Q1 2025 EARNINGS CONFERENCE CALL
FEBRUARY 27, 2025

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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 2024 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 headings "Significant Events", "Significant and Subsequent Events" or "Update on U.S. Bank Secrecy Act (BSA) / Anti-Money Laundering (AML) Program Remediation and Enterprise AML Program Improvement Activities" 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 and/or on the conference call held to discuss these matters are set out in the 2024 MD&A under the headings “Economic Summary and Outlook” and “Significant Events”, under the headings “Key Priorities for 2025” 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 “2024 Accomplishments and Focus for 2025” for the Corporate segment, each as may be updated in subsequently filed quarterly reports to shareholders and news releases (as applicable).

Any forward-looking statements contained in this document and/or on the conference call held to discuss these matters 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 Bank Group – Head of Investor Relations

Thank you, operator. Good morning and welcome to TD Bank Group’s first quarter 2025 results presentation.

We will begin today's presentation with remarks from Raymond Chun, the Bank's CEO, followed by Leo Salom, President and CEO, TD Bank, America's Most Convenient Bank, after which Kelvin Tran, the Bank's CFO, will present our first quarter operating results. Ajai Bambawale, Chief Risk Officer, will then offer comments on credit quality, after which we will invite questions from pre-qualified analysts and investors on the phone. Also present today to answer your questions are: Sona Mehta, Group Head, Canadian Personal Banking; Barbara Hooper, Group Head, Canadian Business Banking; Tim Wiggan, Group Head, Wholesale Banking and President and CEO, TD Securities; and Paul Clark, Senior Executive Vice President, Wealth Management.

Please turn to slide 2. As noted on Slide 2, our comments during this call may contain forward-looking statements, which involve assumptions and have inherent risks and uncertainties. Actual results could differ materially. I would also remind listeners that the Bank uses non-GAAP financial measures to arrive at adjusted results. The Bank believes that adjusted results provide readers with a better understanding of how management views the Bank's performance. Ray, Leo and Kelvin will be referring to adjusted results in their remarks. Additional information about non-GAAP measures and material factors and assumptions is available in our Q1'25 Report to Shareholders. With that, let me turn the presentation over to Ray.

Raymond Chun – TD Bank Group – Group President and Chief Executive Officer

Thank you, Brooke, and good morning everyone. Before we discuss the quarter, I want to briefly comment on the current environment. There's no doubt that tariff and trade risks are clouding the economic outlook. Should these risks materialize, a lot depends on their depth and duration, and on the actions governments may take to support Canadians and Canadian businesses. First and foremost, whatever ultimately happens, we are focused on our customers and clients. We will continue to support the millions of businesses and households across Canada and the United States as they navigate uncertainty and new dynamics.

Next, we are modelling multiple scenarios including potential impacts on provisions. The Bank is well-capitalized, with a strong balance sheet, a resilient business model and conservative risk-appetite, all of which provide us with the ability to steer through unknowns and shifts in the macroeconomic environment.

The current situation is also a clear signal that Canadian governments and businesses must pull together, remove the obstacles that hold back national productivity, and strengthen our competitiveness. Inter-provincial trade barriers are something we must tackle. Accelerating critical projects to untap mineral, energy and resource production and leadership is another key focus area. We also need to evaluate tax, regulatory and other policies to retain talent, create the right conditions for businesses to grow, and make Canada a top destination for foreign investment. I believe Canada has an opportunity to build on its strengths and create the right conditions for our economies to thrive in the future.

With that, let's turn to the next slide.

I'd like to start with an update on our strategic review. As we've discussed, we are undertaking a comprehensive strategic review at the Bank. This will culminate in an Investor Day in the second half of 2025, but we will provide updates along the way. The strategic review is organized around four pillars, and we are making steady progress in each. Earlier this month, we sold TD's entire 10.1% stake in Schwab to pursue compelling opportunities to invest in our own business – both by buying back TD shares and by seizing opportunities to further support our customers, drive performance, and accelerate organic growth. And on Monday, we announced that the share buyback received regulatory approval to start on March 3rd.

We also gave more authority and accountability to our lines of business for the end-to-end customer experience, streamlining TD's operating model.

In a few minutes you will hear from Leo on our U.S. balance sheet restructuring. We are making great progress and are on track to complete the program along our previously communicated timeline. Leo will also provide an update on our AML remediation.

Finally, we are focused on operational excellence and on driving efficiency. AML is our #1 priority – and we will continue to invest. To accelerate momentum across our businesses, we will also need to make strategic investments. We are identifying significant opportunities to restructure operations, reduce costs, and improve processes.

Please turn to slide 4.

In Q1, the Bank delivered earnings of $3.6 billion and EPS of $2.02. We saw volume growth in Canadian Personal & Commercial Banking and strong trading and fee income in our markets-driven businesses. As you will hear from Ajai shortly, Q1 PCLs reflect certain overlays for policy and trade uncertainty. And Kelvin will speak more about expense growth in his remarks. Expenses this quarter include the impact of TD shares issued to eligible, non-executive colleagues in December, to show our appreciation for their hard work and commitment to the Bank in a challenging year.

As of quarter-end, the Bank's CET 1 ratio was 13.1%. Pro forma for the sale of our Schwab stake earlier this month, and the completion of the proposed $8 billion share buyback, TD's CET 1 ratio would be approximately 14.2%. TD is very well capitalized, with the flexibility to complete a significant share buyback while investing to drive organic growth and maintaining prudent capital levels.

Please turn to slide 5.

As I travel across our footprint and meet with colleagues, I am struck by their tremendous pride in TD. We have strong momentum across our businesses – and that was evident in our Q1 results. We operate Canada's premier banking franchise, and are very proud that TD was once again named Canada's most valuable brand by Brand Finance.

In Canadian Personal & Commercial Banking, we introduced RESL specialists in branch to enhance our proprietary distribution strategy. The distribution ecosystem deepens customer relationships, and improves retention, while delivering a strong profitable profile. And in credit cards, the team delivered a record quarter in active accounts and cardholder spend. TD Auto Finance saw record originations in Q1, and added dozens of new dealer floorplan relationships.

Turning to U.S. Retail, AML remediation remains our #1 priority. We have seen good customer momentum, with five consecutive quarters of customer deposit growth. We are also seeing momentum in our U.S. wealth business, with total client assets of US$52 billion – up 11% year-over-year. As you know, our IDA with Schwab remains unchanged. We are pleased with the current arrangement, and confident that we can manage the Schwab balances while complying with the asset limitation.

Wealth Management & Insurance had a strong quarter. Let me start by congratulating the Direct Investing team. For the third year in a row, we were named the #1 digital broker in Canada by The Globe & Mail. A fantastic accomplishment that further extends our leadership in this critical category. Last year, TD introduced partial shares capability – unique among Canadian banks – and a big hit with young investors. Just over 50% of our clients that have traded partial shares are Gen Z and Millennials. In TD Asset Management, we won $3.2 billion in new institutional mandates this quarter. Our strong performance was recognized with 24 FundGrade A+ awards, including 15 for ETFs – a testament to our momentum in this rapidly growing segment of the market.

Finally, in TD Insurance, we became the first Canadian Issuer to sponsor a catastrophe bond solely focused on catastrophe perils in Canada. This $150 million issuance is an example of our OneTD strategy, with TD Securities acting as joint bookrunner on this placement. Through the cat bond issuance, TD Insurance leveraged capital markets to manage risk exposure and support resilience against natural disasters.

In Wholesale Banking, we continued to demonstrate the power of our broader platform with quarterly revenue over $2 billion for the first time. TDSAT, TD's leading U.S. municipal-bond trading dealer, expanded into a new asset class, and is now trading U.S. investment-grade corporate bonds. TD Cowen was recently named IFR's 2024 U.S. Mid-Market Equity House of the Year, an award given to the leading underwriter of U.S. equity offerings between US$50 and US$500 million. And, after quarter-end, TD Securities acted as lead bookrunner on TD's sale of its Schwab stake. This critical role in a milestone transaction is already opening new opportunities for our Wholesale Banking business.

Across our Canadian Personal & Commercial Banking and Wealth Management & Insurance segments, we continue to make progress against the medium-term financial targets that we laid out at our 2023 Investor Day. Slides 29 and 30 in the appendix provide an update on our progress.

Please turn to slide 6.

Digital leadership is a critical component of both customer experience and business performance. And, it's an area of focus and investment in our strategic review. TD Invent is our Bank-wide umbrella effort to power innovation. Last year, we deployed a Generative AI virtual assistant in our contact centres supporting the Canadian Personal Bank. We have seen reductions in call hold times and escalations to second level support – driving efficiency while enhancing the customer experience. We are now rolling out this gen AI virtual assistant to our contact centres supporting our Wealth and Insurance businesses.

We are determined to keep innovating, elevating the experience, and driving growth through digital leadership.

Please turn to slide 7.

Before I turn the call over to Leo, I want to note that we will release our 2024 Sustainable Report soon. It will outline our progress – and our commitment to our clients as they adapt their businesses and seize new opportunities.

Let me conclude with a quick comment. I've been CEO for just under a month. The strategic review is advancing as planned. We will continue to drive change and unlock new opportunities. What remains constant is the commitment of our colleagues. I want to thank them for their tremendous efforts as – together – we build the Bank for the future.

With that, Leo, over to you.

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

Thank you, Ray, and good morning, everyone. Please turn to slide 8.

U.S. AML remediation, as we've said previously, remains our top priority. And I am pleased with the progress that we've made over the past quarter. We're moving forward with focus and purpose. And we continue to bring additional AML specialists with proven experience onto our team, and together with the exceptional team that we've already built, we are building the capabilities we need for the future. An important component of our resolutions was the appointment of a monitor. The DoJ and FinCEN have jointly selected Guidepost Solutions, as we look forward to working with them to strengthen and enhance our U.S. BSA/AML compliance program.

Operationally, we are making progress on the technology side, including centralizing all investigative cases onto a new single case management system. We will also be implementing enhancements for transaction monitoring, including adding a further round of scenarios in upcoming quarters.

We have designed machine learning tools to help analyze customer data more effectively to detect potential activity of interest with speed. We expect to begin implementing these capabilities in Q3. Collectively, building these capabilities will enable us to detect, escalate, and report potential activity of interest earlier and more effectively.

We remain focused on completing the remediation actions as outlined. There is still much to do – this is a multi-year process, but, we remain unwavering in our commitment to build the AML program we need. And we will continue to provide updates on a quarterly basis.

Now if I can ask everyone to please turn to page 9.

I'd also like to provide an update on our balance sheet restructuring activities. You will recall this effort has two critical objectives: first, to strictly comply with and maintain a buffer to the asset cap limitation and second, to ensure that we can continue to serve our clients and communities as their needs evolve. We have made meaningful progress against our objectives. Most notably, we have reduced assets from US$434 billion in September to approximately US$402 billion in January due largely to the reduction of borrowings using excess cash and investment maturities.

Our asset reduction is proceeding on track as well; this week we signed an agreement to sell US$9 billion corresponding lending portfolio. And we do expect that transaction to close in Q2. Our investment portfolio repositioning is also proceeding well. To date, we have sold approximately US$19 billion of notional bonds, for an upfront loss of US$1.1 billion pre-tax. In total, the investment portfolio repositioning is expected to

generate an NII benefit in fiscal 2025 at the upper end of the US$300 to US$500 million pre-tax estimated range that we provided in October.

I feel confident that we will complete the investment portfolio repositioning in the upcoming months and largely complete the identified loan sales by the end of the fiscal year. And – we are assessing further portfolios with lower returns that are not scalable for potential sale or wind-down as part of the broader strategic review that Ray referenced. Collectively, we expect these actions will enable us to improve return on equity through fiscal 2025 and into fiscal 2026.

With that, I'll turn it over now to Kelvin.

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

Thank you Leo. Please turn to slide 10.

Earnings were relatively flat year-over-year, reflecting higher revenues offset by higher expenses – including governance and control investments – and higher PCLs. Total bank PTPP was up 6% year-over-year, after removing the impact of the U.S. strategic card portfolio, FX, and Insurance Service Expenses.

Revenue grew 9% year-over-year driven by higher trading-related and fee income in our markets-driven businesses, volumes in Canadian Personal & Commercial Banking, and insurance premiums. Expenses increased 12% year-over-year, with approximately one-third of the growth driven by variable compensation commensurate with higher revenues and foreign exchange. We continue to expect fiscal 2025 expense growth – assuming fiscal 2024 levels of variable compensation, FX and the U.S. strategic cards portfolio – to be in the 5 to 7% range. However, given the ramp up in our governance and control investments over the course of fiscal 2024, we expect elevated year-over-year expense growth in Q2. We have provided slide 27 in the appendix to today's presentation, to help stakeholders better understand TD's expense growth profile.

Please turn to slide 11.

Canadian Personal & Commercial Banking delivered record revenue, PTPP, deposits and loans. Average loan volumes rose 4% year-over-year, with 4% growth in personal volumes – reflecting real estate secured lending up 3% and cards up 9% – and 6% growth in business volumes. In RESL, we saw the uptick in customer activity that began late in Q4 carry into Q1 – driven by lower interest rates – with the tariff uncertainty emerging only late in Q1. In commercial banking, demand was strong in Q1, but customers are now pivoting to a "wait and see" approach.

Average deposits rose 5% year-over-year, reflecting 4% growth in personal deposits and 7% growth in business deposits. In the Personal Bank, we saw good growth in non-term deposits, and moderating growth in term deposits, as customers value liquidity in the current environment. This mix shift was margin accretive.

Net interest margin was 2.81%, up 1 basis point quarter-over-quarter primarily driven by changes to balance sheet mix. As we look forward to Q2, while many factors can impact margins, including the impact of a further Bank of Canada rate cut, competitive market dynamics, and deposit reinvestment rates and maturity profiles, we expect NIM to be relatively stable.

Expenses increased reflecting higher technology spend, the impact of TD shares issued to eligible employees, and various other operating expenses.

Please turn to slide 12.

U.S. Retail delivered business momentum, while executing against our balance sheet restructuring program. Loans grew 1% year-over-year, or 3% excluding the impact of the loan portfolios identified for sale or run-off. Bankcard balances grew 12% year-over-year and the small business and middle-market verticals both grew 7% year-over-year. While our business clients generally foresee potential investment opportunities, many are proceeding with caution given uncertainty around tariffs and long-term rates.

Net interest margin was 2.86%, up 9 basis points quarter-over-quarter, reflecting the impact of the U.S. balance sheet restructuring activities and normalization of liquidity levels – which positively impacted NIM by 5 basis points – partially offset by lower deposit margins. As we look forward to Q2, we expect NIM to

deliver substantial expansion benefiting from ongoing balance sheet restructuring activities and further normalization of our elevated liquidity levels.

Expenses increased 11% year-over-year reflecting higher governance and control investments – including costs of US$86 million for U.S. BSA/AML remediation – and higher operating expenses. As a reminder, effective this quarter, certain U.S. governance and control investments, including costs for U.S. BSA/AML remediation, previously reported in the Corporate segment, are now reported in the U.S. Retail segment. We have reclassified prior periods to conform with this approach. Governance and control investments were higher this quarter compared to the first quarter last year as remediation efforts progressed over this period. We expect this year-over-year trend to continue into the second quarter. We continue to expect U.S. BSA/AML remediation and related governance and control investments of approximately US$500 million pre-tax in fiscal 2025.

Please turn to slide 13.

Wealth Management delivered record revenue, earnings and assets. New accounts were up 30% year-over-year – with new accounts up 44% in Direct Investing, as the business continued to compete and win in a competitive market. Insurance delivered gross written premium growth of 13% year-over-year, with our marketing efforts yielding leading brand awareness in a crowded category.

To help support analysts' and investors' analysis of our business performance, we have provided new disclosure on return on equity for each of the Wealth Management and Insurance businesses. Expenses this quarter reflect higher variable compensation. The business is driving efficiencies as it gains scale.

Please turn to slide 14.

Wholesale Banking delivered record revenue this quarter driven by its Global Markets business – demonstrating the power of our franchise. We saw higher PCLs this quarter, with performing PCLs reflecting policy and trade uncertainty and impaired PCLs reflecting a few new impairments. Expenses increased 7% year-over-year reflecting higher variable compensation, front office and technology costs.

Please turn to slide 15.

As I mentioned earlier, effective this quarter, certain U.S. governance and control investments, including costs for U.S. BSA/AML remediation, previously reported in the Corporate segment, are now reported in the U.S. Retail segment. This slide reflects these changes within the Corporate segment. Corporate Net Loss for the quarter was $266 million and Net Corporate Expenses were $370 million.

Please turn to slide 16.

The Common Equity Tier 1 ratio ended the quarter at 13.1%, up 2 basis points sequentially. Strong internal capital generation was offset by the increase in RWA (excluding the impact of FX) and the impact from our U.S. balance sheet restructuring activities.

We expect the impact to CET 1 from the Schwab share sale to be approximately 238 basis points in Q2. This differs modestly from what we disclosed on February 11th, as that was based on Q4 risk weighted assets, and Q1 risk weighted assets are higher.

Our average LCR for the quarter – which does not reflect the impact of the Schwab share sale post quarter-end – was 141%. We are comfortable operating at more typical LCR levels, and have begun to manage liquidity levels down. However, we expect LCR to remain elevated in the near-term reflecting proceeds from the Schwab share sale.

With that Ajai, over to you.

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

Thank you, Kelvin, and good morning everyone. Please turn to slide 17.

Gross impaired loan formations were 25 basis points, a decrease of 3 basis points quarter-over-quarter, reflected in the Canadian and U.S. Commercial, and Wholesale Banking lending portfolios.

Please turn to slide 18.

Gross impaired loans increased $504 million quarter-over-quarter to $5.45 billion or 56 basis points. The increase was recorded across the Canadian and U.S. consumer, and business and government lending portfolios, and includes a $181 million impact of foreign exchange.

Please turn to slide 19.

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 3 basis points quarter-over-quarter to 50 basis points. The increase is largely reflected in Canadian Personal & Commercial Banking, and U.S. Commercial, partially offset by lower provisions in Wholesale Banking.

Please turn to slide 20.

The Bank's Impaired PCL was $1.2 billion, with an increase of $63 million quarter-over-quarter driven by the U.S. Cards portfolio, related to the adoption impact of a model update, and seasonal trends, partially offset by lower impaired provisions in Wholesale Banking.

A nominal performing PCL recovery of $4 million this quarter was related to the adoption impact of a model update in the U.S. Cards portfolio, and improvement in our macroeconomic forecasts reflecting recent positive economic data, though tempered for policy and trade uncertainty, largely offset by overlays in the Business & Government lending portfolios, again, for policy and trade uncertainty.

Please turn to slide 21.

The Allowance for Credit Losses increased by $457 million quarter-over-quarter, to $9.6 billion, or 99 basis points, primarily due to a $214 million impact from foreign exchange, overlays in the Business and Government lending portfolios related to policy and trade uncertainty, and credit migration, partially offset by an update to our macroeconomic forecasts.

In summary, the Bank exhibited strong credit performance this quarter, in line with expectations as we progress through the credit cycle. While we have taken initial steps to bolster our reserves for policy and trade uncertainty, the situation remains fluid. There are many potential scenarios that could play out that may impact the economic trajectory and credit performance, some of which could drive PCL results beyond the 45 to 55 basis points range I provided last quarter for fiscal 2025.

That being said, TD is well positioned to manage through this period considering our prudent provisioning, broad diversification across products and geographies, our strong capital position, and our through-the-cycle underwriting standards, that have served us well through challenging conditions in the past.

With that, operator, we are now ready to begin the Q&A session.

QUESTION AND ANSWER

Operator

[Operator Instructions]. The first question is from Paul Holden from CIBC.

Paul Holden – CIBC World Markets – Analyst

Thank you. Good morning. First question is related to the U.S. balance sheet repositioning. You highlighted that you paid down US$25B of borrowings in Q1. I'm assuming there's probably more to do there just in terms of paying down higher cost borrowings. Can that come hand in hand with, say, that $9B portfolio sale you've agreed to already in Q2? And could the sale of lower-yielding assets actually be NII accretive?

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

Paul, thanks for the question, it's Leo. Yes, the short answer is, at the end of the first quarter, so January 31st, we were sitting on $25B of bank borrowings, having already reduced nearly $25B previously. So there will be an opportunity to further reduce that over time. How quickly we can do that will depend on the term structure of some of those bank borrowings. So we will be able to deploy a good portion of the $9B to reduce a portion of those bank borrowings in the second quarter. The balance will have to materialize as

we reduce our overall loan portfolio. We'll do that gradually during the course of the year. So you may not see the same size of decline in the second quarter, but you will see over time an opportunity to further reduce the $25B in bank borrowings on the balance sheet at the end of the first quarter.

Paul Holden – CIBC World Markets – Analyst

And then second question. No change in expense guidance or that expected risk and control remediation costs of US$500MM. So that's good. Two questions related to that. First one is, can you give us a sense of what the actual costs incurred in Q1 were relative to that $500MM bogey? And then two, I just want to get confidence that Ray, in particular, you've really gone through this, checked off all the nuts and bolts, to make sure there is no future upside risk that this US$500MM may grow into something larger.

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

So Paul, maybe I'll address the first part of it and then I'll hand it over to Ray. The total expenses for the first quarter for the AML remediation was US$86MM, and I think we disclosed that number, which is slightly lower than what we spent in the fourth quarter. That's to be expected. There'll be some ebbing and flowing in terms of expense timing related to some of the remediation activities. I do expect that some of the look back expenses, expenses related to the monitor costs, etc, will become much more material in the second half of the year. So there'll be a little bit of staging, but we feel quite comfortable with the guidance of US$500MM. As I've shared with you in the past, we're pretty far along the remediation program. Some of the more complex elements of the remediation program around technology infrastructure – we've already released a number of releases on our transaction monitoring platform, which are some of the longer pole type items. So generally speaking, feel quite comfortable with the overall guidance of US$500MM. Ray?

Raymond Chun – TD Bank Group – Group President and Chief Executive Officer

And Paul, I think Leo has covered it well. We have been at this for a little bit, and we have a detailed action plan on what the remediation efforts need to be. I think the piece that he flagged on the look back is the piece that, as we go through that Paul, we'll update you if there's anything that comes from the look back. But that's the one that I would say that will take a little bit of time as we go through that process. But we have actually budgeted it in the sense of the US$500MM. And then if there's more beyond that, we'll update all of you as we go along.

Gabriel Dechaine – National Bank Financial – Analyst

Good morning. I guess I'll start with expenses. So 12% expense growth, one third of that was variable comp related and FX. So let's say, 8% to measure up against your guidance. A little bit above that, you're saying Q2, you'll have another expense uptick. And then I would assume that means in the second half, expense growth, maybe doesn't fall off a cliff, but drops well below that full year range? Is that how we're expecting it to play out?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

It's Kelvin. That's right Gabe. So the year-over-year increase in Q2 is really due to the profile from last year. So if you look, Q2 was a little bit lower back in '24. And because of the ramp up, you would see a higher year-over-year uptick. And you're right that we expect the second half of the year, the year-over-year expense growth would be moderating.

Gabriel Dechaine – National Bank Financial – Analyst

And that's despite what Leo was just saying as far as there's going to be a seasonal increase in AML remediation costs in the second half?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

That's right. We're talking about total bank expenses here. Leo's business also in Q2, you would expect a year-over-year higher expense growth as well for Q2.

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

Yes, and Gabe, maybe I can just jump in on that, just to give you some clarity. So you're right, first and second quarter will have elevated expense growth numbers. But to the point that Kelvin raised and very similar to the shape at the overall group level, notwithstanding that some of the remediation costs might increase, the year-on-year comparisons will moderate the rate of growth quite substantially. So I just wanted to leave you with that clarity.

Gabriel Dechaine – National Bank Financial – Analyst

Now the other question – about the performing provision this quarter, a release? And you gave an explanation there that was helpful – the model refinements for the U.S. card portfolio. I don't even know what goes in that. So that's fine, I guess. But then the improvement to the macroeconomic outlook, kind of made me spit out my coffee a bit. What are we talking about here? And I think we're all in agreement, there's a lot of uncertainty out there. The Canadian economy, at least, is really decelerating. And is it a matter of – you had really conservative assumptions, and they're just not as bad as you assumed? I'm trying to understand why there is a deviation in your messaging versus certainly what we're seeing from other banks.

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

I do feel our messaging is quite consistent, but let me explain the moving parts to you. So performing PCL, I'll go into a little detail. So the macro and the Canadian macro, we actually, in our scenario, in our base case, had GDP slightly better, unemployment lower, better HPI. So that, and again, keep in mind, this is all done at a point in time. The scenario and the models drove a release in macro. Then we had a model update in cards, and that model update essentially, we used better predictive variables and there was better segmentation of risk across the PD bands. That drove another release in performing. What we did is we took a step back and looked at all the industries that may be impacted by tariffs. We looked at potential risk migration. Again, this was based on an initial view. And keep in mind this is all as at January 31st, and we created an overlay of $149MM. And I do believe that's pretty similar to the approach of others. I think the difference with us is there are certain factors, the model being a material one, that drove a release. So we overrode those releases through the overlay.

Ebrahim Poonawala – Bank of America Securities – Analyst

Good morning. I guess maybe first question for Ray and Leo both. But I think, Ray, in your prepared remarks, you mentioned you might identify the need to make strategic investments. And then I think Leo mentioned about looking for other portfolio exits. As we think about – so it's not AML related – but as we think about the outlook for investment spend, expense growth, does that leave the door open where expense growth could ramp up as you identify more investment opportunities? Or is that going to be concurrent with savings that you talked about? And same thing on the portfolio exits – is that partly the reason why you're operating with a much higher CET 1 is to give yourself room to restructure and exit some loans or sort of small business lines and take charges and move on? Would love colour on both those. Thank you.

Raymond Chun – TD Bank Group – Group President and Chief Executive Officer

Maybe I'll start, Ebrahim. Good morning. On our strategic review, as I outlined on Slide 3, one of the pillars is on the drive efficiency, operational excellence. And so, from a cost optimization, we're going deep to rightsize our cost base, Ebrahim, and some of that then will provide us the opportunity to invest in the capabilities in some of the areas of the organization. And so sort of self-funding in many cases, some of those opportunities, but we also then have identified through the strategic review, some significant organic growth opportunities, and we'll be using some of the proceeds from that side of it. So think of it as in the fact that we will manage our expenses. So the guidance for the balance of this year is still 5% to 7%. And as we move forward, we will continue to invest in our business, but then manage our expenses back down to a more normalized growth.

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

We're following the same logic, maybe if I could just take a step back to give you a sense of how we're thinking about the U.S. First and foremost, I feel like we're making very good progress on both the AML remediation and the investment bond repositioning and the broader balance sheet restructuring program. I think on all three fronts, we've essentially executed on the things that we've laid out to do. I think as we think about the outlook for the business, I feel there's a number of factors that point to a very positive outlook. First, we're trading as a result of the investment bond repositioning, we will be on the upper end of our range, and that's positive. So we're ahead of schedule with regards to our overall investment bond repositioning. I think we're also seeing medium-term rates a little stronger. And as a result, tractor on rates are a little bit better and therefore, that will be constructive from a revenue standpoint. We are seeing in our core areas of growth – we're seeing good volumes. Our bank cards business was up 12% and our mid-market business up 7%, just to highlight two areas that we have previously expressed a degree to sort of lean into – and our wealth business was up 11% in the quarter. So some of the businesses that you and I have talked about in terms of the criticality for the franchise to perform well.

From an expense standpoint, to your question, our challenge is that we've got to absorb the restructuring costs. And so we are being very deliberate and very mindful about generating productivity where we can to be able to create the space to invest in those significant remediation efforts and that is our first priority. We're going to do what we need to do to make sure that we're addressing that fully. But I do think that some of the work that we're doing will allow us to be able to invest selectively in the areas that I think will be critical for our future, whether that be cards, wealth or digital strategy. So we are trying to, as Ray said, create the capacity in order to be able to not only address the foundational investments that we need to make on remediation – but also selectively, and I do emphasize selectively because the strategic review is forcing us to make some significant choices – invest in those areas that I think will be quite positive. You put all that together, and I think, two big conclusions. One, I do think we'll be able to generate return on equity improvement on a quarter-on-quarter basis through this year and into next year. And secondly, I do think we return to a positive NIAT profile as we go into 2026.

Ebrahim Poonawala – Bank of America Securities – Analyst

That's helpful. And just one quick follow-up. Maybe it's quick. Kelvin, you mentioned NIM expansion should be substantial. I would appreciate if you could quantify that in what you expect either at segment level or consolidated level?

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

Maybe I'll follow-up, Ebrahim, just on the U.S. business because it's where that substantial adjective was applied. I think, there's going to be two big factors or two big drivers driving that. One, we'll further normalize to the question that Paul raised earlier, we'll continue to normalize liquidity. And that will have an impact in the quarter. And secondly, we'll get sort of a full quarter's impact of the bond repositioning activity that we did in the first quarter. Both of those items will substantially move the NIM for the U.S. business. Thereafter, coming back to the point I raised before, I do think that the rate structures right now with higher medium-term rates will be constructive for modest NIM expansion thereafter.

Meny Grauman – Scotia Capital – Analyst

Good morning. I wanted to follow up on some of the expense questions that Paul asked at the beginning of the call. Specifically, if I'm looking at the U.S. I'm looking at a sequential decline in expenses on an adjusted basis. So I think you touched on it, but I want to make sure I understand it. What's driving that sequential decline? I wouldn't have expected that given the incremental remediation costs but I think you mentioned something about timing, but I just wanted to understand what's going on here and what to expect going forward from a sequential basis?

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

Well Meny, thanks for the question. Just to remind you, in the fourth quarter, we did have two lumpy items. We had the sign-on bonus related to Nordstrom, and we also had the CFPB settlement that we concluded in the fourth quarter. So when you adjust for those factors, it sort of neutralizes the sort of sequential decline. As we move forward, as I've talked about before, I would expect that towards the second half of the year,

the rate of growth would moderate. We were up 11% on a year-on-year basis in the quarter, of which our governance and control costs represented about 7% of that growth. So our base growth rate was 4%. And I do think we continue, as I said before, to look at productivity measures that will give us the space to continue to invest not only in governance and control initiatives, but on some of the critical business priorities that I highlighted previously.

Meny Grauman – Scotia Capital – Analyst

That makes sense. And then I just wanted to follow up on, Ajai you talked about $149 million overlay. Just wanted to understand at a high level – obviously – how do you calculate that? Like what is that? How do you derive that $149 million?

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

This is based on a top-down analysis we did on industries that may be impacted by tariffs and what we really considered is risk rating migrations, and we use that risk rating migration to extrapolate what the impact could be. And our ACL process or allowance process essentially captured that initial view on how risk ratings may migrate – and the migration was a little different for the U.S. commercial book as opposed to the Canadian commercial or TD Securities book. But again, it was a top-down analysis. It's an initial analysis, there is more work going on. We're doing a lot more bottom-up work for the next quarter. And of course, we'll have to see how the macro scenario evolves. I think you know that there are so many different scenarios that could play out. So saying anything beyond that at this stage is a little difficult.

Matthew Lee – Canaccord Genuity – Analyst

Maybe a different type of question. On the Canadian mortgage book, flat growth quarter-over-quarter and a bit lower than some of the peers. Maybe just talk about what you're seeing in that business and how we should think about growth as we progress through the year?

Sona Mehta – TD Bank Group – Group Head Canadian Personal Banking

Matt, thanks for that. This is Sona, I'll take that. Let me start by saying we've been very declarative in our Investor Day aspirations. This is a business that we like, that we want to grow, and we're continuing to compete to win profitable business. So I can just walk you through some of the fundamentals and how we think about this book. First of all, we're a through the cycle multi-channel lender. That's really important. That gives us great reach. And then within that portfolio, especially over the last couple of quarters, we've been leaning in to enhance how we go to market, especially in our proprietary channels. So a few things that we've done. This quarter, as Ray shared, we rolled out RESL specialists as well as investing specialists in our highest opportunity branches. And so we've thoughtfully enhanced that integration between our branch and our mobile mortgage sales force at the same time. We're seeing really promising results. So referrals from our branch to our MMS have tripled quarter-over-quarter (sic) year-over-year. It's translating into real dollars. We've delivered $1 billion in funded volumes through that channel alone and it's been the best Q1 on record for MMS.

So back to your question. Now overall growth will vary from quarter-to-quarter, but the fundamentals are absolutely pointed in the right direction. I think you typically see some seasonality that's lower in Q1 but ultimately, this is a good book. We compete to win profitable business. We're seeing really good results in our proprietary channels. We're also seeing depth of relationship improve up nicely year-over-year among our RESL customers. So I'd probably sum up by saying our aspirations are declarative, they're bold, we like the strength that we're seeing in our proprietary ecosystem, and we're going to continue to compete to win profitable business.

Matthew Lee – Canaccord Genuity – Analyst

Okay. Great. So nothing particular in the quarter that might have affected growth other than maybe seasonality.

Doug Young – Desjardins Securities – Analyst

Good morning. Just maybe just a few quick ones, hopefully. U.S. NIMs – just to go back to that – when you say normalized, should we be thinking going back to around the 3% level where you kind of were before

Q1 – and then expanding out from there? Just hoping to get a finer point on that. And then you're going to have some excess liquidity coming from the Schwab sale. Is that something – I assume it doesn't impact the U.S. NIMs. Does that kind of filter up and impact the all bank NIMs?

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

Doug, just to give you a sense, well, we won't provide a specific guidance on the call. What I can tell you is if you look back to where we were before we put on the liquidity position that we did in late third quarter, fourth quarter – and you look at that NIM level – returning back to that NIM level would not be an unreasonable assumption. So then you combine that with the bond repositioning piece, which will be an enhancement to NII. I think if you model that, that will give you a good sense of where we'll probably land from a NIM standpoint.

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

Doug, it's Kelvin here. On the Schwab earnings, on the Schwab proceeds, you would see that in the Corporate segment.

Doug Young – Desjardins Securities – Analyst

Ok. So that would impact in, I guess, marginally, the all bank NIM?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

On the total bank.

Doug Young – Desjardins Securities – Analyst

Yes. On the total bank level. And then, Leo, just to clarify that US$300 million to US$500 million, I mean that's not a new number – you're looking to be at the upper end of that. Is that US$300 million to US$500 million, or let's call it US$500 million, is that going to be in for the full – are you expecting that to be in for the full year of fiscal '25 or be on a run rate exiting '25 at that level?

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

No. That's an in-year profile. And just to give you a bit more information that we reflected about US$46 million related to the bond repositioning in the first quarter. So the lion's share of that number will materialize over the subsequent quarters.

Doug Young – Desjardins Securities – Analyst

And then I guess over 4% CET 1 ratio, you described the buybacks, a lot of discussion around an ability to put capital to work organically. I mean that's a lot of capital to put to work organically. Can you talk about 3 to 4 of the biggest opportunities to really drive, where are you going to invest that capital? I assume it's a bunch of areas, including capital markets. I'm just trying to get a sense, but better sense of how to think about that.

Raymond Chun – TD Bank Group – Group President and Chief Executive Officer

Doug, I'll take that. As I said on the strategic review, we're still going through the process. We're about halfway through the strategic review, just so we get a sense of time lines. Well, we are looking at it in multiple different buckets where we're going to allocate our capital. And so we start with that we've identified these significant organic opportunities, and we'll start to share some of those potentially along the way and then certainly at the Investor Day. But we are also looking to simplify the portfolios and you've seen some of the actions that we've already taken. We'll continue to look at opportunities to optimize our balance sheet and that could be in the form of restructuring, that could be in the form of potential revisiting our investment bond portfolio and see if there's further actions that we want to take there. And then also looking at our portfolio to see which businesses that we may look at from an optimization perspective, and we've done some of those activities, but we have some more to look at. And then there's some other efficiency opportunities that we'll be looking at. So certainly, as I've said before, I don't want to front run the strategic review, but what we will do is as we continue to make some of these decisions, start to share those with you. But I do look forward to sharing the more comprehensive review and where we're going to allocate

that capital at the Investor Day. And at the end of that, if there is still capital remaining – I've said on the previous calls – that then we would look at a potential another share buyback.

Darko Mihelic – RBC Capital Markets – Analyst

Thank you, good morning. I have just a couple of detailed questions on the U.S. business as well. I appreciate the suggestion that your NIM will expand meaningfully or substantially next quarter. But your NIM and your NII have a few, well, a lot of moving parts. So I was just wondering if you could provide maybe a range of NII for next quarter for me to work off for the model?

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

Darko, let me just give you a sense of the drivers that you might want to think about. Clearly, I've given you a sense of where the bond repositioning piece is going to land, and you can sort of get a sense of – we take the residual amount and you've got 3 quarters left – you can get a sense of what that lift is going to look like. I can tell you that the on rates right now that we're seeing are about 50 basis points higher than what they were just a few months ago. And so obviously, that will be a tailwind that we'll start to enjoy – maybe less so in the first half of the year, but more so towards the second half of the year. I'd say in terms of the underlying growth, we will be exiting a series of portfolios. So as we communicated to you back on October 10th, there is an NII drag from exiting some of those lower-yielding portfolios. I think at that point in time, we did estimate that would be about a US$200 to US$250 million impact. So if you can, if you model that and then assume that in our core lines of businesses – I'm using cards, our core bank cards business, our home equity line of business and our commercial and those segments in commercial – we're seeing good growth. I will say that I do believe, despite the fact that there is general optimism in the U.S. with regards to – our commercial clients are optimistic about the expansionary sort of deregulatory discussions that the current administration has laid out – I do think that some of the commercial lines might be a little bit more muted. But if you put all those things together, I think it lays out a relatively constructive backdrop for NIM expansion and for NII growth over the course of the year. And obviously, we'll try to continue, as Ray said, we'll try to continue to maximize those actions as we can.

But I want to come back to maybe the obvious statement. Our focus here is to leverage 2025 as that transition year, to make the investments we need to in the core franchise to be able to address some of our remediation activities and to be able to exit 2025, exhibiting the earnings power of the U.S. franchise. And so we're doing those things to be able to enter into 2026 with a more normalized profile.

Raymond Chun – TD Bank Group – Group President and Chief Executive Officer

Thank you. I'll go get back to the drawing board on that. That is useful though. I appreciate that, Leo. Kelvin, just at the all-bank level, there was some margin compression and I'm just wondering, given everything that's at play, what would your view be for the all bank margin going forward?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

Yes. So the NIM at the total bank level would have been positive quarter-over-quarter from the retail businesses. But the decline was really driven by the wholesale bank due to some business volumes, and I'm going to ask Tim to just speak to that – those opportunities.

Tim Wiggan – TD Bank Group – President and CEO, TD Securities; Group Head Wholesale Banking

Yes. Darko, essentially, what's driving that is higher asset levels in prime. So as you know, those are lower interest paying deposits, but extremely attractive from an ROE perspective, just given the RWA treatment. So what you're really seeing at play there is the continued focus on growing our prime franchise.

Darko Mihelic – RBC Capital Markets - Analyst

I see. Okay. That's helpful.

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

So we did guide to CAD P&C NIM as relatively stable, U.S. substantially expansion, and then you also have tailwinds from the Schwab earnings as well. So all of those are headed towards on the positive side.

Operator

Thank you. There are no further questions registered at this time. I will now return the call back to Raymond Chun.

Raymond Chun – TD Bank Group – Group President and Chief Executive Officer

Well, thank you, everyone, for joining us this morning. We look forward to speaking again at our Q2 call in May. And ahead of that is obviously our annual meeting in April. And so I hope everyone has a great rest of the day. Thank you.