Q2 2023 EARNINGS CONFERENCE CALL
MAY 26, 2023

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Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2022 MD&A under the heading "Economic Summary and Outlook", under the headings "Key Priorities for 2023" 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 "2022 Accomplishments and Focus for 2023" 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 securities legislation.

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PRESENTATION

Brooke Hales – TD – Head of Investor Relations

Thank you, operator. Good afternoon and welcome to TD Bank Group's Second Quarter 2023 Investor Presentation. Many of us are joining today's meeting from lands across North America. North America is known as Turtle Island by many Indigenous communities. I am currently situated in Toronto. As such, I would like to begin today's meeting by acknowledging that I am on the traditional territory of many nations, including the Mississaugas of the Credit, the Anishnabeg, the Chippewa, the Haudenosaunee, and the Wendat peoples, and is now home to many diverse First Nations, Métis, and Inuit peoples. We also acknowledge that Toronto is covered by Treaty 13 signed with the Mississaugas of the Credit, and the Williams Treaties signed with multiple Mississaugas and Chippewa bands.

We will begin today's presentation with remarks from Bharat Masrani, the Bank's CEO, after which Kelvin Tran, the Bank's CFO, will present our second quarter operating results. Ajai Bambawale, Chief Risk Officer, will then offer comments on credit quality, after which we will invite questions from pre-qualified analysts and investors on the phone. Also present today to answer your questions are Michael Rhodes, Group Head, Canadian Personal Banking; Barbara Hooper, Group Head, Canadian Business Banking; Raymond Chun, Group Head, Wealth Management and Insurance; Leo Salom, President and CEO, TD Bank America's Most Convenient Bank; and Riaz Ahmed, Group Head, Wholesale Banking. Please turn to slide 2.

At this time, I would like to caution our listeners that this presentation contains forward-looking statements, that there are risks that actual results could differ materially from what is discussed, and that certain material factors or assumptions were applied in making these forward-looking statements. Any forward-looking statements contained in this presentation represent the views of management 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. Forward-looking statements may not be appropriate for other purposes.

I would also like to remind listeners that the Bank uses non-GAAP financial measures such as "adjusted" results to assess each of its businesses and to measure overall Bank performance. The Bank believes that adjusted results provide readers with a better understanding of how management views the Bank's performance. Bharat will be referring to adjusted results in his remarks. Additional information on items of note, the Bank's use of non-GAAP and other financial measures, the Bank's reported results and factors and assumptions related to forward-looking information are all available in our Q2 2023 Report to Shareholders.

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

Bharat Masrani – TD – Group President and CEO

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

To start, I want to express that our thoughts are with Albertans in light of the devastating fires. TD has mobilized to provide assistance to impacted customers and colleagues. The Bank has also contributed directly to relief efforts, and enabled customers to do so as well through branches, phone and online.

In addition, before I review our second quarter, I'd like to provide a few comments on our joint announcement with First Horizon earlier this month. While we are not at liberty to address confidential discussions with our regulators, we are confident the mutual termination was the right decision given the uncertainty in timing of regulatory approvals. This decision provides clarity to our colleagues, our customers, and to you – our shareholders. I want to thank Bryan Jordan, First Horizon's President and CEO, and his team for their partnership, and wish them great future success.

Now, let me turn to the future of our U.S. business. TD Bank, America's Most Convenient Bank is well-capitalized with a stable deposit base and deep customer relationships. We've built a brand that is second to none, and the best team in banking. Our business model and footprint provide a robust foundation for continued growth – and we are already executing on significant opportunities. TD is strong, resilient, and well-positioned to build on our momentum in the months and years ahead.

Let me now turn to our results.

Q2 was a good quarter for TD. Earnings were $3.8 billion, and EPS was $1.94. There were many moving parts this quarter, with strength in our retail businesses while Wholesale Banking was impacted by challenging market conditions. Revenue grew 14% year-over-year, driven by margin expansion. This was offset by higher provision for credit losses and increased expenses, reflecting the inclusion of Cowen, investments in colleagues and business growth, and the impact of foreign exchange. PTPP was up over 6% year-over-year – as TD's business fundamentals remain strong. Our longstanding strategic focus on gathering core deposits across our North American franchise continues to be a significant competitive advantage – particularly in the current operating environment, amid increased competition for deposits. And, as expected, we saw some credit normalization this quarter, but credit performance remains robust.

The Bank's CET 1 ratio was 15.3 per cent, reflecting organic capital generation offset by the impact of the Cowen acquisition. Beginning with the dividend declared today, we have decided to remove the discount to the shares issued under our dividend reinvestment plan. And, to offset the discounted shares issued under the DRIP, today we announced our intention to repurchase up to 30 million common shares for cancellation, subject to regulatory approval. Depending on market conditions, we expect to complete this share buyback by the end of the summer, at which point we will assess the opportunity for further buybacks.

We have a strong capital position, which provides flexibility in an uncertain operating environment. We are pleased to be able to return capital to shareholders – while simultaneously accelerating investments to drive profitable growth across attractive opportunities. For example, in the U.S., we are increasing new store openings by 50% and doubling wealth advisor hiring. In Canada, we are expanding hiring of frontline and specialist advisors and accelerating investments to upgrade platforms and enhance digital and mobile capabilities across our businesses. You will hear more about these strategic growth initiatives in the weeks and months to come.

Turning to our Canadian Personal and Commercial Banking segment, we delivered earnings of $1.6 billion, reflecting revenue growth of 11% and significant positive operating leverage. In the Personal Bank, we saw robust growth in Everyday Banking with sales up 28% year-over-year. And – to help build confidence for newcomers to Canada – we enhanced our online appointment booking capabilities to enable customers to book appointments in their preferred language. The Bank delivered industry-leading market share gains in core deposits, putting TD's market share at almost 26%. In credit cards, we saw record organic Q2 loan growth of 14% year-over-year – and the highest quarter ever for active accounts and digital acquisition. TD recently launched an exclusive Canadian bank offer with Uber, adding to the list of leading, global consumer brands that partner with TD, including Air Canada, Amazon, Expedia, and Starbucks. In real estate secured lending, we saw strong sequential volume growth. Our teams also delivered the highest quarterly retention rates since 2008. The Business Bank achieved double-digit loan growth for the seventh consecutive quarter. In the first phase of a multi-year initiative to modernize our customer and credit platforms, almost three thousand Business Bankers across our footprint began using a new relationship management tool that will lead to improved customer experience and increased efficiency. And TD Auto Finance was ranked the Highest in Dealer Satisfaction among Non-Captive Non-Prime Lenders with Retail Credit for the sixth year in a row in the J.D. Power 2023 Canada Dealer Financing Satisfaction Study.

Turning to the U.S., our U.S. Retail Bank delivered another strong quarter with earnings of US$944 million, up 23% year-over-year, reflecting revenue growth of 24% and record positive operating leverage. With the contribution from our investment in Schwab of US$185 million, segment earnings were US$1.1 billion. We saw robust loan growth again this quarter, with personal loans and business loans up 12% and 9%, respectively, year-over-year. TD also has strong momentum in customer acquisition, with new business checking accounts up 29% year-over-year. We continue to invest in our U.S. credit cards business, where we have significant opportunity to expand our lending footprint and deepen relationships with existing deposit customers. Earlier this month, we launched TD Clear and TD Flex Pay – innovative new cards that offer compelling value propositions to accelerate TD's growth in the market. The Bank also enhanced benefits to the popular TD Cash and Double Up credit cards, and made significant advancements in our card servicing and digital capabilities. These investments are supported by TD's recent renewal of its agreements with Visa in Canada and the U.S. Further driving organic growth, TD Bank, America's Most Convenient Bank has an ambitious plan to open 150 new stores by 2027. We are on track to open a total of eighteen stores in 2023, with five already up and running. Earlier this month, we were excited to open our first store in Charlotte, North Carolina. When TD entered each of New York City, Philadelphia, Boston, and Miami, we meaningfully outgrew peers – and I am confident that we will have the same success in Charlotte. Today, nearly 80% of TD's deposits are in MSAs where we have a

top 3 position, as customers respond to our model by entrusting us with more of their business. And the Bank continues to receive recognition for its unique and inclusive culture. In April, TD was once again named one of America's Best Employers for Diversity by Forbes – moving up to the #2 spot, out of 500 companies ranked.

In Wealth Management and Insurance, we earned $563 million this quarter. Revenue was up 2% year-over-year, reflecting the strength of our diversified business model, as higher insurance volumes and the benefit of higher interest rates helped offset the impacts of trading normalization and market volatility. TD Direct Investing continued to widen the gap to peers, with gross new accounts and trading market share increasing year-over-year. And we rolled out a series of enhancements to TD Easy Trade, adding streamlined access to readymade "TD One-Click ETF Portfolios" and more self-service capabilities. TD Asset Management widened its lead versus competitors as the #1 Canadian institutional asset manager and the #1 money manager for Canadian pension assets. TDAM also led the banking industry in long-term mutual fund sales in the quarter, and leveraged its broad product shelf to grow ETF market share. In Advice, we continued to invest for future growth, adding over 500 advice professionals in the past year. And on the Insurance side, we launched Small Business Insurance this quarter. Our direct-to-consumer offering is resonating with customers – and TD is uniquely positioned to satisfy this unmet need in the marketplace. We are Canada's number one direct insurer, and building on our digital leadership with almost one in four new sales across our Insurance business completed online from end-to-end this quarter.

In Wholesale Banking, we delivered net income of $213 million. Despite weaker market conditions, revenues were up 13% year-over-year driven by the Cowen acquisition and growth in transaction banking and lending. This was more than offset by an increase in expenses reflecting the Cowen acquisition and the impact of investments in colleagues made throughout the year. The dealer has added almost 100 new corporate lending relationships over the past year, extending approximately $34 billion in additional loan commitments across a diversified range of industries. TD Securities was proud to be one of three banks shortlisted by Global Trade Review for the top North American Leaders in Trade award for its Trade Finance offering. And our integration with Cowen is well underway. In fact, only one day after closing, TD Cowen acted as bookrunner on its first equity offering. And since then, TD Cowen has book-run 13 equity offerings totaling US$3.5 billion. This is just the beginning as we leverage our new capabilities in U.S. equities and extend our competitive advantage. I am excited to welcome our Cowen colleagues once again, and for all that we will accomplish together.

Halfway through the year, much has shifted. With the mutual termination of the First Horizon agreement and deterioration in the macroeconomic environment, we do not expect the Bank to deliver adjusted EPS growth in the 7-10% medium-term target range in 2023.

Despite the difficult operating environment, TD continues to deliver for all of its stakeholders – and reimagine financial services to shape the future of banking. I hope you will join us for TD's Investor Day on June 8th, where we will provide more details on the Bank's strategy and growth plans, with a focus on our Canadian retail businesses. We will hold a subsequent Investor Day to highlight our U.S. and Wholesale businesses.

TD is forward-focused and purpose-driven – and our TD bankers around the globe bring that vision to life every day. I will close by thanking them for all they do to make TD the Better Bank.

With that, I'll turn things over to Kelvin.

Kelvin Tran – TD – Chief Financial Officer

Thank you, Bharat. Good afternoon everyone. Please turn to slide 9.

For Q2, the Bank reported earnings of $3.4 billion and EPS of $1.72, down 12% and 17% respectively. Adjusted earnings were $3.8 billion, up 1%, and adjusted EPS was $1.94, down 4%. Reported revenue increased 10% and includes a net loss from mitigation of impact from interest rate volatility to closing capital on the First Horizon acquisition. Adjusted revenue increased 14% reflecting margin growth, the impact of FX translation, and increased advisory fees and equity commissions in TD Securities. Provision for credit losses was $599 million compared with $27 million in the second quarter last year. Reported expenses increased 16% and include acquisition and integration-related charges for closed and pending acquisitions. Adjusted expenses increased 12%, driven by higher employee-related expenses, the impact

of FX translation, and higher variable compensation. Absent the retailer partners' net share of the profits from the U.S. strategic card portfolio, adjusted expenses increased 12.3% ex-FX. Reported total bank PTPP was up 3% year-over-year. Consistent with prior quarters, Slide 24 shows how we calculate adjusted total bank PTPP and operating leverage removing the impact of the U.S. strategic card portfolio, along with the impact of foreign currency translation, and the insurance fair value charge. Adjusted total bank PTPP was up 6% after these modifications. Please turn to slide 10.

Canadian Personal & Commercial Banking net income for the quarter was $1.6 billion, up 4% year-over-year. Revenue increased 11%, reflecting higher margins and volume growth. Average loan volumes rose 6%, reflecting 5% growth in personal volumes and 11% growth in business volumes. Average deposits rose 2%, reflecting 8% growth in personal deposits partially offset by a 7% decrease in business deposits. In the current rate environment, we continue to see migration of balances into term deposits and other high yielding investments. Net interest margin was 2.74%, down 6 bps compared to the prior quarter, primarily due to lower deposit margins. Many factors can impact margins – including the path of short-term rates, tractor on and off rates, customer activity and competitive market dynamics. While margins may bounce around quarter to quarter, we are pleased with the year-to-date margin expansion, and expect return of moderate expansion by the end of the year. Total PCL of $247 million decreased $80 million sequentially. Total PCL as an annualized percentage of credit volume was 0.19%, down 6 basis points sequentially. Non-interest expenses increased 8% year over year, reflecting higher spend supporting business growth, including technology and higher employee related expenses. Please turn to slide 11.

U.S. Retail segment reported net income for the quarter was US$1.0 billion, down 3% year-over-year. Adjusted net income was US$1.1 billion, up 19% year-over-year. U.S. Retail Bank reported net income was US$859 million, down 5%, primarily reflecting higher non-interest expenses including acquisition and integration-related charges for the First Horizon acquisition and higher PCL, partially offset by higher revenue. U.S. Retail Bank adjusted net income was US$944 million, up 23%. Reported revenue increased 14% year-over-year. Prior year reported revenue includes an insurance recovery related to litigation. Adjusted revenue increased 24% year-over-year reflecting higher deposit margins and loan volumes, partially offset by lower deposit volumes and loan margins, and lower overdraft fees. Average loan volumes increased 10% year-over-year. Personal loans increased 12%, reflecting good originations and slower payment rates across portfolios. Business loans increased 9%, reflecting strong originations from new customer growth, higher commercial line utilization and slower payment rates, partially offset by PPP loan forgiveness. Average deposit volumes, excluding sweep deposits, were down 5% year-over-year. Personal deposits were down 3%, and business deposits declined 6%. Balances were impacted by the economic environment and inflationary pressures. We also saw some migration to higher yielding products, including CDs and non-depository investment opportunities. Sweep deposits decreased 23%. Earlier this month, TD and Schwab amended the Insured Deposit Account agreement to reflect the current market and interest rate environment. The revised agreement extends the term by three years, and provides for lower deposit balances in the first six years and higher balances in the latter years. In addition, the agreement increases certainty for TD around future deposit balances and strengthens our partnership with Schwab. Net interest margin was 3.25%, down 4 bps sequentially, due to lower deposit margins reflecting higher funding costs. Many factors can impact margins – including the path of short-term rates, tractor on and off rates, customer activity and competitive market dynamics. While we are pleased with the substantial year-to-date margin expansion, we expect downward pressure again on margins in Q3 reflecting intensifying pricing competition in in the U.S. market. However, we do expect margins to resume growth, albeit moderately, starting in Q4 with new tractor on rates. Total PCL was US$140 million, a decrease of US$9 million sequentially. The U.S. Retail net PCL ratio, including only the Bank's share of PCL for the U.S. strategic cards portfolio, as an annualized percentage of credit volume was 0.33%, lower by 1 bps sequentially. Reported expenses increased 17% and include acquisition and integration-related charges for the First Horizon acquisition. Adjusted expenses were up 9% reflecting higher employee related expenses, and higher business investments. The contribution from TD's investment in Schwab was US$185 million, up 5% from a year ago, reflecting higher net interest income, partially offset by higher expenses, lower asset management fees and lower trading revenue. Please turn to slide 12.

Wealth Management & Insurance net income for the quarter was $563 million, down 16% year-over-year. Revenue increased 2%, reflecting higher investment income in the insurance business, an increase in fair value of investments supporting claims liabilities and higher insurance volumes, partially offset by lower transaction and fee-based revenue in Wealth. PCL for the quarter was $1 million, an increase of $1 million from the prior quarter. Insurance claims increased 36% year over year, reflecting the impact of changes in the discount rate which resulted in a similar increase in the fair value of investments supporting claims liabilities reported in non-interest income, more severe weather-related events, and increased driving activity and inflationary costs. Non-interest expenses decreased 1% year over year, reflecting lower variable compensation, partially offset by higher spend supporting business growth including employee related expenses and technology costs. Assets under management increased 3% year-over-year and assets under administration increased 2% year-over-year, both reflecting net asset growth. Please turn to slide 13.

Wholesale Banking reported net income for the quarter was $150 million, a decrease of 58% year-over-year. This reflects higher non-interest expenses, which include acquisition and integration related charges for TD Cowen, partially offset by higher revenues. Adjusted net income was $213 million, down 41% year-over-year. Revenue including TD Cowen was $1.4 billion, up 13% year-over-year. Higher revenue reflects higher advisory fees, equity commissions, global transaction banking revenue, and lending revenue, partially offset by lower trading-related revenue. PCL for the quarter was $12 million, a decrease of $20 million from the prior quarter. Reported expenses increased 53% and include acquisition and integration related charges for TD Cowen. Adjusted expenses increased 44% reflecting the inclusion of TD Cowen, continued investments in Wholesale Banking's U.S. dollar strategy (including the hiring of banking, sales and trading, and technology professionals), and the impact of foreign exchange translation. Please turn to slide 14.

The Corporate segment reported a net loss of $399 million in the quarter, compared with a reported net loss of $151 million in the second quarter last year. The year-over-year increase primarily reflects lower revenue from treasury and balance sheet management activities, a net loss from mitigation of impact from interest rate volatility to closing capital on First Horizon acquisition, and higher net corporate expenses. Adjusted net loss for the quarter was $177 million, compared with an adjusted net loss of $79 million in the second quarter last year. Please turn to slide 15.

The Common Equity Tier 1 ratio ended the quarter at 15.3%, down 14 bps sequentially. We had strong internal capital generation this quarter, which added 28 basis points to CET 1. This was partially offset by an increase in RWA (net of FX), which decreased CET 1 by 2 basis points. We saw a 14 basis point increase in CET 1 related to the issuance of common shares under our dividend reinvestment plan. As Bharat mentioned, beginning with the dividend declared today, and until further announcement, there will be no discount to the shares issued under our dividend reinvestment plan. As a reminder, in Q1, we implemented Credit Risk methodology changes in preparation for Basel 3 Reforms. The implementation of the Basel 3 Reforms had a small positive impact this quarter. The Cowen acquisition decreased CET 1 by 55 basis points inclusive of the increase in RWA and increase in goodwill and intangibles deduction. Relating to the First Horizon acquisition, a net loss from the mitigation of impact from interest rate volatility to closing capital decreased CET 1 by 2 basis points and an FX hedge increased CET 1 by 4 basis points. All hedges related to the First Horizon acquisition are now closed. RWA including FX increased 3.3% quarter-over-quarter, reflecting higher Market Risk and Operational Risk RWA, partially offset by a decrease in Credit Risk RWA. Credit Risk RWA decreased $3.4 billion, or 1%, mainly reflecting the impact from Basel 3 reforms largely offset by the TD Cowen acquisition and volume increases. Market Risk RWA increased $2.2 billion, or 11%, reflecting the impact of the TD Cowen acquisition. Operational Risk RWA increased $19 billion, or 29%, reflecting the impact from Basel 3 reforms (inclusive of the impact of the Stanford settlement), and the TD Cowen acquisition. The leverage ratio was 4.6% this quarter, and the LCR ratio was 144%, both well above published regulatory minimums. Finally, before I turn the call over to Ajai, I wanted to note that we appreciate that analysts and investors may have questions on the financial impacts from the mutual termination of the First Horizon agreement. We have added slide 26 in this presentation to assist in that regard. With that Ajai, over to you.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Thank you, Kelvin and good afternoon everyone. Please turn to slide 16.

Gross impaired loan formations decreased by 2 basis points, to 14 basis points quarter-over-quarter, reflected in: the Commercial lending portfolios, partially offset by further normalization of credit performance in the consumer lending portfolios. Please turn to slide 17.

Gross impaired loans were stable quarter-over-quarter and remained at low levels. Please turn to slide 18.

Recall that our presentation reports PCL ratios both gross and net of the partners' share of the U.S. strategic card PCLs. We remind you that U.S. Card PCLs recorded in the Corporate segment are fully absorbed by our partners and do not impact the Bank's net income. The Bank's provision for credit losses decreased 4 basis points quarter-over-quarter to 28 basis points. The decrease reflects a smaller performing allowance build this quarter. Please turn to slide 19.

The Bank's Impaired PCL was $551 million, a decrease of $2 million quarter-overquarter. The Bank's current quarter impaired PCL rate remained well below 2019 levels. Performing PCL decreased by $89 million quarter-over-quarter to $48 million. The smaller current quarter provision was recorded across segments. Please turn to slide 20.

The Allowance for Credit Losses increased by $168 million quarter-over-quarter reflecting: An $83 million impact of foreign exchange, current credit conditions, including some credit migration; and volume growth. The Bank's allowance coverage remains elevated to account for ongoing uncertainty relating to: the economic trajectory, and credit performance.

In summary, while we've seen ongoing normalization of key credit metrics in the consumer lending portfolios, the Bank's credit performance remained strong this quarter, evidenced by: gross impaired loan formations, gross impaired loans, and impaired PCLs remaining at low levels.

Looking forward, after two quarters of continued strong credit performance, I now expect Total PCLs in 2023 to come in near the lower end of my prior guidance of 35 to 45 basis points, however, results may vary by quarter.

To conclude, despite recent challenges for the broader financial sector, TD remains well positioned

given, we are adequately provisioned, we have a strong capital and liquidity position, and we have a business that is broadly diversified across products and geographies. With that, operator, we are now ready to begin the Q&A session.

QUESTION AND ANSWER

Operator

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

Ebrahim Poonawala – BofA Securities – Analyst

My first question, Bharat, maybe on capital, CET1 15.3, it sounds like you have no restriction in terms of what you can do in the U.S. I appreciate you can't talk about whatever the regulatory issue is, but the growth plans that you laid out sounds like TD can go about business as usual or sounds like you're accelerating your growth. But give us a sense of the 15.3 CET1, what is the right capital level that you're managing to? And how do you get there in a world where U.S. M&A probably is out of the question for the foreseeable future? Yes, maybe if you could start there.

Bharat Masrani – TD – Group President and CEO

Yes, Ebrahim, great question, and nice to talk to you. Firstly, we are going through an uncertain period here from an economic perspective, markets perspective, volatility so to have the level of capital we have, that is a good thing. So it's always good when you have such an uncertainty in the marketplace.

Secondly, as you said, we continue to invest in our franchises. And over the next little while, you'll hear more about it. We will provide more detail as to how we are thinking about growth. And that should be a good discussion, and hopefully, you'll be able to make it to the Canadian side of that discussion on June 8th when we have our Investor Day. And as I said in my remarks, we will have a follow-on Investor Day regarding our U.S. business as well as our wholesale business.

Targeting capital, I know last quarter, there was lots of discussion by many of you that what's your path to 12%, and I've laid out a clear path as to how we get to 12%. So I guess around 12% would be a good target based on conditions as we know today. But we continue to see good growth in our businesses. I'm sure Michael, Leo, Riaz and Ray will talk about there's terrific momentum in our businesses. And we are looking forward to deliver the volumes and taking share, which has been the historic advantage TD has had in any type of environment.

So I leave it at that. As you know, we did announce a buyback of 30 million shares. This is to reflect in the shares we had issued under the DRIP in order to finance the First Horizon transaction. Since that deal is now terminated, it makes sense to buy back those shares. And we expect to finish that buyback by the end of the summer or so. And then, of course, we will look at what makes sense, and we will be assessing the way forward from that with respect to capital deployment. But my message on capital deployment has not changed. It has been there for a few years.

We look at what level of capital we're going to require to support our strategies, RWA growth, market share growth. We have not been shy in deploying our capital where we think we need a capability build, either we buy or build it ourselves.

We look at other opportunistic situations that might present themselves, and we also consider buybacks when appropriate. So that thinking, that framework remains unchanged. And I would say that over the next few months, we'll be able to provide more clarity as to how we will deploy our capital going forward.

Ebrahim Poonawala – BofA Securities – Analyst

But Bharat, are you saying that you are able to do M&A? Because it sounded like you may build or buy. So does that mean you can still do M&A if you wanted to? Because the expectation externally is given this issue that whatever happened to led to the First Horizon termination, you're out of M&A for the foreseeable future. Is that a wrong assumption?

Bharat Masrani – TD – Group President and CEO

I think to speculate on M&A, it's always a dangerous game because nobody can say it perfectly. But we've done deals previously on capability builds. I think in Ray's business, we acquired Greystone a few years ago. In Riaz's business, we just acquired Cowen. We, in Riaz's business, acquired Headlands as well not too long ago. And so that goes -- it's an ongoing exercise for us, either it's capability builds or where there's an extension to our businesses. And that will -- we will continue to look at those as they present themselves.

Meny Grauman – Scotia Capital – Analyst

Just a follow-up on Ebrahim. Bharat, just wanted to better understand why not be more aggressively buying back shares here, given the excess capital position? What's the counterpoint to doing a bigger buyback?

Bharat Masrani – TD – Group President and CEO

I said it would take us a bit of time to get the 30 million shares but after that, we will reassess. And as I said in my comments, we should be able to complete this phase of the buyback by the end of the summer, and then we will reassess our position. And hopefully, by that time, we would also outline some of our growth plans. And then we can discuss further as to what would be an appropriate level of buybacks.

Meny Grauman – Scotia Capital – Analyst

Got it. And then just focusing in on the U.S. you terminated the transaction with FHN, but you still have a very sizable U.S. business. And I'm just wondering how you view your U.S. regional banking crisis, how that has impacted that existing business, both in terms of good and bad from your perspective?

Bharat Masrani – TD – Group President and CEO

I'll pass it on to Leo to provide a perspective on that. But we've been in the U.S. for many years. As you said, we have a sizable, great scale business from Maine to Florida that has been terrific and continues to be a terrific growth engine for the bank.

And in this current crisis, in my remarks, I said how many new accounts we are opening, the type of business we're attracting. But Leo can perhaps provide more perspective because we have a brand that is second to none in the U.S. This particular turmoil, we've seen our actually deposit flow to be attractive. The number of accounts opened at TD is in some of our business is a record. And Leo, why don't you provide some more color?

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

Sure, Bharat. And Meny, it's good to speak to you. Obviously, the last 2 months somewhat unprecedented in terms of the activity. The market has continued to see deposit contraction at the industry level. I think overall, deposits down about $1 trillion year-on-year. That, coupled with, obviously, the liquidity scares that took place, no doubt the regional banks and some of the small banking players that might find themselves with either mark-to-market challenges from a capital standpoint and/or commercial real estate concentrations do find themselves in a slightly challenged environment.

As Bharat said, I feel quite positive about our franchise. We've got a very strong deposit base. I think what probably characterizes our footprint in the U.S. is that we've got probably one of the leading retail deposit franchises, and it's held up quite well, In fact, on a quarter-on-quarter basis, retail deposits were essentially flat, and we saw a very good account opening volumes. Even on the commercial side of the house, our commercial checking accounts opened in the quarter were up 29% on a year-on-year basis.

So the franchise continues to perform well. We were resilient from a deposit standpoint. I do think that the market will be tighter as we move forward. We're already seeing tighter credit conditions. And I think given the fact that we've got a strong capital base liquidity to be able to provide our clients with the support that they need through the cycle, I think either we find ourselves in a very good position to be able to consolidate relationships with some of our key clients and be able to take share.

Meny Grauman – Scotia Capital – Analyst

Is growth in the U.S. Southeast still a priority, geographically speaking?

The big part of the rationale for FHN was growing in the U.S. Southeast, fast-growing region. How important is growth in that region? And can you do it organically?

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

Yes, very much so, Meny. As Bharat indicated in his opening remarks, we've outlined a plan to open up 150 stores. A very large portion of that is in the Southeast. So think consolidating our footprint in Florida, specifically South and Central Florida, continuing expansion in the Carolinas. We already have a very strong footprint in South Carolina.

Bharat alluded to the fact that we opened up our first store in North Carolina. I was down in Charlotte. The mayor had a great grand opening. We're going to continue to lean into that market as well. Atlanta is a market -- it's the one major metro market where we do not have a significant retail presence, and we're going to lean into there. We've already got an interesting commercial footprint, but we want to continue to expand there.

And then selectively, outside of that Southeast footprint, Meny, there are gaps that we think we have in our urban market centers. So think Boston, Philly, New York, where we think there are expanding communities, growing communities where we'll lean into the sort of round out our existing footprint. But the Southeast is going to be a very important part of the overall equation.

Scott Chan – Canaccord Genuity – Analyst

Maybe I'll stick with you, Leo, on the U.S. side. I noticed that your loan growth was pretty strong quarter-over-quarter, retail, commercial and mortgages. And it seems like your peers have kind of stepped back or called out the market conditions. And just wondering if TD is just a bit more aggressive? Or how are you kind of gaining that incremental market share that we've seen over the past few quarters?

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

Sure, Scott. Let me just provide a little bit of color on the numbers because I think it will help. We were pretty balanced in terms of loan growth in the quarter. Both our personal and our commercial banking businesses ex PPP were up double digits. If you look at the consumer side of the house for just a moment, RESL was quite strong. It was up 17% in terms of overall balance growth on a year-on-year basis. I'd like to say that it was powered by significant origination growth. It wasn't. We had solid performance in terms of origination.

I think the real story was paydowns. Paydowns are at historical levels. And so obviously, what we did originate resulted in good loan growth, and we tend to be slightly undersized in terms of our overall mortgage book. So it provided us a good headline print. Cards, we were really pleased with the cards performance. We saw a 9% growth in cards. And the lion's share of that was actually in our proprietary line. So think bank card and our retail card services business were up 15% and 13%, respectively.

And then the auto business, which obviously has been quite challenged with supply chain issues, saw some very good performance. We were up 6%. And more importantly, we're seeing good risk-adjusted yield expansion in that market. So we're hopeful that will translate into greater profitability.

On the commercial side, we continue to do well from a commercial standpoint. I think a combination of factors played into it. We saw a little bit more growth than we did in previous quarters in the small business and the community regional segments.

Commercial real estate is still somewhat sluggish. As you would expect, we've been cautious in that area. We've been quite deliberate over the past 3, 4 years, and we've reduced our overall exposure to commercial real estate. But we saw good, solid growth in the mid-market and the C&I community. And the pipeline remains strong.

I would just caution a little bit that I think the outlook, the debt ceiling discussions, I could see a little bit of moderation in that commercial -- I'm sorry, in the commercial banking space at least to the near term. But

I'm still quite confident that once again, given our capital, our liquidity position, we'll be able to support clients through the cycle.

Scott Chan – Canaccord Genuity – Analyst

And maybe just for Riaz on capital markets, I was suspected that 2 months of Cowen would have held up profitability in the segment. It seems like Cowen's run rate of profit is about $50 million a quarter in the normal market. So can you help us maybe unpack where the shortfall came? Was it your core business Cowen or just market factors?

Riaz Ahmed – TD – Group Head, Wholesale Banking

Scott, thanks for that. I think overall, this quarter we continue to kind of navigate a difficult operating environment with kind of mixed results by business. So overall trading results, equity underwriting and U.S. M&A were revenue headwinds this quarter, which we were able to partially mitigate with very strong loan demand, transaction banking results and also Canadian M&A revenue was spectacular for us this quarter, given we were able to close 3 or 4 transactions that had already been in the pipeline. So all in all, kind of a mixed result on revenue with a 14% growth. I think U.S. equity and M&A would have been lighter by USD 50 million to USD 75 million, let's say, on what our overall expectation would have been.

But as you say, thrilled to close the acquisition of Cowen. We had a nice pickup in equity commissions and a little bit of contribution on the advisory side and expect a strong pickup in revenue when markets turn more favorable.

And then on the expenses side, we've been talking about the significant investments we've made in growing our U.S. platform and now including the acquisition of Cowen. So all in all, I'm really quite excited and optimistic to prepare TD Securities and wholesale bank for its next phase of growth. But I do expect the revenue and expense numbers over the next couple of quarters to remain a bit bumpy as we adjust and optimize business mix and deepen the integration. So I think we'll hit more of a run rate stride by fiscal '24.

Doug Young – Desjardins – Analyst

I guess the question is for Kelvin. In your prepared remarks, you talked about NIM, in Canada and the U.S. And it sounds -- and correct me if I'm wrong, but it sounds like you expect some moderation in Q3 and then a return to modest expansion in Q4, and then it sounds like maybe going into fiscal '24. But I don't want to put words in your mouth, you can correct me if I'm wrong, but I'm trying to figure out is what's driving that? Is it just the pickup in tractors in Q4? Like what gives you the confidence that it will start to moderately expand in Q4 and going forward?

Kelvin Tran – TD – Chief Financial Officer

Thanks, Doug. Yes, it's Kelvin here. That's correct. The tractors are going to be supporting that trend. Obviously, there are many factors that impact margin. It's not just about rates but also competitive behaviors as well.

But when you're looking at rates, what we benefited from over the last year are rise in short-term rates, which have a more immediate impact. And then now we're looking at tractors coming on with tractors on rates being higher than the off rates. And so that's going to be supportive of margin expansion, but more gradually than what normally you see in short-term rate increases.

Doug Young – Desjardins – Analyst

Is there a reason why it's Q4? And is there a structural reason why there's a delay, and you don't see that unfolding in Q3?

Kelvin Tran – TD – Chief Financial Officer

Well, it really depends on what the rates were 5 or 7 years ago. And as these tractors price in every month is like a ladder bond portfolio that gets repriced. And so bit by bit, it actually helps with the margin, which is very different than if you have a short-term rate on float rate investment because when there's a change in Central Bank rate, then that entire deposit investment from those deposits get repriced, whereas tractors is one of a fraction of that every month. And then over time, it builds.

Doug Young – Desjardins – Analyst

Yes. I understand. And you haven't disclosed the size of that tractoring portfolio or have you or would you be willing to?

Kelvin Tran – TD – Chief Financial Officer

No, we haven't disclosed that detail.

Doug Young – Desjardins – Analyst

Okay. All right. And my second question is, I guess, in the U.S., you had a decline in sweep deposits from Schwab, 11% quarter-over-quarter. I think kind of get what drove it. But can you talk a bit about what drove it? And can you talk a bit about the new sweep deposit agreement and how that impacts the economics for TD going forward versus the old agreement? And what are the puts and takes that we should think about?

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

Yes. This is Leo. I can take that. Maybe just to start with the quarter itself. So sweeps closed the quarter at about $110 billion and down 23%. And essentially, as would have been reported by Schwab, a lot of that is simply clients cash sorting or looking for brokerage fixed income yield pickup vis-a-vis deposit sweeps.

So a very expected sort of behavior amongst clients that are investing with Schwab for investment returns. We do expect that trend to continue, albeit maybe moderate a bit as we think about the subsequent quarter.

I think we're quite pleased with the new agreement. Kelvin outlined the basic terms of the agreement. It essentially extends the agreement with Schwab for another 3 years. And it increases our long-term floor in that agreement up to $60 billion, which is certainly important to us in terms of preserving that strategic relationship.

We do provide greater flexibility for them to accommodate some of that cash-sorting behavior that's taking place. We would expect more downdraft into 2024. We think that the actual impact on that is going to be manageable and something that can certainly be absorbed within the overall revenue performance in the business.

Doug Young – Desjardins – Analyst

Am I right that you're sharing more of the yield on those sweep deposits in the new agreement with Schwab versus prior because you're reflecting, obviously, the current rate environment versus the way it was structured before? Am I right to think of it like...

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

No. The actual economics on the actual sweep structures themselves, that hasn't changed. What -- the only fundamental change is providing a lower floor that gives them greater flexibility in terms of liquidity management in the short term.

Paul Holden – CIBC – Analyst

A couple of questions related to the U.S. retail business. I guess, first off, just looking at the increase in average FTE across the different segments, I noticed U.S. retail is up 12% year-over-year pretty significant. So maybe you can talk about some of those investments you've made in the FTE. Like what specifically are those for? Are those related to the new upcoming store openings? Or is it a separate investment?

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

Yes. Paul, thanks for the question. Actually, 3 sources, just to maybe oversimplify a bit. One portion of that is just returning staffing levels to pre-pandemic levels in all of our front-facing areas. So think the stores, the call centers, we had experienced attrition through the pandemic, and now we're returning that. And fortunately, that increase is translating into better customer satisfaction scores. So we're quite pleased with that investment.

The second grouping is a very deliberate investment in our digital technology and data initiatives. It's a major thrust. So not only are we trying to grow the store network, which has historically been a real asset for TD in the States, but we're also complementing with a big push on digital and mobile. And those investments and that staff complement is supporting the delivery of some critical initiatives there.

And the third was actually resources for the First Horizon integration program. And so what you would expect us to do is unwind those resources. We're going to do that gradually, obviously. Where we have an opportunity to be able to backfill into our core franchise, we'll certainly do that. But we'll see a reduction there with regards to the overall integration resource that we had put in place.

Paul Holden – CIBC – Analyst

Okay. That sounds great color on that. And then I want to ask a question on the planned store opening. So I think we'll all agree it's the right long-term strategy, but we also know the market can get a little bit fast around the growth in expenses ahead of the planned revenue benefit. So just wondering you plan on sort of legging in these store openings if there's any planned expense efficiencies against it? Or maybe just give us a general sense of how you visualize the expense growth in the U.S. business as a result of this planned strategy.

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

Sure, Paul. Bharat talked about trying to do an Investor Day, and I look forward to being able to share maybe the more fulsome strategy with you. But we're essentially looking to invest in 4 critical areas: our consumer distribution expansion, the store expansion that we talked about; leaning into digital and mobile capabilities and making sure that we're delivering commensurate legendary experience through those digital assets; growing our parts franchise; and then finally, building out our national commercial banking footprint.

Underpinning all of that is a very deliberate productivity program focused on identifying structural opportunities to not only fund these programs, but hopefully give us some absorptive capacity for what might be declining rate cuts in the future. So productivity is going to be a very important part.

We've already enacted some of those measures. You would have seen our expense growth rate on a quarter-on-quarter, we were down 3.8%. And we will continue to lean in on trying to partially fund some of our critical investment and critical growth initiatives. So that will certainly be part of the strategy.

Paul Holden – CIBC – Analyst

Got it.

Raymond Chun – TD – Group Head, Wealth Management & Insurance

Just maybe, Paul, I'll add one thing, Leo, is we're making early days, but certainly strong progress on growing our U.S. wealth business in partnership with Leo's retail and commercial business. And so some of the FTE that you'd see that we're making investments in the U.S. is actually to accelerate our advisers in the U.S. footprints in sort of our 4 major markets and we've taken our playbook here, our very successful playbook on how to build out our financial planning business for the mass affluent clients from Canada. And we're exporting that into the United States and already seeing very early promising signs.

Gabriel Dechaine – National Bank Financial – Analyst

I'll rapid fire these. The U.S. business, I saw that you used a few more Federal Home Loan Bank deposits. Just wondering why you tap that funding source higher cost, given that your balance sheet in the U.S. is so liquid to begin with.

Then the wealth business in Canada, primarily, I saw transaction revenues down 35% year-over-year. I'm wondering how much of that is caused by fee impact or changes to your fee structure versus just market behavior subdued?

And then on the wholesale business, I get markets weren't favorable this quarter, but operating leverage was quite negative this quarter. And I'm wondering how you're thinking about the combined Cowen and your legacy business and the cost base there basically?

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

Gabe, why don't I take the first one with regards to FHLB borrowings? Borrowings in the quarter went up to $19.5 billion, up from $10 billion at the end of last quarter. We typically use it as a temporary bridge source of liquidity.

Sometimes it is more economic to do that than breaking into an investment position that hasn't yet matured. To give you a sense, we've already on a spot basis today, those borrowings are back down to $11.5 billion. So it's simply a transitional source of funding for us.

Raymond Chun – TD – Group Head, Wealth Management & Insurance

And it's Raymond. If I think about Canadian wealth, the question you had on fee income, I would say similar to the rest of the industry, there's probably 3 headwinds that are impacting fee income. One is equities. And with the S&P on average down about 8%, that will have headwinds on our fee income side of the business.

The other piece is trades per day. Trades per day continued to normalize in our direct investing business, still down about 29% on a year-on-year basis. It's still up from pre-pandemic levels, but we're still seeing a normalization on trades per day.

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And then like the rest of the industry, a deposit mix with the higher interest rate environment that we're in, we're certainly seeing some of our deposits staying within the TD family but moving to more interest-bearing products like GICs in the short term.

What I would say though is the fundamentals of the business I'm very pleased with is continuing to see very strong net asset growth, which is leading to market share gains across all of our wealth management businesses. And so whether that's in our institutional asset management business, we're widening our market share lead there.

We're picking up more from a market share on trades in general in the direct investing business. We picked up market share in new accounts in direct investing and continue to be the fastest-growing private wealth management business in Canada. So the fundamentals of the businesses are strong. And I think the impact that you're seeing on fee income are more industry-related at this moment.

Gabriel Dechaine – National Bank Financial – Analyst

Yes. I was asking specifically about the trade -- that's a volume client behavior thing not because you have tweaked your fee structure a bit, and you're telling me that hasn't really had an impact there.

Raymond Chun – TD – Group Head, Wealth Management & Insurance

Has had nominal impact on the introduction.

Gabriel Dechaine – National Bank Financial – Analyst

Okay.

Riaz Ahmed – TD – Group Head, Wholesale Banking

Gabe, just to add on the wholesale side that, as you know, we've been building out our U.S. capabilities for a number of years now. And essentially, the Cowen acquisition was about that. And you'll remember when we announced the transaction, we said that the transaction was not about cost synergy.

And I think as we move things around and optimize things, we'll find some efficiencies. But clearly, with the weaker markets, we're going to go through a little bit of an S curve to build up the revenue with the elevated cost base.

But look, I think I have to say to you that from the announcement of the transaction and now since closing, we're kind of 90 days since closing, there is such an overwhelmingly positive reaction from our clients, both legacy TD Securities as well as legacy Cowen clients as to what we can do together. And as the teams have started to work together, we're already involved in so much dialogue as a combined firm with our clients that we could have not done individually on our own.

So I feel incredibly positive about the acquisition and the transaction. And I think it would be a mistake to start unwinding the capabilities we just acquired. So I think the platform will require a little bit of patience to continue to prepare for better performance, but I feel very good about where we are, especially in light of the incredible client feedback we've been getting.

Lemar Persaud – Cormark – Analyst

I appreciate the commentary on the segmented margins. But I'm wondering, does that translate through to the all bank level? So we should expect a pause on expansion of the all bank level for Q3 and an expansion again in Q4. Is that fair?

Kelvin Tran – TD – Chief Financial Officer

Generally speaking, there is a correlation, but at the total bank level, assuming you mean ex trading, the core NIM, you also have impact on some of our hedging activities like in corporate and also the sweep deposit that is not included in the U.S. P&C business.

And then generally, we don't talk about the nontrading NIM of TD securities, but they do have that impact as well as wealth and insurance. So those are some of the components that could be refined in terms of estimate versus the 2 big U.S. P&C businesses.

Lemar Persaud – Cormark – Analyst

So it depends on the movement of those other factors? You're not offering any guidance at the all bank level.

Kelvin Tran – TD – Chief Financial Officer

Yes, because those one like if you look at the hedging stuff that could down surrounding in corporate, but I think the important thing is that for the fundamentals of our retail businesses, that is what we expect for those segments.

Lemar Persaud – Cormark – Analyst

Okay. That's fair. And then maybe for Ajai, but can you talk a little bit about the office portfolio? How much of that is Canada versus U.S.? And should we expect some rising losses on this portfolio moving forward?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

I'm happy to respond. So office, I'd say overall is about 11% of total CRE. And as a percent of total bank loans and BAs, it's 1%. So it's quite small. $3 billion of that, which is approximately 30% of our loan exposure or 10.3 in office is Canada. And that's largely in the GTA and the GVA. And it's spread across A, B and C properties.

The one distinguishing factor in Canada is that you have meaningful recourse to guarantors. And the portfolio is performing at present quite well. In the U.S., our exposure is $7.3 billion. 70% of that is in major metros, and a significant portion of our exposure is actually Class A properties.

If I look at both Canada and the U.S. across office CRE, I would describe the classified exposure or what we would call watch exposure and impairment levels to currently be low. However, there is migration occurring on the portfolio. And what we've done as a bank is we've stress tested our office portfolio.

So we've looked at rates, rate stress, a lease renewal stress and a value stress. And we find ourselves already well reserved for such stress because we didn't release our CRE results.

We kept most of our CRE reserves, and our CRE reserves overall are approximately 2.5x pre-COVID level. So we feel we're well reserved from what data we know today. And overall, I'd say we got comfort from the fact that we do have a lot of depth of experience in this space. And as I said, the reserve levels give me comfort as well. So hopefully, that's enough color for you.

Joo Ho Kim – Credit Suisse Securities – Analyst

I just had a quick question, and I wanted to ask on capital deployment. And I appreciate that you will provide more clarity as we look ahead, but I wanted to see if you could discuss sort of beyond the U.S. retail banking space where you're seeing some interesting opportunities.

Could we maybe see they're going to do something in the wealth space in Canada? Or would the bank consider sort of an out-of-footprint acquisition opportunities as we look ahead? I'm just trying to get a general sense or any color commentary would be helpful.

Bharat Masrani – TD – Group President and CEO

It's hard to speculate on M&A. It's difficult to say where because these opportunities present themselves when market conditions allow them. But as you've seen in Canada, whenever there is an opportunity, TD looks at it very seriously, given our size, scale and the number of customers we have.

I pointed out an example of TD Greystone was a terrific acquisition that was about 3 years ago, 4 years ago. And we continue to monitor the market for what is possible and what would make sense for us.

The important thing to note is that at TD, we are disciplined on this. I mean, just because we have the capital, we don't want to chase everything that's out there. It has to make strategic sense. It has to make financial sense. It has to be within our risk appetite. It has to be culturally aligned. We have a very disciplined approach on this. But if the transaction were to fit all that, then of course, we look at it very seriously.

Sohrab Movahedi – BMO – Analyst

Without going into the details of the regulatory constraints in the U.S., can you comment if resolving those issues will mean elevated spending in the foreseeable future?

Bharat Masrani – TD – Group President and CEO

The bank spends, how much do we spend in a year, Kelvin? I think it's $20-odd billion. The scale of TD is quite large. And whether we have to spend on this or that, I mean, of course, there's a prioritization required as you would expect in any business and is normal course stuff to continue to look at opportunities to invest in our platforms.

And you heard some of the things that Leo was talking about, and that's an investment. And I would add, and I think the question was the expenses are upfront and the returns are later on. But at TD, we've had a tradition of doing what is right over the long term.

I mean, we don't look at what's our quarter-to-quarter. Of course, you look at it, and we take it seriously. But the whole plan here is that are we creating long-term sustainable shareholder value or not. And that's the way you should think about it.

And I'm surprised, my friend, Michael Rhodes, is sitting here, and he's got such a great story. So I'm going to pass it on to him to talk about what are you doing in the biggest business we have within the TD family.

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Bharat, thank you for the question.

Sohrab Movahedi – BMO – Analyst

But Mike, I would like to hear from you, but my question is resolving the regulatory issues in the U.S. So I would love to hear from Canada for sure.

But the issues in the U.S., will it require elevated spend? Do you have to spend money to resolve the issues in the U.S. with the regulator?

Bharat Masrani – TD – Group President and CEO

When the time is right, we will talk more about it. We got an Investor Day coming for the U.S. is what our spend levels will be and how we'll be spending it and what categories we'll be still spending in. So stay tuned Sohrab on that.

But the U.S., I like the question. The FTE increase in the U.S. and the investments continue to be at quite a pace in the U.S., and I don't see that changing.

Michael Rhodes – TD – Group Head, Canadian Personal Banking

So Bharat, still want me to answer your question?

Bharat Masrani – TD – Group President and CEO

Yes.

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Okay. Thank you for the question, Bharat. But you think about, obviously, a lot of great things going across the enterprise. And throughout the conversation, Leo, Ray and others have used the word fundamentals quite a lot. And I'm going to use the word fundamentals also.

And I think about the fundamental of the Canadian personal bank are really quite strong and particularly strong this quarter. Bharat, you mentioned your introductory comments, 20% growth in everyday bank accounts on a year-over-year basis, checking accounts, savings accounts, credit card accounts and relative to pre-pandemic, it's more than 20% growth, so doing very well there.

Our core checking accounts in the second quarter are the best ever. The core check account is a franchise account from which like all other sorts of goodness happens in terms of deepening of relationships.

Our net customer growth is the best we've seen in years. Our deposit growth is $20 billion on a year-over-year basis, 8%. Our cards growth was 14%, and we continue to expect strong growth on an ongoing basis.

Our new account acquisition has been strong, and we haven't quite returned to pre-pandemic, a way to go to return to pre-pandemic levels on revolve rate. Our RESL growth was the best sequentially in the marketplace if you actually look on a spot basis and recognize the market has been slow for real estate in general, but we're certainly seeing green shoots.

And it's not just the retention that's been very strong, but our acquisition pipeline has been good. And then year-on-year, we've added hundreds and hundreds of new advisers. And so our fundamentals are strong, and we feel good with the pipelines we have to drive continued growth on an ongoing basis. And it's really across the franchise and now between Leo, Barb, Ray and myself and Riaz, feel good about how we are positioned.

Bharat Masrani – TD – Group President and CEO

Thank you, Mike.

Sohrab Movahedi – BMO – Analyst

I hope you didn't front run your June 8th event. Can I ask a second question since you answered Bharat's question. I guess my second question, again for the team is obviously nice to have the elevated capital levels. How much does the ROE drag from that elevated capital level factor into the urgency to deploy it?

Bharat Masrani – TD – Group President and CEO

So we generate good returns, Sohrab. If you look at our ROEs, like where we are. It's well in excess of our cost of capital, and it's within the range that you see historically from TD.

So we feel comfortable. And like I said, you should not assume that just because we have capital in our pockets that it's burning a hole there, and we need to be impatient as to how we manage that. It is important that we look at the environment, look at what our own growth plans are, and those things are important factors for us. So the ROE drag is something that I'm sure Kelvin will keep on calculating, but we feel pretty comfortable as to where we are.

Nigel D'Souza – Veritas Investment Research – Analyst

Just a couple of quick follow-ups. First on deposits. Wondering if you could expand on the trends you're seeing for migration of term deposits. What's the rate of that migration this quarter and if possible where you see so far in Q3? And on the U.S. retail side, any color on trends you're seeing specifically for noninterest-bearing and on the short deposits.

Bharat Masrani – TD – Group President and CEO

Okay. First was Canada.

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Okay. Sure. Great question. And well, first of all, may I just start with first stating the obvious that our strategy to grow our core deposit franchise. And we pick our spots to compete, and we've been obviously very pleased with the results we've seen so far this year.

And one thing I should probably underscore, which I didn't mention earlier, is new to Canada is really doing a great job of actually fueling our core customer relationship growth and certainly our core deposits. And so when you look at our total deposits up $22 billion on a year-over-year basis, you can then disaggregate core deposits from term deposits.

And you'll see 2 things as we look at the data. First one is that our overall mix of core deposits is better in the marketplace. And then second is if you look at the trend lines of the marketplace, everyone has seen some degree of migration. We're seeing less migration than others in the marketplace.

And so I actually feel very good about where we are in terms of overall mix, our deposit behaviors. And certainly brought to the marketplace both in absolute level and trend line, we look quite good.

Raymond Chun – TD – Group Head, Wealth Management & Insurance

And Nigel, I'll just add, it's Raymond, and I said a little bit earlier from a wealth perspective, we are definitely seeing some of our deposits from our cash and mutual funds moving to more interest rate-sensitive products like GICs, high-interest savings accounts.

And so what you'll see is the deposits are moving from the wealth business, but they're actually staying inside the TD franchise and moving into Michael's personal deposits. And so net-net, you're seeing still us retaining our deposits.

What I would say is that migration has definitely slowed significantly. And so we do think, hopefully, that we've reached the bottom of that piece of it. And those deposits that are sitting in GICs are sitting in short term. And so we do see as the markets do turn the opportunity for those funds to come back into the equities.

Bharat Masrani – TD – Group President and CEO

Before Leo takes it, Barb, do you want to comment on business deposits if you want?

Barbara Hooper – TD – Group Head, Canadian Business Banking

Yes. The story is similar. We are also focused on core deposits, and our core deposit business remains very strong and stable. We have seen core deposits move into term deposits.

We were very price disciplined on term deposits. And they really for the majority of our clients aren't franchise-type deposits. They're very transactional. And so we don't write business to any great extent that is not economically attractive for us. And so that's what we've seen.

Is it slowing? I'd say we saw some slowdown in April. 1 month doesn't make a trend, so we'll have to wait and see.

Bharat Masrani – TD – Group President and CEO

Leo?

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

And Nigel, maybe just giving you a sense of what are some of the underlying trends. Earlier in previous quarters, we were seeing some of the excess pandemic deposits running out of what I would call the mass retail and small business client bases. We didn't see that this quarter.

In fact, retail deposits under $100,000 actually increased overall despite the uncertainty in the marketplace. So we felt really good about that sort of core retail and small business client franchise. Where we're seeing more migration is obviously clients, mass affluent and high net worth clients on the retail side and your institutional larger corporate mid-market players, which are actively yield-seeking. And so to give you a sense, in our commercial banking business, we had just 3 very large clients move significant amount of deposits into TD Wealth and secure brokerage returns that are better than what they were securing previously with sweep. So we're still seeing that at the margin.

Now medium-term rates have come off a little bit. And so some of that may not be quite as attractive as it might have been. But I still think there's going to be some yield seek that's likely to take place in the market.

We have looked at our pricing. I think our pricing is solid. But given the strength of our deposit, we certainly aren't pricing at margin. I think we've got a strong core, and I think we can defend our current pricing in place.

Nigel D'Souza – Veritas Investment Research – Analyst

Got it. And could you also comment on the level of excess deposits and maybe tied down into the rising debt service costs or potential behavior changes for your clients in Canada, I guess, focusing in the U.S. Maybe on variable mortgages, are you seeing higher paydowns to kind of manage the renewal payment shock? Or what are you seeing on the excess deposit side?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

So if I look at our deposit book in a situation where both obviously the mortgage and the deposits, it's actually interesting. On average, we're actually seeing more discretionary reduction in spend in customers who don't have a mortgage than who do have a mortgage. And so mortgage customers in general are handling things very well.

And then when you look at customers who have renewals coming up, again, we're seeing that customers are making very modest shifts in the discretionary behavior. When you get to trigger rate customers,

there's a bit more of a shift, but overall, across the board, our customers are handling the increased payments on their mortgages, I think, quite well. Ajai?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

No, I agree with that. And actually, the deposits look at the numbers quite closely continue to be well above pre-COVID levels. Not only Canada, it's the United States as well. And again, our experience is as customers are reaching their rate reset dates, they're doing the right thing. Some of them are even taking actions earlier.

So the overall quality we're seeing on RESL, but even on the variable interest rate mortgage book is good, and it's really no different. So customers are, at least so far, adapting quite well.

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

And Nigel, I would just add from a paydown perspective in the U.S., we're still at historical lows. Obviously, we don't have the same variable pricing challenges that the Canadian market has. So we're we're seeing record low paydown activities in terms of the RESL book.

Likewise, on the commercial side, paydowns were down significantly in the quarter. So that's contributing to some of the actual loan growth that we're seeing over the past couple of quarters.

Mehmed Rizvanovic – Keefe, Bruyette, & Woods – Analyst

For Michael, I think part of your great Canadian story is your residential mortgage book. So just looking at your market share gains, it looks like it was pretty much across the board. Every region, you picked up share among the big 5 this quarter.

My question is how highly correlated is that to your margin compression in Canadian P&C Banking? I'm not sure how spreads acted in the quarter in the mortgage lending business. But was that a meaningful impact to the margin downside that we saw?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

I can make this answer very short. No, that was not a meaningful impact. The mortgage performance that we had was just from a combination of very strong retention of our existing book. And I think we're just getting better and better at winning new business on the front end. And so that would not have had a meaningful impact on the margin at all.

Mehmed Rizvanovic – Keefe, Bruyette, & Woods – Analyst

Okay. And then just a really quick one for Bharat. And sorry to kind of keep circling back to this. But with respect to whatever it is going on with the regulators in the background, can you at least delineate if this is in any way impactful on your ability to deploy capital in nondeposit-taking institutions? I think it's a fair assumption that we're all making that you can't buy another bank, hence, FHN got canceled.

But what about if you were to look at like a wealth or capital markets acquisition? Is it any different? Or whatever issue is going on in the background impact put the whole thing on, I guess, on hold in terms of capital deployment? Is there a difference between the 2?

Bharat Masrani – TD – Group President and CEO

Well, it depends on what it is. And I mean, approvals take time. And so we'll have to assess depending on what kind of opportunity there is in the market. And, Mike, as you know, I can't comment any further. But

we look at all kinds of transactions, and many of them don't make sense. It's hard to speculate on what we would do or what we would not do.

Mehmed Rizvanovic – Keefe, Bruyette, & Woods – Analyst

Okay. So you are open to other types of M&A, not just necessarily deposit-taking institutions. Is that a fair assessment?

Bharat Masrani – TD – Group President and CEO

Riaz is just saying the big check in buying Cowen.

Operator

There are no further questions registered at this time. I would like to return the call back to Mr. Bharat Masrani.

Bharat Masrani – TD – Group President and CEO

Thank you, operator, and thank you, everyone, for joining. I know we went long, but it was such a great discussion. Brooke thought we should keep on extending since we have so much interest, but thank you. It was a great, great call and terrific questions as well.

And hopefully, we'll see all of you on June 8th here in Toronto, really looking forward to it. And I would end by thanking my TD colleagues around the world. They are the ones who keep on delivering for all our stakeholders, including our shareholders. So thank you to all of you, and see you on the 8th.