TD BANK GROUP
Q2 2020 EARNINGS CONFERENCE CALL
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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

Gillian Manning – TD – Head of Investor Relations

Good afternoon and welcome to TD Bank Group's second quarter 2020 investor presentation. We will begin today's presentation with remarks from Bharat Masrani, the bank's CEO, after which Riaz Ahmed, the bank's CFO, will present our second quarter operating results. Ajai Bambawale, Chief Risk Officer, will then offer comments on credit quality, after which we will invite questions from prequalified analysts and investors on the phone. Also present today to answer your questions are:

- Teri Currie, Group Head, Canadian Personal Banking;
- Greg Braca, President and CEO, TD Bank America's Most Convenient Bank; and
- Bob Dorrance, 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 are 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 to arrive at 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 reported results and factors and assumptions related to forward-looking information are all available in our Q2 2020 Report to Shareholders.

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

Bharat Masrani – TD – Group President and CEO

Thank you, Gillian and thank you, everyone for joining us today. The last few months have been an extraordinary time for all of us. On April 2, we conducted our first-ever virtual Annual Meeting. It's hard to believe that, with June 1st just around the corner, the sweeping restrictions on economic and social activity implemented to contain the COVID-19 pandemic are still largely in place –though it is encouraging to see re-opening measures beginning to take shape in some geographies.

Before I turn to our Q2 results, I want to talk about how we're meeting the COVID-19 challenge at TD. The toll exacted by the crisis – in lives lost, and activity disrupted – will reverberate for years to come. Economies around the world have been plunged into recession, and unemployment rates have risen to levels not seen in decades. But while the scale of the crisis still has the power to shock, the response it has elicited is inspiring:

- From dedicated front-line workers in so many different industries, including financial services, venturing out each day to keep critical services running;
- From businesses and non-profits fighting to maintain their operations and support their staff;
- From central banks and regulators, who've launched new liquidity facilities to keep financial markets functioning and ease the supply of credit to the economy;
- And from governments, who've implemented bold measures and support to tide households and businesses through this unprecedented suspension of activity.

We've been proud at TD to contribute to this collective effort.

We've been working hard to support our people, so they can keep themselves safe while looking after our customers. I want to thank them for their exceptional service:

- This includes the many colleagues who are keeping our branches, stores and contact centres open, and performing services vital to our customers and the bank's core operations. We've adjusted their work environments to help protect their well-being, changing schedules, reconfiguring floors and offices, and investing in protective equipment and enhanced cleaning. And we've recognized the sacrifice they and their families have made with additional compensation and vacation days.
- We quickly enabled 60,000 of our colleagues to work from home, equipping them with the tools and technology to work productively, while prioritizing security.
- And for all of our colleagues, we've committed that there will be no job losses in 2020 as a result of COVID-19. We know this is a stressful time. This assurance is important – for our colleagues, as well as our customers who are depending on them for support and financial advice in these difficult times.

At TD, our people are our greatest asset. Their hard work and dedication has enabled us to deliver swift and comprehensive assistance for our customers:

- Through our TD Helps program in Canada and our TD Cares program in the U.S., we've connected with thousands of customers and been there to serve them in their moment of greatest need.
- Across our Canadian and U.S. Retail businesses, we have provided financial support to over 800,000 customers and accounts: deferring payments on approximately $62 billion in loan balances as of April 30; extending other forms of relief, including premium reductions and deferrals to more than 125,000 TD Insurance clients; and facilitating the flow of billions of dollars in government funds to businesses through programs like CEBA in Canada and the Paycheck Protection Program in the U.S. We're also helping the federal government deliver income support to Canadian households through the CERB program, with 1.4 million direct deposits facilitated during the quarter.
- In our Wholesale Bank, we increased total gross lending exposures by $23 billion, providing our corporate, institutional and government clients with critical funding and liquidity support during a period of severe market dislocation.
- And TD Asset Management is contributing to stabilizing capital markets, having been selected by the Bank of Canada to manage its Commercial Paper and Corporate Bond Purchase Programs.

We've also taken decisive action to support our communities. As part of the TD Ready Commitment, we’ve announced the TD Community Resilience Initiative, which is allocating $25 million to strengthen our communities and support organizations involved in the COVID-19 recovery effort.

I am very proud of the response we've mounted over the last few months. Our people have demonstrated their ability to adapt to new ways of working almost overnight. And we reshaped the Bank's operations just as quickly, supported by the investments we've made to enhance our technology infrastructure and network capacity, build new lending platforms, and launch scalable end-to-end customer journeys.

These investments in our infrastructure and capabilities enabled us to meet a surge in digital traffic of more than 25 percent across our banking and insurance businesses; manage record trading volumes in our Direct Investing business; and stay connected to customers across our footprint. From virtual trading desks, to video communications, to new online and mobile tools delivering payment relief and advice to our more than 14 million active digital customers, TD has remained strong, active and fully operational from the first day of this crisis – and we are well-positioned to continue supporting our customers and colleagues on the road to recovery.

These purposeful investments have been made possible by the strength of our model – a diversified business mix, backed by North American scale, underpinned by a strong risk culture. It has demonstrated its resilience over time and through a variety of challenging operating environments. And it is proving its mettle again now.

This quarter, we earned through tremendous headwinds. Earnings were $1.6 billion, and EPS was 85 cents, as we absorbed a substantial increase in provisions for performing loans, as well as margin pressure from the steep drop in interest rates. Our CET 1 capital ratio was 11 per cent, down 70 basis points from the prior quarter on higher RWA, reflecting both the deterioration in the economic environment, and balance sheet growth as we continued to support our clients.

A tough quarter, no question, but one that demonstrates the resilience of our model and our strategy. Everything you know about TD has been borne out by this crisis. We build long-term relationships with customers, and stand by them in good times and bad. Our risk appetite is our compass. We have the ability to execute with speed and purpose when the world shifts around us – and the earnings power and balance sheet strength to play our role in the recovery.

That recovery will come, though it is not clear how long it will take. The revenue picture is likely to remain challenging, given the 'lower for longer' interest rate environment. And provisions for credit losses may remain elevated if the downturn is more prolonged. But the hallmark of TD is our ability to adapt to any operating environment – and seize the opportunities it presents. Today, we are firmly focused on the way forward: examining our work places and making plans to re-open locations, with a focus on continuing to provide safe spaces for our customers and colleagues, as we begin the hard work of rebuilding.

Banking is a critical service – an engine of economic growth, and a pillar of the financial system. For 165 years, TD has been privileged to play this role. Given the power of our model, the strength of our balance sheet, and our distinctive culture, I am confident that we will emerge from this crisis stronger and better positioned to continue serving our customers, colleagues and communities.

I'll wrap up with two thoughts. First, I am very proud of how we've responded to this challenge as an industry. We are fierce competitors, but with a strong tradition of mutual respect – for each other, as well as our counterparts in government and the supervisory agencies. Drawing on our long experience and our collective expertise, we have been working to deliver the right outcomes for our customers and clients, as well as the economy and society.

I also want to thank our 90,000 people, who have been bringing their best selves to work each day under very trying circumstances. You embody our purpose to enrich the lives of our customers, colleagues and communities – and give meaning to our vision to Be the Better Bank.

With that, I will turn things over to Riaz.

Riaz Ahmed – TD – Group Head and CFO

Thank you, Bharat. Good afternoon everyone. Please turn to slide 9.

- This quarter, the Bank reported earnings of $1.5 billion, and EPS of $0.80. Adjusted earnings were $1.6 billion, and adjusted EPS was $0.85.
- Revenue increased 3%, reflecting volume growth across our businesses and record Wholesale revenues, partially offset by margin compression and lower fee income as a result of reduced customer activity in the banking businesses.
- Provisions for credit losses increased to $3.2 billion, largely reflecting higher Performing PCL.
- Expenses decreased 2% year-over-year, notwithstanding approximately $75 million in direct costs incurred this quarter related to COVID-19. The decline in expenses primarily reflects higher PCL for the U.S. strategic cards portfolio, which is offset in Corporate non-interest expenses.
- As you know, the partners' share of the revenue and PCL for the U.S. strategic card portfolio program is held in the Corporate segment, with an offsetting entry representing the partners' share of the net profits recorded in Corporate non-interest expenses, resulting in no impact on Corporate or total bank net income.
- Higher PCL this quarter, including for the retailer program partners, resulted in a smaller net profit share, and therefore a lower charge to expenses.

- We have included an illustrative example on slide 27 to help clarify the gross and net accounting requirements for this portfolio.

Please turn to slide 10.

- Canadian Retail net income was $1.2 billion, down 37% year over year, reflecting higher PCL and expenses, partially offset by revenue growth. On an adjusted basis, net income decreased 36%.
- Revenue increased by 1%, reflecting volume growth in deposits and loans and higher insurance premiums and wealth fees, partially offset by margin compression.
- Average loans rose 5% and deposits rose 10% year over year, reflecting growth in both personal and business volumes. Wealth assets were down 2% reflecting declining market values. On a spot basis, loans and deposits for Canadian P&C were up 4% and 13% respectively, as at quarter end.
- Margin was 2.83%, a decrease of 11 bps from the prior quarter, reflecting lower interest rates and competitive pricing in term deposits.
- Total PCL increased by $762 million quarter over quarter, primarily reflecting higher Performing PCL.
- Total PCL as an annualized percentage of credit volume was 1.07%, up 71 basis point quarter over quarter.
- Expenses increased 4%, reflecting higher spend supporting business growth, including investment in front-line staff and changes in pension costs, and volume-driven expenses. Adjusted expenses were up 5%.

Please turn to slide 11.

- U.S. Retail net income was US$261 million.
- U.S. Retail Bank net income was US$87 million, down US$666 million reflecting higher PCL, lower revenue, and higher expenses.
- Average loan volumes increased 7% year over year, reflecting growth in the personal and business customer segments. Deposit volumes excluding the TD Ameritrade sweep deposits were up 10%, including 8% growth in core consumer checking accounts. TD Ameritrade sweep deposits were up 24%. On a spot basis, loans were up 12% and deposits, excluding TD Ameritrade, were up 19% as at quarter end. Spot TD Ameritrade deposits were up 37%.
- Net interest margin was 2.93%, down 14 basis points sequentially, primarily reflecting lower deposit margins.
- Total PCL, including only the Bank's contractual portion of credit losses in the strategic cards portfolio, was US$814 million, up $571MM from the prior quarter.
- The U.S. Retail net PCL ratio was 2.03 percent, up 144 basis points from last quarter.
- Expenses increased 6% YoY, reflecting increases in legal provisions, partially offset by productivity savings.
- We had a US$82 million tax recovery this quarter, primarily reflecting lower pre-tax income partially offset by higher provisions related to changes in tax law.
- The contribution from TD's investment in TD Ameritrade decreased to US$174 million, primarily reflecting reduced trading commissions and higher operating expenses, partially offset by increased trading volumes.

Please turn to slide 12.

- Net income for Wholesale was $209 million, a decrease of $12 million reflecting higher PCL, partially offset by higher revenue.
- Revenue was nearly $1.3 billion, reflecting higher trading-related revenue from interest rate and foreign exchange trading, and higher debt underwriting fees, partially offset by losses in equity trading in very volatile markets.
- PCL was $374 million, an increase of $357 million from the prior quarter. PCL – impaired was $194 million reflecting credit migration largely in the oil & gas sector. PCL – performing was $180

million, primarily related to a significant deterioration in the economic outlook, including its impact to credit migration.

- Expenses were $616 million, up 3% reflecting higher volume related expenses.

Please turn to slide 13.

- The Corporate segment reported a net loss of $202 million in the quarter, compared to a net loss of $161 million in the second quarter last year.
- Reported net loss increased primarily reflecting a lower contribution from treasury items and higher net corporate expenses, partially offset by lower amortization of intangibles.
- Other items decreased primarily reflecting lower revenue from treasury and balance sheet management activities.
- Adjusted net loss was $143 million compared with an adjusted net loss of $95 million in the second quarter last year.

Please turn to slide 14.

- Our Common Equity Tier 1 ratio ended the quarter at 11.0%, down 69 basis points from Q1.
- Organic capital generation added 20 basis points to capital this quarter, including 19 basis points from a reduction in our expected loss shortfall. As you know, when losses calculated for regulatory capital purposes exceed accounting provisions, this excess is deducted from capital. With this quarter's allowance build, the gap has narrowed, and we recouped some of the capital previously deducted.
- We also saw an 11 basis point benefit from OSFI's transitional arrangements for expected credit loss provisioning. We also saw losses on FVOCI securities, and we completed the repurchase of 7.8 million common shares in mid-March.
- The 80 basis point decline in CET 1 attributable to RWA growth was primarily a function of higher Credit Risk RWA, reflecting:
    - volume growth in our commercial and wholesale banking businesses, as we supported our customers with new and increased credit facilities;
    - a decline in asset quality reflecting negative credit migration in the challenging environment, which Ajai will discuss shortly;
    - and as you know, we have been migrating our U.S. Bank assets from standardized to AIRB. In this particular quarter, we transitioned a credit card portfolio which cost us 9 basis points. While this particular portfolio transition was negative, the migration to AIRB has generally been positive to the capital calculation, and we expect it to continue to be positive with ongoing migration through the second half of this year.
- We saw Market Risk RWA increase by $5 billion in our Wholesale business, reflecting the volatility in interest rates and credit spreads this quarter.
- Our leverage ratio was 4.2 percent this quarter, and our LCR ratio was 135 percent, both well above regulatory minimums.
- Effective this quarter, we have reduced the rate of CET 1 capital allocated to our business segments from 10.5% to 9.0%. In addition, for prudence, we have also introduced a 2% discount on our dividend reinvestment plan for the dividend declared today.

With that, I will now turn the call over to Ajai.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Thank you, Riaz and good afternoon everyone. Please turn to slide 15.

- Gross impaired loan formations were $1.78 billion, stable quarter-over-quarter at 24 basis points.

Please turn to slide 16.

- Gross impaired loans ended the quarter at $3.6 billion or 47 basis points, up 2 basis points quarter-over-quarter, and down 1 basis point year-over-year.
- The quarter-over-quarter increase in gross impaired loans was driven by:
    - The Canadian Retail segment, in both the Consumer and Commercial lending portfolios,
    - The Wholesale segment, largely reflected in the Oil & Gas sector, and
    - The impact of foreign exchange

Please turn to slide 17.

- Recall that our presentation reports PCL ratios both gross and net of the partners' share of the U.S. strategic card credit losses. We remind you that credit losses recorded in the Corporate segment are fully absorbed by our partners and do not impact the Bank's net income.
- The Bank's provisions for credit losses in the quarter were $3.2 billion, or 176 basis points.
- Provisions for credit losses were up across:
    - All segments, and
    - All major asset classes,
        - And were primarily related to the ongoing COVID-19 pandemic.

Please turn to slide 18.

- The Bank's Impaired PCL increased $160 million quarter-over-quarter, mainly due to:
    - Credit migration in the Wholesale segment, largely in the Oil & Gas sector
- Performing PCL increased by $2.1 billion quarter-over-quarter, and I will address this momentarily.

Please turn to slide 19.

- I would now like to take a few minutes to discuss the impact of COVID-19 on our allowance for credit losses.
- The Allowance for Credit Losses increased by $2.6 billion this quarter, raising the Bank's Total Allowance coverage of Gross Loans and Acceptances from 74 basis points to 103 basis points.
- This increase is primarily due to higher performing allowances, including the impact of credit migration, reflecting:
    - A significant deterioration in the economic outlook related to the COVID-19 pandemic, partially offset by the mitigating impact of a variety of deferral and government programs available to our clients.
- The change in the economic outlook incorporates:
    - A material increase in unemployment,
    - Substantial near-term GDP contraction, and
    - Assumes a gradual recovery where economic activity would not return to pre-crisis levels for an extended period.
- The allowance increase was across the Canadian and U.S. geographies, and, by asset class, due to:
    - A $1 billion increase for our Business & Government portfolios, reflected across multiple industries, including Oil & Gas, and
    - A $1.6 billion increase across the consumer lending portfolios, primarily for:
        - The Auto, Other Personal, and Credit Cards portfolios.

  - $438 million of the increase in the Credit Cards portfolios is attributable to the U.S. strategic cards partners' share.
- I'm satisfied with the Bank's current allowance coverage, considering
  - The provisions added this quarter, and
  - Our portfolio and geographic mix.
- The potential for further provisions will largely depend on the magnitude and duration of the ongoing COVID-19 pandemic.

Please turn to slide 20.

- Given the expectation of sustained lower Oil & Gas prices, I will now take a moment to discuss the Bank's exposure to this sector.
- The Bank's Pipeline, Oil & Gas loans amount to $12.2 billion, and are:
  - Nearly evenly split across Canadian and U.S. geographies, and 28% are investment grade.
- Our concentration to the Oil and Gas Producer and Services segments, which are generally most exposed to low energy prices, is relatively small, continuing to represent less than 1% of the Bank's gross loans and acceptances.
  - Furthermore, in response to lower commodity prices, Oil & Gas producers have taken a number of risk mitigating measures, such as:
    - Reduced capital expenditures,
    - Temporary production curtailments, and
    - Other liquidity bolstering activities.
- Excluding real estate secured lending, consumer lending and Small Business Banking exposures to Alberta, Saskatchewan, and Newfoundland and Labrador represent 2% of total gross loans and acceptances, and
  - Have remained stable at that level in recent years.
- Consumer delinquency and impairment levels in these provinces are elevated, and we expect:
  - They may be more impacted moving forward given the combined impacts of the COVID-19 pandemic and lower Oil & Gas prices, and
  - We have incorporated this in our allowance for credit losses this quarter.
- Overall,
  - Oil & Gas exposures represent a relatively small portion of the Bank's lending portfolios;
  - We will continue to regularly perform detailed assessments of our Oil & Gas exposure as the challenges facing this sector play out, and
  - Further losses are expected to remain manageable.
- Now, moving back to total bank results, let me briefly summarize:
  - We are operating through challenging conditions given the unprecedented impact from the COVID-19 pandemic, and
  - While the duration of the pandemic and severity of the economic impact remains uncertain, we are well prepared to manage through these difficult times.

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

QUESTION AND ANSWER

Operator

Thank you. We will now take questions from the telephone lines. [Operator Instructions] And your first question is from John Aiken from Barclays. Please go ahead.

John Aiken – Barclays Capital – Analyst

Good afternoon. Riaz, a bit of a detail question for you if you wouldn't mind. On the balance sheet, we saw a significant increase on interest-bearing deposits with banks. Is this a transitory impact that happened right at quarter-end or is this going to be a sustained balance that's going to be fairly high? And if that's the case, can you give us some sense as to what that would mean to overall net interest margins?

Riaz Ahmed – TD – Group Head and CFO

Yes. John, thank you. As you know, throughout the period of the pandemic and, as you mentioned, closer to quarter-end, the level of deposits that have been accumulated rose quite significantly, which obviously as a starting point goes into cash balances and then we're able to invest some of it in shorter- or longer-term securities.

So, you're quite right in pointing out that it may well be temporary as clients and customers who have accessed customer relief programs as well as government relief programs and that have accumulated some cash in their accounts may see that as they utilize that cash to meet their needs and their obligations, we may see some of that come back. How much of it that we're able to extend into longer term yield bearing investments will just depend on the customer behavior that we're able to observe in the utilization of that cash.

I'd say one other significant contributor to those cash balances was as I mentioned earlier the rise in sweep deposits coming out of TD Ameritrade as the number of clients took money out of the market and were holding cash for some period of time. I think that the impact on aggregate margins would be really not forecastable in the short trend here until we see a little bit of stability returning to how our clients are managing their finances.

John Aiken – Barclays Capital – Analyst

I guess you're putting the ball back in my court. Thanks, Riaz. I'll re-queue.

Gabriel Dechaine – National Bank Financial – Analyst

Hi. Good afternoon. First question on earnings, I mean what we're hearing that this quarter earnings don't matter, but eventually people will hear about earnings that pay the dividend and contribute to your capital generation.

I want to kind of talk in the earnings outlook to your stress scenario, the internal stress test. I'm sure you've done it like other banks and in whatever scenario your core Tier 1 doesn't fall below X, whatever that is. One of the components of that type of projection would be earnings. I'm just wondering what kind of earnings levels or generation or growth do you have in those types of scenarios?

Riaz Ahmed – TD – Group Head and CFO

Gabriel, first of all, I'd answer by saying that earnings always matter. You just quoted they don't but that's not how we see it, earnings always matter. And what's important though is you should know that we run a variety of stress tests and using different scenarios that are applicable. And clearly, this particular pandemic

has probably come about more rapidly and with duration and severity that I think we can all easily agree is unprecedented.

But look, we continue to stress test our liquidity and capital positions, and you can always come up with very severe adverse scenarios in which earnings may be pressured even more. But on the other hand as the re-openings start taking hold more with more confidence then we should also start seeing the bank's results react to that. So, clearly it is a function of the unprecedented economic environment we're in.

Bharat Masrani – TD – Group President and CEO

Gabe, this is Bharat. So, I'll add to that. I mean these are unprecedented times. The reason earnings are depressed is because of the level of allowances the bank has taken. And that is based on our current view of what the future looks like and it's hard to predict it perfectly, but we will be checking in very, very regularly to see how that plays out.

The other thing I would add is that one of the hallmarks of TD, one of the strengths of TD is that we will adapt to the environment we find ourselves in and I know we will, and I know we will thrive in whatever operating environment turns out to be the reality. So, yes, earnings, as Riaz said, matter. Even this quarter's earnings matter. But I expect the bank to adapt to the environment we find ourselves in over the next little while.

Gabriel Dechaine – National Bank Financial – Analyst

I guess what I'm after though is, as Ajai said, you've got an extended period, so when you expect economic activity to return to normal levels, what are your earnings projections like in that sort of scenario? Is it back to 2019 sort of profitability by 2022, 2023 or something other than that?

Bharat Masrani – TD – Group President and CEO

It's hard to give out a specific year, Gabriel.

You tell me when interest rates will start to move. You tell me where the economy opens up completely. It's hard to pin down a particular factor here. I mean we are in unprecedented times. But as I've said, notwithstanding the time that we are going through, TD's business, given our North American scale, what we've been able to do, how we managed through this crisis to-date and how I expect us to adapt going forward, I see the bank's strength. And like I said in my remarks, I expect us to be coming out of this stronger than we entered it.

Gabriel Dechaine – National Bank Financial – Analyst

Okay. My other question, I'll make it quick. On credit, some banks have talked about Q3, Q4 expect performing provisions to decline from this quarter's level, performing being the operative word. What about the impaired provisions? They're going to be picking up. You'll have movements out of Stage 2 into Stage 3, are they going to offset each other, or is the pickup in Stage 3 provisions that we are seeing today be at that level for a number of quarters?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yeah. It's Ajai. Let me take that. It's a good question. So, as you know, we've built a material amount in our allowances this quarter and most of it is performing. So, in future quarters, we do expect to see a high level of impairments. I think the fact that we've built these performing allowances is going to help, but there could be some incremental allowance if a particular account goes from performing to impaired. But the fact that we've built a material amount this quarter I think is going to help in future quarters.

Gabriel Dechaine – National Bank Financial – Analyst

Maybe I'll follow up on that one.

Ebrahim Poonawala – Bank of America Securities – Analyst

Hi. If I could first just very quickly follow up on your answer regarding the impaired PCLs, if you can just help, I mean, or help us walk through this. Is it fair to assume that the reserve levels are unlikely to decline any time soon, so you're going to maintain that reserves plus as things migrate and you see credit migration, you're going to lose some PCL tied to those loans as we move forward, resulting in a period of elevated PCLs? Is that the right thought process? Even if the macro backdrop, your assumptions around unemployment don't change, we should see elevated PCL just by the migration of the loan book?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

No, it's a very good question, and let me take a few minutes to answer that. So, as you know, we have built material amount of PCL this quarter. There is, however, tremendous amount of uncertainty with respect to duration and severity of this crisis, the shape of the recovery.

What I would say is if the outlook remains unchanged, then, yes, this would be the high watermark for us. However, there's one caveat because if there's change from performing to impaired, then you could see some increase because of impaired. However, if the outlook improves, you could even see a reduction or a release, and if the outlook worsens, there could be an add.

So, I think you must keep in mind that the whole environment we're dealing with here is very uncertain, but the key message is that we have built a substantial amount of PCL this quarter that's based on our forward-looking view, so that will change only if our forward-looking view changes.

Ebrahim Poonawala – Bank of America Securities – Analyst

Got it. So that sounds a lot more like your PCLs reflect your life of loss expectations for this book?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yes. That's the IFRS 9 principle. So, we are following our accounting standards.

Ebrahim Poonawala – Bank of America Securities – Analyst

Got it. Riaz, in terms of capital, so if we can just talk about in terms of your capital outlook, in terms of what balance sheet growth might do as you move forward? And you mentioned the continued transition to AIRB should be positive, if you could address those two and give us a sense of where the CET1 goes from here?

Riaz Ahmed – TD – Group Head and CFO

Ebrahim, as you know, we entered into this crisis carrying tremendous balance sheet and strength in capital and liquidity, and this is a hallmark of TD that you're well familiar with that we do carry plenty of capital and liquidity. Sometimes we have remarked in a folksy way that we want to be able to make loans during bad times as well.

And so, as you can see from the growth in our balance sheet, we are clearly doing that. We're standing by our clients when they need us, and we intend to continue to do so. And as the economy re-opens and demand materializes for additional credit, we will be extending that credit within the risk appetite of TD that

you are well familiar with. So, I think carrying strong amounts of capital in this environment to take advantage of opportunities is a prudent thing to do.

Ebrahim Poonawala – Bank of America Securities – Analyst

Got it. So, should we not be surprised if the capital ratio is into the 10's over the next quarter or two as you extend credit? Are there some RWA inflation to credit? Is that a reasonable assumption going forward?

Riaz Ahmed – TD – Group Head and CFO

Well, in ordinary course times, you know that we continue to generate capital and then reinvest it in the business to create growth. As Ajai just indicated, we are in a period of uncertainty. And if the economy recovers well, we will be continuing to extend credit to our clients. And if it turns out that things go the other way, then we may well see additional allowances and more migration. So, we're really not into a period right now that is forecastable with any degree of – high degree of confidence.

Steve Theriault – Eight Capital – Analyst

Riaz. Riaz, you talked about some positives on AIRB migration in the second half of the year for the U.S. Bank. Can you just give a bit of detail around what portfolios and the level of materiality there?

Riaz Ahmed – TD – Group Head and CFO

The biggest portfolio that remains to be migrated is U.S. Non-Retail portfolio and you know that it is a large and a material portfolio, which we are working hard to complete the work to have it implemented hopefully by the end of this year.

Steve Theriault – Eight Capital – Analyst

And do you have a ballpark of materiality to it or is it too soon?

Riaz Ahmed – TD – Group Head and CFO

No, that's something that I'm not really prepared to disclose right now, Steve. As you know, with the number of moving parts between shortfall calculations and the implementation of it, we'll need to be quite careful and I'd be loath to really quantify that for you right now.

Steve Theriault – Eight Capital – Analyst

Okay. And then – thanks for that. And, Bharat, you mentioned in your opening remarks coming out better positioned. This pandemic could open up some opportunities to expand inorganically in the US. Mostly, TD has been on pause the last few years in terms of deal flow in the United States. What are your thoughts sort of early innings? Do you think this has the potential to turn into a meaningful opportunity to scale up or fill in your footprint?

Bharat Masrani – TD – Group President and CEO

Well, just – firstly, let me add to your first question to Riaz.

If you look at our history at TD, strong capital levels and the need to maintain strong capital levels is just part of our character. That's what we do. We think it's important to manage capital very closely, and that's what you would expect out of TD. So, as Riaz is cautious in telling you what he did and rightly so given the environment, but I can tell you that you should expect TD to have a cautious view and a prudent view on how we manage capital.

Regarding your second question, we are through the cycle type of lenders. We have a particular risk discipline in the bank. I'm very proud of how the bank performs in different environments. The business mix we have is something that we work hard to have and we have great scale in both sides of the border. And the good news here is that the TD is not required to do an M&A type of transaction because we are strategically challenged, we are not.

But having said that, the environment we are in is an interesting one. It is unprecedented and I am sure given the type of situation we are facing that there may be opportunities out there, and if there are then of course you would expect us to look at them seriously. But we will only do that if we have a better understanding of how this environment may turn out, how bad it might get. We have no interest in inheriting anybody else's problems and we will have to look at whether it makes strategic sense, makes financial sense and timing sense, so if all those things turn out to be well aligned then of course we'll look at it seriously.

Meny Grauman – Cormark Securities – Analyst

Hi. Good afternoon. A question on your card business, so with your card business in Canada focus on travel rewards and then in the U.S. the exposure to a few big retailers, is there a need to rethink the bank's card strategy right now?

Bharat Masrani – TD – Group President and CEO

So this is Bharat again. Why don't I pass on firstly the Canadian part to Teri Currie? Teri?

Teri Currie – TD – Group Head, Canadian Personal Banking

Absolutely. Thank you. So, I would say we're very comfortable with the line up of credit cards that we have available to Canadians. We like to say we have a card to meet every Canadian's needs, and obviously those are the travel cards, as you cited, but also cash-back cards across a variety of categories.

Clearly, in this quarter, given the circumstance, we probably had expected a C$5 billion or more in spend that didn't materialize. But we still feel if you look forward, that we're well positioned across categories and looking forward to the Air Canada partnership and loyalty program launching later this calendar year.

Bharat Masrani – TD – Group President and CEO

Thanks, Teri, and, Greg, did you want to pick up the U.S. side of it?

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

Sure. So thanks for the question. I'd just add that as we've been talking about for the last several years, we spent a lot of time and energy building our card platforms in the U.S. from scratch, and it includes not only the partnership programs that you talk about with the large retailers, and certainly if one comes up that makes sense and it's the right partner and we understand the dynamics and the economics make sense, we're interested in expanding those. But also our de novo bank card business, our own branded bank card for our own customers, we spent time building that, and obviously, we look to continue to leverage that with our own customer base going forward.

Bharat Masrani – TD – Group President and CEO

Yeah. So thanks, Greg. And, Meny, just to add, this is Bharat again. I think we've talked about this in previous calls. I think about a year ago, two years ago, Teri talked about the investment we've made or we were making at the time to expand our card offerings in Canada with the cash-back card and the entry-level card and all that, and the timing turned out to be excellent for that in order to diversify our card portfolio. And as you know, our approach for unsecured lending is to go with the prime side of the FICO scores and all that. So I wanted to add that.

And in the U.S., I know this has been a – lots of questions around why is TD more interested in partnership deals. Greg did say that it provided us a foundation to build our card portfolio, but I think now the pandemic is showing that those partnership deals have turned out to be terrific because lion's share of these losses if they happen to materialize will be for the account of the partner. So, these things work out in different ways in different circumstances. But given where we are, we are very happy that a big portion of our U.S. portfolio is in our partnership deals.

Meny Grauman – Cormark Securities – Analyst

Thanks for that. And just a follow-up on the partnership with Air Canada, do you have the ability to change any terms of that agreement? And I guess more importantly, do you foresee having any of those kinds of discussions?

Teri Currie – TD – Group Head, Canadian Personal Banking

As you would expect, we would have a contract with Air Canada that we would honor, and we're excited over the long term about the prospect of this partnership.

Sumit Malhotra – Scotia Capital – Analyst

Good afternoon. I'll start with Riaz on the capital slide please. So, you show us here that the market risk component of the portfolio had an 11-basis point impact on CET1, and we can see in some of your capital disclosure that VaR was up quite significantly this quarter and that's reflected in the movement in risk levels. The offset that you have in methodology, was this the implementation of the stress VaR, or sorry, relaxation of the stress bar relief, or was there other components at play? And I ask because most of your competitors actually had market RWA decline this quarter and obviously the impact is different for you. Just wondering if this is something specific to this quarter that may reverse going forward?

Riaz Ahmed – TD – Group Head and CFO

No, I think you've got it right that with the promotion of the data which includes a volatile period, you see the rise in the risk weights. And then that line item you're referring to includes the relief and the modification that came from OSFI during this period of time.

Sumit Malhotra – Scotia Capital – Analyst

And with the relief in place and the data updated, so is this for lack of a better term, a run rate level for the bank now, or as market conditions have eased, how quickly does that get reflected and how the movement in risk levels has captured here?

Riaz Ahmed – TD – Group Head and CFO

No, I think as you see markets starting to stabilize and the volatility coming in and spreads coming in, we would expect to see market risk numbers start migrating back down.

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yeah. Just to add to that, you do have the stress data as part of your dataset. So, I think the VaR and SVaR will come down and that helps but it's going to remain elevated from what it used to be before.

Sumit Malhotra – Scotia Capital – Analyst

All right. So this movement in this quarter, as far as credit is concerned, I think we all know that there was a heavy level of drawdown activity. And Bharat, maybe I'll put this one to you. I am a bit surprised with the bank sitting at 11% and perhaps at least on the draws' perspective there should be some relief on that going forward. Putting the discounting on the DRIP here, at least the way I look at, it effectively equates the 25 million shares going out the door over the next year if it remains in place. Were you concerned that without this capital uptick that the bank may move below some of the thresholds that regulators look at or the market looks at in terms of capital adequacy? Why did you think this was the time to put this in place?

Bharat Masrani – TD – Group President and CEO

So, Sumit, the best way to describe this is Riaz used the term that and traditionally this is what the bank has been, you've known us for many years that prudent capital management is the right phrase at TD. I mean, these are unprecedented times and you do want to just make sure that you're doing the prudent thing here. And if it turns out that our expectation of where this economy might be and this is might be a short-term issue then we can always switch it off.

And the other question somebody had asked me who knows, there might be other opportunities available in the market. We might want to take advantage of that given our scale, given our ability to integrate and convert acquisition. So, we're looking at it and it's not only by the way on an M&A front but traditionally TD through any downturn has also been able to take market share and at least my urging to our business leaders is that we should not lose that muscle as we go through this particular event because it will throw off opportunities in the marketplace to organically grow our franchise as well. So to have all that flexibility, I think it's important to have very prudent capital management in place.

Sumit Malhotra – Scotia Capital – Analyst

And I'll finish with one for, Teri, if it's okay. As this week has gone on, I think most of us are ready for the uptick in provisions. We're ready for the pressure on NIM. I think one that probably we – or at least from my seat should have been more prepared for is just the pressure we're seeing on some of the fee income lines that we normally take for granted in the P&C segment, so for both you and Greg, obviously weighing on the revenue lines.

You've talked a lot about some of the changes that might happen in terms of real estate and how employees work. When the bank considers some of the waivers that have been put in place, whether it's service charges, in some cases creditor insurance, we're obviously seeing weaker card revenues, do you feel there are aspects in either of your businesses from these reductions that could have a longer lasting impact on how customers expect their banks to behave when it comes to the fee income lines within P&C?

Teri Currie – TD – Group Head, Canadian Personal Banking

There's a lot in that question. Let me start with just the other income growth and then move to perhaps business changes. So pre the pandemic, we would have seen kind of low to mid-single digit range growth in other income. So again, it's been said earlier in the call it's very uncertain the size and shape of what happens going forward. And so, we're going to be very careful as we think through to any decisions we might make about the business moving forward.

Clearly the big impacts have been the spend that didn't materialize in the cards business as I mentioned and then FX revenue for both cards in everyday banking. We would have seen airlines spend in the quarter down over 90% as an example. But daily essential held up well and that sort of speaks to that cashback card offering and the breadth of our lineup.

If this became a thing I think is the question you're asking, then how do we think about our business moving forward? I feel like we came into this situation incredibly well positioned with strong market share positions across many of our businesses. You also saw the benefit of the diversification in the Canadian retail business with a strong wealth and insurance performance.

Clearly, right now, our focus is on safely enabling business to be done and continuing to carefully manage our distribution back. But we have been, through our Future Ready strategy, working towards the sort of inevitability of more migration of simple transactions to digital and that need for customers on the more complex pieces of their financial life to be able to meet with advisors and to get advice in an omni-channel way. And you can see that the investments we've made in our business in omni-channel have paid off with industry-leading digital results. You've seen our digital adoption and engagement continue to grow, almost 8 million active digital users, 72% of whom are mobile active, and digital adoption of 323 basis points this quarter.

So I would say it's possible as we work forward and we consider the flexibility that work-from-home has allowed in particular for our contact center and the opportunity that that might give us in terms of talent joining the bank in a full-time way across branch and home channel, as an example, versus part-time in one part of the business.

The ability for our folks to be redeployed, we've been temporarily redeploying them to collections work, to Helps work, to customer Cares work, to fraud work, and so the ability for our people to work more seamlessly and our customers to engage with us more conveniently as we've made more automation available are things that I think will have lasting impacts to the business. But as we think about how many branches we would have. What we will do in those four walls will be very carefully guided by how customer behavior evolves over time.

And I would just say this has been said by many of my colleagues but what we found is just the power of the culture and the power of our people working at TD. They have been dedicated and innovative and compassionate and supportive. Many of them still face-to-face with clients and very actively busy in our open branches.

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

it's Greg. I think Teri answered perfectly even from the south side of the border and anything you want specifically on the US, I'm happy to go into. But I would just leave you with, at least on the other income side to the story, we're going to be guided in the short run by do the markets open back up as the economy rev back up again and we certainly saw for the last half of Q2 a dramatic decrease in the US in terms of activity and volumes. And obviously, we're seeing states begin to reopen real time, and we're going to watch this very, very closely but happy to pick up anything specifically on the US you want to cover.

Sumit Malhotra – Scotia Capital – Analyst

I think Teri gave me a lot. My interest was really fee income, but we got some info on the future of how you plan to interact with your customers as well. So I think I'll take the two-for-one and leave it there. Thank you very much.

Gillian Manning – TD – Head of Investor Relations

It's Gillian. We have about six questions left. And so, if I could just ask everybody to stick to one question please, so we don't keep you for too much of the rest of the afternoon. Thank you.

Mario Mendonca – TD Securities – Analyst

Good afternoon. Just probably for Riaz. As this earning season has played out and coming to understand what I didn't understand at the very beginning of it. So, what would be helpful to me is to – if you could take me through how you contemplated risk migration essentially the move in TD and expected loss of default, all that stuff. How did that come into the calculation of your performance loan loss? Specifically was it just a management overlay or did you apply the model for retail but then look at the individual corporate loans? How did you actually go about that from migration perspective?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

So let me describe the process. I will start by saying that you put substantial efforts in to our allowance process because we are in an unprecedented circumstance. We started by selecting our scenarios and of course we give the different scenarios of weighting and then we run them through our markets. But I would say that was the starting point for us.

Thereafter, we actually added an overlay and the overlay basically considered a few things. The first is we did a number of portfolios just once across the bank, some of them were borrower level assessments as well, so that informed what overlay we put in. Second is we look at macro changes since the time we selected our scenario, so we added an overlay for that. Third is we had to reflect the benefits of the TD relief programs. We had to also reflect the benefit of all the government programs. So we considered all of that and then added an overlay to the modeled results.

But just on TD specifically, it's basically the macro that drove the PD changes in the case of retail. I'd say in the case of non-retail it's a combination of the macros plus the various bottom-up in portfolio reviews that we did.

Mario Mendonca – TD Securities – Analyst

Yeah. So you're not suggesting you looked at every single commercial loan and corporate loan. I don't think that would be possible. So are you saying you did more of like a sampling of it and implied something from the sample?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

We looked at it on a pretty broad basis and we've been looking at it over an extended period of time. So it was pretty deep early.

Sohrab Movahedi – BMO Capital Markets – Analyst

Mine is a pretty quick one. When I look at the oil and gas disclosure, to me it was a surprising proportion that was non-investment grade. Would this have been broadly speaking reflection of the credit quality at origination as well? Or is this after you've taken downgrades that have taken them into non-investment great territory?

Bharat Masrani – TD – Group President and CEO

Maybe, first I'll ask Bob to comment and then perhaps you can comment on the migration part of it, Ajai.

Bob Dorrance – TD – Group Head, Wholesale Banking

Sure. A little bit of a combination of both Sohrab. The non-investment grade portfolio is primarily the producer portfolio on both sides of the border, both in Canada and the U.S, and that's the reserve-based lending book that we have. And in Canada, as a result of the 2016 little shock, that book has been slowly working its way through.

We've been in difficult times in Alberta for a period of time, whereas in the US.,. the reserve-based lending has been more challenged, but just more recently. So that has a little less history, perhaps being a bit more conservative. And then we did have some migration as well from investment-grade into non-investment-grade

Bharat Masrani – TD – Group President and CEO

Ajai, you want to pick it up?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Yeah. Just to add, so if you recollect, back in 2016 we ran a number of stress tests in the sector. And so we actually repeated that exercise for the quarter, and we looked at WTI from C$20 to C$30, gradually increasing. We made assumptions around the heavy oil differential. We certainly made some assumptions around natural gas, starting with C$1.25 to C$2.75 range, gradually building up. So we've used that information to determine what kind of downgrade actions were appropriate. But the reason why you have seen such little investment-grade in producer is that we have proactively gone and downgraded a number of names.

Having said that, as Bob said, a lot of the non-investment-grade producers are subject to a borrowing base, if that helps. Also a lot of the large Canadian players tend to be diversified. They have liquidity – they still have access to capital, so they can withstand the volatility. And then in my prepared remarks, I also talked about the mitigating measures that producers themselves were taking. And now the fact that oil prices have picked up as well helps. But overall, if you look at our producer exposure, like it's less than 1% of gross loans and NPAs, so it's very small.

Sohrab Movahedi – BMO Capital Markets – Analyst

Ajai, if I could just have a quick follow-up on that. When you look at that portion that was downgraded, can you give me a sense of how much of those that were downgraded would have been originated in the last 12 to 18 months?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

I wouldn't know that. I think we kind of looked at everything.

Sohrab Movahedi – BMO Capital Markets – Analyst

I just want to know if there was a skew towards the more recent vintages. There's been a pretty good growth in Bob's business. I just want to have a feel for how much of it has been like maybe late into the – late cycle growth, so to speak.

Bob Dorrance – TD – Group Head, Wholesale Banking

I think that very little of that in Canada and some part of that, we would have originated in 2017 and 2018. Some of the – but some of the – we've been in the business for a long period of time, Sohrab. So there definitely are some new names where the vintage would be 2017 and 2018, but there are a lot of preexisting names as well.

Doug Young – Desjardins Capital Markets – Analyst

Hi. Good afternoon. Just going back to the strategic card book and I just noticed that Target indicated that the revenue share from the profit-sharing income from the credit card program actually increased year-over-year. It just struck me as strange given the sizable PCL you took that you ran through corporate. And I haven't had a chance to go look at the examples that are at the back and I understand that, I think, the profit share is based more on charge-offs than PCLs, but just trying to understand a bit of the nuance there just in case I'm missing something. Thank you.

Riaz Ahmed – TD – Group Head and CFO

No, Doug, the differences are exactly as you point out. The retailers are not financial institutions or subject to IFRS 9 in the way that we are. And there are timing differences in the determination and payment of their cash flows under the waterfall agreement.

Doug Young – Desjardins Capital Markets – Analyst

And so, essentially that provision you've set up as it rolls through from a charge-off that wouldn't hit you obviously, but it would hit them and that would come through the allowances that you've set up for that?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

Well, if you can think of it that in the Corporate segment, we carry that partners share off their revenue, the partner shares of the credit losses and then the accrued payments to the partners over time gets charged in noninterest expenses. So, that's essentially how it works out is that some of the recoveries or payments may come at different points in time under the waterfalls.

Nigel D'Souza – Veritas Investment Research – Analyst

Thank you. Good afternoon. So, I wanted to touch on the disclosure you had in deferral loans. And when I look at the balances, your levels of deferrals seem to be better than some of your peers have reported so far, especially on commercial lending side. So, I was wondering if you could provide some color on how you administered the deferral programs? Were you more selective on who you grant deferrals to? And is

there any relation between the lower levels of deferral we're seeing in your book and the higher-performing PCLs that have been taken this quarter or are those two items completely unrelated?

Bharat Masrani – TD – Group President and CEO

Maybe first, Teri, you might want to take us through how the deferrals work out?

Teri Currie – TD – Group Head, Canadian Personal Banking

Sure. Thank you. I'll start with real estate secured lending and this indicates the vast majority from a personal perspective. The way that that occurs is that across our channels we have our advice and tools available to customers to help them understand not only the benefit of taking a deferral but also the cost to them of doing so.

And so, we don't know for every individual customer their circumstance, but what I would say is that our goal is to ensure they really understand the deferral when they take it. For those applications, for those at secured lending deferrals that came through and were decisions, the approval rate closed to 100%.

So I think we're meeting the customers' needs to get them the deferral as it's appropriate. They judge it to be appropriate for them and we facilitate it. I would say we've had about 8,000 accounts were a loss, a one-month deferral and so far those seem to be performing well.

From a commercial standpoint, it would be more business-by-business decisioning. And then, there'd be a range across the consumer lending categories. Most of the other consumer lending are auto finance deferred.

Nigel D'Souza – Veritas Investment Research – Analyst

And that's really helpful. On the second part of that question about performing loans, for these deferred loans, are the majority of them still in stage one and are you waiting? So I guess they will roll off the deferral period before you decide on...migrating to stage 2 or 3?

Ajai Bambawale – TD – Group Head and Chief Risk Officer

I can take that, Teri. I can take that, Teri. So we didn't change the probability of default of all the borrower risk rating with loans got deferred. So that was just to show the fact that you are going to defer and then drive the PD or the BRR.

But what I will say about deferrals is that if no deferrals have existed or we haven't made any deferrals, I would actually be building a higher allowance. Like I view the deferral programs to be ultimately risk reducing. But I haven't assumed that it's completely and totally risk reducing. We've given some benefit for the risk reduction, but we have built reserves for these deferral programs because in our view it is a matter of time before some becomes delinquent. Others may become impaired as well.

Scott Chan – Canaccord Genuity – Analyst

Good afternoon. My question is on the NIM and maybe for Greg and Teri's perspective. We saw a pretty, I guess down margins sequentially. Again now that rates are low, I don't know if like it can go much lower or hopefully not on both sides of the border, does that signal that maybe we should see more stabilization on the margin in TD's front? Thanks.

Bharat Masrani – TD – Group President and CEO

Riaz, do you want to comment generally on the overall NIM and then maybe we can go to Teri and Greg.

Riaz Ahmed – TD – Group Head and CFO

Yeah. Scott, as you know, because of the very rapid rate reductions in the second quarter in response to – central bank's response to COVID, you get the short-term impact almost immediately. And then the long term comes in as the tractors rollout and depending on the longer term yield curves. So, really from a quarter to quarter perspective, those rate cuts came in the middle of the quarter and so they'll be a full quarter position impact going into the next quarter. So we would see further margin compression into Q3 just from the short-term rate.

Teri Currie – TD – Group Head, Canadian Personal Banking

It's Teri. The only thing I would add to what Riaz said because given that we'll have the full Q3 sort of impact, so that should further erode margins, all other things being equal. The only thing I would add is that this erosion in Canadian retail, a big portion of that was that we'll have, for about half the quarter, the difference between prime and feed or compressing quickly and notably. It restored to more normal levels by the end of April, but that from a real estate secured lending perspective, for all of our prime-based loans, did create some compression. So that is another factor.

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

So the only thing I'd add from the US I think that was covered well would be the other things we talk about every quarter, would be the factors such as mix of the business and all of that. That'll play into it from quarter-to-quarter. But the other item is that, in the U.S, you would have known that we effectively had six rate cuts in two sessions in early March, and that wasn't completely for a full quarter. So we'll see the full quarterization of that in Q3, as well as the fact, because of market disruption, LIBOR was a lot higher than Fed Funds after the rate cuts. And now that LIBOR is returning to more normalized levels, you'll see further effects of that in the NIM in Q3 as well.

Darko Mihelic – RBC Capital Markets – Analyst

Hi. Thank you. I just wanted to follow up on the deferral programs, and you've given pretty good disclosure on the difference between the U,S, and Canada in terms of amount and it seemingly looks like it's a bit shorter in the US in terms of the length of the deferral, a little longer in Canada. And then just tying in what Ajai just said about the risk reduction, so when I look at this from the outside looking in, in the US, you're going to have a wall of people required to pay again about three months on average, it looks like; a little later in Canada. Would you consider, at that point in time, deferring again if you find circumstances warrant it? Or from where you sit today, you consider that this was enough and we won't have to have deferrals again?

Bharat Masrani – TD – Group President and CEO

Greg, do you want to start off and then maybe I'll end on that.

Greg Braca – TD – President and CEO, TD Bank America's Most Convenient Bank

I'm happy to and thanks for the question. I would just say that, in the U.S., first of all, our lens is around what's the regulatory guidance and what are we seeing as far as the general market conditions obviously

also guided our view about how we went at this. And you're right for the most part, the deferral programs, whether it was consumer programs across a wide range of products including mortgage and home equity or unsecured lending or auto book as well as small business. And those were the more standardized programs, and the general tenure was a 90-day extension. But each of those programs was meant to have a view about what the conditions are like, what the environment is like and what may be needed 90 days out.

When you look at the mortgage books specifically, it gets a little bit more complicated because, obviously, mortgages that are sold into the secondary market, the GSCs are involved with some guidance around that that allows for a restructuring after the 90 days either to the back end of the loan or a complete restructuring of the loan. Small business has its own nuance and then the rest of the consumer categories. So, I'd say yes, we'll certainly look at conditions as well as what we can do from an accounting standpoint and a regulatory standpoint as well

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Bharat Masrani – TD – Group President and CEO

Darko, this is Bharat. Just to add when these deferral programs particularly in the US what grade will start about through TD Cares that we introduced. So, I mean those were done immediately when the lockdown started and since then you've seen lots of other programs introduced in the U.S. market, the PPP program, and the Main Street Lending Program is just about to be introduced. You saw the direct payments going to Americans as well from the U.S. Treasury.

So I think the view there is that this programs were meant to tie people over until these other programs come into play and hopefully all of them work because the PPP program is geared towards folks getting their jobs back because that's how the program works. So, hopefully all those things work out and hard to predict precisely exactly what might happen 90 days from now. And as Greg said there are other nuances here in the U,S, that we will have to take into consideration, so hard to give you a definitive answer at this stage.

Operator

Thank you. There are no further questions at this time. I'd like to turn the meeting back over to Mr. Bharat Masrani.

Bharat Masrani – TD – Group President and CEO

Thank you, operator and thank you all for joining us.

A tough quarter no doubt but given the circumstances, I think it was the right thing for us to book the allowances that Ajai has talked about. And I do want to take this opportunity to thank our 90,000 colleagues around the world. I mean, we have changed how we operate this bank overnight. Folks have been working from home, others have been looking after customers at various TD locations.

So, I could not be more proud as to what they continue to do and deliver for all of our stakeholders including our shareholders. So, thank you for that. And folks hopefully we will meet in different circumstances 90 days from now. And I wish all of you well and your families as well.