Q1 2023 EARNINGS CONFERENCE CALL
MARCH 02, 2023

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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 and integration 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 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 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.

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

Paul Douglas
TD Bank Group – Group Head, Canadian Business Banking

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

Paul Holden
CIBC World Markets – Analyst

Doug Young
Desjardins – Analyst

Lemar Persaud
Cormark Securities – Analyst

Sohrab Movahedi
BMO Capital Markets – Analyst

Joo Ho Kim
Credit Suisse Securities – Analyst

Mike Rizvanovic
Keefe, Bruyette & Woods – Analyst

Scott Chan
Canaccord Genuity – Analyst

Darko Mihelic
RBC Capital Markets – Analyst

Ebrahim Poonawala
Bank of America Securities – Analyst

Nigel D'Souza
Veritas Investment Research – Analyst

PRESENTATION

Brooke Hales – TD – Head of Investor Relations

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

We will begin today's presentation with remarks from Bharat Masrani, the Bank's CEO, after which Kelvin Tran, the Bank's CFO, will present our first quarter operating results. Ajai Bambawale, Chief Risk Officer, will then offer comments on credit quality, after which we will invite questions from pre-qualified analysts and investors on the phone. Also present today to answer your questions are Michael Rhodes, Group Head, Canadian Personal Banking; 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 Q1 2023 Report to Shareholders.

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

Bharat Masrani – TD – Group President and CEO

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

To start, I want to express that our thoughts are with all those impacted by the devastating earthquakes in Turkey and Syria, including our colleagues, customers and communities, who have deep ties to these two countries. TD has contributed directly to the relief efforts and enabled customers to do so as well, through branches and online. Together, a collective effort can make a difference and provide some comfort during these terrible hardships.

It's been a busy week and before I review our strong quarter and start to the fiscal year, I would like to provide a few strategic updates. As you know on February 9th, we mutually agreed with First Horizon to extend the close date to May 27th as provisioned in our contract. Since then, we have come to believe that the deal is not expected to receive regulatory approval in time to close the transaction by that date. Regulatory approval is not within the Bank's control. So, we are doing what is prudent and appropriate – we have opened discussions with First Horizon about a potential additional extension.

I cannot speculate on when we will receive approval. I can tell you that we are fully committed to the transaction. We have a robust Community Benefits Plan in place with broad community support across our combined footprint and our teams have made progress on integration plans. This is a great transaction that offers scale and new capabilities to our U.S. franchise.

We made another unrelated announcement earlier in the week regarding the Stanford matter. The settlement we announced allows us to avoid the distraction and uncertainty of a long legal proceeding, and is in the best interests of shareholders and the Bank.

And of course, yesterday, we closed the Cowen transaction. TD Securities and Cowen are a powerful combination, accelerating our U.S. growth strategy and helping to create an integrated, North American dealer with global reach. The acquisition of Cowen adds key capabilities to our growing global markets platform – in U.S. equity sales and trading and in U.S. equity research. It also adds scale and industry expertise across U.S. capital markets and M&A advisory. Congratulations to everyone on this important milestone, and a very warm welcome to our over 1,500 new colleagues. I know I speak for Riaz and all of TD Securities, when I say we are very excited for what we will accomplish, together.

Let me now turn to our first quarter performance. TD delivered a strong Q1. Earnings increased 8% to $4.2 billion, and EPS rose 7% to $2.23. Revenue grew 16% year-over-year, reflecting margin expansion, strong volume growth and our diversified business mix. We took advantage of this environment to continue to invest in our business to drive future growth while delivering robust operating leverage. As expected, we saw some credit normalization this quarter, but credit performance remained strong overall, supported by consistent and disciplined underwriting practices.

TD's CET 1 ratio ended the quarter at 15.5% or 15% pro forma for the closing of the Cowen acquisition. With TD's strong internal capital generation capabilities – and the various capital levers available to the Bank, we continue to expect TD's CET 1 ratio to be comfortably above 11% post-closing of the First Horizon transaction.

These strong results are matched by a brand that is second to none. TD was recently named one of the 2023 Global Top 500 Most Valuable Brands by Brand Finance, earning the highest ranking in Canada. Across our distribution channels, the Bank delivers personalized, connected, legendary experiences. For the ninth consecutive year, the TD mobile app had the highest number of monthly active mobile users among Canadian banks according to mobile analytics firm data.ai.

Let me now turn to each of our businesses and review some highlights from Q1.

Our Canadian Personal and Commercial Banking segment delivered record earnings of $1.7 billion, reflecting revenue growth of 17% and significant positive operating leverage. The Personal Bank continued to demonstrate momentum, with sales of our Everyday Banking products up over 20% year-over-year and industry-leading market share gains in non-term deposits again this quarter, driven by strength in branch banking. We saw record Q1 acquisition in the New to Canada customer segment and announced an exclusive strategic relationship with CanadaVisa – one of the leading online sources of Canadian immigration information, with over 2 million monthly visits. Through this relationship, TD will help support newcomers as they navigate financial services while settling into their lives in Canada. We also had record Q1 credit card spend and organic loan growth driven by a rebound in travel and our compelling TD Aeroplan offering, coupled with our best ever quarter for digital acquisition for TD cards. In our real estate secured lending business, our teams delivered robust retention rates and enhancements in mobile mortgage specialist productivity, despite a softening housing market. The Business Bank achieved double-digit loan growth for the sixth consecutive quarter. And we were proud to collaborate with the Federation of African Canadian Economics to help black business owners in their entrepreneurial journeys, enabling them to access capital and scale their businesses.

Turning to the U.S., our U.S. Retail Bank delivered record earnings of US$1 billion, reflecting revenue growth of 27% and significant positive operating leverage. With the contribution from our investment in Schwab of US$222 million, segment earnings were US$1.2 billion. This quarter, enabled by our investments in event streaming technology, TD launched deposit balance thresholds alerts, the first of several self-serve alerts that will further enhance customer convenience and experience. We delivered strong loan growth year-over-year. Led by 18% growth in mortgages and 9% growth in cards, personal loans were up 11%. And TD demonstrated continued momentum in the middle-market and C&I space, with business loans up 9%, excluding PPP loan forgiveness. Finally, this quarter, we were proud to announce a 20-year extension of our agreement with Delaware North – keeping Boston's beloved landmark arena named as "TD Garden" through 2045.

Our Wealth Management and Insurance segment earned $550 million this quarter. Revenue was up 4%, as higher insurance volumes and the benefit of higher interest rates helped offset a challenging market environment. In TD Direct Investing, we took the #1 spot in the Globe and Mail's annual ranking of digital brokers, and increased market share of new account acquisition quarter-over-quarter. In TD Asset Management, TD regained its position as the #1 money manager for Canadian pension assets, and widened its lead versus competitors as the #1 Canadian institutional asset manager. Highlighting the breadth of our capabilities, several TD Asset Management ETFs and mutual funds – across equities, fixed income, and balanced funds were recognized this quarter with FundGrade A+ awards. On the Insurance side, our expansion into Small Business Insurance will launch in the coming months. As the #1 Direct-to-Consumer insurer in Canada, this is a natural extension for us to leverage our expertise to deliver exceptional insurance experiences for small business owners.

In our Wholesale Banking business, we delivered net income of $347 million, with revenues roughly flat year-over-year. The impact of lower underwriting and trading revenues was offset by higher global transaction banking and lending revenues as we continue to support our clients through market cycles.

This quarter, TD Securities acted as financial advisor to GIC and Dream Industrial REIT on their acquisition of Summit Industrial Income REIT. Our Wholesale Banking team also acted as joint book runner on the Government of Canada's $500 million Ukraine Sovereignty Bond, to assist the Government of Ukraine in providing essential services to Ukrainians and restoring energy infrastructure. And as I mentioned earlier, Cowen is now part of TD Securities. With robust integration plans in place, work is already underway to tap the combined strengths of the business and extend our competitive advantage in the market.

Guided by our purpose, TD is committed to creating value for all our stakeholders. I am proud that the Bank was listed in the DJSI World Index for the ninth consecutive year. TD is one of 6 banks listed in the DJSI North American Index – and the only North American bank included in the World Index. The Bank was also recently recognized with a "Top 10% S&P Global ESG score" – again standing out from its peers as the only North American bank to be listed in the top 10%. And, TD Bank, America's Most Convenient Bank was recognized as one of America's Best Employers for Veterans by Forbes for the third consecutive year. This recognition is a reflection of our commitment to the communities we serve. Earlier this week, as part of the TD Ready Challenge, we were pleased to announce a total of $10 million in grants to ten non-profit and charitable organizations that are working on solutions to help those who may be disproportionately affected by climate change and the transition to a low-carbon economy. Later this month, TD will release its 2022 ESG reporting suite, including our Climate Action Plan. We are excited to share the outcomes of a year of effort and accomplishments by thousands of dedicated TD colleagues, who transformed our aspirations into action. Our TD bankers continue to deliver for all of our stakeholders, and it is a privilege to work alongside them every day. I would like to thank them for all they do to make TD the Better Bank.

I will end by noting that this is Paul Douglas's last earnings call as Group Head, Canadian Business Banking. Barbara Hooper will assume leadership of this segment. Paul's almost 47-year TD career is filled with remarkable achievements and success. He and his team have built one of Canada's premier business banks, known across the market for their dedication to their customers. Paul has also built the best team of business bankers in the country, and leaves behind a tremendous bench of talent that will continue to drive growth. I have known Paul throughout my entire time at TD and want to thank him for his partnership, support, and significant contributions to the Bank's success over many decades. Paul will assume a newly created position as Chair, Canadian Business Banking and will also serve as a Special Advisor to me. Congratulations to Paul, and I look forward to continuing to benefit from his wise counsel as we build for the future.

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 Q1, the Bank reported earnings of $1.6 billion and EPS of $0.82, down 58% and 59% respectively. Reported earnings include the Stanford litigation settlement, a net loss from mitigation of impact from interest rate volatility to closing capital on the First Horizon acquisition and the recognition of a provision for income taxes in connection with the Canada Recovery Dividend and increase in the Canadian federal tax rate for fiscal 2022. Adjusted earnings were $4.2 billion, and adjusted EPS was $2.23, up 8% and 7%, respectively. Reported revenue increased 8% and includes a net loss from mitigation of impact from interest rate volatility to closing capital on the First Horizon acquisition. Adjusted revenue increased 16% reflecting margin and volume growth in the Personal and Commercial Banking businesses and the impact of FX translation. Provision for credit losses was $690 million, compared with $72 million in the first quarter last year. Reported expenses increased 39% primarily reflecting the Stanford litigation settlement and higher acquisition and integration-related charges. Adjusted expenses increased 11%, driven by higher employee-related expenses, the impact of FX translation, and higher spend supporting business growth. On our Q4 call, I noted that we expected adjusted expense growth excluding FX to moderate in fiscal 2023 on a quarter-over-quarter basis. We saw that this quarter, with adjusted expense growth moderating sequentially as we continue to prioritize our investments. 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 10.4% ex-FX. Reported total bank PTPP was down 26% year-over-year primarily reflecting the Stanford litigation settlement. Consistent with prior quarters, Slide 26 shows how we calculate adjusted total bank PTPP and operating leverage, removing the impact of the U.S. strategic card portfolio, along with the impact of foreign currency translation, and the insurance fair value charge. Adjusted total bank PTPP was up 14% after these modifications. Please turn to Slide 12.

Canadian Personal and Commercial Banking net income for the quarter was $1.7 billion, up 7% year-over-year. Revenue increased 17%, reflecting higher margins and volume growth. Average loan volumes rose 8%, reflecting 6% growth in personal volumes and 14% growth in business volumes. Average deposits rose 3%, reflecting 8% growth in personal deposits and a 5% decrease in business deposits. Net interest margin was 2.80%, up 10 basis points compared to the prior quarter, primarily due to higher deposit margins reflecting rising interest rates, partially offset by lower loan margins. While many factors can impact margins – including the path of short-term rates, tractor on and off rates, customer activity and competitive market dynamics – and margins may bounce around quarter to quarter, we currently expect net interest margin expansion to moderate for the remainder of fiscal 2023. Total PCL of $327 million increased $98 million sequentially. Total PCL as an annualized percentage of credit volume was 0.25%, up 8 basis points sequentially. Noninterest expenses increased 10% 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$1.2 billion, up 17% year-over-year. Adjusted net income was US$1.2 billion, up 23% year-over-year. U.S. Retail Bank reported net income was US$955 million, up 18%, primarily reflecting higher revenue, partially offset by higher non-interest expenses including acquisition and integration-related charges for the First Horizon acquisition and higher PCL. U.S. Retail Bank adjusted net income was US$1 billion, up 26%. Revenue increased 27% year-over-year, reflecting higher deposit margins and loan volumes, partially offset by lower loan margins and deposit volumes, lower overdraft fees, and lower income from PPP loan forgiveness. Average loan volumes increased 9% year-over-year. Personal loans increased 11%, reflecting strong originations, lower prepayments and higher credit card sale volumes. Business loans increased 6%, reflecting strong originations, new customer growth, higher commercial line utilization and increased customer activity, partially offset by PPP loan forgiveness. Excluding PPP loans, business loans increased 9%. Average deposit volumes, excluding sweep deposits, were down 2% year-over-year. Personal deposits were flat, business deposits declined 4% and sweep deposits decreased 15%. Net interest margin was 3.29%, up 16 basis points sequentially, as higher deposit margins reflecting the rising interest rate environment were partially offset by lower loan margins and negative balance sheet mix. While many factors can impact margins – including the path of short-term rates, tractor on and off rates, customer activity and competitive market dynamics, margins may bounce around quarter to quarter, we currently expect net interest margin expansion to moderate for the remainder of fiscal 2023. Total PCL was US$149 million, a decrease of US$20 million sequentially. The U.S. Retail net PCL ratio, including only the Bank's share of PCL for the U.S. strategic card portfolio, as an annualized percentage of credit volume was 0.34%, lower by 6 basis points sequentially. Reported expenses increased 22% and include acquisition and integration-related charges for the First Horizon acquisition. Adjusted expenses were up 16%, reflecting higher employee-related expenses, credit card growth-related expenses and other business investments. The contribution from TD's investment in Schwab was US$222 million, up 11% 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 14.

Wealth Management and Insurance net income for the quarter was $550 million, down 14% year-over-year. Revenue increased 4%, reflecting higher margins, an increase in fair value of investments supporting claims liabilities and higher insurance volumes, partially offset by lower volumes and lower transaction and fee-based revenue in wealth. Insurance claims increased 29% year-over-year, reflecting the impact of changes in the discount rate which resulted in a similar increase in the fair value of investments supporting claims liabilities reported in non-interest income, increased driving activity and inflationary costs, partially offset by fewer severe weather-related events. Non-interest expenses were flat year-over-year, reflecting higher spend supporting business growth, including higher employee-related expenses and technology costs, partially offset by lower variable compensation. Assets under management decreased 3% year-over-year, reflecting market depreciation. Assets under administration decreased 3% year-over-year, reflecting market depreciation, partially offset by net asset growth. Please turn to Slide 15.

Wholesale Banking reported net income for the quarter was $331 million, a decrease of 24% year-over-year, reflecting higher non-interest expenses and PCL. Adjusted net income was $347 million, down 20% year-over-year. Revenue was $1.3 billion, largely unchanged year-over-year, reflecting lower trading-related revenue and underwriting fees, offset by higher global transaction banking and lending revenue. PCL for the quarter was $32 million, an increase of $6 million from the prior quarter. Reported expenses increased 16% and included acquisition and integration-related charges primarily for the Cowen acquisition. Adjusted expenses increased 13% reflecting continued investments in Wholesale Banking's U.S. dollar strategy, including the hiring of banking, sales and trading, and technology professionals, higher severance, and the impact of foreign exchange translation. Please turn to Slide 16.

The Corporate segment reported net loss of $2.6 billion in the quarter, compared with a reported net loss of $227 million in the first quarter last year. The year-over-year increase primarily reflects the Stanford litigation settlement, a net loss from mitigation of impact from interest rate volatility to closing capital on the First Horizon acquisition, the recognition of a provision for income taxes in connection with the Canada Recovery Dividend and increase in the Canadian federal tax rate for fiscal 2022, and higher net corporate expenses. Adjusted net loss for the quarter was $140 million, compared with an adjusted net loss of $127 million in the first quarter last year. Please turn to Slide 17.

The Common Equity Tier 1 ratio ended the quarter at 15.5%, down 69 basis points sequentially. We had strong internal capital generation this quarter, which added 42 basis points to CET 1. This was more than offset by an increase in RWA net of FX, which decreased CET 1 by 62 basis points. We saw a 14 basis point increase in CET 1 related to the issuance of common shares under our Dividend Reinvestment Plan. Relating to the First Horizon acquisition, a net loss from the mitigation of impact from interest rate volatility to closing capital decreased CET 1 by 13 basis points and an FX hedge decreased CET1 by 6 basis points. Previously announced regulatory changes also impacted our CET 1 this quarter. We saw a 16 basis point decrease in CET 1 related to the Canada Recovery Dividend and an 8 basis point decrease related to the elimination of the transitional arrangements for expected credit losses. Finally, the previously announced Stanford litigation settlement decreased CET 1 by 23 basis points this quarter. RWA including FX increased 2.8% quarter-over-quarter, reflecting higher Credit Risk RWA. Credit Risk RWA increased $16.8 billion, or 4%, mainly reflecting higher volumes, asset quality reflecting further credit normalization and parameter updates, and methodology changes in preparation for Basel III reforms. Market Risk RWA decreased $3.4 billion, or 15%, reflecting lower exposures and tightening credit spreads. The leverage ratio was 4.8% this quarter, and the LCR ratio was 141%, 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 18.

Gross impaired loan formations increased by 2 basis points, to 16 basis points quarter-over-quarter, driven by Canadian Commercial Banking, primarily related to a new formation in the health and social services sector, and some further normalization of credit performance, largely reflected in the Canadian and U.S. consumer lending portfolios. Please turn to Slide 19.

Gross impaired loans were stable quarter-over-quarter and remained at cyclically low levels. Please turn to Slide 20.

Recall that our presentation reports PCL ratios both gross and net of the partner's 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 3 basis points quarter-over-quarter to 32 basis points. The increase was largely recorded in the Canadian Personal and Commercial Banking segment. Please turn to Slide 21.

The Bank's impaired PCL was $553 million, an increase of $99 million quarter-over-quarter and primarily related to some further normalization of credit performance largely reflected in the consumer lending portfolios. The Bank's current quarter impaired PCL rate remained well below 2019 levels. Performing PCL of $137 million this quarter was largely recorded in the Canadian Personal and Commercial Banking and Wholesale Banking segments. Please turn to Slide 22.

The allowance for credit losses increased by $113 million quarter-over-quarter, reflecting volume growth and credit conditions, including some deterioration in the economic outlook, partially offset by the impact of foreign exchange. The Bank's allowance coverage remains elevated to account for ongoing uncertainty relating to the economic trajectory and credit performance.

In summary, the Bank's credit performance was strong again this quarter. However, as anticipated, key credit metrics continue to rise from cyclically low levels experienced last year, with this trend most evident in the consumer lending portfolios. Looking forward, while results may vary by quarter, I continue to expect total PCLs to be in the range of 35 to 45 basis points in 2023, as credit performance continues to normalize, and we progress along the economic path. 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]. And the first question is from Meny Grauman from Scotiabank.

Meny Grauman – Scotia Capital – Analyst

Few questions on First Horizon, Bharat, you addressed it in your opening comments in terms of renegotiating of the contract. I'm just wondering what extension date are you looking for, for that new contract?

Bharat Masrani – TD – Group President and CEO

Meny, we've just started those conversations. I think it's premature for me to give you any specific dates. We are thinking through as to what might be appropriate and when the timing is right, we will certainly let you know.

Meny Grauman – Scotia Capital – Analyst

And just as a follow-up to that, as a result of these negotiations, could the purchase price change? Is that something that is a potential?

Bharat Masrani – TD – Group President and CEO

Well, we've just initiated the negotiations. And once the negotiations are finalized, we will be sure to give you further details.

Meny Grauman – Scotia Capital – Analyst

Okay. And then just a final one on the same topic. Just wondering about the nature of the delay given that the fact that the commentary that we're hearing comes so soon after the contract was extended to the end of May. So I'm wondering, is the issue a procedural issue? Or is it something more substantive? How would you sort of describe the delay as you see it?

Bharat Masrani – TD – Group President and CEO

As we've discussed previously, we are really excited about this transaction. We worked very hard to date and continue to work very very hard. And our planning for integration continues. We've set up an integration management office. I was thrilled that we announced our Community Benefits Plans very recently, which was very important for the communities in which we operate. So really excited about what this transaction does for our U.S. franchise.

As far as timing goes, unfortunately, I can't tell you any more than what I've said in my remarks. Yes, we did extend the deal till May 27th since then. We believe that we will not be able to close this transaction by that date and therefore, as you would expect us to, have started to talk about an extension with First Horizon.

Doug Young – Desjardins – Analyst

Just a few CET1 related questions. I mean, TD had negative organic capital generation this quarter about negative 20 basis points so just a few items I want to get some clarity on. Hoping you can dig into the asset quality drag of 21 basis points. Is that just normal migration? Or can you kind of elaborate.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yes, it's Ajai. So let me take asset quality. You would have noticed the increase there is $6.8 billion. And there are really two drivers of that. One is normal course non-retail parameter updates that were made. And we make these annually, so we actually put it through in Q1. And then the second driver is credit normalization and as I said in my prepared remarks, that credit normalization is occurring largely in the consumer portfolios, both for Canada and the U.S. Hopefully that's helpful.

Doug Young – Desjardins – Analyst

It is. Can you split the two in terms of which one was more impactful?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yes, I would say about 40% is the parameter updates. The balance is credit migration.

Doug Young – Desjardins – Analyst

Okay. And then second, the CET1 impact from the Basel III changes coming in Q2, it looks like you had parameter updates, because of Basel III that came through in Q1 -- can you talk about is there additional hit or benefit that you're going to have in Q2 from the upcoming Basel III changes?

Kelvin Tran – TD – Chief Financial Officer

It's Kelvin. I'll take that one. Correct. In Q2, we expect the impact of Basel III to be small either way.

Doug Young – Desjardins – Analyst

Okay and I know, Bharat, you said this and Kelvin, you said this, I mean with First Horizon, CET1 comfortably above 11%. I guess the question I've got is, would that be the case even if the deal closed right now? And does that factor in any other actions? Like does that factor in selling additional stakes in Schwab? Does that factor in with loan sales? I'm just curious if you can give some context to what that means because I think that's one area that I'm getting a lot of questions on.

Bharat Masrani – TD – Group President and CEO

Well, Doug, let's look at -- and I heard some of the noise around capital. Let's look at what TD's record has been on this. I mean, look at the last couple of years, our internal capital generation earnings less dividends is a simple way to do it. It's about 40 basis points per quarter. The DRIP contributes about 13 basis points per quarter. That allows us to support our customers' activity through RWA growth, which over the last five quarters is about 15 to 20 basis points. The first quarter was unusual because I think Ajai provided some of the explanations to you.

So the Bank's capital flexibility is immense and that's why I was quite happy to say that at the closing of First Horizon we will be comfortably over 11%. But as you can see, there's a pathway to a much higher capital level, and that will depend on what the requirements are that will be announced from time to time.

So feel very comfortable with where the Bank's position is on capital. We have a lot of capital levers as well. And so I think the noise around this, I'm not sure that I really understand.

Doug Young – Desjardins – Analyst

Well, I guess maybe just to ask it another way, is that comfortably above 11% organic?

Bharat Masrani – TD – Group President and CEO

That's my view. Yes, I've said this that we think we're going to be over 11% -- comfortably over 11% and then I gave you some of the calculations as to why it even goes higher over time, so we feel very comfortable with our capital position. And I know, Doug, you didn't ask, but Meny asked me what negotiations would be. And I'm not going to talk about any specific issues on those negotiations with First Horizon. We've just started a discussion. We have a fantastic relationship. It's a great franchise. And so we'll see where we get to.

Gabriel Dechaine – National Bank Financial – Analyst

Well, actually, Doug asked pretty much all the questions I had, but just to put a fine point on that, there's no contemplating doing what you did ahead of the Cowen transaction and selling down any Schwab? You might be confused by the feedback on capital, I guess. But -- it has to do with where you ended up this quarter versus where people expected you to end up and then applying the pro forma impact of Cowen and First Horizon and you get to a number closer to 11%. I just want to know what you have in the back of your mind or we'd like to know just to get more comfortable with that comfortably above 11% figure?

Bharat Masrani – TD – Group President and CEO

I'm not sure how you calculate your numbers, Gabe. So at some point, I'll get a chance to look at your numbers. But the numbers I gave you, there is a pathway here for TD to be in excess of 12% by next year. And this is even after closing First Horizon and Cowen. And so when you look at the first fiscal half of next year, we think we have a clear pathway to be over 12%. And if the timing were to change, we've got other capital levers. So I don't know what else I can tell you to clarify it further. I mean that's the way we are thinking about it and feel very comfortable.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. Well, how about this then? Some recent events in the Canadian banking space have led some banks to target a minimum capital level of 11.5%. Are you suggesting that temporarily, anyway, you would be -- let's say, 11% or just slightly above that. You're fine being at that level and working your way to 12% organically -- post-transaction closing. Is that correct?

Bharat Masrani – TD – Group President and CEO

Well, there are a lot of assumptions you are making there. I'm giving you even after closing First Horizon and Cowen, we would exceed 12% in the first fiscal half of next year. If the timing were to change, we've got other capital levers, as you know. I thought I'm being very clear, Gabe.

Ebrahim Poonawala – BofA Securities – Analyst

Bharat, just wanted to follow up on the deal. Two questions. One, should we be concerned that maybe there is a supervisory issue in the U.S. that could have an impact on your organic business in the United States as we think about TD Bank USA, your ability to grow or any of that? Can you answer that question?

Bharat Masrani – TD – Group President and CEO

Ebrahim, I can't comment on our confidential discussions with our regulators. That is an area that no bank ventures into. But with respect to First Horizon, we continue to work with our regulators as part of our application process, and we continue to do that. I can't comment any further.

I think the other questions you're asking me are hypothetical in nature. We continue to grow our bank, Leo does a great job, six new stores were opened and I'm sure Leo would be happy to answer the loan growth we're having and the tremendous momentum we have in the U.S.

Ebrahim Poonawala – BofA Securities – Analyst

Right. No, I think again, Bharat, I'm sure you appreciate we are in uncharted waters here. The only proxy parallel comes to mind is M&T Hudson City, which took three years between announcement and close. And I think that's what some investors are trying to handicap.

Maybe, I guess, the second question for you as someone putting up US$13.4 billion to buy First Horizon. Just talk to us how do you get comfort around franchise attrition, right? Like have you heard about that from investors? It is an extremely competitive market. If I'm an employee at First Horizon getting called from 15 other banks, like how do you retain that and make sure there's not meaningful attrition in the franchise if, let's say, the deal timing gets pushed out by 12 months?

Bharat Masrani – TD – Group President and CEO

Again, I can't comment on timing but when we announced the deal, the structure we had put in place was to make sure that we've got more than adequate retention, and we feel happy about that. First Horizon as a franchise continues to perform in line with expectations as shared during the acquisition announcement in February of 2022. We are very happy with the transaction and continue to work hard to get it over the closing over the finish line.

Scott Chan – Canaccord Genuity – Analyst

I'll stay away from First Horizon and maybe concentrate on Cowen. Riaz, on Cowen what are you seeing on the ground there in terms of now and when you announced the transaction? I know it's been difficult capital markets, but is Cowen going to be operated separately still? Or do you still have collaboration or some integration plans between the two?

Riaz Ahmed – TD – Group Head, Wholesale Banking

Scott. Look, first, on the closing yesterday, I cannot demonstrate to you the amount of exuberance that both the TD Securities leadership and folks and Cowen leadership and folks were feeling yesterday. There was just an amazing amount of energy in the room as we announced the closing. We've done a lot of pre-integration work. And coming into the closing, there will be some short period of time, let's say, a few weeks during which we need to continue to operate separately in order to finish all our regulatory and functional and business model organization structures as we bring the broker dealers together. And then we'll lead towards a full integration soon after that.

So I'd say people are very excited to go. We've got an early operating model in place, a go-to-market strategy in place and there's just a tremendous amount of excitement. I'd say even more yesterday than we had at the date of the announcement 7 months ago. So it's really, really exciting, and we're feeling very positive about it. And Jeff Solomon and his team as well as the TD Securities leadership, just very excited to get together and get on with growing our business.

Scott Chan – Canaccord Genuity – Analyst

Have you passed out any cost or revenue synergies over the medium term? I assume it's mostly the latter potential. And I don't know if there's examples that you see right now on it?

Riaz Ahmed – TD – Group Head, Wholesale Banking

Yes. I'd say we're basically at the same place we were at the time when we announced the transaction, Scott, when we talked about having $300 million to $350 million of revenue synergies, and we said that we would add about US$100 million in net income by year three. And as you know, we did not announce any expense synergies at the time of the transaction.

Paul Holden – CIBC – Analyst

I'll limit myself to one question on First Horizon. I want to try something very specific as I understand you're not going to comment on more general type questions. The OCC released its schedule of Community Reinvestment Act evaluations on February 28th so that date is obviously interesting between when you provided the last update and the more current update. And that schedule shows that TD will be reviewed in September of this year. Are the results of that evaluation something that's required for this merger approval? Is that one of the potential reasons for the delay?

Bharat Masrani – TD – Group President and CEO

Yes. Let's not talk about the delay in First Horizon, because I think I've said enough on that. Regarding CRA, our current rating is outstanding. And when you say that the exams will be done in September, I don't know, Leo, I think this is the longest exam period that goes on before you get any reports back.

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

Yes. And Paul, just to be clear, on an annual basis, the OCC will review an institution on a number of different risk ratings, including their CRA rating. So that is the standard operating procedure, that's not tied to any transaction. It's part of the normal regulatory review process.

Paul Holden – CIBC – Analyst

Understand. That's helpful. A question on deposits. We saw a drawdown in average deposit balances in the U.S., both retail and business. And I was wondering if you can give us any characterization on how you view current deposits between, let's say, excess savings and core deposits? And I guess what I'm really trying to get at is, where do we think the deposits stabilize maybe in terms of when and what level? Any insight you could provide there would be, I think, helpful.

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

I'll take that one. Thanks for the question. I think what we are seeing, as a result of the increase in rates is just building rate sensitivity. I think earlier over the past two quarters, we were seeing a little bit of the excess savings from the pandemic relief efforts being drawn down or consumed. I think what you're seeing now is just the natural rate sensitivity in terms of where rates are and your more rate-sensitive clients. So think in the consumer side, your mass affluent high net worth clients and on the commercial side, your more institutional clients, looking for either more attractive higher priced deposit solutions or in some cases, off balance sheet investment alternatives. So you're seeing that play out and I would expect as long as rates continue to be where they are and or continue to increase, I think you'll see some degree of rate sensitivity. I will point you though to the composition of the U.S., we are a very liquid institution, our excess deposit position is quite strong and then the composition having a strong core checking account base in our retail and commercial businesses, should make us more resilient over the cycle. So from my standpoint, I think we've got a very strong franchise and we continue to acquire clients at a very healthy clip. Just to give you one final stat, this quarter, just on a year-on-year basis, core checking account volumes were up 13%. So we're continuing to see strong momentum there and I would expect us to be able to continue to grow the franchise.

Paul Holden – CIBC – Analyst

That's helpful and then follow-up to that, Leo and this will be my last question, in terms of that movement out of deposits and into wealth products or as you call the off balance sheet, is this an opportunity to grow that wealth franchise in the U.S.? I think it was one of your strategic priorities when you moved down there, are you seeing increasing opportunity?

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

I'll start. I'll certainly ask Ray to chime in. But growing the Wealth franchise in the U.S. is absolutely one of the key priorities and I would describe that on a number of different fronts. We have got the mass affluent opportunity in the stores themselves and Ray can talk a little bit more about the fact that we are growing our financial advisers in the stores. There's the continued growth of the high net worth franchise aligned with our retail business. And increasingly, we are seeing nice success in terms of the collaboration that's taking place between our Wealth and Commercial Banking teams. In fact, we did see some outflows in the Commercial Banking deposit front. What I didn't mention to you is that US$1.3 billion over the last two quarters of that outflow ended up in our Wealth franchise. So we are systematically trying to retain that client wallet inside the franchise and that will be a big area of focus for us going forward. Ray, I don't know if there's anything you'd like to add.

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

The only thing I'd add, Paul, is in Canada we have figured out a model that generates significant partnership between our Branch Banking and Wealth Management and we're taking that model into the United States and as Leo said, targeting the mass affluent clients and we have a significant customer base within the TD AMCB that are mass market clients. We have seen a dramatic increase now in referrals from our stores to our wealth advisers, and we are continuing to scale our advisers in the U.S. and we now have 300 advisers moving to 400 advisers by the end of this year. And what I would tell you is, on a monthly basis we are continuing to see momentum and we suspect, we will continue to drive growth in our U.S. Wealth franchise as we move forward.

Sohrab Movahedi – BMO – Analyst

Maybe just if we can go to Michael Rhodes and talk about the deposit trends in Canada and what you expect to happen there first, please?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Sure, absolutely. I'll start, I mean, just as Leo mentioned, clearly, rate sensitivity in the higher rate environment is picking up. That being the case, our strategy has been and continues to be gathering core franchise accounts and think of the chequing account as really the anchor of that. We have seen very strong account acquisition over the past quarter, actually recently, and this is being driven by a record number of New to Canada chequing accounts for Q1. And so we are seeing very strong flows coming in.

And the result of that is we are seeing that our non-term share of deposits across the industry is actually increasing at a very nice pace – actually on a year-over-year basis of about 90 basis points of share gain for non-term share of deposits. Now the overall industry that you're seeing some mixed shifts, if we were to look at industry data, I think, what you would actually see is that our mix shift has been much more moderate, and we have been using very disciplined pricing across our depository products and we have been pleased with how this has performed. And when you look at the NIM for Canadian Personal and Commercial Banking, I think, that provides evidence that this is being well managed.

Sohrab Movahedi – BMO – Analyst

Do you expect the competitive dynamics still allow you to exercise that discipline? Or do you think eventually you will have to give into it?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Well, so the competitive dynamic ebbs and flows as you can imagine, week-to-week, month-to-month. And I'd say right now, we have been very disciplined in terms of our pricing and has performed well for us. And I don't see any real changes that are coming in the near term.

Sohrab Movahedi – BMO – Analyst

Kelvin, given the dynamic potential closing timing of First Horizon, does your hedging, whether it's capital or interest rates, or the like, does that dynamically role forward? Is there going to be any incremental cost associated with that? Or how should we be thinking about that?

Kelvin Tran – TD – Chief Financial Officer

Yes. We will continue to dynamically roll that forward. And as we've talked about earlier, the biggest hedge on the interest rate is something that we already have on the books and we will continue to role that forward and the cost is minimal. And then we also have the FX hedge as well, and we'll role that forward, too.

Sohrab Movahedi – BMO – Analyst

So no material, incremental or marginal risk -- or cost, sorry -- associated with it?

Kelvin Tran – TD – Chief Financial Officer

Right.

Sohrab Movahedi – BMO – Analyst

And just lastly, I mean, Bharat, last quarter I think when you finished off the year, in your remarks you commented that it could even be that in 2023 the Bank can deliver EPS within its median term growth targets. Do you still expect that to be the case?

Bharat Masrani – TD – Group President and CEO

So I think last quarter when I said that, we said given the rate momentum and the anticipated closing of the announced acquisitions, those are certainly tailwinds for us, and as well as the volume growth that we have just delivered. There are headwinds, of course. There are geopolitical tensions, it's a complex operating environment and potential economic slowdown. So on balance, I said at that time, unless things change, we should meet that and there was a chance we would exceed it. So we'll see. We are very happy with our first quarter. Organically, the Bank delivered 8% earning growth. So very pleased with that. You saw some of the numbers. And I think folks have talked about some of the loan numbers we are seeing and our ability to attract noninterest rate sensitive deposits, which is a core strength of the Bank and continued momentum on the Wealth and Insurance side.

So very happy with how things have started off in the year. Let's see how the next three quarters go. And then we can look back and say, alright, out of the headwinds, which ones came to pass and then out the tailwinds, which ones came to pass and then we can talk about it then. If we have exceeded it even more as to why that happened. And if we haven't met it, then we will explain what caused that.

Mike Rizvanovic – KBW – Analyst

I want to ask Michael Rhodes, what is your outlook on the RESL book in Canada. What kind of growth is in the cards for 2023?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Great question. Clearly you know that the number of sales and purchases of homes in Canada has gone down, and recent data supports that. As we look across 2023, we'd expect that RESL growth to be in the low- to mid-single digits range for the year.

Mike Rizvanovic – KBW – Analyst

Okay, so I guess that's consistent with what we heard from some of the other banks. Just looking at your portfolio, looks like it was down a little bit sequentially or let's just call it, flat quarter-over-quarter. And as I look at some of the large cities that have reported the Fed data for sales, it's still down plus 40% year-over-year. I'm wondering where would you see that growth coming from? What's baked into that assessment when you say low to mid-single digit, it seems quite optimistic given the state of the market right now.

Michael Rhodes – TD – Group Head, Canadian Personal Banking

A couple of things that come into play there. You're right, for the quarter, sequentially, we were basically flat. As you look going forward, there are a couple of things. One is the first quarter, of course, is seasonally a relatively low quarter. The second is as I just look into our pipelines on a go-forward basis, I'm feeling more optimistic about things on a go-forward basis. We see our advisers are being quite productive, and we're making some operational enhancements to our processes. And so the data, I look at, gives me some optimism on a go-forward basis, recognizing the market is soft. And if the market softens up a whole bunch more than I might change my tune, but just given what I see today, I think that's achievable.

Mike Rizvanovic – KBW – Analyst

Okay, and Bharat, I just had a really quick follow-up for you on your earlier comment about the 12% CET1 level. I think what you said was the midpoint of 2024. I'm not going to ask you about the First Horizon timing or anything like that. But when you say 12% by middle of next year, is that based on the assumption of TD's normal course, typical environment where you get that 15 to 20 basis points quarter-over-quarter sequential organic generation?

Bharat Masrani – TD – Group President and CEO

Yes, Mike.

Lemar Persaud – Cormark – Analyst

It seems like the Bank is not going to be able to answer most of my questions on First Horizon right now, but maybe I'll try one of them. In the outside chance the deal doesn't get regulatory approval or an agreement to extend isn't achieved, would it be fair to suggest the $435 million termination fee would not apply in this case?

Bharat Masrani – TD – Group President and CEO

I think the deal terms are in the document that we filed, and Lemar, best for you to check that as to what the technicalities are there, in that all the details around it.

Lemar Persaud – Cormark – Analyst

Okay. And then maybe turning to Canadian Personal and Commercial Banking. Can you talk to what's driving the weaker business deposit growth? It looks like it's a drop for two consecutive quarters. Would it be fair to suggest this is just the deployment of some excess COVID deposits?

Paul Douglas – TD – Group Head, Business Banking

Yeah, it's Paul. Thanks, Lemar. If you look back to the early part of the pandemic, you would see that TD outgrew most of the banks for quite a while in the early part of the pandemic. Some of that is just the reversal of that now that we've ended. And that has to do with the makeup of our book compared to others. And then in addition, as Leo spoke about, there is a seek for yield here going on. We're not losing any accounts. The core business is quite strong. Some of the excess deposits that our Commercial Bank customers hold are chasing yield and our policy has always been to be very disciplined around margins. And so we have lost some deposits.

Joo Ho Kim – Credit Suisse Securities – Analyst

Just wanted to go back to your net interest margin comment. You had mentioned that it may moderate in terms of improvement from here. And when I look at the results this quarter, you were up 2 basis points sequentially at the all bank level. So I'm curious, is that sort of the improvement that we should think about as we go forward, that maybe 1 to 2 basis points on the low single-digit improvement? Just curious if you could quantify what you see for the remainder of the year?

Kelvin Tran – TD – Chief Financial Officer

It's Kelvin. I'll take that. The 2 basis point quarter-over-quarter that you mentioned, it's the all-inclusive NIM. And so we typically look at non-trading NIM, and when you adjust for that, the quarter-over-quarter expansion is a positive 6 basis points. And so last quarter, in Q4, the margin expansion was 12 basis points and then this quarter, 6 basis points, and you expect that to moderate, and we expect that the margin expansion continues to be positive for the remainder of 2023, but the trend is going to be similar, that it is going to be moderating.

What I would like to note though is that a lot of people focus only on short-term rates. And as you know, we had a significant increase in short-term rates over the last few quarters. Forwards would indicate that there's still some to come, but less than before. But I would like to note that the long-term rate also matters. So if you look at Page 27, -- in Canada, the relevant rate is 5 years in the U.S. it is 7 years. These tractors do reprice over time. And the on rate is higher than the off rate. And so what that means is that even if short-term rates do not go up, everything else being equal, the repricing of the tractors will continue to support margin expansion.

Nigel D'Souza – Veritas Investment Research – Analyst

The first one I had for you was on your performing credit loss provisions this quarter. I noticed that there was a build in the Canadian Personal and Commercial Banking segment, but a reversal in U.S. Retail. Just wondering what drove that because typically, we don't see a divergence in performing PCLs across those segments.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Nigel, it's Ajai. So let me respond to that. What I would say is you've got to look at these trends over a longer period. But if you actually go and look at the year-over-year numbers, you'll find impaired and performing are up both in Canada and the U.S. You're right in pointing out that this quarter, U.S. performing actually came down. There are really two reasons for that. One is we had repayments of some high-risk loans. So the associated allowance got released. And the second reason is we made a methodology update relating to consumer loans, where we found we were over predicting the move from Stage 1 to Stage 2. So we put that correction in which led to a reversal. So if you exclude these two, you would have actually seen a small performing build in the U.S. as well.

Nigel D'Souza – Veritas Investment Research – Analyst

That's helpful. And then the last question I had just quickly was on variable rate mortgages. Any update on the portfolio, how it's tracking? And just a question of the monthly mortgage payment. Just trying to understand if the higher rates leads to an immediate pass-through of an increase in the monthly mortgage payment or if a proportion of it is capitalized and then passed through later on to the trigger point? Just trying to understand the dynamics of how the monthly payments are tracking relative to mortgage rates for variable.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

I can start generally with credit quality, and then I'll pass it on to Michael Rhodes. So what I would tell you is, generally across the RESL book, our credit quality is strong. So if I look at delinquencies, and I see the quarter-over-quarter change, it's nominal. It's basically one bp of that due to HELOC. Formations, RESL is flat; charge-offs, I would say, near zero.

So if I look at quality in many different ways, the quality is strong. The books we are watching, we're definitely watching the variable interest rate mortgages, in particular, the trigger point population. We are watching rate renewal risk across both the variable and fixed books as well. But overall, we're seeing strong quality. We're actually seeing customers come forward when they hit the trigger rate. And keep in mind when they hit the trigger rate, there's no requirement to repay us, but we are very encouraged by what we are seeing, where they are voluntarily coming forward and making principal payments. But I'll pass it to Michael for a few minutes.

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Ajai, I think you touched a bit about the dynamic of how our variable mortgages work in that as rates go up, that the amount you amortize basically is going down until you could reach a point where you do end up with negative amortization and your loan base has some capital added to it each period. And then either at a trigger point or at renewal, things get reset.

Nigel D'Souza – Veritas Investment Research – Analyst

And just to clarify, I assume that trigger point is 105% of some sort of loan balance amount. Is that how it works?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

It depends if it's a HELOC or if it's a mortgage. For mortgages, it's linked to your loan to value at I think 80%.

Nigel D'Souza – Veritas Investment Research – Analyst

80% uninsured, I think it's 105% for insured? Or is it the same for both?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

It's 105% for the other one.

Darko Mihelic – RBC Capital Markets – Analyst

Just a quick numbers question for Leo. I'm looking at the U.S. Retail segment and the noninterest income I realize overdraft fees are significantly lower. But when I look at this quarter's number, is it fair to say, Leo, that this is about the bottom? Or is there still some more downside to this line item?

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

Darko, thanks for the question. We have fully implemented all the overdraft measures that we identified last year. And so this quarter, you're right to say that you're seeing the full impact of all those changes. And includes the daily limit of overdraft charges, that includes the change in the threshold, which a client begins to incur an overdraft, the 24-hour grace period, the NSF elimination fee, all of those, you've got a full quarter worth of impact. So this is the bottom. I would expect, to your point, as we continue to grow our core checking and cards base that we would see additions to our fee income line.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Great. That's very helpful. A question for Bharat. You've given us a rough road map to 12% CET 1. There is, of course, a small possibility that the regulator increases the DSB this summer in June. With 50 basis points, let's say, pretend increase, do you have the capability of overcoming a 50 basis point increase in the minimum ratio? Or would you need to raise equity for that?

Bharat Masrani – TD – Group President and CEO

We have capability to meet that if that turns out to be the case. But these are hypothetical questions, but you asked me a straight question, I gave you a straight answer.

Ebrahim Poonawala – BofA Securities – Analyst

Just two quick follow-ups. One, Leo just sticking with the U.S. noninterest income, any sense of the impact if there are changes instituted to credit card late charge fees, what that would mean for TD?

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

Yes. Thank you very much, Ebrahim. Obviously, the CFPB has come out with some proposed rulings. It's still early. I expect there to be some evolution in terms of what that final proposal is going to look like. So I'd prefer not to speculate at this point in time in terms of the total impact. What I would say is credit card late fees as a percent of our total U.S. Retail revenues is a relatively small percentage. So in any event, it would be manageable.

Ebrahim Poonawala – BofA Securities – Analyst

That's helpful. And just one quick one, Riaz for you. We've seen a significant growth in the loan book in Wholesale Banking. Do you expect that to be sustainable? What's the driver of that?

Riaz Ahmed – TD – Group Head, Wholesale Banking

Well, Ebrahim as you know, over the course of the last four or five quarters, there's been a lot of loan demand, and we are in a fortunate position of being able to be particularly selective and grow our client base, particularly in the United States in accordance consistently with our strategy. And we're earning very good returns on those new originations. So it's really about taking market share at a time when we're able to.

Ebrahim Poonawala – BofA Securities – Analyst

And just on market share, Riaz. It's a difficult period for a bunch of investment banks right now. Is there a strategy to grow up and beyond their existing verticals and selectively hire bankers and capabilities and maybe be aggressive on that over the next 12 months or so?

Riaz Ahmed – TD – Group Head, Wholesale Banking

I think we have to pace that appropriately with the integration work and bringing the two firms together. But look, I think there are opportunities. We're always open for them right now. We're in a good position to do that. But I think that for the next let's say, quarter or two, the focus will be on getting the integration correct and finished.

Operator

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

Bharat Masrani – TD – Group President and CEO

Thanks so much. Thanks very much, operator, and thank you, everyone, for joining us this afternoon. Again, a great quarter from TD, terrific, 8% earnings growth, $4.2 billion in earnings. So very happy with the start to the year. And once again, I want to take this opportunity to thank our TD bankers around the world for once again delivering for all of our stakeholders.

And Paul, congratulations again, 47 great years at the Bank, and it's a good thing you're not going away far. So we look forward to working with you in your other capacities at the Bank. And Barb, congratulations on your new position with the Canadian Commercial Bank. Thank you, and we'll see you in 90 days.