TD BANK GROUP
Q1 2022 EARNINGS CONFERENCE CALL
MARCH 3, 2022

DISCLAIMER

FORWARD-LOOKING INFORMATION

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

By their very nature, these forward-looking statements require the Bank to make assumptions and are subject to inherent risks and uncertainties, general and specific. Especially in light of the uncertainty related to the physical, financial, economic, political, and regulatory environments, such risks and uncertainties – many of which are beyond the Bank's control and the effects of which can be difficult to predict – may cause actual results to differ materially from the expectations expressed in the forward-looking statements. Risk factors that could cause, individually or in the aggregate, such differences include: strategic, credit, market (including equity, commodity, foreign exchange, interest rate, and credit spreads), operational (including technology, cyber security, and infrastructure), model, insurance, liquidity, capital adequacy, legal, regulatory compliance and conduct, reputational, environmental and social, and other risks. Examples of such risk factors include the economic, financial, and other impacts of pandemics, including the COVID-19 pandemic; general business and economic conditions in the regions in which the Bank operates; geopolitical risk; the ability of the Bank to execute on long-term strategies and shorter-term key strategic priorities, including the successful completion of acquisitions and dispositions, business retention plans, and strategic plans; technology and cyber security risk (including cyber-attacks or data security breaches) on the Bank's information technology, internet, network access or other voice or data communications systems or services; model risk; fraud activity; the failure of third parties to comply with their obligations to the Bank or its affiliates, including relating to the care and control of information, and other risks arising from the Bank's use of third-party service providers; the impact of new and changes to, or application of, current laws and regulations, including without limitation tax laws, capital guidelines and liquidity regulatory guidance and the bank recapitalization "bail-in" regime; regulatory oversight and compliance risk; increased competition from incumbents and new entrants (including Fintechs and big technology competitors); shifts in consumer attitudes and disruptive technology; exposure related to significant litigation and regulatory matters; ability of the Bank to attract, develop, and retain key talent; changes to the Bank's credit ratings; changes in currency and interest rates (including the possibility of negative interest rates); increased funding costs and market volatility due to market illiquidity and competition for funding; Interbank Offered Rate (IBOR) transition risk; critical accounting estimates and changes to accounting standards, policies, and methods used by the Bank; existing and potential international debt crises; environmental and social risk (including climate change); and the occurrence of natural and unnatural catastrophic events and claims resulting from such events. The Bank cautions that the preceding list is not exhaustive of all possible risk factors and other factors could also adversely affect the Bank's results. For more detailed information, please refer to the "Risk Factors and Management" section of the 2021 MD&A, as may be updated in subsequently filed quarterly reports to shareholders and news releases (as applicable) related to any events or transactions discussed under the heading "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 2021 MD&A under the headings "Economic Summary and Outlook" and "The Bank's Response to COVID-19", under the headings "Key Priorities for 2022" and "Operating Environment and Outlook" for the Canadian Retail, U.S. Retail, and Wholesale Banking segments, and under the heading "Focus for 2022" for the Corporate segment, each as may be updated in subsequently filed quarterly reports to shareholders.

Any forward-looking statements contained in this document represent the views of management only as of the date hereof and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities and anticipated financial performance as at and for the periods ended on the dates presented, and may not be appropriate for other purposes. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf, except as required under applicable securities legislation.

CORPORATE PARTICIPANTS

Bharat Masrani
TD Bank Group – Group President and CEO

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

Kelvin Tran
TD Bank Group – Chief Financial Officer

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

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

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

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

Riaz Ahmed
TD Bank Group – Group Head, Wholesale Banking

Brooke Hales
TD Bank Group – Head of Investor Relations

CONFERENCE CALL PARTICIPANTS

Gabriel Dechaine
National Bank Financial – Analyst

John Aiken
Barclays Capital Canada – Analyst

Mike Rizvanovic
Stifel Nicolaus Canada – Analyst

Meny Grauman
Scotia Capital – Analyst

Ebrahim Poonawala
BofA Securities – Analyst

Paul Holden
CIBC World Markets – Analyst

Nigel D'Souza
Veritas Investment Research – Analyst

Sohrab Movahedi
BMO Capital Markets – Analyst

Scott Chan
Canaccord Genuity – Analyst

PRESENTATION

Brooke Hales – TD – Head of Investor Relations

Thank you, operator. Good afternoon, and welcome to TD Bank Group's first 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 first 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 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 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. I'd like to welcome Michael Rhodes, Group Head, Canadian Personal Banking, and Leo Salom, President and CEO, TD Bank America's Most Convenient Bank, who are joining us for the first time. We are also including two additional participants on the call beginning this quarter – Paul Douglas, who leads Canadian Business Banking, and Ray Chun, who leads Wealth and Insurance. They are here to answer more specific questions you may have about their businesses and results.

Before we review the quarter, I want to once again express to all Ukrainians around the world and across our footprint our sincere hope that the violence will come to an end as soon as possible. To help support humanitarian efforts, we have donated more than a quarter million dollars to agencies who are on-the-ground providing urgent care to the people of Ukraine. TD customers can make donations to the Canadian Red Cross in our branches in Canada – and soon, to the American Red Cross in our U.S. stores. Together, our collective efforts can make a real difference.

Let me now turn to our first quarter performance.

Q1 was a great quarter for TD. Earnings were $3.8 billion, and EPS was $2.08 – up 13 and 14 per cent, respectively, from the first quarter of last year. Revenue increased across our retail and wholesale segments, as customers and clients brought us more of their business, and PCL remained low, reflecting good credit performance against the backdrop of an improving economic outlook.

Reflecting these strong results, our CET 1 ratio ended the quarter at 15.2 per cent, including a 17-basis-point impact from the repurchase of 7.5 million common shares during the quarter.

Our proven business model – anchored by our diversified business mix, North American scale, and risk discipline – has enabled us to continue to invest in transforming the Bank for the digital age.

This quarter, we announced an acceleration of our strategy to establish an enterprise level data platform on Microsoft Azure. This initiative to modernize our data infrastructure, which includes a multi-year agreement with Databricks to unlock data at scale, will further enhance our analytical capabilities and deliver richer insights – driving better customer experiences and enabling colleagues to collaborate with more agility across the Bank.

We are also investing in our colleagues, building on our brand as an employer of choice for top technology talent. We are hiring for more than 2,000 technology roles in 2022 to drive investments that will help power the future of banking, with a focus on skills in cloud, machine learning and automation. As we continue to evolve the colleague and customer experience, growing and empowering skilled technology talent will remain a cornerstone of our forward-focused strategy.

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

Our Canadian Retail segment earned $2.3 billion, delivering record revenue and earnings. The Personal Bank had a strong quarter. In our real estate secured lending business, we have been encouraged by the early response to the introduction of our popular FlexLine hybrid lending product into the broker channel in January. Our Cards business is performing very well. Balances rose year-over-year for the first time since Q1 2020, and card retail sales were up 23% year-over-year. Our customers are highly engaged with our loyalty programs – including our Amazon Shop with Points offer, where we've seen approximately 2 million redemptions to date. Even as we continued to grow personal deposits, we took market share in mutual funds, as we leveraged our One TD strategy to help more Canadians meet their long-term investing goals. And we strengthened our New to Canada offering, bundling a digitally convenient way to send money to over 200 countries via our award-winning TD Global Transfer service. Since launch, we have seen increased customer acquisition and volume growth, with over 200,000 customers conducting more than 1.8 million transfers to date. It was also a very strong quarter for the Business Bank, with double digit growth in both loans and deposits. In our Wealth business, revenue increased 7 per cent, as strong net asset growth and mutual fund sales helped offset a moderation in Direct Investing trading volumes. Our Web Broker platform again took top spot among Canadian Banks in the Globe & Mail's annual ranking of digital brokers. And we are excited to have extended those capabilities into a fully mobile environment with the launch of the TD Easy Trade app this quarter. We have seen strong take-up of the app, which is designed to make investing simpler for new and emerging investors.

Turning to the U.S., our U.S. Retail Bank earned US$806 million in Q1, an increase of 31% year-over-year. Commercial loan origination volumes improved, with mid-single digit growth in middle market, offset by continued PPP run-off and lower commercial real estate exposures. Line of credit utilization rates also increased modestly quarter-over-quarter.This quarter, we piloted a next generation digital platform for U.S. commercial clients, providing them with an end-to-end view of their relationship with TD, including access to treasury applications and the ability to transact across products. We also announced additional enhancements to our overdraft policies. These build on the changes we introduced last August, including the launch of TD Essential Banking – a low-cost deposit account designed to meet the needs of unbanked or underbanked households. The latest enhancements are intended to help customers better manage their accounts and make informed financial choices. And we continue to see good take-up of our Double Up Credit Card. Double Up has become a primary driver of new bankcard accounts for the U.S. Retail Bank, with almost 100,000 accounts added to date since its launch last spring. And with the contribution from our investment in Schwab of US$200 million, US Retail segment earnings were US$1.0 billion this quarter.

Let me turn briefly to our announcement this week of the agreement to acquire of First Horizon, headquartered in Memphis, Tennessee. I was in Tennessee this week meeting with First Horizon associates, and I was incredibly impressed with the talented people I met and with their passion for their customers and communities.

Regarding our U.S. aspirations, for years I have been sharing – on these calls and elsewhere – that one of our goals is to expand in the fast-growing Southeast of the United States. This week, we delivered on that promise with the announcement of our agreement to acquire First Horizon. Upon closing, we will achieve leadership positions in key markets, strengthen our presence in states such as Florida and the Carolinas, and gain footholds in the large Georgia and Texas markets. And as you heard on Monday, First Horizon's banking centres are located in markets whose populations are projected to grow 50% faster than the U.S. national average.

First Horizon is a fantastic bank. Customer-centric. Deeply committed to the communities in which they operate. And focused on growth. Just like TD. With this acquisition, we extend our reach, acquire new commercial and specialty banking capabilities, add over 400 branches and expand to serve 1.1 million more customers.

And, as we said on Monday, we expect to achieve US$610 million in annual cost synergies. The main drivers of these savings are expected to be technology and vendor costs – as we reap the benefit of scale across our platforms and vendor relationships – and corporate real estate. With overall bank costs across the industry migrating to the center and away from the branch network over the past few years, the benefits of consolidation are increasingly achievable in market-adjacent deals without significant impacts to the front-line. As outlined in our First Horizon Investor Presentation, this transaction is expected to deliver 10%-plus fully-synergized adjusted EPS accretion in fiscal 2023 – and the deal is immediately accretive to adjusted EPS at closing.

This transaction is: Strategically compelling, financially attractive, within our risk appetite, and culturally aligned. First Horizon is a terrific fit for TD and will enable us to further accelerate our growth in the US.

Let me now return to our Q1 results.

In Wholesale Banking, earnings were $434 million this quarter. Business activity and markets remained robust, resulting in strong revenue performance and continued lower PCL. Our U.S. dollar strategy and investments continued to bear fruit and have contributed significantly to revenue growth over the last 3 years. In addition, TD Securities won several key mandates in the quarter. In Canada, we acted as joint lead bookrunner on Nestle's inaugural Canadian dollar offering, a successful $2 billion dollar issuance.
TD Securities continued to demonstrate its advisory and financing capabilities in the sustainable finance space, acting as advisor to Clearway Energy on its US$1.9 billion sale of Clearway Community Energy to KKR.

Further reflecting our commitment to embed ESG principles across our business, this quarter TD Securities' debt capital markets team partnered with a syndicate of underwriters, the majority of which were diverse-owned businesses, to lead a US$500 million green bond offering by TD Bank. This offering was the first time that a syndicate group for a Canadian bank bond offering included minority-, women- and veteran-owned businesses as active joint bookrunners. And this was just one of the deals making up a record quarter for our debt capital markets team in Financial Institutions, which participated in underwriting almost $40 billion of investment grade debt for the sector.

Overall, as I reflect on our performance this quarter, I am pleased with our strong start to fiscal 2022 and encouraged by the momentum in our businesses. It's been two years since the COVID-19 pandemic transformed the way we work and live. While there are still challenges ahead – including inflation, labor market and supply chain pressures, and serious geopolitical tensions – macroeconomic conditions remain positive as we evolve our approach to COVID-19 and economies recover. With the strength of our business model and balance sheet, we remain well-positioned to continue executing on our growth strategies.

At the same time, we know the impact of the pandemic has not been evenly distributed. In particular, it has disrupted education across North America – and the transition to alternative ways of teaching has created challenges for both students and teachers due to uneven implementation and unequal access to technology. That's why the focus of the 2021 TD Ready Challenge was on supporting innovative solutions to address predicted learning loss in math and reading for disproportionately impacted students in grades K-12. This quarter, we were pleased to announce $10 million in grants to fifteen organizations to help them develop innovative solutions to address these inequities. We are also promoting equitable and inclusive innovation through TD Lab's new Equity, Diversity & Inclusion Resource Hub, a platform to support the inclusion of the unique perspectives and experiences of different community groups into the development, design and build of our products and services. This platform has been piloted with success and we look forward to leveraging it more broadly. We also continue to focus on inclusion and diversity across the Bank, most recently through a series of well-attended Black History Month events and initiatives.

TD's commitment to diversity and inclusion – and environmental, social and governance initiatives more broadly – continues to receive recognition. This quarter, we were proud to be recognized with an "S&P Global Silver Class" distinction in the 2022 S&P Global Sustainability Yearbook, one of the most comprehensive annual publications on the state of corporate responsibility – the only North American bank to carry the S&P Global Gold or Silver Class distinctions.

Our strategy is centered on our vision, purpose and shared commitments. And I'd like to thank our 90,000 bankers across the globe who bring those commitments to life every day. Their hard work, dedication and strong performance sustains and strengthens our winning culture.

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

Kelvin Tran – TD – Chief Financial Officer

Thank you, Bharat. Good afternoon, everyone, and please turn to Slide 10. This quarter, the bank reported earnings of $3.7 billion and earnings per share of $2.02, up -- both up 14%. Adjusted earnings were $3.8 billion and adjusted earnings per share was $2.08, up 13% and 14%, respectively. Revenue increased 4%, reflecting higher volumes and fee-based revenue in the banking and wealth businesses and higher insurance volumes, partly offset by our normalization in direct investing trading activity and lower retail margins.

Provision for credit losses was $72 million. Expenses increased 3% year-over-year, reflecting higher spend supporting business growth and higher employee-related expenses, partially offset by prior year store optimization costs and the impact of foreign exchange translation. Adjusted expenses also increased 3%.

The retailer partners' net share of the profit from the U.S. strategic card portfolio did not have a notable impact on expense growth this quarter as PCL was stable across both periods. Absent the partners' share, adjusted expense growth was 3% year-over-year or 3.7% ex FX. For the same reason, the accounting for the U.S. strategic card portfolio had only a minimal impact on pretax pre-provision earnings and operating leverage this quarter. Slide 24 shows how we calculate total bank PTPP and operating leverage removing this impact, along with the impact of foreign currency translation and the insurance fair value change. Total bank PTPP was up 6% year-over-year before these modifications and 7% after reflecting strong volume growth. PTPP was up 6% quarter-over-quarter on both measures, mainly reflecting higher wholesale trading-related revenue. Please turn to Slide 11.

Canadian Retail net income for the quarter was $2.3 billion, up 11% year-over-year. Revenue increased 6%, reflecting higher fee-based revenue in the banking and wealth businesses and higher loan, deposit and insurance volumes, partially offset by lower direct investing transaction volumes and lower margins. Average loan volumes rose 9%, reflecting 8% growth in personal volumes and 14% growth in business volumes. Average deposits rose 9%, including 7% growth in personal volumes, 13% growth in business volumes and 9% growth in wealth deposits. Wealth assets increased 14%.

Net interest margin was 2.53%, down 4 basis points compared to the prior quarter, reflecting lower loan margins. Total PCL of $33 million declined $20 million sequentially. Total PCL as an annualized percentage of credit volume was 0.03%, down 1 basis point sequentially. Insurance claims decreased 3% year-over-year, primarily reflecting a decrease in the fair value of investments supporting claims liabilities, which resulted in a similar decrease in noninterest income, partially offset by more severe weather-related events. Non-interest expenses increased 8% year-over-year, reflecting higher spend supporting business growth, including technology and marketing costs and higher employee-related expenses and variable compensation. Please turn to Slide 12.

U.S. Retail segment reported net income for the quarter was USD 1 billion, up 30% year-over-year. U.S. Retail Bank net income was USD 806 million, up 31%, primarily reflecting higher revenue, lower PCL and lower noninterest expenses. Revenue increased 6% year-over-year, reflecting higher deposit volumes and margins and increased earnings on the investment portfolio and higher fee income from rising customer activity, partly offset by lower loan margins.

Average loan volumes decreased 6% year-over-year, reflecting an 11% decline in business loans, primarily due to PPP loan forgiveness and paydowns on commercial loans. Personal volumes were flat. Average deposit volumes, excluding sweep deposits, were up 13% year-over-year. Personal deposits were up 15%, including 21% growth in consumer checking. Business deposits were up 12%. Sweep deposits declined 6%. Net interest margin was 2.21%, flat sequentially as the impact of lower accelerated fee amortization from PPP forgiveness was offset by higher deposit margins and increased earnings on the investment portfolio.

On Slide 28, we've continued our disclosure on the impact of the PPP program. This quarter, PPP revenue contributed approximately USD 65 million to net interest income and 10 basis points to NIM. We expect most of this benefit to be realized by the second quarter of this year. Total PCL was USD 17 million, up $79 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 0.04%, higher by 19 basis points sequentially.

Expenses decreased 4% year-over-year, primarily reflecting prior year store optimization costs of USD 76 million and productivity savings in the current year, partly offset by higher employee-related expenses and investments in the business. The contribution from TD's investment in Schwab was USD 200 million, up 24% from a year ago. Please turn to Slide 13.

Wholesale net income for the quarter was $434 million, a decrease of 1% year-over-year, reflecting higher revenue and lower PCL, offset by higher noninterest expenses. Revenue was $1.3 billion, up 3% year-over-year, primarily reflecting robust client activity and markets. PCL for the quarter was a recovery of $5 million compared with the recovery of $77 million in the prior quarter. Expenses increased 7% year-over-year, primarily reflecting higher employee-related costs and continued investment in the Wholesale Banking's U.S. dollar strategy, including the investments in TD Securities Automated Trading, the electronic fixed income trading business we acquired from Headlands last year. Please turn to Slide 14.

The corporate segment reported a net loss of $227 million in the quarter compared with the reported net loss of $197 million in the first quarter last year. The year-over-year increase reflects a lower contribution from other items, partially offset by lower net corporate expenses. The decrease in other items primarily reflects lower revenue from treasury and balance sheet management activities this quarter. Adjusted net loss for the quarter was $127 million compared with an adjusted net loss of $94 million in the first quarter last year. Please turn to Slide 15.

The common equity Tier 1 ratio ended the quarter at 15.2%, flat sequentially. We had strong organic capital generation this quarter, which added 45 basis points to CET1 capital. This was offset by the repurchase of 7.5 million common shares under our share buyback program, higher RWA and a reduction in the scalar for OSFI's transitional adjustment for ECL, reclassified from Tier 2 to CET1 capital, which declined to 25% from 50% effective this quarter. RWA increased 2% quarter-over-quarter, mainly reflecting higher credit risk and market risk RWA. Credit risk RWA increased $7 billion or 2%, mainly reflecting higher volumes, partly offset by a decrease in U.S. Retail RWA due to a parameter update for the nonretail portfolio. Market risk RWA increased $2.8 billion or 17%, reflecting higher wholesale exposure. The leverage ratio was 4.4% this quarter, and the LCR ratio was 124%, both well above regulatory minimums.

I will now turn the call over to Ajai.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

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

Gross impaired loan formations increased 5 basis points quarter-over-quarter to 16 basis points driven by U.S. Commercial, primarily related to government-guaranteed Paycheck Protection Program loans, which are now largely resolved; U.S. RESL, reflecting loans exiting deferral programs and some early signs of credit normalization, including the reemergence of seasonal trends in the U.S. card and auto portfolios. Please turn to Slide 17.

Gross impaired loans were stable quarter-over-quarter at 33 basis points, remaining at cyclically low levels. Please turn to Slide 18.

Recall that our presentation reports PCL ratios both gross and net of the partner share of the U.S. strategic card PCLs. We remind you that PCLs recorded in the corporate segment are fully absorbed by our partners and do not impact the bank's net income. The bank recorded provisions of $72 million this quarter compared with a recovery of $123 million last quarter. The quarter-over-quarter increase reflects higher impaired PCLs rising from a cyclical low in the prior quarter, coupled with a smaller performing allowance release this quarter. Please turn to Slide 19.

The bank's impaired PCL was $329 million, increasing by $109 million quarter-over-quarter, reflecting some normalization of credit performance, including the reemergence of seasonal trends in the U.S. card and auto portfolios. Performing PCL was a recovery of $257 million compared to a recovery of $343 million last quarter. The current quarter recovery reflects additional allowance releases across all segments. Please turn to Slide 20.

The allowance for credit losses decreased $107 million quarter-over-quarter to $7.1 billion or 93 basis points, reflecting a more favorable economic outlook, partially offset by the impact of foreign exchange. The bank's allowance coverage remains elevated from pre-COVID levels given ongoing uncertainty that could affect the economic trajectory and the ultimate credit impact of the pandemic. In summary, the bank exhibited strong credit performance again this quarter, with key credit metrics remaining at or near cyclically low levels. However, as expected, early signs of credit normalization are emerging, including modestly higher early delinquencies and impairments in certain portfolios and more typical consumer behavior, including higher seasonal spending. While credit results may vary by quarter, I continue to expect PCLs to be higher for fiscal '22, increasing from unsustainably low levels last year as credit conditions continue to normalize.

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] Our first question is from Meny Grauman from Scotiabank.

Meny Grauman – Scotia Capital – Analyst

I just wanted to ask about RESL growth in Canada. Year-over-year, it's underperforming the peer group. And then when I look, that gap opened up early in the pandemic. It looks like it has actually widened recently. So, I'm wondering, as you look at that, what is your assessment of what's driving and what's the reason for that.

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Okay. Meny, this is Michael Rhodes. Nice to meet over the phone at least. So, your question about RESL, first, it's interesting when you look at the numbers and you see almost 9% RESL growth and from what I can see, was elsewhere in the market. I think that was pretty good.

But the truth of the matter is we do have an opportunity and we do expect to do better. And in terms of why, our branch network, I think everyone knows, has been a historic source of strength. And this was clearly disproportionately impacted during COVID. But then coming out of COVID, we do look to create momentum in all channels, and that's why I said we expect to do better. As ours return to normal, as our mobile mortgage specialist productivity continues to improve, and we are seeing improvement, and as we continue to invest in training, operations, account management, and again, we've seen improvements in account management and retention, and see the benefits of the recent product enhancements, such as FlexLine in the brokerage channel, Bharat had referred to this in his remarks, you will not see any actuals in our financial numbers, but we are pleased with what we're seeing there. And so I start off by saying we expect to do better, and I'll conclude with that.

The other comment I would make is if you look over the past year or so and look at the sequential performance, I think you will see some momentum. And it's certainly my job, for new enrollments, my job is to ensure that momentum continues.

Meny Grauman – Scotia Capital – Analyst

Thanks for that, Mike. And just as a follow-up, is your assessment that part of the issue is, maybe, a more cautious approach to risk? Is that something that needs to be fixed or that you've addressed?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Well, I'm sure you've heard before, we're through the cycle lenders and I think that narrative stays the same today as it has last year and a year from now. Realistically, the closing down and the loss of capacity for the branch has disproportionately impacted us. We were more reliant. And so, we've been through the cycle lenders, you're going to see us be relatively consistent with our credit approach.

Meny Grauman – Scotia Capital – Analyst

And then, just in terms of how you approach fixing the problem, you mentioned the FlexLine in the broker channel. How important is that in order to get you back to the peer range or even above?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Yeah. So, we're optimistic that FlexLine, the broker channel will drive some nice performance on a go-forward basis. At the end of the day, and I'm new to this call, you would have heard before that we'd like to be in all channels to be everywhere where our customer is. Certainly broker is a channel where we want to be. But I don't want to dismiss the importance of our core Retail franchise, and we expect to see strong performance of our core Retail franchise. And I'd also offer that our mobile mortgage specialist productivity is improving. And so, we're looking to see performance in all channels and improved performance in all channels. Broker is one of those and FlexLine will certainly be of help there.

Meny Grauman – Scotia Capital – Analyst

And just a final one, in terms of timing there, when do you think you'll be able to close that gap with the peer group?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Yeah. So, I might play the new guy card here. I don't want to get too precise on timing. I will just offer that you should expect to see continued momentum.

Gabriel Dechaine – National Bank Financial – Analyst

Hi, good afternoon. My question is for Leo. During the quarter, you made some additional adjustments to the overdraft fees structure in your business. I'm wondering if you can quantify the potential revenue impact and the timing thereof as you see it. I know there were some changes last August, and at the time, you guys said there was about CAD 40 million to CAD 50 million impact, just wondering what the latest round would be?

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

Gabe, thank you very much for the question. Let me just describe very quickly what we actually announced on February 1st. We made a series of changes. We changed the minimum threshold by which a client would be charged an overdraft at CAD 50. We indicated that we will implement a 24-hour grace period. We also announced that we're launching real-time alerts to keep clients informed with regards to overall balances and overdraft events. And then, finally, we implemented a cap to no more than three overdrafts in any given day. We feel that this was an appropriate set of changes. We thought it both gives clients optionality and convenience. And so, we're comfortable with the changes that we made.

To your question about the overall impact, our estimate at this point is that, if I add the changes that we made in 2021 and these most recent changes, the in-year impact will be CAD 165 million. And if you annualize that just to get a sense of what the total number would be on an annual basis, give that CAD 250 million, that's about 45% of what our pre-COVID overdraft levels were. Once again, quite comfortable with the changes and I think we were trying to be responsive to client needs and certainly to the marketplace.

Gabriel Dechaine – National Bank Financial – Analyst

Great, that's U.S. dollars, I imagine. And is there a timing that you have in mind? It's not as if behavior has changed because some of the changes you introduced were included launching a no overdraft fee products or maybe some switching involved? I don't know if this stuff happens overnight. How do you see it?

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

No, Gabe, it's a very good question. We did launch the TD Essential checking account product late last year, which is essentially a no-overdraft product. About 10% of all our accounts are now in that product. We think when we talk about optionality between the TD Essential product, as well as these changes that we made in the introduction of real-time alerts, I really do believe that's giving clients greater control and greater options.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. But does this phase in over time or something, just so I can model it?

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

So, we actually announced that the CAD 50 threshold, which will trigger not all of the impact, but most of the impact would go into effect on April 1.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. Now, switching to rate sensitivity. Thanks for putting the slide in there, Kelvin and others I imagine. What we would have called surge deposits, is that included in that sensitivity or do you back that out – the benefit from rising rates?

Kelvin Tran – TD – Chief Financial Officer

Yeah. So, that includes all deposits. We don't back it out. It's on a constant balance sheet basis.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. And then, the last one on the acquisition. The $494 million of prefs you're buying from First Horizon, 30% of that goes to an employee retention mechanism, and the other 70% goes to what? I'm wondering if you can kind of help me understand where that money goes.

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

You're right. The first $150 million was really earmarked around retention, which is critically important to us. We want to ensure that we were retaining what is the real asset of First Horizon, which is their bankers, their frontline staff. And so, that was key. The balance was really a reflection of the fact that we've got a great deal of confidence in the model that First Horizon is pursuing and their organic growth plans. And we wanted to facilitate the acceleration of those, whether that's organic branch expansion, whether that's increasing Commercial Banking coverage teams or simply getting after day two enhancements that would potentially position the firm for a more rapid future integration.

So, we're quite comfortable with Brian's discretion to actually execute against those items. I would also say maybe just one last point on this, is that we wanted to signal very clearly our commitment to this transaction to First Horizon, to the management team and to the 8,000 colleagues that will soon become TD colleagues. We do believe this is a world-class franchise and one that will be very additive to TD Bank.

Bharat Masrani – TD – Group President and CEO

Gabe, just on the overdraft system, I think Leo said it, just to clarify, the 10% is on – 10% of new accounts, not all accounts. So, it's just 10% of new accounts. And Gabe, this is memory lane for me. I think you and I talked many, many years ago when I was in the US; product change is just a normal course there. I remember the Durbin Amendment and we're saying, how much money is that and how to really offset it. I think the key message on how we manage these changes that are relatively regular in the US business, is through growth. One of the main characteristics of TD Bank America's Most Convenient Bank is to have a lot more customers every day than what we had yesterday. So, that's another way to look at it. This TD Essential Banking is 10% of all new accounts now, it carries a fee. So, at some point, all of these things kind of square up and you march on. So, just want to make sure that some of our historic conversations are not forgotten.

Gabriel Dechaine – National Bank Financial – Analyst

When I look at the findings here and it shows that overdraft is actually becoming a smaller percentage of the fee income in the business, so you're doing something else?

Bharat Masrani – TD – Group President and CEO

Yes.

Ebrahim Poonawala – BofA Securities – Analyst

Good afternoon. I guess maybe sticking with you, Leo, on looking at the slide 28, business lending ex-PPP was fairly weak, and it has been very weak. We saw some strong growth from some of your peers. We've seen strong growth from the US banks. Why are we not seeing the same commercial strength in the lending book and just your outlook on that business? And also, I would love to hear if you think First Horizon adds anything on the commercial lending side for TD?

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

Yeah. Thank you very much, Ebrahim. Let me just frame a couple of things first. There are two primary factors that really point to our performance on a year-on-year basis. As you rightly point out, we are seeing the unwind of the PPP portfolio. We extended 130,000 PPP loans for nearly CAD 14 billion at a time that those clients needed it, and certainly we're very proud of that. But we did over-index. In other words, we had a greater percentage of PPP loans as a percent of our Commercial Banking book than both our big bank as well as regional competitors. And so, as that's unwinding, that is creating a bit of a structural drag force. Now, that drag is all but expired. We would expect that the majority of that portfolio to be completed by the end of the second quarter.

I think the other piece, which we've also worked through is our commercial real estate book. Our commercial real estate book did experience lower origination volumes, particularly in the office and retail space, and we've seen faster payback activity on that portfolio. We do have a slightly shorter duration in terms of the overall book than some of our competitors, and that obviously weighed on that portfolio in this period of time. So, those are two big structural areas that are contributing.

I did want to just give you a sense of some of the green shoots that we're experiencing, though, because I think it's important to look at it. We experienced a sharp increase in gross loan originations in the first quarter; in fact, back to above pre-COVID levels, which is very encouraging. We started seeing a bit of a plateau in terms of line utilization. In fact, we saw a little bit of an increase in the first quarter and that trend's continuing into the month of February. And in certain lines of businesses, particularly the middle market segment which seems to be reacting a little bit more quickly on a quarter-on-quarter basis, we saw a 5% increase in terms of overall loan balances. So, I'd say it is early, but we are seeing greater demand. And as I suspect it is, the liquidity conditions in the marketplace continue to stabilize, I would expect that our community banking segment, our middle market, our asset-based lending areas would all see increased activity and loan balance growth through the course of this year. And I'm certainly optimistic that's the case.

To your point with regards to First Horizon, I do think that First Horizon will absolutely be additive to us from a Commercial Banking perspective. Just the geographic attractiveness of the First Horizon footprint, the capabilities that they have in the commercial, the quality of their Commercial Banking franchise and then the abilities for us to potentially overlay, whether that be TD Securities, whether that be just our balance sheet and giving them the ability to be a ranger and a lead on more transactions or simply some of the combinations in the vertical categories, I think all that will be very attractive and very additive to our current Commercial Banking.

Ebrahim Poonawala – BofA Securities – Analyst

Got it. So, do you expect, and I'm looking at ex-PPP business loans, we should expect mid to high-single-digit type of loan growth that your peers are talking about or not?

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

I would expect that we would see gradual improvement quarter-on-quarter, and we should be able to get to loan growth levels that we're achieving pre-COVID.

Ebrahim Poonawala – BofA Securities – Analyst

Got it. And I guess just one question on Canadian Retail. Mike, we saw revenues up 6%, expenses up 8%. As we think about the outlook for the rest of the year, just give us a sense of how you're thinking about operating leverage going forward and any puts and takes around drivers of expense growth versus where you see potential savings?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Okay. So, I'll start out with this. So, in terms of the expense growth in Canadian Retail and you referenced the 8%, you have to disaggregate that a bit, because there are components between Wealth and Insurance and the Canadian Personal and Commercial Bank. You look at the last page of the supp pack, there's actually a breakdown of the Canadian Personal Bank, which actually shows about a 4% expense growth, if my memory is correct on a year-over-year basis, and that's between Paul and myself.

The operating leverage of that is strong and look, we continue to keep on investing in the business, and we would expect to generate positive operating leverage on an ongoing basis, obviously some puts and takes here and there. I hope I could make that disaggregation to see that. And then, Ray, maybe I'd actually hand it over to you to kind of talk about some of the dynamics you have, because I gave one piece of the equation, you're the other piece.

Raymond Chun – TD – Group Head, Wealth and Insurance

Sure, Michael. Ebrahim, it's Ray. From a Wealth and Insurance perspective, on a year-on-year, expenses were up 14%, and it's mainly driven by investments in really the right areas across both Wealth and Insurance to drive better exceptional client experiences, new acquisition and accelerate our growth. And one thing I'll do is, I'll just remind everyone that TD Wealth results include the Direct Investing business, which do impact our reported earnings and expenses. So, in Wealth, expense growth was mainly driven by the variable compensation due to higher fee-based revenue growth and shift in our revenue mix from transactions to fee-based revenue. Considering that, Wealth earnings remained stable year-on-year. Despite Direct Investing trading levels normalizing, which was down 28% year-on-year, which we do anticipate will continue in 2022; we'll call out the trades per day are still double what they were pre-pandemic.

And so, we're also investing in new products, adding more advisors nationally and investing in digital and technology really to respond to the changing client expectations, while meeting the ever-increasing regulatory requirements across Wealth. And I'll just point out, and Bharat called it out, one of the key investments that we made in the quarter was the launch of TD Easy Trade, a mobile trading app designed to make investing easier and simpler for all new and emerging investors. We launched that in January, and we've seen very strong early uptake in new accounts and net asset growth, which really demonstrates that it's resonating with the emerging investors.

I'd say on the Wealth side, although expenses are up, our Q1 results demonstrate the strength of our diversified Wealth business model. If I shift to TD Insurance, the business continues to grow and in there, we're making the right investments to support the number one direct-to-consumer insurer in Canada. And that includes increased investments in marketing, building leading digital capabilities. And we made a significant investment in our insurance advisors in our contact centers to ensure we're delivering exceptional experiences that will deepen our customer relationship. So, I hope that gives you a sense of where we're making investments, Ebrahim, on both Wealth and Insurance.

Ebrahim Poonawala – BofA Securities – Analyst

That was helpful. And I guess, is the net of that that we should see the efficiency ratio improve year-over-year versus the 43.1% last year, or unclear where that may shake out?

Raymond Chun – TD – Group Head, Wealth and Insurance

Yeah. So, I think it depends on the number of assumptions that you're going to have over the next sort of while, because other than volume growth, you're going to have your expectations on where rates are going to be. And then, I would say also, if you look at last year, the peak trading revenue was actually in Q2. So, you're going to see another quarter like that. But our goal is to generate positive operating leverage in the medium-term.

John Aiken – Barclays Capital – Analyst

Good afternoon. Couple quick questions, Kelvin, on the interest rate sensitivity. A couple of the banks have actually produced year two impacts from rising rates. Are you actually able to provide any order of magnitude in terms of what the impact might be on TD's stated sensitivity for year two?

Kelvin Tran – TD – Chief Financial Officer

Sure. So, in terms of 100 basis point shock increase in interest rate across the curve on a static balance sheet, our number would be CAD 2.8 billion. But I would say just a little bit of caution on how you use that number, because as you know, the assumption there is a 100 basis point increase across the entire curve, right. And as you know, when forward rate changes, whatever you've seen so far, people expect the short end of the curve to increase. But the longer end of the curve has not increased by that much.

So, you have to take that into account. And then, the other thing to take into account is what we've talked about in the past is your on and off rates, because as your hedges mature or your investments mature in terms of rate, you need to think about how those rates mature versus the new rate that you put on. Hopefully that answers your question.

John Aiken – Barclays Capital – Analyst

Yeah. No. Understood, Kelvin. Thank you. And just one follow-on. I know you've been exceptionally busy over the last little while, but have you had a chance to take a look at interest rate sensitivity disclosures for First Horizon and how they're calculated? And would you anticipate any major differences that you've actually been able to dive into the weeds or should we take those rate sensitivities is fairly similar to how TD calculates them?

Kelvin Tran – TD – Chief Financial Officer

Yes. We looked at their interest rate sensitivity and we're comfortable with including those into our model. We know that they do hedge their balance sheet as well. And as we work through the integration plan, we would look at that and take into account and how we're going to operationalize it.

Paul Holden – CIBC World Markets – Analyst

First question is going back to Mike and really appreciate the candid answers on the residential mortgage opportunity. And I guess I want to ask you a broader question as you think about the Canadian Retail Bank as a whole, has there been any evidence of deterioration in market share more broadly or maybe something out on its head? Do you see broader opportunities to catch up and surpass peers?

Michael Rhodes – TD – Group Head, Canadian Personal Banking

Paul, it's a good question, and actually it's good, I mean, to do a pull up and take a look overall. Look, I'd say, first of all, that there are a lot of things we're very, very pleased with – which includes the Canadian Personal Bank, and including share increases and some things that really matter. If you take a look at our deposit franchise, our deposit franchise share gain on a year-over-year basis is actually quite attractive, and we're getting the right types of deposits. And so, we like that. The other thing we look at, and I'm here with my friend Ray across the table from me, is that we're gaining share in deposits at the same time we're actually creating our mutual fund referrals. And in fact, a mutual fund origination we have during the quarter has been very, very strong. And so, we're very pleased with that. In fact, we call ourselves market leading with a combination of both our deposit business and our mutual fund generation.

If you look at the other asset classes and if you look and say at the cards business as an example, I looked at everyone's competitive data and everyone's in a reasonably tight range. But if you look at our spend, it's up 23% on a year-over-year basis and it's actually definitely up over pre-pandemic periods. And we're feeling good about how we're positioned with cards and we expect to see growth there. And overall, there is a lot to like about our deposits and our Retail franchise. We have the best physical network in the marketplace. We have the number one position and 79% of all markets with 500,000 people or more in the Canadian marketplace. We have more web traffic. We have number one share of voice on social channels and we've got a great, great frontline, very purpose-driven, taking care of the customer every single day. And as I say, look, we have opportunities in RESL, I agree with that. And with cards, we were number one market share. We're not right now, but you may know I have a lot of cards experience and I'm looking forward to recapturing that position.

Paul Holden – CIBC World Markets – Analyst

Thanks for that. And then, question for Leo, sort of similar strategic opportunity type question. I mean, arguably TD is underpenetrated in US Wealth Management. I think now $41 billion of AUA, which was relatively small given the footprint there. Any indications you can give us on the ability to grow that piece of the US business? And is there anything in First Horizon that helps on that venture?

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

Paul, thank you very much for the question. As you know, I spent last 10 years running our Wealth franchise here in Canada and I'd say we've got enormous opportunity in the US. I'd say fundamentally, when you think we've got 9.5 million Retail clients, the mass affluent and high net worth skew on that is as much as 35% of the overall book. The ability to bring, systematically, financial planning and other mass affluent investment solutions to that client base, both in the stores and via other direct digital platforms is very compelling. We've been building out that team. In fact, we added over 130 advisors in just over the past 12 months. We will accelerate that pace, because I believe that we need to achieve a critical mass of advisors to support our Retail mass affluent clients.

And likewise, I think the high-net-worth opportunity and the partnership with the Commercial Bank, making sure that we're bringing not only Commercial Banking solutions, but bringing along the business transfer solutions and the other wealth management, investment management solutions, and to do that at scale and consistently is going to be a big priority for us. So, as I think about trying to build out the fee business in the US, our wealth management opportunity has got to be one of the most significant levers that we're going to pull.

Paul Holden – CIBC World Markets – Analyst

Great. I feel like we're going to be asking about this more often. One final question again Leo for you, the US Bank closed a number of stores roughly a year ago, right, early 2021. Noticed that the store count though grown in each of the last two quarters, maybe you can sort of give us a sense of what the strategy is there? I'm assuming it's into new geographies, and maybe you can just kind of clarify that?

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

Paul, that's absolutely right. So, think of – when we do store optimizations, it's us looking at the entire network and deciding where we could potentially consolidate certain locations. I'm still keeping the client at the center of that decision, but then redeploying those investment dollars into geographies that have higher growth profiles and with a view on densification, something that we're very proud of is that, 79% of our deposit base are in markets that we're either in number one, two or three. And the only way you can do that is by being very purposeful around thinking through your distribution network and investing around certain MSAs and achieving critical mass.

I'd say I know we talk a great deal about the branch network there, and that was the basis of your question, Paul. But I'd say the investments we're making in digital marketing and digital acquisition are also critically important in terms of being able to achieve the full potential of our branch network. And there, I have to say I'm extremely pleased with what the US team has been able to do over the past two or three years. We are a leader in terms of customer checking account acquisition in the United States and to the extent that we can get that network model right bring digital marketing to bear and maximize our presence in the marketplace. I think that'll put us in a very good position.

Scott Chan – Canaccord Genuity – Analyst

Leo, just a couple of follow-up questions on First Horizon. How big is our wealth management platform? So, I kind of read wealth management solutions, but I don't know if you can kind of help quantify it?

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

Scott, to give you a sense, their total revenue base, if I strip out what is the institutional trust business, it's comparable to ours. It's a little smaller than ours, but in terms of the model that they run, they run a brokerage RIA model very similar to ours. They partner in their structure, their wealth advisors are very aligned to the Commercial Bank and they create a very effective partnership, almost a deal team around certain clients, and they've been very successful in growing their Wealth business using that model. We've historically leveraged the Retail network and the Retail alignment piece. So, I think there's a complementary aspect to their model that we can leverage over time, but clearly bringing those two groups together and obviously continuing to invest in our wealth distribution, our coverage will be a priority.

Scott Chan – Canaccord Genuity – Analyst

And you talked about the Wealth opportunity, but when I look at the AUM on US side, I would sense that there is a significant opportunity there, but every time I look at it, it's always declining and significantly underperforming peers in terms of assets. And maybe you can update on why that's happening and is there anything strategic or anything or any initiatives going on with that platform?

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

Scott, I think there's two things. When you look at the AUM number, we do run an asset manager in the US and I can certainly ask Ray to elaborate a little bit more, but the two factors that are weighing on our AUM level, one is the fact that we don't really run an independent US asset manager. It is part of TD Asset Management and TD Asset Management from time to time might balance mandates from one part of our manufacturing plant to another. And so, you could see movements between the US and Canada, but that that is independent of our approach in the way we're trying to approach solutions in the marketplace.

The other factor is that Epoch is much more historically been more aligned to a value orientation. And up until recently, that style has been out of favor. Now, we are very encouraged by what we're seeing more recently, where you're starting to see real discrimination in the marketplace and I think that operating model is likely to get much more traction in the short-term. But I've probably stolen some of Ray's thunder. So, Ray, I don't know if there's anything you'd add to that.

Raymond Chun – TD – Group Head, Wealth and Insurance

No. I think you captured it well, Leo. I think the big opportunity for us will be and have been and it's been a work in progress is really to bring Epoch and TD Asset Management together and leverage the expertise that actually is in TD Asset Management, while we grow our US Asset Management business. And so, that will be the work that that we'll do over the next few years on that side of it, but significant opportunities on that side also, Scott.

Scott Chan – Canaccord Genuity – Analyst

Okay. And just lastly, maybe for Kelvin. it seems like intra-quarter, expenses have been a focus and I think a theme on this call has been investing and you're hiring 2,000 tech people. I wonder if it's all bank level Kelvin, if you can offer some expense guidance, kind of following your fiscal Q1?

Kelvin Tran – TD – Chief Financial Officer

Yeah. So, we don't like, I think we've talked about that previously, we don't look at expenses on its own. So, our goal again is to look at driving positive operating leverage. And if we do see growth, revenue growth opportunity, then we would increase our investment. And like we talked about earlier on, there are a few buckets of expenses that we look at.

There's the – table stakes, expense that you just need to spend to run the bank and that's one bucket that is always there. And there are strategic expenses that you have to invest for the long term. So, that's another bucket. And then, the last bucket would be more discretionary, but really important, if you see that the economy is recovering, you see revenue opportunities, you see rising rate environment and then you will dial up those investments to really capture market share, because those opportunities are ripe for the taking. So, that's where I would leave it.

Nigel D'Souza – Analyst – Veritas Investment Research

Good afternoon. I had a question for Ajai, and I wanted to turn to your allowances. So, you noted that your allowances are running at elevated levels relative to pre-COVID. And I'm wondering why we haven't seen a more aggressive release of those allowances? If I look at your forward-looking indicators, those have improved. So, wondering why that didn't drive a bigger release. And then, second, based on your guidance, should we take from new guidance that these levels should be higher this year, that there's a possibility you won't be able to fully release those excess allowances before political conditions normalize?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

It's a good question, so let me respond. I'll start with allowance and then I'll go back to PCL. So, I'd say the main reason, we haven't released our allowances, because there's still a tremendous amount of uncertainty. The sources of that uncertainty still are changing. Okay. So, Bharat talked about geopolitics and inflation. There is – we don't know what the ultimate economic trajectory will be as a result of this war. So, there's quite a bit of uncertainty out there, which is why we're releasing our reserves gradually. Having said that, you're right, if the macro continues to improve, if this uncertainty reduces, we will be releasing more reserves. The exact timing of it is very difficult to tell.

And then, I'll go back to PCL. So, I look at PCLs, what I would say is, I expect a gradual increase in PCLs. And I say that because we think with normalization impaired PCLs are going to rise. Again, I'm not expecting a sudden increase, but gradual increase in impaired PCL. So, we feel that is going to happen. The reason we're saying the number could be higher is that performing PCL, that could be a bumpy ride, okay. And because your various drivers of performing PCL, there's volume, there's migration, there's parameters, there's macro. So, you're right in saying, I can't say for sure we're not going to release the reserves. It's not predetermined. But the reason we are being cautious in what we're saying is that performing PCL and what happens with that is going to be a bit bumpy. So, I hope that's helpful to you.

Nigel D'Souza – Analyst – Veritas Investment Research

That's very helpful. And if I could just focus on one variable here in your forward-looking indicators. When we look at your policy, central bank policy, interest rate assumption, base case versus upside scenario, your upside scenario assumes a higher policy rate. Now, can you help me understand why that is? Because I would think that assumption of a higher policy rate would be an adverse scenario, because it increases debt servicing costs. So, could you just explain that?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yeah. For upside, again, these scenarios are developed by economists. We use an overheated economy and there's high inflation, but there's high interest rates as well. So, we actually assume in Canada, rates go up 150 basis points and, in the US,, 125 basis points. Our downside case here is a pretty stringent case. It's a global slump. And in that case, the inflation unwinds quite fast. But our base case as well, we do assume high inflation in the base case. It's almost – I think it starts out being around 6% for the US at Q4 and then sort of tapers off from there, but it's the assumptions we made for the upside case and an overheated economy is what we're assuming.

Nigel D'Souza – Analyst – Veritas Investment Research

Okay. So, any comments on then a stagflationary scenario, if you have high interest rates and decelerating growth? How does that affect your credit loss modeling?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yeah. Good, good question. So, what I would tell you is we're giving it a lot of thought and we are going to be running some stagflation scenarios this year. And it is a plausible scenario. We would be concerned with that kind of a scenario and we're doing more work on that front right now.

Sohrab Movahedi – Analyst – BMO Capital Markets

I just wanted maybe to do a couple of cleanup questions. I'll start off with Leo. You talked about the opportunity, or maybe Ray, and you both talked about the opportunities between TD Asset Management Epoch and really leveraging the franchise in the US. What's unique about this? Is it just a new set of eyes looking at this or have these opportunities always been there and the focus wasn't or is there a particular reason why the next 12 months will be better than the last 12 months, so to speak?

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

Sure, I can certainly start. This is Leo. I'd say that the reality is, if you look at the growth trajectory of the US business over time, whether it'd be expanding the footprint, adding capabilities, the US has been on a journey to round out its core capabilities for some time. We just think this is a terrific opportunity to lean into the Wealth lever. Both Ray and I worked together for many years. I think we see clearly an opportunity in the US marketplace from a demographic standpoint.

I think we've got the capabilities. We just implemented a next-generation advisor support platform, which we're really excited about, that went into production just a month-and-a-half ago. And so, we're making the investments to be able to scale that business. And, having looked after the Wealth business for 10 years in Canada, I look at the US opportunity and in many ways, I see it as larger. Certainly, as a growth contributor, I see it as a very significant opportunity.

Sohrab Movahedi – Analyst – BMO Capital Markets

And Leo, you mentioned the addition of advisors. When these advisors come on, how long before they are productive?

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

Well, I think it depends on whether you're talking about mass affluent or high-net-worth, learning curve is a little different on each and whether you're trying to build from within or you're hiring seasoned advisors. So, I wouldn't want to speculate on what will we try to do in the mass affluent space. We try to take some of our strong retail talent, put them through a bit of an internal investment academy, prepare them for their licensing, both on an RIA as well as a Series 7 license, and then prepare them to be able to deliver against a financial planning framework as opposed to a brokerage framework. And we've been quite successful with that operating model and if anything, what I want to do is try to accelerate that.

In the high-net-worth space, we tend to bring individuals on board and recruit individuals that are seasoned. And so, the learning curve there is much shorter. They're really learning how to operate within TD as opposed to how to be able to deliver against client expectations. And so, I would say there, the key is just making sure that you're creating, you're identifying, you're recruiting top talent. And I think TD, when a advisor thinks of TD and they think of our network, they think of our presence, where we operate, our client base, it's an extremely attractive proposition for an advisor to want to bring that investment capability to bear on our client base. And that's our proposition when we're hiring.

Sohrab Movahedi – Analyst – BMO Capital Markets

Okay. And then, Ajai, for you, can you just talk a little bit about the efforts that you and your team would have put in around the due diligence for the First Horizon acquisition, maybe the number of weeks you were involved, hours spent, percentage of the book reviewed, number of accounts, that kind of stuff. Thank you.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Sure. I'll make a few comments. What I would tell you is that at the Bank, we have a tried and tested due diligence framework. We've used it for many acquisitions. We used it here again. It was detailed. It was thorough. There were teams from across the Bank that have been involved in the whole process. So, this is not just risk, but everyone and including risk, there were quite a few people, I don't have exact numbers with the US team, the Canadian team as well were involved. So, I'm quite satisfied that the process was robust, and the outcome is a good outcome for the bank. And does that address your question? In terms of hours, I can give you a little bit of color, if you want.

Sohrab Movahedi – Analyst – BMO Capital Markets

Yeah, I'd like to know, did you spend a thousand hours, was it 200 hours from a risk perspective? Did you review 80% of the largest accounts or did you review 50% of the industry groups, I'd like a little bit, if you have it handy.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Well, I'll give you a little bit of color. We looked at quite a few files. I'd say approximately 20% of the files were reviewed by us and we were very thoughtful in our approach on what files we wanted to review and we were satisfied based on the file review that the credit quality here at First Horizon was entirely acceptable and we just didn't do a file review. We looked at credit policies, we looked at underwriting standards, we compared them to ours. So, all that led us to the conclusion that across their Retail book, which is largely RESL, C&I, which is a big book and of course, CRE as well, that the underwriting standards and quality, and the team, future TD colleagues, we were quite pleased with that. So, I hope that helps.

Bharat Masrani – TD – Group President and CEO

Sohrab, just to add. This is the core strength of TD, how we do acquisitions. There's a whole process. We follow, the number of people involved, who is going to be involved, who's going to be leading each of the teams. So, it's a very thorough process that has been reviewed by many, many stakeholders that feel very comfortable as to how this particular due diligence was carried and what kind of results we got out of it.

Mike Rizvanovic – Analyst – Stifel Nicolaus

Hi. Good afternoon. I want to go back to Leo, on the overdraft fees. So, what I'm wondering is, how concerned are you that this fee line and appreciate the added color on the new guidance, but how concerned are you that this may actually end up going to zero if you're thinking one or two years out? Just with respect to seeing more banks actually eliminate this fee altogether, and it's just hard for me to understand how we could get this divergence where some banks charge the fee and others don't. So, how concerned would you be that that there's more downside here on that fee line?

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

Mike, thanks for the question. I'd say our objective when we launched the TD Essential checking account was in fact to provide clients with a product that would give them a zero overdraft option. So, it was by design. And now, we give clients choice, whether they want the TD Essential checking product or they want our core checking.

From our standpoint, I think choice is what's critical. Obviously, we'll continue to monitor the market with regards to how things develop. We need to be competitive and obviously to the extent that we believe we need to revisit that, we would. But at this point in time, we feel very comfortable with the decisions we made.

Mike Rizvanovic – Analyst – Stifel Nicolaus

Okay. Appreciate that. And then, maybe a quick one for Ray. Just wanted to ask about the Insurance revenue being so strong. Obviously, I would suspect part of that is driven by the fact that you're the only Canadian bank that underwrites P&C insurance and you've outperformed your peers quite a bit here. I'm wondering how much of that do you think possibly comes back as driving returns to normal, auto claims start to return to normal, what's the sort of downside, if you can quantify that would be helpful?

Raymond Chun – TD – Group Head, Wealth and Insurance

Thanks, Mike, for the question. And I'd say, our Insurance business, as you said, just continues to grow and take market share. And before I get there, I mean, just to give you a sense to your question, TDI is, I mean, where our earnings are very strong, earnings were up 15% year-on-year, core revenue growth of 8%. And that's really on the strength of our underwriting, our pricing sophistication and claims excellence. And so, that's when you overlay the fact that Q1 was an unusually high catastrophe activity for this quarter, it's actually the highest cat quarter since 2014 for Q1. So, we have been monitoring closely the easing of the COVID-19 public health restrictions across the country and pandemic has certainly impacted driving behavior, and it continues to disrupt the supply chain, I would say, in the auto sales, new auto sales and certainly in the auto parts industry. And so, we're watching that carefully.

But in addition to this, claims are also impacted, as you know, by many other factors and seasonality being one, weather events. And I think you would have all have seen that over the last few years, we've expanded our market leading auto centers across the country, and certainly that will help us as driving returns. And we do anticipate that as COVID dissipates, that driving will resume to pre-pandemic levels, and we do anticipate their claims or claims are going to normalize. And I think the advantage that we have is that we'll have over the course of this year 28 auto centers across the country handling about 40% to 50% of our auto claims, which is a real advantage from a client experience and from a claims management.

Bharat Masrani – TD – Group President and CEO

Great engagement on the questions. Great job by the team here at TD. Folks are in new positions, but you can see that they certainly are well prepared and raring to go. So, terrific to see that. From my perspective, a great start to the year. Very happy with how we are performing in various lines. You saw what our opportunities are. We had a good discussion on that and really, really excited about the announced acquisition of First Horizon. It takes our business in the US to a new level. As to the opportunity, very, very exciting. So, we're happy to report that, we will get some of these businesses where we've lagged back to where TD normally is and the pandemic certainly has had an outsized impact on us because of our brand-centric model, particularly in Canada.

Before we close, I'd like to take this opportunity to thank Gillian Manning as she heads off to a new role with TD Asset Management. Over the last few years, Gillian has built a strong and award-winning IR team that is respected by our analysts and investors. I'd like to thank Gillian for her leadership and wish her all the best at TD Asset Management. I'm also delighted to welcome Brooke Hales as our new Head of IR, and she's off to a flying start, having just done her second call in one week. Thanks for joining us and we'll talk to you all again in 90 days. Thank you.