TD BANK GROUP
Q2 2015 EARNINGS CONFERENCE CALL
MAY 28, 2015

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Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2014 MD&A under the headings "Economic Summary and Outlook", and for each business segment, "Business Outlook and Focus for 2015", each as updated in subsequently filed quarterly reports to shareholders.

Any forward-looking statements contained in this document represent the views of management only as of the date hereof and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities and anticipated financial performance as at and for the periods ended on the dates presented, and may not be appropriate for other purposes. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf, except as required under applicable securities legislation.

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PRESENTATION

Rudy Sankovic – TD – SVP, Investor Relations

Thank you operator and good afternoon everyone. We will begin today's presentation with remarks from Bharat Masrani, the Bank's CEO. 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 pre-qualified analysts and investors on the phone.

Also present 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; and Riaz is also responsible for the capital and treasury activities at the Bank.

Please turn to slide 2. At this time, I would like to caution our listeners that this 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.

I would also like to remind listeners that the Bank uses non-GAAP financial measures to arrive at adjusted results, to assess each of our businesses, and to measure overall Bank performance. The Bank believes that adjusted results provide readers with a better understanding of how we view the Bank's performance. Bharat will be referring to adjusted results in his remarks.

Additional information on items of note, the Bank's reported results, and factors and assumptions related to the forward-looking information are all available in our Q2 2015 Report to Shareholders.

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

Bharat Masrani – TD – Group President and CEO

Good afternoon, and thank you for joining us today. As Rudy mentioned, Colleen will be up shortly to discuss our second quarter results in detail. But let me start by sharing my thoughts on this quarter and our progress so far this year.

Overall, I'm pleased with our performance. On Q2, we generated adjusted EPS of $1.14, up 5% from last year, a good result. All of our businesses performed well, and we continue to benefit from favorable FX and solid credit performance.

On the capital front, our Common Equity Tier 1 capital position increased to a strong 9.9%, and both our Liquidity and Leverage ratios are comfortably above our targets. Our Canadian Retail segment delivered earnings growth of 6%. Good volume growth, stable margins, and strong fundamentals in Wealth and Insurance helped drive results.

A solid lending market fueled demand for new originations in Business Banking, Real Estate Secured Lending, and Auto Finance. Wealth Management posted record Long-Term Mutual Fund sales, up an industry-leading 60% year-over-year. And in our Canadian branches, customers can now apply for an account at one of our stores south of the border at TD Bank, America's Most Convenient Bank. TD is also the only bank in Canada that now offers customers the ability to conveniently pay their U.S. bills online or on their smartphone, two examples of our cross-border banking convenience.

Our U.S. Retail segment performed in line with our expectations. Earnings growth was 2% despite a drop in security gains versus last year. While our first half performance was slightly ahead of our targets, our expectations for the full year continue to call for modest earnings growth. Our fundamentals remain strong as we outgrew the competition in loans, checking accounts, and household growth. We had excellent credit performance and good expense management.

You would have seen our recent announcement about our program agreement with Nordstrom to purchase their existing U.S. Visa and private label credit card portfolio and to become their exclusive credit card issuer in the U.S. We are proud to have been selected in this competitive process for our customer-centric approach and proven capabilities by an organization who shares our common values on customer experience. Nordstrom is one of the most respected retail brands in the world, and this announced transaction will build on the success of our growing North American credit card portfolio.

Our Wholesale segment delivered an impressive quarter, up 19% from last year, driven by higher fee-based and trading revenue. ROE was strong at 18%. TD Securities' focus on serving our U.S. commercial and corporate client base is noteworthy. It helps TD bring more to the table, deepens existing relationships, and builds on our franchise-driven model. This is what we mean when we say: think like a client, act like One TD.

When I talked about expenses last quarter, I reviewed our various areas of focus with caution that it will take some time before we see a meaningful impact to our expense base. We do expect to see an improvement in our efficiency in the medium term. While it's still early and we have more work to do, I was pleased with our Q2 expense performance. Excluding FX and variable compensation, our expense growth was 2.2%.

Having said that, our operating environment remains challenging. Prolonged lower rates, a slowing Canadian economy, mixed recovery signals from the U.S., continued expectations for low oil prices, and regulatory and legislative pressures in both the U.S. and Canada, will continue to result in slower revenue growth. Additionally, our industry is changing in fundamental ways and at breakneck speed, as new technologies lower the barriers to entry and innovative competitors emerge.

I've said many times before TD is an adaptable organization. In light of these external pressures, we have continued to find ways to be a fitter and faster organization, easier for our customers to do business with while continuing to create room for investment in the future.

As you saw today, we reported an after-tax restructuring charge of $228 million. Today's charge reflects progress on many fronts along the productivity agenda, and the related annual expense savings represent roughly 2% of our total expense base, which will be fully phased in by 2017, giving us more assurance that our rate of expense growth will be controlled in the future given a slower growth environment.

The restructuring is part of our ongoing focus on adapting to the current environment while building for the future. Given the significant growth we've experienced in the last decade, including integrating our acquisitions, we are now focused on optimizing the performance of our enterprise.

The charge spans real estate optimization, including branch and store mergers, call centre and corporate premises, process redesign to improve agility, efficiency and effectiveness; and a continuous review of how we deploy our people to deliver against the evolving multichannel customer expectations. This phase focuses mainly on the United States and some functions in Canada, and we expect to complete most of this work by the end of this year.

Some of the cost savings will be reinvested in advancing our digital and mobile capabilities, including modernizing our technology infrastructure and adding additional resources and expertise to improve our agility and speed to market. This will enhance the customer experience and help us compete with players who were not encumbered with legacy systems.

Technology is increasingly influencing customers' expectations and preferences to change. Speed and innovation matter, and we will continue to make significant investments in digital technologies. As we do so, our focus remains offering legendary experiences across all channels with the safety and soundness that protects the interests of our customers. We strive to be the high-touch bank in a high-tech world. What's more, we anticipate these investments will help improve our efficiency in the medium term.

When I talk to you about our outlook for 2015 earnings growth six months ago, I cited higher credit losses and increasing effective tax rates as items that would impact performance going forward. Both of these factors have been more benign than we expected. Additionally, the U.S. dollar has been stronger than last year, which has meant higher-than-expected earnings. Expenses are being tightly managed, and I'm pleased with the discipline I'm seeing across the Bank in big ways and in small ways. However, in the last six months, we've seen more pressure on revenues than expected, and given the lower rate environment in the U.S. and declines in Canadian interest rates, my view on 2015 has not fundamentally changed since the start of the year.

Despite these near-term challenges, our ability to grow our volumes at a healthy rate, the strength of our credit portfolios, and our progress on the expense front are all positive signs of momentum in 2015. More importantly, we continue to parlay our core strength, our customer-centric model, the diversity of our business mix, our organic growth capabilities into new growth opportunities. These include a growing Wealth Management business on both sides of the border, increased opportunities for our Wholesale franchise, and the continued growth of our U.S. platform.

In closing, I remain optimistic about our growth prospects today and the moves we are making to improve our franchise. While change is never easy, I'm continually impressed by the commitment and professionalism of all of our people. It's because of them that TD continues to be a great franchise with an exciting future.

Thank you very much. And now, I'll pass it over to Colleen.

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

Well, thanks, Bharat, and good afternoon, everyone. Please turn to slide 4.

This quarter, we delivered adjusted EPS of $1.14, up 5% year-over-year. The quarter reflected good growth from Retail and Wholesale versus last year, up 9% and 19%, respectively. The Corporate segment posted a loss of $139 million. We continue to benefit from a strong U.S. dollar. Adjusted total revenue increased 6% year-over-year, or 2% excluding FX, led by strong loan, deposit, and wealth asset growth and higher insurance, fee-based, and trading-related revenue.

Growth this quarter was partially offset by margin compression, reduced security gains, and lower Corporate segment revenue. Adjusted expense growth was 8% year-over-year, or 4% excluding FX. Expense growth was driven by higher variable compensation and increased project and initiative spend. Increases in base expenses were partly offset by productivity savings. Excluding variable compensation, expenses were up 2.2%, a good result. Overall, a strong result for the Bank this quarter.

Please turn to slide 5. This slide presents our reported and adjusted earnings this quarter with the difference due to four items of note, two of which you have seen before. With respect to the other two, the after-tax litigation charge was due to an adverse judgment and the evaluation of other developments and exposures in the U.S. We also took a restructuring charge this quarter of $228 million after tax to reflect various productivity initiatives. I'll comment more on this item in a later slide.

Please turn to slide 6. Canadian Retail delivered a good quarter, with adjusted net income of $1.4 billion, up 6% year-over-year. The increase was driven by continued good loan, deposit, and wealth asset growth and higher insurance earnings, but was partially offset by expense growth.

Loan and deposit growth was good this quarter. Total loan growth was 5% year-over-year, with real estate secured lending volume up 4%, strong business lending growth of 9%, and 17% higher auto lending volumes. Deposits increased by 5% due to strong growth in core checking and savings accounts, which were up 9%. Business deposits were up 6%.

Margin increased 1 basis point sequentially primarily due to the impact of a credit mark release in the acquired credit portfolios, partially offset by the lower rate environment. We expect margins to remain under modest pressure in the second half of the year as a result of product mix, seasonal factors, and competitive pricing.

Credit performance was flat year-over-year. Higher personal PCL, up $24 million mainly on higher auto PCL and prior-year recoveries, was mostly offset by lower business banking PCL, which decreased $23 million from a single commercial provision in the prior year.

Adjusted expenses were up 4% year-over-year primarily due to higher employee-related costs, including higher revenue-based variable compensation in the wealth business and business growth, partially offset by productivity savings.

Canadian Retail produced 50 basis points of operating leverage when insurance claims are netted from revenue, overall a good result for Canadian Retail.

Please turn to slide 7. U.S. Retail, excluding TD Ameritrade, had earnings of US$433 million, up 2% year-over-year. Results for the quarter reflected strong fundamentals including very strong loan and deposit growth, solid credit quality, and good expense control, partially offset by margin compression.

Revenue decreased 2% year-over-year relating to Target and lower security gains. Excluding these items, revenue growth reflected strong volume and fee growth, partially offset by margin compression. Average loan growth showed continued strength and was up 10% year-over-year with a 4% increase in personal loans and a 17% increase in business loans. Average deposits increased by 5%.

Margin declined 9 basis points quarter-over-quarter, driven primarily by product mix due to lower credit card balances and lower loan margins. We expect margins to experience modest pressure for the second half of the year, mainly due to competitive pricing and product mix, primarily driven by auto and business lending. PCL decreased 33% year-over-year, driven primarily by Target; excluding Target, PCL was flat.

Expenses were up 1% year-over-year, primarily due to higher expenses to support growth and higher regulatory costs, partially offset by ongoing productivity initiatives. Expense management has been a key business focus this year. While earnings for the first six months are up 8% in U.S. dollars, we expect earnings growth to be modest for the full year, reflecting a challenging revenue environment. Earnings from our ownership stake in TD Ameritrade in U.S. dollars were down 1% year-over-year, in line with TD Ameritrade earnings. All in, a good performance in the U.S.

Please turn to slide 8. Net income for Wholesale was $246 million, up 19% year-over-year, a strong result reflecting broad-based contributions from all business. Revenue increased 16% year-over-year, due mainly to higher trading, debt and equity underwriting fees, and strong corporate lending growth. Non-interest expenses were up 10%, primarily driven by higher variable compensation and foreign exchange translation. ROE this quarter was 18%.

Please turn to slide 9. The Corporate segment posted an adjusted loss of $139 million in the quarter compared to a loss of $30 million in the same period of last year. The higher loss was a result of a prior-year gain on sale of TD Ameritrade shares, lower favorable tax items, and prior-year releases for incurred but not yet identified credit losses.

Please turn to slide 10. Our Basel III Common Equity Tier 1 ratio was 9.9% in the second quarter versus 9.5% in Q1 of 2015. The increase reflects solid organic capital generation and RWA reductions primarily in Wholesale.

This quarter, we disclosed our liquidity coverage ratio for the first time. We're comfortably above the 100% minimum target that OSFI has provided. I've included a slide in the appendix to provide further insight into LCR. Overall, we continue to remain well-positioned for the evolving regulatory and capital environment.

Please turn to slide 11. With respect to the restructuring charge announced today, the $228 million after-tax amount reflects a detailed and thoughtful productivity review which has been taking place over the last several months. Approximately half of the charge was related to our U.S. operation.

This review focused on three key areas. First, to focus on process redesign with a view to simplifying and streamlining processes across the Bank. Second, real estate optimization, including branch and store consolidation in Canada and the U.S., and the cancellation of a limited number of de novo store locations in the U.S., which didn't make as much sense given changing consumer behaviors. We do, however, remain committed to opening new branches and stores in key growth markets as we move forward. Third, an organizational review primarily targeted at streamlining our executive and corporate management structures mainly in non client-facing areas. This was something that Bharat provided an update on last quarter.

Ultimately, our goal is both customer and employee oriented. As a result of this process, we will improve our service levels, make it easier for our customers and clients to do business with TD, and for our employees to get business done, all while improving both efficiency and effectiveness. The expected annual savings from the restructuring is roughly 2% of our expense base, fully realized in 2017 but with most savings in 2016.

In the last couple of years, our rate of expense growth has been pressured by many factors, including technology transformation, regulatory investments, investments in digital capabilities including mobile, and business-as-usual growth. The run rate savings from these restructuring charges will allow us to lower our rate of expense growth while still investing in future capabilities.

Before I hand it over to Mark, I want to briefly mention the Federal Budget proposals related to synthetic equities. It's early to precisely size the impact given the consultation period and potential mitigation.

However, what I can tell you is that the pre-mitigation impact of the proposal, assuming November 1 implementation, is 1% to 2% of EPS.

And with that, I'll 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. Credit performance remains strong across all portfolios throughout the second quarter. Gross impaired loans and new formations remain at cyclically low levels, and are in line with results over the past four quarters. Provision for credit losses is up slightly, returning to a more normalized level when taking into account the Canadian debt sale which occurred in the first quarter.

With respect to our Oil & Gas exposure, outstanding exposure remains stable at $3.8 billion, representing less than 1% of total loans and acceptances. Our oil and gas book is performing within our expectations, and we are not seeing any significant deterioration in consumer credit quality in the impacted provinces.

As it is still early days, however, we continue to maintain a cautious approach across retail and non-retail exposures impacted by low oil prices. We continue to see high-quality originations across the portfolio and moving forward, I anticipate credit quality to remain strong through the remainder of the year.

With that, operator, we are ready to begin questions.

QUESTION AND ANSWER

Operator

Thank you. Your first question is from Steve Theriault of Bank of America Merrill Lynch. Please go ahead.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Thanks very much. Good afternoon, everyone. So, Bharat, you're nestled up against 10% core Tier 1. Are you thinking about – or at what point do you think about reinstating the buyback that you were a little bit active with in 2013 and 2014?

Bharat Masrani – TD – Group President and CEO

Steve, I think I mentioned or talked about this before as to – before I give you the answer – is how we think about capital generally, what's our capital deployment thinking. And the first thing we obviously look at is how much capital do we need to support our strategies related to organic growth and growth generally. And that's always been our top priority.

We've also used capital when it's appropriate to make sure we have all the capabilities we require to adapt and compete in various markets in which we operate. I think Epoch is a good example of that. We've also been very active in using up our capital to optimize our U.S. balance sheet. We've talked about assets as something that we're really interested in. As long as there are asset classes that fit our risk appetite and give us returns that are in keeping with what we consider to be reasonable, then we will certainly be using our capital to make sure that we take advantage of such opportunities.

And then, we also talked about whenever we do see any opportunities for tuck-in acquisitions, or frankly in opportunistic events that might take place on both sides of the border, we would certainly be aggressive on pursuing those if they make sense for us.

Once we go through all that thinking, and if we still find that we have more capital, then obviously we would seriously think about how we maybe look at buybacks or anything similar to that. So that's our capital thinking.

I think the level you're seeing now is – it's good, it's healthy. There is still a lot of uncertainty out there on what exactly are the requirements, what kind of rules might get finalized. And we have good organic growth opportunities as well. So I think it's premature for me to comment on what exactly we would do, but I just wanted to give you some context on exactly how we think about capital and how we deploy it.

Steve Theriault – Bank of America Merrill Lynch – Analyst

You mentioned in your comments, Bharat, regulatory pressure in Canada. Is there anything specific you'd mention today on the horizon, you'd expect to take that CET1 materially or incrementally lower?

Bharat Masrani – TD – Group President and CEO

Well, what I meant there was, just building out different forms of infrastructure, making the right investments, and obviously, we are watching for, and prepared for, any eventuality that might result in various Basel deliberations or what might apply nationally. But in addition to that, there is a significant infrastructure build just to meet the new expectations that are out there, and those are not insignificant.

So we, like all major banks, I'm guessing, are quickly building up those capabilities, and that requires some dollars as well. That's what I meant by talking about expectations.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Okay. If I could sneak a quick one in for Mike – thanks for that, Bharat – just really quickly in the context of the restructuring. I'm looking at your store count or branch count. It's floated right around 1,300, plus or minus, maybe 10 for some time. With the implementation of some streamlining and overlapping branches, do you expect that to drop materially below the 1,300 count?

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

So as I've said before, it'll go up and down as we go through the quarters. As part of this charge, we've decided to close another 24 stores. That brings the total of stores that we've merged into others for the year at about 45, and we'll probably open about 21 this year, and we'll probably open roughly the same next year.

We're just taking a very careful look at customer transaction patterns and where we're acquiring customers. And in some cases, we have mature stores that can be merged into others with really negligible customer impact and would rather deploy some of that capital to open stores in growing areas in order to acquire more customers at a faster rate, gain share, and so on.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Thanks for that.

Operator

Thank you. The next question is from Sohrab Movahedi from BMO Capital Markets. Please go ahead.

Sohrab Movahedi – BMO Capital Markets – Analyst

Thank you. A couple of quickies. Mike, you will go through CCAR process in the U.S. this year. Are you anticipating any incremental costs above and beyond what you would've spent already in preparation for that?

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

Looking back over the last few years in the U.S., in our expense base, is the gradual build of capabilities and infrastructure required to meet the broad array of regulatory change that we've seen in the U.S. That includes spend to prepare for the DFAST exercise and the CCAR exercise next year.

We're trying our hardest to derive productivity gains that moderate the impact of those initiatives, and so far, we've succeeded. And we're going to continue to stay very focused on that. I think in terms of expenses, we've had a very strong start to the year. We're down 1% year-over-year so far.

I do think expenses will be a little bit higher in the second half of the year, in part for the reason that we were talking about the regulatory build, but more related to the fact that more of our store openings are taking place in the second half than did in the first year. There is some timing related to marketing and so on. So as much as possible, I don't think you'll discern any impact of regulatory build.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. Thank you. And just very quickly for Mark or for Bharat, for that matter. TD has historically not been shy in the past of using sectoral provisions when there is a variety of unknowns on the horizon. With what's happening in Alberta, with the slowdown in Canada, with the fears of Oil & Gas, is sectoral something that you're thinking about just to allay any investor concerns specifically on the loan book?

Mark Chauvin – TD – Group Head and Chief Risk Officer

It's Mark, and I'll address that question. I think in the current environment, that would be addressed through our normal provisioning process. It would capture changes in risk in the portfolio. And we're tracking Alberta very closely; it's a very heightened alert. But what we're seeing is very little, if any, change in the core credit metrics that has not driven an increase in reserves for those areas on the consumer credit side.

Now, maybe it's a little early so it's not over yet. But I would say that anything that is required will be captured naturally in our reserve process.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. Thank you very much.

Operator

Thank you. And the next question is from Sumit Malhotra from Scotia Capital. Please go ahead.

Sumit Malhotra – Scotia Capital – Analyst

Thank you. Good afternoon. To go back to the restructuring charge and maybe more importantly on what it means for expenses going forward. In the not-too-recent past, the Bank had been targeting a level of core expense growth, ex of foreign exchange or acquisitions, of 3% year-over-year, but you had backed away from that for a couple reasons.

As you undertake this restructuring and talk about streamlining the cost, the rate of growth going forward, is it that 3% level that you were looking to get back to? And if so, what's the timeframe we should be expecting that?

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

It's Colleen, Sumit. You know, I think I've talked about our general rate of expense growth in recent years being in the sort of 3% to 4% range. And as we look forward, what we're really trying to do is to continue to invest in the future, and we've called out some of the important investments in technology transformation, investment in digital and mobile, other investments in regulatory infrastructure, but that isn't brand new. We've been doing that over a number of years. And in fact, our base costs are growing.

So, obviously, doing this more comprehensive restructuring process is going to allow us to have higher productivity gains and hopefully bring our rate of expense growth down below that range that I've cited for you. I don't want to name a specific number, but that would be our goal, to continue to make the right investments in the future while lowering our rate of expense growth.

Sumit Malhotra – Scotia Capital – Analyst

Maybe try it a different way. I know when we talk about operating leverage, it's normally been focused on the Canadian banking segment. But from the top-of-the-house perspective, that one's been a more challenging endeavor for TD, and you would think some of the issues such as acquisitions or FX are going to cut both ways on revenue and expenses.

So not to tie you down too much here, but how does the Bank think about operating leverage from an all-bank perspective, and is that a more realistic goal given some of these investments that you'll be undertaking?

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

I think if you look at the first half performance of the year and the fact that, obviously, we are posting negative operating leverage for the first six months, I would call out a number of items that we've earned through broadly, and a number that have affected the revenue line. You look at the TD Ameritrade gains which happened in Q1 and Q2 of last year, substantially lower security gains. Same quarter last year, we had a tax-related item which affected revenues and taxes.

So those items, we don't have similar types of items in the latter half of 2014. I think what you'll start to see is an improvement in the trend around operating leverage. I don't want to make any firm commitments for the immediate year, but certainly our goal is make sure that we can improve our efficiency over time and reduce that productivity ratio in the medium term. And that is our goal and I think the restructuring charge, the work that we're doing, in fact that's continuing, is going to help us do that, given the slower revenue growth environment.

Sumit Malhotra – Scotia Capital – Analyst

Thanks for your time.

Operator

Thank you. And the next question is from Gabriel Dechaine from Canaccord Genuity. Please go ahead.

Gabriel Dechaine – Canaccord Genuity – Analyst

Good afternoon. Just a quick one on the U.S. margin and then a follow-up. One of the factors in your report that explained the decline sequentially was from higher margin loans maturing. I just want to get a sense if that's a one-off type situation, or if there's a cohort of loans that is slowly repricing through the system, and that could be a persistent issue?

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

Gabriel, it's Mike. As context, I'd say that on margin, our outlook hasn't changed a lot from the last couple of quarters. We said in Q4 and last quarter, that while it would bump around a bit quarter-by-quarter, it would likely be roughly at the Q4 2014 level for the full year this year. And so in Q1, the margin went up by 6 basis points, and it was then down 9 this quarter. And this quarter's decrease was really due to three things in roughly similar measure: the first was loan margin compression; the second was strong deposit growth; and the third was lower target volumes.

So, haven't changed our outlook much. I'd say as I sit here at the half-year mark, if there's one thing that looks a little different, and this is to your point, it is that our loan mix is a bit different than we expected with stronger-than-expected growth in sort of the bigger-ticket commercial loan bracket and also in auto finance.

This is all good business for us and obviously adds net interest income, but these are relatively lower-margin loans. So the mix change may represent a bit of downward pressure in the next couple of quarters, but not a lot.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. Appreciate that. And then, about restructuring … I'll ask about PCLs actually. Something that in the U.S. actually as well, this quarter we saw a big reduction year-over-year, and I think that's mostly Target. I don't want to dwell too much on this quarter, that specific item, but it seems like a recurring benefit that TD's been having from credit. I estimate that you are one of the biggest beneficiaries of lower credit costs or lower PCLs over the past several years, and these items just keep popping up in a good way for you.

What does it say about how you've managed the Bank? And is the well running dry at some point? Do we have any visibility on more of these types of recoveries taking place?

Mark Chauvin – TD – Group Head and Chief Risk Officer

It's Mark. What we saw in the last quarter was a reduction, really. All of the asset classes with the exception of Target are kind of running at their normalized level, I would refer to it as. And with Target, you had a seasonal reduction volume that did result in that reduction. But I would expect that it'd come back to a more normalized level next quarter.

And in terms of your more general question, I think we're at the point where we're seeing kind of at the low end of the cycle credit losses. And I personally would not expect to see material significant downside going forward, I mean, on a positive downside.

Gabriel Dechaine – Canaccord Genuity – Analyst

Yeah, exactly. You keep saying that, but we keep seeing the loan losses going down. Okay.

Mark Chauvin – TD – Group Head and Chief Risk Officer

Yeah. Ask me next quarter.

Bharat Masrani – TD – Group President and CEO

We have a great Chief Risk Officer, Gabriel.

Gabriel Dechaine – Canaccord Genuity – Analyst

Good profit center. Thanks.

Operator

Thank you. The next question is from Meny Grauman from Cormark Securities. Please go ahead.

Meny Grauman – Cormark Securities – Analyst

Hi. Good afternoon. My question is on the back of the Nordstrom deal, really the Nordstrom-Target deals together. It's really about the bigger picture. Do you have a concern that you're moving into a more monoline relationship in the U.S.? You're solving a short-term problem, but do you have a debate sort of internally about the issues longer term? It seems like in both deals, cross-selling is limited and so the question is how big can you go with these deals, Target with $6 billion, Nordstrom $2 billion? Is there a certain point where you say enough, and how do you think about where that line may be?

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

Meny, it's Riaz. I think if you step back to about four years ago and say what were we trying to do with the card business, we were clearly a laggard in the card business both in Canada and the U.S. We sought out to increase our scale and our performance, which in Canada, we achieved by having a tremendous amount of organic growth outcomes through our branch sales and then added the MBNA portfolio and the Aeroplan portfolio to that.

Now, in the U.S., we started by having a three-pronged approach. We thought we would take some strategic partners. As I said before, I don't view the strategic partner business as one we're doing for market share purposes, but more from a strategic and tactical point of view. And then we also went to increase our bank card as well as our retail card capabilities.

So, if you look at Target, we added a tremendous amount of balances. We developed a very good partnership with a brand name that we're happy with. And we added some capabilities and terrific talent, and we earned a very good amount of credibility in the marketplace. And we've been able to repeat that with Nordstrom where we're very proud to have Nordstrom and TD as brands stand side-by-side as partners. Both of us are very committed to the customer experience. We're customer-centric organizations, both of us.

And we like the transaction. We like the returns that we're going to get on this. I think we expect both portfolios to grow over time, and we expect that we'll continue to deepen our partnerships in various areas. But it's not just related to the relationship between the retail partners and TD. You have to realize, we also get scale with the processes and networks.

And so it gives us a very good perch from which we can look at developments in the payment space a little more broadly. So there's a lot of benefits to these transactions, and we're just delighted to partner with Nordstrom.

Meny Grauman – Cormark Securities – Analyst

Thanks for that. And just going back to the second part of my long question, is there a dollar value that you have in mind, or how do you think about it in terms of how big that business in particular can be?

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

Well, in terms of the dollar value from our risk management perspective, we would look at asset concentration limits and how we think about internally in relation to the aggregate size of our balance sheet and capital that we have deployed in the business. But as I said earlier, we're not looking at these deals from a market share perspective so I don't anticipate that I'll ever bump up against any of those kinds of considerations for this part of the business.

Meny Grauman – Cormark Securities – Analyst

Thanks. And if I could just sneak one more in. Colleen, related to the branch closings and changing consumer behavior, I'm wondering if you could explain that in a little more detail. Are you just talking about the use of internet, mobile, or is there something more going on that you're seeing?

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

It's Mike. Colleen pointed to Tim and I, so you'll hear from the two of us. So, the obvious thing that's happening is that with the advent of all kinds of digital innovation and new ways of banking, mobile, online, and so on, we're seeing transactions in our stores drop by 6% to 7% a year, and that gives us an opportunity both to change and enhance the customer experience and to become more efficient and more productive. So the things you're seeing us doing, whether it's the heavy investment in digital or the optimization of our store network, or the introduction of new smaller stores that are focused on advice and sales as opposed to transactions, is all a function of that.

This is also why, in the context of the restructuring charge, we've revisited a few of the planned openings that we had, and have decided not to proceed with 16 of them. These were decisions you make on a long time horizon. And when we made the decisions to open these stores, it was quite a different environment in terms of customer behavior. So as we've looked at our new store pipeline, we've decided not to move forward with these and invest in a different part of our distribution system.

Tim Hockey – TD – Group Head, Canadian Banking & Wealth Management

And from a Canadian perspective, Meny, the only addition I would make is that much of what Mike said is also actually applicable to Canada in terms of transaction migrations, branch formats. But the transaction decline in our branches in Canada is about half that rate of the United States, and that's generally true of Canada versus the United States industry.

Meny Grauman – Cormark Securities – Analyst

Thanks a lot.

Operator

Thank you. And the next question is from Mario Mendonca from TD Securities. Please go ahead.

Mario Mendonca – TD Securities – Analyst

Good afternoon. Colleen, could we revisit your answer to Sumit's question about restructuring, without providing hard guidance? Your answer was still helpful, but I want to go one step further. It looks like the restructuring activities will be done by the end of 2015. What would be helpful to understand is does the slower expense growth play out in 2016, or are you really highlighting 2017 as the timeframe?

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

No, Mario, I would be expecting the slower growth starts in 2016 because the majority of the savings – we talked about 2% of the expense base – really, about 90% of that number is going to come into 2016, then with full realization into 2017. And as we've suggested in our remarks, our work is also continuing in particular on the organizational review. To-date, we've done the U.S. and some parts of Canada, so we're continuing to work on all areas of productivity.

Mario Mendonca – TD Securities – Analyst

There's more work to do there, obviously. If there were additional restructuring charges in subsequent quarters, would it be fair to say that those restructuring charges would be significantly smaller than the $337 million we saw this quarter?

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

I think it's hard to estimate that at this time, Mario, because the work is ongoing.

Mario Mendonca – TD Securities – Analyst

I see. Let me flip over to something different then, margins. And rather than looking at it on a segmented basis, sometimes it's helpful to look at it on a consolidated basis. And depending on how you calculate it, the margin on it was sequentially down, and I estimate as much as 10 basis points. This is a fairly significant number for TD. I know it's not domestic retail. We know what's going on in the U.S.; that was helpful. But it would appear to me that there was more going on perhaps in treasury or in the Corporate segment. Did anything play out in the treasury or Corporate that would cause the margin to be down that much sequentially?

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

Let me just check your number here, Mario. I thought we were down 3 basis points quarter-over-quarter on the margin.

Mario Mendonca – TD Securities – Analyst

The way I do it is I take out the trading numbers and try to clean it up for trading, both in the denominator and numerator. But if that's not a number that you can speak to now, I'll take it offline.

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

Yeah. I know that's not the way we look at it. We were down 3 basis points, and mathematically, that makes sense when you think about the U.S. being down 9 and Canada being up slightly. There was a small impact in Wholesale, but mathematically, it was exactly what we expected the total bank to look like.

Mario Mendonca – TD Securities – Analyst

Okay. I'll revisit...

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

I'd be happy to sit down and go through your math and the way you think about it.

Mario Mendonca – TD Securities – Analyst

Sure. And just one final thing, then. That was helpful to provide us the outlook on 1% to 2% for the impact on dividend rental agreements. What would be helpful also is to understand how it plays out on the income statement. Would it just show up as lower TD revenue or higher tax rate, like a higher reported tax rate? Is that how you think about it?

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

I probably prefer not to get into the details right now, and I think that it's a little bit premature. And there are different impacts, whether it'd be on the funding side, whether on the TD side, and the tax side. So I think it's a bit premature to comment on until we know exactly how the rules are going to get bedded down.

Mario Mendonca – TD Securities – Analyst

Okay. Thank you.

Operator

Thank you. The next question is from Peter Routledge from National Bank Financial. Please go ahead.

Peter Routledge – National Bank Financial – Analyst

Just to follow up to the prior question. You mentioned it's 1% to 2% pre-mitigation. Can you give us some color on what mitigation is? Is that new products or is it offsetting trades or...

Bob Dorrance – TD – Group Head, Wholesale Banking

Hi, it's Bob, Peter. I think mitigation just means working with the affected counterparties. And I think it's somewhat premature and it's hard to say what that might be, given we're still in the consultative phase. We still need to work with the various clients that are impacted, or potentially impacted, and it'll be somewhat a function of what they decide their strategies want to be.

Peter Routledge – National Bank Financial – Analyst

Fair enough. Fair enough, thanks. Well, since I have you, Bob, a couple of questions. I noticed there were RWA reductions for TD overall, and it looks like some of them or most of them are in your segment. Was there an earnings impact, i.e., did you sell assets? And what would have been earnings impact to that?

Bob Dorrance – TD – Group Head, Wholesale Banking

No, there was not an earnings impact. Peter, it was broadly a function of benefiting from the movement in exchange rates and how they affected the exposures in our derivative portfolios, combined with some improvement in some of the parameters that we've been focused on working with risk over the last little while. And then also the business has been actively trying to manage the optimization of capital such that we're earning the returns that we need to earn.

Peter Routledge – National Bank Financial – Analyst

It brings up the broader issue. It was a very strong quarter, and I know this business is volatile, but I wonder to what extent can we look at this quarter's performance as representative of sustainable returns from your growth initiatives you put in place over the past year versus unusual or unsustainable gains that we shouldn't count on.

Bob Dorrance – TD – Group Head, Wholesale Banking

Yeah. I think that gets into the area of unforecastability. What I like to look at is are we actually improving the earnings power that we have in the business such that, were markets to continue to be as constructive as they are, would we earn the same amount? And I think what we've been focused on is improving our earnings power.

And as I've talked about in recent times, a significant amount of that has been in the U.S. dollar space. So we continue to grow both our clients on the government, institutional, and corporate side in U.S. dollars, and we grow our products capability and people in U.S. dollars. And that's helping significantly in the potential for the business.

Peter Routledge – National Bank Financial – Analyst

All right. That's helpful. Thank you.

Operator

Thank you. The next question is from Robert Sedran from CIBC World Markets. Please go ahead.

Rob Sedran – CIBC World Markets – Analyst

Hi. Good afternoon. I would like to ask about the insurance business. As pleasant as the weather is these days, it wasn't for much of the quarter. So I wouldn't have expected to see that positive claims experience as a driver of the results. So can you give us a sense of what was happening during the quarter, and whether this might signal something beyond just an unusual quarter and that this business is back into, perhaps, providing a better growth trajectory than it's provided in the last sort of while?

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

Rob, it's Riaz. So, as you know, over the last couple of years, we've been spending a lot of time in getting the fundamentals right for the business. So, a lot of the activities we've undertaken to return the business – to search for profitable growth areas and to, secondly, improve our claims management processes.

We've shed some international activity that wasn't adding value, and we're continuing to increase investments in the business, in the systems and infrastructures, and in terms of talent. So the outcome of that is that our revenue claims and expense lines have somewhat been bumpy, but the bottom line is definitely getting better, and we have happier customers.

That being said, the second quarter was actually good from a weather perspective. If you look at the weather out in Alberta, February through April, it's been very warm, so our current-year accident claims are down. And then we didn't have any catastrophic losses to cover in the quarter. So the outcome of all of that has been that we had a very good bottom-line performance, but I'm not quite ready to declare that as the run rate.

Rob Sedran – CIBC World Markets – Analyst

Is there anything incremental you can add about Ontario auto specifically?

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

I think in Ontario auto, we've made tremendous progress in making sure that some of the issues that were dogging us in terms of underwriting and pricing are fixed to the extent that we can control those. I think the Ontario budget, which is now tabled as Bill 91, continues to show the Ontario government's commitment to control costs, some of which, I think, will be reinvested in the rate reductions that the government promised to deliver on, which so far seems like they are about halfway through.

So I think that what the government is doing is very productive for driving lower insurance premiums there for the customer, and to put the industry on a more sustainable framework, on more sustainable footings. What we are seeing is a lot of positive outcomes and, of course, a lot of the devil is going to be in their details when the regulations get released. We're going to be anxiously watching that.

Rob Sedran – CIBC World Markets – Analyst

Thank you.

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

And, Rob, it's Colleen. Maybe I can just make one point, amplify something that Riaz said. It's just that I think when you look at the insurance business, you really want to look at revenue net of claims because those numbers do move around between those two lines for various reasons. But I think the underlying reason for the good claims performance are the reasons that Riaz has cited.

Rob Sedran – CIBC World Markets – Analyst

Understood. Thank you.

Operator

Thank you. And the next question is from Darko Mihelic from RBC Capital Markets. Please go ahead.

Darko Mihelic – RBC Capital Markets – Analyst

Thank you. First, just a housekeeping question, Colleen. On page 11 of your supplemental, line number 14, can you just remind me what balance is that number around and why is it up so high in Q2 versus Q1, and which business segment benefited from that?

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

There's nothing unusual going on in that line. That truly is the non-trading FX and those amounts just relate to amounts that are held in various parts of our operations, including our branches. So, certainly, some of that would go into the retail bank.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Thank you. And then just getting back to the restructuring discussion, one of the things that you highlight is that the restructuring charges to help slow expenses, the rate of growth, because of an increase in necessary investments and higher base costs. Can you talk about higher base costs? Can you give us an idea of what's driving costs at the base level up? Is it just inflation? And what level of growth are we seeing there? And do you expect that to elevate from recent growth in cost space?

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

When you look at the kinds of things that affect our base, so inflation merit increases, we're still giving annual merit increase to our team. Cost of doing business across our various businesses, volumes are rising. Obviously, we want to become more efficient and lower our unit cost as well. But the reality is that the business of the Bank is growing and those kinds of costs like merit in recent years, pension, have certainly, with lower rates been something that has driven up our base cost as well. So again, we need to find ways to make sure that we can offset those increases and afford the investments that I've elaborated on previously.

Darko Mihelic – RBC Capital Markets – Analyst

But is it fair to say that the rate of growth in base cost is somewhat less now than it was, say, a year or two ago?

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

I wouldn't necessarily say that, no.

Darko Mihelic – RBC Capital Markets – Analyst

Okay.

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

Same ballpark.

Darko Mihelic – RBC Capital Markets – Analyst

Same ballpark. So that really hasn't changed. Okay. Alright.

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

No.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. That's helpful. Thank you very much.

Operator

Thank you. And the next question is from Sumit Malhotra from Scotia Capital. Please go ahead.

Sumit Malhotra – Scotia Capital – Analyst

Thanks for getting me back in. Just wanted to check in on a point that Bharat made earlier on the call in that one of the headwinds that the Bank expected coming into 2015 was higher tax rates. Now, we've certainly heard about recently the equity derivatives, the synthetic equity derivatives, credit and insurance changes. When I look at TD's TEB tax rate on an all-bank basis, in the 21% or 22% range, why hasn't that headwind that you envisioned played out?

And I don't know how specific you can get, but do you see that headwind being revisited as a potential threat to your earnings growth going forward?

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

If I step back, Sumit, and look at my adjusted effective tax rate in 2014, it was 17.5%. This year, my projections would suggest that that effective tax rate will be up maybe a point to a point-and-a-half, which again is slightly lower than I'd expected. We had some positive tax items last year, and again some of those have recurred. But I do expect the direction of the effective tax rate to continue to rise as we head into 2016.

Sumit Malhotra – Scotia Capital – Analyst

And that number that you mentioned, that's non-TEB, right?

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

Correct. Correct.

Sumit Malhotra – Scotia Capital – Analyst

Okay. Because it doesn't look like on a TEB basis. And maybe this isn't the best place to do this, but it doesn't look like it's actually moved that much. And I was just curious as to why that's been the case, given Bharat's comments earlier.

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

There are various factors that'll affect the rate. I tend to look at the adjusted effective tax rate. You're right. The level of tax-exempt income will affect that number. In fact, it did in this particular quarter, which is why our rate looks a bit elevated. But the fundamental direction of the effective tax rate is upward.

Sumit Malhotra – Scotia Capital – Analyst

Thank you.

Operator

Thank you. And at this time, I would like to turn the call back to Mr. Bharat Masrani. Please continue.

Bharat Masrani – TD – Group President and CEO

Thanks very much.

So just in conclusion, very good quarter. I want to take this opportunity to thank nearly 85,000 TD folks around the world who continue to deliver for our shareholders. With that, I will conclude the call. Thank you very much, everybody.