

TD BANK GROUP

SCOTIABANK FINANCIALS SUMMIT

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PARTICIPANTS

Bharat Masrani

TD Bank Group – Group President and CEO

Meny Grauman

Scotia Capital – Analyst

FIRESIDE CHAT

Meny Grauman – Scotia Capital – Analyst

It's my pleasure to call up Bharat Masrani, President and CEO of TD Bank. Bharat, good to see you.

Bharat Masrani – TD – Group President and CEO

Nice to see you as well, Meny. Thanks for having me.

Meny Grauman – Scotia Capital – Analyst

That time of year again.

Bharat Masrani – TD – Group President and CEO

Yes. Yes.

Meny Grauman – Scotia Capital – Analyst

And I wouldn't want to be anywhere else.

QUESTION AND ANSWER

Meny Grauman – Scotia Capital – Analyst

So, Bharat, I think we need to start off by talking about your AML issues in the U.S. I know you provided an update ahead of Q3 and you're limited in what you can talk about. But I thought maybe just given how big a subject this is in investors' minds, you could just give us an update on, you know, what can you tell us on this issue?

Bharat Masrani – TD – Group President and CEO

Firstly, you know, as I mentioned in our earnings call a couple of weeks ago, we've been working hard on trying to get a global resolution regarding this matter in the U.S. And now I'm happy to report that we're through the tunnel. We can see light at the end, but we're not done yet. Our expectation is that we'll have a global resolution regarding this matter by calendar year end. And, as far as the financial penalties and fines are concerned, we announced the provision of US\$2.6B in the quarter. In addition to that, the previous quarter we took US\$450MM. Our view is that that's our estimate of what this will cost to get this issue behind us from a fines and settlement perspective. In the meantime, we are continuing to work on remediating the program. We attracted brand new leadership there – terrific individuals who joined the bank. Hired hundreds of AML professionals who are now very much part of TD. Invested in training, invested in new platforms, new data, infrastructure, and the remediation process is underway. And hopefully, I will be in a position to give you more clarity, when we come to the final global resolution.

Meny Grauman – Scotia Capital – Analyst

Sticking to AML, I just wanted to ask, as a professional manager, with lots of experience, what lessons do you draw from, from this experience?

Bharat Masrani – TD – Group President and CEO

At TD, we have a very strong risk culture foundation. It's been there for many, many years. We take that very seriously. And, it's been a core strength of the bank over many years. But I think the big lesson is you can't take anything for granted, including the culture and the foundation that you've built over many years. We had a situation here where, some threat actors, bad actors were able to exploit the bank. And we obviously regret that. Own it. Take responsibility for it. And make sure that we do everything that we need to do to learn from that and to ensure that it doesn't ever happen to the bank again. What are the key lessons? I think the specific areas, it's easy in a bank of our size to sometimes not look at accountabilities as clearly as we should. So here, one of the key lessons is to deepen accountabilities for such types of risk in all three lines of defense. Not only the front lines and the control functions, but as well as our audit practices. To make sure that folks understand this risk, right through the organization, and act with urgency.

And it's important, because in today's day and age, time is precious. You got to deal with issues very quickly. The third big lesson, obviously, is that as a bank of our size, we are a global bank, there's lots of information available and it's important to coordinate and make sure that the right information is available to the right individuals and right areas of the bank on a real time basis. So those are the key – I'd say lessons. But the good thing about these things is when you have a strong sort of risk foundation is you learn from it, make the adjustments and move on and make sure that you emerge out of these situations even stronger.

Meny Grauman – Scotia Capital – Analyst

You talked about accountability. So, just a question on accountability in terms of your perspective on where the accountability for this lies, how deep does it go? I think, you know, it wasn't this quarter, a quarter ago talked about some people losing their jobs over this. Question is, are there more people likely to lose their jobs over this? If you could just kind of talk to us about accountability here, how you see it and where that goes?

Bharat Masrani – TD – Group President and CEO

Yeah, it's important that we do the investigation in a thorough manner, which we have. And where appropriate, people have been terminated. And in other cases, where it makes more sense, people's compensation has been impacted as well. So this is you would expect that, you know, from an event of this size and scale that this the right thing to do. But at the end of the day, listen, I'm the CEO of the bank. I'm responsible. I own it. And the good thing here is we know what the issues were and we are fixing them. And we want to make sure that that continues in the bank and get this behind us.

Meny Grauman – Scotia Capital – Analyst

So, I don't want to belabor the point in terms of the AML issue. Obviously, a lot of things that we have questions about that you can't answer. But where I want to take the conversation is just to other parts of the organization. The strategy and I think the AML issues, at least in investors minds, seem to have – investors definitely do believe that the AML issues have implications for other parts of the bank, for the strategy in the U.S. and maybe even implications for Canada as well. So I want to go down that road first in terms of the U.S. – key question I get is 'what are the growth implications on the U.S. business from this AML issue?' Obviously, people are thinking about them in part on the non-monetary side that you can't go into. But if you could help us at least frame this discussion, I'll point out, Q3 results in the U.S. were actually quite good. And so, I guess just laying it out straight to you in terms of what are your growth expectations for your U.S. business in light of these AML issues – does it significantly change your outlook here?

Bharat Masrani – TD – Group President and CEO

Well, firstly, in our overall strategy in the U.S., I mean, obviously, our top priority is to fix our AML issues and have those issues behind us. And like I said earlier, we are making the right investments, attracting the right talent, making the appropriate changes. And that is underway. Having said that, the U.S. franchise is a very strong franchise. We operate in some of the best markets in the United States right through the Eastern Seaboard. TD serves more than 10 million Americans in the United States. We are one of the largest small business bankers in our footprint, the largest SBA lender for seven years in a row. If you look at what the bank – we operate through 1,150 locations from Maine to Florida. And so – as you said – last quarter, the bank posted loan growth of 5% and a very good stable deposit flows. So overall, we have a very powerful franchise and as long as the markets remain strong and healthy, I expect the franchise to keep on performing. And that's the way I look at it. We have a very strong franchise in very great markets, so you should see the benefits of that.

Meny Grauman – Scotia Capital – Analyst

That said, and I think it came out on your Q2 call. I mean, in Q2 2023, if we go back, you talked about increasing store openings by 50%, doubling wealth advisors. It sounded like more recently you've scaled that back. And so if you could just go into what your outlook is from that specific perspective in terms of store openings, wealth advisors and the bigger question. So in a way, it does seem like the AML issues are impacting your growth plans in the U.S., if not directly then indirectly.

Bharat Masrani – TD – Group President and CEO

Well, it is a top priority. To fix our issues is a top priority. And for store openings and all that, we look at it from a market perspective. We've slowed it down, yes. You say quite dramatically. But we've got to look at the investment profile of the bank as well – at what pace we do it? Markets are changing quite dramatically. How customers are dealing with us as well. So we are taking that as a data point. But the fundamentals of our U.S. business is a strong franchise in very important markets, and that has not changed.

Meny Grauman – Scotia Capital – Analyst

Wanted to just better understand your U.S. wealth strategy. And also, if you could talk about the strategic value of your Schwab stake – now reduced – but still significant stake in Schwab. So how should investors think about the strategy on the wealth side?

Bharat Masrani – TD – Group President and CEO

Our 10 million customers – approximately 3 million of those are mass affluent customers as we would define. And they are TD customers now, and we want to make sure that we offer them all the products they need, from TD. And so we have been building out that capability in the bank to make sure that these customers are served for their needs when they're dealing with TD. Their day-to-day banking is done through TD. When they come to our stores or come to our digital properties, we want to make sure the right offerings are there. And that's going reasonably well. To deepen those relationships with our client base is obviously a good thing to do.

With respect to Schwab, it's a very important and a great investment for us. Schwab has more than US\$9 Trillion in client assets – is a prolific player in its industry. We are the single largest shareholder of Schwab. We have certain governance features in our relationship. It's a very important deposit relationship we have – we sweep the deposits into the bank. So, very happy with how that has turned out and like I said, you know, it's been a great run. And Schwab has just completed the TD Ameritrade integration. It's gone remarkably well and looking forward to even greater days ahead.

Meny Grauman – Scotia Capital – Analyst

Digging a little bit deeper into that. So, should investors look at this really more as a financial investment, a good financial investment that TD made? Or is there – is there something more here that TD benefits from this Schwab stake?

Bharat Masrani – TD – Group President and CEO

Well, we do have a very big deposit relationship. It is a strategic relationship. We are a big shareholder, and we have board representation. So, it's more than just an investment. And it has worked out really well for the bank.

Meny Grauman – Scotia Capital – Analyst

Wanted to talk about Canada, obviously a lot of focus on Canada. You had an Investor Day, I guess it's about more than a year ago now – time flies. But very much focused on the Canadian strategy. Similar to what I've been talking to some of your peers about, there definitely feels like there's a negativity out there about the Canadian banking business. And meanwhile, Q3 comes around and we're seeing good results pretty much across the board – no exception. TD had a very good performance in the Canadian retail business. So the question is – what are investors missing and what's your outlook for Canada? Are we being too negative here? And did the strength surprise you or is it more something that you expected?

Bharat Masrani – TD – Group President and CEO

I think from a macro perspective, I think the Canadian consumer and the economy has been more resilient than what people were expecting. And that's been positive – positive for Canada. And what is good for Canada is good for the banks. That's how this works. And so, I think the fact that we had massive amount of stimulus through the pandemic, I think has been helpful and has probably lasted longer than what people were expecting. But, the world tends to – some countries are in favour at one point, some countries are not.

And it depends on sentiment, depends on headlines. But as a country, we have a great thing going. And we're attached to one of the largest – the largest – economy. We have a free trade agreement, fairly well integrated into that economy. We have natural resources, that are second to none, and a stable system, and a highly educated workforce. So a lot of plus points in Canada that sometimes, we just take for granted. And a rising population as well – provides good growth potential.

But with respect to our own business, I'm very happy with how Canada has performed for us. Our real estate secured lending business – we introduced a new channel in that TD Mortgage Direct, which has worked remarkably well – three times the closing rates we see out of our other traditional channels. Our proprietary channels, through the pandemic, one of our stronger channels was always our branch network in Canada. Obviously, through the pandemic, that was a little passive – like it was for the rest – but since that has come back, we made good investments in that. That has worked out well. You talked about our Investor Day and our targets. We think we are on target to meet those targets we set out. I think we said \$500B in mortgages. Credit cards – pretty strong. You know, we just surpassed 8 million active credit card accounts in Canada, in a country of 40 million. That's a good growth we've seen. And spend on that also, because we are more biased towards luxury and travel because of the partnerships we have – the value proposition with TD rewards, et cetera. So, our card portfolio is more biased towards that and we're seeing the benefits of that as well. On the deposit side, one of the core strengths of TD – traditional strength – has been ability to attract core deposits. Again, very happy. New to Canada sector is a very good growth engine for the bank and we provide those services to new Canadians. So overall, I'd say the Canadian business, yes, overall from a macro perspective, has performed well. But I'm particularly happy with how our business is performing.

Meny Grauman – Scotia Capital – Analyst

Just digging into some of that, I mean, one pushback that I get from investors when it comes to TD and the Canada strategy specifically is just this view that because of challenges in the U.S. that Canada has to work harder for TD. And so that – maybe that pushes TD to be a little more aggressive in terms of risk, and in terms of trading volume, at the expense of profitability. Curious your perspective on that and how you would push back on that perspective?

Bharat Masrani – TD – Group President and CEO

Not only would I push back, I totally disagree. Look at our performance. Look at our NIM performance. Look at our returns. Look at our volume growth. Look at our market share. So, I think if that's the view, then I think facts are important to put on the table, rather than anecdotal stuff on saying, "oh, maybe this bank is doing that, and that bank is doing that". We're very happy. We are through the cycle lenders, and we are consistent in how we manage those businesses.

Meny Grauman – Scotia Capital – Analyst

And in terms of the competition for deposits, I mean, we're seeing competition – I think it's fair to say – seeing competition heat up. All the banks are very much focused on primary clients and those core deposits, and TD historically has had a very strong deposit franchise. But how are you managing through this period of much more intense competition on the deposit side?

Bharat Masrani – TD – Group President and CEO

The core strength here is the scale the bank has, the network we have. One out of three Canadians bank with TD. More than one out of two Torontonians bank with TD. So, we have this core strength of the bank that is helpful when you're going through a phase like that. And the bank, our brand, how we manage those businesses, has worked out well and continues to work well for us.

Meny Grauman – Scotia Capital – Analyst

Want to talk about expenses. On the call, it sounded like expense guidance for this year has moved from mid-single digit to high-single-digits. And so question of why we're seeing that, is this purely the AML issue? And can it go up from here like, is the outlook for TD higher expense growth because of this AML issue? And could that extend into 2025? And how should we be thinking about that?

Bharat Masrani – TD – Group President and CEO

Firstly, the expense change in guidance. You're right. We were expecting mid-single digit growth and now we think it'll be high-single digits. And three reasons for that. Our investment in risk and control infrastructure is higher than what we were expecting. But in addition to that, in our market driven businesses like TD Securities, TD Wealth – are doing well. And as you'd expect in those businesses, variable comp goes up as well as part of your expenses. So, there's another reason. By the way that's a healthy reason for expenses to go up. And the third is that we had some litigation expense that we posted. And when you take all those together, that's how we changed the guidance. I think regarding – and I know you've asked me previously on the call as well – how should I think of the recurring expense growth here because of the AML investment and all that. On that, you know we generally in the bank at the end of Q4 always provide some guidance for the upcoming year. So be patient, we will provide that. But I think we need to keep all these things in perspective from a TD perspective, right. I mean, total expense in the bank, total expenses approximately \$30 billion a year. And so let's keep this in perspective, you know that are things going to be manageable or not – and my view is it will be manageable.

Meny Grauman – Scotia Capital – Analyst

Maybe that's a good segway. So \$30 billion total expenses. Could you put a price tag, even just round numbers, in terms of people, systems, this AML issue – how much is it in order to deal with this AML issue?

Bharat Masrani – TD – Group President and CEO

Well, we said what the fines and settlements are going to be. So you know that number. We said that, on an ongoing basis, at least for '24, into '24, that at the corporate level, we'll be having a number of \$200MM – \$250MM, which is approximately double than what we would normally have. And that's going into our investments on the recurring, sorry, on a one-time basis. We thought we should carry that in corporate so that once we are done making those investments, that they disappear and don't become part of the run rate of the bank. And then, the run rate is in the segments itself. So, that we will give you better sense after Q4. But we know that this is the way it is going to work out. But I was trying to give you a sense from the scale of the bank in the overall bank as to what this is in relation to the overall bank. And that's what I was saying by \$30 billion overall expenses. And I expect this to be manageable.

Meny Grauman – Scotia Capital – Analyst

In terms of what you're trying to achieve, as you upgrade your AML systems, is the idea here to be – to move up to some sort of peer average or to be kind of best in class? Like what's – how big a step is this in terms of what you're trying to build on the AML side?

Bharat Masrani – TD – Group President and CEO

I think this is not a – it's not a competition as to who's got what. The most important thing here is to make sure that you have controls and systems in place, that does not allow bad actors to exploit your systems, or your bank. And people ask me, well, when will you be done? Well, you're never done! Because it's not as if these threat actors as they are known, as if they stand still, so well this is one use case that kind of works and let me stick to that for the next 10 years. It keeps on evolving. And, in today's day and age, people use very sophisticated methods to exploit banks. So this is going to be an ongoing situation for the industry I suspect. So, my view is, okay, how do you define success here? Well, you define success by stopping these people. And if you do that, then I think, yeah, that would be great. And that's the way to look at it. And that's the way we are approaching, how we not only build the remediation around it, but sustain it for the foreseeable future.

Meny Grauman – Scotia Capital – Analyst

So, is it the right way to think about it, is it thinking more holistically beyond AML? I mean, we're really talking about broader initiatives here, whether it's AML or any other types of regulatory issues as well, that you're investing across the spectrum here?

Bharat Masrani – TD – Group President and CEO

Yeah. But that would be more BAU like – more business as usual as a bank, you know, 170 years old. There are new techniques, new ways of managing certain kind of risks, or businesses. And we make those investments in the normal course. So that's how you should look at it. But I think on the AML side, the AML, fraud – what you call these financial crimes generally, it's turning out to be – is evolving very fast, and very important for banks to keep up to make sure that the financial system remains pure.

Meny Grauman – Scotia Capital – Analyst

Yeah. I think that's a theme we hear across the spectrum. We're going to have a session, a keynote session with American Express, and that's going to be an important topic in terms of how they deal with that. But, maybe switching to capital deployment, we had a little exchange on the call about that. But I just wanted to clarify in terms of what the minimum CET1 ratio that you're targeting maybe for us to start there and then a follow-up just to...

Bharat Masrani – TD – Group President and CEO

I know, yeah you were quite tenacious on the call. Good you were. You know important as we – at TD, the way we look at capital is look at the environment we are in – if there are uncertainties, TD has a tradition, our history of being conservative custodians of capital. We have higher capital levels. And that's been the core part of our DNA, and that has not changed. And so my view is, yes, we've traditionally looked at, you've asked me a few years ago, what are you targeting the 12 – 12.5%, whatever the number might be. But sometimes we'll carry more than that because of the uncertainties in the markets. And my view is there's lots of uncertainty here and so to be prudent capital managers, it's better to be prudent. And that's the way we approach this. That I wouldn't want to say – people say "we're in a soft landing, Bharat, why are you worried?" Well, we'll see the degree of softness, you know, when we get there. And secondly, soft landing means before growing at maybe 3%, 4%, now, we're going to grow at 1%. By definition, there's going to be certain sectors that's not going to be very soft for them. And we are a national big player in the markets in which you operate. I just want to make sure that we are, you know, cognizant of those risks and make sure that we are prepared for it should things go awry.

Meny Grauman – Scotia Capital – Analyst

So, basically to put it all together, if we see your CET1 above 12.5%, it is not necessarily the case – that this is – we shouldn't necessarily view this as deployable capital. That this is an additional buffer for the time being that you wouldn't necessarily want?

Bharat Masrani – TD – Group President and CEO

But it depends on the way – a capital deployment is not change – we will support our core strategies. It is important that we do. You know, we want to make sure if we are lacking any capabilities, we'll use our capital to build those capabilities in the bank. In the end, and we've shown this over the past as well, if we think that we have excess capital based on the markets in which we are and the environment we are in, we'll buy back our shares and we've shown that as well.

Meny Grauman – Scotia Capital – Analyst

Talking about buybacks, over the past four quarters, you bought back a lot of shares, 87 million shares. Now, given the most recent announcement in terms of selling down the Schwab stake, do you view that as a – a mistake? Obviously, hindsight is, is always much easier to make decisions with. But how would you characterize that – that level of buybacks, given what we know today?

Bharat Masrani – TD – Group President and CEO

I don't consider it as a mistake. Firstly, the Schwab stake. I said it's a strategic investment and then we maintain all the strategic flexibility that we think is important, including our governance requirements, et cetera. You know, not that you should look at only the math here, but if you look at, when you're buying back stock at a particular multiple and selling a stock with a much higher multiple, it's still accretive to TD. So I think people get excited from a perspective, but the numbers do the talking at the end of the day.

Meny Grauman – Scotia Capital – Analyst

I wanted to talk about your insurance business. It was a topic of discussion on the Q3 call. I think if you adjust for the elevated CAT loss event, results would have beat expectations. And I think that's the right way to look at the Q3 results. But it does beg the question in terms of – and you get this off and on – well I get this off and on – why is TD in the P&C Insurance business? Doesn't it just add a lot of volatility to earnings? What does it really give the bank? I know you really like this business. So give you an opportunity to defend it, especially after a quarter where, results were not so good because of this specific event.

Bharat Masrani – TD – Group President and CEO

Yes, I'd say it is a great business in a sense as long as you run in the way it is supposed to be run, that, you know, you're able to price the risk and make sure that you're managing the business in an appropriate manner. For TD, we are this we are the largest direct insurer in the country. We have the scale. You know, we have a brand that works remarkably well for us. It's a business that gives you a lot more fee income compared to net interest income. So, it's good from that perspective as well, provides you a bit of an offset, if you're too rate sensitive, et cetera. It is a business with very impressive ROEs. So yes, there is volatility, but given the overall size of the bank, is this volatility manageable or not? In my view, yes it is. So this quarter, that business – it was remarkable how many catastrophic events or weather events that took place. And some of us lived it in Toronto, and out west, the wildfires – it's been quite a remarkable year. So it made, not as much money. It made very little, actually, only \$15 million in the quarter – normally it'll throw off \$150 million, \$180 million. But if you look at top line growth – what it is doing and how many new customers coming into the platform – we introduced this digitization, the investments we've made in the business and that's really working out well. So yes, there's a bit of volatility, but if you look at how the business is priced, how the business is run, our positioning in the market, we think it's attractive.

Meny Grauman – Scotia Capital – Analyst

Want to talk about capital markets, you've had Cowen now for quite a while, a year and a half. I'm curious your perspective on how this deal has performed relative to your expectations. What's working and where is there more work to be done in terms of getting it to where you wanted to be.

Bharat Masrani – TD – Group President and CEO

Firstly, it's been a great – remarkable as to how well it has worked out. If you look at why Cowen at that time, and now TD Cowen. We were looking at complementary businesses between TD Securities and now TD Cowen as well. We had wanted to make sure that for equity capital markets in the U.S. that we had more capability than we had previously. We didn't have much of a research platform for the U.S. and with TD Cowen, we have a fantastic research platform now. There were certain attractive, what I call investment banking verticals that we did not have, and now we do. Biotech comes to mind, healthcare. And then as well, TD Bank America's Most Convenient Bank in a way, with a large retail commercial footprint and we have a lot of existing clients that would be what we would call in the middle market segment. And these are clients that require more capital markets types of capabilities to be put in front of them. Again, TD Cowen very good at that particular segment. So very complementary businesses. And it's been remarkable in that space, normally you worry about you acquire something, are the values going to be aligned? What about the culture? Are you going to be able to retain the talent? And then, I know the teams have worked very hard and Riaz has done a terrific job, as has Jeff Solomon and others to create that platform. And you can see the performance, and Riaz talked about it, I think one of your colleagues asked the question in the last quarterly call. The business now has the capability of generating, I don't know, \$1.7 billion, \$1.8 billion in revenues a quarter, in the current conditions, in the market conditions. So we like as to how this has played out. It provides us with a way to address some of the gaps we had before and now we are a full service competitor in an important market.

Meny Grauman – Scotia Capital – Analyst

We only have a few minutes left, but I wanted to talk about ROE, definitely a theme across the sessions today, talking about how you hit your medium-term ROE target, 16% plus. What are the building blocks here to get you there? Is it achievable? Capital rules have gone up over this period. So how big a hurdle is that to get over in order to achieve the target? Is it still a target that you can see in front of you?

Bharat Masrani – TD – Group President and CEO

Actually, we put out our target after the capital rules had changed. Basel III et cetera all part of that. Yeah, we feel it's achievable over the medium term. That's what we've said. And the types of businesses that we have and the way we are managing not only those businesses, the way we see how markets are evolving, we think it is achievable over the medium term and are quite happy to have that target out there.

Meny Grauman – Scotia Capital – Analyst

Finally, I wanted to talk about succession. You've been in the role for 10 years now. You're dealing with a U.S. government investigation. So why not just say, let someone else deal with this? Maybe start there with your thoughts on. . .

Bharat Masrani – TD – Group President and CEO

I like that, Meny over to you. Well, you're applying for a job, or what?

Meny Grauman – Scotia Capital – Analyst

Basically, that's what I'm going for. I put you on the spot, so you have to say yes but.

Bharat Masrani – TD – Group President and CEO

Succession in a bank like TD – any large organization, is important – is an important function for the board. Probably the most important board decision boards make. At TD we have a very robust process in place that goes back multiple years. And we have a terrific bench in the bank as well, and very deep talent and that's why you see what TD is all about. You know, we've been consistent performers over many, many years and have scaled businesses in every market in which we operate. So, listen, I'm busy, not only to remediate our progress in the U.S., but how do we serve our customers well and make sure that the bank continues to perform as all our stakeholders would expect.

Meny Grauman – Scotia Capital – Analyst

Okay. You could be golfing, but you are here. Thanks a lot. Appreciate all.

Bharat Masrani – TD – Group President and CEO

All right. Thanks very much. Appreciate it. Thank you.

Meny Grauman – Scotia Capital – Analyst

Thank you.