TD BANK GROUP
Q2 2016 EARNINGS CONFERENCE CALL
MAY 26, 2016

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Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2015 MD&A under the headings "Economic Summary and Outlook", and for each business segment, "Business Outlook and Focus for 2016", each as may be 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

Gillian Manning – TD – Head of Investor Relations

Good afternoon and welcome to TD Bank Group's second quarter 2016 investor presentation. My name is Gillian Manning, and I am the Head of Investor Relations at the Bank. We'll begin today's presentation with remarks from Bharat Masrani, the Bank's CEO. After which, Riaz Ahmed, the Bank's CFO, will present our first quarter operating results. Mark Chauvin, Chief Risk Officer, will then offer comments on credit quality. After which, we will invite questions from pre-qualified analysts and investors on the phone. Also present today to answer your questions are Teri Currie, Group Head-Canadian Personal Banking; Mike Pedersen, Group Head-U.S. Banking; and Bob Dorrance, Group Head-Wholesale Banking.

At this time, I would like to caution our listeners that this presentation contains forward-looking statements that there are risks that actual results could differ materially from what is discussed and that certain material factors or assumptions 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 shareholders and analysts in understanding the Bank's financial position, objectives and priorities, and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes. I would also like to remind listeners that the Bank uses non-GAAP financial measures to arrive at adjusted results to assess each of its businesses and to measure overall Bank performance. The Bank believes that adjusted results provide readers with a better understanding of how management views the Bank's performance. Bharat will be referring to adjusted results in his remarks. Additional information on items of note, the Bank's reported results, and factors and assumptions related to forward-looking information are all available in our Q2 2016 Report to Shareholders.

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

Bharat Masrani – TD – Group President and CEO

Thank you, Gillian, and thank you, everyone, for joining us today. TD delivered good results again this quarter. Net income rose to $2.3 billion, an increase of 5% from a year ago, and earnings per share were $1.20, also up 5%. Our retail business has benefited from good organic growth, positive operating leverage, and continued foreign exchange benefits from our North American strategy.

Our Wholesale bank also performed well. While provisions for credit losses rose in both the Retail and Wholesale portfolios, this was largely a reflection of continued weakness in the oil and gas sector. Overall, credit quality remained strong.

Overall, I'm pleased with our performance for the first half of the year. Earnings are up 6%, and earnings per share are up 5% for the year-to-date. Our CET1 ratio at the end of the second quarter stood at 10.1%, up 20 basis points from the prior quarter. And our leverage and liquidity coverage ratios remain in line with expectations, reflecting the strength of our balance sheet. Our reported results this quarter include $116 million after-tax charge related to our Direct Investing business in Europe. Riaz will address this in his remarks.

Turning to our businesses, Canadian Retail net income was $1.5 billion this quarter, up 2% from a year ago as we earned through a higher tax rate. Personal and commercial banking earnings were supported by higher loan and deposit volumes, increased revenue, and good expense management offset by higher provisions and further margin compression.

Of note in the quarter, we had record mortgage retention rates of renewal and we grew business banking volumes at double-digit rates. Our wealth business delivered more than $10 billion in net asset growth for the second consecutive quarter despite challenging market conditions. And TD was ranked number one for pension fund assets under management by Benefits Canada for the fifth year in a row.

Our Insurance business continues to perform well. While earnings were relatively flat in the quarter, net income before taxes continues to grow, reflecting significant improvement in revenue and claims performance. We continue to assess the effects of the fires in Fort McMurray, which occurred after quarter end. Given that our businesses benefit from loss mitigating and sharing arrangements through insurance or reinsurance, we do not expect the impact to be material.

Our U.S. Retail segment generated earnings of US$459 million in the quarter, up 6% from last year. I'm particularly pleased with our revenue performance, up 6% this quarter. Loan and deposit volumes increased at double-digit rates. We're acquiring new households faster than our competitors and we're doing it by leveraging all our distribution channels with digital credit card sales particularly strong this quarter. While provisions for credit losses rose from a year ago, reflecting portfolio growth and allowance build, they declined quarter-over-quarter, as did impaired loans.

Core credit metrics remain strong. We also continue to see the benefits of a stronger U.S. dollar in our consolidated earnings with Canadian dollar earnings up 13% year-over-year and 15% including the contribution from TD Ameritrade.

Net income in our Wholesale bank was $219 million this quarter, down 11% from a year ago, as good top line performance was offset by higher credit provisions related to the oil and gas portfolio. All of our Wholesale businesses had an active quarter with underwriting and advisory revenues particularly strong. Domestic origination markets improved and TD Securities won several significant mandates in the quarter – co-leading TransCanada Pipelines' $4.2 billion bought deal and advising Shaw on its acquisition of Wind Mobile and disposition of Shaw Media. Our U.S. business also continues to perform well with origination activity strong during the quarter.

Let me take a moment to comment on provisions for credit losses. Mark will address this in more detail. But at a high level, credit metrics remain strong across our portfolios. We have seen continued weakness in oil and gas impacted areas, but trends in impaired loans and provisions are in line with expectations. Nonetheless, we made a further addition to our collective allowance this quarter to reflect credit deterioration in oil and gas exposures as well as volume growth in the rest of our portfolios.

Overall, we've been saying for some time that we expect that credit to be a headwind to earnings this year given the benign PCL rates we recorded in 2015. That is now materializing. However, we remain comfortable that we are adequately reserved and losses will be manageable.

Looking more broadly, the environment remains uncertain. Global economic growth is trending up, but the pace of the recovery remains slow and uneven. The low-growth, low-rate environment continues to affect recoveries in most developed economies, but conditions are stronger in our footprint. While recent economic data in the U.S. have been mixed, domestic demand appears to be firming, and the investments we have made in our business are paying off.

We are well positioned to continue to take share. In Canada, the economy is adjusting to a lower commodity price environment, albeit from last quarter's lows, and will feel the impact of the Fort McMurray wildfires. But fiscal stimulus will provide some offset, and the lower cost of raw materials is driving growth in other parts of the country, where our market share is higher.

Against this backdrop, we remain steadfast in our approach. We will continue to generate organic growth and compete where we see opportunities that are within our risk appetite. We will stay focused on managing base expenses, as we have done very effectively so far this year. And we will continue to invest in delivering a better customer experience across all our channels.

Last quarter, I highlighted some milestones on this journey. Let me update on our most recent accomplishments. TD Bank, America's Most Convenient Bank scored another big win in 2016 J.D. Power survey, taking the number one spot for retail banking in Florida. This builds on our success in J.D. Power's last small business banking survey, where we were ranked number one in the Northeast region.

In Canada, TD MySpend, the real-time money management app we launched this month, already has more than 180,000 customers and double that many accounts. And we extended customer service through Facebook Messenger to the U.S. after debuting it with great success in Canada last December.

We also announced that we'll be introducing Apple Pay for our Canadian customers, a service we already offer in the U.S. We're excited to build on our leadership position in the digital space by adding Apple Pay to a strong suite of mobile payment options that includes our TD app, Samsung Pay in the U.S., and our participation in UGO Wallet in Canada.

To wrap up, I'm pleased with our results in the first half of the year. We continue to execute on our strategy of building for the future, operating with excellence, and adopting to an ever-changing environment. As ever, our greatest strength is our people. We were reminded of that this month as we witnessed their remarkable response to the devastation in Fort McMurray. To the people of Fort McMurray, as you return home to begin the long, hard work of rebuilding your homes and communities, TD will be there to support you – now and in the future.

And to our colleagues, some of whom I met in Edmonton earlier this month when I visited the region, I know how tirelessly you've been working to support the recovery effort. Those of you with the TD Mobile Response Fleet provided on-site emergency assistance to evacuated bank and insurance customers, those at the TD Helps advice center who are supporting customers with urgent financial needs, those of you at TD Insurance who gave immediate support to our evacuated insurance customers by arranging living allowances and finding temporary accommodation and who are now preparing to help customers rebuild, replace, or repair their homes and automobiles when Fort McMurray reopens, and the thousands of colleagues who have made matching donations through TD to the Canadian Red Cross. Thank you. Your compassion and dedication are inspiring. I know we can accomplish great things together.

With that, I will pass it over to Riaz.

Riaz Ahmed – TD – Group Head and CFO

Thank you, Bharat, and good afternoon, everyone. Please turn to slide 5.

This quarter, the Bank earned adjusted EPS of $1.20, up 5% year-over-year. Canadian Retail earnings grew 2%, U.S. Retail adjusted earnings grew 15% in Canadian dollars and 7% in U.S. dollars and Wholesale earnings declined 11%, reflecting higher credit provisions in the oil and gas portfolio.

Adjusted total revenue increased 7% year-over-year, or 4% excluding FX and acquisitions, led by loan deposit and wealth asset growth. Growth was partially offset by margin pressure. PCLs increased year-over-year but declined quarter-over-quarter. Adjusted expense growth was 7% year-over-year or 1% excluding FX and acquisitions.

Please turn to slide 6. The Canadian Retail segment earned net income of $1.5 billion, up 2% year-over-year. The increase reflected loan, deposit and wealth asset growth, and lower insurance claims, partially offset by lower margin, higher PCL and a higher effective tax rate. Total loan growth was 6% year-over-year with personal lending volumes up 5% and business lending volumes up 11%. Deposits increased by 6%, reflecting growth in core chequing and savings accounts, which were up 8%. Business deposits grew 4%, and wealth assets grew by 3%.

Margin declined 3 basis points quarter-over-quarter, reflecting certain adjustments made in the prior quarter, the low interest rate environment, and competitive pricing. We expect margins to remain under modest downward pressure, reflecting the interest rate environment, product mix, and competitive factors. Credit losses increased 15% quarter-over-quarter reflecting higher provisions this quarter and a sale of charged-off accounts in the prior quarter. Expenses increased 1% year-over-year.

I would like to take a moment to give you an update on Fort McMurray. We are continuing to access the impact of the wildfires. We expect we will experience some losses in our banking businesses and higher claims in our insurance businesses in the third quarter. However, as a result of our smaller footprint in Alberta and because of mitigants including reinsurance in our general insurance business, mortgage insurance in our personal banking and third-party insurance held by our commercial banking customers, we do not expect the impact to be material. I estimate less than $0.05 per share over time. Please turn to slide 7.

The U.S. Retail Bank posted earnings of US$459 million, up 6% on an adjusted basis from Q2 2015. Results for the quarter reflected strong revenue growth partially offset by higher expenses and PCL. Total loan growth was 13% year-over-year, reflecting an 8% increase in personal loans and a 17% increase in business loans. Average deposit increased by 10%. Margin was stable quarter-over-quarter reflecting the full quarter benefit of the December Fed rate increase offset by lower loan margins and balance sheet mix. Overall, absent interest rate changes, we expect margins to be relatively stable in 2016.

PCL decreased 23% quarter-over-quarter primarily due to typical seasonal reductions in credit card balances. Adjusted expenses increased 4% year-over-year reflecting investments in the business and timing. Adjusted expenses are up 2.4% year-to-date, excluding the impact of acquisitions.

Earnings from our ownership stake in TD Ameritrade increased 13% year-over-year, reflecting asset growth and higher trading volumes in that business. Aggregate adjusted U.S. Retail earnings were up 7% year-over-year in U.S. dollars and 15% in Canadian dollars. Please turn to slide 8.

Net income for Wholesale was $219 million, down 11% year-over-year, primarily due to higher credit provisions this quarter. Revenue decreased 2% year-over-year, reflecting lower fixed income trading and equity underwriting fees, partially offset by higher advisory and corporate lending fees.

Credit losses were $50 million, a $38 million increase quarter-over-quarter, primarily reflecting specific provisions in the oil and gas sector. Non-interest expenses were down 1%, reflecting lower operating expenses and variable compensation, partially offset by some foreign exchange translation adjustments. Please turn to slide 9.

The Corporate segment posted an adjusted loss of $120 million this quarter compared to a loss of $139 million in the same period last year. Net corporate expenses increased slightly year-over-year, reflecting ongoing investments in enterprise and regulatory projects.

Other items increased $38 million year-over-year, reflecting contributions from positive tax items recognized in the current quarter and higher revenue from treasury and balance sheet management activities, partially offset by higher provisions for incurred but not identified credit losses.

On a reported basis, the Corporate segment loss includes $116 million after-tax charge, reflecting impairment of goodwill, non-financial assets, and other charges related to our Direct Investing business in Europe. This business has had recurring losses indicating that the goodwill and intangible assets do not have continuing value. We are considering opportunities to prevent further losses in this business. Please turn to slide 10.

Our Common Equity Tier 1 ratio was 10.1% at the end of the second quarter, a 20 basis points increase, due primarily to organic capital growth and unrealized gains on our AFS securities, partially offset by risk-weighted assets growth and other items in the quarter. Our leverage and liquidity ratios are consistent with last quarter. Overall, we remain well positioned for the evolving regulatory and capital environment.

I will now turn the call over to Mark.

Mark Chauvin – TD – Group Head and Chief Risk Officer

Thank you, Riaz, and good afternoon, everyone. Please turn to slide 11.

Credit quality remained strong as evidenced by a 3 basis point quarterly reduction in the Bank's overall loss rate to 42 basis points, despite further increases in collective allowances. Canadian Retail gross impaired loan formations have remained stable over the past five quarters at 19 basis points.

In Wholesale, further deterioration in the oil and gas producer portfolio occurred during the quarter despite a recent strengthening in oil prices. This trend was expected as leveraged borrowers exhaust available sources of liquidity. The four new impaired formations in the oil and gas sector, totaling $142 million, were expected, representing previously designated high-risk accounts.

The $384 million decrease in U.S. Retail formations for the quarter was concentrated in the personal consumer segment. The legacy interest-only HELOC product accounted for US$201 million of the decrease, resulting from completion of the remediation effort that began over a year ago for major portion of the portfolio. $126 million of the decrease was attributable to strengthening in the Canadian dollar.

Turning to the next slide, gross impaired loans decreased by 2 basis points or $232 million to $3.57 billion. Canadian Retail and Commercial portfolio performance continues to trend their cyclical low levels, unchanged at 29 basis points quarter-over-quarter.

In the U.S., our performance continues to be good across all portfolios. The $353 million decrease noted during the quarter is due to a $297 million strengthening of the Canadian dollar and a US$58 million decrease in legacy interest-only HELOC gross impaired loans. The decrease in legacy interest-only HELOC impaired loans resulted from the decline in new impaired formations mentioned earlier and the return of customers to performing status. Further reductions are expected this year. Please turn to slide 13.

As announced last quarter, the U.S. strategic card PCLs are now reported in the U.S. Retail segment on a net basis, including only the Bank's contractual portion of credit losses. For the purpose of these credit slides, however, we continue to report the gross amount for U.S. Retail PCL to better reflect portfolio credit quality.

Provisions for credit losses were $592 million, down $56 million, or 3 basis points quarter-over-quarter, to 42 basis points. Canadian Retail credit loss rates increased 5 basis points during the quarter to 30 basis points, roughly in line with last year's performance of 29 basis points. U.S. Retail PCL was down $123 million or 27 basis points during the quarter, primarily due to seasonal reduction in U.S. card volumes and strengthening of the Canadian dollar.

Collective allowances for incurred but not identified losses recorded in the Corporate segment increased $60 million during the quarter due to continued credit deterioration in consumer, commercial, and wholesale exposures impacted by low oil and gas prices. Please turn to slide 14.

Turning to oil and gas now, there has been little change in the composition of our oil and gas-related exposure over the quarter. Drawn loans to the oil and gas producer and servicer segment increased $200 million to $4.4 billion, continuing to represent less than 1% of total gross loans and acceptances. Excluding real estate secured lending, consumer lending and small business banking exposures to Alberta, Saskatchewan, and Newfoundland and Labrador represents 2% of the Bank's gross loans and acceptances.

As expected, credit deterioration and loan impairments in oil-impacted portfolios and regions are continuing. The recent increase in oil prices, while encouraging, is not likely to have an immediate positive impact. In the Corporate and Commercial segments, we are now seeing the impact of sustained low oil and gas prices which is reflected in the four new impairments and related provisions in the segment this quarter.

The signs of deterioration in the consumer lending portfolios in impacted provinces seen last quarter are continuing, but to date, increases in credit losses have been largely offset by stronger than expected performance across the rest of the country.

We are regularly performing detailed assessments of our oil and gas exposure as the challenges facing this sector play out. To date, the pace of negative credit migration, new impairments, and credit provisions remain within our expectations. We continue to be adequately reserved for the problems that lie ahead, barring a significant decrease in oil and gas prices. With respect to Fort McMurrary wildfires, our immediate concern is for our customers and employees and we are focused on providing whatever support we can in these difficult times. Our credit exposure to the region is modest and future losses are not expected to be significant.

To conclude, the key takeaways this quarter are – first, credit quality remains strong in the Canadian and U.S. portfolios and secondly, low oil and gas prices continue to represent a credit concern. Having said this, I remain comfortable that total losses attributed to low oil and gas prices are unlikely to exceed my previous guidance of 5% to 10% over 2015 actual levels, which equals roughly $100 million to $200 million per year for a period of two years.

With that, operator, we are ready to begin the question-and-answer session.

QUESTION AND ANSWER

Operator

Thank you. Our first question comes from Sumit Malhotra from Scotia Capital. Please go ahead.

Sumit Malhotra – Scotia Capital – Analyst

Thanks. Good afternoon. My question is for Mike Pedersen. It has to do with loan growth in the U.S. You obviously had a very strong trend here over a period of time. But it did seem like sequentially across your consumer portfolios, the pace of loan growth had slowed particularly noticeably, and I know there has been movement in interest rates. I wouldn't have thought that was enough to put a real cramp or crimp in loan demand.

Could you give me some color on what was happening in the quarter and whether there's been any change to the outlook as far as the consumer side of the equation is concerned?

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

[*With respect to commercial lending*][1] the issue there is that we had very large payoffs at the end of Q1 and, in particular, one very large loan. So as you look at the averages quarter-over-quarter, that was in Q1 not in Q2. We're not seeing any difference in outlook, other than that fact. And I expect to continue to see good growth in business lending.

[*With respect to consumer lending*: For mortgages, we are selling most of our conforming originations. Excluding sales, we'd be up about 1% which is better than most banks in our footprint in a still-sluggish market. HELOCs are down 2.4% versus the top four originators' balances which were down in excess of 10%. The industry is not growing balances because of the end-of-draw phenomenon and still-sluggish housing market. We are up 14% in auto, and 39% in cards (9% ex-M&A) – good growth overall. We are hoping to see slightly better volumes in mortgages and HELOCs going forward, as the housing market continues to recover and as we build out a larger sales force.]

Sumit Malhotra – Scotia Capital – Analyst

And just one more for your segment and I'll leave it there. It has to do with timing and pace of expense investment. So on the back of the restructuring charges you took last year, I assumed that the pace of expense growth would be slower, and we certainly saw that the last couple of quarters. A bit of an increase I think around 4% in terms of expenses year-over-year in Q2. As you think about the investment spend that you communicated to us – is the level of expense growth you saw this quarter more in line with what we should think about? Or were there specific projects or timing that maybe impacted this pace of expense increase?

1. On the Q2 2016 Earnings Conference Call the question was misheard and answered with respect to commercial lending. The response with respect to consumer lending has been added and appears in square brackets.

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

Yeah. So, good question. So, if you look at the 4%, about 1% of that was the effect of M&A, so the strategic card alliance from last year, and the extra day as a result of the leap year. So, if we take those out, it's more like 3%. In addition to that, we had a few issues in the quarter. We moved a call center from Texas to South Carolina, which is obviously not something that's going to recur. And then there was a bit of timing between Q1 and Q2. I kind of looked at it for the first half – our expense growth was 2.4% ex the M&A, and my hope would be that as we look into the second half, it won't be too different from that. It will bump around a little bit quarter by quarter.

Sumit Malhotra – Scotia Capital – Analyst

Thanks for your time.

Operator

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

Rob Sedran – CIBC World Markets – Analyst

Hi. Good afternoon. I'm not sure if it's for Riaz or Mike again, but the margin this quarter with the benefit, the full benefit of the Fed move, was flat. And the guidance going forward is irrespective of what the Fed does, you think it's going to be flat or – sorry, even if the Fed doesn't move, it's going to be flat. What gives you the confidence that some of the trends that hold back the margin this quarter, other than the Fed benefit, are not going to recur in coming quarters?

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

Yeah. So, again, great question and we obviously had the full effect of the rate increase in Q2. So, we're looking forward from Q2. And so, this is all absent rate increases to be clear. So, simply, what's going on is that on the one hand, we expect deposit margins to be stable from Q2, again in the absence of rate changes. On the other hand, we are seeing some continued loan margin compression, but it's less this quarter than it was last quarter, and it was less last quarter than it was the previous quarter. So, the slowing is slowing down, if you will, or the compression is slowing down.

And we think the loan margin compression will be offset by essentially mix and that's both the mix of loan origination, but also the fact that we expect deposits to grow slower than loans. So, effectively, deposit margin is stable and some offsetting stuff in loan margins, leading to our expectation that margins will be relatively stable for the remainder of the year.

Rob Sedran – CIBC World Markets – Analyst

Do you have an insight, Mike, as to why the loan compression or loan margin compression is slowing?

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

Well, I think it's been going on for a long time and there's at least two things going on. One is that the farther we get into this trend, the less the effect of higher margin stuff rolling off and new stuff coming on at lower margins. But the other thing is that I think the competitive intensity we're seeing around pricing is slowing a bit relative to where it was, say, a year ago.

Rob Sedran – CIBC World Markets – Analyst

Thank you.

Operator

Our next question comes from Sohrab Movahedi from BMO Capital Markets. Please go ahead.

Sohrab Movahedi – BMO Capital Markets – Analyst

Thank you. Staying with the topic of NIM, maybe for Teri. In Canada, the NIM has got this declining trajectory. Do you expect that to continue into 2017?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, we would continue to project modest downward pressure to margins, again, impacted by the interest rate environment, product mix, and competitive factors. We did have in this quarter, on a quarter-over-quarter basis, the issue of the recognition of the commissions paid to auto dealers that we talked about last quarter and year-over-year acquisition-related items – credit mark released from the acquired credit card portfolio last year. So net-net, we still project modest downward pressure and still NII positive.

Sohrab Movahedi – BMO Capital Markets – Analyst

So modest more or less in line with the last few quarters, except for this aberration of the last specific quarter.

Teri Currie – TD – Group Head, Canadian Personal Banking

Absolutely.

Sohrab Movahedi – BMO Capital Markets – Analyst

And if I can just sneak one in for Mark. Mark, the allowances whether it's specifics or collectives relative to your credit RWA, seems to be around the 95 to – call it plus or minus 95 basis points. If I look at it over the last 5 to 10 years, that's probably more like 115 basis points and it's probably peaked out in the 100 and, I don't know, 140 basis points coming out of the crisis.

When you think about your collectives and the additions that you make or what have you, is that a good way of thinking about where you may actually peak out at? I mean, do you expect to be below trend line on this ratio or do you expect it to revert back up to, let's say, 115 to 120 basis point average over the last 5 to 10 years?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Well, it's a – you're talking about a trend line for the portfolio and really where we're experiencing difficulties is a very small part of the portfolio, being the oil and gas sector. So if we look at the credit cycle now through the general portfolio, it's a very strong part. We have good credit loss rates across all the portfolios and based on our view on the economy over the next year in both of our key markets we don't see that changing between now and into the new year.

But on the oil and gas sector, I guess I do see that amount increase. I don't think of it in terms of RWA. I think where we are now is appropriate. I could see further increases over the balance of the year as the issues play out. But I really can't give you a number relative to what RWA would be.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. Thank you

Operator

And our next question comes from Meny Grauman from Cormark Securities. Please go ahead.

Meny Grauman – Cormark Securities – Analyst

Hi. Good afternoon. I just wanted to ask about expenses. We're seeing some competitors come out around with a fresh round of restructuring charges. I'm wondering what you see as a potential for further restructuring charges now that we're kind of halfway through the year?

Bharat Masrani – TD – Group President and CEO

Meny, this is Bharat. As you know, last year, we did go through a restructuring in the Bank and that was necessary and we are happy that that is now complete. And we have been able to improve our productivity and, at the same time, make the investments that are absolutely necessary in our bank. So, that portion is now, for the most part, behind us.

I'm happy that we are able to now get the benefits of that, and in my comments, I said we're going to be quite fixated on our base expenses, but at the same time make sure that we have enough capacity to make the necessary investments. So, that's how I would see it. You're asking me, do you see future restructuring charges? I mean, never is a long time, but generally we are really happy with where we are and what we've been through last year.

Meny Grauman – Cormark Securities – Analyst

Thanks for that. And if I could just ask a quick question on trading – just if you could comment on the composition. Looked a little different than what some of your competitors have been reporting especially in terms of fixed income and some of the drivers in that business. It didn't look like you saw as much of a lift as some of the other competitors although mainly maybe it's hard to compare too closely.

Bob Dorrance – TD – Group Head, Wholesale Banking

Yes. I mean, I think it is hard to compare too closely. It can reflect obviously different mix of businesses that we're all involved in, both on a product as well as the geography. It's a short period of time and what you're seeing is relative. One quarter has lots of volatility in the numbers. So, I think we had a strong quarter in trading, basically started after the middle of February. So, it was a shorter quarter. Having said that, I think it looks pretty stable relative to previous trends, and it's sort of all I can say on the – I can speak to our quarter, but I really can't speak to other things, pro forma on a relative basis.

Meny Grauman – Cormark Securities – Analyst

So, just in terms of the fixed income business, there's nothing you'd highlight as being sort of unusual in that business for the quarter.

Bob Dorrance – TD – Group Head, Wholesale Banking

No. There was a reasonable amount of volatility in credit within the first half. And some of the credit parts of fixed income were negatively impacted in the first quarter and then positively impacted in the second quarter by the movement in credit markets. And if you look at fixed income as a pure government business, there's different drivers to that. That had a better first quarter in our case and not quite as strong second quarter.

Meny Grauman – Cormark Securities – Analyst

Thank you.

Operator

And our next question comes from Darko Mihelic from RBC Capital Markets. Please go ahead.

Darko Mihelic – RBC Capital Markets – Analyst

Hi. Thank you. The question is for Riaz and I'm just trying to square something in the numbers. Maybe you can help me with this. On page 5 of the presentation, you show revenues up 7% and expenses up 7% but when you exclude FX and acquisitions, it's 4% and 1%. When I did some bank of the envelope math using some of the other disclosures on the FX impact, it looks like the acquisitions, namely Nordstrom I'm presuming, had expense growth that was far greater than revenue growth. Am I right on that first?

Riaz Ahmed – TD – Group Head and CFO

No. I don't think, Darko, that that math would work that way because to the extent that our strategic cards portfolio is net positive and performing consistently, you wouldn't see that. I think it's just in the mix of Canadian dollars versus U.S. dollar revenue versus Canadian dollar and U.S. dollar expenses and that you would find the differences.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. And just to be crystal clear on that, the Nordstrom expenses, they are all reported in the U.S. Retail or is some of that in Corporate?

Riaz Ahmed – TD – Group Head and CFO

No. What happens is that the retailer's share of the net cash flow, that's reported in Corporate and then what's in the U.S. Retail segment is only our share, so that also gives you a little bit of variability.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. I may have to come back to you offline on that one. I don't want to get too caught in the nitty-gritty.

A question then for Mark Chauvin with respect to the collective allowance. Mark, is it an appropriate way to think of the allowance – when we're looking at the allowance and trying to judge the appropriateness of it, or the coverage of it, it was suggested that one way to look at it would be to take the collective allowance as a multiple of the specific ACLs that you have. Do you think that's a good measure? Is that something that we should get comfort from if we look at it that way?

Mark Chauvin – TD – Group Head and Chief Risk Officer

That is somewhat of an accepted way of looking at it. In theory, you tend to look at having coverage of 1.5 times to 2 times, thinking that would be an appropriate range.

Darko Mihelic – RBC Capital Markets – Analyst

Yours seems to be bigger than that, though. Yours is above 3 times.

Mark Chauvin – TD – Group Head and Chief Risk Officer

Well, I mean, it's through the cycle. We are at a fairly strong part of the credit cycle for the majority of the portfolio. So, you are seeing lower PCL than what you would see at different parts, right? So, it tries to be a through-the-cycle number. So, that's probably one of the problems with that number is when you get through these periods, it looks like it's too large, but you have to look at more what your normal loss to the cycle would be and kind of base it on that process. Does that make sense?

Darko Mihelic – RBC Capital Markets – Analyst

I'm not sure because you've been adding to it, even though you've got...

Mark Chauvin – TD – Group Head and Chief Risk Officer

But when you're adding to it – we've been adding to it driven largely by a sector, being oil and gas. So, really there are two things that drive a change in collective. It would be volume increases, and we've seen a bit of that. But the other is migration in the portfolio or deterioration in credit quality. And the increases that you've seen in the last three quarters are really largely driven off of credit deterioration in the oil and gas sector, specific in non-retail, and then in consumer credit in the impacted provinces.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. So just to wrap up then, when you talk about your forward-looking sort of concept of stressed losses, you're encompassing within that some level of collective allowance or are you specifically referring to...

Mark Chauvin – TD – Group Head and Chief Risk Officer

Well, I'm encompassing in that the collective allowance will transition into specifics at some point.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Fair enough. Thank you.

Operator

And our next question comes from Mario Mendonca from TD Securities. Please go ahead.

Mario Mendonca – TD Securities – Analyst

Good afternoon. Two quick questions. First, probably for Mark, could you help me understand or break out the oil and gas exposure between oil and gas? And specifically, like I don't know how it's best to break it out. I don't know if you can look at your total loans and say this is the amount that's supported by gas reserves versus oil reserves or whether you could say this is the exposure to gas-only names. But is there some way to help clear this up for me?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Yeah. So the way that we look at it is your oil and gas producer will have a blend generally. But we look at what's predominantly driving that whether it's oil or gas. I'd say it's very – we would have very few that would be driven predominantly by gas. It's normally a blend that's weighted heavier to oil. And I would say the overwhelming majority of our portfolio would be borrowers that are heavier weighted to oil than to gas.

Mario Mendonca – TD Securities – Analyst

Looking forward, would it be correct to suggest that losses, to the extent there are a lot more losses in oil and gas, would be weighted toward gas and that's one of the reasons why you're not looking for any material increase in TD's exposures or TD's losses?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Well, the analysis that we complete, it's really an account-by-account analysis that stresses both the oil content and the gas content, and that's what has been used to arrive at the kind of my guidance of 5% to 10% or $100 million to $200 million per year for two years. So, that gas factor is already incorporated in that, but I'd say, if you ask me, what's driving it more than anything given that the majority of our borrowers are weighted towards oil, I'd say, it's more oil.

Mario Mendonca – TD Securities – Analyst

Quickly, over to domestic retail. The earnings growth has not been strong this year, certainly not this quarter, and I'm focusing specifically on retail banking. There are some pretty good explanations for why, not the least of which is the higher taxes associated with mortgage insurance.

The question is, once we look beyond this year and the obvious headwinds, does this strike you as a kind of business that can go back to growing at 5% or 4% like inflation-plus type growth or is that type of growth environment behind us now that the Canadian consumer is overleveraged? What's your thinking there?

Teri Currie – TD – Group Head, Canadian Personal Banking

So, I mean, we remain committed to the medium-term guidance that we gave you in our Investor Day, and I'd say for personal banking in particular, we have a number of opportunities that we outlined in Investor Day where we are under-share with our primary customer base that we are working hard to leverage. So unsecured lending where we're growing disproportionately within our risk appetite, business credit card which we outlined again at the Investor Day and mutual funds will be some examples of that. So, we feel quite confident that the business over the medium-term would still be able to meet the kind of goals that we've talked about before.

Mario Mendonca – TD Securities – Analyst

Those goals, just to refresh my memory, about 5%-plus?

Teri Currie – TD – Group Head, Canadian Personal Banking

Yes.

Mario Mendonca – TD Securities – Analyst

And you referred to personal specifically, commercial would be similar, I suppose?

Teri Currie – TD – Group Head, Canadian Personal Banking

Commercial would be similar.

Mario Mendonca – TD Securities – Analyst

Thank you.

Operator

And our next question comes from Gabriel Dechaine from Canaccord Genuity. Please go ahead.

Gabriel Dechaine – Canaccord Genuity – Analyst

Good afternoon. Just a follow-up on Darko's line of questioning actually, you qualified the increases in the collective as tied primarily to the oil and gas sector. We had another bank that took sectoral reserves for their oil and gas exposure. If this is so heavily dependent on the trends in that sector, why isn't that sectoral? What's the difference in perspective, I guess?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Well, I guess my view is the collective allowance methodology appropriately captures the risk in the portfolio. And with it, you don't need a sectoral would be the, I guess, the short answer.

Bharat Masrani – TD – Group President and CEO

That's the way we look at it. That's our methodology, so that's how they work.

Gabriel Dechaine – Canaccord Genuity – Analyst

Are we splitting hairs here? Is it really that different?

Riaz Ahmed – TD – Group Head and CFO

Well, look, Gabriel, under IFRS incurred but not identified is a very defined concept that everybody uses and then that's the framework that is used in the way we apply general accepted accounting principles.

If you want to interpret them as sectorals, well, sectorals are not really an accounting definition. Different people can look at it different ways. So, I think it just depends on how you want to characterize what's a sectoral but IBNI is a clearly understood framework.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. Turning I guess to more of a growthy outlook. During the crisis, TD stepped on the gas in commercial lending, specifically commercial real estate, which was a sector that was falling out of favor, and that helped you go from number five market share to number two or three, depending on whose slides you're looking, at in commercial lending in Canada. Are you doing anything different – or similar, sorry, in the oil and gas sector? Maybe that's for Bob.

Bob Dorrance – TD – Group Head, Wholesale Banking

Yes. We have added, specifically to our U.S. business. We acquired some loan assets of a bank who was exiting their North America business. It was primarily an investment-grade loan book, but it gave us diversification into larger E&P into midstream as well as into refining. We subsequently thereafter hired a group of people who had relationships with those companies. So, it's been a meaningful addition to the U.S. energy business.

So, we see a good opportunity to grow that, to add both corporate relationships as well as to introduce products over time. We'll do it in a measured way and within our risk appetite. We weren't particularly interested in adding to the non-investment grade part of that because we didn't really have or we don't really have as many products that we might offer to those types of clients. But we are building out our debt capital markets capabilities, our derivatives capabilities, our hedging capabilities in that market.

So, we're looking at the U.S. as a meaningful – U.S. dollar business – as meaningful business opportunities where we can grow, not just in the corporate space but also in the government and agency space as well as in the investment buy-side real money space as well. All of those are very good opportunities for us that I think they are coming as a function of what's happening in the markets broadly.

Bharat Masrani – TD – Group President and CEO

Just to add to that, I mean generally, with the Bank – this is Bharat. We've said that we are a growth company. We have the capital. We support our clients and we want to grow our share where we've identified opportunities, and we will continue to do that. And if the current situation presents those opportunities and if it's within our risk appetite, we'll aggressively pursue those. That's not only in oil and gas, but in every market in which operate.

Gabriel Dechaine – Canaccord Genuity – Analyst

But is this one in particular more of a one-off where you see good risk-adjusted spreads, maybe not as broad-based as the push we saw in commercial lending a few years back?

Bob Dorrance – TD – Group Head, Wholesale Banking

I would say we see good opportunities to pursue clients where we can have good relationships with clients and from there, good business opportunities will result and we'll build a franchise. I think that will reflect what we've already invested in the States and many of the other parts of our business.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. And just my last one, sneak it in there. I understand you're going through the AIRB transition in the U.S. this year. Should I expect much out of that? I know in the past for Canadian banks, making that transition has resulted in a pretty noticeable improvement in capital ratios through RWA deflation. Should we expect a similar outcome? Maybe a lighter version of it in the U.S. this year?

Mark Chauvin – TD – Group Head and Chief Risk Officer

So, it's Mark. I'll address that question. There are numerous applications that you can go through. I mean, there's AMA, which is operational risk for the enterprise, and there's – for the U.S., it would be for the retail portfolio and for the non-retail portfolio. We're looking to implement two of those in the third quarter, which is AMA, operational risk for the enterprise, and the retail for the U.S. The net impact, combined, is pretty flat. There's not much of an impact on CET1.

Gabriel Dechaine – Canaccord Genuity – Analyst

So your retail and credit risk-weighted assets will go down, but...

Mark Chauvin – TD – Group Head and Chief Risk Officer

They'll go down and offset by an increase from the AMA, but the net impact is flat.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. All right. We'll wait and see for that, I guess. Thank you.

Operator

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

Peter Routledge – National Bank Financial – Analyst

Just a follow-up on the last one. If you got commercial, would you get some – if you got commercial U.S. loans on AIRB, would you get some RWA release?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Peter, it's Mark. It's difficult. You don't know the terms of the approval. You have to work through the process. And I don't think – clearly I don't think you'd see an increase, but I really – it's difficult to predict whether there would be any meaningful decrease.

Peter Routledge – National Bank Financial – Analyst

Okay. Thanks. And then, Bharat or Riaz, just a question on capital more broadly. The Canadian banks seem to be settling in around 10% on CET1, and I presume they're able to do that because the regulators are happy with that level of capital. But I look globally and I understand TD is not systemically important, on a global basis. I see capital ratios at 12% and I see leverage ratios much higher than your 3.8%.

Why would that condition hold? I mean, the skeptic in me says at some point something has got to give and your capital ratios will have to trend up towards global norms. Why is that perception wrong?

Bharat Masrani – TD – Group President and CEO

Let me give it a shot and then perhaps ask Riaz to add. Peter, the capital has to have some relationship with the risk and the balance sheet we run in the markets in which we operate. If you look at TD's mix of businesses, I can talk more about TD, the type of businesses we do, the type of risks that we manage, and the markets in which we operate, and I think when I look at that, I find from TD's perspective very comfortable with the capital levels that we have.

Now, obviously, there are banks out there like you said globally that are much higher, but I think it is important to see their specific business models, the mix they have, the type of risk they are carrying and the volatility that they are experiencing and that probably explains some of those differences.

Now, is there a chance sometimes on the road that capital regimes would change? Yes, I think so, but I also feel that we are closer to the end rather than the beginning, and there seems to be more certainty around what those capital requirements are and, well, yeah, there might be a movement here or there, but I see that as a minor event and not as a major event. I don't know, Riaz, if you want to add anything to that.

Riaz Ahmed – TD – Group Head and CFO

No. That was spectacular.

Bharat Masrani – TD – Group President and CEO

All right. Good, man. Good.

Riaz Ahmed – TD – Group Head and CFO

Thanks for that.

Peter Routledge – National Bank Financial – Analyst

Okay. Thank you very much.

Operator.

And our last question comes from Sohrab Movahedi from BMO Capital Markets. Please go ahead.

Sohrab Movahedi – BMO Capital Markets – Analyst

Look at that. I re-queued and it got back to me. Questions, I just wanted to clarify. Teri, when you had the Investor Day, you talked about medium-term growth of plus 7%. Did you just say 5%, or did you say 7% to an earlier question?

Teri Currie – TD – Group Head, Canadian Personal Banking

No. What I just said was I agreed to 5% plus.

Sohrab Movahedi – BMO Capital Markets – Analyst

But at the Investor Day, you said 7% plus.

Teri Currie – TD – Group Head, Canadian Personal Banking

We haven't changed our prior guidance...

Riaz Ahmed – TD – Group Head and CFO

Also for Wealth and Insurance.

Teri Currie – TD – Group Head, Canadian Personal Banking

...for wealth and insurance as well, right. That's a Canadian Retail number.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. Okay. Thank you.

Operator

Thank you. And at this time, I would like to turn the conference call back to Mr. Bharat Masrani for closing remarks.

Bharat Masrani – TD – Group President and CEO

Thank you, operator, and thanks, everyone, for joining us. I know it's been a tough day for you folks because three banks have announced, and I assume that means a lot of work in one day. So, really appreciate you taking the time and great engagement with the questions that I heard.

I will just say, once again, pleased with our numbers. We continue to deliver growth. We are a growth company. And I'd like to take this opportunity to thank my colleagues around the world, 80,000 strong, who delivered for the shareholders once again. So, thanks for that, and we will see you in the next 90 days. Thank you.