TD BANK GROUP
Q2 2014 EARNINGS CONFERENCE CALL
MAY 22, 2014

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PRESENTATION

Rudy Sankovic – TD – SVP, Investor Relations

Good afternoon and welcome to TD Bank Group's Second Quarter 2014 Investor Presentation. My name is Rudy Sankovic, and I'm the Head of Investor Relations at the Bank.

We will begin today's presentation with remarks from Ed Clark, the Bank's CEO; and Bharat Masrani, our COO; and after which Colleen Johnston, the Bank's CFO will present our second quarter operating results. Mark Chauvin, our Chief Risk Officer, will then offer comments on credit quality, after which we will entertain questions from those present in the room and pre-qualified analysts and investors on the phone.

Also here today to answer your questions are, Tim Hockey, Group Head, Canadian Banking, Auto Finance and Wealth Management; Mike Pedersen, Group Head, U.S. Banking; Bob Dorrance, Group Head, Wholesale Banking; and Riaz Ahmed, Group Head, Insurance, Credit Cards and Enterprise Strategy. Riaz is also responsible for the Capital and Treasury activities of the Bank.

Please turn to slide two. At this time, I'd like to caution our listeners that the presentation contains forward-looking statements. There are risks that actual results could differ materially from what is discussed and that certain material factors or assumptions were applied in making these forward-looking statements. Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities, and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes.

The Bank uses non-GAAP financial measures to arrive at adjusted results to assess each of its businesses and to measure overall Bank performance. The Bank believes that adjusted results provide readers with a better understanding of how management views the Bank's performance. Ed and Bharat will be referring to adjusted results in their remarks.

Additional information on items of note; the Bank's reported results and factors and assumptions related to forward-looking information are all available on our Q2 2014 Report to Shareholders.

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

Ed Clark – TD – Group President and CEO

Thank you, Rudy. You can see I do have my glasses on. Good morning. Good afternoon, everyone, and welcome. Bharat and Colleen, as mentioned, are going to talk about our second quarter results, but let me give you my thoughts about our performance and how the year looks going forward a bit.

So the second quarter really was a very strong quarter for TD, in fact an outstanding quarter. Earnings were up 14% year-over-year and earnings per share were up 15% to C$1.09. This impressive performance was driven by strong results in all our business segments. Earnings were up 10% for the first half of the year and EPS was up 11%. Again, a very good result, and one that does put us on track to deliver full-year adjusted EPS growth inside our medium term 7% to 10% target range, after adding back the insurance losses we announced in the third quarter of 2013.

Now, this is a better outcome than we were expecting when we started the year, and it reflects positive developments on a number of fronts. Our core businesses continue to deliver good organic growth. Our acquisitions are also performing well with the latest addition to the roster, the Aeroplan portfolio, operating ahead of expectations with respect to new account growth.

We also benefited from a broad-based improvement in credit quality in the quarter. Credit has continued to be strong and more favorable than we expected across our retail and commercial portfolios and on both sides of the border. We said before, this trend cannot continue indefinitely, but it may have a while to go. Finally, we've had support from a stronger U.S. dollar which increased the contribution of our U.S. Retail earnings at the total bank level.

It all added up to a very strong first half and we are feeling good about our progress. It does speak to the strength of our customer focused franchise business model, and our ability to weather persistently challenging operating environment, which has been with us for some time.

We do not see anything in our results today which would suggest that our fundamental operating environment has improved. While there are signs of gathering momentum in the U.S. economy, interest rates and credit spreads remain at historically low levels. We've seen our deposit margins increase as expected, but heightened competition for assets is now pressuring margin on earning assets, and we have felt that effect on our U.S. NIMs this quarter.

In Canada, a soft landing appears to be underway in the housing market and the pace of household credit growth has stabilized – both positive developments for the economy, but ones that have moderated personal loan volume growth. And the constantly evolving regulatory environment continues to absorb significant time and resources in both Canada and the United States. Given these headwinds, we remain as focused as ever on finding ways to run our businesses more efficiently. We recorded positive operating leverage this quarter, though not for the first half of the year.

Our business challenges with respect to operating leverage are in the United States. Our Canadian Retail and Wholesale operations, which account for 66% of our expenditures, have delivered strong operating leverage with expense growth well inside of excellent revenue growth. In the United States, revenue growth is likely to be more modest, given much lower security gains and tighter loan margins. We believe it would be a mistake, particularly given our strong overall earnings growth, to cut deeply into our U.S. investment to try to achieve better operating leveraging outcomes there. We are still targeting positive operating leverage for the total bank this year, but it will be more difficult given that our U.S. business is currently facing a challenging operating environment.

With that, I'm going to turn things over to Bharat to talk about our performance in more detail.

Bharat Masrani – TD – Chief Operating Officer

Thank you, Ed, and good afternoon, everyone.

As Ed said, the second quarter was an outstanding one for TD and we are pleased with where we stand at the midpoint of the fiscal year. We're generating good organic growth in our core businesses, our acquisitions are performing well, and we reap the benefits of a continued improvement in credit. Let me review how this is playing out in each of our key businesses.

Our Canadian Retail segment had a great quarter. Net income was up 12% driven by strong results in our core banking, wealth management, and credit card businesses as well as continued improvement in credit.

Personal and commercial banking turned in another strong performance supported by solid personal loan and deposit volumes and double-digit growth in business lending.

Our wealth business benefited from good asset and fee income growth and increased trading activity. And the first full quarter of Aeroplan powered strong growth in our cards business as well as an uptick in net interest margin. We were pleased that the insurance business showed more stability this quarter while absorbing the effects of the severe winter. And we had excellent results on the expense front recording positive operating leverage.

Looking ahead, the outlook for the Canadian Retail segment remains good. Personal lending has moderated, but is still expanding at a reasonable pace and we have strong momentum in our growth businesses. For the first half of the year, earnings were up 9% and with Aeroplan in the mix for the second half, Canadian Retail is well-positioned to contribute to the Bank's 7% to 10% adjusted EPS growth target this year.

Our U.S. Retail segment had a strong quarter, with U.S. dollar net income up 15% from a year ago including TD Ameritrade. Excluding TD Ameritrade, earnings were up 13%, as stronger credit and a full quarter of Target and Epoch helped offset the impact of lower security gains. Loan and deposit growth remained healthy, though personal loan volumes continued to moderate, reflecting declining mortgage refinancing activity. Expense management improved in the quarter.

For the first half of the year, earnings growth in our U.S. Retail segment, excluding TD Ameritrade, was 9%. Despite the strong performance, we continue to expect modest growth in U.S. dollar earnings for the full year. The second half is likely to be affected by lower security gains, declining loan margins, and the fact that Target and Epoch are fully included in prior year comparables. Offsetting this, we could see more upside from credit, which continues to outperform everyone's expectations.

Our Wholesale segment delivered very good results in the second quarter. Origination activity was strong and trading revenues were resilient despite the dampening effects of the low interest rate environment. ROE was 18% for the quarter and nearly 20% for the first half of the year. While trading revenue is not likely to continue at current levels, we expect our Wholesale segment to continue delivering 15% to 20% annual returns.

To wrap-up, we've had a successful first half of fiscal 2014. Organic growth remained strong, our acquisitions are delivering the incremental earnings we expected, and we've had some welcome support from credit and currency translation. These factors have helped drive strong earnings growth amidst a difficult operating environment and we intend to capitalize on this momentum in the second half of the year, by investing in our growth businesses, executing with excellence and leveraging the power of our brand, our business model and our great people to continue building for the future.

With that, I'll turn it over to Colleen to review our results. Colleen?

Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO

Well, thank you, Bharat, and good afternoon everyone.

Let me take you through our results. For Q2, we delivered adjusted EPS of $1.09, up 15% year over year. This was a record quarter despite fewer days. Total bank adjusted net income of $2.1 billion was up 14%.

Our segment results include retail adjusted earnings of $1.9 billion, a new record, up 16% over last year, including the impact of a stronger U.S. dollar. Wholesale net income of $207 million was down 6% from a strong quarter last year. And the Corporate segment posted a loss of $30 million. Overall, a very strong result for the Bank this quarter.

Please turn to slide five. This next slide presents our reported and adjusted earnings this quarter with the difference due to two items of note. Both of these items will be familiar to you. You should expect to see items of note related to Aeroplan in the second half of the year, since our conversion is expected to take place in June.

Please turn to slide six. Canadian Retail delivered a strong quarter with record adjusted net income of $1.3 billion, up 12% year-over-year. The increase was driven by solid loan and deposit volume growth, higher fee income, primarily in the wealth business and the addition of Aeroplan.

Loan and deposit growth was solid this quarter. Total loan growth was 6% year-over-year, with real estate secured lending up 4% and business lending growth up a strong 12%. Card growth was strong at 25%, due mainly to the addition of Aeroplan. Personal and business deposits increased by 4% due to strong growth in core checking and savings accounts, partially offset by lower term deposit volume.

NIM increased 3 basis points sequentially, primarily due to the Aeroplan card acquisition. We expect margins to be relatively stable over the next couple of quarters depending on product mix, seasonal factors, or rate moves. Credit performance continues to be favorable with PCL and personal banking down $4 million from last year, primarily due to lower bankruptcies, partially offset by the addition of Aeroplan losses. Business banking PCL was down $3 million.

Adjusted expenses were up 6% due to the impact of merit increases, higher variable compensation, particularly in the wealth business, volume growth, and the Aeroplan card acquisition. Operating leverage was strong this quarter at 240 basis points.

We continue to disclose the Canadian wealth and insurance businesses, which are now part of the Canadian Retail segment. The wealth business made a strong contribution with 13% earnings growth, driven by strong asset growth. Assets under management grew $16 billion or 8%.

The insurance business had solid results with $149 million in earnings, down just 3% from last year, as higher current year claims from a more severe winter more than offset good premium growth. Overall, an excellent performance for Canadian Retail.

Please turn to slide seven. U.S. Retail, which includes the U.S. personal and commercial banking businesses, U.S. credit cards, TD Auto Finance U.S., U.S. wealth business, and TD Ameritrade, delivered 15% net income growth year-over-year. U.S. Retail, excluding TD Ameritrade, had earnings of US$425 million, an increase of 13% over last year. The increase reflects the Target and Epoch acquisitions, good organic growth, and favourable credit, partially offset by the decline in securities gains.

Revenue increased by 8% year-over-year due to the full quarter impact of the Target and Epoch acquisitions, good organic loan and deposit growth, partially offset by lower gains on securities sales. Excluding Target, average loans were up 8% year-over-year with a 6% increase in personal loans and a 10% increase in business loans. Average deposits increased by 8%.

Our net interest margin was down 6 basis points sequentially. The positive impact of accretion was more than offset by the mix impact of lower Target balances. Generally, we are seeing pressure on margins due

to tighter spreads on all earning assets, including securities. We expect margins to remain under pressure, given the competitive environment.

PCL decreased by US$38 million due to broad-based improvements in asset quality, partially offset by an increase in provisions for the Target card portfolio. Expenses were up versus last year due to Target and Epoch acquisitions and higher personnel cost partially offset by productivity improvements. Excluding acquisitions, expenses were flat.

Earnings from our ownership stake in TD Ameritrade in U.S. dollars were up 35% year-over-year, mainly due to higher underlying earnings driven by strong trading and fee income on a higher level of client assets.

For the first half of 2014, U.S. Retail bank earnings in U.S. dollars grew by 9%. However, growth in the second half of the year will be muted given the challenges in the operating environment, lower security gains, and the full inclusion of Target and Epoch in the comparable. As such, we continue to expect the full year earnings growth will be modest.

Please turn to slide eight. Net income in our Wholesale business of $207 million was down 6% compared to a strong second quarter last year. While there was a solid increase in revenues in the quarter, this was offset by higher expenses and a higher effective tax rate.

Revenue was up 5% over last year due to strong trading related revenue in fixed income and equities, higher M&A fees, and good debt underwriting volumes. Trading related revenue was strong at $365 million, above our normalized level of $300 million. Non-interest expenses were up by 8% compared to last year due to the settlement of a closed commercial dispute and higher variable compensation in line with higher revenue. ROE this quarter was 18%.

Please turn to slide nine. The Corporate segment posted an adjusted loss of $30 million in the quarter, relatively flat compared to the loss experienced in the same period last year. The results this quarter include a $46 million gain on the sale of 4 million shares of TD Ameritrade. This brought our ownership interest to approximately 40%. Higher corporate expenses were due to increased project and initiative spend due in large part to regulatory projects.

Please turn to slide 10. Core expenses for the quarter excluding the impact of foreign exchange and acquisitions, were up by 3.9% year-over-year. Excluding the variable compensation increase, core expenses grew 2.9%. We posted positive operating leverage of approximately 100 basis points for the second quarter. We are targeting positive operating leverage at the bank level for the year, while continuing to invest in future growth. Core expenses were flat quarter-over-quarter, reflecting the impact of revenue-related expenses, days impact and productivity gains.

Please turn to slide 11. Our Basel III Common Equity Tier 1 ratio was 9.2% in the second quarter, up 30 basis points versus Q1, due mainly to solid organic capital generation. Overall, we continue to remain well-positioned for the evolving regulatory and capital environment.

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

Mark Chauvin – TD – Group Head and Chief Risk Officer

Thank you, Colleen, and good afternoon everyone. Please turn to slide 12.

Consistent with my comments last quarter, credit performance across the Bank remained strong, as we continue to see broad-based improvement across all credit portfolios. Notable highlights during the quarter include, annual loss rates in Canadian real estate secured lending and business banking continued to run at very low levels. Credit quality remains very good. While it's early, the Aeroplan portfolio is performing as expected. The U.S. picture continues to improve in both the retail and commercial segments with no immediate signs of concern ahead.

The net result of a general improvement in credit metrics, during the quarter was a 5 basis point reduction in the Bank's overall PCL loss rate to 35 basis points. While further improvement in credit quality is not anticipated, loss rate should remain stable over the balance of the year and into fiscal 2015 based on current economic forecast.

With that, I'll turn it back to Rudy.

QUESTION AND ANSWER

Rudy Sankovic – TD – SVP, Investor Relations

Thank you, Mark. We'll now open it up for questions. To give everyone a chance to participate, please keep to one question and then re-queue if there's time. For those participating in person, can I ask you to 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 with any questions.

Robert Sedran – CIBC World Markets – Analyst

Hey, it's Rob Sedran from CIBC. Mike, I've got a question for you on loan growth in the U.S. For the last few quarters, I guess the personal lending in particular has kind of gone sideways. We're seeing a little bit of progress in C&I, but the personal side has gone sideways. So after a period of fairly strong relative performance, are you settling into a level where the industry trends are starting to affect TD? And you're basically going to grow with the sector or do you think there is a period of outperformance still to come?

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah, so that's not my expectation, Rob. Overall, we've had continued strong growth year-over-year in deposits and loans. As you allude to in the second quarter, we did see some slowing of that particularly on the personal side. I think there is some seasonality there in the cards portfolio, for example. I also think there is a winter effect, particularly given the footprint we have. That's certainly what I hear when I'm out in the field. And if you look at the personal lines, Auto Finance and Target were actually down and our mortgages grew very modestly. So just to take each of those and turn on Auto – I think you all know that we've been evolving our strategy a little bit and are being sharper in terms of the business and the dealers that we're targeting. That should stabilize going forward and there may be some upside for growth again.

On Target, we had the volumes there on cards rather the volumes slowed down due to the Target breach. There was obviously lower spend. There was a slowdown in card sales and there was card reissuance and so on, so that definitely had an impact in the quarter. We've already seen that start to come back in terms of sales – card sales going into the third quarter. And then, on the mortgages, as I said this is, I think partly due to weather and particularly given our footprint. But the overall mortgage market is clearly

challenged in the U.S. as you've seen some signs that that's brightening right now in terms of application volumes through the industry and so on.

As you look at the overall lending outlook in TD's case, some of this Q2 slowdown on the personal side was due to, what you might think of as non-recurring factors whether that's the weather or the seasonality or the Auto and Target portfolios. And I'm hoping that our loan growth will be a bit better in the next few quarters. As I said we're already starting to see Target sales improving. We saw some HELOC improvement in the late part of the quarter, may be linked to this lock-in phenomenon that you hear about where people don't want to move because they locked into really low rates, but they are renovating and improving their current houses and so on. And commercial lending, as you allude to is still fairly strong, both year-over-year and through the quarter. So if the mortgage market improves, I think we'll get more than our fair share going forward as we have in the past and in general, I think we're well positioned to grow our lending and well positioned to continue to outperform.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Rob. John.

John Aiken – Barclays – Analyst

John Aiken, Barclays. Mike, just because I'm sitting beside Rob, I'm going to tag on to his question. Good commentary about the mortgage market and of course, we've been hearing that commentary from some of your U.S. peers. But are you starting to see any improvement in the levels of activity on the mortgage market or is this winter season carrying on through and it's still early to tell? And secondarily, if we're in an environment where revenue growth remains challenged for the U.S. side of the business, and on Ed's commentary still willing to invest in the U.S. Retail platform, how long are you willing to invest in the platform with flat to negative operating leverage carrying on?

Mike Pedersen – TD – Group Head, U.S. Banking

On the mortgage portfolio, I don't want to give you information that's not sort of solidly empirically rooted. I can tell you that anecdotally, you're starting to hear about a bit of an uptick. I do think there is some pent-up demand. The Federal Housing Finance Agency did change some of their rules around put-backs and so on. So, I think there is a scenario here where things get better. And I do hear a little bit of that, but nothing I can kind of statistically hang my hat on, but if there was a winter back up, we should see some of that in the late spring months and into the early summer.

In terms of investing in the business if you step back from the current difficulties that the industry is facing in the U.S., I kind of think about the fact that we are still in terms of the macro trends outgrowing the competition in terms of acquiring customers and the deposit side and checking accounts and the lending side, and that we have a wonderful footprint with a good competitive advantage relative to our service. And so, you can't react to momentary tough situations. I think we're very well positioned in the U.S. and we'll continue to invest because we think that there is lots of medium-to-long-term upside growth in this business.

John Aiken – Barclays – Analyst

Okay. Thanks, Mike.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, John. Any else in the room? Okay, operator, why don't we go to the phones please?

Operator

Yes, sir. We have a question from the line of Steve Theriault with Bank of America Merrill Lynch. Please go ahead.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Thanks very much. Question for Mark, please. On the U.S. credit side, the $155 million this quarter, certainly well below recent run rates, can you talk a bit about the sustainability of losses at these levels, what you expect in second half of the year? I think in your general commentary, you suggested overall loss rates should remain relatively stable, but I would be interested in your view on the U.S. specifically? And if you could give us a little more detail on what drove the sharp improvement this quarter in the U.S. specifically, that would be very helpful?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Yes, certainly. In the U.S., what you're seeing after a period of several years of relatively higher loan losses, we're in the period especially in the commercial bank, where we're seeing charge-offs lower than our expectations, and recovery is actually higher. So commercial by nature will be somewhat lumpy, but it's going to be probably lumpy on the positive side as we go into this period. The actual commercial loan losses in the quarter were quite small.

If I go to the personal segments, credit cards, and TD Auto Finance, both of those are holding very stable in terms of loss rates. In fact, TD Auto Finance is actually reducing a bit going forward, as we kind of reposition the strategy focusing on more super prime. So I'm looking for those to be relatively stable and continuing at the same or slightly lower levels going forward.

And then, the other personal segments, we entered the year in the U.S., somewhat worried about the end of term issue in HELOCs, but that is proving to be not as much of an issue as we thought. So the loan losses are slightly lower than our expectations, and I think they'll continue. So if you – it's hard to predict an absolute run rate, but I would say that we've got – I would look for probably continued improvement, but I wouldn't look for significant reductions in the absolute number, but less than you would have seen in the previous quarters.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Okay. Thanks for that.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Steve. Next question please, operator.

Operator

Our next question is from the line of Meny Grauman with Cormark Securities. Please go ahead.

Meny Grauman – Cormark Securities – Analyst

Hi, good afternoon. I wanted to focus in on trading. You've made comments about how we can expect trading revenue to move to a lower run rate from what we've seen lately. And I'm just wondering what are the factors that have driven it up over this past quarter, and then the previous quarter was also very strong? What are the factors that are going away that makes you be a little more cautious on that trading line?

Bob Dorrance – TD – Group Head, Wholesale Banking

It's Bob Dorrance, I'll answer that. I think what Colleen said is that our normalized guidance on trading revenues has tended to be in the $300 million per quarter range. And in the first half, that's been exceeded. I don't think she was making a forecast necessarily that it was going to be reduced in the second half, and indeed it's a very hard number to forecast. I don't know why we give that guidance in the first place, but anyway. We give it, I think, because people wanted to get a sense of what one might earn in a normalized year, and that's what it's meant to be.

The trading-related revenue in the first two quarters has been strong and driven significantly by the origination markets. So the issuance markets and fixed income investment grade bonds, non-investment grade bonds, equity etcetera has picked up significantly in Canada as we got into the latter part of the last calendar year and the first five months of this year. And with strong origination, the post market trading that has resulted from that is what's causing the outperformance in our case.

If you look at the actual marketplace liquidity on a secondary basis, in most markets it's relatively weak. But the advent of strong origination markets leading to better trading is the reason for the outperformance and that may well sustain itself in the second half. So I wouldn't read anything into the $300 million guidance other than that's what it is on a normalized basis. And if you look at last year, two of the four quarters we're slightly under $300 million.

Meny Grauman – Cormark Securities – Analyst

Fine. Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Meny. Next question please.

Operator

Your next question is from the line of Sumit Malhotra with Scotia Capital. Please go ahead.

Sumit Malhotra – Scotiabank – Analyst

Good afternoon. A couple of questions regarding the Corporate segment please, it's probably for Colleen. On page 10 of the supplement, we see that on the all bank level, net interest margin was up about 9 basis points sequentially. And it looks like there was a $100 million swing in the Corporate segment NII. I know this isn't the easiest segment to talk about, but there was some commentary about a tax-related item and some – I think it was hedging and treasury activities. Could you put a little bit more color on that because $100 million swing obviously had a big impact on the aggregate net interest income number?

Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO

Sure. As you cited, we had a tax related item in the Corporate segment this quarter. On a net basis, it was a small – a very small addition to the – positive addition to the Corporate segment. But there were two lines that were significantly impacted, one was on the NII line, so there was again tax related item there and related to the same settlement, we had a larger tax expense. So what you would see in fact is that at the all bank level our margin increased by 9 basis points, that was pretty much due entirely to this item. And then, you would also see that our adjusted effective tax rate for the quarter was about 19.5%. And that was about two points higher than it would have been otherwise. So, again on a net basis, this with a small number, but it did distort those couple of lines.

Sumit Malhotra – Scotiabank – Analyst

Sure. NII specifically, is it reasonable to believe that in this segment, which usually runs at a negative, we're likely to be back there in the foreseeable future?

Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO

Yeah. I think that's a pretty reasonable assumption. Again, it's hard to predict it will vary, but it should look more like prior quarter levels.

Sumit Malhotra – Scotiabank – Analyst

And secondly for this segment, the gains on the sale of the Bank has been booking as a result of the Ameritrade sales. Correct me if I'm wrong here, but I think part of the reason that the sales are being undertaken was to give Ameritrade some more room on their buyback activity. I think they've been a little bit more quiet on that, and then your ownership stake is now down, as you mentioned to around 40%. So are we at the end of the selling Ameritrade shares in the market or is that going to continue in the near term?

Ed Clark – TD – Group President and CEO

It's Ed here. I think we're at the ownership position that we thought was appropriate and I don't think you'd expect us to sell any more shares.

Sumit Malhotra – Scotiabank – Analyst

I'm sorry. Colleen, where was this being booked on a fee income basis, was it in the other line that?

Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO

It's in the famous other-other category and revenues.

Sumit Malhotra – Scotiabank – Analyst

Thank you very much for your time.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Sumit. Next question, please.

Operator

Our next question is from the line of Peter Routledge with National Bank Financial. Please go ahead.

Peter Routledge – National Bank Financial – Analyst

Hi. I had a question on Ameritrade too. Just clarification, the deduction that Ameritrade makes on your CET1, is that about $2.6 billion, Colleen?

Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO

Net of the basket, that's about right.

Peter Routledge – National Bank Financial – Analyst

Yeah. So I think about Ameritrade, and I think while there's $2.6 billion in the deduction and then it looks like you've got a pretty substantial gain, after-tax let's call it $1.7 billion. So there's somewhere north of $4 billion in capital effectively in your Ameritrade investment. And as delighted as I'm sure you are with the performance, I just wonder if $80 million quarterly in earnings is a little low in light of the amount of capital it's locked up today. Have you ever thought of – or are you now thinking of your Ameritrade investment in that light?

Ed Clark – TD – Group President and CEO

It's Ed again. I think the simple answer is, no. But I don't know whether either you or – Riaz I think – will leap in and explain the capital base for you.

Riaz Ahmed – TD – Group Head, Insurance, Credit Cards & Enterprise Strategy

Peter, the deduction of the capital is the capital investment. So the basket helps take care of part of the book value. So as you know, we carry that $5.1 billion and the way the basket works is, some portion of that book value is in the deduction and the rest is risk weighted. So I think the way you are thinking of the capital number is too high.

Peter Routledge – National Bank Financial – Analyst

Yeah. I mean it just seems like there'd be an opportunity to liberate more capital and you wouldn't give up that much in earnings?

Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO

Yeah. I think what I would lob in is that we have the earnings, you see the equity earnings, and call that the $80 million a quarter. But we also do have earnings in the U.S. Retail segment related to the sweep deposits, which obviously you don't see that number separately, but that does add to the return on capital

on that particular investment. So we're, I think, fair enough to say we're satisfied with the overall return, if that's your question, Peter.

Peter Routledge – National Bank Financial – Analyst

Yeah, that was. Thanks.

Rudy Sankovic – TD – SVP, Investor Relations

Thank you, Peter. Next question, please.

Operator

Next question is from the line of Gabriel Dechaine with Canaccord Genuity. Please go ahead.

Gabriel Dechaine – Canaccord Genuity – Analyst

Hi, good afternoon. Just a quick one. I think, Colleen, you mentioned there were some accretable yield in the U.S. I didn't come across that in the note. Could you quantify that, please?

Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO

Yeah. So, on a net basis, we had – the impact of accretion was a positive 4 basis points in the quarter. That was more than offset, though, by a mix issue and normally people glaze over when you talk about mix, but in this particular case, because of the decline in the Target balances on a quarter-over-quarter basis, and as we've called out, related in large part to the security breach, that actually had a 6 basis point impact, so negative. So, on a net basis, the two of those – that was a net minus 2 basis points in the quarter of the minus 6 basis points. The remainder being more loan margin driven.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. And the minus 6 basis points Target is just the balance that's going down sequentially?

Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO

The mix impact of the lower balances in Target.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. And then speaking of cards anyway, Aeroplan, your initial guidance was for 2013, the earnings contribution on a core basis, I guess to be about $90 million. I get the sense that you're running ahead of that now. I've tried to back into it, but with the limited disclosure it's difficult. I guess it's somewhere around $100 million. Is it materially higher than the $90 million or incrementally higher than $90 million?

Riaz Ahmed – TD – Group Head, Insurance, Credit Cards & Enterprise Strategy

Gabriel, we're doing somewhat better than the $90 million, but I think it's early days to think of giving you any different in terms of guidance. As you know, we've had a fantastic start in our distribution system on

new card issuances, and the portfolio that we acquired is also doing somewhat better than expected. But it is early days as the new card portfolio matures and then we have a conversion ahead of us, so I think we're happy with the guidance that we've given.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. Speaking on the conversion, just trying to figure out the moving pieces here when those customers get a new card in the mail, that says TD Aeroplan on it. And there is a cost associated with all that, maybe some help to transition them, will we notice that pick up in expenses and do you expect any losses along the way from – or like lower retention I guess at that point?

Riaz Ahmed – TD – Group Head, Insurance, Credit Cards & Enterprise Strategy

Look, this is a large conversion, it's 550,000 accounts. On June 16, the TD Aeroplan card will be available for use by those cardholders and then their existing card will not be. So I think that journey ahead in terms of communicating with our newly acquired customers is already underway and the card distribution is also already underway, and yes there will be some additional costs as Colleen pointed out in the third quarter. So you can expect to see some uptick and some items of note related to the conversion as well.

Gabriel Dechaine – Canaccord Genuity – Analyst

Items of note, they will be excluded from core then?

Riaz Ahmed – TD – Group Head, Insurance, Credit Cards & Enterprise Strategy

Some expenses, I mean it will be done in accordance with our accounting policies, some will be items of note and some will be in the ordinary core.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thank you. Gabriel, next question please?

Operator

Our next question is from the line of Sohrab Movahedi with BMO Capital Markets. Please go ahead.

Sohrab Movahedi – BMO Capital Markets – Analyst

Just wanted to go back to the U.S. segment quickly and see if there are any pending costs there as you gear up for the U.S. stress tests stuff, the Fed stress test stuff. Are your systems compliant or will there be incremental costs that we're not seeing right now as you go through that process a year or so from now?

Mike Pedersen – TD – Group Head, U.S. Banking

So, as you know, we participated already in the DFAST process and you would have seen the results which were good and they showed the resiliency of our model and our balance sheet. We don't have to file or participate in CCAR until early 2016. So, we're gearing up all of that process, have been for a while, that's a gradual thing. I don't expect that you will see anything significant over that time period, but obviously there will be additional costs and capabilities created as we get there, but a lot of that spend and capability has already been built to be where we are today.

Sohrab Movahedi – BMO Capital Markets – Analyst

So nothing noticeable to us Mike as far as the expenses?

Mike Pedersen – TD – Group Head, U.S. Banking

I don't think so.

Sohrab Movahedi – BMO Capital Markets – Analyst

Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Sohrab. Next question, please?

Operator

Our next question is from the line of Mario Mendonca with TD Securities. Please go ahead.

Mario Mendonca – TD Securities – Analyst

Good afternoon. Colleen, can you take me through the NII discussion in Corporate and Rudy did a good job of explaining it to me before the call, but I think I got a little confused? You referred to the lift in the margin, the all bank margin of 9 basis points as being entirely related to that refund or that interest refund. 9 basis points would imply a number approaching something like $150 million to $170 million refund, but that seems awfully high. Could you help me think that through?

Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO

No, that is too high. The number is about half that amount.

Mario Mendonca – TD Securities – Analyst

So the 9 basis points of that – I guess I could certainly take this offline, but the 9 basis points would amount to a number higher than half that.

Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO

It shouldn't. I'd be happy to go through the math with you.

Mario Mendonca – TD Securities – Analyst

Thank you very much.

Rudy Sankovic – TD – SVP, Investor Relations

Thank you, Mario. Next question, please?

Operator

Our next question is from the line of Darko Mihelic with RBC Capital Markets. Please go ahead.

Darko Mihelic – RBC Capital Markets – Analyst

Hi, thank you. Just thought I'd lob this question in, because as I look at this result and judging from the body language although not in the room, just from the sense I'm getting on the phone, is that you're particularly delighted with the quarter. It looks like some strength will continue into the back half of the year. So, as I look at the dividend versus the quarter, 43% should get some strength into the back half of the year. What about a dividend increase, maybe you can just revisit the change in dividend sort of messaging from last quarter? And does it preclude perhaps a dividend increase in the next quarter or two or just perhaps outline for us, Ed, your thinking on what you would recommend to the board in the back half of the year given the strength so far this year?

Ed Clark – TD – Group President and CEO

I'd probably recommend to the Board that my successor make that decision. So, I wouldn't expect on my watch to see another dividend increase.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Thank you very much.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Darko. Next question, please?

Operator

Our next question is a follow-up from the line of Sumit Malhotra. Please go ahead.

Sumit Malhotra – Scotiabank – Analyst

Just wanted to check on something here. In terms of risk-weighted assets, flat quarter-over-quarter. It looked like securities were lower and that seemed to help market RWA, but was surprised to see, if I'm not mistaken, credit RWA was down sequentially as well. Was there anything that I missed in terms of model refinements or approvals that you received that had a positive impact on the RWA trend sequentially?

Colleen Johnston – TD – Group Head, Finance, Sourcing & Corporate Communications, and CFO

So foreign exchange was partly a factor, but yes, there was a model approval that we did receive. Maybe I'll just ask Mark to elaborate on that.

Mark Chauvin – TD – Group Head and Chief Risk Officer

Yeah. We brought our wealth margin loans under AIRB that did result in a slight reduction in capital. It allowed us to go from standardized to RWA, there's about a 7 basis point impact on CET 1.

Sumit Malhotra – Scotiabank – Analyst

Is there – and I know these things tend to be quite active – is there anything else that you expect has a near-term meaningful impact in terms of model/process reviews in terms of RWA or is it basically the business trends that are driving it right now?

Mark Chauvin – TD – Group Head and Chief Risk Officer

You have ongoing parameter updates that can have some impact. But, generally speaking, as you get deeper into the process, they tend to not be, result in an increase, it's kind of a refinement, so generally it's a reduction. But I wouldn't see other model impacts that would have a positive impact over the near term.

Sumit Malhotra – Scotiabank – Analyst

Last one from me, this is probably for Ed. I think you're at about 9.25 on the CET 1 now, the Bank was quite active on its share repurchase program in 2013 and have now been – I think you've paused on that since September. Is there a level that you need to see before you're comfortable in reactivating that program? What would that level be and are you there right now?

Ed Clark – TD – Group President and CEO

I think the answer is, we are there. There's a couple $100 million left in that program and I think we would expect to complete the program. As we said, when we started it that we will do what we said we'd do.

Sumit Malhotra – Scotiabank – Analyst

Thanks.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Sumit. Next question, please?

Operator

Our next question is a follow-up from the line of Gabriel Dechaine. Please go ahead.

Gabriel Dechaine – Canaccord Genuity – Analyst

Hey. Just going back to Mark here actually in talking about the credit. It seemed like you're indicating there's a cyclicality to the recovery cycle and if I look at page 30 of your supplement, that recoveries line has been moving steadily upwards. Is that like – it's probably difficult for you to forecast that – but is that plateauing, is it going to trend higher, what's the outlook there?

Mark Chauvin – TD – Group Head and Chief Risk Officer

No. I kind of have to divide it north and south. Canada has been a relatively stable portfolio for a fair period of time. So especially on the retail side, I wouldn't look that's – I'd look for quality to stay the same, but not big fluctuations, unless there is a change in the economy, of course. But my comments were more focused towards the U.S. where you've had a period of dealing with problem loan resolution for an extended period of time. And it was longer for resolution of whether it's a mortgage or whether it's commercial loans.

And as you exit that period, what you do find is you'd get a series of recoveries, and generally speaking, you tend to reserve to a level that is appropriate and sometimes you're surprised on the upside. So that's what we're seeing – we saw in the last quarter and I do expect to see in a few quarters to come largely driven in the commercial bank, not so much, not at all in the larger unsecured portfolio, the card portfolio or TD Auto Finance. But in that one, but it can be lumpy, but it's going to, I think surprise me on the positive side.

Gabriel Dechaine – Canaccord Genuity – Analyst

Is there like a size of portfolio that you can point to like that were problem loans that you are working hard at resolving?

Mark Chauvin – TD – Group Head and Chief Risk Officer

No, it's just the commercial, I mean you've seen a dramatic reduction in loss rates in the commercial bank over the last, in the commercial segment of the U.S. portfolio, over the last five years. And those loans can be US$5 million or US$10 million, and they tend to be lumpy. If you look at the South acquisition, I mean at the end of the day, as those played out, there were recoveries on them and we had the benefit of those in the last couple of quarters, but they're running out and I see a bit more coming in that direction and what we're not seeing is new problems. So, we're not seeing things replacing at higher charge-off levels.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Gabriel. Why don't we move to Ed for final comments. Ed?

Ed Clark – TD – Group President and CEO

Great. Thank you. As I said at the start, by any definition this was an outstanding quarter. It underscores that our conservative franchise driven model does have enormous resilience in it. On the other hand, we would caution that I wouldn't drive any change of the fundamental operating environment in which we're faced, which remains I think a tough, difficult environment. But in response to that environment, we're going to just keep doing what we did, which is investment in the franchise, because that's the way you get shareholder value over the long run. Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Ed. And with that, we will conclude the meeting and thank everyone for joining us. So thank you. We'll see you next quarter.

Operator

Ladies and gentlemen, that does conclude the TD Bank Group conference call. We thank you for your participation. You may now disconnect.