TD BANK GROUP
NBF 22ND ANNUAL FINANCIAL SERVICES CONFERENCE
MARCH 26, 2024

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PARTICIPANTS

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

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FIRESIDE CHAT

Gabriel Dechaine – NBF – Analyst

I would Like to welcome our next presenter, Leo Salom from TD Bank, Head of their U.S. P&C banking operation.

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

Great to be here, Gabriel.

Gabriel Dechaine – NBF – Analyst

Thank you. Very topical business, as always. And I'd just like to start off with how you see the year evolving. There's whatever happens on rate cuts and then there's some fee pressures, of course, in the U.S. so maybe some downward pressure on revenue. And then you got the credit losses that are normalizing, nothing too alarming, but just heading in a natural direction, if you will. Is it going to be tough to generate any earnings growth in the business this year?

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

First of all, thank you very much for the invitation. It's great to be here. There's no question that the U.S. environment right now is very challenging. And probably two big factors. One, we're seeing NIM compression. Last year, first quarter 2023, we saw peak NIM levels. And obviously, given the deposit migration, we've seen a little bit of that give back. That is stabilizing. And I think the outlook on that front is quite encouraging, and I'll talk about that in a moment. And the other one is just PCL normalization. We're seeing delinquency levels normalize back to pre-pandemic levels. In some cases, in some asset classes just slightly above pre-pandemic levels. So those two are weighing on the short-term results.

But to your point, Gabe, I'm pretty optimistic about what the balance of the year looks like for a number of reasons. One, we are seeing really strong operating momentum in our business. If you look at our loan growth for the first quarter, our overall loan growth was 9%, 11% in retail, 7% in commercial. I think it's a reflection of a number of things and investments that we've made in the franchise in terms of capacity to be able to serve our client base and extend our coverage. But I also think it reflects the fact that we've got the capital and liquidity to be able to lean in on target relationships and be able to cement our relationships with key clients. And I think that's a bit of a luxury in this particular market. I do think margins are stabilizing. I think the back end of the year, we would expect some modest margin expansion, which should certainly help. And to your point around expenses, we've been very focused on our productivity program, and we are seeing a moderation in expense growth. In fact, expense growth for the quarter was down 2% on a quarter-on-quarter basis.

So you put all those things together. And I do think that we should expect a much stronger performance in the second half of the year vis a-vis the first half. I would say that's probably true for the industry. I think I like the way things are stacking up in our portfolio, in particular, to be able to deliver some stronger results.

Gabriel Dechaine – NBF – Analyst

You have been generating good loan growth pretty contrasting against a lot of the industry actually, so it's been impressive. I'm just wondering how much of an inhibitor the election and the rate cut uncertainty present to your growth? Would it be dramatically higher if those issues weren't present?

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

Well, Gabe, there's no question that we've seen some good commercial loan growth over the past probably 5 or 6 months and to that, I think we've been a positive outlier to the market overall. I'd say if I unpack that just for a moment to give you a sense of what we're seeing in the growth. I think a good portion of the growth is coming from our middle market expansion. We made a decision to be able to reinforce that group probably about a year ago. We added talent, added coverage. And I think we're seeing the outcome of that now. We're also seeing good growth in our specialty corporate businesses and our national franchise businesses. And so that is giving us a bit of a leg up on the overall industry as a whole from an overall commercial loan perspective. But your point is very true. I mean the market right now, interest rates are weighing on client decisions.

There is a bit of a wait-and-see phenomenon that's happening, and that is delaying the amount of investments that certain clients are making and certainly delaying some of the lending decisions or some of the borrowing decisions that they're making. I don't know about the political overhang. I would say rates are probably more important than the political dimension at this point. I would expect that if everything plays out the way we think, we'll see more loan demand in the fourth quarter of this year going into the first quarter of next year as rates begin to signal some opportunity for clients to step into the market.

Gabriel Dechaine – NBF – Analyst

You talked about expense management in a prior answer. And just wondering broad strokes, what are some of the areas of focus? I know the bank has some cost pressures in Corporate at the moment. But in the operating segment where the bank did take restructuring charges, I'm wondering how that's being implemented across your business and what other initiatives that you're putting forth?

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

Sure. So we embarked on a relatively ambitious productivity program about a year ago. And it had a number of dimensions or number of areas that we've been focusing on. One, we're leaning into our organizational health and organizational health exercise to really try to reshape the organization, find opportunities where we might be able to streamline to be able to invest in those areas that we want to be more deliberate in terms of growth or more deliberate in terms of the build-out of our infrastructure and I think that's worked quite well. If you noticed the last 3 quarters, we've had a decline in terms of overall staffing levels at the U.S. operating level. Second, we've been leaning into our corporate real estate activities. In fact, we'll be giving back about 1.1 million square feet of corporate real estate and then obviously that will represent a significant reduction in our run costs.

Likewise, working with our vendors we're trying to identify structural expense takeout opportunities in tandem with some of our strategic partners but not only simply trying to get short-term expense reductions, but trying to think about the marginal cost structures that we've got with some of our critical vendors and trying to make sure we get the right economies of scale as we continue to grow our U.S. franchise because we do have significant growth aspirations for the U.S. And then finally, thinking through our technical and our data architecture. I do think, we're the product of a number of community bank acquisitions over time. And I still think there's an opportunity for us to better streamline some of our operating infrastructure to be able to take some of the run cost, reduce unit cost and get to a more competitive environment.

So you put those things, those are really driving some of the expense reductions. And so right now, we were down on a quarter-on-quarter basis, as I mentioned earlier, about 2%. And I would expect that as we think about the balance of the year, we would be able to not only moderate the level of expense growth but we should be able to continue to reduce the absolute level. The balance that we're trying to strike is the need to continue to invest in our franchise in our core operating infrastructure, including some of the things we're doing in the governance and control space, but also give ourselves enough room to be able to invest in those areas that we think are critical for the sustained growth of the franchise.

Gabriel Dechaine – NBF – Analyst

As far as on the investment part of it, cost containment, while also investing, I just wanted to ask you about Florida. It's always been like this Holy Grail, so to speak, for the bank and it's been mostly organic expansion. Is there still an ongoing big push to get bigger in Florida?

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

Very much so. In fact, we opened up another store in Florida just two weeks ago. Florida is a really attractive market, Gabe. It's benefiting from some really structural tailwinds. There's a significant amount of migration from some of the urban markets, New York, certainly, down to Florida, and that's driving a tremendous amount of population growth, not only in your traditional markets like Miami, Fort Lauderdale, the Palm Beaches. But even in some of the Central Florida markets in North Florida, we're seeing significant expansion in those. And I think we're extremely well positioned. We've had probably double-digit growth rates in our Florida marketplace, and that will be an area that we'll continue to invest in.

Gabriel Dechaine – NBF – Analyst

I wanted to ask a couple of questions about partnerships, one on the strategic cards portfolio. We can get a rough idea of the economic split from the income statement, the capital consumption of that business, is that entirely borne by TD? Or is it a similar split?

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

Maybe just for the group, we've got a co-branded platform, and we have two signature clients on the platform. One is Target and the other one is Nordstrom. Arguably, some of the two best retailers in the U.S. marketplace, and we're extremely pleased with those two partnerships. In fact, last year, we did negotiate and extend both of those to the year 2026 and the year 2030, respectively. So a critical part of our overall cards book. To your point Gabe, we do take most of the credit RWA and the corresponding capital does sit with the bank since the loans do sit on our balance sheet. It's some of the operating risk RWAs are split along the lines of our revenue split that we have over there.

Gabriel Dechaine – NBF – Analyst

But the credit risk RWA would be the bigger component of that.

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

Yes, that's right. That's correct.

Gabriel Dechaine – NBF – Analyst

Now switching over to Schwab. There's about $95 or so billion of deposits that are still on the balance sheet. Can you remind us of the timeline for them to -- and it's still a floor of $50 billion, I believe.

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

Sure and actually, we renegotiated the agreement, maybe I can walk you through. In May of last year, we renegotiated the insured deposit agreement with Schwab. And essentially, we wanted to extend the agreement, so we extended it for another 3 years. And in exchange, we provided Schwab a little bit more flexibility with regards to floors, the minimum deposit levels that they need to maintain with us. That gave Schwab some flexibility, and it kept us in a strategic partnership that we're quite pleased with. As a result of that, the actual minimums through September of 2025 will be equal to our fixed rate obligations. After September 2025, the floor is $60 billion through the year 2034. And another arrangement, of course, as I said before, went into effect May of last year.

Gabriel Dechaine – NBF – Analyst

So in the grand scheme, given that timeline and given the fees attached to those deposits, not a real material headwind for the bank as far as revenue declines.

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

Not when you think about it on a present value basis, I think we're quite comfortable with the agreement. I think the extension was important to us, and it keeps the overall partnership intact. So we're quite pleased with the arrangement.

Gabriel Dechaine – NBF – Analyst

When you say partnership, and just to be devil's advocate or whatever, I see passive investment. I could look at it that way. You own 11% or whatever and over time, the deposits are moving over to Schwab. So how do you see things differently in describing it as a partnership?

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

We've got a 12% stake in arguably one of the best wealth advisory firms in the country. Schwab manages $8.5 trillion in assets. It has a terrific leadership team, a proven business model, continues to grow at strong single and double-digit growth rates. So I think we like very much the equity interest that we have in that and over the past few months, they've been actually integrating TD Ameritrade, and so we're seeing the synergies and the benefits from that. So we're quite pleased with the equity component of that relationship.

And I think this other IDA agreement is another important part of that arrangement. To your point, though, we do operate our own wealth franchise, and we do go to market with our own distribution piece. So there isn't a commercial partnership, but there is a very important investment partnership.

Gabriel Dechaine – NBF – Analyst

I wanted to go back to one of my earlier questions, I'm talking about revenue pressure and then the Biden administration has been targeting "junk fees". One thing that comes to mind, and I think it's insignificant now, but overdraft fees were competed away essentially in 2021 I think or 2022 and you made pretty dramatic reductions to your overdraft fee structure. So when I hear targeting junk fees, I get investors e-mailing me saying, hey, is this still a big deal for TD. My answer is no. I don't think it is.

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

So Gabe, to your point, shortly after I arrived, it would have been the beginning of 2022, we did look at our overdraft program. And we decided we wanted to simplify the program. We wanted to make it easier for our customers to be able to avoid overdraft fees. We wanted to make it simpler in terms of being able to administrate the program and we did want to reduce our dependency with regards to overdraft fees.

And we did implement a series of measures over the course of what was about one and a half years to be able to do that. Most of those have been fully implemented at this point. And it has reduced our dependency on overdraft fees. So I think something that we talked about on a previous call, that overall level of overdraft fees probably represented about a 1/3 of our total fee income. It's well below 20% today. So it is a smaller portion of overall noninterest income.

I would expect that percentage to decline even further as we continue to grow other base lines like service fees on our core franchise as well as the growth in our wealth business. So over time, we're quite comfortable with the program. We think it was good for our clients, and it certainly reduced any sort of regulatory concerns that might have existed with regards to the program.

Gabriel Dechaine – NBF – Analyst

Sticking to the regulatory/political theme, AML issues have obviously been topical with TD over the past year or so. I understand that the costs of addressing this issue is being borne by the Corporate segment. I'm wondering what's the impact on your business as far as day-to-day operations and more Compliance people running around that type of thing.

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

Yes certainly. But just to maybe take a step back before I answer where the expenses are. I do want to make a very important point. Remediating our AML program is a top priority for the bank. It's a top priority for me personally. We take any sort of breach in our governance and control processes very seriously. And so this is getting maximum attention inside the organization. And we've made significant progress already on our program.

We've added significant talent and leadership to our AML organization. We've added hundreds of individuals, both in terms of analysts, investigators as well as supporting program management architects to be able to invest and enhance our program. We're investing in our data infrastructure. We're investing in technology, in other words, we know what we need to do, and we're at it. We're going to fix it. We believe it's manageable, but it is a top priority for the bank.

That said, from an expense standpoint, the expenses that are related to the transformation, so some of the infrastructure changes, are in fact being carried at the center. And the logic there is that those transformational program changes will not only impact the U.S., but those platforms will be the basis of our global program. With regards to run rate expenses, those that are much more recurring in nature those are still reflected at the local level. So we do have a bit of a split along the lines of what the future carry run rate cost will look like.

Gabriel Dechaine – NBF – Analyst

And I'd like to go back to an answer you provided earlier as far as where some of the cost savings initiatives, so I'm flipping the coin again, but you mentioned that because the bank's U.S. business has been an amalgamation of a variety of community banks and maybe from the sounds of it, some legacy IT systems that were still kicking around. When you're addressing this overall issue, getting rid of the different systems. Is that part of it?

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

Gabe. It's a very good question. If you think of one of the areas that I'm spending a great deal of time on, working closely with our IT team is really looking at some of the areas where we've got redundancy in terms of operating platforms. So to give you a sense, today, we operate two large credit card platforms, we're converging that on to one. And we're also looking to potentially bring some of our cobranded card clients onto that single target operating platform. So once again, reducing redundancy.

We're looking at our data systems. We've got a number of different data repositories across the bank. And most of them are on-prem in nature. We're looking at ways of being able to move to our target single, unified cloud based environment, leveraging Microsoft Azures core cloud system. We're looking at our commercial lending platforms where we've got redundant systems between the small business franchise, our community bank and some of our commercial banking groups and thinking about how do we consolidate that onto one single platform. So I do think platform and whether it be data or technological infrastructure rationalization is going to be a big part of making the infrastructure at TD much more ready to be able to scale and to continue to operate at a competitive unit cost point.

Gabriel Dechaine – NBF – Analyst

One question I get asked, and I mean I don't know to what extent you can address it. But when we look at regulatory oversight in the U.S. in the past, there have been examples where the regulator – whether it's the OCC or the Fed says, okay, you guys have had some issues, we're going to cap your growth for a while. And it's come up recently, actually. Is that even a worthy consideration for TD in the U.S.?

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

Gabe, I really can't respond. I wouldn't want to speculate with regards to any of the discussions we're having with any of our regulators. What I would say is I'd ask you to just take a look at what we've been doing. I mean we've got an exceptionally strong franchise. We've got a leading retail deposit business across the country. We're a leading small business lender. We've got a strong community bank offering commercial services right across our East Coast footprint. We've been able to scale our corporate franchise businesses. So we've already got a significant foothold on the East Coast. And we continue to invest in areas like cards, our wealth business, our mid-market business. And if you would have seen our first quarter, you see some of that operating momentum very much present. So I would expect us to make the requisite investments we need to make in our regulatory environment and certainly our governance and control environment. But I would expect to still responsibly, sustainably grow our franchise in the U.S.

Gabriel Dechaine – NBF – Analyst

I asked about partnerships earlier, external ones, but you've got a new internal one, still pretty early, the Cowen business.

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

Terrific acquisition.

Gabriel Dechaine – NBF – Analyst

What's the opportunity for you there to work with them?

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

The TD Cowen acquisition not only allows Riaz to complete the footprint with regards to the wholesale business in the U.S. because they bring equity research, equity capital markets capabilities, investment banking capabilities. But they also have a very strong mid-market client base and a mid-market sponsors business, which fits really nicely with the commercial bank.

And in fact, we are partnering quite deliberately with Jeff Solomon and the TD Cowen team to be able to bring our teams together. And I think some of the successes that you're seeing in terms of the growth that we've seen in the mid-market business is as a result of the partnership with TD Cowen.

Gabriel Dechaine – NBF – Analyst

So the sponsors business, private equity and presumably, when it was Cowen stand-alone, their credit needs were met elsewhere.

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

Correct, and selectively. The one point that I want to make, Gabe, we find ourselves in an interesting moment in the mid-market space in the U.S. It had been an area of significant growth for many of the regional banks. The current capital liquidity concerns has meant that there's been a bit of a pullback from some of our regional peers. So it's giving us an opportunity, given the fact that we do have the capital, we do have liquidity, we do have the financial resources to play in that space. We're leaning into that space, but we're doing it very selectively.

We're choosing those clients where we believe we can bring the entirety of the bank to bear to include cash management services, operating account, payment capabilities and not simply offering the balance sheet indiscriminately. So that discipline should not only allow us to be able to grow, but also be able to post some healthier return on equity profile.

Gabriel Dechaine – NBF – Analyst

How far along are you in this partnership process with Cowen?

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

It is remarkable. They've been part of the organization for about a year, Gabe, and the amount of progress that we've made on that front, probably unprecedented in my own experience with acquisitions. Unprecedented with how quickly TD Cowen has become an integral part of the fabric. Part of that is maybe their investment banking DNA. I mean they are, by their very nature, connectors. And I think they brought a very client orientation to integrating themselves into the bank, and it's yielded some very interesting opportunities. You're seeing it clearly in some of Riaz's numbers from a wholesale standpoint. But I would say it will be equally important for the commercial bank as well.

Gabriel Dechaine – NBF – Analyst

We have time for one last question. Maybe check the crowd. We got one there.

Gabriel Dechaine – NBF – Analyst

I have to repeat it into the mic – the question was, with regards to the Cowen acquisition, you've garnered some integration benefits, do you expect even more?

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

I'll speak to the retail commercial banking business. I would say the answer to that is yes. In fact, I think Riaz is still upset that I didn't put more synergies into the deal model. But the reality is we are seeing a greater degree of client flows. Greater degree of referrals to our cash management business, greater at bats with regards to sponsor businesses than what we had expected previously.

And I think we're quite encouraged about that. We still need to stitch the organizations together and put more capacity against that, but I would expect greater synergies, certainly in the commercial bank to accrue from the acquisition.

Gabriel Dechaine – NBF – Analyst

And that brings us to time. Leo, thank you very much. I appreciate you coming to Montreal.

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

Thank you.