Q4 2022 EARNINGS CONFERENCE CALL
DECEMBER 01, 2022

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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 general business and economic conditions in the regions in which the Bank operates; geopolitical risk; inflation, rising rates and recession; the economic, financial, and other impacts of pandemics, including the COVID-19 pandemic; 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, data security breaches or technology failures) 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; 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 foreign exchange rates, interest rates, credit spreads and equity prices; 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 2022 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 "Significant Acquisitions" or "Significant 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 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 Fourth 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 fourth 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 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 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 annual 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.

Q4 was a strong quarter for TD. Earnings increased 5% to $4.1 billion, and EPS rose 4% to $2.18. Revenue grew 12% year-over-year, reflecting increased customer activity and the benefits of our deposit rich franchise. While we've seen some increase in PCLs this quarter, credit performance remains sound – benefitting from TD's through-the-cycle underwriting practices with key credit metrics remaining well below normalized levels. Our banking businesses have performed well in this environment, enabling us to continue to make strategic investments in our people, in technology and in new capabilities in our businesses to drive future growth.

TD's Common Equity Tier 1 ratio ended the quarter at 16.2 per cent, reflecting significant organic capital generation, the goodwill hedge for the First Horizon acquisition and the divestment of a portion of our Schwab shares in August. We continue to expect the Bank's CET 1 ratio to be comfortably above 11% post-closing of the First Horizon and Cowen transactions.

We remain confident in the earnings power of our franchise, and today declared a 7-cent dividend increase, bringing our dividend to 96-cents per share. I am proud of what we have accomplished this quarter and this year, and we are entering 2023 from a position of strength.

We continue to innovate to keep pace with market developments and build new capabilities for our customers. Among financial institutions, TD has the largest patent portfolio in Canada and the 5th largest patent portfolio in the U.S. Enterprise-wide, 150 of the Bank's patent applications have been granted this year. And, this quarter, TD was named the Best Consumer Digital Bank in North America for the second consecutive year by Global Finance, reflecting our industry-leading digital capabilities and the strength of our mobile and online offerings. Using AI-powered insights, we are delivering highly personalized experiences to our customers, helping them navigate financial challenges and meet their financial goals.

Let me now turn to each of our businesses and review some highlights from Q4.

Our Canadian Personal and Commercial Banking segment delivered earnings of $1.7 billion. The Personal Bank finished the year with momentum, including the highest net customer acquisition since

2014 – with record acquisition in the New to Canada market. We are committed to helping new Canadians and have introduced customer-centric value propositions, including our newly-launched banking package specifically designed for International Students – a first among Canadian financial institutions. We saw industry-leading market share gains in non-term deposits and achieved TD's highest market share ever in this category. In our real estate secured lending business, annual average portfolio loan growth is at its highest level since 2010, and this quarter retention rates increased by 3.4% year-over-year. We also had record credit card spend and organic loan growth driven by our diverse line-up and compelling acquisition offers. And Rewards Canada readers recognized TD with more awards in 2022 than any other card issuer, with the TD Aeroplan Visa Infinite Card and the TD Cash Back Visa Infinite Card ranking best in their respective categories.

The Business Bank again delivered double-digit loan growth, at 15% year-over-year. TD was particularly proud to be named highest in Small Business Banking customer satisfaction among the big 5 Canadian banks, according to J.D. Power's 2022 Canada Small Business Banking Satisfaction Study, reflecting our commitment to legendary customer experiences.

Turning to the U.S., our U.S. Retail Bank delivered record earnings of US$963 million, with strong revenues despite the implementation of the previously-announced enhancements to overdraft policies, demonstrating the Bank's ability to continue to adapt as the market evolves. With the contribution from our investment in Schwab of US$237 million, segment earnings were US$1.2 billion this quarter.

We took market share in our footprint in personal deposits with growth of 5% year-over-year, and business deposits were flat in a highly competitive environment – as customers continue to entrust TD Bank, America's Most Convenient Bank with more of their business. Mortgage loans grew 17% year-over-year, while credit card volumes were up 8% on increased spend from a year ago. Commercial loan volumes increased 5% year-over-year excluding PPP loan forgiveness, reflecting continued strong growth in middle market and specialty lending. And we maintained our leadership in small business banking, ranking #1 by total number of approved U.S. Small Business Administration loan units for the sixth consecutive year. We also announced the extension of our agreements with Target and Nordstrom to 2030 and 2026, respectively, enabling the Bank to continue to be the exclusive issuer of co-branded and private label consumer credit cards for these leading retailers.

Before we leave the U.S. Retail segment, I want to provide an update on our acquisition of First Horizon. We are currently planning to close the transaction in the first half of fiscal 2023, subject to customary closing conditions, including approvals from U.S. and Canadian regulatory authorities. We are excited about the benefits that this acquisition will deliver for all of our stakeholders.

As we announced in October, effective this quarter we established a Wealth Management and Insurance segment. This new reporting alignment reflects the significant and growing contribution that these businesses make to TD's success. This quarter, the segment earned $516 million, demonstrating the power of our diversified business mix as higher insurance volumes and the benefit of higher interest rates offset the challenges presented by market volatility, severe weather events and trading volume and claims normalization.

Our Advice businesses achieved record net asset growth this year, as clients turned to our growing base of advisors to help them navigate a challenging market environment. TD Asset Management continued to innovate to meet client needs, recently launching the TD Alternative Risk Focused Pool, a new retail multi-strategy solution to offer exposure to liquid alternative investments. The fund is an extension of our highly successful retirement portfolio franchise and provides retail investors with access to tools historically only available to institutional investors. Our #1 Direct-to-Consumer Insurance business continued its digital transformation, with over 20% of new sales this quarter completed digitally from end-to-end. Our Insurance business is focused on leveraging its competitive strength, and intends to expand its services into an underserved market by launching Small Business Insurance in 2023.

Finally, I want to acknowledge our customers across Atlantic Canada that were impacted by Hurricane Fiona, and to thank our Insurance colleagues for their tremendous efforts on the ground, providing support through the TD Insurance Mobile Response Unit to ensure that we were there for our customers when it mattered most.

In our Wholesale Banking business, we delivered net income of $275 million. 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 global transaction banking, trading and lending revenue – again reflecting the benefits of our diversified business model.

TD Securities acted as Sole Bookrunner on the Council of Europe Development Bank's €100 million reopening of its €1 billion seven-year Social Inclusion Bond, supporting their commitment to address the long-term needs of Ukrainian refugees in their host communities.

We have made significant progress in preparing for the closing of the Cowen acquisition. On November 15th, Cowen shareholders approved the transaction, with over 99% of those voting, voting in favor. We are awaiting certain regulatory approvals, and are planning to close the transaction in the first calendar quarter of 2023.

Overall, I am very pleased with the results we delivered in 2022. We built momentum in our retail segments, and won more customers with differentiated, legendary experiences. And we announced two strategic acquisitions which, when closed, will meaningfully accelerate our growth in the years to come.

As you know, we have said that we expect to grow adjusted EPS by 7 – 10% over the medium term. For the year ahead, there are both tailwinds – including rate momentum and the anticipated closing of our announced acquisitions – and headwinds – including geopolitical tensions, the complex operating environment and potential economic slowdown. On balance – unless macroeconomic conditions were to shift dramatically – we believe that we will meet or exceed our medium-term target range in 2023.

I am proud of the strong financial results and returns we generated for shareholders this year, and how we have positioned the Bank for the macroeconomic volatility ahead. I'm equally proud of the value we delivered for all of our stakeholders.

This quarter, we announced a $10 million investment into the Boreal Wildlands Carbon Project in Northern Ontario. Developed by the Nature Conservancy of Canada, this is the largest single private conservation project ever undertaken in the country and supports the fight against biodiversity loss and climate change. By supporting the growth and development of voluntary carbon markets – and through the formation of its Carbon Advisory business – TD Securities is focused on providing new financing solutions to help our clients transition to a lower carbon economy.

We are also innovating in supplier diversity. Working with the Tent Partnership for Refugees and the Canadian Aboriginal and Minority Supplier Council, TD has sponsored a new certification program for businesses owned by entrepreneurs who recently arrived in Canada as refugees. This program will provide better market access for refugee-owned businesses and promote greater diversity in government and corporate procurement. TD's leadership builds upon our longstanding support for suppliers pursuing diversity certifications, promoting economic inclusion across supply chains.

TD is also committed to supporting equitable access to funding. As part of the Bank's $10 million, five-year commitment, the Black Opportunity Fund announced an inclusive lending program for Black entrepreneurs. This program aims to support the continued effort of combating anti-Black racism and broader systemic discrimination and to help meet the needs of Black communities across Canada. In the U.S., we invested US$5 million in Citizen’s Trust Bank, a Minority Deposit Institution based in Atlanta, to further support inclusive growth in the Southeast.

Enriching the lives of our customers, communities and colleagues is at the centre of everything we do at TD. I would like to end by thanking our TD bankers around the globe. They are responsible for our strong performance in 2022, and they are the reason that I am confident we will build upon these achievements in 2023. Thank you for your hard work and dedication.

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.

For 2022, the Bank reported earnings of $17.4 billion and EPS of $9.47, up 22% and 23% respectively. Adjusted earnings were $15.4 billion, and adjusted EPS was $8.36, up 5% and 6%, respectively. Reported revenue increased 15% and includes the net gain from mitigation of interest rate volatility to closing capital on the First Horizon acquisition and the gain on sale of Schwab shares. Adjusted revenue increased 8%, reflecting volume growth and margin expansion in the personal and commercial banking businesses. Provision for credit losses was $1.1 billion, compared with a recovery of $224 million in the prior year. Reported and adjusted expenses increased 7% and 6%, respectively, reflecting higher employee-related expenses and higher spend supporting business growth. Absent the retailer partners' net share of the profits from the U.S. strategic card portfolio, adjusted expenses increased 7.2% ex-FX. Consistent with prior quarters, slide 28 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 up 24% from fiscal 2021 before these modifications, and adjusted PTPP was up 8% after these modifications. Please turn to slide 12.

For Q4, the Bank reported earnings of $6.7 billion and EPS of $3.62, up 76% and 77%, respectively. Adjusted earnings were $4.1 billion, and adjusted EPS was $2.18, up 5% and 4%, respectively. Adjusted earnings include favourable tax impact of earnings mix and the recognition of unused tax losses. Reported revenue increased 42% and includes the net gain from mitigation of interest rate volatility to closing capital on the First Horizon acquisition and the gain on sale of Schwab shares. Adjusted revenue increased 12%, reflecting margin expansion and volume growth in the personal and commercial banking businesses and the impact of FX translation. Provision for credit losses was $617 million compared with a recovery of $123 million in the fourth quarter last year. Reported and adjusted expenses increased 10% and 9%, respectively, driven by higher employee-related expenses, the impact of FX translation and higher spend supporting business growth. Employee-related expenses reflect an increase in our full-time equivalent staff, as well as the full quarter impact of the additional merit increase announced in Q3. In fiscal 2022, we had a strong revenue environment and made the conscious decision to step up our investments across a number of areas including digital properties and frontline colleagues. We expect some of that growth momentum to moderate in fiscal 2023 on a quarter over quarter basis. Our goal of delivering positive operating leverage over the medium term remains unchanged. Absent the retailer partners' net share of the profits from the U.S. strategic card portfolio, adjusted expenses increased 9.8% ex-FX. Reported total bank PTPP with the modifications shown on slide 29 was up 81% year-over-year before modifications, and adjusted PTPP was up 9% after these modifications. Please turn to slide 13.

Canadian Personal & Commercial Banking net income for the quarter was $1.7 billion, up 11% year-over-year. Revenue increased 16%, reflecting margin expansion, volume growth and increased client activity, including credit card-related and foreign exchange revenue. Average loan volumes rose 9%, reflecting 8% growth in personal volumes and 15% growth in business volumes. Average deposits rose 4%, reflecting 8% growth in personal deposits – including industry-leading market share gains in non-term deposits – and a 2% decrease in business deposits. Net interest margin was 2.70%, up 11 bps compared to the prior quarter, primarily due to higher deposit margins reflecting rising interest rates, partially offset by lower loan margins. Total PCL of $229 million increased $59 million sequentially. Total PCL as an annualized percentage of credit volume was 0.17%, up 4 basis points sequentially. Non-interest expenses increased 12% year over year, primarily reflecting higher spend supporting business growth, including technology and employee-related expenses. Please turn to slide 14.

U.S. Retail segment reported net income for the quarter was US$1.2 billion, up 7% year-over-year. Adjusted net income was US$1.2 billion, up 10% year-over-year. U.S. Retail Bank reported net income was US$926 million, up 3%, reflecting higher revenue, partially offset by higher PCL and non-interest expenses including acquisition and integration-related charges for the First Horizon acquisition. U.S. Retail Bank adjusted net income was US$963 million, up 7%. Revenue increased 22% year-over-year, reflecting higher deposit margins and volumes and higher earnings on investments, partially offset by lower income from PPP and lower loan margins. Average loan volumes increased 4% year-over-year. Personal loans increased 10%, reflecting higher residential mortgage and auto originations coupled with lower prepayments, and higher credit card volumes. Business loans were flat, reflecting strong originations, new customer growth, higher commercial line utilization and increased customer activity, offset by PPP loan forgiveness. Excluding PPP loans, business loans increased 5%. Average deposit volumes, excluding sweep deposits, were up 3% year-over-year. Personal deposits were up 5% as TD took market share in our footprint. Business deposits were flat and Sweep deposits declined 5%. Net interest margin was 3.13%, up 51 bps sequentially, as higher deposit margins reflecting the rising interest rate environment and positive balance sheet mix were partially offset by lower loan margins. On slide 33, we've continued our disclosure on the impact of the PPP program. This quarter, PPP revenue contributed approximately US$9 million to NII and 1 basis point to NIM. Total PCL was US$169 million, an increase of US$86 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 0.40%, higher by 20 bps sequentially. Reported expenses increased 15% and include acquisition and integration-related charges for the First Horizon acquisition. Adjusted expenses were up 11% reflecting higher employee-related expenses and business investments. The contribution from TD's investment in Schwab was US$237 million, up 22% 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 15.

Wealth Management & Insurance net income for the quarter was $516 million, down 15% year-over-year. Revenue decreased 1%, reflecting lower transaction and fee-based revenue in the wealth management business and a decrease in the fair value of investments supporting claims liabilities which resulted in a similar decrease in insurance claims, partially offset by higher insurance premiums. Insurance claims increased 11% year over year, reflecting increased driving activity, inflationary costs and more severe weather-related events, partially offset by favourable prior years' claims development and the impact of a higher discount rate which resulted in a similar decrease in the fair value of investments supporting claims liabilities reported in non-interest income. Non-interest expenses increased 1% year over year, reflecting higher spend supporting business growth, including higher employee-related expenses and technology costs, largely offset by the impact of lower legal provisions and variable compensation. Assets under management and assets under administration both decreased 7% year-over-year, reflecting market depreciation, partially offset by net asset growth. Please turn to slide 16.

Wholesale Banking reported net income for the quarter was $261 million, a decrease of 38% year-over-year, reflecting higher non-interest expenses and PCL. Adjusted net income was $275 million, down 35% year-over-year. Revenue was $1.2 billion, up 1% year-over-year, reflecting higher global transaction banking, trading related, and lending revenue, partially offset by lower underwriting revenue and markdowns in certain loan underwriting commitments. PCL for the quarter was $26 million, an increase of $1 million from the prior quarter. Reported expenses increased 22% and include acquisition and integration-related charges primarily for the Cowen acquisition. Adjusted expenses increased 19% reflecting continued investments in Wholesale Banking's U.S. dollar strategy, including the hiring of banking, sales and trading, and technology professionals, timing of employee-related costs, and the impact of foreign exchange translation. Please turn to slide 17.

The Corporate segment reported net income of $2.7 billion in the quarter, compared with a reported net loss of $150 million in the fourth quarter last year. The year-over-year increase is primarily attributable to gains from the mitigation of interest rate volatility to closing capital on the First Horizon acquisition and from the sale of Schwab shares, lower net corporate expenses, and a higher contribution from other items. The increase in other items primarily reflects the favourable tax impact of earnings mix and the recognition of unused tax losses, partially offset by lower revenue from treasury and balance sheet management activities this quarter. Adjusted net loss for the quarter was $10 million, compared with an adjusted net loss of $65 million in the fourth quarter last year. Please turn to slide 18.

The Common Equity Tier 1 ratio ended the quarter at 16.2%, up 126 bps sequentially. We had strong organic capital generation this quarter, which added 44 basis points to CET 1. This was partially offset by an increase in RWA, which decreased CET 1 by 19 basis points. We saw a 13 basis point increase in CET1 related to the issuance of common shares under our dividend reinvestment plan. The sale of a portion of TD's investment in Schwab to provide the capital required for the Cowen acquisition increased CET 1 by 49 basis points. Relating to the First Horizon acquisition, the net gain from the mitigation of interest rate volatility to closing capital increased CET 1 by 35 basis points and an FX hedge increased CET 1 by 12 basis points. RWA increased 4.3% quarter-over-quarter, reflecting higher Credit Risk RWA. Credit Risk RWA increased $22.0 billion, or 5%, mainly reflecting the impact of FX, higher volumes and risk migration. Market Risk RWA decreased $1.7 billion, or 7%, reflecting lower exposures, partially offset by market volatility. The leverage ratio was 4.9% this quarter, and the LCR ratio was 128%, both well above published regulatory minimums.

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 19.

Gross impaired loan formations increased by 2 basis points, to 14 basis points this quarter, reflecting some normalization of credit performance. Please turn to slide 20.

Gross impaired loans were stable quarter-over-quarter, and remained at cyclically low levels. Please turn to slide 21.

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 increased $266 million quarter-over-quarter to $617 million or 29 basis points. The increase was largely recorded in the Canadian and U.S. consumer lending portfolios. Please turn to slide 22.

The Bank's impaired PCL was $454 million, an increase of $114 million quarter-over-quarter, largely related to some normalization of credit performance in our Canadian and U.S. consumer lending portfolios. The Bank's impaired provisions remained well below pre-pandemic levels. Performing PCL increased by $152 million to $163 million, as reflected across the U.S. Retail, Corporate, and Canadian Personal and Commercial Banking segments. For 2022, the Bank's full year PCL rate was 14 basis points, compared to a recovery of 3 basis points in 2021. The higher full year PCL rate was due to a smaller current year performing release and moderately higher impaired provisions. Please turn to slide 23.

The Allowance for Credit Losses increased by $445 million quarter-over-quarter to $7.4 billion, reflecting the impact of foreign exchange, deterioration in our economic forecasts, some normalization of credit performance, and volume growth, partially offset by release of overlays previously set aside for economic uncertainty. The Bank's allowance coverage remains elevated to account for ongoing uncertainty relating to the economic trajectory, and credit performance.

Now let me briefly summarize the year. The Bank exhibited strong credit performance this year, as evidenced by cyclically low gross impaired loan formations, gross impaired loans, and impaired PCLs. While credit performance remained strong, we saw some normalization in certain portfolios this quarter, as credit metrics have come off their recent lows. In addition, economic risks remain elevated, reflecting persistent inflation and rising interest rates, and the increasing risk of a recession. While results may vary by quarter, I expect PCLs to be higher in 2023 in the range of 35 to 45 basis points, as credit performance continues to normalize, and the economic trajectory unfolds. To conclude, TD 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

[Operator Instructions]. The first question is from Gabriel Dechaine from National Bank Financial.

Gabriel Dechaine – National Bank Financial – Analyst

I have a couple of questions here. One, actually, just the all-bank NIM. Based on your calculation of 7 basis points, and actually a little bit smaller, if I adjust for the trading stuff. But if I compare that to the segments where Canada is up 11 and the U.S. up 50, it's pretty huge. Can you give me a bit of a technical explanation as to why there might be some diversions there? Is that a wholesale funding issue at the top of the house?

Kelvin Tran – TD – Chief Financial Officer

So as you said, we need to adjust it out for trading NII. So the trading NII number is actually disclosed in our MD&A in the Wholesale Bank section. There's a footnote underneath the table. If you adjust for that and also for the trading loans for the volume, you get to a core or non-trading NIM of 12 basis points quarter-over-quarter.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. We calculate it ourselves, it might be the compare methodology there. My real question is on the First Horizon. A subtle shift in timing expectations, I guess. Last quarter, you were expecting to close in fiscal Q1, now first half. What's prompting the delayed expectation of closing?

Bharat Masrani – TD – Group President and CEO

We're already in December. And so we don't control the timing of all the regulatory approvals, but we are confident that we'll get closing within the time line that we've put out.

Gabriel Dechaine – National Bank Financial – Analyst

I mean are they taking a closer look at anything? Are you anticipating having to make any adjustments to your product lineup or your fee schedule in advance of the close?

Bharat Masrani – TD – Group President and CEO

No, I'm not aware of anything of the sort you're mentioning.

Meny Grauman – Scotia Capital – Analyst

I wanted to stick to a discussion of the margin, up 11 basis points in Canada, 51 in the U.S. I'm just wondering if you think we've hit peak margin expansion at TD? Or could we see coming quarters with bigger sequential increases in the margin?

Kelvin Tran – TD – Chief Financial Officer

At the top of the house, when you look at the total bank, if forward rates are realized, we expect that to be favorable to margins, both because of rising short rates and also for tractors repricing as on-rates are higher than off-rates. A big part of the margin expansion story is that we've seen significant rise in short rates so that provided, I would say, a turbocharge to the margin expansion. And so it really depends on the rise in the short rates going forward. Michael, Leo – do you have anything to add on the customer dynamic front or balance sheet mix?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

And just for the Canadian Personal Bank and P&C overall, we expect NIM to improve in the near term, assuming that the forward curves that we see hold. I think the dynamics are lining up well for us, and so we would expect to see some further expansion.

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

I would just add, the NIM for the quarter came in at 3.13%, so very strong, 92 basis points on a year-on-year basis, 51 basis points on a quarter-on-quarter basis. As Kelvin described, deposit margin expansion, clearly driving that. Also, we've had some good gains in terms of improvement in treasury returns on our investment portfolio. And those 2 things, obviously, have driven the results. As we look forward, I agree with Michael, we'll continue to see some additional pricing power if the forward curve holds. I would expect though that betas will begin to increase in the medium term. I'd say as we think about the balance of the year, there's going to be increased pricing sensitivity, certainly amongst the mass affluent, high net worth and sort of institutional commercial clients. I would expect to see further improvement in NIMs but on a more gradual basis over time.

Meny Grauman – Scotia Capital – Analyst

And Leo, just following up on that. I think we've heard from other banks that betas haven't changed as much as we would have expected given the rise in rates. Is that what you're seeing right now? And are you talking about an expectation for that to increase in the future?

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

I would say that was generally true. In the fourth quarter, I do think we saw a little bit more inflection at the industry level. Obviously, our own franchise is very core checking account dependent, which gives us a little bit more pricing resiliency than some of our other peers. But the reality is in that mass affluent, high net worth client, in the large institutional, there is greater search for yield and greater search for alternative investment opportunities. I would expect that to crystallize a little bit more over the subsequent quarters.

Meny Grauman – Scotia Capital – Analyst

And then just as a follow-up, broadly, we've heard some banks talk about positioning for potential declines in rates. How exposed is TD to declining rates?

Kelvin Tran – TD – Chief Financial Officer

It is reflected somewhat in our net interest margin disclosure. You would see a shock of rate hike or rate decline impacting our net interest income. So there's sensitivity there.

Paul Holden – CIBC – Analyst

I'm going to continue with that line of questioning but just ask sort of a different question. Would you consider hedging some of that rate exposure, so taking advantage clearly of the upside today. But maybe at some point within the next year, if you think rates have topped out, you could protect and lock in some of that margin, is that something you would think about doing?

Kelvin Tran – TD – Chief Financial Officer

Yes, we look at that at the margin, but you have to look at both upside and downside. And so on one hand, if you lock it in, if rates decline, then you benefit. But if inflation continues to be persistent and rates hike, then that would go against you. So it's a fine balance that we monitor.

Paul Holden – CIBC – Analyst

Got it. Next question is with respect to your HELOC exposure, and I guess, particularly in Canada. There's been a lot of discussion lately around variable rate mortgages. But for TD, I'm more curious on the HELOC exposure, assuming it's also variable rate. What kind of impacts are you seeing on your customers or changes in behavior? Is this something we should be focusing on and worried about from a credit perspective?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Let me start, and I'll talk a little more sort of broadly around housing. You may have noticed from our macro-outlook, we have revised our housing outlook downwards because of higher rates. We're not expecting a crisis. We're definitely expecting an unwind of some of the gains that have occurred since COVID. But when I look at quality and when I look at quality across, whether it's HELOC, whether it's fixed rate, whether it's variable, I would say that asset quality is strong. So we look at distribution of scores. We look at how much equity customers have in homes. We look at debt service levels. And yes, there's a bit of an uptick, but it's generally robust delinquencies, formation charge-offs. So across all our books, our quality is strong. I don't know, Michael, if you wanted to add something?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

I think that captures it and nothing else to add.

Paul Holden – CIBC – Analyst

Great. I'm going to sneak in one more, if that's okay? Just curious on the increase in the LCR ratio this quarter, not unusual to see it jump around maybe 2 or 3 points from quarter-to-quarter, but 7 points is a pretty big move. So maybe you can help unpack that for us.

Kelvin Tran – TD – Chief Financial Officer

Yes. It's partly because of prefunding for the First Horizon transaction and also in the Wholesale Bank and TD Securities.

Doug Young – Desjardins – Analyst

Just on Page 16, in Wholesale Banking, looking at expense growth, and I guess, this is for Riaz. There was mention of investing in the U.S. dollar strategy. And I just find that a little interesting in light of the fact that you're in the midst of closing the Cowen transaction. So can you kind of help me understand what that relates to? Because I would have thought you would have waited to make further investments or at least stop investments in the U.S. strategy until you onboarded Cowen, but maybe I'm thinking about this incorrectly.

Riaz Ahmed – TD – Group Head, Wholesale Banking

No, Doug, not at all. You have to remember that the U.S. dollar strategy has been unfolding for a while now, and then the acquisition of Cowen was announced at the beginning of August. So a fair bit of that is just the increased run rate that was put on prior to the acquisition being announced. And there's a fairly robust hiring of front-office individuals, both in investment banking, global markets and the related support individuals as well as technology professionals. So it's mostly just the annualization of the build that had taken place prior to.

Doug Young – Desjardins – Analyst

So this is year-over-year, and I guess this has already been going. It's not used incrementally more sequentially, this was already in the running. And I guess because you're doing this, I mean, is there a risk that we're going to have a restructuring charge of some form as you onboard Cowen?

Riaz Ahmed – TD – Group Head, Wholesale Banking

Well, I think, as you know, a lot of the verticals where Cowen is strong as compared to where TD Securities is strong, there's not a lot of overlap. So I think that we would look to usually manage our expenses in the normal course. But as you know, when we acquired Cowen, we didn't announce any particular synergies from an expense perspective.

Doug Young – Desjardins – Analyst

Okay. And then just last, Kelvin, it looks like in Corporate, it was a lower adjusted loss than normal. I mean there's lots going into the underlying items, so I get that. But is there anything unusual in there? Should we expect the loss to kind of go back to more of a normal loss level, if you can unpack that?

Kelvin Tran – TD – Chief Financial Officer

Sure. So this quarter, we benefited from lower tax rates. And if you quantify that, it's about $170 million of an impact.

Doug Young – Desjardins – Analyst

And is that related to anything in particular?

Kelvin Tran – TD – Chief Financial Officer

It's just business mix and unused tax losses. So you have these items that bounce around quarter-over-quarter. Sometimes they're positive, sometimes they're negative. In this quarter, the items just happen to be larger and of that magnitude

Lemar Persaud – Cormark – Analyst

Just looking at your sensitivity to higher interest rates, and it looks like it's still relatively high, I think, $1.2 billion increase and then it's 100 basis point increase in rates across the curve. And I think that number is $1.3 billion last quarter. So did I hear you right in that higher deposit betas are going to limit some of the upside? And if so, why isn't that showing up in this rate sensitivity table more meaningfully? Or are rising deposit betas simply not considered in this sensitivity?

Kelvin Tran – TD – Chief Financial Officer

Betas are taken into account in that model. And as a matter of fact, some of the reduction in NIIS quarter-over-quarter is due to the higher beta. As rates rise, then you have less sensitivity to the next rate hike. But in that number, there are a lot of things that happened. There are also hedges that expire, and so that would add sensitivity to it, but it is in there.

Lemar Persaud – Cormark – Analyst

One thing that stuck out to me was the 5% sequential mortgage growth in the U.S. Can you help me reconcile what's driving such strong growth when we're seeing volumes slowing across the industry? And then maybe talk about mortgage spreads in the U.S. Would it be fair to suggest that spreads are tightening there and maybe it's less of a concern for TD just given the excess deposit position? Is that kind of the right way to think about why you guys are putting up such strong mortgage growth in the U.S.?

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

You're right, we had a really strong mortgage quarter. So total balances grew 17% on a year-on-year basis. And I think this question came up last quarter as well. Two fundamental strategies driving the volume growth; one, we reintroduced an in-store direct origination model, which has been extremely well received and has allowed us to be able to counteract some of the contraction trend that we've seen in the marketplace; and second, we've been successful in our correspondent mortgage business, attracting high-quality mass affluent, high net worth mortgage relationships. That, coupled with a sharp decline in paydowns meant that we saw good balance growth. And we do think that will moderate a little bit as we go into '23. But for the most part, we think that the near-term quarters will remain strong. In terms of overall margins, the margins have been relatively stable. So we're not seeing a price competition that's outsized at this point. So we like the volumes that we're putting on. And so we'll continue to do that. I would say one final thing. We've also been less active in terms of selling our mortgage portfolio. Such that we're seeing spreads we like. We like the portfolio risk associated with it, and that's giving us the ability to be able to build out our mortgage book a little bit more. So you if put all those factors together, and I think it's been certainly positive in terms of our mortgage portfolio growth.

Sohrab Movahedi – BMO – Analyst

Just one quick clarification first. Kelvin, do you think the total bank tax rate will go back to that 21%, 22% effective kind of throughout '23?

Kelvin Tran – TD – Chief Financial Officer

Let's put it this way, this quarter is lower than normal.

Sohrab Movahedi – BMO – Analyst

And would the last 7 or 8 quarters be consistent with what you would expect normal to be?

Kelvin Tran – TD – Chief Financial Officer

Yes.

Sohrab Movahedi – BMO – Analyst

And then just to clarify, Bharat or Kelvin, I guess, the 7% to 10% EPS growth in 2023, the target may be being met or exceeded in 2023. Can you just provide any guidepost as to how much of that growth you would attribute to existing versus acquired business?

Bharat Masrani – TD – Group President and CEO

Hard to split it that precisely because timing of acquisitions, there's no certainty as to when exactly they close. But overall, when you think of the bank, you've got interest rates, which we've talked a lot about on this call as to what it does to TD's P&L, and you got the acquisitions. So those, I would say, are plus points going into '23. And of course, the very good organic growth that the bank has posted over many years, and I expect it will continue to do so next year. On the other hand, we are in a complex operating environment. Geopolitical tensions are out there. And of course, there is the potential for an economic slowdown. So the way I said it in my remarks, on balance we feel we will meet or exceed the medium-term guidance that we've provided, but it could shift based on the points that I've just made. If any one of those turns out to be dramatically different than what we know today, then, of course, the numbers will change. And that's how we've been thinking about it.

Sohrab Movahedi – BMO – Analyst

No, I appreciate that. I just wanted to kind of distinguish between what would have been indigenous TD growth, so to speak, absent the acquisitions.

Joo Ho Kim – Credit Suisse Securities – Analyst

Just wanted to stick with U.S. Retail. And I'm looking at the expenses up 11% year-on-year on an adjusted basis. And I'm also looking at the total employees in that segment, and that's up about 8% over that time. And so I'm just wondering if you can speak to how much of the increase in expenses this quarter was due to inflation in that segment? And also how you think about the pace of hiring from the business and whether we could see that FTE number kind of continue to climb up from here?

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

Thank you very much for the question, Joo Ho. Maybe just to give you a little bit of context, expenses, up 11%. Essentially 2 factors, one is inflationary pressures, both in terms of wage and other core expenses, but a very significant portion of it – investment spending. And let me just describe some areas that we've been very deliberate about in terms of investing. One, we added to our retail and wealth advisory ranks. Part of that was making up for some lost ground. The pandemic did result in higher attrition rates. And so we did hire to be able to bring back staffing levels to sort of a pre-pandemic level. But also, and consistent with what I shared earlier in the year, we've been very focused in building out our wealth advisory ranks. And so that was another area of investment. In our commercial banking teams, we have been investing in our mid-market and our specialty verticals. And so very focused on building greater national scale in that area. And then finally, we did something that would have influenced our FTE numbers, not necessarily our expenses is that we did repatriate our cards servicing platform, which amounted to just under 400 overall employees. And we did that because we wanted to upscale the actual services that we were rendering to our cards clients. So those are some of the big categories. In addition to that, from a technology standpoint, we have been very focused on investing in digital and also investing in our cards next-generation platform. So those are some of the areas that we've been investing in. We're quite comfortable that those will allow us to continue to maintain a strong revenue growth going forward. I would imagine your follow-up question is going to be "how do we think about expenses going forward?". I would expect us to moderate the rate of expense growth over the subsequent quarters, and so we're deliberately mindful of our operating leverage focus.

Joo Ho Kim – Credit Suisse Securities – Analyst

That's very helpful. And just one last one for me. I want to go back to Wholesale Banking segment. The loan growth from that segment is up 18% sequentially. So wondering if you could let me know what drove the results there? It looks like it comes from perhaps financial sectors or some of the other sectors. Wondering what drove the growth and how we should think about that going forward?

Riaz Ahmed – TD – Group Head, Wholesale Banking

There's been really attractive growth in really all parts of our lending book, whether that's in corporate lending, in our prime businesses or our securitized businesses. So it's quite widely spread out in the businesses. And I think we've been really happy with the business that we're doing with our clients and as we continue to add clients. I mean, obviously, the environment for deals has been a bit slower. I would expect that growth rate to moderate a bit. But as you know, that can change very quickly depending on economic circumstances. So I feel pretty good about the growth that we were able to deliver in '22 across the board.

Mike Rizvanovic – KBW – Analyst

Probably one for Michael. And first off, thanks for updating your disclosure on remaining amortization in the mortgage book. I'm referencing the 25% that's greater than 35 years' amortization. And what I'm wondering is do you face any sort of regulatory or legal constraints in terms of how much you could renew in terms of that amortization? You've got 1/4 of your book above 35%. I'm guessing there's probably a portion of above 40% even. Is there some sort of constraint that you face? I'm trying to get a better understanding of how much leeway you may have when you have your customers renewing and for the ones that may be potentially have a bit of a struggle to make a higher payment.

Michael Rhodes – TD – Group Head, Canadian Personal Banking

You are right, we did update the table to reflect current payment trends as opposed to the contractual obligation for the customer. And the contractual obligations haven't changed for a customer. And so if a customer's a 25-year term, even if they may be amortizing currently at a lower rate, they still do have a 25-year term. And so when the renewal comes, the options are either reset the payment to reflect what's required in order to amortize over the contractual term from origination or you can actually reset the amortization, basically, re-underwrite the loan. But there, we generally look to re underwrite them for, again, a 25-year term. On a case-by-case basis, we'll look at longer terms. But come that moment when the renewal comes, we're generally looking to either reset to the initial term or possibly re-underwrite for, let's call it, a new 25-year term.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

The only additional comment I'd add is we are watching the rate reset risk across our fixed and variable books like very, very closely. We've done a lot of stress testing of what happens at 5%, what happens at 6%. We've actually estimated potential formations, potential PCL. And a lot of that thinking is already incorporated into our allowance. So I just thought I'd share that.

Mike Rizvanovic – KBW – Analyst

That's helpful. So it's fair to say that you do have leeway. There's no real limitation that regulators would have. I don't see anything in the B20, correct me if I'm wrong, but no real limitation. So you aim for the 25 year or the original amortization period, but you will work with your customers, and I'm guessing really try to limit any sort of disruption in your book?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

That's right. We work with our customers also on a case-by-case basis. But that aside, the contractual amortization terms, they are generally 25 years. And if someone's slow amortizing today, there is an expectation under the obligation that when the loan renews, that the payment resets to reflect the initial term.

Scott Chan – Canaccord Genuity – Analyst

Just a quick clarification question first, Ajai. You talked about a PCL ratio target for 2023, 35 to 45 bps. Was that a total?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yes, that is total. But I do expect, and if you go and look at '19, for example, a large part of that will be impaired.

Scott Chan – Canaccord Genuity – Analyst

Got it. Okay. And then last question for Bharat, 8% dividend increase, obviously, very strong. And I think it signals a really strong organic outlook. And then you've got the acquisitions coming. And maybe talk about the reasons for the increase now, the amount? And does this set the bar for TD to raise your dividend once a year like you did pre-pandemic?

Bharat Masrani – TD – Group President and CEO

Thanks, Scott, for the question. I outlined earlier, somebody asked me about how we are feeling about next year. And as you rightly pointed out, with the momentum we have, with further rate increases that are embedded in the forward curve, with the acquisitions, we feel that we should be able to meet or exceed our target. But there are headwinds as well. Things could change. And when they change, they change quite dramatically, the economic environment, et cetera, et cetera. So I pointed that out. On dividends, we don't look at it from that perspective. We want to look at the earnings power of the bank. We want to look at the overall environment and feel very comfortable with what we've done this quarter. Generally, our view is we don't like to think about dividends every quarter or every little while. We like to think of it from a long-term perspective, but it depends on the circumstance. It's hard to speculate on future events and what may or may not happen. But very happy with what we've done today with the increase that we announced earlier.

Operator

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

Bharat Masrani – TD – Group President and CEO

Thanks very much, operator, and thank you all for joining us today. A very strong quarter from TD. I'm very happy with how the year has turned out. I would, once again, like to take this opportunity to thank our TD bankers around the world. They continue to deliver for all our stakeholders, including our shareholders. And it's terrific to see that the bank continues to make progress on a consistent basis. And if I don't see any of you before the holidays, happy holidays to all of you, and we will talk, again, in about 90 days. Thank you.