TD BANK GROUP
Q2 2012 EARNINGS CONFERENCE CALL
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PRESENTATION

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Good afternoon and welcome to TD Bank Group's second quarter 2012 investor presentation. My name is Rudy Sankovic and I'm the Head of Investor Relations for the bank.

We'll begin today's presentation with remarks from Ed Clark, the bank's CEO, after which Colleen Johnston, the bank's CFO, will present our second quarter operating results. Mark Chauvin, Chief Risk Officer, will then offer comments on credit quality, after which we will entertain questions from those present and from prequalified analysts and investors on the phone.

Also here today to answer your questions are Bob Dorrance, Group Head, Wholesale Banking; Tim Hockey, Group Head, Canadian Banking, Auto Finance, and Credit Cards; Bharat Masrani, Group Head, US P&C Banking; and Mike Pedersen, Group Head, Wealth Management, Insurance, and Corporate Shared Services.

Please turn to slide two. At this time, I'd like to caution our listeners that this presentation contains forward-looking statements and there are risks that actual results could differ materially from what is discussed. Any forward-looking statements contained in this presentation represent the views of management and are presented for the purposes of assisting the bank's shareholders and analysts in understanding the bank's financial position, objectives, and priorities and anticipated financial performance, and may not be appropriate for any other purposes.

Certain material factors or assumptions were applied in making these forward-looking statements. For additional information on these factors and assumptions, please see our Q2 2012 MD&A and 2011 Annual Report available on Td.com.

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

Ed Clark – TD Bank Group – Group President & CEO

Good afternoon. Thank you, Rudy. And thank you all for joining us today. Colleen's going to be up shortly to talk about our second quarter results in detail, but I'd like to start by sharing a few thoughts on the quarter and tell you a little bit more about how I feel about the rest of the year.

Now, this was another very strong quarter for TD, with adjusted earnings per share growth of 12 percent versus the second quarter last year. Our retail business generated record adjusted earnings of $1.6 billion, up 14 percent from a year earlier.

Our Canadian Personal and Commercial operation performed very well, delivering 14 percent adjusted earnings growth despite the low rate environment and slowing personal loan growth. Our U.S. Personal and Commercial bank, Wealth, and Insurance businesses all delivered record results. Our Wholesale banking results were in line with our expectations, despite difficult markets late in the quarter.

Together with our robust performance in the first quarter, the second quarter's strong performance has produced impressive results for the first half of 2012, with adjusted earnings of $3.5 billion and adjusted EPS of $3.68. We expect similar adjusted earnings and EPS numbers in the second half, which implies a lower growth rate for the balance of the year. We continue to work hard to stay in the 7 to 10 percent earnings growth increase that we've indicated before, despite increasing headwinds.

So, let's look at each segment. Our Canadian personal and commercial bank expects to deliver good results in the second half of the year, driven by positive operating leverage, solid volume growth, stable

credit performance, and good MBNA results. We expect to continue to see margin compression into 2013 as interest rates remain low.

In wealth and insurance, it's a mixed picture. The wealth business has performed very well this year, but it has been impacted by uncertain markets and lower trading levels. Still, despite the challenging environment, we expect solid results from wealth, thanks in part to expense management and continued good client asset inflows. Insurance is set to deliver strong results for 2012 through solid premium growth and good claims management.

Our U.S. retail bank should deliver strong lending volume growth driven by residential mortgages, indirect auto loans, and commercial lending. We also expect to see strong growth in organic deposits as new stores mature.

The regulatory environment continues to be a headwind as we try to mitigate the impact of the Durbin Amendment, and low interest rates will continue to exert some pressure on margins. Overall, though, we expect solid adjusted earnings growth for 2012.

In wholesale, market volatility, driven primarily by a resurgence in tensions in Europe, will have an impact on the business, primarily through a moderation in trading revenues. Nonetheless, I'm confident that our client driven franchise model will generate return on equity in the 15 to 20 percent range for the year.

Now, I've referred several times to the macroeconomic environment and the headwinds it is creating for our businesses. We expect this to be a recurring theme. We've said before that the recovery will take time, and that is still our view.
The eurozone sovereign debt crisis has flared up again, underscoring that the ECB's liquidity injection earlier this year provided only temporary relief and did nothing to address the region's underlying structural problems. While the euro concept may be a flawed construct, unwinding it has its own perils. Meanwhile, reducing public sector deficits with no alternative growth measures poses both social and economic risks.

For now, we don't believe that the upheaval in Europe will derail the U.S. recovery, which recent data seem to confirm is gaining momentum. Households are slowly repairing their balance sheets and job growth has held up fairly well. The main risk to the United States' outlook is a fiscal shock next year as a variety of tax incentives expire, injecting a dose of austerity that the economy may not be robust enough to absorb.

The U.S. economy has proven its resilience time and time again. We're encouraged by that, but we still believe that the recovery will be slow and interest rates will remain low for some time to come.

In Canada, the picture is brighter but there are challenges here, too. Let me make a comment briefly on the housing market. Looking back, a robust housing sector was a positive factor contributing to Canada's recovery from the economic downturn. A strong banking system combined with low interest rates fueled this industry.

The risk, of course, is that this positive contributor becomes a negative factor if it leads to a sharp correction in housing prices. The government has attempted to mitigate this risk by gradually tightening CMHC standards. We supported these moves. More recently, OSFI has issued guidelines for the sector and intensified its oversight of lending practices.

Now, we do not believe that Canada has ever been at risk of a U.S. style meltdown. The structure of our housing market and the nature of our lending practices are different. But, it's clearly been prudent to lean against the collateral effects of low interest rates. While the direct costs to the banks of a sharp correction would be quite absorbable, the effects of a large correction on the economy warrant prudence.

At the moment, we see signs that the housing market is slowing and the risks of a sharp correction are diminishing. We believe OSFI's interventions will have a further dampening effect. As a result, we do not

see a need at this time to tighten further, given that the effects of the announced changes have yet to be fully felt. Rather, we should wait to see how the markets evolve. If further restraint is required, we favor focusing on high ratio loans.

Looking forward, given low interest rates, we believe we will have to continue to work hard to stay in the 7 to 10 percent earnings per share range over the next few years. It's why we're focused on making productivity management a competitive advantage for TD.

Expense management will be an increasingly important driver of our ability to deliver positive operating leverage and to find the resources to continue to invest and grow our market share. As we discussed at last month's Investors Day, we're focused on finding permanent reductions to our cost base which will then, in turn, allow us to invest in growth initiatives that will drive our franchise for the future.

To wrap up, I'm pleased with our results today and proud of the management team's impressive performance. As we work through these challenging times, we're going to keep doing exactly what we've been doing for the last 10 years: stay focused, execute on our business strategy, invest for the long term, and exploit the growth strategies we outlined at last month's Investors Day.
With that, let me turn it over to Colleen.

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Thanks, Ed, and good afternoon. Please turn to slide four.

We are very pleased with our Q2 2012 results. Total bank adjusted net income for the quarter was $1.7 billion, up 14 percent from last year, while adjusted diluted earnings per share was $1.82, up 12 percent versus Q2 of 2011.

These strong results were driven by record adjusted earnings in our retail business, $1.6 billion, up 14 percent from last year. Wealth, insurance, and U.S. P&C all posted record quarters.

Results in our wholesale bank were solid with net income of $197 million. Net income was up 5 percent versus last year. The corporate segment had an adjusted loss of $20 million versus a loss of $29 million in Q2 of 2011.

Please turn to slide five.

This slide shows you the reported and adjusted view of earnings this quarter. The difference between the two views was due to six items of note. None of these are new this quarter.
Please turn to slide six.

Canadian P&C had another very good quarter. Adjusted net income was $838 million, up 14 percent versus last year. Excluding MBNA, earnings growth was solid this quarter at 9 percent. MBNA earnings were elevated this quarter due to better than anticipated credit performance.

As you know, Q2 contained a full quarter of results from MBNA, which added 10 percent to adjusted revenues, 7 percent to adjusted expenses, 22 basis points to NIM, and $95 million to PCL.

Adjusted revenue growth of 4 percent, excluding MBNA, was solid this quarter due to good volume and fee growth and an additional calendar day versus the prior year, partially offset by lower margin on average earning assets.

The retail business continues to generate good but somewhat slower personal lending volume growth, with year-over-year increases of 7 percent in real estate secured lending and 13 percent in auto lending. Business lending volume growth remained strong at 14 percent.

We continue to see strong deposit volume growth, with personal deposit volume increasing 6 percent and average business deposit volume increasing 9 percent.

Credit quality remained steady with personal banking PCL, excluding MBNA, down 10 percent compared to last year due to better credit performance and enhanced collection strategies.

Excluding the impact of MBNA, margin was down 12 basis points compared to last year due to the low rate environment, portfolio mix, and competitive pricing pressures. Margin was down two basis points sequentially.

For Q3, we forecast margin to increase slightly driven by seasonal business activity and pricing initiatives. However, we expect the low rate environment will continue to contribute to margin declines in Q4 as well as in 2013.

Adjusted operating leverage was 2 percent. While expenses were slightly elevated this quarter due to timing of business initiatives and one extra business day, we continue to expect positive adjusted operating leverage for 2012.

Please turn to slide seven.

Wealth and insurance, excluding the impact of TD Ameritrade, delivered strong results despite continued difficult capital markets. Net income of $318 million was up 23 percent from last year and 8 percent sequentially. Both businesses had record earnings this quarter.

Wealth earnings were up 3 percent year-over-year. Revenues were flat, as strong asset and fee growth in the advice and asset management businesses was offset by lower trading volumes in direct investing. Expenses were down 1 percent due to proactive management actions.

Insurance earnings were up 51 percent year-over-year as a result of lower claims for weather related events, the addition of MBNA, good premium growth, and claims improvement. MBNA contributed nine points of bottom line growth. Expenses in wealth and insurance were up 1 percent year-over-year.

TD Ameritrade contributed Canadian $47 million to TD this quarter, down 18 percent from last year and down 15 percent sequentially, partially due to lower trading volumes.

Please turn to slide eight.

The U.S. Personal and Commercial bank delivered record adjusted net income of US$358 million for the quarter, up 9 percent from last year and up 4 percent from last quarter. The increase was primarily due to very strong organic growth.

U.S. P&C's organic volume growth, excluding acquisitions, continued to be very strong. Excluding the Chrysler Financial acquisition, average loans increased by 10 percent, with residential mortgages up 30 percent and commercial loans up 7 percent compared to last year.

Average deposits, excluding government deposits and TD Ameritrade IDAs, were up 8 percent, with personal deposits up 8 percent and commercial up 4 percent. TD Ameritrade sweep deposits grew 23 percent compared to last year, but were down 2 percent sequentially.

The gross impact of the Durbin Amendment remains in line with our previous guidance, and we continue to implement strategies to offset the impact.

There were a few unusual items in the quarter, including securities gains of roughly $80 million from our investment portfolio and elevated legal and credit related expenses. TD Auto Finance had record originations in Q2, but faces headwinds in the second half from the roll off of higher margin legacy loans. Total PCL was up 7 percent from last year.

Adjusted expenses increased over last year primarily due to investments in the core franchise including new stores, legal and credit related expenses, and the Chrysler Financial acquisition.

Please turn to slide nine.

Wholesale delivered good results this quarter with net income of $197 million. Earnings were up 5 percent versus Q2 of 2011 due to higher revenues across a number of business lines, most notably investment banking, and the positive impact of a favorable tax item, partially offset by higher non-interest expenses and declining fixed income trading. Annualized ROE for the quarter was strong at 19.5 percent.

Trading related income was solid at $278 million. Negative market trends in the late stages of the quarter resulted in lower fixed income trading revenue. We remain comfortable with our previous guidance of $300 million per quarter over a normalized cycle.

PCL was in line with the second quarter last year. Expenses increased 12 percent year-over-year primarily due to higher operating expenses.

Please turn to slide 10.

On an adjusted basis, the corporate segment posted a loss of $20 million in the quarter compared with a loss of $29 million last year. The change was primarily due to lower net corporate expenses.

I'll guide you back to a higher loss for Q3 and Q4, in the $40 to $80 million loss range, which partially reflects our pattern of higher expenses in the second half of the year.

Please turn to slide 11.

With revenue growth expected to remain constrained in a slow growth economy, we remain committed to our focus on expense management while investing for the future. Our adjusted efficiency ratio in Q2 was 56.8 percent, a 150 basis point improvement over Q2 of last year.

We delivered positive adjusted operating leverage of 290 basis points this quarter as a result of acquisitions, solid core revenue growth, and prudent expense management. Excluding acquisitions and FX, we expect a low single-digit rate of growth for adjusted expenses in 2012. Expenses remain a major focus across the bank with our planning process for 2013 now well underway.

Please turn to slide 12.

Looking at capital, our Q2 tier one capital ratio was 12 percent and our pro forma Basel III ratio was 7.4 percent. Our guidance remains unchanged on Basel III.

Please turn to slide 13.

We are working to deliver within our 7 to 10 percent EPS growth paradigm, but likely closer to the bottom end of that range. We expect our businesses to post second half earnings at roughly the same level as in the first half. Corporate segment losses are expected to be higher in the second half of the year versus the first half due to higher expenses.

With that, let me turn it over to Mark.

Mark Chauvin – TD Bank Group – Group Head & Chief Risk Officer

Thank you, Colleen, and good afternoon, everyone. Please turn to slide 14.

As a reminder, the debt securities classified as loans in the acquired credit impaired loan portfolios have been excluded from the credit slides.

Canadian credit quality remained strong across all the portfolios. PCL was down $7 million compared to last quarter despite one extra month of MBNA results. While it's still early, performance of the MBNA credit card portfolio exceeds our expectations.

The positive trends in the U.S. credit portfolio continued during the quarter. Although PCL increased due to the lumpy nature of commercial losses during the quarter, steady improvement in the underlying credit metric remained evident as indicated by: impaired loans and new formations are down in the quarter, delinquency continues to reduce, criticized and classified loans have fallen, and we are seeing fewer problem loans on the horizon. Based on these trends, we're expecting PCL to reduce during the remainder of the year.

Lastly, I can confirm that there has been no change in the performance of the acquired portfolios and debt securities classified as loans this quarter.

With that, I'll turn the presentation back to Rudy.

QUESTION AND ANSWER

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Great. Thanks, Mark.

We'll now open it up for questions. And to give everyone a chance to participate, please keep to one question and then re-queue and we'll get to you if there is time. We'd like to keep this call to one hour and end promptly at 4:00 if we can. For those participating in person, can I ask you identify your name and firm before asking your question? Before ending the call today, I will ask Ed to offer some final remarks. So, why don't we get started in the room first? So, are there any questions from anyone present? John?

John Reucassel – BMO Capital Markets – Analyst

John Reucassel from BMO Capital Markets.

A question for Ed or Tim. You talked about the OSFI rules. You want time to see how that works, the new OSFI rules on consumer lending. Could you give us a sense of how you know they're going to be working? Like what external--is it going to be it's as easy as slower consumer loan growth relative to GDP growth?

And the OSFI rules, as I understand them, actually haven't been implemented yet. That might happen in the summer or the fall. Do you think that's pulling forward some loans, or is the industry acting proactively to institute some of these?

Ed Clark – TD Bank Group – Group President & CEO

Why don't I start and then hand it over to Tim?

I think our experience is that if OSFI shows a concern, I think it's the difference in the regulatory environment in Canada and the United States is that the United States runs a more prescriptive system. And so, you would wait exactly to get all of the rules and then you'd figure out in the U.S., well, what can I do and what can't I do given those rules.

In Canada, I think we run a better system where OSFI says, "I'm worried about this area and I'm looking to you to do a risk-adjusted approach to make sure that you're not doing things you shouldn't be doing." As soon as you say that to a lending system, people tighten in.

And so, I think, our assumption is that, that's what will go on here at the margin, people will go for tighter implementation than they would have gone otherwise.
Tim?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

So, what I'd add is that OSFI came out with the guidelines and asked the industry to respond. We went back, and as the response deadline has now passed, we expect them to come out with the final interpretation of the rules probably in the summer sometime. And that will include an implementation timeframe.

Some of the rules that might be implemented, depending on feedback or not, will have fairly significant systems implications. So, therefore, there is always an implementation timeline. Who knows? Could be six months, could be a year, depending on certain things.

But, to your final question as to when we will know, we're clearly seeing the markets starting to soften now. And as you say, these guidelines haven't been implemented yet. By the time that they do get implemented, I think Ed's comments were pretty clear. We'll have them implemented. They will have a slowing effect. There's no question.

So, in addition to those changes, we're not advocating for any additional changes at this time. I think we've been quite--I say "we" i.e. The government in Canada have been quite prudent in sort of timing the moderation in lending guidelines to make sure that we have a slowing effect as opposed to a crash effect.

John Reucassel – BMO Capital Markets – Analyst

But, has this pulled forward any borrowing that you--?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards
I don't think so yet. It's not widely known. But, I believe when they are published then there likely will be more articles about, you know, how one can get ahead of it. And there's usually--every time we've done this we've seen a bit of a pulling forward effect, but nothing so far.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Okay. Thanks, John. Okay. Michael?

Michael Goldberg – Desjardins Securities – Analyst

Michael Goldberg, Desjardins.

It looks like you had a high level of loan rehabilitations in the second quarter, quite a bit higher than previous quarters. Is this indicative of an improving trend in loan quality? Where is it happening? And do you expect it to continue?

Mark Chauvin – TD Bank Group – Group Head & Chief Risk Officer

So, Michael, when you say loan rehabilitation, are you talking about the reduction--the increase in OREO on the U.S.?

Michael Goldberg – Desjardins Securities – Analyst

No, the cures, sales, and repayments going up significantly.

Mark Chauvin – TD Bank Group – Group Head & Chief Risk Officer

Okay. So, what I indicated, there have been a couple of factors where we did see a change in the U.S. from a regulatory perspective. They've been looking at, because foreclosures are being so extended and long, you're getting to a point where, and this is really an industry issue, where banks have substantially got ownership but title hasn't actually transferred.

So, the regulatory community went through that and tightened up the guidelines. So, you saw a bit of a shift this quarter. So, that was one factor. That's a one-time--.

Ed Clark – TD Bank Group – Group President & CEO

We've invented a new test here. It's if we're paying to mow the lawn, we own the house here.

Mark Chauvin – TD Bank Group – Group Head & Chief Risk Officer

So, that was one factor. The other factor is that we are seeing a higher resolution than coming in, right? So, we're cleaning up more of the problem loans than what we've seen coming in. And that's been evident in the last couple quarters, and that's probably one of the biggest things I would look to to say things are improving and getting better going forward.

Michael Goldberg – Desjardins Securities – Analyst

And is that in particular in the U.S.?

Mark Chauvin – TD Bank Group – Group Head & Chief Risk Officer

Well, in Canada, the portfolios are quite strong to begin with, right? So, it's really, I kind of put them in this. The wholesale has de minimis problem loans to begin with.

The Canadian commercial portfolio is running at very low rates. So, one loan will make a difference, but it's still at a historically low level. And then, in terms of the retail, we really see that portfolio back to kind of prerecession levels and at a run rate which I think is quite good. So, I don't see anything materially changing there.

But, what you did see, and actually, you would have seen an increase for MBNA because now, as we go further in that, so that kind of, notwithstanding that, we still went down a bit. So, it's all, to me, indicative of strong credit quality.

Michael Goldberg – Desjardins Securities – Analyst

Thank you.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Good. Thanks, Michael. Jason?

Jason Bilodeau – TD Securities – Analyst

Jason Bilodeau, TD Securities.

Ed, you talked a little bit about the interest rate environment continuing to be a headwind for the business. But, once again, we're starting to see a little bit of chatter that maybe Canada may be among the first to start moving up rates in the fall, maybe 2013.

I'm just wondering if that's materially different than your outlook, or are they just sort of fairly small and gradual increments that wouldn't materially change your view on the low rate environment?

Ed Clark – TD Bank Group – Group President & CEO

Well, I think, depending on your forecasts, I mean, there are some forecasts where it would make a material difference to the operations in Canada. I think, it depends on how pessimistic a view you have of what Europe's going to look like and its rebound effects on Canada.

And so, I think in this period of uncertainty, policymakers are going to be biased to hold rates down rather than move up. And so, I think we should be running the business on the assumption that rates stay low and therefore getting the cost structure down to accommodate that. And if it turns out that rates move up faster than that, that's just a bonus. But, we're not going to run the bank on the basis that rising interest rates solve our problems for us.

Jason Bilodeau – TD Securities – Analyst

Right. That makes sense. I guess what I'm trying to get at is, understand the sensitivity a little bit. If rates go up 25, 50 basis points in the back half of the year in Canada, or early 2013, is that still what you would consider to be a pretty difficult low rate environment, or does that start to actually alleviate some of the pressure for you?

Ed Clark – TD Bank Group – Group President & CEO

It doesn't alleviate the need to still lower the cost structure, because the rates at which things are rolling off and the rates that we're putting new tractors on will be lower than what we're rolling out.
But, it would be substantial. We have enough, our core accounts are big enough that 25 basis points times a big number is still a material number to us.

Jason Bilodeau – TD Securities – Analyst

Okay. Thanks.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Thanks, Jason.

John Aiken – Barclays Capital – Analyst

John Aiken with Barclays.

Just a couple quick questions on Chrysler Financial. Colleen, in your prepared remarks you talked about the roll off of the auto loan and concerns about that. I'm assuming that's just on the spread in the revenues, not necessarily on volumes, correct?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Yeah, that's right. So, really two things are happening right now. So, the legacy book is declining and the spreads were quite good on that business. The newly originated business which again, we saw record originations. But, we're seeing thinner spreads on that business, and we're working hard, I'll turn it over to Tim to comment on this, but working hard to really optimize that margin going forward. But, that's the dynamic you have in the book right now.

Tim, I don't know if you wanted to elaborate on that.

John Aiken – Barclays Capital – Analyst

Tim, just--sorry. If I can step in, because that was--the follow on question was it looks like we've seen some very strong growth coming out of the auto lending business. And are we at an inflection point now that you're starting to see the business pick up from the deal that you brought on, or is this still just going to be a bit of a slow burn?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

There's no question, from a pure volume point of view, we're now at call it a running rate every month in the US only of about 800 million. So, that's a significant uptick, and we're now well over 8,200 dealers.

Now a year in, essentially we're at the point where we're saying, "Okay, now what's the best way to optimize the risk-adjusted margin?" So, it's not just going for pure volume of both dealers as well as volume itself, but where is there spread available to be taken?

What's transpired in the market over the last year is prime and super prime has gotten very tight. And there is some risk-adjusted margin to be taken in the sort of near prime. Not subprime, we're not interested in that, but in the near prime space. So, as a result, we're trying to say now, based on the market dynamics, where can we really broaden out the spread?

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Great. Thank you. Any other question in the room? Michael, we'll ask you to re-queue. Thanks. We'll go to the phones now, please, operator?

Operator

Your next question comes from Steve Theriault, Bank of America Merrill Lynch. Please go ahead.

Steve Theriault – Merrill Lynch Canada – Analyst

Thanks very much. So, just to follow up on the auto loan roll off just quickly, so is it the conclusion, then, that the roll off will have a material impact on the margin sort of in the near term, or not necessarily?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

I'm trying to think about the margin, the TDAF U.S. specific margins. In the near term, let me get back to you on that. I think I've got a file that I--the bottom line is--.

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Steve, are you asking about the U.S. P&C margin? Or, are you asking about the TDAF margin overall?

Steve Theriault – Merrill Lynch Canada – Analyst

No, the U.S. P&C margin. Like, is it big enough to see it come through that?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Yeah. I don't think so.

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

No.

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

I mean, maybe, Bharat, you want to comment generally on where margins are. You see margins bump around a little bit. You saw an increase this quarter. You know, part of that was the ACI accounting, which we called out in the slide. So, you see things bump around a little bit. But, I think we have a sort of a reasonable range that we expect going forward.

Bharat Masrani – TD Bank Group - Group Head, U.S. P&C Banking

Yeah. So, Steve, this is Bharat. There is a slight headwind on margins, obviously, with overall rates being depressed. So, you will see compression, over time.

But, many quarters ago we said the range you should expect from the U.S. is between 350 to 375 basis points. And I think that is still an appropriate assumption, given what we know today.

Steve Theriault – Merrill Lynch Canada – Analyst

Okay, that's great. I wanted to ask Bob Dorrance, please, a question on risk-weighted assets. You had a big step up in Q1 on the back of Basel 2.5. And in short order, you pared, it looks like, about 3 billion off the risk-weighted this quarter. So, maybe you could just talk about some of the things you're going specifically to get the relief. Is there runway for more of that?

And maybe you can't answer this, but I'll ask it anyway. Is there the possibility of getting back to the high $30 billion range of RWAs, getting back a lot of what you lost at the beginning of this year?

Bob Dorrance – TD Bank Group – Group Head, Wholesale Banking

So, I think, the quick answer is that we implemented the model at the beginning of the year. So, this is the first time when, all of the desks are really working with the models.

And the ask of them was to review their businesses, look at all the positioning that they were taking to make money and see if they couldn't do it in a more effective way, in a more optimal way. And that's what's been going on.

I guess as an example, non-investment grade credit is significantly impacted by stressed VaR. So, the ask there is let's just, from an inventory perspective, hold less non-investment grade credit. And in fact, that's what the market's doing. We're not the only one that's implementing this strategy.

So, I think what you're seeing is just both the market and ourselves respond to the new rules. And, our job is to try to, keep the same level of profitability, revenue, and use the optimal amount of capital to do that.

Is there more room for improvement? I think potentially there is. Offsetting that, VaR is also impacted by market factors. So, those are not controllable. And if market factors deteriorate, that can add to VaR. On the other hand, we're still looking at how we are using the capital that we have in the business to see if we can't reduce it. I don't think we can get back to where we were before when we started, no.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Okay. Thanks, Steve. Next question, please, operator?

Operator

Your next question comes from Robert Sedran from CIBC. Please go ahead.

Robert Sedran – CIBC – Analyst

Hi, there. Just wanted to return to the issue of the housing market, I guess. Tim, you answered an earlier question that suggests that that market's already slowing. And I guess my question is, if the market is already slowing, is it a good idea to have any more changes in terms of the framework that OSFI is putting forth?

I mean, is there any risk that we overshoot and, rather than tapping on the brakes, we actually slam on the brakes? And you sound comfortable that's not going to happen. I'm just curious as to why.

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

There's certainly a risk that the factors already put in the marketplace will have an overshoot factor, but we don't see it as being large. And as we say, there's already been--if you talk to our Chief Economist, he'd say there's a 10 to 15 percent correction in the housing market that is appropriate anyway.

Am I certain that we're not going to overshoot? Of course not, which is why we say we've given feedback on the OSFI guidelines. Some of them may be put into place, some of them may be changed, then let's watch to see what happens.

At the end of the day, low interest rates do trump lots of other factors. And housing is incredibly affordable still, so there has to be a little bit of leaning into that force for us to slow down the market overall. But, there certainly is a risk that it will overshoot.

Robert Sedran – CIBC – Analyst

Okay. Just a quick follow up. I don't want to ask a second question. But, Colleen, you mentioned MBNA having an impact on insurance and wealth of 9 percent. Is that to the overall, or just to the insurance part of the segment?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Yes.

Robert Sedran – CIBC – Analyst

If I think of the 16, is it actually 9 excluding--?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

No. So, this is strictly related to the insurance bottom line.

Robert Sedran – CIBC – Analyst

Okay.

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

So, we grew by 51 percent. Ex MBNA Canada, we would have grown by 42 percent. So, it was still a fantastic quarter, needless to say.

Robert Sedran – CIBC – Analyst

Okay. Thank you.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

All right. Thank you. Next question, please?

Operator

Your next question comes from Brad Smith from Stonecap Securities. Please go ahead.

Brad Smith – Stonecap Securities – Analyst

Thanks very much. I had a couple of questions just with respect to the U.S. segment disclosure. Colleen, I believe that you mentioned in your preamble something about some legal costs in the quarter. I was wondering if you could elaborate on that and perhaps put a number on that.

I was curious about that, because you, I believe, took a very large accrual in the fourth quarter. And, the implication of what I heard you say was that there were further expenses hitting the P&L relating to legal.

The second question that I have is just sort of a general question. You mentioned an $80 million gain on the sale of some AFS securities. As you know, I follow the US regulatory filings fairly closely, and I saw an $80 million gain come through there in the December quarter. And I was just wondering, is that the same gain?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

So, to start with your first question, we did have some items that we would call unusual in the quarter. But, overall I'd say they netted out to a--more or less a neutral effect. So, on the revenue side, we did have the securities gains of about $80 million. And we're not disclosing a specific number, Brad, but we did have very much elevated legal and credit related expenses and higher PCL.

So, I'd say net/net, that was pretty neutral. And then, if you look at the 9 percent growth in the bottom line on a year-over-year basis, I would really characterize that as core fundamental growth. So, again, it was quite a good quarter. As we both know, it is tough to go back and look at the call reports and completely align it with what we're reporting on the segment side. The GAAP view is different. So, the U.S. returns are on a US GAAP basis. We're reporting now under IFRS, so you won't always see a complete connection there. But, we did have additional legal expenses this quarter for some items that we settled.

Brad Smith – Stonecap Securities – Analyst

Right. Just with respect to that GAAP versus IFRS issue, I mean, what I'm seeing here now is just a general decoupling on your expenses between your call report, which was about $1.3 billion in expenses in the latest quarter, and the roughly $960 million that you're showing as adjusted expenses. Is there some different type of allocation going on? Where would that difference be going in the consolidated statement?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Again, there are differences between the legal entity view versus the management reporting view, which is the one that we're reporting from a segment standpoint. And there really hasn't been any substantial shift in that. But, that's why it is hard to compare the two views.

Brad Smith – Stonecap Securities – Analyst

But, accounting differences aside, the legal view ends up going somewhere in the management view, does it not?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Yeah. I mean, that would be the starting point, typically, for the segment results is you would have the legal entity view. And then, again, you may have other items that relate to that entity but may not be incurred directly in the entity. So, those are some of the differences that do come about.

Brad Smith – Stonecap Securities – Analyst

Okay. Thanks so much.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Thanks, Brad. Next question, please?

Operator

Your next question comes from Peter Routledge from National Bank Financial. Please go ahead.

Peter Routledge – National Bank Financial – Analyst

Thanks very much. I was just noticing, on page 29 of your report to shareholders, the assets to capital multiple kind of ticked up for the first six months of this year pretty significantly to 18.1 from 17.2. So, what's driving that? Is that just loan growth and deposit growth in Canada and the U.S. - A? And B, how much of that is a resistor to future balance sheet growth, given that you're getting closer to the OSFI limit?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

So, we're quite comfortable with where we are right now on the assets to capital multiple at 18. We've still got lots of room. IFRS is impacting that result to a certain extent. And then, we also had a balance sheet re-class this quarter which added to our assets so that we would have seen a bit of a tick up in that. That was accounting related to certain wholesale assets. But, overall we're quite comfortable with where we are on that ratio.

Peter Routledge – National Bank Financial – Analyst

That'll, under IFRS, be more, you can correct me if I'm wrong, but it seems like that'll be more of a gaining capital issue than, say, the tier one or common equity tier one ratio.

Given that, does it change how you look at the marginal profitability of a loan? Does a low spread product like a Canadian mortgage look to be like a weaker ROE product than, say, a commercial loan, given that you're going to be near the limit on that ACM ratio?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

The boss wants to take this one.

Ed Clark – TD Bank Group – Group President & CEO

I think at the margin we are still bound by risk-weighted assets rather than the leverage tests even under Basel III. So, I think for the moment, there is a point where you could so de-risk the bank that you would actually change your capital allocation models. But, for the moment, we're using a risk-weighted capital test.

Peter Routledge – National Bank Financial – Analyst

Okay. Thanks.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Thanks, Peter. Next question, please?

Operator

Your next question comes from Gabriel Dechaine from Credit Suisse. Please go ahead.

Gabriel Dechaine – Credit Suisse – Analyst

Good afternoon. Just a question here on the mortgage book, just the maturation of it or the rollover, I guess. As I understand it, in '08/'09, spreads were, in the 200 basis points range and now they're in the 80 basis points range. What percentage of the book has already kind of re-priced at those levels? And maybe those numbers are off.

And then, I also saw on page 17, the securitization--of the supplement, sorry. You had a big uptick in the securitized asset mortgages and the amortization of them as well up to the--securitized them out with $7.6 billion, and they're usually in the three to four billion range, or closer to four. Is that some sort of sign of a big refinancing spike, or what's going on there? I don't quite understand it.

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Why don't I start with your second question, then we'll go back to Tim on the overall margins? So, yeah, when you look at that particular page, I think it's lines two and three looked quite inflated. They both were inflated, and you have to sort of look at the two more on a net basis. But, we did do some additional securitization this quarter which did affect line two. So, again, it's hard to sort of interpret the two lines individually is the way I would phrase it.

Gabriel Dechaine – Credit Suisse – Analyst

So, what--I can see why one would be--line two, the $7.6 billion, you'd just choose to securitize a bunch. Why would the amortization spike up?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

So, that becomes your--that's your pay down number. So, again, you have to look at the two, and you can top up, obviously. So, you have to look at the two more on a net basis.

Gabriel Dechaine – Credit Suisse – Analyst

So, that's people paying down their mortgages and you have to re-secure--or securitize new mortgages into the--?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Right. We can top up in the pools.

Gabriel Dechaine – Credit Suisse – Analyst

So, it is refinancing activity?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

It can be, yeah.

Gabriel Dechaine – Credit Suisse – Analyst

Okay. All right. Thanks.

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

Back to Tim on--.

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

Just generally on the real estate secured lending portfolios, your 200 basis point number was quite high. Traditionally, the margin on a mortgage, call it--whether it be HELOC fixed or a fixed mortgage is about--call it 85, 90 basis points.

We're running a little bit higher than that, I would say. But, it is drifting down, as you would see, because of primarily a mix shift. We have seen quite a shift from variable interest rate mortgages to fixed as people are taking advantage of low rates to lock in for longer term. But, the general margin erosion is onesies and twosies at best in that whole portfolio.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Okay. Thank you. And next question, please?

Operator

Your next question comes from Sumit Malhotra from Macquarie Capital Markets. Please go ahead.

Sumit Malhotra - Macquarie Capital Markets - Analyst

Thanks. Good afternoon.

First, numbers very quickly for Tim Hockey. If I look at the balances, the "as at" balances for the Canadian portfolio on page 27 of your presentation, the credit card balance is down about $400 million quarter-over-quarter. Can you remind me well, maybe first off, just tell me how much of this relates to the targeted MBNA runoff that you had communicated when that purchase was made?

And how much of that, I think it was the teaser rate portfolio that was going to be planned runoff. Where should we see that number settle out in terms of the planned runoff of that portfolio?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

Yeah, let me just jump to the answer of your last question, which is we expect to see about $1.6 billion runoff of that teaser rate at the end of this year pretty much. I would say that one of the factors we're finding out with MBNA, as you've heard from Colleen, there's no question that the credit performance of that book is better than we expected. And part of that has to do with the underlying economics of the teaser portfolio.

So, I would say our view is changing as to the quality of that business. So, we still expect to see the runoff of some of the business, but that was our--we're on plan for about a $1.6 billion runoff of that book.

Sumit Malhotra - Macquarie Capital Markets - Analyst

And so, if I have the numbers right here, it was roughly $7.4 billion when the acquisition closed in December that you added to your credit card portfolio. So, the $1.6 is off that base?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

I think that was a couple of months of results. I think it's actually, we should sort of settle out at around the $6.2, I think, is the number I have in my head in the forecast.

Sumit Malhotra - Macquarie Capital Markets - Analyst

Okay. So, that sounds right. And then, on capital, probably for Ed Clark. So, your Basel III communicated today is at 7.4%. I think it's fair to say you're adding roughly 30 basis points a quarter from normal course of operations.

I guess the feeling I have is that Basel talked about a floor of 7 percent. OSFI has indicated they'd like closer to 8. And then, after that, the banks would like, for lack of a better term, a little bit of walking around money. So, it certainly seems like you're going to get to that 8 percent level, perhaps 8 plus, by the end of the year. And please correct me if I'm wrong.

My question for you, TD has never been a bank that's been overly interested in buybacks, at least in the last number of years. It seems like the pace of acquisitions has slowed somewhat in the U.S. Can you remind us on how you're thinking about outlays for capital deployment and what priorities would be, particularly when you look at the operating environment as it is?

Ed Clark – TD Bank Group – Group President & CEO

I certainly look forward to the day where we have to answer that question and have, excess capital and try to figure out what to do with it.

I would say, in terms of acquisitions, our current focus has been and continues to be more on the asset side. As you know, we have a significant portfolio in the United States. And as margins thin on the deposit side, that does make sense if you can find the right assets and only if you find the right assets. And we probably walk away from 10 deals for every one that you might think of doing.

But, if we can find assets to put along that that earn a good rate of return on the incremental capital, then we would redeploy capital to do that. So far, as I say, those have been hard to find that meet our test. But, I think that's probably the natural place we'd put capital for the moment.

Sumit Malhotra - Macquarie Capital Markets - Analyst

And is that number, if you're in the range of 8 to 8.5 percent, is that, in your mind, an excess capital position, or perhaps not yet with some of the changes that are happening on the regulatory front?

Ed Clark – TD Bank Group – Group President & CEO

Yeah, I think we've indicated 7.5 to 8 for the year-end. And I think we're comfortable that we will certainly make that.

I think we're waiting for some guidance. I think most people assume that the guidance from OSFI is going to be 8 percent of what the national SIFI is. But, I think in the second half of this year there are going to be guidelines coming down from the FSB, and I think you will get some indication from OSFI as to the pace at which they want us to go to that.

So, I think by the end of the year, we'll have clarity about what that number is, what pace you have to get it, and what kind of cushion you'd want to have in getting there. But, we haven't got that guidance yet.

Sumit Malhotra - Macquarie Capital Markets - Analyst

Thanks.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Okay. Thanks, Sumit. Next question, please?

Operator

Your next question comes from Mario Mendonca of Canaccord Genuity. Please go ahead.

Mario Mendonca - Canaccord Genuity - Analyst

Good afternoon. For Tim Hockey, the slowdown in real estate secured lending was apparent at your bank and many others. And my suspicion, of course, and this has been, I think, confirmed by what some of the retail--or what some of the brokers are saying, mortgage brokers, that is, is that the banks really did pull back, not so much in pricing but in other ways. Could you talk about what TD did to slow down the

mortgage growth? And then, secondarily, is there anything else planned for the next quarter, or are you pretty much content with where you are now?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

In terms of additional actions?

Mario Mendonca - Canaccord Genuity - Analyst

Yeah.

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

Again, tough to judge. I would say the actions that we've taken, for example, is tighten up on our not income verified lending, what's known in the industry as equity lending. That was at a level that we thought was too high, so that did have an effect in the last quarter.

There have been other smaller items, but it's no one large lever that's been pulled. I think the effects of the levers to date will continue to be felt over the next little while. And as we've said, obviously that's even before the OSFI guidelines.

Mario Mendonca - Canaccord Genuity - Analyst

Do you anticipate introducing anything brand new into Q3 that you hadn't already introduced in Q2 to slow down lending growth?

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

No.

Mario Mendonca - Canaccord Genuity - Analyst

No. Okay. And then, just a quick follow up on expenses. Colleen, you referred to the back half of the year expense levels being higher. That's entirely consistent with what we've seen in prior years. But, if I could take you back to Q4 '11 when expenses really popped, something like $300 million sequentially, and there were a number of reasons for that, pension expense, for example, is that the sort of thing you would guide us to again in Q4 2012, another significant move? Or, was that specific to Q4 '11?

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

We do tend to have a pattern of much larger expenses in the fourth quarter of each year. So, it was a larger increase last year, but we did have that same phenomenon in 2010.
So, we're doing a lot of thinking about that as a management team and looking at our forecasts. I think, Mario, I'll be in a better position to give you an update on that outlook by the end of next quarter.

But, typically we do see a bit of a slower start, in particular on some of our initiative spend, which tends to be a bit lower earlier in the year, and then that does tend to ramp up towards the end of the year. So, it's something that's very much on our radar at the moment. But, I'll give you more guidance next quarter.

Mario Mendonca - Canaccord Genuity - Analyst

But, is it conceivable we could see that kind of a $300 million move quarter-to-quarter, or is that something you really want to wait to guide us on later?

Ed Clark – TD Bank Group – Group President & CEO

So, I would say that our preference would be not to have a number as large as that.

Mario Mendonca - Canaccord Genuity - Analyst

I got it. Thank you.

Colleen Johnston – TD Bank Group – CFO & Group Head, Finance

I was going to say it's not out of the question. But, anyway, we'll see where we end up. I hope Ed is right.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Okay.

Mario Mendonca - Canaccord Genuity - Analyst

Thank you.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

We've got time for--thanks, Mario--one more question, please, and then we'll end the call with Ed's remarks.

Operator

Your next question comes from Darko Mihelic from Cormark Securities. Please go ahead.

Darko Mihelic – Cormark Securities – Analyst

Okay. Rudy, I'm going to sneak in two.

Tim, real quickly, I've heard some concern that appraisal values in Canada, some people are nervous about them. Can you discuss that? Made any changes at TD?

And then, my second question, also for Tim, is it looks as though deposit rates in the GIC market are spiking at the short end. It looks like TD might be one of the leaders in there, especially in the broker market. Wondering if you could talk to that as to why you would do that and, secondly, what impact, if any, that could possibly have on you.

Mark Chauvin – TD Bank Group – Group Head & Chief Risk Officer

Darko, it's Mark Chauvin. I'll take the first question on the appraisal values in Canada.

You know, in some of the hotter markets, I guess Vancouver and Toronto, they're slightly above maybe purchase prices, but not wildly above. And we've always followed a policy of financing against the lower of the purchase price or the appraisal.

And the other thing that we follow is that we've always followed a sliding scale, which protects you against inflated values at the higher end, meaning that we will lend 80 percent up to 900. But, beyond that, we would only lend 50 percent. So, if you take a $2 million house, you get a loan to value of 56 percent under the sliding scale.

So, we're really not seeing a lot of it, but we feel we have--you know, our existing policies would protect us against that.

Tim Hockey – TD Bank Group – Group Head, Canadian Banking, Auto Finance, and Credit Cards

And Darko, on the term pricing in the broker market, I'll take that one away. I would say our general practice is that we want to make sure we price appropriately in term products to keep franchise customers rather than broker customers, because we're quite comfortable with our funding position generally. So, if we're overpaying for deposits right now, then that's something I don't need to do.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Okay. I think, sorry, there was one more question in the room. So, Michael, over to you.

Michael Goldberg – Desjardins Securities – Analyst

Okay. So, with Ally in the US selling its Canadian operations and your interest in adding assets, what's the likelihood or interest that you could have in their Canadian other receivables? And do you expect there to be a lot of competition for those receivables?

Ed Clark – TD Bank Group – Group President & CEO

So, as you know, Michael, we don't comment on acquisitions. So, I'm not going to change that policy today.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Okay. So, I guess that concludes the questions very abruptly. Anyway, over to Ed for final comments.

Ed Clark – TD Bank Group – Group President & CEO

Well, obviously we're both happy with the quarter and happy with the first half. And I think our outlook and our strategy remains pretty much the same.

We like our business mix. We like our model. But, we also recognize the economic and regulatory headwinds. And we get paid to try to make our earnings target, and that's what we intend to do.

Rudy Sankovic – TD Bank Group - SVP, Investor Relations

Great. Thank you very much, Ed. And that concludes the second quarter call. So, thank you very much for attending or listening on the phone. Thank you.