Q2 2025 EARNINGS CONFERENCE CALL
MAY 22, 2025

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Risk factors that could cause, individually or in the aggregate, such differences include: strategic, credit, market (including equity, commodity, foreign exchange, interest rate, and credit spreads), operational (including technology, cyber security, process, systems, data, third-party, fraud, infrastructure, insider and conduct), model, insurance, liquidity, capital adequacy, compliance and legal, financial crime, reputational, environmental and social, and other risks. Examples of such risk factors include general business and economic conditions in the regions in which the Bank operates; geopolitical risk (including policy, trade and tax-related risks and the potential impact of any new or elevated tariffs or any retaliatory tariffs); inflation, interest rates and recession uncertainty; regulatory oversight and compliance risk; risks associated with the Bank's ability to satisfy the terms of the global resolution of the investigations into the Bank's U.S. Bank Secrecy Act (BSA)/anti-money laundering (AML) program; the impact of the global resolution of the investigations into the Bank's U.S. BSA/AML program on the Bank's businesses, operations, financial condition, and reputation; the ability of the Bank to execute on long-term strategies, shorter-term key strategic priorities, including the successful completion of acquisitions and dispositions and integration of acquisitions, the ability of the Bank to achieve its financial or strategic objectives with respect to its investments, business retention plans, and other strategic plans; technology and cyber security risk (including cyber-attacks, data security breaches or technology failures) on the Bank's technologies, systems and networks, those of the Bank's customers (including their own devices), and third parties providing services to the Bank; data risk; model risk; fraud activity; insider risk; conduct risk; the failure of third parties to comply with their obligations to the Bank or its affiliates, including relating to the care and control of information, and other risks arising from the Bank's use of third-parties; the impact of new and changes to, or application of, current laws, rules and regulations, including without limitation consumer protection laws and regulations, tax laws, capital guidelines and liquidity regulatory guidance; increased competition from incumbents and new entrants (including Fintechs and big technology competitors); shifts in consumer attitudes and disruptive technology; environmental and social risk (including climate-related risk); exposure related to litigation and regulatory matters; ability of the Bank to attract, develop, and retain key talent; changes in foreign exchange rates, interest rates, credit spreads and equity prices; downgrade, suspension or withdrawal of ratings assigned by any rating agency, the value and market price of the Bank's common shares and other securities may be impacted by market conditions and other factors; the interconnectivity of financial institutions including existing and potential international debt crises; increased funding costs and market volatility due to market illiquidity and competition for funding; critical accounting estimates and changes to accounting standards, policies, and methods used by the Bank; and the occurrence of natural and unnatural catastrophic events and claims resulting from such events.

The Bank cautions that the preceding list is not exhaustive of all possible risk factors and other factors could also adversely affect the Bank's results. For more detailed information, please refer to the "Risk Factors and Management" section of the 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 second 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 second 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.

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 Q2 2025 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. We had a strong quarter, and I'm looking forward to walking you through the details in a minute. Before we discuss that and share updates on our strategic review and AML remediation, I'd first like to comment on the current environment.

Despite a recent tariff de-escalation between the U.S. and China that's temporary in nature, there continues to be a high degree of macroeconomic and policy uncertainty. This has made it difficult for businesses to make long-term decisions, and created economic distortions, such as inventory stockpiling and purchases being pulled forward to avoid tariffs. This fluid environment has also driven volatility in capital markets and created angst for some households. In Canada, housing activity has slowed, and the job market has continued to soften, with notable losses in trade-exposed sectors.

With the election in Canada now behind us, there's a new opportunity for bilateral discussions with the U.S. And I've been encouraged to see the new federal government working alongside the provinces on opportunities to create economic growth, including through the elimination of interprovincial trade barriers. There are no quick fixes to the challenges our country is confronting. This is going to take time and considerable effort. As a major employer and participant in the economic growth in both Canada and the United States, TD has an important role to play. We stand ready to engage and work productively with governments in both countries.

Despite an uncertain external environment, our focus remains constant. We're staying close to our nearly 28 million clients, providing advice and supporting them through this period. Within TD, we will continue to prudently manage risk as we drive our businesses forward – ensuring we can be there for our clients as their needs evolve. With that, let's turn to the next slide.

I will start with an update on our strategic review. This quarter, we completed the sale of approximately US$9 billion correspondent loans. We also communicated plans to wind down our U.S. point-of-sale financing business which services third party retailers. This business is comprised of a series of bespoke arrangements with each retailer, which impacts its profitability and scalability. Exiting this business is accretive to U.S. Retail ROE and frees up capacity to invest in our proprietary Bankcard business. In addition, through the strategic review, we are identifying opportunities to innovate to drive efficiencies, and operational excellence. We are structurally reducing costs across the Bank by taking a disciplined look at our operations and processes to find opportunities to automate and to reengineer them. Kelvin will provide more details on our restructuring program in his remarks. These efforts will create capacity to accelerate digital and AI investments to upgrade capabilities and scale relationship banking.

We are identifying growth opportunities and making good progress across each of our four pillars of our strategic review. TD will host an Investor Day on September 29th where we look forward to presenting a clear direction for the Bank's future and our refreshed medium-term financial targets.

Please turn to slide 4.

In Q2, the Bank delivered a strong quarter, with earnings of $3.6 billion and EPS of $1.97. We saw robust trading and fee income in our markets-driven businesses and volume growth year-over-year in Canadian Personal & Commercial Banking. Impaired PCLs decreased quarter-over-quarter, reflecting strong credit performance broadly across asset classes. And we added to our performing reserves for policy and trade uncertainty – taking a prudent approach with more than a half a billion in reserves added over the past two quarters. Ajai will share more details shortly in his remarks. As of quarter-end, the Bank's CET 1 ratio was 14.9%. We made good progress on our share buyback this quarter, repurchasing 30 million shares for a total of $2.5 billion. We still intend to deploy $8 billion of the proceeds from the Schwab share sale for our current NCIB. We have the capacity to execute the NCIB as planned while maintaining very strong capital levels in this uncertain environment.

Please turn to slide 5.

This quarter, we saw strong execution across our businesses. The Canadian Personal & Commercial Banking segment delivered growth on both sides of the balance sheet. In RESL, we continued to enhance speed to decision and to provide tailored customer advice by referring more complex deals to our mobile-mortgage specialists. As you know, our single greatest opportunity is to deepen relationships with our more than 15 million customers in Canada. We are executing against that – with continued strong referrals to the Business Bank and Wealth. In addition, the Personal Bank achieved record credit card penetration rates with new checking account customers. In the Business Bank, loans were up 6% year-over-year reflecting growth across our commercial business.

In U.S. Retail, we demonstrated resilience and momentum – with six consecutive quarters of consumer deposit growth and core loans up 2% year-over-year. Our U.S. Wealth business also has momentum. Total client assets were up 15% year-over-year, with mass affluent client assets up 26% year-over-year. We continue to prioritize and execute on our AML remediation and have made significant progress on our U.S. balance sheet restructuring. Leo will provide an update in his remarks.

Wealth Management & Insurance had a strong quarter reflecting our diversified business mix. TDAM added $5.3 billion in net institutional assets, and our Advice business delivered strong net asset growth. We continue to innovate in TD Direct Investing – the only bank-owned brokerage in Canada to offer partial shares trading. We are seeing great momentum, with an 83% (sic) [56%] increase in partial shares adoption by our Gen Z and Millennial clients within the last six months. TD Insurance continued its digital transformation – with over 46% of new sales this quarter completed digitally from end-to-end – as we build on our position as the leading digital direct insurer in Canada.

In Wholesale Banking, we continued to demonstrate the power of our broader platform with record revenue of $2.1 billion. This quarter, the trading business benefitted from market volatility. We are navigating challenges in the market – while executing against our strategy.

Across the Bank, we are delivering for our clients. This quarter, both TD Auto Finance in Canada and U.S. Retail in Florida were recognized by J.D. Power with the highest ranking in customer satisfaction.

Please turn to slide 6.

We recognize that leadership in digital and mobile is critical. We are investing in these areas, and in enabling capabilities such as trusted data and AI. This quarter, we announced plans to open a new office in New York City for Layer 6 – TD's AI research and development center. TD has over 800 AI patent filings and – according to Evident AI – our portfolio is in the top 10 amongst banks globally. Last quarter, I mentioned that we have deployed a Generative AI virtual assistant in our contact centres to drive efficiency while enhancing the customer experience. We are now beginning to deploy this Gen AI virtual assistant across our branch network – driving further colleague and customer experience and efficiency benefits.

This year, we launched the next AI enhancement in our fraud operation in insurance claims – to enhance our detection of suspected fraudulent auto and residential claims. This helps improve our response times to customers with genuine claims and continues our development of AI in insurance – which has been heavily engaged in machine learning for over a decade.

TD continues to innovate for our clients, colleagues, and communities.

Please turn to slide 7.

In March, we published our 2024 Sustainability Report – providing an update on our efforts to protect the Bank while adapting business practices to meet changing market conditions and the evolving needs of our stakeholders.

Before I turn it over to Leo, I want to thank our colleagues across the Bank for their tremendous dedication and efforts. Together, we are writing the next chapter of this great institution's story. We will continue to invest in our talent and our culture.

With that, over to you Leo.

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.

I am very pleased with the progress we've made on our U.S. AML remediation, which as we've said before is our top priority. We are executing against our remediation plan with focus and purpose. Operationally, we continued to make enhancements to our transaction monitoring coverage and investigative practices. As we said we would do last quarter, we implemented the final round of planned scenarios in our transaction monitoring system. Work is progressing on the use of specialized AI to detect, isolate and automate our risk mitigation activities and teams are continuing to work on the implementation of the machine learning tools, with these capabilities expected to come online next month.

In addition, we rolled out a streamlined workflow of our investigative practices, including the introduction of updated procedures for analyzing customer activity. These changes complement the updated procedures we introduced last quarter. It is important to note we are also making progress with data staging in relation to the lookbacks.

Finally, we are continuing to implement risk reduction measures across our program. For example, this quarter, we introduced further enhancements to our cash deposit requirements at TD stores. Collectively, these measures will help us manage the Bank's financial crime risks and, coupled with our improved monitoring, enable us to detect, escalate, and report potential activity of interest earlier and more effectively.

While we still have more work to do, we remain on track with our planned remediation activities, and are building the foundational AML program that we need for the years ahead. We'll continue to provide updates every quarter.

Please turn to slide 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 limitation and second, to ensure that we can continue to serve our clients and communities as their needs evolve.

We made meaningful progress against our objectives this quarter. As of March 31st, the first reporting date for the asset limitation, our two-quarter average assets were approximately US$405 billion, versus the OCC asset limitation of US$434 billion. At the end of the fiscal quarter, total assets were US$399 billion, reflecting the closing of the correspondent mortgage sale. Since the end of the fiscal quarter, we have also paid down an additional US$7 billion of bank borrowings. We expect to further reduce our assets in the upcoming quarters using the proceeds from the loan sales, investment maturities and normalized cash levels to pay down additional short-term borrowings. And, as Ray mentioned, we communicated plans to gradually wind-down the approximately US$3 billion in our point-of-sale financing business which services third party retailers, as part of our efforts to reduce non-scalable and niche portfolios that do not fit our focused strategy.

I remain confident that we will largely complete the loan sales we identified last October by the end of the fiscal year. And – with the execution of our loan reductions and pay-down of short-term borrowing – we expect to comfortably meet the 10% asset reduction we guided to in October.

Turning to the investment portfolio rotation. We continue to expect to complete the investment portfolio repositioning no later than the first half of calendar 2025. To date, we have sold approximately US$23 billion notional, for an upfront loss of just under US$1.3 billion pre-tax. The investment portfolio repositioning is expected to generate an NII benefit in fiscal 2025 at the upper end of the US$300 million to US$500 million pre-tax estimated range we provided in October.

Collectively, we expect these actions will enable us to improve return on equity through fiscal 2025 and into fiscal 2026.

With that, I will turn it over to Kelvin.

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

Thank you Leo. Please turn to slide 10.

TD delivered a strong quarter. Total bank PTPP was up 5% 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 – including fees from TD's sale of its Schwab shares – and volumes in Canadian Personal and Commercial Banking. Expenses increased 12% year-over-year, with approximately one-quarter of the growth driven by variable compensation commensurate with higher revenues, foreign exchange, and the impact of the U.S strategic card portfolio. Impaired PCLs declined quarter-over-quarter, reflecting strong credit performance. Performing PCLs increased quarter-over-quarter, reflecting policy and trade uncertainty.

Please turn to slide 11.

As Ray noted, we are undertaking a restructuring program to reduce structural costs and create capacity to invest to build the Bank for the future. We incurred restructuring charges of $163 million pre-tax this quarter, and expect to incur total restructuring charges of $600 million to $700 million pre-tax over the next several quarters. The restructuring program is expected to generate savings of approximately $100 million pre-tax in fiscal 2025, and annual run-rate savings of $550 million to $650 million pre-tax. Cost savings will be driven by workforce and real estate optimization, asset write-offs, and business wind downs and exits as part of the strategic review. We expect this will result in an approximately 2% reduction to our workforce. Wherever possible, we will look to achieve this through attrition and we will redeploy talent in areas where we are accelerating our capabilities.

Through this restructuring program – and the strategic review more broadly – we are innovating to drive efficiency and structurally reduce the Bank's cost base. We expect fiscal 2025 expense growth – assuming fiscal 2024 levels of variable compensation, FX and the U.S. strategic cards portfolio – to be at the upper end of the previously communicated 5 to 7% range, reflecting investments in governance and control and investments supporting business growth, net of expected productivity and restructuring savings.

Please turn to slide 12.

Canadian Personal & Commercial Banking delivered continued volume growth on both sides of the balance sheet. Average loan volumes rose 4% year-over-year, with 3% growth in personal volumes and 6% growth in business volumes. This quarter, tariff uncertainty weighed on the Canadian housing market and we saw slower purchase activity. In TDAF, we had record Q2 originations, which may reflect customers pulling forward auto purchases in anticipation of tariffs. Average deposits rose 5% year-over-year, reflecting 4% growth in personal deposits and 8% growth in business deposits. Net interest margin was 2.82%, up 1 basis point quarter-over-quarter, primarily driven by higher loan margins. As we look forward to Q3, we again expect NIM to be relatively stable. Expenses increased reflecting higher technology spend and other operating expenses.

Please turn to slide 13.

U.S. Retail demonstrated resilience and business momentum, while executing against our balance sheet restructuring program. Core loans grew 2% year-over-year. In key areas of focus – Bankcard, home equity, middle market, and small business – balances grew 11%, 9%, 8% and 6% year-over-year, respectively. As you know, we are focused on enhancing ROE in U.S. Retail. We are assessing relationship profitability across our loan portfolios.

Net interest margin was 3.04%, up 18 basis points quarter-over-quarter, reflecting the impact of the U.S. balance sheet restructuring activities, normalization of elevated liquidity levels – which positively impacted NIM by 11 basis points – and higher deposit margins. As we look forward to Q3, we again expect NIM to deliver substantial expansion reflecting the benefits from ongoing balance sheet restructuring activities and further normalization of elevated liquidity levels.

Expenses increased US$189 million – or 13% – year-over-year reflecting higher governance and control investments – including costs of US$110 million for U.S. BSA/AML remediation this quarter – and higher employee-related expenses. 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. We expect similar investments in fiscal 2026.

Please turn to slide 14.

Across its diversified businesses, the Wealth Management & Insurance segment is firing on all cylinders.

Wealth Management revenue was up 13% year-over-year, with growth across fee based revenue from higher market levels, transaction revenue from elevated trading activity in volatile markets, and net interest income from higher deposit volumes and margins.

Insurance delivered gross written premium growth of 10% year-over-year.

Expenses increased this quarter, reflecting higher variable compensation, technology spend supporting business growth initiatives and employee-related expenses. Segment ROE remains very strong at nearly 47% – and Wealth Management's peer-leading ROE is driven by robust returns across all of our businesses.

Please turn to slide 15.

Wholesale Banking had strong performance despite increased market volatility and a decline in capital markets activity. Expenses increased reflecting higher technology and front office expenses, along with investments in our growth platforms. We continue to execute on our strategy to be a leading integrated North American investment bank with global reach.

Please turn to slide 16.

Corporate net loss for the quarter was $161 million, a smaller loss than the same quarter last year, reflecting higher revenue from treasury and balance sheet activities partially offset by higher net corporate expenses which were primarily driven by higher governance and control costs.

Please turn to slide 17.

The Common Equity Tier 1 ratio ended the quarter at 14.9%, up 177 basis points sequentially. Strong internal capital generation was offset by the increase in RWA (excluding the impact of FX). The Schwab share sale increased CET 1 by 238 basis points. We repurchased 30 million common shares under our share buyback program this quarter, which reduced CET 1 by 40 basis points.

Our average LCR for the quarter was 141%. The Bank remains comfortable that it can operate at more typical LCR levels. However, while actions have been taken to manage liquidity buffers down, the proceeds from the Schwab share sale will continue to keep LCR elevated in the near term.

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 18.

Gross impaired loan formations were 21 basis points, a decrease of 4 basis points or $400 million (sic) [$401 million] quarter-over-quarter. The decrease was recorded broadly across the Canadian and U.S. consumer, and business and government lending portfolios.

Please turn to slide 19.

Gross impaired loans decreased $587 million quarter-over-quarter to $4.87 billion or 51 basis points. The decrease was reflected in the Canadian Personal and Commercial, U.S. Retail, and Wholesale segments, with the largest contribution from the business and government lending portfolios, and a $197 million impact from foreign exchange.

Please turn to slide 20.

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 $129 million, or 8 basis points quarter-over-quarter to 58 basis points. The increase is largely reflected in the Canadian Personal & Commercial Banking, and Wholesale Banking segments.

Please turn to slide 21.

The Bank's impaired PCL was $946 million, a decrease of $270 million quarter-over-quarter, reflected across the Canadian and U.S. consumer and commercial lending portfolios. By asset class, the largest quarter-over-quarter decreases were in the U.S. cards portfolios, related to seasonal trends, coupled with the impact of a prior quarter model update, and the U.S. commercial lending portfolio.

Performing PCL was $395 million, compared to a recovery of $4 million in the prior quarter. The current quarter performing provisions primarily relate to policy and trade uncertainty, and were recorded in the Canadian Personal and Commercial, U.S. Retail, Wholesale Banking, and Corporate segments.

Please turn to slide 22.

The allowance for credit losses was $9.6 billion, a decrease of $9 million quarter-over-quarter due to a $231 million impact from foreign exchange, and lower impaired allowance, largely offset by performing reserves in the consumer and business & government lending portfolios related to policy and trade uncertainty, and applied through overlays, and an update to our macroeconomic forecasts.

Please turn to slide 23.

In light of recent events, we have provided additional disclosure regarding industries most exposed to elevated policy and trade risks. These industries represent 9% (sic) [approximately 9%] of the Bank's gross loans and acceptances, though the ultimate credit impact will depend on a range of factors, including the magnitude and duration of tariffs, and government stimulus. While the industries of focus are broad, exposure to borrowers most sensitive to these risks is small, representing less than 1% of the Bank's gross loans. We will continue to work closely with our customers through these challenging conditions.

Now, in summary, the Bank exhibited strong credit performance this quarter, evidenced by lower gross impaired loan formations, gross impaired loans, and impaired PCLs. As a result of the ongoing policy and trade risks, we have reviewed our credit portfolios, and bolstered our reserves in excess of $500 million over the past two quarters. That being said, there are many potential scenarios that could play out that may impact the economic trajectory and credit performance, some of which could drive fiscal 2025 PCL results beyond the 45 to 55 basis points range I previously provided.

However, 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] We will take the first question from Matthew Lee, Canaccord Genuity.

Matthew Lee – Canaccord Genuity – Analyst

Good morning. Thanks for taking my question. I wanted to ask Leo one here. When I think about the repositioning of the U.S. portfolio, you've talked a bit about US$500 million in NII benefit in 2025. But the program could continue into the first half of 2026. So does that kind of imply that there's maybe a further couple of hundred million of NII benefit that could be felt from the repositioning in '26?

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

Matt, thanks for the question. As you know, the trade effectively takes a loss upfront and then obviously, you'll see the NII recapture associated with the higher rate structures on the investment bond portfolio over the next 3 years. So, you should expect that next year the number will be slightly higher than what we recorded this year to reflect the calendarization impact. And that will continue through year 3. And then thereafter, depending on market conditions, those investment bonds would reprice at market rates at that point in time.

Matthew Lee – Canaccord Genuity – Analyst

And then we should be thinking about NIM as expanding in 2026 beyond 2025 based on the repositioning?

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

Yes. So maybe if I could just take a moment there because I know that our NIM is moving. We saw an 18 basis point improvement in the quarter. There's a number of factors that are influencing NII right now. First, as Kelvin described, we are running down some of the excess liquidity that we had built up late last year. Second, as you called out, the investment bond repositioning is starting to trickle through the P&L. And then obviously, the tractor on-off rates right now represent a tailwind for the business.

So we do expect the NII trajectory over the next few quarters to be quite positive. And we do expect that NIM expansion for Q3 will be a substantial increase, mirroring what we saw in Q2. I should state because – for the second quarter, we did have one extraordinary item, which is we did change the amortization period for some of our deferred product acquisition costs. That was about a US$46 million charge we took. We would not expect that to reoccur in Q3.

John Aiken – Jefferies, Analyst

Good morning. Ray, I wanted to clarify something that I thought I heard in your prepared commentary. In context of the exit of the correspondent loans to the point of sale in the U.S., you mentioned that the proceeds were going to be diverted into proprietary bank card operations. Did I get that correct? And I guess, has that been previously disclosed? Or is this a new initiative?

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

You're talking about the wind down of what we call our RCS business, which is our third-party credit card business. So that's about a US$3 billion portfolio that we're going to be winding down. And then that will provide us capital that we can then redeploy to our proprietary credit card business that we've been building out organically for the last number of years.

John Aiken – Jefferies, Analyst

Fantastic. Sorry about the misperception on my part. And then Kelvin, in relation to the restructuring charge, again, I apologize if I missed this. But did you give us a breakdown in terms of which of the segments will be more or less impacted by this?

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

No. The impact is pretty broad based across the Bank. I can offer that in terms of nature, it's going to be on the workforce, real estate optimization, asset impairment, really about tech decommissioning and then also a wind down of some businesses like Ray and Leo talked about earlier.

Gabriel Dechaine – National Bank Financial – Analyst

I just want to ask about your excess capital position. So if I look at where you are today, I factor in the amount of buybacks you're still committed to at current prices and then this restructuring charge, it leaves me with a pro forma ratio of just under 14%. So still a good amount that I think most investors and myself anyway look at as – well, those are the funds that are still remaining from the Schwab sale that you said you'd be using some of that for internal investment. And if there's anything remaining, you could be increasing the buyback or buy back more stock than what you've announced already at some point in time. Just wondering what the current view is and what the potential is for another large buyback is. The macro climate is certainly dicier. Maybe there's other investment initiatives you have in mind? So maybe you can provide some clarity. Thanks.

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

Gabe, I appreciate the question. Let me start by saying, as I said in my prepared comments on the current NCIB, our commitment is still to execute the $8 billion NCIB buyback. And as we get through our strategic review and as I stated, at the Investor Day we'll lay out for you where we think we're going to deploy some of that capital. And some of that is certainly – we're seeing significant organic growth opportunities. And we're still looking at rightsizing some of the portfolios from a scale – those businesses that may not be core to our business. And so we're looking at some of those opportunities.

And at the end of all of that, we will assess the current market. I mean, these are uncertain times, and there certainly is value in being well capitalized as we think forward. But as we move through this uncertainty and as we get through our strategic review, if we still then feel that we have excess capital, as I've said before, then we then look at another opportunity to do another buyback.

Gabriel Dechaine – National Bank Financial – Analyst

So there could be more cost associated – those funds shouldn't be automatically assumed to be a big buyback coming. There's more investment required, right?

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

Yes. I think as part of our strategic review. We'll definitely be looking at how we deploy some of that capital, and then we'll assess the opportunity for a buyback later in the year and sort of closer to next year.

Gabriel Dechaine – National Bank Financial – Analyst

Okay, thanks for that. And then on the bond portfolio repositioning, I think I've heard you talk about in the past, it was going to be done by the end of this quarter, or maybe I misunderstood. But we're roughly halfway through. Should it be done by the midpoint of the calendar year? That's fine. I'm just looking at the guidance on the NII uplift, you're still talking about a US$300 to US$500 million NII uplift. That's not an annualized figure. That's an actual impact on this fiscal year, correct? And I guess that's more successful reinvestment? Is that basically the story?

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

Gabe, good morning, it's Leo. Yes is the short answer. We are virtually complete – the actual investment bond portfolio. We had indicated we'd be done by the end of the calendar. I think we'll be done virtually over the next few days and weeks. So I'm pleased on where we are with regards to the work. Markets have been constructive, and so we were able to complete it a little bit ahead of schedule. Now with regard to the impact, what we have indicated, and Kelvin mentioned it in his prepared remarks, we had given back in October a range of US$300 to US$500 million, and we can confirm to you right now that it will be on the upper end of that range. That is in-year 2025.

Gabriel Dechaine – National Bank Financial – Analyst

Yes. Okay. Great. And then just to sneak another one in there. The corporate NII, a big jump up there. You mentioned treasury activities. And is there any unusual driver there? Or is that some sort of new run rate?

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

It's Kelvin. That's right. The treasury activity that we're mentioning relates to the investment from the proceeds of the Schwab share sale. We sold those shares, we had cash coming in, and that is invested, generating higher NII in the Corporate segment. And then you would expect that NII to come down over time as we redeploy that cash to buy back shares.

Doug Young – Desjardins Securities – Analyst

Hi, good morning. Just wanted to clarify one thing, Ray or Leo. Just on the business exit, the point-of-sale business exit, you're talking about the target, credit card books and the other retail or credit card books. Do I have that right? Or do I have that wrong?

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

No, Doug. Let me just clarify that. There are 3 businesses in our overall cards stable. One is our proprietary bank card business, which we've indicated is core. And we've done a number of things. Happy to elaborate a little bit more there. Second, our co-branded card offering, and we have 2 critical partners, Nordstrom, Target. Those remain strategic. We're very pleased with the relationship we have with both firms. And then there's this point-of-sale financing business or what we have historically referred to as our Retail Card Services business. And the challenge with that business, despite the fact we have very strong relationships with some of the top retailers across the country, is that business does not scale quite as well.

And when we were looking at what was going to be required to transform that business, it was going to be consumptive of significant investment resources. And at a time when we're really thinking through where do we want to invest capital for the greatest return, as Ray indicated, we felt that it was more important to be able to invest in our core proprietary cards business. So just to be clear, proprietary cards and our co-branded cards remain very much core and long-term strategic priorities for us.

Doug Young – Desjardins Securities – Analyst

Okay. That's clear. And then one other – can you talk about any other businesses that you would be thinking from a wind-down perspective? And I would assume it's not just the U.S., this would be across all of your different areas. But anything else that you would highlight in terms of business exits or wind downs?

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

Doug, I would say not on this call, but we certainly are looking at all of our options and going through all of our product services and businesses. And some of that we will share as we get to the Q3 call and then certainly, we'll have more to share as we get to Investor Day.

Doug Young – Desjardins Securities – Analyst

Fair enough. I figured I'd try. And then just maybe lastly, Canadian banking. It seemed like there was a sequential decent drop in non interest income. Maybe I've got that wrong. But is there anything in particular that went through in the Canadian banking on the revenue side that was abnormal? Or what would have caused the sequential decline in the non interest income line?

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

Hi Doug, it's Sona. I'll take that. Sequentially, it would have been 3 less days sequentially. And on a year-over-year basis, also, you might recall we had a leap year last year. So there was one fewer day effectively this Q2. That's about a 1% impact to revenue on a Q2 year-over-year basis or $40 million. Overall, the business fundamentals for CAD P&C are solid. And beyond the NII piece on the other income, there were a collection of smaller Q2 impacts. I can give you a couple of examples. We would have seen moderated foreign currency spend, both on the debit and credit side as consumers had a little more caution, especially with cross-border purchases.

We saw some lower merchant acquiring revenue in the business bank and some small timing items. So no one big thing on the other income side for Q2, but rather a collection of smaller things. So really, I'd say a few factors, the biggest is days and leap year. But I would say as we look ahead, we're encouraged by the late Q2 volume momentum. We read that as a positive sign for Q3, and we're expecting quarter-over-quarter NIM stability, as Kelvin had noted. So overall, we're feeling confident heading into Q3.

Paul Holden – CIBC World Markets – Analyst

Thank you, good morning. I want to get a better understanding of what drove the sequential decline in impaired PCLs in Canadian P&C banking. Listening to Ray's opening remarks regarding the macro backdrop, all of which I think makes sense – would suggest sort of higher impaired PCLs. But obviously we saw it lower. So just wondering what drove that and if there's anything we can take away from that trend in terms of forward expectations?

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

Thanks Paul, it's Ajai. Let me give you an overview of what's happening on impaired PCLs, and I'll go to Canadian P&C as well. So as I said in my prepared remarks, impaired PCLs, they're down substantially – $270 million. We've seen it in Canadian P&C. The numbers in U.S. Retail are quite big, Corporate segment as well. Numbers went up slightly for Wholesale.

If I look at Canadian P&C, the numbers are down across asset classes. So RESL numbers are down, auto numbers are down, cards numbers are down, and commercial numbers are down. They are not large dollars, but I'd call them quite symbolic because it's really telling us that if you keep this tariff issue aside, we were really seeing peak PCL and good quality. And I think the fact that rates have come down has helped borrowers.

And then if I turn to U.S. Retail, again the number is down there quite a bit. Cards is a big contributor. But as I said in my prepared remarks, there are 2 factors there. One is seasonality. And the second is we put a model update in the last quarter. So quarter-over-quarter, there is a decline. But there are other asset classes that have come down. So for example, the commercial numbers in the U.S. are down a fair bit. Auto is down, but part of auto is seasonality, but RESL and other parts of other consumer are also down. So this is not just a one-off. Yes, there's seasonality and this model issue is certainly a factor and a contributor. But I think on a broader basis, we're seeing good credit quality.

And then just finally on Wholesale. Wholesale numbers went up a little bit. It's $28 million. And that's because we took some incremental PCL for 3 existing borrowers in telco, cable and media, power and utility and CRE office. And we did have 2 impairments there as well in forestry. So that's the overall picture on impaired PCL. And I do view it as quite a positive development.

Paul Holden – CIBC World Markets – Analyst

Okay. Second question is with respect to the cost restructuring. And what I'm really going to try and get at is sort of roughly what proportion could we expect to benefit the bottom line, i.e., operating efficiency? And one of the reasons I ask – just looking through some of the numbers in the supp-pack, I've seen Canadian P&C FTE year-over-year is down roughly 6%. So you've had significant headcount reduction, but expenses still up 5%. So obviously, the composition of expenses is changing. So again, I think it just raises the importance of the question, how much of the cost restructuring gets redeployed into other initiatives, investments and how much of it gets dropped through to improved efficiency?

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

It's Kelvin. I'll take that. Yes. So we see significant opportunities to continue to invest in the business to drive future growth. And one area, as you would expect, is on the digital AI and technology front. And so that spend does not always translate into specific FTEs, but those are investments that are an important investment for us.

Paul Holden – CIBC World Markets – Analyst

Okay. So if I understand the answer then, most of it gets redeployed into investments into the business?

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

Correct. That's correct.

Sohrab Movahedi – BMO Capital Markets, Analyst

Okay, thank you. Maybe if I can just start off with Leo. Obviously, lots of good work getting done, lots of moving parts. In the first half of the year in U.S. dollars, U.S. Retail has done around US$1.2 billion. What do you think the second half of the year will be from an earnings contribution perspective?

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

Sohrab, good to talk to you. We're not going to provide guidance at this point, but maybe if I can give you the moving parts. Generally speaking, we're constructive. We're very positive about what the second half will look like. And what's driving that is, one, as I indicated before, I do think we will have NII tailwinds based on the factors that I described before, that being less excess liquidity, the investment bond repositioning and the tractor on-off rates. All those things will give us a tailwind as we think about the back end of the year.

I do think that from a fee line and other income perspective, we saw in the quarter strong growth in our Wealth business, continued work with TD Cowen and our Commercial Banking business on the lending fees line and sustained growth in our retail consumer, retail deposit franchise, which will translate into service fees. So you put those things together. And I think from a revenue standpoint, we would expect revenues to be sustained and strong.

From a cost standpoint, just quickly, I would say we would expect a moderation in the rate of growth in expenses in the second half. And that reflects a number of things. One is the year-on-year financial shape, but also some of the work that we're doing from a productivity standpoint to absorb some of the governance and control type activity. So I think – while expenses related to AML will be slightly higher based on our spend pattern for the first half of the year, I think generally speaking, we'll see a moderation in the rate of growth. And you heard Ajai talk about where we are from an overall health of the credit portfolio itself. So you put those things together – and we are feeling optimistic about what the second half of the year is going to be.

And the one thing that we have been, and Ray has been very clear about this, I think I've mentioned it as well, is we're really focused on improving the return on equity profile quarter-on-quarter through this year and into next year. As we think about the Investor Day discussion, I think we'll provide a little bit more guidance as to firming up what that objective looks like. But long-winded way of saying, I think we feel very positive about the back end of the year.

Sohrab Movahedi – BMO Capital Markets, Analyst

Okay. That's really helpful, thank you. And if I can just sneak one more in for Ajai. I think Ajai – you said tariffs aside, everything is fine actually. But if you think about the complex environment, the tariffs, all the puts and takes, where do you think you will actually see deterioration? Will it be in the business and corporate lending stuff? Or do you think it will be in the consumer stuff?

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

Thanks Sohrab. I think you could see it actually in both because if the macro deteriorates, you will see it in consumer. And the way we built our reserves, we have built both for consumer and business and government lending. I do think, and we have built the reserves that way, that there could be bigger impact on non-retail. And most of this $500 million that we're talking about is actually being built in business and government. And what we did is we actually went and looked first at the industries that were exposed to tariffs. That's the 9% number that we have disclosed.

After that, we went and looked on a more narrow basis saying, what out of these borrowers are most sensitive to tariffs. But we look broadly at the financial impact, again, across the 9%, not just a smaller population, we looked at the ratings migration that could occur. And based on that ratings migration, we built our results. So again, this $500 million, a big part of it is business and government, but there is some for consumer because if the macro deteriorates, I think you should expect there will be impact on the consumer as well.

Sohrab Movahedi – BMO Capital Markets, Analyst

Okay. And so was this equity investment portfolio markdown you talk about, would you dub that as tariff related as well? Is it in Wholesale Banking?

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

Yes. It's Tim Wiggan. So I would attribute that to our strategic portfolio – a mark-to-market on our strategic portfolio, which would correlate more to index declines within the quarter. And so if you see a normalization quarter-over-quarter in the S&P, that can reverse. So it was a factor in the quarter, but it was a mark-to-market event.

Mike Rizvanovic – Scotia Capital, Analyst

Hi, good morning. Question for Leo. Just wanted to talk a little bit about the AML spend. And I think this is new guidance, correct me if I'm wrong, but the US$500 million persisting in 2026. And I guess I was under the impression, I think a lot of investors were, that number could potentially fall off at some point. So I'm not trying to ask for 2027 guidance, but is that still the dynamic where you do expect at some point, these expenses will fall off to some extent? Or is it more of a perpetual sort of run rate for AML?

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

Mike, let me answer that by first saying that we're comfortable with the guidance that we provided for 2025. So in other words, we do believe that we will operate within the US$500 million guidance that we provided. We spent, between the first and second quarter, about US$196 million. We'll see a slight uptick as we go into the meat of our remediation delivery programs, but I feel comfortable with that guidance.

What we did is we wanted to give the Street a sense of what 2026 was going to look like. I'd say right now, we believe that the spend will be similar. The composition of the spend might change a little bit. It might be a little less remediation, more validation work, more look backs, monitor costs, etc. So the composition might change, but we think the overall spend level is going to be similar. But then I wouldn't want to speculate on '27, '28, but I feel like the program is moving. We're actually making good progress on the remediation plan. We're hitting the milestones. We're tracking well. So I feel positive about some of the expense guidance that we've already provided.

Mike Rizvanovic – Scotia Capital, Analyst

Okay. So no colour – you can't really provide any colour on potentially drawing that to some extent, lower at some point in the future?

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

Well, there's no question as we start thinking about those outer years, I would expect that the raw remediation program management expenses that we're incurring today will fall off. We could have a slight uptick in some of our run costs. But net-net, there will be a decline at some point in the future.

Mike Rizvanovic – Scotia Capital, Analyst

Got it. Okay. That's helpful. And then maybe a quick one for Sona. Just on the mortgage business in Canada. It does look like TD saw a bit of a decline sequentially. And I think there has been quite a bit of underperformance versus most of your peers just in terms of your RESL balances in the Canadian P&C segment. Can you help me understand what's driving that? I was sort of under the impression that with the big push from the mortgage mobile specialists, that you probably could see at least market level growth and maybe even some outperformance on some of those initiatives. But I'm just a little bit confused as to why you would be underperforming just given some of those new distribution channels that you sort of introduced the last couple of years?

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

Yes, Mike. This is Sona. Thanks for the question. So maybe I'll start just briefly on the macro context. We've clearly seen buyers sitting, waiting a little bit on the sidelines. We're seeing inventory buildup, I think we're up to 5 months of inventory. And I think each of the last 3 months of CREA housing sales were in the range of 9% to 10% lower on a year-over-year basis. So it's certainly a different spot than where we were in early Q1. In early Q1, we were gearing up for a strong spring just given the natural supportive rate environment. But uncertainty is weighing on buyer sentiment. So really, a lot has changed in the last 4 months.

Now if I look at our specific competitive position, we're a multichannel through-the-cycle lender. I would say in this particular market, our broker originations have moderated a little bit. We have really strong relationships, and we continue to compete for profitable business. But you mentioned the MMS and what I thought might be helpful to share is despite the macro headwinds, I'm really pleased with the strength that we've seen in our proprietary channels.

So if I look at our branch and MMS proprietary ecosystems, originations – and again, this is despite the macro environment – originations in those 2 channels are actually up double digits year-over-year. And so while you see a flat average sequential growth on a spot basis, we're actually up $1.5 billion quarter-over-quarter. So the growth is there. The profile was a little different this quarter where we had higher pay downs in January and February, but then we exited the quarter with momentum.

So overall, I think the fundamentals are very good. What we are highly focused on, Mike, is really building speed in our ecosystem, ensuring we have specialization. Our branch mortgage referral system – ecosystem – I had shared on the Q1 call, we had tripled referrals in that ecosystem in Q1 and that has continued in Q2. So on a year-to-date basis, the branch MMS referral ecosystem is performing incredibly well. So I would say good exit momentum to Q2. And I think we're poised as the market recovers to deliver on speed and expertise.

Mike Rizvanovic – Scotia Capital, Analyst

That's great insight. Just one quick follow-up. So would you be expecting to trend in terms of loan volumes with the industry? I'm just not sure if there's a dynamic of protecting margins or maybe focusing on more profitable accounts that would maybe lead to a little bit of underperformance going forward.

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

I think Mike, profitability should always be a factor. And so we will compete to win profitable business, and then leverage our strengths in channels where we can differentiate on speed and customer experience, but profitability is important.

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

Sona, do you want to elaborate a little bit on just the paydown dynamics that you're seeing as well?

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

Yes, for sure, Kelvin, I can share that. So Mike, what we saw in Q1 was some seasonality late in the quarter. And really, that continued actually interestingly enough this year – this quarter – into February. So both

January and February were high paydown months for us. I think our book skews slightly more premium. And so as you have customers that have more disposable income by way of year-end bonuses, for example, and more liquidity in the market. We actually saw January and February prepayments were up double digits on a year-over-year basis. So that was some of the dampness in late in Q1 and then also the jump-off point as well as early in Q2 in February. So those are perhaps a little bit more symptomatic of our premium book.

Lemar Persaud – Cormark Securities, Analyst

Thanks. I want to go to the liquidity coverage ratio, that 141%. You're saying that, obviously, it should be somewhat elevated in the near term, reflecting these proceeds from the Schwab shares. What's the more normal level given all the changes that are going on at TD? And should we be thinking about something in the 130% flat range and kind of how fast do you get there? Any thoughts would be helpful.

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

It's Kelvin. I'll take that. Yes. So we would look at LCR in the normal range of 125% to 135%. So 130% is kind of smack in the middle. In terms of just providing a little bit more colour, last year, when we raised liquidity, some of that liquidity was let's say, a 1-year basis, so it's going to take some time for those to run off. But we're comfortable at normalizing on a liquidity level, getting back to the 125% to 135% over time.

Lemar Persaud – Cormark Securities, Analyst

And is that something that we could expect in the next year? I'm just wondering if you could just provide some time frame?

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

Yes. The answer is yes because the two biggest pieces, as you know, are the proceeds from the Schwab sale and then a lot of that is going to be redeployed in share buybacks. And so that's going to be – and then some of that liquidity raised about a year or 18 months. And over that time frame, that would also decrease. So that would normalize.

Lemar Persaud – Cormark Securities, Analyst

Okay thanks. And then a question on credit here. I appreciate the disclosure on these industries of focus from tariffs. But wondering if there's any colour you can add as to what industries make up that kind of less than 1% cohort? Is it focused in any of these specific industries like automotive, agriculture or anything that you've highlighted on your Slide 23? Or is it kind of well diversified amongst these kind of industries of focus?

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

I'd say it's diversified across a number of industries that are on that page. Some of the ones I can call out for your benefit would be auto, agriculture, sundry manufacturing, transportation and retail, that's where most sensitivity would be. But the industries on the page is not confined to one industry. So it's fairly diversified.

Lemar Persaud – Cormark Securities, Analyst

Okay. And then how has your watch list kind of evolved over the last quarter?

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

Good question. Positively, and the watch list has been coming down, and it's actually down across all business segments.

Lemar Persaud – Cormark Securities, Analyst

Okay. Anything you could share in terms of magnitude of changes in that watch list?

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

I don't have all those numbers in front of me. But I think if I look at my impaireds, I wouldn't say there's huge movements, but they are positive movements.

Darko Mihelic – RBC Capital Markets – Analyst

Hi, thank you, good morning. My questions are all for Ajai as well. Maybe just the first question is with respect to the reserve building. I do see the $500 million in the business build. But one of the things that I do also see is when I look at the forward-looking indicators and sort of what has changed, I see very significant changes in Canada GDP, U.S. GDP and the house price index is also fairly aggressive. And you went from an expectation last quarter of 8% to a negative expectation for house prices for the rest of this year. But a very small change overall in the actual Stage 1 and Stage 2 performing about 3% quarter-over-quarter. And I believe it's linked to very small changes in your unemployment expectations, where we're seeing like a 40 basis point increase in unemployment expectation, and it's essentially sitting where unemployment is today.

So Ajai, what is informing – first of all, am I correct in thinking that if we had a bigger change in the unemployment expectation, we would have seen even more reserve build and likely in consumer and retail? And what is it that's informing this view that unemployment really won't change from the current level in Canada?

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

Yes. Well, let me walk you through what the drivers of our tariff build are. First are the macro changes. And again, the macro changes are determined by our Chief Economist. They're not determined by me, but we have a strong governance process, and we take it through our governance process. But what changed? So yes, you called out GDP actually. It came down quite a bit for Canada, quite a bit for the United States. Unemployment for Canada quarter-over-quarter, at least for the near term, went up 0.4%. For the U.S. went up 0.2%. We did put tariffs into these scenarios, and I'm happy to share the numbers with you. For Canada, we put in tariffs of 10% for 6 months and then those come down over a period of time. And for the U.S., we put in 23% for 6 months, and those come down over a period of time.

The second thing I'd like to point out on macro is that our downside case is a recessionary case. And that downside case also reflects the risk of higher tariffs. In addition to the macro, what we've done is we've looked more holistically at the book and said, at higher tariffs rate what could be the impact on consumers and non consumers. And that's the way we built the overlay. So it's really a combination of these macro plus the judgmental overlay that got us to the $500 million number.

But at 101 bps, Darko, I do feel that we are well reserved. And the one thing I want to caution you because the situation is fluid, things could change. There's always the possibility we may have to build reserves. But I feel good as to where we are. Our reserves reflect our forward-looking view as at April 30. So if that forward-looking view evolves, we may have to build more reserves. But again, for this year, as you know, I'd really ask you to anchor on the fact that we're not changing our guidance. We're still saying for this year, 45 to 55 basis points, but we're also calling out that the risk to that range is elevated because of the environment.

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

Kelvin here. Also additional colour is that immigration policy is also constraining population growth. So it's harder to get a rising unemployment rate out of that factor. In addition, the assumption you can run various scenarios in your projection, but the scenario that we run there is that we expect to have resolution to be somewhere in Q3. And if that takes longer, then that would worsen the economic outlook and potentially drive higher PCL.

Darko Mihelic – RBC Capital Markets – Analyst

Okay thank you for that. One of your answers previously, Ajai, you mentioned that the industries that are at risk you sort of suggested that of that 9%, just 1% is most sensitive, I suppose, to tariffs. And you mentioned migration risk. Can you maybe better define that for me? I just want to understand the better definition and why the exposure is relatively small at less than 1% rather sensitive to tariffs. So maybe you can just define that migration issue a bit better for me.

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

Well, let me outline how we built the reserves and created the overlay. We looked at the industries that were most exposed to tariffs. That's a broad set. That's the 9% number. Our reserves were built on that 9% number. What we did is we went actually within those industries, borrower by borrower and assessed what is the financial impact on the borrower. So for example, we'd look at revenue, we look at cost of goods sold, and we'd look at what impact that would have on the ratings of that individual borrower. If you then aggregate that up, that created the overlay. So that's the allowance bit. We then went to each borrower, and we used a set of criteria. And one of the main criteria we used was borrower strength – that which of these borrowers would be most vulnerable and most sensitive to tariffs. And when we aggregated that number up – this is exposure – that number was less than 1% of gross loans.

Darko Mihelic – RBC Capital Markets – Analyst

Okay thank you. And so essentially, if your reserves are based on the 9%, but when you whittled it down to less than 1%, are you suggesting that the overlay actually brought the reserve down?

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

No. The reserves are based on 9%, but you could conclude a lot of those reserves are held against these names that are most sensitive.

Operator

There are no further questions registered at this time. I would now like to turn the meeting over to Raymond Chun.

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

Let me just thank everyone for joining the call. And just again, I'll end with thanking our more than 100,000 colleagues across Canada, U.S. and globally for all your support and all the hard work, and we look forward to chatting with all of you next quarter. Thank you.