Q3 2022 EARNINGS CONFERENCE CALL
AUGUST 25, 2022

DISCLAIMER

THE INFORMATION CONTAINED IN THIS TRANSCRIPT IS A TEXTUAL REPRESENTATION OF THE TORONTO-DOMINION BANK'S ("TD") Q3 2022 EARNINGS CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALL. IN NO WAY DOES TD ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON TD'S WEB SITE OR IN THIS TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE WEBCAST (AVAILABLE AT TD.COM/INVESTOR) ITSELF AND TD'S REGULATORY FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

FORWARD-LOOKING INFORMATION

From time to time, the Bank (as defined in this document) makes written and/or oral forward looking statements, including in this document, in other filings with Canadian regulators or the United States (U.S.) Securities and Exchange Commission (SEC), and in other communications. In addition, representatives of the Bank may make forward looking statements orally to analysts, investors, the media and others. All such statements are made pursuant to the "safe harbour" provisions of, and are intended to be forward looking statements under, applicable Canadian and U.S. securities legislation, including the U.S. Private Securities Litigation Reform Act of 1995. Forward looking statements include, but are not limited to, statements made in this document, the Management's Discussion and Analysis ("2021 MD&A") in the Bank's 2021 Annual Report under the headings "Economic Summary and Outlook" and "The Bank's Response to COVID 19", under the headings "Key Priorities for 2022" and "Operating Environment and Outlook" for the Canadian Retail, U.S. Retail, and Wholesale Banking segments, and under the heading "Focus for 2022" for the Corporate segment, and in other statements regarding the Bank's objectives and priorities for 2022 and beyond and strategies to achieve them, the regulatory environment in which the Bank operates, the Bank's anticipated financial performance, and the potential economic, financial and other impacts of the Coronavirus Disease 2019 (COVID 19). Forward looking statements are typically identified by words such as "will", "would", "should", "believe", "expect", "anticipate", "intend", "estimate", "plan", "goal", "target", "may", and "could".

By their very nature, these forward looking statements require the Bank to make assumptions and are subject to inherent risks and uncertainties, general and specific. Especially in light of the uncertainty related to the physical, financial, economic, political, and regulatory environments, such risks and uncertainties many of which are beyond the Bank's control and the effects of which can be difficult to predict may cause actual results to differ materially from the expectations expressed in the forward looking statements. Risk factors that could cause, individually or in the aggregate, such differences include: strategic, credit, market (including equity, commodity, foreign exchange, interest rate, and credit spreads), operational (including technology, cyber security, and infrastructure), model, insurance, liquidity, capital adequacy, legal, regulatory compliance and conduct, reputational, environmental and social, and other risks. Examples of such risk factors include the economic, financial, and other impacts of pandemics, including the COVID 19 pandemic; general business and economic conditions in the regions in which the Bank operates; geopolitical risk; the ability of the Bank to execute on long term strategies and shorter term key strategic priorities, including the successful completion of acquisitions and dispositions, business retention plans, and strategic plans; technology and cyber security risk (including cyber attacks or data security breaches) on the Bank's information technology, internet, network access or other voice or data communications systems or services; model risk; fraud activity; the failure of third parties to comply with their obligations to the Bank or its affiliates, including relating to the care and control of information, and other risks arising from the Bank's use of third party service providers; the impact of new and changes to, or application of, current laws and regulations, including without limitation tax laws, capital guidelines and liquidity regulatory guidance and the bank recapitalization "bail in" regime; regulatory oversight and compliance risk; increased competition from incumbents and new entrants (including Fintechs and big technology competitors); shifts in consumer attitudes and disruptive technology; exposure related to significant litigation and regulatory matters; ability of the Bank to attract, develop, and retain key talent; changes to the Bank's credit ratings; changes in currency and interest rates (including the possibility of negative interest rates); increased funding costs and market volatility due to market illiquidity and competition for funding; Interbank Offered Rate (IBOR) transition risk; critical accounting estimates and changes to accounting standards, policies, and methods used by the Bank; existing and potential international debt crises; environmental and social risk (including climate change); and the occurrence of natural and unnatural catastrophic events and claims resulting from such events. The Bank cautions that the preceding list is not exhaustive of all possible risk factors and other factors could also adversely affect the Bank's results. For more detailed information, please refer to the "Risk Factors and Management" section of the 2021 MD&A, as may be updated in subsequently filed quarterly reports to shareholders and news releases (as applicable) related to any events or transactions discussed under the heading "Pending Acquisition" or "Significant and Subsequent Events and Pending Acquisitions" in the relevant MD&A, which applicable releases may be found on www.td.com. All such factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward looking statements, should be considered carefully when making decisions with respect to the Bank. The Bank cautions readers not to place undue reliance on the Bank's forward looking statements.

Material economic assumptions underlying the forward looking statements contained in this document are set out in the 2021 MD&A under the headings "Economic Summary and Outlook" and "The Bank's Response to COVID 19", under the headings "Key Priorities for 2022" and "Operating Environment and Outlook" for the Canadian Retail, U.S. Retail, and Wholesale Banking segments, and under the heading "Focus for 2022" 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.

CORPORATE PARTICIPANTS

Bharat Masrani
TD Bank Group – Group President and CEO

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

Kelvin Tran
TD Bank Group – Chief Financial Officer

Michael Rhodes
TD Bank Group – Group Head, Canadian Personal Banking

Raymond Chun
TD Bank Group – Group Head, Wealth and Insurance

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

Riaz Ahmed
TD Bank Group – Group Head, Wholesale Banking

Brooke Hales
TD Bank Group – Head of Investor Relations

CONFERENCE CALL PARTICIPANTS

Gabriel Dechaine
National Bank Financial – Analyst

Meny Grauman
Scotia Capital – Analyst

Ebrahim Poonawala
BofA Securities – Analyst

Paul Holden
CIBC World Markets – Analyst

Nigel D'Souza
Veritas Investment Research – Analyst

Sohrab Movahedi
BMO Capital Markets – Analyst

Scott Chan
Canaccord Genuity – Analyst

Joo Ho Kim
Credit Suisse Securities – Analyst

Darko Mihelic
RBC Capital Markets – Analyst

Lemar Persaud
Cormark Securities – Analyst

Doug Young
Desjardins – Analyst

Mike Rizvanovic
Keefe, Bruyette & Woods – Analyst

PRESENTATION

Brooke Hales – TD – Head of Investor Relations

Thank you, operator. Good afternoon, and welcome to TD Bank Group's third quarter 2022 investor presentation. 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 third quarter operating results. Ajai Bambawale, Chief Risk Officer, will then offer comments on credit quality, after which, we will invite questions from prequalified analysts and investors on the phone.

Also present today to answer your questions are Michael Rhodes, Group Head, Canadian Personal Banking; Paul Douglas, 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 Q3 2022 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.

Q3 was a good quarter for TD. Earnings increased 5% to $3.8 billion, and EPS rose 6% to $2.09. Revenue grew 8% year-over-year, reflecting increased customer activity and the benefits of our deposit rich franchise. Credit quality remains sound, and we continue to build the bank of the future with investments in front-line colleagues and data and mobile capabilities.

The Bank's CET 1 ratio ended the quarter at 14.9%, reflecting robust organic capital generation and the activation of the DRIP discount last quarter. Our long track record of delivering consistent earnings growth has positioned TD to close two strategic acquisitions – First Horizon and Cowen – while remaining strongly capitalized. We expect TD's CET 1 ratio to be comfortably above 11% post-closing of both transactions.

Overall, I'm pleased with our results this quarter. They reflect the benefits of our diversified business mix and North American scale, while maintaining our risk discipline. Let me now turn to each of our businesses and review some highlights from Q3.

Our Canadian Retail segment earned $2.3 billion, with record revenue of $7 billion in the quarter. The Personal Bank performed well. We saw industry-leading market share gains in non-term deposits, contributing to 8% growth in personal deposits year-over-year. In our real estate secured lending business, volumes were up 3% from Q2 – a second quarter of very good sequential loan growth, demonstrating momentum from our investments across front-line sales channels, operations, and account management. We remain confident in the quality and mix of our RESL book, supported by prudent underwriting practices. Our Cards business continued its strong run, with loan volume up 10% year-over-year on record spend.

Last quarter, we spoke about the Next Evolution of Work (or "NEW" for short). The NEW model enables us to deliver innovations faster, deploy technology more efficiently, and continue to meet and exceed the rapidly evolving expectations of our customers. The Canadian Personal Bank delivered several key initiatives this quarter leveraging the NEW model, including: Migrating its flagship mobile application entirely to the public cloud, enabling our teams to drive customer-centric innovations at the speed of the market. The Next Evolution of Work also powered enhancements for our New to Canada customers, where we delivered our strongest quarter to date in new account acquisition.

In Business Banking, TD again achieved double-digit loan growth, driven by strength across Canada in verticals including commercial real estate, agriculture, middle market, dealer financing and small business banking – demonstrating our commitment to grow with our clients over the long-term.

In our Wealth business, TD Asset Management – already the #1 Canadian institutional asset manager – grew its market share and remained focused on delivering for its clients with 91% of managed funds AUM ranked in the 1st or 2nd quartile in 3-year performance. And TD Direct Investing was recognized as the #1 Online Broker in Canada in MoneySense magazine's 2022 review.

In our Insurance business, we opened a 24th location of our best-in-class Auto Centers, further extending our ability to provide superior customer experiences through a one-stop-shop, while managing claims costs in the face of inflationary pressures.

Turning to the U.S., our U.S. Retail Bank had record earnings of US$913 million for the quarter. Commercial loan volumes – excluding PPP run-off – accelerated their momentum, increasing 3% quarter-over-quarter, reflecting growth in middle market and specialty lending. We saw robust personal loan growth of 8% year-over-year, driven by increased customer activity and moderating paydowns. Retail deposits also grew 8% year-over-year, as customers continue to entrust TD Bank, America's Most Convenient Bank with their business.

To further enhance the customer experience, this quarter the U.S. Retail Bank launched TD Workshop, which combines a fully functional store with space designed for researching, collaborating, and bringing the community together. The information collected at TD Workshop will help inform how TD evolves its interactions, store formats and the financial services offered to our customers. Our Retail Card Services business established financing partnerships with home furnishings brand RH (formerly Restoration Hardware) and jewelry retailer Blue Nile, to launch private label credit card programs. In addition, for the third year in a row, TD Auto Finance received the highest ranking in the J.D. Power U.S. Dealer Finance Satisfaction Study. With the contribution from our investment in Schwab of US$226 million, segment earnings were US$1.1 billion this quarter.

Before we leave the U.S. Retail segment, I wanted to provide an update on our acquisition of First Horizon. We were pleased that our commitment to the communities we serve was reflected in the support that we heard for the transaction at the joint public meeting held by the Fed and OCC on August 18th. We are excited about the benefits that our combined banks will deliver for all of our stakeholders, and continue to expect the transaction to close in the first quarter of our fiscal 2023.

Turning to our Wholesale Banking business, net income for the quarter was $271 million, a decrease of 18% compared to the third quarter last year, reflecting continued investments in our U.S. dollar strategy, including the hiring of banking, sales and trading, and technology professionals. Revenue was roughly flat year-over-year – as the impact of a weaker underwriting environment was offset by strength in other parts of our business, including higher trading and net interest income – again reflecting the benefits of our diversified business model. This quarter, TD Securities was named the Canadian FX Service Quality Leader for Corporates in 2022 by the Coalition Greenwich Study for the third consecutive year, as the Wholesale Bank continues to lead in the Canadian market.

As I said on our call earlier this month – the acquisition of Cowen will build upon TD Securities' strong foundation. This combination will further accelerate our growth in the U.S. and position TD Securities as an integrated North American dealer with global reach. We are incredibly excited about this opportunity, and we have heard from many TD Securities and Cowen clients and colleagues that they are equally excited about the combined offering, added scale and capabilities. We are delighted with the enthusiastic support for this strategic transaction, and have already started work on our integration plans ahead of the anticipated closing in the first calendar quarter of 2023.

Three quarters into fiscal 2022, we have made significant strategic progress and seen positive momentum in our businesses. As we enter the final quarter of the year, we continue to navigate heightened uncertainty and a volatile environment. We will maintain our prudent approach and focus on building our business for the future and delivering long-term value for our shareholders – united by our purpose: to enrich the lives of our customers, colleagues, and communities. That purpose comes to life in our business and in how we engage with all of our stakeholders.

We continue to strengthen our brand as an employer of choice, attracting fantastic talent to the Bank. This quarter, TD Bank, America's Most Convenient Bank, was recognized by Forbes as one of America's Best Employers for Women. And, in partnership with the Black Professionals in Tech Network, TD recently announced the launch of Obsidi Academy, an engineering bootcamp for Black individuals to help them build careers in technology. We will hire program graduates in cohorts over the next three years. We have also committed $1 million to organizations working here and overseas to assist refugees and help them settle in Canada. In addition to this financial commitment, TD is hiring arriving Ukrainians for roles at the Bank, helping to provide meaningful employment and stability upon arrival in Canada. TD colleagues are committed to the communities in which we live and work. Recently, our Digital and Research teams volunteered their skills in customer experience and design to help the Wellspring Cancer Support Foundation create a virtual platform for families dealing with cancer. TD has supported Wellspring for 30 years, and now we are helping guide them through their digital transformation.

TD Securities' Underwriting Hope campaign is another long-standing example of our commitment, celebrating its 25th anniversary this year. Colleagues raised almost $2 million in support of children's charities in June – bringing the total raised since inception to nearly $25 million. At TD, we are privileged to serve more than 27 million customers around the globe. This month, we launched #TDThanksYou – our signature annual North American program that recognizes and celebrates TD customers, spotlighting their contributions and helping them continue to make an impact. I encourage you to follow these inspiring stories online.

To wrap up, I would like to thank all of our TD bankers for living our shared commitments every day. I am very proud of what we have accomplished together, and I look forward to a strong finish to the year.

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 11.

This quarter, the Bank reported earnings of $3.2 billion and EPS of $1.75, both down 9%. Reported earnings include the net loss from mitigation of interest rate volatility to closing capital on First Horizon acquisition. Adjusted earnings were $3.8 billion, and adjusted EPS was $2.09, up 5% and 6%, respectively. Reported and adjusted revenue increased 2% and 8% year-over-year, respectively, reflecting margin and volume growth in the personal and commercial banking businesses. Reported revenue also includes the net loss from mitigation of interest rate volatility to closing capital on First Horizon acquisition. Provision for credit losses was $351 million. Reported expenses increased 9% year-over-year reflecting higher employee-related expenses and higher spend supporting business growth. Adjusted expenses increased 8%. Absent the retailer partners' net share of the profits from the U.S. strategic card portfolio, adjusted expense growth was 9.9% year-over-year, or 8.7% ex-FX. Consistent with prior quarters, Slide 26 shows how we calculate 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. Reported total bank PTPP was down 5% year-over-year before these modifications, and adjusted PTPP was up 6% after these modifications. Please turn to slide 12.

Canadian Retail net income for the quarter was $2.3 billion, up 6% year-over-year. Revenue increased 7%, reflecting volume and margin growth, higher fee-based revenue in the banking business and higher insurance volumes, partially offset by lower transaction and fee-based revenue in the wealth business. Average loan volumes rose 9%, reflecting 8% growth in personal volumes and 15% growth in business volumes. Average deposits rose 7%, reflecting 8% growth in personal deposits, 4% growth in business deposits, and 8% growth in wealth deposits. Wealth assets decreased 3%, reflecting market depreciation,

partially offset by net asset growth. Net interest margin was 2.70%, up 8 bps compared to the prior quarter, primarily due to higher deposit margins reflecting the rising interest rate environment, partially offset by lower loan margins. Total PCL of $170 million increased $110 million sequentially. Total PCL as an annualized percentage of credit volume was 0.13%, up 8 basis points sequentially. Insurance claims decreased 1% year-over-year, reflecting favourable prior year claims development and the impact of a higher discount rate which resulted in a similar decrease in fair value of investments supporting claims liabilities reported in non-interest income, partially offset by higher current year claims. Non-interest expenses increased 8% year-over-year, reflecting higher spend supporting business growth, including technology and employee-related expenses. Please turn to slide 13.

U.S. Retail segment reported net income for the quarter was US$1.1 billion, up 7% year-over-year. Adjusted net income was US$1.1 billion, up 8% year-over-year. U.S. Retail Bank reported net income was US$896 million, up 1%, reflecting higher revenue, partially offset by higher PCL and non-interest expenses. U.S. Retail Bank adjusted net income was US$913 million, up 2%. Revenue increased 11% year-over-year, reflecting higher deposit margins and volumes, partially offset by lower income from PPP and lower loan margins. Average loan volumes were flat year-over-year, reflecting an 8% increase in personal loans and a 7% decline in business loans. Business loans increased 2% excluding PPP loans due to strong originations, new customer growth, higher commercial line utilization and increased customer activity. Average deposit volumes, excluding sweep deposits, were up 5% year-over-year. Personal deposits were up 8% and business deposits were up 2%. Sweep deposits declined 2%. Net interest margin was 2.62%, up 41 bps sequentially, as higher deposit margins reflecting the rising interest rate environment and positive balance sheet mix were partially offset by lower PPP loan forgiveness and lower loan margins. On slide 30, we've continued our disclosure on the impact of the PPP program. This quarter, PPP revenue contributed approximately US$16 million to NII and 2 basis points to NIM. Total PCL was US$83 million, an increase of $98 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 0.20%, higher by 24 bps sequentially. Reported expenses increased 8% year-over-year, reflecting higher employee related expenses and business investments, and acquisition and integration-related charges for the First Horizon acquisition, partially offset by productivity savings. Adjusted expenses were up 6% year-over-year. The contribution from TD's investment in Schwab was US$226 million, up 40% from a year ago, reflecting higher net interest income, partially offset by lower trading revenue. Please turn to slide 14.

Wholesale net income for the quarter was $271 million, a decrease of 18% year-over-year, reflecting higher non-interest expenses and PCL. Revenue was $1.1 billion, down 1% year-over-year, reflecting lower underwriting fees and markdowns in certain loan underwriting commitments from widening credit spreads, partially offset by higher trading-related and global transaction banking revenue. PCL for the quarter was $25 million, compared with a recovery of $9 million in the prior quarter. Expenses increased 9% year-over-year, primarily reflecting the continued investments in Wholesale Banking's U.S. dollar strategy, including the hiring of banking, sales and trading, and technology professionals, partially offset by lower variable compensation. Please turn to slide 15.

The Corporate segment reported a net loss of $752 million in the quarter, compared with reported net loss of $205 million in the third quarter last year. The year-over-year increase primarily reflects the net loss from mitigation of interest rate volatility to closing capital on First Horizon acquisition, higher net corporate expenses and a lower contribution from other items. Adjusted net loss for the quarter was $175 million, compared with an adjusted net loss of $122 million in the third quarter last year. Please turn to slide 16.

The Common Equity Tier 1 ratio ended the quarter at 14.9%, up 22 bps sequentially. We had strong organic capital generation this quarter, which added 42 basis points to CET 1 capital, excluding the net loss from the mitigation of interest rate volatility to closing capital on the First Horizon acquisition, which decreased CET 1 by 10 basis points. We also saw a 12 basis point increase in CET1 related to the issuance of common shares under our dividend reinvestment plan. These additions were partially offset by an increase in RWA. RWA increased 1.4% quarter-over-quarter, reflecting higher Credit Risk and Market Risk RWA. Credit Risk RWA increased $5.1 billion, or 1%, mainly reflecting higher volumes in all of our businesses, partially offset by a decrease in equities. Market Risk RWA increased $1.1 billion, or 5%, reflecting widening credit spreads. The leverage ratio was 4.3 percent this quarter, and the LCR ratio was 121 percent, both well above regulatory minimums. Please turn to slide 17.

As we mentioned on our call relating to the Cowen acquisition earlier this month: As part of our ongoing capital management activities – and in light of heightened volatility in interest rates, reduction in our NIIS with rising rates and continued uncertainty in the macroeconomic environment – during the third quarter, we established a strategy to mitigate the CET 1 ratio impact of further rate changes on goodwill in connection with the First Horizon acquisition. The Bank already has a large portfolio of US investment securities, many of which are hedged using interest rate swaps. As a result, TD was able to implement a strategy to mitigate interest rate volatility without entering into any new transactions. Now, as interest rates change, certain interest rate swaps – which were de-designated from their previous hedge accounting relationships against TD's existing US investments – will mark-to-market through P&L and mitigate the capital volatility due to interest rate changes and goodwill amount for the First Horizon acquisition. We recorded an item of note of C$505 million, after tax, which primarily reflected the mark-to-market loss of these swaps as of July 31st. If quarter end was yesterday, given the change in rates, you would no longer see a loss but actually a gain. That shows the extent of interest rate volatility during this time. The sensitivity will also change over time as a result of a number of factors, including First Horizon's interest rate risk management practices and balance sheet composition, as well as macroeconomic factors like the degree of the rate change and the shape of the interest rate curve. Based on changes in interest rates, we expect that the amount allocated to goodwill and intangibles will increase by US$1.5 billion upon close.

I will now turn the call over to Ajai.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Thank you, Kelvin and good afternoon everyone. Please turn to slide 18.

Gross impaired loan formations were 12 basis points, stable quarter-over-quarter. Please turn to slide 19.

Gross impaired loans decreased 2 basis points quarter-over-quarter to a new cyclical low of 28 basis points, reflecting reductions in both the Canadian and U.S. Retail segments. Please turn to slide 20.

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 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 was $351 million or 17 basis points, increasing $324 million quarter-over-quarter, largely related to a prior quarter performing allowance release, coupled with nominal performing provisions in the current quarter. Please turn to slide 21.

The Bank's impaired PCL was $340 million, increasing by $26 million quarter-over-quarter, driven by a modest increase in the U.S. consumer lending portfolios. Overall, impaired provisions remained at cyclically low levels. Performing PCL was $11 million, compared to a recovery of $287 million last quarter. The current quarter performing provision reflects a nominal increase to the allowance for credit losses. Please turn to slide 22.

The allowance for credit losses was stable quarter-over-quarter at $6.9 billion, as the impact from deterioration in our economic forecasts, was largely offset by the release of overlays previously set aside for economic uncertainty. The Bank's allowance coverage remains elevated to account for ongoing uncertainty that could affect the economic trajectory and credit performance.

In summary: The Bank continued to exhibit strong credit performance this quarter, as evidenced by continued low gross impaired loan formations, gross impaired loans, and PCLs. While these key credit metrics are at or near cyclically low levels, economic risks remain elevated, reflective of persistent inflation and rising interest rates and the increasing risk of a recession. TD, however, remains well positioned given we are adequately provisioned, we have a strong capital 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

Thank you. We will now take questions from the telephone lines. [Operator Instructions]. Your first question is from Ebrahim Poonawala from Bank of America. Please go ahead.

Ebrahim Poonawala – BofA Securities – Analyst

Hey, good afternoon. Kelvin, I want to make sure we understand you correctly on the interest rate swaps. You had existing swaps against the fixed-income book. You de-designated them towards the goodwill to mitigate that impact. Where does that leave the fixed-income book? Do we see AOCI hit that impacts capital or no?

Kelvin Tran – TD – Group President and CEO

No, the fixed income is not going through OCI and does not impact capital. So, you don't mark-to-market the fixed income.

Ebrahim Poonawala – BofA Securities – Analyst

Is that because the fixed income is held in maturity?

Kelvin Tran – TD – Chief Financial Officer

Yes, it's held to collect. Correct.

Ebrahim Poonawala – BofA Securities – Analyst

Understood, okay. Bharat, around the deal you mentioned you all went through the public hearing last week. It seems like you still feel comfortable in terms of the timing of the close. Are there any risks in terms of a deal delay? The US regulators have been fairly vocal in terms of thinking about liquidity requirements around TLAC within the U.S. subsidiaries for the regional banks. Give us a sense of your comfort around that. Do you see any changes you might need to do in terms of your funding to get through the deal or the finish line?

Bharat Masrani – TD – Group President and CEO

No, we don't Ebrahim. To clarify and maybe Leo will comment on the public meeting we just had because we're quite happy with how that turned out consistent with TD's commitment to the communities in which we live and work. On your point, there is a lot of speculation on what might be the requirements to get approvals. Our deal continues to progress in the normal course. There is nothing out there to suggest that is different this time around.

There are lot of discussions on TLAC without a doubt. Just to clarify that point, and who knows what the ultimate requirement will be or will not be - TD has been compliant on OSFI's mandated TLAC requirements since the date of inception of that requirement. As a G-SIB, TD's U.S. intermediate holding company is already subject to internal TLAC requirement, with or without First Horizon, with the compliance date of January 1, 2023. We expect to meet that requirement on that day. I want to clarify that because I know there was a lot of discussion on what does this mean for TD. The G-SIB, our intermediate holding company in the U.S. is subject to internal TLAC as of January, and we expect to meet it.

Ebrahim Poonawala – BofA Securities – Analyst

That's helpful. And just one last one, Kelvin. In terms of the NIM expansion, both in Canada and the U.S., should we expect a similar or greater expansion in the fourth quarter compared to what you saw in the third?

Kelvin Tran – TD – Chief Financial Officer

As you know with the NIM there are a lot of moving parts. With everything remaining equal if the forward rates are realized, then we expect margin to continue to expand.

Doug Young – Desjardins – Analyst

Hi, good afternoon. I have a few hedge questions as well. The mechanics of the First Horizon hedge, is that similar to others in that you view swaps that obviously rise in value as interest rates increase? Also, do you have a portfolio of match duration U.S. Treasuries? Do I have like the mechanics correct, or is there a different structure you've used?

Kelvin Tran – TD – Chief Financial Officer

Yes, you have the structure correct. The way I would look at it is that you could do this in two-step or in one step. Two-step would be you raise funding, buy an investment portfolio, and then match it with a swap. And then the swap mark-to-market would offset in opposite direction of the impact of goodwill. So you do it in two step, buy that match portfolio and then having the swap mark-to-market. But because we already have a portfolio in place, we don't need to do the first step, we do the second one. So, it would be the same.

Doug Young – Desjardins – Analyst

Okay. Have you hedged more of the interest rate sensitivity for your U.S. business versus last quarter, or has this hedge had any impact on your sensitivities? When I look at your interest rate sensitivities for the U.S. division, it looks like it has declined by a noteworthy amount as per your disclosure. That might be normal course or is there anything else in there?

Kelvin Tran – TD – Chief Financial Officer

This transaction that we just talked about doesn't have an impact on the NIIS. It has to do with differences in beta over time. As you know, the sensitivity is the net of whatever you earn on rising rates minus the rate that you pass on to the customer. With rising rates, the next 100 basis point move increases the beta. That's why that sensitivity is lower.

Doug Young – Desjardins – Analyst

Okay, so there's no collection. Can you talk a bit about why you put the hedge in place? Obviously when you announced the deal, you didn't. I know you did the Cowen transaction subsequently too. I'm curious as to your thought process as to what pushed you to move in this direction.

Kelvin Tran – TD – Chief Financial Officer

Yes, it's a great question. First, as you recall, we have significant sensitivity to interest rates. So, in a way we have a natural offset. As rates rise, we will earn more through net interest income. But what we just talked about is actually irrelevant because as rates rise, the next 100 basis points we would be less

sensitive. If you think back into Q1, our NIIS was CAD 2 billion for 100 basis point move. When the first 100 basis points already moved, the next 100 basis points would result in lower NIIS. You saw that in Q2 our NIIS declined to CAD 1.5 billion. Then rates rise again, and for the next 100 basis points NIIS is again lower. As rates continue to rise, the natural hedge of the net interest income sensitivity becomes less effective.

Second, interest rates have been much more volatile since we made the announcement. As I mentioned earlier, even between July 31 and yesterday, rates have moved so much that the swap was in a loss position to now a small gain. The combination of those factors would lead us to put on this hedge.

Gabriel Dechaine – National Bank Financial – Analyst

Hey, good afternoon. Looking at that slide showing the structure of the hedge, it looked like when you put on the hedge, the goodwill tied to the acquisition is up by CAD 1.5 billion. That would just sit on the balance sheet and then probably around another 20 basis point capital hit from the acquisition. It's not classified as a credit mark or anything like that, it is just pure goodwill, right?

Kelvin Tran – TD – Chief Financial Officer

Rates have risen since we made the announcement. Because of that, the fair value of the fixed rate loans have declined. On an after tax basis, we have to hold CAD 1.5 billion more in capital. That discount is like a fair value mark. Once the transaction closes, that fair value mark would come back into income over the life of the loans as higher net interest income.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. So that about CAD 1.5 billion increase in goodwill, will come back into income over time?

Kelvin Tran – TD – Chief Financial Officer

Correct. That's what we said it is a timing issue. On closing, we have to hold more capital because of higher goodwill. But then we earn more earnings over time and so it all comes back as higher capital over the life of the loan.

Gabriel Dechaine – National Bank Financial – Analyst

Got it. So, it's about a 20 basis point hit on close. And then you earn that back over - is the duration two to three years, or something like that?

Kelvin Tran – TD – Chief Financial Officer

Yeah, it's a little bit higher than that. And the loans are about four to five years.

Gabriel Dechaine – National Bank Financial – Analyst

Got it. Okay. Historically, the 'tractor' term has come up with TD and how you invest your liquidity. I'm wondering what you're doing these days with a flat or inverted yield curve, depending on the day. Have you shortened the duration of your liquidity management?

Kelvin Tran – TD – Chief Financial Officer

No, materially we haven't changed. Our strategy is still the same. We look at the permanence of the deposits and as we feel comfortable with the permanence of the deposit, we would put the tractors on.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. I'll ask the broad question. We got a lot of NIM expansion this quarter, obviously in the U.S., Canada as well and top of the house. Was what we saw this quarter sustainable, both in Q4 and beyond that? The things I'm thinking of are when can deposit betas eat into NIM expansion? I also believe you raised a lot of wholesale funding this past quarter or in the current quarter. Would that be something that starts to weigh on the margin or dilute a little bit of what we saw this quarter and then over the next few? Also, why did you raise all that wholesale funding? Is that like pre-funding some First Horizon stuff? A lot of questions in there, sorry. It'll be my last.

Kelvin Tran – TD – Chief Financial Officer

So maybe I can just give my take and then I'll pass it onto my colleague, Leo, for any additional thoughts. As you know, we have a strong deposit franchise. As expected, when you look at our net interest income sensitivity with rising rates, our margin would expand. As we discussed earlier, when rates rise, the next 100 basis point you would expect beta to increase and therefore you would have less of an expansion, but it is still expanding. I think that is important to understand. Now, at a certain point the beta would plateau, but we're not at that point yet.

I would say the dynamics are a little bit different in the U.S. and Canada. In the U.S., we have a lot of excess deposits. So, when we're growing loans, we don't need to add additional funding. You're also replacing securities that are lower yielding with higher yielding loans. So just that balance sheet mix would also add to your NIM expansion.

In Canada, we don't have excess deposits over loans. So as we grow the RESL portfolio and other assets, we would raise funding. We continue to look at our balance sheet, and what is the best way to optimize the funding, whether it is through wholesale funding or is it through our franchise? That is something that we continuously evaluate. Michael, maybe I can pass on to you to see whether you have anything to add and then to Leo.

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Yeah, Kelvin, maybe just two points. One, when it comes to our core depository accounts, we're seeing betas that are generally consistent with what we've seen before in the past. Nothing terribly different. A couple points I'd like to emphasize. If you just look at our core checking account balances, these continue to grow and our acquisition engine remains very, very strong. There are some mix shifts happening here and there, but we're actually still very pleased with what's happened with core checking accounts, both on balances and new account acquisition. Our new account acquisition is up nicely on a year-over-year basis and consistent with our pre-pandemic levels.

The second item impacting NIM is a bit more subtle. You would have noticed that our card balances grew nicely on a year-over-year basis. We're up 10% or CAD 1 billion sequentially, which is great, but our revolving mix is still relatively low compared to historic standards. So, you're not seeing the income from those increased cards coming through NIM, but instead you're seeing it come through fee income. So, our fee income has been quite strong. It's a combination of the net spread on each transaction plus FX fees and a couple other things. So that's kind of how I paint the picture for the Canadian Retail Bank.

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

And maybe turning to the U.S., Gabriel. Obviously a very good quarter from a NIM perspective. NIM came in at 2.62% and that was up 46 basis points year-on-year. If you look at the drivers, obviously higher

deposit margins drove the bulk of it. But we also saw improvements as a result of balance sheet mix, higher asset growth and improved treasury investment return. So, it was a good solid quarter.
To your point around sustainability, we haven't yet seen the full impact of the third quarter rate increase. That will flow through in the fourth quarter. Likewise, to the point that Kelvin raised earlier, if forward rates do realize, we'll see some sort of increase associated with that. I would expect NIMs to continue to drift upwards as we look to the fourth quarter and early into next year.

I do want to stress Kelvin's point that we do expect net interest income sensitivity to wane a little bit. We haven't seen any significant price sensitivity in the book yet. Retail deposits on a quarter-over-quarter basis were essentially flat. But I do expect that we're going to see the amount of the increase we've seen in short-term rates will mean that we'll see some movement to either CDs, other money market solutions and/or other investment wealth products over time. We're really pleased with the performance. I think our book is performing the way we would expect in the way you would expect TD to perform in this environment, and I think we can sustain some of the NIM expansion that we've seen this quarter.

Meny Grauman – Scotia Capital – Analyst

Hi. Good afternoon. I want to stick with margin and just focus in on the Canadian P&C margin which for you was up 7 basis points sequentially. When I compare it to the peer group so far, it's at the bottom end. That's not a ranking I would have expected given your deposit balances. Michael, you talked about business mix. Is that all it is? And furthermore, if I compare the sequential margin expansion in Q3, it was actually a little bit lower than what we saw in Q2. I'm trying to figure out if there is anything offsetting some of that margin expansion that's maybe going to go away. Anything beyond business mix here?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

So, I mean, look I think it's a combination of business mix and Kelvin touched on it earlier with loans growing at a faster rate than deposits. There's some competitive pricing dynamics that are at play, but I don't want to overemphasize that one too much. I would go back to this dynamic on the card business where our card loans aren't attracting the same type of net interest income they would normally get from that type of expansion. That's very, very meaty type of returns when you actually do get the revolving balances. Leo wrapped up by saying he feels very good about where we are. I feel good about where we are on the Canadian Personal side, I also think it's going to play out well on a go forward basis.

Meny Grauman – Scotia Capital – Analyst

On the cards side, do you have any sense of when you can start to see those revolvers picking up?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Everyone's portfolio is probably going to be a little different, but we have a very heavy mix of transactors, particularly the affluent travel, and sourcing spend levels are quite attractive at about 23% on a year-over-year basis. We're still seeing consistent high transaction activity and less borrowing activity. I don't think we've seen that shift happen yet.

Paul Holden – CIBC – Analyst

Thank you. Good afternoon. Couple of questions for Riaz to start. First one is with respect to the growth in the wholesale funding book. I believe the slide deck says it was up 21% year-over-year, so that is really good growth there and you highlighted growth particularly in the U.S. Maybe you can talk a little bit about which sectors that's coming from, and if there is any sort of read through in terms of lending capacity and appetite in terms of how it might flow through to the Cowen transaction when that does close?

Riaz Ahmed – TD – Group Head, Wholesale Banking

Yeah. Thanks for that, Paul. That growth as you outlined, is principally in the U.S. and it is in areas where we have traditional strength: in communication, media, technology, a fairly wide variety of diversified industries, as well as in power and utility areas. So it's actually been a fairly attractive area for us to just continue to increase our client base and deepen our client relationships as we continue to pursue our long held U.S. dollar strategy.

I think as we look forward to welcoming our colleagues from Cowen to the TD Securities family, their areas of strength include wide sectors in the healthcare side which will bolster onto our healthcare practice as well as on the technology side, and they have a fair bit of diversified coverage as well. I think that there is a very good fit there and it should bode well not only for continuing to add to our client base but also to serve them with wider set of products and services.

Paul Holden – CIBC – Analyst

Okay. The second question for Riaz. You highlighted that you're continuing to make investments in that U.S. wholesale business with the hiring of banking, sales, and trading technology professionals. I'm a little bit maybe surprised you're ramping up organically that aggressively ahead of the Cowen acquisition. Maybe you can kind of talk through the logic of that and the capacity to grow organically plus through the acquisition?

Riaz Ahmed – TD – Group Head, Wholesale Banking

Yeah. I think, Paul, you should really look at that more in a timing context. The growth in the U.S. dollar strategy started some nine years ago and has been picking up momentum as we grew out the corporate lending and then the Treasury products, fixed income, commodities and currency side of the business. If you look at our FTEs, you'll see that in the last year we added about 350 FTEs and they're fairly broadly across the platform in global markets, in corporate and investment banking, in technology and business operations. So, with the addition of 1,700 colleagues from Cowen I expect that some of our organic additions will slow here a little bit in the next two years as we look at the integration. I would say it's mostly in the timing of how the organic add came together with the acquisition opportunity with Cowen.

Paul Holden – CIBC – Analyst

Got it, that makes sense. Last one for me is in terms of expenses. When I look at that professional advisory and outside services line, it's up 40% for the quarter and also roughly up 40% year-to-date. It's a pretty material number by my calculations, it's an extra CAD 446 million of spend year-to-date. Can you talk about some of the drivers of that, if there's any particular projects that's being directed towards, and if any of that is M&A related?

Kelvin Tran – TD – Chief Financial Officer

What we've talked about in the past is that the way we manage expenses is not quarter-to-quarter, but we have a few key principles, like business spends that are just core and that are operational imperative. Then there are more longer-term investments. Then there are the more discretionary pieces. Using outside professional services enabled us to dial up and down those resources when we see the opportunity. We're seeing good opportunities to invest in technology. If you want some examples, we talked about re-platforming the contact center and leveraging AI capabilities to better serve our customers on the insurance front. Also, we're looking at implementing the platform for our commercial banking business in Canada. Several years ago, we've done that in the U.S., and now we're doing that in Canada. These are really good opportunities for us to optimize our spend while at the same time serving our customers. In terms of the

benefit, we see that in real time. Maybe I can just pass it on to Ray to just spend a few minutes on the contact center for insurance.

Raymond Chun – TD – Group Head, Wealth and Insurance

Sure. Thanks, Kelvin. I mean, what we've done in the last quarter is actually launched the new state-of-the-art telephony system that will be leveraged across all of TD Bank, but we've started in TD Insurance. We are launching new capabilities. For example, using AI to be able to actually identify the client, what they hold, using our data, and getting that client to the right advisor with the right skills first time to actually be able to fulfill those capabilities.

Also, we're introducing now with the new platform omnichannel capabilities, where we can help customers that are starting digitally that actually then need assistance through a chat capability. So, in the buying moment we can actually help our clients and when needed to, they can also then click to speak with a phone representative to support them through the process. These are all capabilities that we're starting within TD Insurance but will be expanded to across all of our contact centers and across all of our businesses in the coming years. So there is significant investment on behalf of TD, but the benefits will certainly pay off.

Lemar Persaud – Cormark Securities – Analyst

Thanks. Just before I start off here, I kind of dropped off a little bit during the Q&A. So, if my questions have been asked and answered, feel free to let me know. I want to come back to the de-designation of the hedging. I understand there's just no such thing as a free lunch. What did TD give up to reallocate these hedges to mitigating the impact of the interest rate changes on First Horizon? Does that mean you're now just going to see larger losses on the fixed income portfolio at maturity? Is that the right way to look at it?

Kelvin Tran – TD – Chief Financial Officer

No. Let me go back and let's look at what we're hedging. The risk that we're hedging is not an economic risk. It's a capital timing risk. If you recall, when you close on the transaction, accounting rules will require you to fair value the balance sheet of the target, in this case First Horizon, and allocate the purchase price to these assets and liabilities. If interest rates rise, you would have to mark these loans to a discount, and that difference would cause higher goodwill where you would have to hold capital. But that is just a timing issue. It's not a real loss because as you hold these loans to maturity, they would be accreting back to par. So, you earn that, it gets earned through income, it flows through retained earnings, and it becomes your book capital. You earn that capital over time. So, it's the timing of you holding the capital on closing and you earn that back over four or five years.

Because there's no economic risk, you would not want to just put a swap on because if you just put a swap on, you're now actually creating economic risk. So what you're trying to do is find a match portfolio that already exists, or you can build a match portfolio and enable the timing of the accounting to help you offset that goodwill so that if rates rise, you have a gain on the swap, which would give you capital to offset the goodwill hit. Over time, that swap kind of unwinds because with the whole cash flow, you still have that package there. You don't have any changes to the cash flow. It's just the timing of the recognition of the P&L is different. I know there's a lot there, but we're happy to take your questions offline as well.

Lemar Persaud – Cormark Securities – Analyst

I think I understand it, but if I don't, I'll circle back on that one. Switching gears here, there was some pickup in business loan growth in the U.S. after a number of quarters of kind of softer results. Personal loan growth also looked pretty good sequentially. Can you talk to us about what's driving the turnaround this quarter? Looking ahead, would it be fair to suggest that TD could be closing the performance gap relative to your U.S. peers?

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

Thank you very much, Lemar, for the question. Lending on the commercial side, we were pleased with the performance this quarter. On a quarter-on-quarter basis, commercial loans ex-PPP were up 2.8%. I'd say the mid-market trend that we saw last quarter continued, but this quarter we saw broader participation. We saw many more of our specialty businesses also seeing momentum; that being healthcare, our muni, education, Not-for-Profit segments. We even saw a little bit more lift in our institutional CRE business. It was a broader performance that actually led to that growth.

I'd say where we're still seeing a little bit of sluggishness is in that Small Business and Community segment space. Originations were sound, but we're still seeing pay down activities a little bit more elevated. That suggests clients are being a little bit more defensive given the uncertainty that's predicted in the marketplace.

The momentum that we saw wasn't only on the commercial lending side, but we also saw it this quarter on the retail side. If just look at the major product categories, mortgage balances overall were up 14%. We saw good cards activity, with cards sales up 10% resulting in a balance sheet growth of 7%. Even the auto segment that had some significant challenges from a pricing standpoint over the past four or five months, we've seen some stabilization on that pricing. We still managed to see good portfolio growth at 5.8%. Net-net, I would say it was a good, broad based lending performance for the U.S. business. At this point, I would say we do believe that is sustainable. We've got good momentum as we go into the fourth quarter.

Nigel D'Souza – Veritas Investment Research – Analyst

Thank you. Good afternoon. I wanted to circle back on your allowances this quarter. You mentioned that the release of overlays offset the situation in your macroeconomic outlook. Wondering if you could size the impact of that overlay? Do you have any sense of what performing loans would have been if it wasn't for that overlay offset?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yeah. Let me sort of describe what's happening and I'll disclose to you what I can. We were very thoughtful and deliberate in not sort of rushing to release our reserves because we did see the environment changing. Today we find ourselves relatively well positioned already for a moderate recession. As you know, we're holding CAD 1.6 billion in reserves over pre-COVID levels. What occurred this quarter is that on our base and our downside there was quite a bit of change on the macro side. I'll describe it to you. The pace of economic growth in the base case for Canada and the United States is lower. The employment growth numbers in 2022 are lower. We actually show higher unemployment in both countries in 2023. We've used higher interest rates and you would have noticed a big change in housing again, particularly Canada but the United States as well. Then if you look at our downside case, we are using a recessionary case now as the downside. So the macro drove an increase. But that uncertainty we had already built into our allowance process by putting in overlays. So, we've actually just unwound those overlays and today if you look at our allowance, I'd say almost 90% of our allowance is modeled. What's left in terms of judgmental overlays is very small.

Nigel D'Souza – Veritas Investment Research – Analyst

Right. So, the way I would summarize that is, and let me know if this is fair, the overlay that you had on uncertainty related to COVID-19, that's now absorbed the uncertainty related to rising rates and inflation. So, would it be fair to say that you're less likely to see substantial builds on provisions on performing loans given that you carried over that excess reserve for the pandemic?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

That's a fair remark, yes. We are very well reserved. We don't expect to be building anymore reserves or any material amounts. But of course, a lot depends on what happens with the macro. If the macro suddenly deteriorates a lot, then we'll have to relook at it. The key point is, we didn't rush to release our reserves for good reasons. We are well reserved. We are well positioned for a moderate recession as a bank.

Nigel D'Souza – Veritas Investment Research – Analyst

Okay. Quick clarification on the impact of First Horizon on these allowances. I understand you have day one provisions, but I would guess you wouldn't have that overlay of reserving in your provisions. First Horizon would be incrementally higher provisions on performing loans?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yes. That will be a legal day one activity. There's no First Horizon reflected in these numbers. At the appropriate time we'll provide you more disclosure. I think we did indicate to you what sort of credit mark we took at the outset. So, near the time we will keep you informed.

Joo Ho Kim – Credit Suisse Securities – Analyst

Hi. Good afternoon, and thanks for taking my question. We're hearing stories of about U.S. housing market cooling off fairly quickly with some originations really coming under pressure. When I look at your mortgage growth, it certainly didn't seem that way last quarter. Just wondering about your U.S, mortgage business perhaps outperforming other geographies and I also want to know what gives you the confidence that the growth from here could continue?

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

Yeah. Let me break that down for you, because it's both a matter of originations and significantly lower paydown activity. On the origination front, two drivers are really driving some of the growth that we saw. One, a new retail mortgage origination model that we put into the retail stores that basically provides almost a direct line back to our mortgage origination unit. It's providing the stores a great deal of support and allowing us to capture much more of that retail flow.

And secondly, we had good correspondent originations in the quarter, up significantly versus last year. These were high quality, high net worth, mass affluent originations. That powered the growth in originations. On the flip side, though, the real story is that we're seeing much lower paydown activity as rates have risen. There's much less refinance demand. That means more of what we're originating is actually contributing to actual balance growth. As you look forward on the mortgage market, there's no question that we would expect some moderation in terms of mortgage activity just given the increase in rates in the U.S. But I do think we've got some opportunities based on some of these commercial strategies we're putting in place to actually perform quite well and generate positive growth in the portfolio.

Joo Ho Kim – Credit Suisse Securities – Analyst

Great. Thanks for that. When I look at expenses at the all bank level, I think it was up about 9% this quarter. I did hear the commentary about higher employee costs and tech expenses across the segment. I'm wondering how you're thinking about the pace of investments in the near term, whether they stabilize from here or accelerate? Also, what does that mean for expense growth from your perspective as we look at it?

Kelvin Tran – TD – Chief Financial Officer

Hi, it's Kelvin. I'll take that question. We don't manage expenses quarter-over-quarter. We currently see really good opportunities to invest in our distribution channels and that's where you see FTE increasing in the contact center supporting insurance and wealth. The other areas where we're investing is in technology and also in other front line supporting client roles. I think that our focus and our goal is to deliver positive operating leverage over the medium term and we'll adjust as the environment changes. Right now, we would continue to invest.

Darko Mihelic – RBC Capital Markets – Analyst

Guys, thank you. Just two quick questions. First, how should I think about or have you guys given any thought around the Credit Card Competition Act in the U.S.?

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

I'll take this one. Darko, good to hear from you. Let me just talk a little bit about our cards business for a moment in terms of the things that we're focused on. We've got a proprietary bank card business and a retail card services book, both of which are a major area of focus for us in terms of growth going forward. We feel quite comfortable with that business. We continue to think about value proposition expansions to be able to support our growth in that segment. We also have two very important co-branded relationships, which have been a source historically of very good growth.

From an overall competitive position, I don't believe at this point that that act is going to be a significant change to our existing cards base. It is something that we continue to monitor and we'll certainly evaluate in terms of what the impact could be for fees and for other considerations.

Darko Mihelic – RBC Capital Markets – Analyst

Does it affect anything that you do with First Horizon?

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

First Horizon has about 1 million retail clients, but they have a very small cards book. As we talked about I think last quarter, one of the obvious synergies for some First Horizon is actually bringing our cards capability to bear to First Horizon. That's going to be one of the things that we'll do early on in terms of the union between the two institutions. From our standpoint, we see that as a growth opportunity. We don't really see a great deal of headwind there.

Mike Rizvanovic – KBW – Analyst

Hey, good afternoon. Going back to the margins in Canada and to Meny's point, TD's lack of outsized performance, which I think everyone was expecting this quarter relative to peers. I heard Michael use the term competitive dynamics. Could this be related to the RESL portfolio? I know you had been losing market share for quite a while and then that sort of turned around last quarter. I'm guessing you might have continued that positive trend into Q3. How much of a factor would that have been on the margins? And more importantly, what about going forward, if you do continue to push and try to sort of regain some of that lost market share in RESL, how does that impact your margin in Canada going forward?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Yeah, good question. You are right to point out that we've had some recent trajectory without doubt and momentum with our RESL business. If you look at our sequential growth in our mortgage and HELOC business combined on a quarter-over-quarter basis, this last third quarter was the best we've had since 2010. We feel good about that trajectory. I will tell you, we're not getting there by underpricing the market. I feel very confident about that. We're getting there by actually just managing our customer relationships better and managing our operational processes more effectively. But we're not winning through pricing and pricing under the market. That being the case, when the mortgage business is growing faster than our deposit business, that will have an impact on our overall reported NIM.

Mike Rizvanovic – KBW – Analyst

Okay. Thanks for that color. When I look at a couple of your other peers who have a similar structure on the variable rate mortgage in Canada, they both reported 35-plus-year amortization, making up 20%+ of the portfolio as of Q3. When I look at your disclosure, it still says basically zero. I'm guessing you probably calculate that differently as I'm not sure how it could not gravitate up just given the size of the rate hikes. Obviously, you'd be pushing that amortization out for a lot of your recent originations. Any color you can offer on that?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

I'll start out by describing how our product works and then how it gets reflected in the disclosures. Our variable-rate contracts require customers, at renewal, to maintain their original amortization schedule. If rates are going up and the amount of payment towards principal goes down, at renewal, you basically have to go in and catchup with the original schedule. That generally means there's a higher payment for the consumer. I think you're referring to the Table 21 in the Report to Shareholders, which reflects this dynamic. Our variable rate contracts require customers to maintain the original amortization schedule.

Mike Rizvanovic – KBW – Analyst

Okay. So, it is a fixed payment, but if the interest portion exceeds the original payment, then that small increment will get added to the payment? Are you doing it incrementally as opposed to all at the end when it comes time for renewal?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Not exactly. The way to think about this is, if a customer hits the point where they're no longer amortizing the principal, we will reach out to the customer and we'll give them options. And the options are: increase your payment, do nothing, make a lump sum payment, things like that. If they do nothing, then at that point their amortization will be off the original schedule. When the loan comes up for renewal in a year, two years, three years, or whenever, at that point you have to look at the remaining amortization and we'll adjust the payment to reflect the remaining amortization.

Scott Chan – Canaccord Genuity – Analyst

Yeah, thanks. I'll switch over to asset management. In your opening remarks, you talked about 90% of your AUM in top two quartiles over the past two years which is a lot higher than I think the last time I ran it for the industry. Bharat, you gave some points on retail and institutional. I was wondering if you can elaborate on both those client platforms year-to-date and the potential outlook on the group performance?

Bharat Masrani – TD – Group President and CEO

I think Ray will provide good perspective on that. Ray?

Raymond Chun – TD – Group Head, Wealth and Insurance

Sure. Thanks for the question, Scott. I'll start with the mutual fund industry at large. I think everybody has seen that there's certainly been net outflows from a mutual fund perspective. For the quarter, I think that was CAD 21 billion. We're sort of definitely seeing that money migrate within our own house to various GICs, terms, and cash products due to the market volatility. We've seen this in the past where people are rebalancing. What's been great news for us is that from a year-to-date perspective, we've seen the largest from a positive net flow year to date in mutual fund sales amongst the big five banks. I think that is credit to the performance that our clients are seeing in the mutual funds. Over a three-year performance, it is at 90%. Over a four-year performance, the performance number is somewhere around 92% to 93%. So, in volatile times, I think our clients are gravitating towards quality. Certainly, as the largest asset manager, they're seeing that quality.

On the institutional side, as all of you know, we are the number one institutional asset manager and we're continuing to actually take market share in that category. It's been a very strong year for TD Asset Management on the institutional side. We continue to see very strong positive inflows and one of the main reasons for that is our acquisition that we did a few years ago of Greystone and the alternative investments are in favor and certainly we are seeing strong interest from the institutional clients for the alternative investments. Again, that is a strength for us in TD Asset Management. I'd sort of say on both fronts, whether you're a retail investor or institutional investor, TD Asset Management is performing well.

Operator

Thank you. There are no further questions registered at this time. I would like to return the call over to Bharat Masrani for closing remarks.

Bharat Masrani – TD – Group President and CEO

Thanks, operator. And thank you all for joining us today. Great questions. Great engagement. I know Kelvin is going to take a lot of offline calls on working out the accounting around the First Horizon acquisition, which is terrific. And as you heard, there is no economic impact to the bank, and that is the key part. But I'm sure Kelvin will explain all the ins and outs on that for folks who need further clarification on that.

Once again, very happy with how the quarter has turned out and like to take this opportunity to thank our bankers around the world. They do a great job for all of our stakeholders, including our shareholders. So, thanks for that and we will see you again 90 days from now. Thank you.