TD Bank Financial Group
Investor Relations

Q2 2006 EARNINGS CONFERENCE CALL
THURSDAY MAY 25, 2006

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PRESENTATION

Colleen Johnston *- Toronto Dominion Bank - CFO*

Welcome to TD Bank Financial Group's second-quarter 2006 investor presentation. My name is Colleen Johnston and I'm the CFO of the Bank.

With us today is Ed Clark, the Bank's CEO, who will give an overview of the quarter. Following Ed's remarks, I will cover our operating performance in more depth. After my presentation, we will entertain questions from those present as well as pre-qualified analysts and investors on the phones. Also present today to answer your questions are Bob Dorrance, Chairman and CEO of TD Securities; Tim Hockey and Bernie Dorval, Co-Chairs of TD Canada Trust; Bill Hatanaka, Chairman and CEO of TD Waterhouse; Bharat Masrani, Chief Risk Officer; and Bill Ryan, Chairman and CEO of TD Banknorth.

I know that this presentation contains forward-looking statements and actual results could differ materially from what is discussed. Certain material factors or assumptions were applied in making these statements. For additional information, we refer you to our press release and presentation material. These documents include a description of factors that could cause actual results to differ and can be found on our Web site at TD.com.

Over to Ed.

Ed Clark *- Toronto Dominion Bank - CEO*

Thanks, Colleen. Thank you all for joining us this afternoon.

Our exceptionally strong first quarter was a hard act to follow, but our second-quarter results did continue our business momentum, adding up to a strong first half of the year.

We've said all along that we're trying to consistently grow earnings per share by 7 to 10%. That's exactly what we're doing. We grew EPS 9% this quarter and 11% year-to-date.

Total adjusted earnings for the quarter are $780 million, up 16% from the second quarter last year.

We closed our acquisition of VFC, a leading provider of automotive purchase financing and consumer installment loans, we increased our investment in TD Ameritrade, and we increased our ownership position in the TD Banknorth. When we did all of that, we continued at the same time to strengthen our capital position, a great performance overall.

Colleen is going to take you through the numbers in detail, but let me share some of my thoughts about our performance highlights. First, let me start with the Canadian retail operations. That includes the personal and commercial bank and wealth management in Canada. We increased earnings in Canadian retail by 18% in the second quarter. Now, that's on top of having delivered earnings growth in the 15% to 18% range every year for the past three years. To put that in more graphic terms, this group has managed to approximately double our earnings in this area from the second quarter of 2002 to this quarter, this year. That's a remarkable achievement. I think that it speaks to having the right strategy, staying committed to that strategy, always focus on investing for the future, and then being sure that you are executing with excellence.

Within Canadian retail, TDCT had another strong performance with support across the board in personal banking and business banking. Earnings were up 16% compared to the second quarter last year, and we continue to see record customer satisfaction levels. I said earlier we closed the VFC deal. Early indications are that that business is trending positively. Originations are strong.

Overall, we are continuing to take advantage of the strong revenue growth to continue to invest in the future. We continue to believe that we will deliver double-digit earnings growth in this business throughout 2006.

Turning to Canadian Wealth Management, this was a record-breaking quarter for the business. Clearly, we're seeing the validation of our strategy as we continue to build our infrastructure. Earnings this quarter were $113 million, up 28% year-over-year. Now, a good portion of that growth came from record volumes and discount brokerage, partially offset by our new re-pricing strategy.

The second quarter also saw record net sales of mutual funds, and that now puts us in the category of the top five largest mutual fund portfolios in Canada. Plus, we are still investing in the business. We are on track to have 130 net new client-facing advisors added this year. We do not expect the second half of the year -- we do expect the second half of the year to be slightly slower, but assuming stable market conditions, we continue to expect that, overall, Wealth Management is going to have a very strong showing in 2006.

Turning to the wholesale bank, following an exceptionally strong first quarter, second-quarter results are down 15% from last year but are still strong -- $140 million. Taking a broader view, we are pleased with wholesale's performance in the first half of the year. Adjusted earnings are up 11% compared to the first half of last year. We continue to see very good return on invested capital.

Our underlying business results are actually stronger than the 11% earnings growth that I mentioned earlier. This is because we're winding down our global structured product businesses faster than we had anticipated. We're very pleased by that. But it also means that we have incurred wind-down expenses and trading losses faster than we had expected. But we are fine with that trade-off. We expect to be well through the exit of these businesses by the end of this year. Meanwhile, our strong ongoing business results have allowed us to absorb these exit costs and still produce overall good results.

Now, the wholesale business typically has a better first half of the year than the second half, so we do expect our underlying businesses to slow down. But given the strong start to the year, we expect to see 2006 results higher than 2005.

Lastly, let me turn to our operations in the United States. You know already about the underlying earnings of TD Banknorth and TD Ameritrade from their earnings calls, so let me focus on how we feel about their results. TD Banknorth continues to face a tough interest rate environment. But it is moving rapidly to adjust to that environment, and we are pleased with the quality of the earnings that TD Banknorth is now producing. It will take time for the current environment to change and for us to see significant growth in TD Banknorth's underlying earnings other than the rolling in of the positive impact of the Hudson acquisition. We remain committed to our U.S. strategy, which will prove itself out over the next few years.

The past few months are further examples of how we are growing the franchise. We launched our first ever U.S. advertising campaign in April. Millions of U.S. customers are about to get to know us a whole lot better. We've been fine-tuning our pricing strategies and hope to see deposit growth improve. We are also taking advantage of the opportunities the current U.S. environment is offering, opportunities like the Interchange Financial Services Corporation, which made us the fifth largest bank in affluent Bergen County, based on total deposits. We remain very positive about the Hudson United acquisition. Their conversion to TD Banknorth was successfully completed last weekend. We should start to see reductions in Hudson-related expenses later this year, excluding restructuring charges, offset somewhat by our aggressive marketing campaign.

When we decided on our U.S. strategy, we deliberately chose a two-pronged approach, and certainly the second prong, TD Ameritrade, has momentum on its side. They are doing very well indeed. Rising short-term interest rates, while negative for TD Banknorth, are continuing to have a positive effect on TD Ameritrade. Other metrics like trades per day and new assets are also quite positive. We're very pleased with TD Ameritrade's results and together with TD Banknorth, you'll see growing U.S. earnings from us. As of today, we've completed buying TD Ameritrade shares. Our total ownership stake in TD Ameritrade is now 39.5%. To do that, we've spent, on average, US$18.70 per share.

Finally, I would like to acknowledge that our earnings, while strong, fell a few cents shy of analysts' expectations. I'd like to make two comments about that. First, we're happy to continue to work with the analyst community to ensure that we've given you all of the information which is appropriate in doing your estimates. In particular, we recognize the complexity in translating TD Banknorth's and TD Ameritrade's results into earnings for TD, and we will try to solve these issues.

My second comment is to reiterate that TD's results are strong and consistent with our view that we are positioned to outperform. Particularly, we see our results in 2006 at the upper end of our 7 to 10% range, and we see a very strong 2007.

With that, I will turn things over to Colleen.

Colleen Johnston ***- Toronto Dominion Bank - CFO***

The first slide provides an overview of our operating performance this quarter. This presentation is somewhat different from what you see in our segmented results and is more in-line with how several of our peers report their numbers. We will start here and get into the individual segments during the presentation.

Adjusted earnings per share was $1.09 in the quarter, down from $1.15 in Q1 but up 9% from the same quarter last year. Adjusted net income was 780 million, up 16% from Q2 of '05.

Looking at the individual segments, our Canadian retail businesses were up 18% versus last year. Included in Canadian retail were the P&C bank, which had another strong quarter at 465 million, an increase of 16% from last year, and Canadian Wealth Management, which continued with its strong performance, generating income of 113 million, up 28%. Our U.S. retail businesses, which includes TD

Banknorth and our equity pickup for TD Ameritrade, contributed 98 million, well up over last year. Excluding corporate segment, our U.S. businesses contributed 12% of earnings in the quarter, up from 4% last year.

TD Banknorth, our U.S. P&C bank, contributed 59 million of net income and was substantially higher than year as Q2 '05 included only one month of results.

TD Ameritrade, our U.S. wealth management business, delivered net income of 39 million for just over two months, an excellent performance driven by impressive operating margins.

The wholesale bank generated net income of 140 million, down from 165 in the prior year, due to lower trading revenue.

The corporate segment was a loss of 36 million this quarter, which was in line with our expected results. The change over the prior quarter is attributable primarily to noncore profitability, which was down 16 million, and lower securitization gains, which was down 10 million.

Versus Q1 of '06, EPS declined due mainly to lower wholesale and the negative impact from the shorter quarter, which was roughly $0.04 EPS.

Our Tier 1 capital ratio remains strong and 12.1%, a 20 basis point increase from last quarter. The increase was driven primarily by higher retained earnings, partially offset by the impact of our higher investment in TD Banknorth and the acquisition of VFC. Tangible common equity of 9% remained well above our lower-level range of 7.5%.

As I noted last quarter, the large TD Ameritrade dilution gain has increased our shareholders equity and contributed our lower ROIC this quarter, which was 14.6%. Excluding the TD Ameritrade dilution gain, ROIC would've been 15.8%.

Turning to Slide 5, let's start with Q2 '06 earnings per share. Reported net income for the second quarter was 738 million or $1.01 per share. Adjusted net income, a non-GAAP measure which reflects management's view of the underlying results, was 780 million or $1.09 a share.

The difference between reported and adjusted net income is due to the following items of note. The first item is amortization of intangibles. The charge for the quarter was 86 million or $0.11 per share. This includes amortization from TD Ameritrade, Hudson, net of decreases in CT. The next item is a dilution gain on Ameritrade. We reported the gain from the sale of TD Waterhouse USA to Ameritrade as an item of note last quarter. During Q2, there was the normal course true-up of the final closing balance sheets, which resulted in the reduction in the previously reported gain of 5 million. Following this is accounting guideline 13; this is a recurring adjustment, which was 10 million or $0.01 per share. Next is the general allowance release. An assessment of our total general allowances relative to the size and risk of our portfolio resulted in a decrease in the allowance of 60 million pretax, 39 million after-tax, or $0.05 per share. Our last item is the Ameritrade timing impact. You will recall, last quarter, I noted TD's quarterly results will include TD Ameritrade's most recent public quarter, which ends one month before TD's. For Q2, this meant we only included results since deal close on January 25 to March 31. Including another 25 days of run-rate results would've increased net income by approximately 14 million or $0.02 per share. This will not repeat in future quarters. This translates into an adjusted EPS of $1.09 for the quarter, a solid quarter on both a reported basis and on an adjusted basis.

To better compare with the disclosure of peers, last quarter, we included a basic P&L for TD Canadian Retail, which combines both Canadian P&C and the Canadian Wealth results. Given the strong performance in both Canadian P&C and Wealth, it's not surprising that, on a combined basis, our Canadian retail business is doing very well, producing year-over-year net income growth of 18%. Our Canadian retail businesses have shown growth of 15 to 18% in the last three years, certainly ahead of the peer group. We believe our integrated retail model, which provides referrals between Wealth Management and Retail Banking, positions us as a key driver in the strong performance.

Turning to Canadian personal and commercial banking, TD Canada Trust, the Canadian P&C bank had another great quarter with net income of 465 million, up 16% from last year. The next slide shows your total revenue for Canadian P&C banking. Revenues were 1.8 billion, up 154 million or 10% from last year. This represented the highest percentage growth since Q1 of '05. And more good news -- the increase was broad-based. About half of the increase was generated from net interest income in real estate-secured lending, which had volume growth of 10% in Visa and from core and business banking deposits, while margins improved versus last year. Fee revenues were up 37 million as core banking, Visa and small-business all posted higher fee revenues.

The insurance business also recorded an 11 million increase in revenues due to continued unit growth, flat average premium levels, and stable loss ratios. The outlook for revenue continues to be strong for both personal and business banking products, as recent increases in interest rates continue to improve margins and fee growth will remain strong, reflecting customer account growth.

The next slide shows you the net interest margin for Canadian personal and commercial banking. As you can see, the net interest margin on average earning assets at 2.98% was up 3 basis points from last year but down 3 basis points from last quarter. The decline from Q1 was due to mix, as volume growth continued to shift towards lower-margin real estate-secured lending products. Higher net mortgage breakage costs also contributed to the quarterly decline. We expect margins to remain relatively firm going forward.

The next slide shows you the provision for credit losses. As you can see, losses remain at historically low levels. Provisions declined 13 million from last year to 78 million. The decrease was primarily related to net recoveries in the commercial bank of 8 million, compared with a PCL of 3 million last year. In terms of outlook, we expect personal PCL to remain relatively stable, in line with the average over recent quarters. Please note that the addition of VFC will add approximately 9 million of PCLs per quarter going forward. Small-business and commercial PCL will likely increase moderately, going forward, and will depend on the level of recoveries.

Turning to the next slide, expenses for Canadian personal and commercial banking, expenses of 994 million were up 69 million or 7% over last year, while our efficiency ratio improved 110 basis points to 56.1%. Higher salary and benefit costs reflecting merit increases and additional headcount, up 578 FTE from last year, net of back-office savings, led to approximately half of the increase. Continued investment in systems, branches and marketing also contributed to the increase. Consistent with what you saw last quarter, we are taking advantage of current rates of revenue growth to invest for the future. We expect the expense growth rate to remain comparable with the first half of 2006, reflecting investments in systems development and infrastructure and marketing efforts.

Personal deposit share continues to increase, up 7 basis points quarter-over-quarter and 21 basis points year-over-year. Personal loans were stable over the last three quarters. Over the past few quarters, we've transferred a sizable portfolio of business to ICBC. Excluding this, our share would show a slight upward trend since Q4 of '05.

There's good news in small-business banking, an area of significant focus for us, as market share continues to increase with share up 40 basis points since last quarter and 144 basis points since last year.

Let's turn to Canadian Wealth Management, which excludes TD Waterhouse and TD Ameritrade. Wealth-generated net income of 113 million, up 28% from last year, another excellent quarter.

This next slide shows you just the Canadian Wealth numbers for the last five quarters, both revenues and expenses. The revenue includes a breakdown of net interest income, transaction revenue, and fee income. Revenue of 522 million was up 77 million or 17% from last year. The increase was broad-based, as discount brokerage, the advice channels and mutual funds all posted strong, double-digit revenue growth. Discount brokerage revenue was up due to higher trades per day, as well as higher asset balances. Pricing changes, which came into effect on March 20, resulted in lower commissions per trade.

Strong asset growth as well as higher weighted average fees generated strong revenue growth for mutual funds, up 23%.

Investment advice revenues rose, primarily as a result of higher assets under administration, partly offset by lower new issue revenue. The asset growth was supported by our continued growth in investment advisors and financial planners, which are up 12% and 15% respectively, year-over-year. We have added 57 client-facing advises year-to-date and we're on tract to meet our full-year goal of plus 130.

The revenue-to-expense gap for Q2 was an impressive 6%. The key driver was discount brokerage.

Total expenses for the quarter were 349 million, up 34 million or 11% from last year. The increase was due to higher mutual fund commissions and fees related to continued AUM growth, as well as additional planners and advisors. Total expenses for discount brokerage were relatively flat, year-over-year.

This next slide shows you the market share numbers for mutual funds. This continues to be an impressive story. We've steadily gained share of both the bank and the industry markets. The gain in share for long-term funds since Q2 of '05 is 69 basis points for the bank market and 54 basis points versus the industry. This improvement continues to be a great story and a leading indicator of success in our Canadian Wealth Management business. These results clearly demonstrate the success of our integrated approach to managing our Canadian retail businesses, coupled with the superior performance of our funds. This partnership between both TD Canada Trust and TD Waterhouse is viewed as a competitive advantage.

As we did with the Canadian retail business to better compare with the disclosure [appears], we've included the combined earnings for our U.S. retail businesses, which combines both the results of TD Banknorth and TD Ameritrade. The year-over-year comparison is obscured as TD Banknorth included only one month of earnings in Q2 of '05. As mentioned previously, the equity pickup for TD Ameritrade was understated in the quarter due to the reporting lag. Sequentially, earnings were up 14% if the lag is excluded.

So, let's move onto the first component of U.S. retail, U.S. personal and commercial banking, TD Banknorth. The contribution from TD Banknorth for the quarter was 59 million, compared to 19 million last year, which as I stated included one month of results. Net income was down 6 million from last quarter. Last month, TD Banknorth reported adjusted cash net income for their first quarter of US$116 million; that was up from US$108 million in the prior quarter. Two months of Hudson added to income, but business as usual income was down about 10%. Banknorth's cash net operating earnings do not include restructuring charges, but those charges are included in our earnings. On an after-tax basis, restructuring costs and losses excluded from adjusted earnings were 13 million higher than the prior quarter. So, we have plus 8 million in cash net income, minus 13 million in higher restructuring costs and other losses, which is net down 5 million. Our share of this is about 3 million. In addition, FX cost us another 1 million, and other transferred pricing differences account for the remainder.

There's no question that the combination of the stronger Canadian dollar and higher restructuring costs have led to the downward trend you see in the graph since Q3 of '05. If we adjust for these items, the contribution of TD Banknorth would have been relatively constant over the last four quarters, reflecting the tougher operating environment in the U.S.

With another month of Hudson, plus lower restructuring charges, we expect our Q3 '06 contribution from TD Banknorth to rise by roughly 10 million. As TD Banknorth indicated on their first-quarter earnings call, Hudson expenses are expected to start declining at the end of their second quarter and be more fully realized in their third and fourth quarters. You'll see the impact of this in our Q4 and Q1 of '07.

You've seen a number of these metrics already but probably worth repeating. This slide lists the main highlights of the recent quarter for TD Banknorth. Margin was down 13 basis points quarter-over-quarter and year-over-year, mainly reflecting competitive deposit pricing. Credit quality remains very strong for TD Banknorth, and costs were well controlled. Organic loan growth was up 9%, which was similar to peer growth, while deposit volume was up 1% year-over-year, excluding Hudson, due to intense regional competition.

The Hudson acquisition is making some positive initial headway, and we've listed a few metrics which indicate this. These include increased average deposits per branch, increased account openings, increased home equity lending, and reduced turnover in the branches. The Hudson conversion took place last weekend, and we're pleased to report it went very smoothly.

Let's move onto U.S. Wealth Management, TD Ameritrade. We note the Q2 results reflect the TD Ameritrade acquisition, while prior quarters represent previously reported TD Waterhouse USA results. TD Ameritrade adjusted net income totaled 39 million in the quarter. Our results include the operating earnings from the period January 25th to March 31 at our average ownership for the period of 32.9% with an overlay to conform to our view of adjusted earnings. In other words, that was 35 million of reported earnings, adding back the amortization of 7 and minus 3 in transfer pricing to bring you to 39. Based on current run rates, we expect the inclusion of a full quarter of Ameritrade to contribute approximately another 14 million of earnings. As Ed said, we have increased our ownership to 39.5% as of today.

Our Q3 contribution from TD Ameritrade will be roughly in line with the adjusted number for Q2. We will benefit from our higher average ownership at almost 37%, but earnings will be hurt by the translation impact of the stronger Canadian dollar. You should note that the average exchange for the calendar quarter ending March 31 -- we used the average exchange for the calendar quarter ending March 31 to translate our U.S. earnings. Given the stronger Canadian dollar in April and May, you'll see an impact in Q3.

This slide lists the main highlights of the recent TD Ameritrade quarter. TD Ameritrade reported operating earnings for their first quarter ending March 31 of US$124 million. This excludes the gain on investment in Knight Capital Group. This was the second-best quarter for EPS in the Firm's history. Operating margin was an impressive 50%. Mix is shifting towards less volatile asset-based revenue, which is now 50%, up from 39% last year. Recently published operating metrics for April are also positive. Trades per day, at 278,000, were up 9% versus March. Client assets increased 1% to US265.6 billion versus March. The number of qualified accounts increased to 3.3 million. And integration is progressing very well as TD Ameritrade reported at their investor day earlier this week.

Moving to Wholesale, the Wholesale bank generated net income of 140 million, down 25 million or 15% from last year. While down from Q2 and Q1 of '06, it's notable that, on a year-to-date basis, Wholesale earnings are up 11% versus last year.

Revenues of 534 million were down 69 million or 11% from a year ago. The domestic franchise businesses had a solid quarter with revenues up about 2% from the prior period -- prior year. Foreign exchange delivered very strong trading results, and institutional equities maintained its number one block trading ranking. Investment banking revenues were down due to lower market activity. Trading revenues were down, mainly in credit and equity products, partially offset by a very strong quarter in energy trading.

While we have no further disclosable items related to the restructuring of our businesses announced last year, it is costing us to get out of these businesses and we are accelerating our exit, as Ed mentioned. This was largely offset by the impact of higher securities gains this quarter.

Expenses of 321 million were down 22 million or 6% from last year. The decrease is due to lower variable compensation as a result of lower revenues and lower headcount as we exited employees in noncore businesses. Average FTE was down 99 versus Q2 of '05.

We don't normally talk about year-to-date earnings but in this case, it provides more insight on how the business is performing and why. Adjusted year-to-date earnings are up 11%, due entirely to growth in our domestic franchise businesses, in particular foreign exchange and fixed-income. Higher profits in our ongoing global drew business, driven by energy trading, were offset by higher losses in the structured products businesses that we are exiting.

At this point, we expect the Wholesale bank to finish ahead of their 2005 adjusted earnings level of 551 million. Higher merchant banking gains will be a key contributor based on current activity.

PCLs of 11 million are down from 13 last year. This largely reflects the cost of purchasing credit protection. As you can see, our VaR has remained relatively flat.

To summarize, it was a solid quarter. Adjusted net income of 780 million was up 16% from last year, and adjusted earnings per share of $1.09 was up 9%, at the higher end of our EPS growth target range of 7 to 10%. We are well on track to achieve our goal 7 to 10% earnings per share growth this year. In short, Canadian retail remains very strong. We expect to deliver double-digit growth in both Canadian personal and commercial banking, as well as Canadian wealth.

U.S. P&*C performance is in line with our expectations and consistent with the environment. Early signs are positive for Hudson, and the Interchange Financial acquisition will add to the TD Banknorth franchise early next year, a great start the TD Ameritrade. The landmark deal -- it was a landmark deal from both a strategic and financial perspective. Wholesale -- solid domestic franchise performance, which is right on strategy. Overall, we're pleased with the quarter.

With that, I will open it up for your questions.

QUESTION AND ANSWER

Ed Clark *- Toronto Dominion Bank - CEO*

(indiscernible) arm wrestle you guys for it. Michael?

Unidentified Audience Participant

I'm a little bit puzzled by your expenses this quarter. You took out in the U.S. Waterhouse operations, and I would've expected to see a bigger decrease in overall expenses than occurred. You know, I'm leaving aside incentive comp during the quarter. It seems seemed like other expenses were still relatively high. Can you explain what's going on?

Colleen Johnston *- Toronto Dominion Bank - CFO*

Yes. In terms of total expenses -- and I will get the exact details, Michael, but you're right. So it was hard to get the trendline because in fact the TD Waterhouse USA expenses came out of the base. That was roughly about 190 million. Having said that, we did have the two months of Hudson expenses, which added to expenses. And then we also had the higher restructuring costs in TD Banknorth. So in fact, when you put all of that together, we were down about 50 million in expenses versus the same quarter, versus Q1.

Ed Clark *- Toronto Dominion Bank - CEO*

Other questions? Should we go to the phone? Are there questions on the phone?

Operator

There are currently no questions on the phone. There is one question from Mario Mendonca, Genuity Capital Markets.

Mario Mendonca

Good afternoon. Normally, when you've provided guidance in the past of 7 to 10%, I never really got the impression that that was a current year guidance number, that that was more. I always got the feeling that you weren't really comfortable providing guidance over the shorter term. Although on this call, it sounds like you really are referring to this year, 2006. That's sort of the first thing I'm getting at.

The second thing I'm getting at in asking this question is your year-to-date EPS growth is about 11%. The second half of the year, as you describe for us, Ameritrade kicks in; you get the full sort of benefit of Ameritrade. You get the cost synergies coming through on the Hudson integration. It's just a little surprising to hear you suggest that your EPS growth would be at the top end of that 7 to 10 range and not something well above it. Is there anything you can help me with in that regard?

Ed Clark ***- Toronto Dominion Bank - CEO***

Yes, I think I can try to. So, on the first, I think you are correct on the first, and probably as you know (indiscernible) I don't want to get into the guidance game; I hate the guidance game. So I'm probably feeling just a little badly in the sense that we look at this quarter and frankly, from a business operator point of view, this was a great quarter. Everything is working exactly the way we want. So there are no negative surprises. This is about as good as it gets. So, the fact that the market is slightly disappointed at it, even though we did, as you say, 11% year-to-date, 9% this quarter, up 16% overall growth -- every metric you want to take (indiscernible). From an operating point of view, things are coming in pretty well. Then you sort of say, okay, so we maybe have to give a little more hints here as to what's going on. So, I think we're trying to just do that for this year, because I think we are sensitive to -- there's a lot of moving parts in us right now with the roll-in of these two U.S. subsidiaries.

The things that -- as you look forward to the second half of the year, to give you the positive and the negatives, as Colleen said, if you take U.S. start with the U.S. subsidiaries, what we're saying on TD Ameritrade is if you adjust for the 14 million that got lost in this quarter because we dropped it, so it was the $53 million, that's not a bad running rate for TD Ameritrade because some of the pluses are also being offset by exchange rates. So depending on your view of exchange rate, we are being hit on the exchange rate and because of the lag effect. I think what we're trying to make clear to you is that there is more of an exchange rate effect than you might think because again -- because of the lag effect. So we're saying that's a fairly flat number.

In the case of Banknorth, what we've said is 59 is not an underlying rate. We chose not to treat the restructuring charges as items of note. If you put them back in and we (indiscernible) restructuring charges, there will still be restructuring charges in the next couple of quarters but they will come down. So we've said add another 10 million or so to the 59 and you've probably got not a bad number to use for Banknorth. So one is flat; one is up slightly.

In terms of the Wealth Management side, who knows, to be perfectly honest. I mean, it is heavily dependent on what happens to the overall discount brokerage business; that's obviously a key driver. So what we're saying is, you know, you would expect some slowdown here in the second half not to be quite a strong. So you might see some slowdown in that number and not see the kind of repeat of the 113 million number that we saw this quarter.

In terms of TDCT, clearly I think you'll see increases in the second half because you've got an important days effect in this quarter, so there will be some positive there. Then we come to TD Securities, where historically, if you go back, there's quite a bit of difference between what the second half looks. And so, there are the issues -- you know, how much of that and are we going to see that repeat in that pattern. So, I think, all in, what we're saying is we did 11.5% we're going to do 11% in the first half, and we're going to do 11% in the second half -- not sure -- but we surely should be in the upper end of the 7 to 10% range.

Mario Mendonca

That was helpful. I think, from my perspective, I was looking at the second half as perhaps being stronger. But I understand that there are all of those moving parts, not the least of which is currency that may have -- well may cause me to rethink that.

I was intrigued, though, by your first comment, that you felt it important to provide a better hint than -- can I take that to mean that you look at consensus and figure you had to help us down a little?

Ed Clark ***- Toronto Dominion Bank - CEO***

No, I don't want to get into that game. I just, you know, as you know, I have a strong view. (LAUGHTER). My view on this is my job is to run the Company, make it worth more every year, and tell you every fact about the Company that I can tell you without impacting our competitive edge against our competitors. Then your job is to go figure out whether you want to invest and whether we are overvalued or undervalued, and your job is to try to educate the population on what's going on.

The only time I get bothered is if, as I say, if it gets complicated, so when we are translating TD Banknorth into TD Bank or TD Ameritrade into TD Bank, where it's impossible for you to figure that out and I see you going wrong, then I think, well, am I being as transparent as I ought to be, given I have an obligation to the marketplace to try to be transparent? But you know, I don't know what's going to happen to interest rates, or I don't know what's going to happen to activity rates and the discount brokerage, and I don't want to get into the business of trying to predict those numbers. So that's all I'm trying to do, is to make sure that I've given you the appropriate information that I can give you.

Mario Mendonca

That's helpful. Thank you.

Ed Clark ***- Toronto Dominion Bank - CEO***

We'll stay on the phone for couple of more minutes and then --

Operator

James Sorbo, AGF Funds.

James Sorbo ***- AGF Funds - Analyst***

Good afternoon. I'm looking at Page 8 of the supplemental. In the Wholesale Banking segment, I just need to understand why it is that the net interest income bounces around a bit. For instance, in the second quarter here, it's 76 million; last year, it was up to 300 million. What causes that to move around so much?

Colleen Johnston *- Toronto Dominion Bank - CFO*

(inaudible)

Ed Clark *- Toronto Dominion Bank - CEO*

(inaudible)

Colleen Johnston *- Toronto Dominion Bank - CFO*

It is Colleen Johnston. What we have is a swing really between net interest income and trading -- or other income, and that is really somewhat accounting-driven. The key driver behind all of this is higher short-term interest rates. You know, Canadian -- if you look at short-term rates in Canada, Q2 this year versus the same quarter last year of about 100 basis points and up 180 basis points in the U.S. So that is the key driver. If you look at sort of the way our products are structured, it means that we have more income in other income and less in net interest income. If you'd like, I can give you a specific example.

James Sorbo *- AGF Funds - Analyst*

One little example might be helpful.

Colleen Johnston *- Toronto Dominion Bank - CFO*

Okay, if you look the way we account for let's say a total return swap, so we have our position, which we fund with short-term rates, but the income on that is relatively stable; it doesn't move. So we actually get squeezed in terms of the net interest income, but on the other side of the swap, we pick it up in other income. So, in terms of the economics, that remains constant but it's just a question of how do we categorize the income between net interest income and other income.

James Sorbo *- AGF Funds - Analyst*

Okay, so I should really look at total revenue in this particular segment as opposed to getting too worried about the trading versus net interest income?

Colleen Johnston *- Toronto Dominion Bank - CFO*

Yes, that's absolutely right. It's difficult to look at either line on a trend basis, but I would look at them on the combined basis. I don't know if, Bob, you want to add anything.

Bob Dorrance *- Toronto Dominion Bank - Chairman, CEO of TD Securities*

I agree with that.

Colleen Johnston *- Toronto Dominion Bank - CFO*

Thank you!

James Sorbo *- AGF Funds - Analyst*

Very good. Thanks very much.

Ed Clark *- Toronto Dominion Bank - CEO*

See how together a team we are. If we disagree, we just keep that quiet! Okay, Michael?

Unidentified Audience Participant

My question is about the residual segment, and maybe you can help me out here. I'm a little bit puzzled as to what's going on. You know, when I adjust for the reversal of the general allowance this quarter, you are down to a negative contribution of roughly $75 million there, where previously it was running more pr less near breakeven, plus or minus. So what's happening there, you know, that's magnifying that?

Colleen Johnston *- Toronto Dominion Bank - CFO*

Yes, I think the best way to look at the corporate segment, Michael, is on an adjusted basis and on an -- (multiple speakers).

Unidentified Audience Participant

I'm looking at it on an adjusted basis!

Colleen Johnston *- Toronto Dominion Bank - CFO*

Yes, so on an adjusted basis, it was a minus 36. That compares with a minus 12 last year, and we've disclosed most of the reasons for that swing. One was in the noncore portfolio; that was a negative swing of 16, and securitization gains/losses, that was also, that was a minus 10. That really accounts for most of the change. Then you have some other and the corporate support applications. But those two items I named previously are the key reason for the change.

Unidentified Audience Participant

Okay. I have one other question. You know, you did have the reversal of the general allowance this quarter. I am just wondering if you could give us some of your thinking in that release of the $60 million of reserve.

Ed Clark *- Toronto Dominion Bank - CEO*

Maybe Bharat, do you want to do that?

Bharat Masrani *- Toronto Dominion Bank - Chief Risk Officer*

Yes, certainly. General allowance, as you know, Michael, is driven by the credit side of the Bank. We use various models to look at the migration of our portfolio, to look at factors such as probability of default, usage given default, loss given default. All of those parameters are being adjusted as we move into the [Basel] world. This model reflects what we would consider to be the appropriate methodology.

Given the reduction we have had in the noncore bank, you know, the noncore bank, although a separate segment, is part of the overall bank and the GAs accounted for it. So we've had a substantial reduction in noncore outstandings, and that is being reflected in the modeling that we've done as to how much GAs we need to hold. Hence, the model suggested that we should release and that's what we've done this quarter.

Unidentified Audience Participant

Okay. You know, without getting into the technicalities, I guess, you've still got a huge surplus of allowance over your gross impaired loans. I think about $940 million. Is there room to release further general reserves? You know, or another way of looking at this, the amount of reserves that released -- that you've released took you down to the level of general reserves that you could actually use in your capital. Is that a relevant metric also?

Bharat Masrani ***- Toronto Dominion Bank - Chief Risk Officer***

I think the amount of general reserves, there are methodologies here. I don't think you can consistently look at comparing those methodologies. There are a lot of moving parts here. Those methodologies are adjusted as we move into the Basel world. There is more looking at our own historical experiences, and the amount of surplus, as you call it, compared to our impaired loans, although you know (indiscernible) on the higher side but it's consistent with previous quarters. As we move more towards the methodology that is acceptable under Basel, I think you'll see a better reflection of how those numbers are moving in relation to the overall outstandings in the Bank.

Ed Clark ***- Toronto Dominion Bank - CEO***

Ian?

Unidentified Audience Participant

Ed, one of the things that is quite striking on the TD Bank versus the two other banks that have reported is the approach to capital management. We've got two banks, two other banks that seem to say that anything over 9% Tier 1 is [lots] and that money should be returned to shareholders either through dividends or share buybacks. In the case of the TD Bank, we've got your dividends, but you've got actual net issuance of shares, so that your actual share count I think has increased every quarter for seven quarters now. Is there any thinking that 12% -- granted that you've got your unique element of these minority interest positions which limit how much you can really take the Tier 1 down. Is there some sense of 12% really is too much, and we are funding Banknorth; we are funding the Ameritrade, but at some stage too much is too much and we need to get the share count down, stop the dilution on the DRIP and return more money to shareholders?

Ed Clark ***- Toronto Dominion Bank - CEO***

Well, to address the larger issue before I address the specific issue, you know, I think different banks are clearly running different overall broad strategies, and so we acknowledge that we may be an outlier in the

Canadian banking scene because we actually believe, with our U.S. expansion, we have a way of productively redeploying our capital and then some. So I think both TD Ameritrade and TD Banknorth continue to have opportunities that are in that space. We believe that if you're going to go in the United States, you don't kind of just tentatively go in the United States; you go in and try to find islands that you can occupy where you can have sustainable competitive positions. Therefore, once you decide to do that, that you have to make yourself in a position that if an Interchange comes up, as an example, you don't say "Sorry, I don't have capital." You say, "Interchange comes up, grab it!" Be aggressive, because we believe that the window of opportunity in the United States is actually fairly short, and in fact, I think, if we had a change in our view when we started this a couple of years ago, as it's now clear that in a sense the very conditions that are making it tough for Banknorth are throwing up more opportunities. So you really do have to decide whether you want to play in this space or not. So I think, from our point of view, it is prudent to keep capital ready so that we can support our true partners in the United States. You know, it doesn't end. If we find things in Canada, which we obviously did with VFC, then we would do that as well.

I think that we have a strong demand from our shareholders. They like the dividend reinvestment program. We recognize that it is a DRIP; it's a constant drip of share issuance. On the other hand, I think it has put us in the position that we can continue to move.

Obviously, there will come a point in the maturation of our strategies in the U.S. where think you may end up changing strategies and at that point, yes, we would do that, but I don't think that point is today.

I guess maybe just to make one other comment -- but clearly, that compels us to grow earnings a little bit faster in order to take up those shares. So far, we've more than successfully done that. Why don't we go to the phone?

Operator

Rob Wessel, National Bank Financial.

Rob Wessel *- National Bank Financial - Analyst*

Good afternoon. Hopefully a couple quick ones -- going to the investor presentation, Slide 26, if you look at the credit protection, it has come down a little bit from 13 billion to 12 billion to 11 billion over the past two quarters. Is there a trend here with respect to the Bank? Is the Bank gradually bring this number down? Should we expect to see, in future quarters, that it fall to 10 and 9 and 8, or is it this, as some of the commentary referred to in the press release, more to do with rebalancing and currency?

Ed Clark *- Toronto Dominion Bank - CEO*

So I've told Bob, Rob, that when this finally gets to 0, you'll know that the credit cycle is about to turn!

Rob Wessel *- National Bank Financial - Analyst*

So Bob, is it about to turn?

Bob Dorrance *- Toronto Dominion Bank - Chairman, CEO of TD Securities*

No, there's (indiscernible)

Rob Wessel *- National Bank Financial - Analyst*

I'm sorry?

Bob Dorrance *- Toronto Dominion Bank - Chairman, CEO of TD Securities*

There's no intention to have that line sort of drip down in that fashion. It is as the press release --

Rob Wessel *- National Bank Financial - Analyst*

So we should expect that it stay in and around 11 billion, 10 billion, 12 billion, something like that?

Bob Dorrance *- Toronto Dominion Bank - Chairman, CEO of TD Securities*

That's the expectation.

Rob Wessel *- National Bank Financial - Analyst*

Okay. Just with respect to the press release, there's a note. I can't remember what page it is; it's Page 14. Anyways, there's a sentence in the U.S. personal and commercial banking commentary saying investments in -- related to Hudson United -- saying investment in infrastructure and increased marketing in the Hudson region will partially offset the cost savings expected post-conversion. I guess my question is, is that something that was initially envisioned -- that was initially envisioned when the accretions were set out to the market, or is this something we should see as a minor variable eating into the forecast accretions that had been given in previous presentations?

Bill Ryan *- Toronto Dominion Bank - CEO TD Banknorth*

Rob, this is Bill Ryan. That was built into the numbers that we talked to you when we announced that acquisition. We said there would be about 15 to $17 million, that we would have to reinvest in the company to get its market share increase. So there's no change in that number; that's exactly what we had predicted several months ago.

Rob Wessel *- National Bank Financial - Analyst*

Right. Then the last question I have relates to supplemental on Page 12, the noninterest expense schedule. With respect to Line 14, marketing and business development, can you give us some sense as to where this might move to? Is this going to move in any material way, given the large marketing campaign that's about to be undertaken in the U.S.? I mean, is this going to go to, like, 150? Is this going to go to 120 or is it going to be spread out over such a long period of time we won't notice? How is that going to play out?

Ed Clark *- Toronto Dominion Bank - CEO*

I don't think they would let me spend that amount of money. But anyway, Colleen?

Colleen Johnston *- Toronto Dominion Bank - CFO*

Rob, I don't have a firm number for you, but I think it's realistic to think it will increase as TD Banknorth increases some of their advertising expenses in the next quarter.

Ed Clark *- Toronto Dominion Bank - CEO*

But I don't think we're talking about astronomically.

Colleen Johnston *- Toronto Dominion Bank - CFO*

No, we're not.

Rob Wessel *- National Bank Financial - Analyst*

Okay, fair enough. Then with respect to some of the following expenses or hoped-for following expenses for the U.S. P&C banking segment, with respect to the schedule in particular, is there any areas we can point to where you will say, you know, yes, I think that professional and advisory services and communications and whatever else is going to fall meaningfully, and that's going to help drive some of the accretions, or it's going to come from occupancy, or is there anything in the schedule you can point to that we should look for material changes from the current quarter's numbers?

Bill Ryan *- Toronto Dominion Bank - CEO TD Banknorth*

Bill Ryan again, Rob. I think, when you look at that, you'll see, in the second quarter, more of it, certainly most of it in the third and fourth. It's all going to come from three or four categories. The operations centers in New Jersey will be closing and moving to Lewiston, Maine, which is a much cheaper place to do business from an operation standpoint. There will be people counts of certainly in the hundreds that will be going away. Some of it will be marketing-related, but all of it will be administrative or operational in nature. The bulk of that -- some of it will be out in the second quarter, a lot of it in the third and by the end of the fourth quarter, we plan on meeting our 25% cost savings for the expenses the Hudson United had as we announced the acquisition.

Rob Wessel *- National Bank Financial - Analyst*

Okay, great. Ed, I know you really don't like providing guidance so I thought I would ask for some. If you go to the supplemental on Page 1, the equity pick-up in net income of the associated company this quarter was 35. You know, I know there was the investor day and the Company has given some guides. But if I look at that 35 million, where should I -- you know, in light of giving us more information for a complex company like TD, where do you see that moving to over the next sort of four or five -- like if you were to say to yourself and then to say us how you see that evolving that would make you happy, how would that go? Does this go to, say, 50, 75, 100 million? Like, are you hoping, in your mind, to get it to 100 million by, say, I don't know, you know, the end of next year or something like that?

Ed Clark *- Toronto Dominion Bank - CEO*

Well, in this particular case, we've actually gone and given you guidance, so when we did the original deal, Joe did a schedule out to 2008. We translate that schedule, what that means for us and we don't see a material change in those numbers from what we've already given guidance on.

Rob Wessel ***- National Bank Financial - Analyst***

Okay, fair enough. We are all familiar with the actual numbers that you've given as guidance. I was just saying if you had an aspiration.

Ed Clark ***- Toronto Dominion Bank - CEO***

Well, I have an aspiration to do what I said I was going to do, so I would be happy if -- you know, the number basically involves a tripling of our earnings over a two-year period. That's not bad. I can live with that. It may be below expectations but it will still be a good year for me.

Rob Wessel ***- National Bank Financial - Analyst***

Fair enough. Thanks.

Operator

James Keating, RBC Capital Markets.

James Keating ***- RBC Capital Markets - Analyst***

Hello, all. I've got a couple of specifics. I'd like to follow up with Colleen's commentary about expense growth. I don't know if Tim is in the room but I wanted to talk a bit about the P&C side in Canada. I guess 6 or 7% expense growth year-on-year caught me a little bit. I think it's got to do with branches, as Colleen mentioned, and other costs. I wonder if you could talk a little bit about how this plays out. Do we have some discretion around this number I guess is the key issue? If revenue kind of levels off, have you been able to squirrel a bit away? I just wonder how you are managing the expense line.

Tim Hockey ***- Toronto Dominion Bank - Co-Chair of TD Canada Trust***

Okay, you don't squirrel it away, but it is -- I think you hit the key point. We think of this a couple of ways. We talk a lot about our revenue and expense gap, and so the way to think about our expense growth is the expenses that we've actually spent already to drive the revenue growth that you are now seeing at upwards of 10%, and then inside that number, there's also the expenses we are spending now to drive next year's and next quarter's revenue growth. So there's those two elements. So if you call that squirreling it away, we do see there as being opportunities to actually reduce our expense rate if revenue falls off. But remember, our paradigm is pretty clear. It's generating double-digit earnings growth in the long-term, so we were able to do that [handling] this year and we're quite comfortable that we can spend a little bit more inside that earnings growth to make sure we do it next year as well.

James Keating ***- RBC Capital Markets - Analyst***

Tim, can you just remind me your branch opening sort of recent history and aspirations?

Tim Hockey ***- Toronto Dominion Bank - Co-Chair of TD Canada Trust***

Yes. So last year, we talked about the fact that we opened up 21 new branches, and that was pretty much equal to everybody else in the big bank category combined. We are continuing along that trend. Year-over-year, we are up I guess 22 branches over the second quarter of last year. We actually hope to accelerate that pace a little bit.

James Keating ***- RBC Capital Markets - Analyst***

Great. One last question, probably back to Colleen if I may? Although I guess it was Ed who mentioned it, the merchant banking as being a potential [toggle] on the profit in the wholesale business and I looked scanning the underlying securities gains; you've held up a pretty good number there. Are there any scheduled gains coming your way in the second half -- I don't know, from funds or anything -- maybe for Bob?

Tim Hockey ***- Toronto Dominion Bank - Co-Chair of TD Canada Trust***

Bob, do you want to talk about --?

Bob Dorrance ***- Toronto Dominion Bank - Chairman, CEO of TD Securities***

Sure. Most of the securities gains in the first half have been primarily from our head office portfolio, and there's been very little in the merchant bank in those numbers.

In the second half, there's the possibility -- there are -- there's one transaction that's been publicly identified where TD Capital is an investor in and the Company has announced a sale, purchase and sale agreement signed but not closed. So, if you want to call that identified, it's not yet closed, so we are obviously hesitant to say that it's actually going to happen in the second half. But it has a strong likelihood and just I think what you're starting to see in the merchant banking space is very strong demand for assets. We have a potential -- a number of potential sales in the second half if the climate holds up.

James Keating ***- RBC Capital Markets - Analyst***

Bob, what -- (technical difficulty) -- roughly the book value, if you will, of your merchant banking portfolio? Is that deal you just referred to -- is it marked at all in that 656 that we see in the quarter?

Bob Dorrance ***- Toronto Dominion Bank - Chairman, CEO of TD Securities***

There's a marking on it that reflects what we thought the value would have been relative to -- relative to where we thought the value was is the value is potentially coming in higher than that. Book value of merchant banking assets is somewhere in the order of 1.4 billion, 1.5 billion, I think.

We are particularly looking to exit our merchant banking in the U.S. There are a number of residual positions there that are -- that we're managing out of in the TD Communications portfolio. So we have an exit strategy there and that's starting to coincide with the good market for exiting.

James Keating ***- RBC Capital Markets - Analyst***

Thanks very much, Bob. Good hints on that one. At the risk of being wrong here, can we have any commentary on Enron or is that too difficult a subject still?

Ed Clark *- Toronto Dominion Bank - CEO*

We have no comment.

James Keating *- RBC Capital Markets - Analyst*

Cheers. Thanks, Ed.

Ed Clark *- Toronto Dominion Bank - CEO*

I'm always willing to be helpful!
One more call on the phone and then we will come back to the floor.

Darko Mihelic *- CIBC World Markets - Analyst*

My question regarding -- is in regards to trading revenues. Ed, you mentioned that you absorbed some losses trading. Would that be a large impact this quarter against the 250 some-odd million in revenues we saw?

Ed Clark *- Toronto Dominion Bank - CEO*

Rob?

Bob Dorrance *- Toronto Dominion Bank - Chairman, CEO of TD Securities*

Well, I think it's meaningful in a sense of mentioning it. I mean, there's obviously a fair amount of volatility that exists in that line. Last quarter, as we said, it was -- the trading related revenue we had last quarter was clearly not sustainable. The 250 in total that we have this quarter is probably just somewhat light, relative to an actual exit strategy in one part of the business. So we did better in other parts of the business. And as we exit the structured area and especially when we had the opportunity to exit more quickly than we were planning to exit, we thought that was a prudent thing to do and absorb some losses.

Darko Mihelic *- CIBC World Markets - Analyst*

So just so I understand this, on a go-forward basis, the exit is entirely discretionary. In other words, there is nothing that could really come across and hurt you from a market perspective and you basically have control over how and when you exit?

Bob Dorrance *- Toronto Dominion Bank - Chairman, CEO of TD Securities*

No, no. I shouldn't say that. I mean, as we exit the portfolio, we are still vulnerable to the risks that we don't exit at the prices that we have the book marked that, you know, because there is market risk, model risk in the structured product areas.

Now, the portfolio that we're now talking about is our interest rate structured product portfolio, and as we -- you know, we have a process and a team around doing that exit. We -- I think I've said previously that we would like to -- the plan was getting out over two years. Markets are such currently that, in terms of doing our options, we are able to exit more rapidly, and we see that as an appropriate thing to do. I think Ed mentioned, in his comments, that we are accelerating that exit. There's a number of different ways how you measure what risk is left in there. I think we are probably roughly 50% of the way through the process currently, relative to the an expectation that we would take two years to do it.

So as a function of that, what you see is we are appropriately reserving or keeping our reserves prudently and appropriately. We are absorbing some ongoing expenses from an operational perspective. So, I think you are seeing, this quarter, the trading revenue was a little light because of that. I'm not saying that that won't continue to happen. It will end when we exit entirely.

Darko Mihelik ***- CIBC World Markets - Analyst***

Okay, great. Thanks very much.

Ed Clark ***- Toronto Dominion Bank - CEO***

Back to the floor, Michael?

Unidentified Audience Participant

Okay. Ed, I was interested in your comment about the short window of opportunity in the United States. What in your mind would define the closing of that short window of opportunity, so you know --?

Ed Clark ***- Toronto Dominion Bank - CEO***

Well, I think, if you look at the United States the way we did is that you take a set of regions and you decide which region do you want to try and go in and have a position? You know, people have different views on it. But let's say the top five in the key MSAs in which you want to occupy, so each of those regions you can see in many players are left that are still going to be available to be consolidated. So to us, you know, we've obviously, with Bill, chosen the northeastern United States is the part that we're growing; we know the counties, the areas that we're trying to go to. The reality is that when people talk about 8000 banks in the United States, there are not 8000 targets that would get you a sustainable market position in the northeastern United States. So it's when those targets disappear, from my point of view, what it does is then force you to step up quite dramatically the size of acquisition you would have to make to go into the United States and dramatically increases the risk of any U.S. strategy because you've got to go for broke on a megadeal in order to go into the United States. That's why we think our strategy is actually the more conservative, prudent strategy -- is to take advantage of this window and buy in size that you can afford to digest what you have been acquired.

Unidentified Audience Participant

Thanks.

Ed Clark ***- Toronto Dominion Bank - CEO***

I think there are no more questions, then thank you very much for your attendance.