Q4 2023 EARNINGS CONFERENCE CALL
NOVEMBER 30, 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; regulatory oversight and compliance risk; the ability of the Bank to execute on long-term strategies, shorter-term key strategic priorities, including the successful completion of acquisitions and dispositions and integration of acquisitions, the ability of the Bank to achieve its financial or strategic objectives with respect to its investments, business retention plans, and other strategic plans; technology and cyber security risk (including cyber-attacks, data security breaches or technology failures) on the Bank's technologies, systems and networks, those of the Bank's customers (including their own devices), and third parties providing services to the Bank; 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 parties; the impact of new and changes to, or application of, current laws, rules and regulations, including without limitation tax laws, capital guidelines and liquidity regulatory guidance; increased competition from incumbents and new entrants (including Fintechs and big technology competitors); shifts in consumer attitudes and disruptive technology; environmental and social risk (including climate change); 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; the interconnectivity of Financial Institutions including existing and potential international debt crises; 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; the economic, financial, and other impacts of pandemics; 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 2023 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 and Subsequent Events" 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 2023 MD&A under the heading "Economic Summary and Outlook", under the headings "Key Priorities for 2024" 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 "2023 Accomplishments and Focus for 2024" for the Corporate segment, each as may be updated in subsequently filed quarterly reports to shareholders. Any forward-looking statements contained in this document represent the views of management only as of the date hereof and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities and anticipated financial performance as at and for the periods ended on the dates presented, and may not be appropriate for other purposes. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf, except as required under applicable securities legislation.

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PRESENTATION

Brooke Hales – TD – Head of Investor Relations

Thank you operator. Good afternoon and welcome to TD Bank Group's Fourth Quarter 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 fourth quarter operating results. Ajai Bambawale, Chief Risk Officer, will then offer comments on credit quality, after which we will invite questions from pre-qualified analysts and investors on the phone. Also present today to answer your questions are Michael Rhodes, Group Head, Canadian Personal Banking; Barbara Hooper, Group Head, Canadian Business Banking; Raymond Chun, Group Head, Wealth Management and Insurance; Leo Salom, President and CEO, TD Bank America's Most Convenient Bank; and Riaz Ahmed, Group Head, Wholesale Banking. Please turn to slide 2.

At this time, I would like to caution our listeners that this presentation contains forward-looking statements, that there are risks that actual results could differ materially from what is discussed and that certain material factors or assumptions were applied in making these forward-looking statements. Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities, and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes. I would also like to remind listeners that the Bank uses non-GAAP financial measures such as "adjusted" results to assess each of its businesses and to measure overall Bank performance. The Bank believes that adjusted results provide readers with a better understanding of how management views the Bank's performance. Bharat will be referring to adjusted results in his remarks.

Additional information on items of note, the Bank's use of non-GAAP and other financial measures, the Bank's reported results and factors and assumptions related to forward-looking information are all available in our 2023 Annual Report.

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.

Before I begin, I want to say how saddened we are about recent events in the world, and close to home. TD has contributed $1 million to support urgent humanitarian aid in Israel and Gaza as well as to local organizations in North America that combat the rise of racism and hate. At TD we stand against antisemitism and Islamophobia. Over the past several days, it has been encouraging to see the release of some hostages and pause in the fighting. As this situation evolves and with the war in Ukraine now well into the second year, we hope and pray for peace. I also want to acknowledge our colleagues, customers and neighbours impacted by the Lewiston shooting in Maine last month. TD contributed US$200,000 to help those affected. We are the largest bank in the State, we know that Mainers are resilient, and the Bank will continue to support the community to overcome those painful events.

Let's now turn to our fourth quarter earnings.

Q4 was a mixed quarter for TD. While expenses were elevated and we saw weaker results in our Wholesale Banking segment, fundamentals remained strong across our retail businesses. Earnings were $3.5 billion, and EPS was $1.83. Revenue grew 8% year-over-year reflecting margin expansion and loan volume growth, the contribution from TD Cowen and the strength of our diversified business model. PCLs were higher as credit continued to normalize as expected.

This quarter, expenses increased driven by variable compensation and the inclusion of TD Cowen. More generally, we recognize that the Bank's cost base is higher than it should be. We are undertaking a broad-based restructuring program to deliver efficiencies and drive profitability across the enterprise. As Kelvin will describe in more detail, the program includes real estate optimization, asset impairments as we accelerate transitions to new platforms, and a 3% reduction in FTE through attrition and targeted actions to create capacity to invest for future growth and limit the impact on our people.

While we are focused on expenses, we are pursuing meaningful revenue opportunities across our businesses. We outlined our strategies to accelerate growth in our Canadian retail businesses at our recent Investor Day, and the acquisition of TD Cowen provides additional capabilities for TD to grow its investment bank. In U.S. Retail, our brand, footprint, and deep customer relationships provide a robust foundation for continued growth. As you will hear from my colleagues, we are already executing on these opportunities across the Bank.

The Bank's CET 1 ratio was 14.4 per cent, reflecting organic capital generation and the impact of almost 38 million common shares bought back during the quarter. With heightened uncertainty in the economy and the markets, TD is in a position of strength – we have the capacity to return capital to shareholders while continuing to invest to drive growth across our businesses. We remain confident in the earnings power of our franchise, and today have declared a 6-cent dividend increase, bringing our dividend to $1.02 per share.

And, last month, we introduced TD Invent – the Bank's enterprise approach to innovation. This will build on our track record of innovation, including the recently redesigned TD mobile app, which first launched in the U.S. and then in Canada this quarter. TD's digital strength continues to receive recognition, with Global Finance recently naming the Bank the "Best Consumer Digital Bank in North America" for the third year in a row. We are also leveraging advanced technologies, including AI and have been granted 55 patents relating to AI inventions since 2018. This quarter, our in-house AI team Layer 6 won the annual ACM RecSys Challenge for the third time.

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

In our Canadian Personal and Commercial Banking segment, earnings were $1.7 billion, down 1% year-over-year, and PTPP was $2.7 billion, up 7% year-over-year. In a challenging environment, we saw strong momentum across our businesses, with loans and deposits up 2% and 1% quarter-over-quarter, respectively, and NIM expansion of 4 basis points. In the Personal Bank, Everyday Banking delivered a record quarter for New to Canada accounts, as TD continued to make progress towards our medium-term target of 50% growth in New to Canada acquisition outlined at our recent Investor Day. In credit cards, we delivered strong volumes in Q4, and record spend for the year. And Rewards Canada readers recognized TD with more awards in 2023 than all other card issuers combined, with the Bank taking first place in four of seven categories. In real estate secured lending, the Bank continued to deliver market share gains. And to help Canadians invest tax-free for a down payment on their first home, this quarter TD launched First Home Savings Accounts. The Business Bank grew loans by 9% year-over-year. In Small Business Banking, we are focused on helping clients refinance their CEBA loans in advance of the upcoming partial forgiveness deadline. And the Bank continued to execute on its OneTD strategies, more than doubling the number of Senior Private Bankers co-located in our Commercial Banking Centers over the last two quarters.

Turning to the U.S., U.S. Retail Bank earnings were US$800 million, down 17% year-over-year, and PTPP was US$1.1 billion, down 13% year-over-year. Expenses increased 6% year-over-year reflecting higher legal and regulatory costs and continued investments in our franchise, and credit continued to normalize. However, we saw operating momentum, with net interest income up 1% quarter-over-quarter, reflecting volume growth across loans and deposits excluding sweeps, and a 7-basis point increase in NIM. With the contribution from our investment in Schwab of US$146 million, segment earnings were US$946 million. TD Bank, America's Most Convenient Bank is adding customers and deepening relationships, delivering peer-leading personal and business loan growth of 12% and 9% year-over-year, respectively. In commercial banking, middle market and specialty lending grew 22% and 12% year-over-year, respectively. In our U.S. bankcard business, new accounts were up 45% year-over-year as our product suite continued to resonate with customers. And, for the seventh year in row, the Bank ranked #1 in Small Business Administration lending in its Maine-to-Florida footprint – and ranked #2 in SBA loans nationally. TD continued to demonstrate resilience in deposits in a competitive environment, with balances excluding sweeps up 1% quarter-over-quarter.

The Wealth Management and Insurance segment earned $501 million this quarter, down 3% year-over-year. Revenue growth of 9%, reflecting the strength of our diversified business model, was offset by increased claims due to inflation, auto thefts and more severe weather-related events. In Private Investment Advice, TD gained market share year-over-year and ranked #1 among Canadian banks in net new asset growth – as the Bank makes progress towards our Investor Day targets. In TD Direct Investing, we launched TD Active Trader this quarter, the Bank's completely redesigned platform for sophisticated active traders, offering leading capabilities unmatched in the marketplace. And TD Direct Investing was recently named the Best Canadian Brokerage by Benzinga, a leading financial media company. Finally, in Insurance, we continued to increase market share amongst Canadian Personal Lines Insurers year-over-year.

It was a challenging quarter for the Wholesale Banking segment. Net income was $178 million, down 35% year-over-year, as higher revenues from equity commissions and underwriting and advisory fees were more than offset by investments to grow TD Cowen and our U.S. business. This quarter, we expanded our Credit Trading team and Financial Institutions Group in the U.S. We also achieved a significant milestone in the integration of TD Securities and TD Cowen, with the combination of our U.S. Institutional Equities and Convertibles businesses – to deliver even better outcomes for our clients and strengthen our brand in U.S. equity markets. We are pleased with our integration to date and continue to pursue strategies to ensure our combined businesses and cost structure allows us to serve our clients optimally and drive profitability.

For fiscal 2024, it will be challenging to meet our medium-term adjusted EPS growth and ROE objectives, as the Bank navigates a complex macroeconomic environment, expected further normalization in PCLs, and elevated expenses including investments to enhance the Bank's risk and control infrastructure and accelerate growth. Despite these headwinds, the Bank continues to deliver on its purpose – to enrich the lives of our customers, communities, and colleagues. This quarter, we released the TD and Indigenous Communities in Canada 2023 Report, which highlights the Bank's collaborations with First Nation, Métis, and Inuit people and communities. We also opened a new branch in the province of Alberta on the lands of the Tsuut'ina Nation, staffed entirely by Indigenous Peoples. In addition, the Bank continued to focus on energy transition. Earlier this month, TD announced an agreement with 1PointFive to purchase carbon dioxide removal credits from their Direct Air Capture plant, subject to it becoming operational. This transaction will help drive innovative, technology-based solutions to advance decarbonization goals for TD and our clients.

I want to end by thanking all our TD bankers around the globe, who live our purpose every day. Thank you for your many contributions in 2023, and I look forward to what we will achieve together in 2024.

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 10.

For 2023, the Bank reported earnings of $10.8 billion and EPS of $5.60, down 38% and 41% respectively. Adjusted earnings were $15.1 billion, and adjusted EPS was $7.99, down 2% and 4% respectively. Reported revenue increased 3% reflecting the impact of the terminated First Horizon acquisition-related capital hedging strategy and gain in the prior period on sale of Schwab shares, and margin growth in the personal and commercial banking businesses. Adjusted revenue increased 12%. Reported expenses increased 25% reflecting higher employee-related expenses (including TD Cowen), the Stanford litigation settlement, and higher acquisition and integration-related charges including charges related to the terminated First Horizon acquisition. Adjusted expenses increased 13%. Reported total bank PTPP was down 19.1% year-over-year. Consistent with prior quarters, Slide 28 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 7.2% after these modifications. Please turn to slide 11.

TD's restructuring program has been enabled by the Bank's consistent investments in technology and digital capabilities. This quarter, we undertook certain measures to reduce the Bank's cost base and achieve greater efficiency, resulting in a restructuring charge of $363 million pre-tax. We expect to incur additional restructuring charges of a similar magnitude in the first half of calendar 2024. The restructuring program is expected to generate approximately $400 million pre-tax in savings in fiscal 2024, and annual run-rate savings of approximately $600 million pre-tax. Cost savings will be driven by a 3% FTE reduction, real estate optimization, and asset impairments as we accelerate transitions to new platforms. Our goal of delivering positive operating leverage over the medium term remains unchanged. In the current environment, we expect run-rate expenses - inclusive of the savings generated by the restructuring program and investments to accelerate future growth - to increase by approximately 2% per year. For fiscal 2024, we expect higher expense growth reflecting investments in our risk and control infrastructure and the impact of TD Cowen. As a result, for fiscal 2024 we expect adjusted expense growth in the mid-single digits. Please turn to slide 12.

For Q4, the Bank reported earnings of $2.9 billion and EPS of $1.49, down 57% and 59% respectively. Adjusted earnings were $3.5 billion, and adjusted EPS was $1.83, down 14% and 16% respectively. Reported revenue decreased 16% reflecting the gain from the impact of the terminated First Horizon acquisition-related capital hedging strategy and the gain on sale of Schwab shares in the prior period, partially offset by margin growth in the personal and commercial banking businesses. Adjusted revenue increased 8%. Reported expenses increased 20% and include restructuring charges and acquisition and integration related charges related to the Cowen acquisition. Adjusted expenses increased 13% reflecting higher employee-related expenses and variable compensation. Reported total bank PTPP was down 41.9% year-over-year. Adjusted total bank PTPP was up 1.8% after removing the impact of the U.S. strategic card portfolio, along with the impact of foreign currency translation, and the insurance fair value charge. Please turn to slide 13.

Canadian Personal & Commercial Banking net income for the quarter was $1.7 billion, down 1% year-over-year. Revenue increased 7% year over year, reflecting volume growth and higher margins. Average loan volumes rose 6%, reflecting 6% growth in personal volumes and 9% growth in business volumes. Average deposits rose 2%, reflecting 5% growth in personal deposits partially offset by a 3% decline in business deposits. Net interest margin was 2.78%, up 4 basis points quarter-over-quarter. This quarter we saw higher deposit margins reflecting tractor maturities, partially offset by loan margin compression from a highly competitive market. As we look forward to Q1, while many factors can impact margins, including tractor on and off rates and balance sheet mix, we expect NIM to remain relatively stable. Non-interest expenses increased 6% year over year, reflecting higher technology spend supporting business growth. Please turn to slide 14.

U.S. Retail segment reported and adjusted net income for the quarter was US$946 million, down 19% and 21% year-over-year. U.S. Retail Bank reported and adjusted net income was US$800 million, down 14% and 17% respectively, reflecting higher non-interest expenses, higher PCL and lower revenue. Reported net income in the fourth quarter last year included acquisition and integration-related charges for the terminated First Horizon transaction. Revenue decreased 3% year-over-year reflecting lower deposit volumes, loan margins and overdraft fees, partially offset by higher deposit margins, loan volumes and fee income from increased customer activity. Average loan volumes increased 10% year-over-year. Personal loans increased 12%, reflecting good originations and slower payment rates across portfolios. Business loans increased 9%, reflecting good originations from new customer growth, higher commercial line utilization, and slower payment rates. Average deposit volumes, excluding sweep deposits, were down 4% year-over-year. Personal deposits were down 4%, business deposits declined 5% and sweep deposits decreased 25%. Net interest margin was 3.07%, up 7 basis points quarter-over-quarter, as higher investment returns from matured tractors and positive balance sheet mix with lower borrowings were partially offset by migration to term deposits and high yield savings as well as modestly lower loan margins. As we look forward to Q1, while many factors can impact margins including competitive deposit market dynamics in the U.S., tractor on and off rates, and balance sheet mix, we expect NIM to be relatively stable in the near term influenced by similar drivers as those we saw this quarter. Reported expenses increased 3% reflecting higher legal expenses, regulatory expenses and investments, employee related expenses, and FDIC assessment fees, partially offset by acquisition and integration-related charges for the terminated First Horizon transaction in the fourth quarter last year. Adjusted expenses increased 6%. Please turn to slide 15.

Wealth Management & Insurance net income for the quarter was $501 million, down 3% year-over-year reflecting higher insurance claims and related expenses, partially offset by higher non-interest income. Revenue increased 9% year over year. Non interest income increased 10% reflecting higher insurance premiums, an increase in the fair value of investments supporting claims liabilities which resulted in a similar increase in insurance claims and higher fee based revenue, partially offset by lower transaction revenue in the wealth management business. Net interest income decreased 4% year over year primarily reflecting lower deposit volumes. Insurance claims increased 39% year over year, reflecting increased claims severity, more severe weather-related events, and 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. Non-interest expenses were down 1% year over year reflecting continued efforts to drive productivity savings. Assets under management increased 2% year-over-year reflecting market appreciation, partially offset by mutual fund redemptions and assets under administration increased 3% year-over-year, reflecting market appreciation and net asset growth. Please turn to slide 16.

Wholesale Banking reported net income includes acquisition and integration-related charges for TD Cowen. Reported and adjusted net income for the quarter were $17 million and $178 million respectively, reflecting higher non-interest expenses offset by higher revenues. Revenue, including TD Cowen, was $1.5 billion, up 28% year-over-year, primarily reflecting higher equity commissions, advisory and equity underwriting fees, and loan underwriting commitment markdowns in the prior year. Reported expenses increased 80% and include acquisition and integration-related charges for TD Cowen. Adjusted expenses increased 59% reflecting investments to grow TD Cowen and our U.S. business. Please turn to slide 17.

The Corporate segment reported a net loss of $591 million in the quarter, compared with net income of $2,661 million in the fourth quarter last year. The year-over-year decrease primarily reflects gains in the prior year from the impact of the terminated First Horizon acquisition-related capital hedging strategy and the sale of Schwab shares, and restructuring charges in the current quarter. Other items decreased $83 million, primarily reflecting the favourable tax impact of earnings mix and the recognition of unused tax losses in the prior year, partially offset by higher revenue from treasury and balance sheet management activities this quarter. Adjusted net loss for the quarter was $133 million, compared with an adjusted net loss of $10 million in the fourth quarter last year. We have said in the past that our run-rate expectation for adjusted net losses in the Corporate segment is approximately $100 to $125 million per quarter. For fiscal 2024, although it may bounce around, we expect adjusted net losses to increase to $200 to $250 million per quarter driven by investments in our risk and control infrastructure. These investments, which may extend beyond fiscal 2024, will be reflected in the Corporate segment as they are expected to yield benefits enterprise-wide. Run-rate expenses will be reflected in the business segments. Please turn to slide 18.

The Common Equity Tier 1 ratio ended the quarter at 14.4%, down 81 basis points sequentially. Internal capital generation added 27 basis points to CET 1 this quarter. This was more than offset by an increase in RWA (excluding the impact of FX), which decreased CET 1 by 33 basis points. We repurchased almost 38 million common shares under our previous 30 million share buyback program and current 90 million share buyback program combined this quarter, which reduced CET 1 by 62 basis points – 57 basis points from the share buyback itself, and 5 basis points from the impact the lower capital base has on the portion of our Schwab investment that exceeds the regulatory thresholds for non-significant investments. Our restructuring program decreased CET 1 by 5 basis points this quarter. The second phase of the Basel III reforms will become effective in Q1'24. We currently expect a negative impact of approximately 15 basis points to CET1, driven by the implementation of the Fundamental Review of the Trading Book and the adoption of the Standardized Approach for market risk and counterparty credit risk. RWA including the impact of FX increased 4.8% quarter-over-quarter, reflecting higher Credit Risk due to volume growth and credit conditions, including some credit migration. The leverage ratio was 4.4% this quarter, and the LCR ratio was 130%, both well above published regulatory minimums.

And with that Ajai, over to you.

Ajai Bambawale – TD – Chief Financial Officer

Thank you, Kelvin, and good afternoon everyone. Please turn to slide 19.

Gross impaired loan formations were 18 basis points, stable quarter-over-quarter, as increases in the U.S. Commercial, and Canadian and U.S. consumer lending portfolios, were partially offset by reductions in Canadian commercial, and Wholesale Banking. Please turn to slide 20.

Gross impaired loans increased $319 million quarter-over-quarter, to $3.3 billion, or 36 basis points, driven by the impact of foreign exchange, and the U.S. Retail, and Canadian Personal & Commercial Banking segments. Please turn to slide 21.

Recall that our presentation reports PCL ratios both gross and net of the partners' share of the U.S. strategic card PCLs. We remind you that U.S. card PCLs recorded in the Corporate segment are fully absorbed by our partners and do not impact the Bank's net income. The Bank's provision for credit losses increased 4 basis points quarter-over-quarter to 39 basis points. The increase is largely recorded in the Canadian and

U.S. consumer lending portfolios, and Wholesale Banking. For 2023, the Bank's full year PCL rate was 34 basis points, up 20 basis points from the prior year as credit performance continues to normalize. Please turn to slide 22.

The Bank's Impaired PCL was $719 million, an increase of $56 million quarter-over-quarter, largely related to further normalization of credit performance in the Canadian and U.S. consumer lending portfolios. Performing PCL was $159 million, with a quarter-over-quarter increase of $56 million, driven by Wholesale Banking, and the Canadian Commercial lending portfolios. Please turn to slide 23.

The Allowance for Credit Losses increased by $415 million quarter-over-quarter, to $8.2 billion, or 89 basis points, due to a $214 million impact of foreign exchange, current credit conditions, including some credit migration across the lending portfolios, and volume growth. The Bank's allowance coverage remains elevated to account for ongoing uncertainty relating to the economic trajectory, and credit performance.

Now let me briefly summarize the year. Despite ongoing normalization of credit performance, and heightened economic risks, including prolonged elevated interest rates, geopolitical tensions, and the potential for recession, the Bank has exhibited strong credit performance throughout 2023. Looking forward, while results may vary by quarter, and are subject to changes to the economic trajectory, I expect PCLs in fiscal 2024 to be in a normalized range of 40 to 50 basis points.

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]. And the first question is from Gabriel Dechaine from National Bank Financial.

Gabriel Dechaine – National Bank Financial – Analyst

Can I clarify some of these expense comments you've been making? I heard something about a 2% increase, and I didn't quite follow what that was tied to. But what was clearer to me, and thank you for quantifying that, but the additional investments will be increasing your loss in corporate from previous guidance of $100 million to $125 million to $200 million to $250 million per quarter, I believe. And that could actually persist into 2025?

Kelvin Tran – TD Bank Group – Chief Financial Officer
Correct.

Gabriel Dechaine – National Bank Financial – Analyst

Correct?

Kelvin Tran – TD Bank Group – Chief Financial Officer

Yes, hi. It's Kelvin, that's correct. And when I said the 2%, that's kind of in terms of normal run rate that we expect after restructuring savings, but the total bank expected expense growth would be in the mid-single digits.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. So after restructuring, if nothing else is going on, you would expect a 2% expense growth in '24, but then these additional costs you're in the mid-single digits?

Kelvin Tran – TD Bank Group – Chief Financial Officer

Correct. That and Cowen. Remember, we still have 4 months of TD Cowen.

Gabriel Dechaine – National Bank Financial – Analyst

Yes, yes, yes. Okay. I understand quickly -- you just have to explain slowly sometimes. One thing I want to ask about is -- I asked one of your competitors today about NSF fees because the government is taking a look at these fees in Canada. And your bank has been through that experience in the U.S. Is the -- my word -- dependence or reliance on overdraft fees in your Canadian bank as material as it was in your U.S. bank? Yes, there you go.

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

Let me take this question, and this is Michael. With respect to what the impact would be, probably you might be surprised, I say, there's a lot we don't know now. So it will be premature for us to comment about the potential impact at this time. And then in terms of relative dependence, I'm looking at Kelvin or Leo on that. I'm not sure I've got a point of view on the relative dependence.

Gabriel Dechaine – National Bank Financial – Analyst

Well, my word, not yours. But in the U.S., it was around 5% or 6% of your other income or total revenues in the U.S. at some point. And I'm wondering if it's anything close?

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

It will be lower. It will be lower. But look, honestly, at this point, I know you probably want to figure out a number to put in your forward view. It's very hard for us to give you any guidance on that right now.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. Yes, I've got a blank in my note, but I just wanted to fill that out, but I'll just revert it. And then on the AML issue, I know you don't want to talk too much about -- or at all about the -- what's going on between you and the regulator or whatever. And I understand that completely. But when I look at the disclosure on reasonable probable loss at Q3, it was -- so for outstanding litigation or regulatory matters -- last quarter, it was $0 to $1.26 billion. And this quarter $0 to $1.44 billion. A bit of an increase. I'm wondering, is that at all reflected in that RPL figure? Is this an issue for you?

Bharat Masrani – TD Bank Group – Group President and CEO

Gabe, this is Bharat. I don't think we disclosed specific cases. I don't think that would be reasonable. And if I'm mistaken, then we'll clarify that after this call with you, but my understanding is we don't disclose specific cases.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. And last one. Sorry, it's a few questions -- it's my birthday, so -- the FDIC assessment that your peers have quantified. I don't recall if you have?

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

Gabriel. First of all, did I hear that it's your birthday?

Gabriel Dechaine – National Bank Financial – Analyst

Yes. I'm so lucky to have 3 banks reporting and I'm going out with my wife's friends tonight. So it's great.

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

So very happy birthday. I imagine you'd probably be in -- you would like to be doing something else right now. But listen, let me just answer the question quickly. On the FDIC assessment, we're estimating that the impact will be approximately $300 million. Our intent is to reflect that in the first quarter of next year and take it as a lump sum item. And that's our approach at this point.

That number, you would have seen the total FDIC cost of recovery at the FDIC announced was $16.3 billion. It was up a little bit from the original estimate. So that's how we get to our number of $300 million.

Gabriel Dechaine – National Bank Financial – Analyst

And that's the U.S. pretax?

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

Yes, it is.

Doug Young – Desjardins – Analyst

Just on the CET 1 ratio. The reduction -- part of the reduction, it looks like it came from credit quality. And I assume that's migration, but my rough calculation gives me about an 18 basis point reduction in the CET 1 ratio. Can you talk a bit about that? And I guess that's kind of embedded in the credit risk-weighted asset growth impact. Just hoping to get a little bit more colour there.

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

Yes. It's Ajai. So I'm happy to provide the colour. So if you look at our total RWA, it increased $26 billion. And you're right, $7 billion of that $26 billion is from asset quality, and that relates to migration. Some of it is coming from Canadian consumer in RESL and in auto. And there's some coming from U.S. Retail from commercial auto and cards and mostly the probability of defaults.

What you should also know is that every quarter when we look at the book and we do a lot of bottom-up analysis, sometimes we force migrate credit to Stage 2. So for example, in Canada, if there's a client that has reached trigger point, we would move -- even though they're paying, we would move them to Stage 2 and basically have a higher allowance rate for them.

Similarly, the trigger rate population that we believe that will reach trigger point in the next 12 months, we'll be fairly conservative, move them to Stage 2 and build higher reserves. So -- some of that is driving the asset quality[1] number of $7 billion.

Doug Young – Desjardins – Analyst

And maybe just like looking forward, as you kind of look at your PCL expectations and the evolution of the economic environment, any way to kind of get a sense of what we should be expecting impact-wise on CET 1 ratio from migration? It just seems big this quarter. That's what I'm just trying to understand, kind of think of it...

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

I can't comment specifically on CET 1, but you would have seen from my PCL guidance that we expect to see continued normalization of our credit portfolios. The 40 to 50 bps range we've given you is a normalized range for TD Bank. So to the extent that that occurs, as we expect, then I would expect RWAs also to rise.

Doug Young – Desjardins – Analyst

Okay. And then in the U.S. Bank, I mean, it was a decent drop in noninterest income -- can you talk a bit about what drove that? Is this kind of a normalized run rate?

And then, Kelvin, I think you talked about various one-time items that flow through expenses, I think these are the items of note that you back out at the top of house in terms of driving cash EPS? Just hoping to make sure that that's the case.

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

So Doug, let me take the first part of that. With regards to the fee income, there were really two factors that played into the drop in the fee income. One is just the drop in value in certain investments, specifically our low-income housing tax credit portfolio. That tends to move around quite a bit, it's not as predictable. And so we did see a bit of a write-down in value on that portfolio in the quarter.

The second one is a drop in overdraft fees, but specific -- related to a remediation effort around a specific type of overdraft fee that's referred to in the industry as authorized positive settle negative. And we took a reserve for client remediation in the quarter. It is a one-time charge. And so as you think about a normalized fee income number for us, I'd encourage you to look back to the second and third quarter of this year as a more indicative run rate fee income number.

Doug Young – Desjardins – Analyst

Okay. And then those two items, I assume, Kelvin, weren't backed out?

Kelvin Tran – TD Bank Group – Chief Financial Officer

Correct. Those are part of the adjusted earnings. None of them are an item of note.

[1] The reference to asset quality refers to reserve build through our allowance for credit losses process.

Doug Young – Desjardins – Analyst

Not -- those two items aren't backed out. And then the other items that you mentioned, Kelvin, like the restructuring charge and other investments that seem to flow through in the U.S. I can confirm this offline, but those are in the cash EPS or backed out?

Kelvin Tran – TD Bank Group – Chief Financial Officer

Those are backed out. So the restructuring charges would be considered item of note, and those are backed out.

Doug Young – Desjardins – Analyst

Okay. And then if I could just squeeze one last one in, maybe for Riaz. A big increase in capital market expenses adjusted. I think Kelvin talked a bit about some items here. Can you maybe just shed some light on what's going on through the expense line there?

Riaz Ahmed – TD Bank Group – Group Head, Wholesale Banking

Yes, Doug, I think, look, no doubt that we'd have to characterize this as a tough quarter for TD Securities for the bottom line. But I think it's worth unpacking it a little bit for you. I think you're zeroing in on expenses, but I think you should start with the revenue growth story.

And if you look at the growth in the global markets and the corporate investment banking revenue, from $2.9 billion last year in global markets to $3.3 billion this year, $1.8 billion for CIB last year to $2.8 billion this year, we've had a 25% lift in our revenue power.

And to the point that we made at the time of the acquisition of TD Cowen, we're getting more U.S. M&A revenue. We're getting more U.S. ECM revenue. We're getting more U.S. institutional equities revenues. So our market share rankings in U.S. investment-grade bond and U.S. high-yield bonds and U.S. equity underwriting are all increasing smartly.

And in an environment which is still moderated by market challenges, and we've just started optimizing our client coverage and extending our capabilities towards a wider set of verticals and to a wider set of clients. So I think that when you look at the expenses that have been added this year, you remember that we were growing organically in '20, '21 and '22. And then added 1,600 colleagues from TD Cowen and a couple of hundred of people who are working on the various integrations.

So as we just continue to build out our corporate coverage models, integrate -- continue their integration. We announced that we had integrated the equity platform. So that was a big milestone. Our efficiency ratio has risen from 62% last year to 74% this year.

And if you look at the quarterly trends in the efficiency ratio, you'll see that it bounces around. But look, I think that as we integrate over the 3-year period that we said we would, to get these synergies we were looking for, I think that we will normalize our way to about a 66% efficiency ratio and the potential that we're building in this franchise and the capabilities we're adding, I think we will be humming nicely.

Ebrahim Poonawala – Bank of America Securities – Analyst

Maybe just going back to Kelvin's comments around the risk and control expenses. So just based on what you said about the corporate segment, that's about $0.5 billion next year, potentially another $0.5 billion in 2025 that continues.

Give us a sense of like -- when we think about TD, Bharat and like you've talked about just the consistent management, et cetera. So where did the lapse occur given just the amount of time and dollars that are required now to remediate that? Any perspective that you can share in terms of why it happened? What actions you've taken in terms of changing your approach towards risk management, tech spend on the risk side would be helpful.

Bharat Masrani – TD Bank Group – Group President and CEO

Nice to hear from you, Ebrahim. And hopefully, it's not your birthday as well today.

Ebrahim Poonawala – Bank of America Securities – Analyst

Gabe would have nothing but three bank support. So everyone take note for next year as well.

Bharat Masrani – TD Bank Group – Group President and CEO

I know, I can imagine. I mean, look, we look at opportunities to improve. That's what we do. Sometimes we learn it ourselves. Sometimes we learn from our regulators. We see that the level of innovation with respect to technology is moving at quite a speed. And when we recognize that we need to invest, we do and we make investments to enhance our programs that fit our organization and manage our risk.

And this includes investments -- and we've talked about it before, in our U.S. AML program, and that will include people, training, data, technology, et cetera, because there are -- sort of the evolving areas, and we've got to make sure that we're keeping up with what is expected of a very large bank in the domestic business in the United States. And so we're doing that. And I expect that we will get there, and we will get there in a manner that you would expect out of TD. And so I think that's the best way I can describe it, Ebrahim.

Ebrahim Poonawala – Bank of America Securities – Analyst

And maybe the other side, Bharat, two other sort of follow-ups there. One -- maybe for Leo. I think in the past, I think in the immediate aftermath of the deal termination with First Horizon, you talked about like opening several stores across the Southeast, which sounded like a good plan in terms of when you think about household growth. Give us an update, is that still in the works? Or is that on a pause until you solve for this over the next year or so?

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

Well, Ebrahim, I'll start by simply saying this year, we did focus on building out distribution, but broadly, a distribution with a broader definition. So -- in fact, this quarter, we upgraded our TD Mobile application infrastructure to the next-generation solution. And it was successfully rolled out to 4.8 million clients. And we're thrilled with the reception that we've gotten from our clients.

Physical distribution will always be important. This year, to your point, we did open up 18 stores. I would say 6 of those in LMI communities. And so there'll always be a view on both physical and sort of virtual. But I would just point, I know that the underlying question there is around organic growth momentum. And I would just ask you to look at the underlying stats that we posted in the fourth quarter.

We had personal loan growth of 12%, with good representation across all the major loan categories. As you and I spoke in one of our analyst discussions, growing our consumer lending portfolio was a distinct priority of ours, and I'm encouraged that we've been able to do that while preserving quality, while increasing selective loan pricing.

And likewise, on the commercial side, I'm quite pleased that we were able to post a 9% growth in what is a much more challenged environment. And once again, I would say we were able to do that by increased focus and investment in our mid-market business, which is an area that we've said we have aspirations to continue to grow and leverage our existing specialty businesses as a foundation to do so.

So I think we've got good fundamental momentum. We'll continue to leverage our core. And when I say our core, historically, we've been an exceptionally strong retail and small business deposit institution. And that was on display again this quarter. We actually grew on a quarter-on-quarter basis. And so that will be an area of focus and continuing to acquire clients and scaling our operation is going to be a priority.

As I think we mentioned last quarter, we eclipsed the 10 million client mark, which is a big milestone for the franchise and speaks to our ability, to not only deepen relationships, but also continue to acquire and grow our franchise organically.

So a bit of a long-winded way of saying, I feel quite comfortable with the franchise. But as Bharat said, we're also committed in strengthening our core risk and control environment. It's a major priority. We are interested in not only growth, but doing it in a sustainable and responsible manner. It's certainly consistent with what TD has done historically.

Ebrahim Poonawala – Bank of America Securities – Analyst

Got it. So do you expect to open more stores this year? Or is that -- we're done for now?

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

We did open up six stores in the quarter.

Ebrahim Poonawala – Bank of America Securities – Analyst

Right. No, but looking into '24, I'm just wondering your expense growth guide, how many new stores is it baking in?

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

Yes. We haven't released the number, but we do intend to make investments in both physical as well as virtual distribution.

Meny Grauman – Scotia Capital – Analyst

I just wanted to clarify, going back to the restructuring program, $600 million pretax when fully realized annual cost savings. How much of that is actually going to be able to fall to the bottom line in '24 and '25, given the reinvestment requirements that you have? So I just wanted to clarify, and make sure I'm thinking about that correctly.

Kelvin Tran – TD Bank Group – Chief Financial Officer

Yes. So we've given you the net amount. And so the bulk of that would be into the business and mostly into risk and control.

Meny Grauman – Scotia Capital – Analyst

Okay. So the bulk of that into risk and control in '24 and '25, potentially '25. The other question I had was just in terms of your EPS growth guidance, you're guiding to below medium-term target. I'm just curious what -- that forecast, what is it baking in, in terms of buybacks? Is it assuming that the buyback activity continues at the current pace?

Kelvin Tran – TD Bank Group – Chief Financial Officer

Yes. So first, just to -- as a reminder, our medium-term target is EPS growth of 7% to 10%. And given the markets that continue to be challenging and also as Ajai said, the normalization of PCL, that's going to make it challenging to meet that range. And that would include share buyback as well. But as you have noticed, we bought back a lot of shares to date and that would give us more flexibility on the pacing of the share buyback in the future, but always subject to market conditions.

Meny Grauman – Scotia Capital – Analyst

So I'm asking about the buyback, just in the context of the decline in the CET 1 ratio this quarter. And just wondering if you're viewing the buyback a little bit more cautiously going forward. Also, there's some headwinds that you highlight in terms of regulatory changes, the FDIC levy, potentially maybe a legal charge in the U.S. I'm just wondering how you're viewing the buyback going forward, factoring all that in?

Bharat Masrani – TD Bank Group – Group President and CEO

Meny, this is Bharat. As Kelvin said, we bought back a lot. It gives us great flexibility as we pace our buybacks. Buybacks as you probably know and you know for sure, would depend on market conditions, how we're thinking about that, what kind of programs we put in place. And the bank, the level of capital we have, we like our position and every quarter, we add to that.

So I feel very comfortable as to where the bank's capital position is. And buybacks are largely influenced by market conditions. It's hard to predict exactly what those markets would be. And then we would adjust that you would expect us to do based on those conditions.

Paul Holden – CIBC World Markets – Analyst

Wondering if anyone on the call would like to provide guidance on Gabe's age?

Bharat Masrani – TD Bank Group – Group President and CEO

What's the consensus?

Paul Holden – CIBC World Markets – Analyst

Sorry, I just had to roll with the birthday joke. Okay. So first serious question is just looking at the PCL trends across the books of business. I'm just trying to figure out why U.S. retail is increasing faster than Canadian retail? Because I just look at the economic trajectories of those two economies. And it looks like Canada is weaker than U.S. I'm just wondering if this is simply a matter of loan mix and maybe that is the simple answer. And then also maybe you can give me a sort of expectation going into 2024, again, given the different trajectories of the two economies?

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

Yes. So I think you've got to look at those trends over a longer period of time. So if I -- I have the numbers in front of me, if I look at the full year, PCLs are up both in Canadian P&C and in U.S. P&C. And if you look at impaired and performing, actually impaired and performing are both up, okay? But performing is greater in Canada, and it's for the full year.

So what you may be seeing is maybe fluctuation between quarters. And the reason for that is the Canadian consumer is more vulnerable in our view than the U.S. consumer, both from a leverage standpoint and also an exposure to interest rates. This quarter, I think there were some puts and takes and there was some divergence between impaired and performing between the two segments. But I do feel the quality in both segments is good, and we are adequately reserved in both segments. So I would just tell you to look at it over a long period of time.

Paul Holden – CIBC World Markets – Analyst

Okay. That vulnerability comment makes sense. Thank you for that. And then a question, I guess, for Riaz on the Wholesale Banking business. When I look at the quarter, I understand that's not the standard you're operating to, but I see an ROE of 5%. I guess, last quarter was somewhere around 10%, 11%. What do you think is required to get this business to be ROE neutral at the all bank level or maybe perhaps ROE accretive over time? And is that the fair way to think about it? Is this always going to be an ROE dilutive business?

Riaz Ahmed – TD Bank Group – Group Head, Wholesale Banking

No, I don't think so, Paul. Like global trends for wholesale banks would say that ROEs tend to be in the 11% to 12% range through cycle. And full year 2022, that's kind of exactly where we were in the mid-11% range for ROE.

I do think that as we gain the revenue synergies that we were talking about and get a more normalized expense ratio, that basically solves the issue. If you just do some normalizing math and just say, if we think $1.5 billion, $1.6 billion of revenue per quarter, which is sort of the run rate of the full TD Cowen quarters in Q3 and Q4.

And we're going to get lift in that revenue as the markets become more favorable as they have been in the last few weeks, we're seeing nice momentum, a little bit of opening again, and we get our coverage models and our integration correct.

I feel very confident that we're well on our way. So I think if we focus on what we said we would, which is expand our client base, deepen it. We've got a whole bunch of work to do with Leo on the middle market investment banking side to drive revenue growth. I feel very optimistic about the potential for this -- for the wholesale franchise.

Paul Holden – CIBC World Markets – Analyst

Okay. Last one for me. Since expenses is very topical and you provided some guidance around expense growth, just -- and maybe it's for Kelvin. How do you think about the efficiency ratio for this bank over time? Like what do you think is the appropriate level?

Because clearly, in the short term, you're going to be somewhere above that target efficiency ratio and remind us of what your targets are, your medium-term targets and maybe based on your growth trajectory for this year and then 2% going forward, how long it may take to get to sort of the efficiency target?

Kelvin Tran – TD Bank Group – Chief Financial Officer

Yes. So the efficiency target is really dependent on the mix of business that we have, depending on which year, which business is growing faster than the other. Our focus is on delivering positive operating leverage in the medium term. And we know that if we do that, our efficiency ratio will just continue to improve over time. So that's the measure that we focus on.

Paul Holden – CIBC World Markets – Analyst

Understand. And sorry, did you include this in early commentary, the efficiency -- sorry, the operating leverage for 2024. Is that expected to be positive?

Kelvin Tran – TD Bank Group – Chief Financial Officer

No. Our operating leverage target is medium term. We don't do that from year-to-year.

Mike Rizvanovic – Keefe, Bruyette & Woods – Analyst

I want to go back to Kelvin on the expenses. And what I'm wondering is that second restructuring that you're expecting next year, does that have a similar dynamic in a sense that all of those savings will basically be offset by additional investments? Or are you going to see that latter part fall to the bottom line?

Kelvin Tran – TD Bank Group – Chief Financial Officer

No. They have the same dynamics because when we look at the expenses savings, we look at -- the full program would generate about $600 million pretax and for 2024, it would be $400 million pretax. And as you know, that would be lower than the amount of increase in expenses that we expect in risk and control in the Corporate segment.

Mike Rizvanovic – Keefe, Bruyette & Woods – Analyst

Okay. So then at some point down the line, maybe not until 2026, you would see your corporate loss come down to more normal levels. Is that how we should think about it? I know it's far out, but is that a rough proxy?

Kelvin Tran – TD Bank Group – Chief Financial Officer

It is far out, but that's what we're targeting.

Mike Rizvanovic – Keefe, Bruyette & Woods – Analyst

Okay. Perfect. And then just a follow-up on that. So I guess we're -- what I'm sort of wondering about is you have all this excess capital and I would have imagined that any sort of additional cost that you have to bear now would be -- you'd be able to sort of offset with some of that excess capital.

So I'm wondering why can't some of these costs be capitalized. It seems like they're all just going to be related to people and hiring new people to get you through whatever process you're working on, is that the case?

Kelvin Tran – TD Bank Group – Chief Financial Officer

No, the accounting would not allow you to do that. The capital and expense on the P&L are just two different concepts. So you cannot reserve expenses and offset that to capital. So when you add people, for example, it would just be going through your P&L line as an expense item.

Nigel D'Souza – Veritas Investment Research – Analyst

Just a couple of follow-ups for you on your mortgage portfolio. First to clarify a point that was made earlier, I think I heard that there was some credit migration related to mortgages that have hit the trigger rate that may be vulnerable or may be expected to hit the trigger point.

And I just want to clarify that's referring to your negatively amortizing portfolio, and those balances potentially or customer's hitting a trigger point where the effective loan to value hits an 80% threshold for the uninsured. Is that what you're referring to?

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

Yes, that is exactly what I was referring to.

Nigel D'Souza – Veritas Investment Research – Analyst

So does that include an expectation of home prices to decline? I know your economics team has put out a forecast, I believe for home price declines. So just wondering how that's factoring in the outlook for credit?

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

I think we are assuming if the rates remain the same and clients will reach an 80% threshold over the next 12 months, we'll book them at a higher rate of reserve. So it is a conservative calculation.

Nigel D'Souza – Veritas Investment Research – Analyst

Right. So I guess what the question I'm asking, is that 80% being hit by the balances increasing to negative amortization or a decline in home prices or a combination of both occurring?

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

It could be a combination.

Nigel D'Souza – Veritas Investment Research – Analyst

Okay. And then last question on that portfolio. I noticed that the percentage of your book that's negatively amortizing declined from 18% to 14%. And correct me if those numbers are inaccurate. But if that's correct, could you provide some colour on what drove that decline in negatively amortizing balances?

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

Yes. I think the way I would describe it is we are seeing positive payment actions by clients that are reaching trigger rates, and we reach out to those clients well in advance of them reaching trigger rate. And they are responding positively by either making lump sum payments or moving to a fixed rate or increasing the P&I. So again, from a credit perspective, I would attribute it to positive payment behaviour.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. I know you've gone over time here. Just a couple of quickies. Kelvin, what was the average price for the shares you bought back in the quarter?

Kelvin Tran – TD Bank Group – Chief Financial Officer

We'll get back to you. We have those disclosed here.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. And then presumably, Bharat, you said it's dependent on market conditions as to the pace. I assume if the share price ends up drifting lower than that average share price, then you would pick up the pace. Is that the right way to think about it?

Bharat Masrani – TD Bank Group – Group President and CEO

Well, I don't want to create a formula for you, Sohrab. We look at how the market is behaving, look at what those conditions are, look at the flexibility we have and a lot of factors go into how we think about this. But we've been buying back. Kelvin gave you the numbers.

And our intent -- our current intent is to continue doing that, but as to the pace and how we do it would depend on market conditions.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. And I appreciate the investments that are getting done in risk and control, and I think the quantification of the expenses and the duration over which probably that has to happen. Is there going to be -- do you have an estimate as to what sort of an impact that may have on your operational risk RWAs? And over how quickly we'll see that sort of -- impact, if any, you're anticipating.

Kelvin Tran – TD Bank Group – Chief Financial Officer

The increase in spending about risk and control does not have an impact on operational risk capital.

Sohrab Movahedi – BMO Capital Markets – Analyst

So you're not anticipating any increase in your operational risk RWA outside of this spending?

Kelvin Tran – TD Bank Group – Chief Financial Officer

The operational risk capital would depend -- could be impacted by other items, like fines and stuff like that, but the increase in spending does not have an impact on operational risk capital.

Lemar Persaud – Cormark Securities – Analyst

Most of my questions have been asked and answered, but I've got a couple of quick ones here. Just wondering if you guys know the size of restructuring charges that are to come in 2024, why not just put them through today.

Kelvin Tran – TD Bank Group – Chief Financial Officer

I'll give you some examples. So when you look at real estate optimization, there are specific accounting rules on what conditions you need to meet in order to be able to take those charges and those would come over time. And so we expect some of that would be in Q1 or Q2, for example.

Lemar Persaud – Cormark Securities – Analyst

Okay. So it's not related to the impact that it would have on capital today, for example, it's strictly due to accounting rules?

Kelvin Tran – TD Bank Group – Chief Financial Officer

That and the pace of the program that we're initiating.

Lemar Persaud – Cormark Securities – Analyst

Okay. And then could you guys talk about or help me understand which business lines are going to be most impacted by the 3% reduction in FTE?

Kelvin Tran – TD Bank Group – Chief Financial Officer

It's pretty broad-based.

Lemar Persaud – Cormark Securities – Analyst

Okay. So just assuming it goes across all business lines would be a fair characterization of it?

Kelvin Tran – TD Bank Group – Chief Financial Officer

Correct.

Lemar Persaud – Cormark Securities – Analyst

Okay. And then just last one here in terms of the rapid fire questions. I think last quarter, you guys were guiding to flat margins in the U.S., but you had 7 basis points this quarter. And then you guys are sticking with flat margin guidance again moving forward. What drove the surprise on U.S. margins this quarter? And why not offer a little bit more of a constructive outlook?

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

Lemar, thanks for the question. I'll try to be constructive -- just -- I wouldn't say it was a surprise. A couple of factors actually materialized in the quarter. First and probably foremost is that we had larger maturities and the tractor on rates generated a significant positive lift for us. That was one significant factor.

The other is that while we had made borrowing reductions last quarter, and you would have seen that in the spot reductions, the average value actually came through this quarter. So the combination of higher tractor on maturities and the impact associated with that and lower borrowings in the quarter, actually gave us a bigger lift than what we had anticipated.

And then to a lesser extent, and I want to be careful on this one, deposit migration, which was a factor in some of the pressure we saw last quarter, eased just a bit. And I would expect that to continue over the subsequent quarter.

So I think it was really the combination of those factors that yielded a slightly better margin profile. I would still say that given market conditions in the U.S., given the uncertainty that still exists in terms of overall funding and liquidity positions, we feel quite comfortable with the guidance that margins are going to be relatively stable over the next quarter.

Darko Mihelic – RBC Capital Markets – Analyst

Just a couple of quickies. First, maybe this is for Kelvin, the U.S. business, I'm looking at it in U.S. dollars, what's a reasonable tax rate do you think for 2024 to think about with respect to that business?

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

I'll take that. So on an average basis right now, it's sitting just under at 20%. But at the margin, I would expect that number to be slightly higher.

Darko Mihelic – RBC Capital Markets – Analyst

Slightly higher. Okay. Second question, Leo, sticking with you. I may be looking at this incorrectly, but was there a benefit to your NII from the Schwab payment? Or was that put into corporate?

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

No. It's a very good question, Darko. There was a benefit and a cost. So let me just break those two out. We did -- there was a breakage – one-time breakage fee that was paid by Schwab as they bought down flexibility in terms of the fixed rate obligations, which was a condition that we put into the agreement with them and they exercised that in the quarter.

So that would have given us a slight benefit in the quarter. It was more than offset by the decline in overall sweep balances and lower investment earnings and management fee earnings from the actual agreement itself. So net-net Schwab in the quarter for us, from an NII perspective, was a drag.

Darko Mihelic – RBC Capital Markets – Analyst

It was a drag. And essentially moving forward now unless there's other charges or something we should really assume that. I mean what was it? Is there anything you can provide to us in terms of -- I mean I think I can calculate the fee that they paid you, but I can't calculate all the negative. Can you -- is there a number you can put around the NII hit?

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

Darko, we've traditionally not provided that number. But if you're trying to get at would we expect potentially balances to decline? And there could be some revenue headwinds? Yes, and that's something that we've factored into our long-term plans.

Darko Mihelic – RBC Capital Markets – Analyst

And last question for me, and I promise I'll stop here. But again, a question on net interest margin. And maybe this is for Kelvin, but anyone can pipe in, I guess.

When I stare at the sensitivity that you guys provide -- and now I'm looking at it through the lens of falling rates because I think that's where we're all heading. And it looks like your sensitivity has declined over the last 6, 7 quarters now, overall at the all bank level with respect to the sensitivity to falling rates. Is this something intentional that TD is doing? Is there some sort of balance sheet changes occurring at the bank to reduce NII sensitivity? Or is this just simply normal course and the balance sheet structurally has just moved in such a way that you have less sensitivity to falling rates going forward?

Kelvin Tran – TD Bank Group – Chief Financial Officer

Yes. So I'd say, it's Kelvin here, largely speaking, it's a combination with a bunch of factors like as deposit composition mix changes from lower beta to higher beta deposit, then you actually see less sensitivity. And then also, as we look at tractoring maturities, we may refine the margin in locking forward tractors, and that may have an impact as well.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. So to confirm, nothing's really changed. It's just sort of a structural change with respect to the balance sheet. That's helpful.

Operator

There are no further questions registered at this time. I'd like to turn the call back over to you, Mr. Masrani.

Bharat Masrani – TD Bank Group – Group President and CEO

Thanks very much, operator, and thanks, everyone, for joining us today.

I would like to take this opportunity to thank my colleagues around the world for the wonderful work they do, for all of our stakeholders, including our shareholders.

And given the time of the year, I'd like to wish them a happy holidays. And to you all on the phone as well, happy holidays and all the best and see you next year. Thank you.