Investor Relations

Thank you, operator. Good morning and welcome to TD Bank Group's conference call.

We will begin today's presentation with remarks from Bharat Masrani, the Bank's CEO, after which Leo Salom, President and CEO, TD Bank, America's Most Convenient Bank, will discuss TD's balance sheet flexibility and financial strength in the U.S. Next, Ray Chun, TD's incoming Chief Operating Officer, will offer comments on the Bank's scale, resilience, and strategy. Finally, we will invite questions from pre-qualified analysts and investors on the phone.

Also present today to answer your questions are: Ajai Bambawale, TD's Chief Risk Officer, and Kelvin Tran, TD's Chief Financial Officer.

As noted on Slide 2, our comments during this call may contain forward-looking statements, which involve assumptions and have inherent risks and uncertainties. Actual results could differ materially. Additional information about material factors and assumptions and risks is available on our website and in the Material Change Report dated October 10, 2024, which is available on SEDAR+.

With that, let me turn the presentation over to Bharat.

Bharat Masrani – TD Bank Group – Group President & CEO

Thank you, Brooke. And thank you, everyone, for joining us today.

Money laundering is a global threat, and as we have said before, there were serious failures of our U.S. AML program. Our U.S. business did not fulfill its obligations to protect against money laundering. We've taken full responsibility for these significant failures – and I have taken responsibility as this happened on my watch as CEO.

Following several years of active cooperation and engagement with authorities and regulators, today we announced that TD has reached a resolution of the previously disclosed U.S. AML investigations. The resolution with the DoJ includes Plea Agreements.

The monetary penalties are largely in-line with TD's previous disclosure – the Bank will pay a total of US$3.09 billion. We do not expect any further monetary penalties related to the U.S. AML investigations.

The OCC Consent Order includes an asset cap applicable to TD's two U.S. banking subsidiaries. The total assets of these two subsidiaries cannot exceed US$434 billion, their total assets as of September 30th. The asset cap does not apply to TD Securities or any of the Bank's Canadian or other global businesses. The OCC Consent Order also includes more stringent approval processes for new bank products, services, markets, and stores in the U.S. to ensure the AML risk of these new initiatives is appropriately considered and mitigated.

Each of the OCC, FRB, FinCEN and DoJ have imposed remediation requirements with respect to TD's U.S. AML program. There is significant overlap in these requirements. We continue to work with the regulators to ensure there is coordination to enable the Bank to fulfil the remediation requirements efficiently and effectively.

Both the DoJ and FinCEN will appoint a Monitor to review, assess, and oversee our AML remediation. We anticipate one Monitor to act for both organizations, but this will be the decision of the DoJ and FinCEN. We are committed to working successfully with the Monitor to enhance our U.S. program and meet our obligations under the terms of the resolution.

The resolution also requires oversight of the Bank's AML remediation efforts by all U.S. Boards and the Parent Board, which TD already has in place, beginning with the establishment of a special committee of our U.S. Boards last summer.

Board certifications will be required for dividend distributions from our U.S. subsidiaries to the Parent to help ensure TD continues to prioritize the AML remediation. The resolution does not impact TD's ability to pay common share dividends from the Parent.

We will now focus on our AML remediation efforts, approach to operating under the asset cap, and our commitment to continue to serve our customers. We will also describe how we intend to reposition our U.S. investment portfolio, leveraging our strong capital position to lay the foundation for our U.S. business to deliver expected shareholder returns in the years to come.

With that, let me turn it over to Leo.

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

Thank you, Bharat.

If I can ask everyone to turn to page 4.

Our AML program remediation is essentially organized under 5 core pillars: People & Talent; Governance & Structure; Policy & Risk Assessment; Process & Control; and Data & Technology.

The progress we've made to date in our People & Talent and Governance & Structure capabilities have provided the strong foundation required to develop and execute on our broader remediation strategy.

We've appointed a new Head of Financial Crime Risk Management, with proven leadership and experience. And we have built a U.S. AML team with many other recognized executives and specialists from across the industry, including AML experts from regulatory agencies and law enforcement, as well as proven leadership across critical domains such as technology, data management, execution and delivery, modeling, automation, and advanced analytics. AML-related performance objectives have been clearly defined and aligned across leadership and teams.

We have also comprehensively redefined our AML governance approach, including redesigning our management and board oversight structure and program execution, while establishing clear mandates, and escalation and approval processes.

Today I am confident that TD has the right team and the right structure in place to oversee our BSA/AML program and remediation efforts.

Can I ask everyone to turn to slide 5.

We've already taken many actions to reduce AML risk and will continue to implement improvements, powered by investments in data and technology.

We know that completing all the required changes will take time. To date, we've implemented new technology solutions with stronger detection and data management capabilities, advanced analytics, and modelling capabilities. In addition, we've also strengthened customer onboarding procedures, and improved the thoroughness and timeliness of our investigations.

We expect to have the majority of our planned strategic solutions in place by the end of fiscal 2025 and all implemented solutions will be subject to internal challenge and validation. We will then work with our regulators to demonstrate the performance and sustainability of those implemented solutions. Now this is a multi-year endeavor, and we will continue to provide updates on our U.S. AML program remediation when appropriate.

While steady progress has certainly been made, we have significant work ahead. As we have said before, remediation of our U.S. AML program is the Bank's top priority. Is it my top priority. Our comprehensive remediation program is well-aligned to the regulatory requirements, and I am confident that we will deliver the required changes – and build the future of our U.S. business on a stronger foundation.

If I can now ask you to turn to slide 6.

Earlier in the presentation, Bharat described the asset cap included in the OCC Consent Order. TD AMCB will restructure its balance sheet to enable us to comply with the asset cap while creating loan capacity to continue to serve and support our customers' financial needs as they evolve – deepening relationships over time.

We will manage down non-scalable and niche portfolios that do not fit our focused strategy or that have lower return on investment. To that end, we intend to sell portions of our residential jumbo mortgages, correspondent lending, and EXIM lending portfolios. We will also selectively reduce our commercial auto dealer lending portfolio and other niche portfolios with a strategic focus on our retail and commercial clients.

In addition, investment maturities on our sizable investment securities portfolios are expected to provide additional balance sheet capacity.

If I can ask you to turn to slide 7.

Fiscal 2025 will be a transition year for U.S. Retail as we undertake a balance sheet restructuring to comply with and maintain a buffer to the asset cap. These actions will also enable us to operate within the requirements while continuing to meet our customers' needs.

We will reduce assets by approximately 10%, which will include managing down or selling certain loan portfolios. We expect the P&L impact to be substantially offset by the repositioning of our bond portfolio, as we sell lower yielding investment securities and reinvest the proceeds. The sizing and security selection will depend on market conditions. While these actions will require some capital costs to be incurred at execution, they will provide flexibility to adapt to the inherent uncertainties that arise from the resolution of the U.S. AML investigations.

We have also decided to reflect U.S. governance and control costs in the U.S. Retail segment, as we continue to advance our AML remediation work.

So there are a number of moving parts in the near-term and as we prioritize our AML remediation and restructure our balance sheet to create capacity to continue to meet our customers' needs. Over the medium term, these actions will position us to establish a strong, sustainable risk and controls infrastructure, preserve return on equity in the medium-term, and lay the foundation for the U.S. franchise to deliver expected returns for our shareholders in future years.

If I can now ask you to turn to slide 8.

TD's success in the U.S. has been driven by meeting the needs of our retail, small business and commercial customers and clients in the communities we serve along the Eastern Seaboard. Our businesses have proven resilient, delivering strong results through very challenging operating environments.

TD Bank, America's Most Convenient Bank, is a strong institution with a leading core deposit franchise and robust liquidity levels. We will continue to serve the needs of the 10 million clients and customers in the U.S. who rely on us to achieve their financial goals – including more than 675,000 small business customers, 25,000 commercial clients, and over 1,200 government banking clients.

With that, let me turn it over to Ray.

Raymond Chun – TD Bank Group – Group Head, Canadian Personal Banking, and Incoming Chief Operating Officer

Can I ask everyone to turn to slide 9.

Thank you, Leo.

While there is no doubt that we have significant work effort ahead, TD has the scale and resilience to deliver. We have almost $2 trillion in assets – making TD the 6th largest bank in North America. Our deposit franchise is second to none – a differentiated strength for TD on both sides of the border.

As a G-SIB, TD is held to high standards by our regulators to promote the stability of the financial system.

You can turn to slide 9 [sic].

TD has consistently maintained liquidity and capital ratios in excess of published regulatory minima, with a focus on holding sufficient liquidity and capital to help withstand stress. As a prudent risk management measure, in the near-term, TD is targeting liquidity coverage ratios above 150% for the Bank's Canadian retail businesses, its two U.S. bank subsidiaries, and TD Securities.

TD is in a position of strength, with a CET1 ratio of 12.8% as of our third fiscal quarter – and significant capital flexibility, if needed. As you heard from Leo, we are leveraging our strong balance sheet to reposition our U.S. investment portfolio – supporting the U.S. bank's return on equity over the medium-term.

The Bank has – and will maintain – the financial strength to continue to serve our 27 million customers and clients in North America and globally.

You can turn to slide 11.

In Canada, the Bank has momentum, leading market share, a diversified business mix that delivers strong returns through the rate cycle. We will continue to execute on our strategies across our Canadian retail businesses – where the opportunities are compelling as we deepen customer relationships by delivering on our One TD approach. At our Investor Day in June 2023, we highlighted medium-term targets for our Canadian retail businesses. We are on track to deliver on those ambitions.

In our Wholesale Bank, we are targeting a top-2 market share position in Canada. In the U.S., we continue to make good progress integrating the TD Securities and TD Cowen teams, deepening our client relationships, and gaining momentum across our banking and markets businesses. The opportunities in Canada and in TD Securities are significant. More than 70% of our TD earnings are delivered by businesses outside our U.S. Retail Bank.

This is a difficult chapter for TD. I want to underscore that we will make the necessary changes to put the Bank on stronger foundation. This is TD's number one priority – and my number one priority. Make no mistake, we will meet our commitments to our regulators and the DoJ, and we will get the job done.

Let me close with a message to our 95,000 colleagues. Their dedication and effort every day is tremendous – and I want to extend my heartfelt thank you to each and every one of them.

With that, operator, we can now open the line for questions.

QUESTION AND ANSWER

Operator

[Operator Instructions] The first question is from Ebrahim Poonawala from Bank of America.

Ebrahim Poonawala – Bank of America Securities – Analyst

Good afternoon, I guess maybe just one big picture question now that we have all these details out. Bharat I'm not sure if Alan is on the call, I think there's a quote in the press release talking about how the board is focused on addressing these failures.

So, I guess if Alan is on the call, he's been on the board since 2014. But Bharat now that all these details are out, I would love to understand, I get you're going to remediate these issues. What went wrong structurally? Is it a leadership issue? Was it a lack of information flow from the U.S. sub into Canada? Why these lapses happened?

I would love to know that structurally why did this happen with TD and not with the other banks, the Canadian banks that operate in the U.S.?

Bharat Masrani – TD Bank Group – Group President & CEO

Ebrahim, nice to hear your voice. Listen, we've been very clear. We had a major failure in our USA AML program. There's various reasons for it. We've talked about it. This is on us, we own it. We should have done better. We know what the issues are. We're fixing them.

As we move forward, we are ensuring that this never happens again. This is a sad day in our history, and for which we are very regretful and apologetic to all of our stakeholders because this is a terrible event for TD, but we know what we have to do to go forward. And this was a failure of our U.S. program, and we are fixing it and I'm 100% confident that we'll get to the other side and emerge even stronger.

Ebrahim Poonawala – Bank of America Securities – Analyst

Got it. I guess maybe one question for Leo, just around the expenses, I wanted to understand on the slide 7 – the control governance cost – is it just semantics that you're moving things around? Or do we expect another additional $500 million in expenses in 2025 over everything that's already been invested in '24 towards this – and Leo, do you have enough visibility where you can handicap that the investment spend tied to this is largely done?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

Maybe Ebrahim, maybe if I can take a step back. We've been hard at work now for well over a year in terms of developing a very detailed AML remediation plan, one that covers the entirety of the program and I feel very confident that we have a path forward that's very clearly defined. To that extent, we now have much more clarity with regards to the component parts, whether that be data, technology necessary to be able to bring that program forward.

What we're flagging with regards to the expenses is simply we want to move the expenses, now that we have that clarity, back into the segment, because I fully intend to report on a regular basis our progress on the AML remediation program as well as on the expense evolution over time. The US$340 million number that you see on the page – I'm sorry – US$350 – was the 2024 number that was actually incurred – expenses incurred, and it was reflected in the corporate center. We're just moving the geography and moving that into the segment.

Our expense for next year for the AML remediation program and related governance and control type activities is US$500 million. I expect that to be the peak of our expense run rate related to this remediation. But I did want to cite that I do expect that level to be sustained through 2026 as we continue to execute the plan of record.

But if I could leave you with one final thought on this, is I really feel exceptionally confident with the leadership team that we've assembled to actually execute against that. We've brought in a very seasoned BSA/AML officer for the U.S. We've brought in a terrific group of executives, over 40 titled officers, to support the actual execution of the program as well as the actual remediation activities and we've staffed the group with over 700 additional resources in both investigative as well as in change management roles. So a long winded way of saying we have a plan. We feel quite comfortable with it. We're executing it. And as I think Ray said, we will get this done.

Ebrahim Poonawala – Bank of America Securities – Analyst

That's helpful. Thanks Leo. Thanks Bharat.

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

The increase is really the US$350 to the US$500, that's how you should look at it.

Bharat Masrani – TD Bank Group – Group President & CEO

Consolidated.

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

From a consolidated basis.

Ebrahim Poonawala – Bank of America Securities – Analyst

Alright, incremental is US$150 next year versus what you already incurred this year. Got it.

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

That is correct Ebrahim.

Gabriel Dechaine – National Bank Financial – Analyst

I just want to follow up on some of these numbers on slide 7.

Firstly, the asset reduction, you're saying the US$200 to US$225 million hit in 2025 – you'll offset through higher reinvestment yields from some assets you're going to be selling, or have sold already – I don't know. It says accretive to NII over the next 2-3 years but in the brackets, it says that it's positive US$300 to US$500 in 2025. Is that just for perspective or is this actually going to happen in 2025?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

Hi, this is Leo again.

Just to give you a sense what we want to do with the investment bond portfolio is we have an opportunity to sell up to about US$50 billion nominal amount of low yielding securities. We're looking to sell those and reinvest the proceeds into a similar composition of assets but obviously yielding at a higher rate. The loss up front associated with that will accrue back into our P&L over the next three years with a slightly weighted first and second year profile.

That trade, which I know a number of our competitors have also implemented, we feel that will give us some short-term profitability that will offset some of the costs that we will be incurring both in loan repositioning costs as we exit portfolios that we deem to be less strategic, as well as we invest the balance of the proceeds in our regulatory program.

So, it's our way of being able to improve the near-term financial profile while taking the necessary steps that we need to make in terms of repositioning the bank to operate within the asset cap.

Gabriel Dechaine – National Bank Financial – Analyst

So the accretive NII stuff is going to be coming in over the two to three years period. This US$300 to US$500 million is some sort of a recovery from the US1.5 billion loss for whatever reason?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

Right.

Gabriel Dechaine – National Bank Financial – Analyst

And the US$1.5 billion one-time cost – it's a capital impact – is that for the U.S. sub only? Or is that going to be reflected in the top of the house CET1 ratio? Because I believe those would already reflect some AOCI losses.

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

Kelvin here. It also impacts the CET1 at the top of the house. And so the way to look at it is US$1 billion after tax is about 22 basis points hit. And so US$1.5 billion is about 33 basis points.

Gabriel Dechaine – National Bank Financial – Analyst

Ok, so when does that happen?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

As we execute it.

Gabriel Dechaine – National Bank Financial – Analyst

Ok, and then just on the – I'll wrap up here.

I thought at the end of June in your U.S. call reports, you had total assets of just over US$400 billion. And the asset cap that in your press release and the OCC – that's based on a US$434 billion number. So, you know in the span of three months, US$30 billion of assets were added to the U.S., I'm wondering how that happened?

Then I guess given that you do have U.S. – I'm thinking about loan growth here – the composition of your balance sheet, you've got a lot of excess deposits. You're capped but could you just reduce your loans to deposits ratio and still grow?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

There's maybe two questions there so let me take each one very quickly.

First from a liquidity standpoint, you'll see on page 7, we did say that we increased our available cash liquidity. We thought that was simply prudent given the fact that we took a large reserve in last quarter, or just a few months ago, and now we came out with the global resolution. We felt that it was prudent to keep a higher-level liquidity and we borrowed to raise cash against some of our HQLA investments. So that explains the sort of asset level.

To your broader question – and I think it is a very important question – so I'm just going to spend a moment on it. You know what we're trying to do is create capacity within the balance sheet, so by reducing total assets by 10% we want to be able to do two things. One strictly comply with the asset cap; we want to give ourselves a buffer so that we can honour our obligation to regulators under the consent order. But also, critically important, we want to make sure that we can continue to serve our existing clients as their needs evolve as well as be able to continue to serve the needs of our communities where we serve up and down the east coast. Both of those are critically important. So by doing the things that we've talked about here, that will give us the flexibility to be able to do that in the short term.

In addition, I think your point that you're raising is a valid one. Our total cash and investment portfolio as a percent of total assets is 45 percent. That would be higher than what you'll find at most other institutions. That investment portfolio does give us some flexibility in the future as well above and beyond what we're doing with this initial 10% reduction in terms of total assets. Long-winded way of saying I think there is flexibility to continue to serve our clients and respect the actual asset cap commitment that we have.

Gabriel Dechaine – National Bank Financial – Analyst

Ok, give me like a real-world example here though. Maybe thinking along the lines of the assets that you're getting out of, the loans you might be getting out of. There might be single product customers you want to give yourself some room for say a commercial client that you have that borrowing $20 million today that might you know grow and need $50 million in the future. You want to be to have enough capacity for that type of client, is that it?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

That's exactly right. Where we have either niche portfolios, portfolios that are not at scale and are not as profitable or to your point where we have pockets of portfolios that are not truly franchise, and they don't represent an element of our core strategy going forward. Those we had been – I should say we have been acting to reduce exposures in those areas. But with the asset cap we want to be much more deliberate.

I do want to come back to one thing though. I'm stressing the flexibility because it's important to us. We've served over 10 million clients including 25,000 commercial clients in the U.S. for the better part of two decades and it's important for us to be able to continue to do that.

But I don't want to round the corner on one simple point, which is getting this remediation done and getting it done completely comprehensively is my first priority. Nothing else matters if we can't do that and so that will have my complete attention over the next few months and quarters.

Doug Young – Desjardins Capital Markets – Analyst

Hi, good afternoon. Maybe just a few other, just want to clarify a few things from page 7 and apologize if some of this is redundant but I think it's important. Just first, on the cost side, Leo, so you're moving it from corporate back into U.S. Retail. So, none of the AML cost was going through the U.S. Retail in fiscal '24? So that US$350, US$500 – is all of what's being invested and that US$500 million is the peak that will stay up there? Like there's no incremental AML related costs that were in U.S. Retail above and beyond the numbers you quoted. Is that correct?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

Your point is correct, these are all of the AML change remediation and related infrastructural costs associated with the plan.

Doug Young – Desjardins Capital Markets – Analyst

And then second just to kind of simply. I think when you went through it with Gabe, just like you're reducing your U.S. asset based by 10% and then net of the cost of about US$225 million, you are expecting to pick up US$300 to US$500 million and the cost of that accretion is $1.5 billion and that is expected to go through fiscal 25.

Is that – it's like when I look at those two numbers – the US$225, US$300 to US$500, I would imagine you're going to pick up the yield immediately. So I'm just making sure that when we're thinking about modeling this for fiscal '25, we're not expecting that down in fiscal '25 and then a rebound in fiscal '26 and '27? Just want to get clarification on that.

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

Hi, it's Kelvin. So, the US$1.5 billion hit would be in 2025 and then the accretion really depends on the pace of the sale down and the re-investment over the year. But you're right that both would be expected in 2025.

Doug Young – Desjardins Capital Markets – Analyst

OK and then just lastly like I know in the OC setting, I think it was the OCC, they did talk about restrictions on stock buybacks. And you mentioned everything else around store openings and what not but there wasn't any mention – like do you have to go to, and I'm not suggesting you're going to be buying back stock anytime soon, and I kind of get that. But in future periods, do you have to go through the Fed or through the OCC to get approval for stock buybacks?

Bharat Masrani – TD Bank Group – Group President & CEO

It's Bharat. All the resolutions, all the agreements we have in the U.S. are related to our U.S. subs, they're not related . . .

Doug Young – Desjardins Capital Markets – Analyst

Ok, so not at the top of house. Ok thank you very much.

Meny Grauman – Scotia Capital – Analyst

Hi good afternoon. Leo, you mentioned something that I want to follow up on. You talked about the inherent uncertainties that arise from the AML resolution. So just hoping you could go into more detail there in terms of what you're referring to. Is that just the timing and pace of the repositioning of the balance sheet in the U.S. or is there something else that you're referring to?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

There's two things. If you look on slide 7, there's a lot of moving parts here and executing that and executing that during the course of 2025 will certainly be a significant work stream. I think the other thing that we've done is simply recognizing that this is a significant announcement for the marketplace. And it's going to be our obligation to steward the conversations with our clients and give them the confidence that TD will continue to service them as we have for the last two decades. But we're not taking that lightly, we have deep relationships with our clients. But this is a significant event, and we want to make sure that we manage that effectively.

Meny Grauman – Scotia Capital – Analyst

Bharat just tying it all together, just wondering how will your all bank medium term financial targets be impacted by this resolution, how should we think about that?

Bharat Masrani – TD Bank Group – Group President & CEO

You know we are in our Q4; this is the time when we do our plan, and we look at what the prospects are for the next couple of years as is customary from the bank. When we announce our Q4 numbers, we give you a sense for how we're feeling about the upcoming year and upcoming period. So, stay tuned, when we get to talk in the next few weeks with our Q4 numbers we'll certainly provide you more colour on that.

John Aiken – Jefferies Securities – Analyst

I apologize I haven't gone through the complete consent order, apparently there's a reason why I didn't go to law school. But are there any, is there any limitations on doing something like significant risk transfers or other measures of securitization or alternatively transferring some of the assets from the U.S. retail bank into other areas within the bank? Is there any restrictions on what TD can do I guess in those measures?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

John thanks for the question. The restrictions in the consent order, in the OCC consent order, are essentially two broadly, two significant ones from an operating perspective. The first one is the asset cap. You know, obviously, that we have to adhere to the level of assets as of this September 30th date.

And secondly there is a restriction from an operating perspective for us to limit our new product, new services, new markets, and store approvals. That will require two things.

That will require us to develop a process to evaluate AML risk associated with any of those activities and then once we have done that, any item that is deemed to have medium or high AML risk must be subject to OCC approval before we can proceed with any of those activities.

So those are the two most significant operating restrictions. There is a dividend certification restriction as well for any payments from the U.S. subs up to the parent and that is a certification for the parent to indicate that there is sufficient funding being allocated to the AML remediation program. So those are the restrictions per se. No other restrictions exist.

John Aiken – Jefferies Securities – Analyst

Thanks Leo, secondarily as this process has been evolving what has your discussions with your clients been like in relation to, I guess the negative headlines that TD has been buffeted by? And can you talk to whether there's been any change in your Net Promoter scores or however you value customer engagement?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

Obviously, John let me start maybe by reiterating what Bharat said. We've taken full accountability for the events that have transpired with regards to our AML program. We did not live up to the standards that we hold ourselves to from a risk and governance standpoint and obviously we've acknowledged that quite clearly with our clients. We're fortunate to have deep client relationships, many of which date back years, if not decades with our clients. And it is important to me that we continue to stand by them to signal that TD is going to continue to support them and continue to grow with them as their businesses evolve. And so, to me that is one of the most important things that all of our frontline staff are doing to just continue to reinforce and cement the relationship that we forge with those clients.

Paul Holden – CIBC World Markets – Analyst

Thank you, afternoon. A few questions for clarification. I guess starting with the capacity to upstream dividends from those U.S. reg subs to the parent, any reasons to believe that the US$500 million of AML expenses you plan to incur would be deemed not to be sufficient, i.e., are you seeing any reason today why the subs would not be able to upstream dividends?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

No, in short, we're comfortable with the forecast that we've put in place. It's based on that detailed remediation plan that I discussed before. The only hedge that I would make to that, is that obviously, as part, as you would have read in the consent orders, there's language with regards to look backs and additional certifications. That we'll certainly look at those and there could be some marginal smaller remediation efforts that might be required, but we're quite comfortable with the aggregate amount.

Paul Holden – CIBC World Markets – Analyst

That's helpful, thank you for that. And then you also highlighted that TD Securities does not fall under the consent order. So just to be clear on that, you do have the ability to put on wholesale loans in the U.S. under TD Securities with no asset restriction, correct?

Bharat Masrani – TD Bank Group – Group President & CEO

TD Securities is not part of the resolution here, so TD Securities can continue to conduct its normal course of business.

Paul Holden – CIBC World Markets – Analyst

Ok. And then final one because it's one I've heard a lot today and also in prior periods. But you always mention you're aiming for a global settlement; this comes across as a global settlement. But the question is, is there potential for any additional actions out of OSFI or does this cover everything?

Bharat Masrani – TD Bank Group – Group President & CEO

It's a U.S. situation Paul. As we indicated this resolves our U.S. AML issues. And obviously, we have normal course dealings with all our regulators, and you know we keep them in confidence as we are required to, but this does resolve our U.S. AML issues.

Lemar Persaud – Cormark Securities – Analyst

Thanks, I want to start off by I guess a question on slide 7 here. And just those three bullets from the balance sheet restructuring. So I'm wondering if you could just talk, like obviously, you have the negative impact of US$200 to US$225 from reducing assets, raising liquidity and presumably that's a negative impact there.

And then repositioning the U.S. portfolio. That's I think what you're suggesting there is a positive pick up. So, what's the net impact of those three items? Is it expected to be relatively neutral to NII or negative? Just trying to understand this a little better.

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

Thank you very much Lemar for the question. I would say that we think of 2025 as a transition year. We're going to use the year to be able to make the significant moves to be able to create that asset capacity to be able to comply with the asset cap and continue to serve our clients. So, I would expect that on balance this would be a slight drag to earnings in 2025 but it will allow us to be able to produce a stable earnings profile in subsequent periods.

Lemar Persaud – Cormark Securities – Analyst

So, what you're talking about is inclusive of the additional costs that are going to run through corporate. So slight drag inclusive of that. Ok that's helpful.

And then next, is there a possibility of a new restructuring program to offset some of these U.S. governance and control costs in U.S. Retail? Or is restructuring kind of not in the cards?

Bharat Masrani – TD Bank Group – Group President & CEO

We finished our restructuring program, very happy with how that has worked out. And I think Leo is really busy in remediating as he said, job number one. It's very hard to say that at some point, perhaps we may look at if there are any opportunities. But currently no, we're very busy remediating our AML program. That's our job one, that's our top priority. I think Leo has reiterated that as to how he's doing that.

In fact, it's probably worth Leo to talk about the various initiatives that are ongoing. I know we've said it before but since we are on this call, I think it would be useful for folks to hear all the extensive remediation that's already ongoing. Or maybe Ajai, you can comment.

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

Why don't I take this. From my perspective we're making steady progress in remediating our U.S. AML issues. Again, this is a cross functional undertaking. Our U.S. business lines are involved, our U.S. control functions are involved, but we're not stopping there. Whatever investments we make in the United States, we are using that for the benefit of the entire enterprise. So we're going to give the entire enterprise AML program an uplift. I think Leo, you outlined it. We're dealing with all stages of AML – prevention, detection, and reporting. And has Leo outlined the five pillars here – governance and structure, people and talent, data and technology, policy and risk assessment, and process and control.

And on governance and structure and on people and talent – those are foundational elements. I would say we've already made substantial progress there. On technology and data, that's one that's going to take a while. We've already overhauled our customer risk rating system; we're implementing a new transaction monitoring platform as well. On policy and risk assessment, there are new transaction monitoring scenarios that have been introduced, particularly focused on cash deposits, on withdrawals, on changing consumer behaviours. We've also broadened the coverage to ensure that all payment types are covered.

And then on process and control, a lot of improvements already made in looking at customer onboarding. We've been highly focused on high-risk, high cash customers. We've updated our KYC policies as well.

And I think Leo outlined, it's important everybody realizes here our goal is to put in majority of our planned solutions by the end of 2025. Having said that, this is still a multiyear program. And the reason why it's a multi-year program is we need time for internal review, for challenge, for sustainability, for regulatory review. And I think you know we're going to have a Monitor, so we're going to have to work with to in close cooperation with the Monitor to satisfy the Monitor. But the point I'll emphasize, this being taken very seriously at the bank, and we are determined to get to the other side of this.

Bharat Masrani – TD Bank Group – Group President & CEO

I hope that gives you a sense that Leo and the bank is going to be extremely busy. Yes, we have our business-as-usual activities which may involve some form of productivity and all that – that's ongoing. But job one right now is to get this remediation done.

Lemar Persaud – Cormark Securities – Analyst

I appreciate that. If I could, I have one big picture question, maybe for you Bharat. Obviously, there's a well-publicized case of one of your competitors that went through an asset cap, and the significant impacts it had on their net income growth. Obviously, at TD it's different because it's only applying to your U.S. Retail business. So, I'm wondering, can you talk to us about the knock-on impact of other businesses from this U.S. Retail asset cap. Do you feel like you could make up the earnings by allocating excess capital to other businesses? Is that a fair assumption?

Bharat Masrani – TD Bank Group – Group President & CEO

Lemar, I don’t think it's wise for me to comment on other institutions as to what might have gone on there. All I can say here is that our job here is remediate our program. Leo has given you a road map as to how he's going to be doing that. How he is going to restructure the balance sheet to ensure that in addition to remediating our program that we're there for our more than 10 million customers in the U.S. Retail Bank. As I said in my opening, the resolution applies to our U.S. two retail banking subsidiaries. It does not include TD Securities or any of our other businesses. And Ray talked about all the great assets we have, and Ray – I forget what you said – 76%

Raymond Chun – TD Bank Group – Group Head, Canadian Personal Banking, and Incoming Chief Operating Officer

70%

Bharat Masrani – TD Bank Group – Group President & CEO

Yes, comes from non-retail in the U.S.

So, overall, bank is a well-diversified company and our job is to get this remediation done. Manage through the consent orders that we've signed but at the same time for the rest of our bank to keep on performing as it has for decades, and I have no doubt in my mind that it will going forward.

Nigel D'Souza – Veritas Investment Research – Analyst

Thank you. good afternoon. My first question going through the OCC cease and desist order. From my understanding, there is the option for the OCC to require the bank to reduce total consolidated assets by up to 7%, if not compliant within the timeline outlined by the OCC. Just trying to understand what timeline is that specifically referring to, when is the earliest point at which the OCC could potentially use that discretion to require reduction in total assets? And what would that entail? I assume for the asset dispositions impact to NII or capital?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

Nigel, this is Leo. Just to answer your question the consent order requires us to deliver an action plan which as I indicated has been drafted and we're executing against it. That action plan has a series of core deliverables aligned to the articles of the consent order itself. It is those timelines that they're referring to and so it's our obligation to execute against the plan that we've provided and timelines that are in place.

Nigel D'Souza – Veritas Investment Research – Analyst

Right, and I believe that some of those timelines are fairly short within the next 90 days or so. So, is that the correct interpretation that you have to meet these timelines for each subsequent deliverable, or it could be that option to reduce assets further?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

No. The failure to hit the timelines that we've established for the subcomponents of the plan that ladder up to the articles is essentially the obligation. And those dates are from present all the way up to 2027. So, that's the framework that we've got to execute against. Obviously, Nigel, the one thing that I'm going to state is it is our full intention to deliver on the plan that we set outside. And in fact, wherever we can accelerate, expedite delivery, we're going to do that. I don't foresee any scenario where we would allow ourselves to fall behind on the action plan that we've put forward and incur any further reduction in the asset cap level.

Nigel D'Souza – Veritas Investment Research – Analyst

Got it. And then on civil money penalties, I also notice there is a provision here on the suspicious activity look back that the OCC can also, at its discretion, enforce additional civil money penalties either on the look back or if there's a failure to comply on the requirements. So, just any sense of how far does that look back go – is that the past decade? And then any sense of the scope of potential additional penalties from that look back?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

Nigel, we're still drafting the actual framework for the look back itself and obviously working with the consultant to assist us in that process so that – we'll be able to provide a little bit more details in future.

Nigel D'Souza – Veritas Investment Research – Analyst

And the last question any implications on the Schwab stake you have from these actions by the regulators or any potential for additional dispositions or no impact whatsoever?

Bharat Masrani – TD Bank Group – Group President & CEO

No.

Sohrab Movahedi – BMO Capital Markets – Analyst

Ok, thank you. Leo maybe if I can just start with you. A bunch of moving parts as you've laid out financially anyway on slide 7. But if I just kinda zoom out for a second, your U.S. Retail franchise excluding Schwab was making somewhere in the $3 billion a year USD plus in earnings. Lots of good actions that you will be able to take to countervail some of these and I know you have to move expenses around. But on a like for like basis do you think you will be able to retain that level of earnings, or do you think that has to come down?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

Sohrab thank you for the question. Let me – if I can take a step back and just reiterate what I said before. I think if I were to lay out for you our priorities, and how we're going to execute against them, and I'll get to the earnings question in a moment. The first priority, obviously, is making sure that we're absolutely focused on that remediation program making the progress that we've committed to.

Number two, I would say, this balance sheet restructuring optimization exercise that we've laid out on page 7 is critically important because I think it gives us the flexibility and also provides the street, our investors, the transparency on some of the investments that we're making and how that impacts the franchise overall.

The third area of focus is obviously continuing to drive the core franchise itself. So continuing to invest in areas like digital and mobile, continue to invest in our cards business, continue to build out the depth of our commercial banking business. All of those things are critically important.

I'd say with regards to earnings as I've said before, 2025 for me is a transition year. It's a year where we've got to reposition the balance sheet to give us that operating flexibility for the future. So, as I said before I do think that there's going to be costs in 2025 that will put downward pressure on our short-term earnings. But I do think, as I said before, I do think we can stabilize our earnings level to levels that we've observed in previous periods. So, I do think that being able to get back to a stabilized profile like the one that you described is certainly directionally correct. Short of giving you any earnings guidance but I would expect earnings stability post 2025.

Sohrab Movahedi – BMO Capital Markets – Analyst

That's incredibly helpful, thank you. Maybe for Ajai, I mean I don't know what happens with the concept of asset caps under IFRS 9 but is there a scenario where your reserve levels may look excessive?

Ajai Bambawale – TD Bank Group – Group Head and Chief Risk Officer

I'm not seeing that but to the extent we have loan sales or asset sales and if there are any reserves against that then yes, I think those reserves would get released.

Sohrab Movahedi – BMO Capital Markets – Analyst

Ok, and then I guess the final comment, Leo I think one of the, or Bharat, or Ray I don't know. But one of the messages is that as we look to rethink the composition of this balance sheet maybe even create some capacity, maybe dispose of some lower yielding capital intensive, all of those types of things. Is the net result that hopefully we'll get to some level of earnings stability, but it would be a more profitable earnings stream? Maybe measured from an ROA or ROE perspective?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

Sohrab that's in fact correct. I think what our view is you'll see us trying to preserve our ROE in the short term given all the moving parts that we've described in 2025. But over time I would expect our return on equity to improve. And that is an objective that we're setting for ourselves.

Darko Mihelic – RBC Capital Markets – Analyst

Hi, thank you. I have a number of questions; they'll be brief I think and just a couple of clarifications so hopefully we can get through this quick. In your response to the question on Schwab ownership is there any other impacts on perhaps your ability to have board members and or any impact on the deposit agreement?

Bharat Masrani – TD Bank Group – Group President & CEO

Sorry Darko are you still talking about Schwab or are you talking more generally?

Darko Mihelic – RBC Capital Markets – Analyst

I'm talking first about Schwab, but also the deposit agreement you have with Schwab. Does that have to be reconfigured?

Bharat Masrani – TD Bank Group – Group President & CEO

No, the answer is no. Our board representation is dependent on our ownership and as long as our ownership is above 9.9%, we continue to have the same board representation as we've always had. And our ownership is indeed over that amount. I'm not aware of any other impacts with respect to our relationship with Schwab.

Darko Mihelic – RBC Capital Markets – Analyst

And that would include the deposit agreement Bharat?

Bharat Masrani – TD Bank Group – Group President & CEO

Yes, Darko.

Darko Mihelic – RBC Capital Markets – Analyst

Ok thank you. And another question, Leo you were discussing possible portfolios like the jumbo mortgage portfolio. I think you mentioned the auto correspondent lending. I just want to be clear – would this also encompass possibly the Nordstrom and Target relationships in those portfolios?

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

No Darko. We view both of those portfolios as critically important strategic partners for us and an integral part of our cards offering. So, I would not put that in the same category. If I can just go back to the portfolios that I referred to before. I do think that we acquired a correspondent mortgage business with the Scottrade acquisition and that business is less franchised than some of the other parts of the bank so we would be looking to exit that core book of business.

Likewise, I think we would look for other opportunities, other portfolios niche in nature where we equally do not have a true franchised role for those core client relationships. So, I think those were the types of portfolios that we would be looking for and that obviously should give us the capacity to continue to try to deepen relationships with our core retail and commercial banking clients.

Darko Mihelic – RBC Capital Markets – Analyst

Great, thank you for that. Question on the repositioning of the balance sheet. What happens to your net interest income and NIM sensitivity going forward? I think the prior guidance was that even in a falling rate environment, you would consider NIMs to be stable to even modestly rising and you have the capability to handle significant drops in interest rates. What happens now after all of this balance sheet repositioning?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

Hi, it's Kelvin here. The balance sheet repositioning itself does not change our NIIS sensitivity because what we're doing is, the way to look at it is that you have these fixed rate investments at a lower yield that you're selling and you're buying new investments at a higher yield. And so, it's the same.

Darko Mihelic – RBC Capital Markets – Analyst

Then nothing happens to the tractors essentially, is that correct?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

The interest rate sensitivity that we manage is still the same.

Darko Mihelic – RBC Capital Markets – Analyst

Ok and one last question.

Leo Salom – TD Bank Group – President and CEO, TD Bank America's Most Convenient Bank

Darko I'm sorry I just wanted to; you'll see on page 7 we made reference to the elevated level of liquidity. We would expect that in the immediate short term we could have some downward pressure on NIMs given the level of liquidity that we're maintaining at present. That would, obviously, as we move forward, that would normalize, but I just wanted to point that out.

Darko Mihelic – RBC Capital Markets – Analyst

Yes, thank you for that, I was aware of that.

Just last question. Should I think about your capacity now to generate capital on a go forward basis as essentially climbing. So maybe at the beginning not much changes, but over time because you're constrained, your RWA growth will be much more modest in the U.S. How should I think about your ability to generate capital going forward?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

Darko, it's Kelvin. I'm not sure I understand it. So, what are you saying? How are you thinking about this being changed?

Darko Mihelic – RBC Capital Markets – Analyst

I'm thinking about this as a higher ROE essentially means a higher return so you should be able to generate more excess capital. Am I thinking about that incorrectly?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

You're thinking about it right.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. And if you've given – I mean, in the past, you used to give some sort of a capacity to generate capital, call it, basis points and common equity Tier 1 ratio, you used to give us ranges. Have you gotten to any kind of a sort of thought process on that or a range now after you've considered all these changes?

Bharat Masrani – TD Bank Group – Group President & CEO

This is Bharat, Darko. There are so many moving parts here. Give us time. And I think directionally, your logic is fine. But instead of giving you a number right now, I think give us time, your thinking around how this would play out from a capital and return perspective is correct. But as far as giving you exact numbers, let's think about that. And at some point, in the future, we can have that further discussion.

Operator

There are no further questions registered at this time. I will turn the call back to Mr. Bharat Masrani.

Bharat Masrani – TD Bank Group – Group President & CEO

Thank you, operator, and thank you everyone for joining us today.

As you heard today, the Bank has the financial strength and operational flexibility to deliver the required U.S. AML remediation program while continuing to serve the needs of our more than 10 million U.S. customers. We are taking the required actions to fulfill our obligations to protect against money laundering. I want to thank our dedicated colleagues who serve our customers with integrity – and play an important role in preventing criminal activity. Together, we will drive forward with a focus on supporting our customers and delivering for all our stakeholders.

Thank you very much.