TD BANK GROUP
Q4 2014 EARNINGS CONFERENCE CALL
DECEMBER 4, 2014

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

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PRESENTATION

Rudy Sankovic – TD – SVP, Investor Relations

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

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

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

Please turn to slide two. At this time, I'd like to caution our listeners that this presentation contains forward-looking statements. There are risks that actual results could differ materially from what is discussed and that certain material factors or assumptions were applied in making these forward-looking statements.

Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes.

I'd 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 available in our Q4 2014 report to shareholders.

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

Bharat Masrani – TD – Group President and CEO

Thank you, Rudy, and welcome, everyone. Thank you for joining us this afternoon. Colleen will be up shortly to discuss our fourth quarter results in detail, but let me start by sharing my thoughts on the quarter and the year as a whole.

Our fourth quarter was a solid quarter for TD. Earnings and EPS were up 3% year-over-year to $1.9 billion and $0.98 respectively. While the headline numbers appear to be a bit soft, the shortfall was due to several factors which Colleen will discuss.

Looking beyond these items, the fundamentals of our business remain strong. With healthy loan and deposit volumes, good growth in fee income, and lower credit losses, offset by higher enterprise expenses and the margin pressure we signaled last quarter.

Turning to the full year 2014, I'm very pleased with our performance. Total bank earnings exceeded $8 billion, up 8% from a year ago, after adding back the Insurance charge we took in 2013. And EPS rose 8% on the same basis, to $4.27. Our Basel III capital position ended the year at a healthy 9.4%. And we delivered a 14% increase in dividends paid per share, as well as a 20% total shareholder return for the fiscal year.

These strong results were driven by great execution in all of our businesses.

Canadian Retail performed very well in 2014, with earnings up 8% after adding back last year's Insurance charge. In our Personal and Commercial Banking business, loan and deposit volumes were strong, and credit quality was excellent. Our Wealth business has had a banner year, with direct investing maintaining its industry leadership position, and advice and asset management businesses achieving record levels of long-term fund sales and assets under management. Insurance continued its recovery from a tough year in 2013. And we achieved the number one ranking in credit card market share with the acquisition of exclusive Aeroplan Visa mass marketing rights and half of the Aeroplan Visa portfolio.

I'm equally proud of the recognition we received for continuing to deliver legendary customer experiences from industry providers like J.D. Power and Ipsos, as well as customers in the broader public through their overwhelming response to our #TDThanksYou and more recent, #MakeTodayMatter campaigns.

Our U.S. Retail bank also delivered good results in a challenging environment. U.S. Personal and Commercial Banking net income reached nearly US$1.7 billion in fiscal 2014, up 5% from the previous year, an impressive performance given continued pressure on loan margins, and US$234 million less in security gains relative to last year. These results were driven by strong loan and deposit growth, a continued contribution from Epoch and Target, significant declines in credit losses, and disciplined expense management.

Together with the strong year at TD Ameritrade, where earnings from our ownerships stake rose by 17%, this drove a 7% increase in net income in our U.S. Retail segment and a 14% increase in Canadian dollar terms reflecting the stronger U.S. dollar.

Our Wholesale bank turned in a great performance in 2014, with earnings up 25% and ROE at 18% for the year. Revenue growth was strong in our trading and origination businesses and TD Securities led some of the year's largest equity and debt transactions – including PrairieSky Royalty's $1.7 billion IPO, and the Nalcor Energy Muskrat Falls project, a bond placement that demonstrated our ability to leverage capabilities and partnerships across the entire bank.

On the expense front, total bank expenses, excluding variable compensation, acquisitions and FX, rose 3.7% in fiscal 2014. This growth included investments to position ourselves for future success including strengthening our digital capabilities, opening new stores and ensuring that we are equipped to meet significant new regulatory requirements. As we've often said, it's important that we make the investments necessary to keep TD strong today and in the future.

Let me now turn to the year ahead. We will continue to focus on organic growth, leveraging the investments we have made to expand our businesses and capabilities over the last decade. And we will keep looking for ways to deliver legendary customer experiences across all of our businesses, including digital channels. We have great opportunities to drive stronger growth by being true to these core attributes of our brand.

At the same time, we faced several headwinds. The operating environment remains difficult, with interest rates still low, a global recovery that is only gradually taking hold, and increased competition from traditional and non-traditional players.

In addition, credit and a strong U.S. dollar were tailwinds this year. We do not expect either to make the same contribution to earnings growth in 2015. Our effective tax rate is likely to rise. And expense pressures will persist, as we continue to invest in our technology platform, our distribution network, our regulatory infrastructure, and productivity initiatives. That's why I'm determined we will redouble our efforts to increase efficiency and streamline our cost base. This will be an important area of focus in 2015.

What does this mean for earnings growth? We continue to aspire to deliver 7% to 10% EPS growth over the medium term. In the current environment, it is difficult to see how we will get into that range next year, given the headwinds I've just outlined. But this should not obscure the strong fundamentals of our franchise businesses.

In Canadian Retail, personal loan and deposit volumes are accelerating. Business lending is strong, and TD Canada Trust has enhanced its product offerings to support this growth. Our Cards business is performing well. The fundamentals of our Insurance business continue to strengthen. And our Wealth franchise goes from strength to strength with direct investing platform that is on par with global players like TD Ameritrade, and in advice business that is partnering ever more closely with TDCT to drive new client relationships.

Our U.S. Retail franchise is well positioned to benefit from a stronger U.S. economy, one of the few OECD economies currently experiencing a genuine recovery. While low rates and intense competition persist, we continue to take share and outperform our peers. We're also evolving our distribution strategy, deepening customer relationships and improving our productivity. We will keep investing in all of these areas next year, including opening 23 new stores.

We expect continued good performance in our Wholesale business, though the recent drop in oil prices may affect our momentum in the energy space. We will build on the signature deals we led in Canada this year to strengthen our profile with clients, and extend our franchise model in the United States.

In closing, as I reflect on the year just ended and look ahead to my first full quarter as CEO of this great institution, I'm optimistic about the opportunities we have, and confident about our strong track record of executing on our goals. I want to thank you, members of my senior management team and our incredible colleagues here at TD – who now number over 85,000 – for your hard work, dedication and ability to rise to any challenge. I know that, together, we will achieve great things as we build an Even Better Bank.

Thank you very much. And now, I will pass it on to Colleen.

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

Thanks very much, Bharat, and good afternoon, everyone. Let me take you through our results. Before we review the fourth quarter in detail, let's start with a brief overview of 2014. For the full year, total adjusted net income was $8.1 billion, a new record, up 14% from 2013, and adjusted EPS of $4.27 was up 15%.

Our 2013 results included additional losses in our Insurance business related to claims resulting from severe weather-related events and increased general insurance claims. After adding back this impact, adjusted earnings and EPS grew 8% compared with last year.

Our Retail businesses had a great year, contributing 90% of total earnings. Canadian Retail grew 17%, or 8%, after adding back the insurance charges I just mentioned. This record performance was driven by good growth in loans, deposits and wealth assets, strong credit performance, positive operating leverage, and the addition of the widely recognized Aeroplan program.

U.S. Retail grew 14%, another new record, supported by good operating performance and currency translation. In a tough operating and regulatory environment, the fundamentals remained very good for our U.S. business. Strong loan and deposit growth, and excellent credit performance, helped the business earn through a significant decline in security gains. And we benefited from the acquisitions of the Target credit card portfolio and Epoch Investment Partners.

Wholesale banking delivered an impressive year with earnings growth of 25%. Very strong top line growth, lower PCL, and good expense management all contributed to a great year.

We finished the year with a CET1 ratio of 9.4%. Overall, we were very pleased with our 2014 performance.

Please turn to slide five. Turning to Q4, we delivered adjusted net income of $1.9 billion, and adjusted EPS of $0.98, both up 3% year-over-year. The quarter reflected good earnings contributions from our operating segments, partly offset by higher corporate segment loss.

Retail adjusted earnings of $1.9 billion were up 7% over last year, driven by good loan, and deposit growth on both sides of the border, as well as lower overall PCL and currency translation. Wholesale net income of $160 million was up 31% from a weak quarter last year. The Corporate segment posted a loss of $165 million. Overall, a solid result for the bank this quarter.

Please turn to slide six. This slide presents our reported and adjusted earnings this quarter with a difference due to two items of note, both of which you've seen before. I'd like to highlight that the MBNA conversion is now successfully completed, and we do not expect any further items of note related to the MBNA integration.

Please turn to slide seven. Canadian Retail delivered a good quarter, with adjusted net income of $1.4 billion, up 7% year-over-year. The increase was driven by good loan and deposit and wealth asset growth, and the addition of Aeroplan, partly offset by higher expenses. Loan and deposit growth was good this quarter. Total loan growth was 6% year-over-year, with real estate secured lending volume up by 4%, and business lending up a strong 10%.

Card growth was strong at 21% due mainly to the addition of Aeroplan, while auto lending volumes increased by 11%. Personal and business deposits increased by 4% due to strong growth in core savings and checking accounts, up 11%, partially offset by lower term deposit volume. Margin was down 6 basis points sequentially, in line with our guidance from last quarter, primarily due to the low rate environment, competitive pricing and seasonality. We expect margins to bump around, but remain relatively stable for the next few quarters depending on product mix, seasonality, the competitive environment and rate moves.

Credit performance continues to be favorable with PCL and personal banking up by $8 million from last year due to the addition of Aeroplan balances. Business banking PCL was up by $18 million driven mainly by higher prior year recoveries.

Adjusted expenses were up 8% year-over-year due to higher employee-related costs, including variable compensation mainly in wealth, volume growth, initiatives to grow the business, and the addition of Aeroplan. These increases were partially offset by productivity gains. We continue to disclose the Canadian Wealth and Insurance businesses, which are included in the Canadian Retail segment. The Wealth business made a strong contribution with 10% earnings growth. Assets under management grew $23 billion or 11%. The Insurance business had solid results, roughly in line with Q4 of last year. Overall, good performance for Canadian Retail.

Please turn to slide eight. U.S. Retail excluding TD Ameritrade had earnings of US$385 million, flat to Q4 of last year. Results for the quarter reflected strong organic growth, favorable credit, and good expense management, offset by margin compression and lower security gains. Revenue decreased by 2% year-over-year as volume growth was offset by lower gains on sales of securities and lower margins, driven mainly by lower accretion, and also heightened competition.

Average loans were up 8% year-over-year, with a 3% increase in personal loans and a 14% increase in business loans. Average deposits increased by 5%. Margin was down 11 basis points quarter-over-quarter, in line with our guidance from Q3, reflecting lower accretion, as well as some core compression due to heightened competition and mix. We are starting to see signs of margin stabilization from the Q4 level as competitive pressures are abating.

PCL decreased 29% due primarily to improvements in credit quality, particularly in auto loans and lower net charge-offs in business lending. Expenses were down versus last year. Permanent expense reductions were offset by higher employee costs to support business growth. Expenses related to Target revenue share declined versus last year. Earnings from our ownership stake in TD Ameritrade in U.S. dollars were up 5% year-over-year due to increased TD Ameritrade earnings, which rose 6% versus last year. All-in, a solid performance in the U.S.

Please turn to slide nine. Net income for Wholesale of $160 million was up by 31%, compared to a weak fourth quarter last year. The increase was due to lower expenses. Revenue was flat versus Q4 last year as higher equity and debt underwriting and M&A fees were offset by lower trading-related revenues. During Q4, we implemented a funding valuation adjustment related to non-collateralized derivatives which amounted to $65 million pre-tax. The introduction of this reserve reflects evolving industry practice. This item reduced trading-related revenue.

Noninterest expenses were down 10% compared to an elevated Q4 of 2013 which included expenses related to a commercial dispute. ROE this quarter was 13%, below what has been our range due to the FVA charge.

Please turn to slide 10. The Corporate segment posted an adjusted loss of $165 million in the quarter. As expected, the elevated loss was primarily driven by continued investments in enterprise projects and initiatives, and the lower contribution from favorable tax items. We expect Corporate segment losses to increase next year, reflecting the non-recurrence of gains from the sale of TD Ameritrade shares recognized in 2014, higher expenses, and a reduced level of favorable tax items in 2015.

Please turn to slide 11. Core expenses for the quarter, which exclude the impact of FX and acquisitions, were up 5.5% year-over-year. Excluding higher variable compensation, core expenses grew by 5%. On a full year basis, core expenses grew by 4.9%, or 3.7% when the variable compensation is excluded. As anticipated, operating leverage for the fourth quarter and 2014 was negative.

Growth in core expenses for both the quarter and the full year was driven by a combination of higher investment in regulatory and growth initiatives and employee costs. On a full year basis, close to 2% of our expense growth reflected higher project and initiative spend – investments in the future, including digital, regulatory and infrastructure built. Base growth was partially offset by productivity savings.

Please turn to slide 12. Our Basel III Common Equity Tier 1 ratio was 9.4% in the fourth quarter, up approximately 10 basis points versus Q3, due mainly to solid organic capital generation. Overall, we continue to remain well positioned for the evolving regulatory and capital environment.

With that, I'll turn things over to Mark and turn to slide 13.

Mark Chauvin – TD – Group Head and Chief Risk Officer

Thank you, Colleen, and good afternoon, everyone. This has been a strong year from a credit quality perspective. Performance across the loan portfolios remained very solid, with full year PCL of 34 basis points, 4 basis points better than what we experienced in 2013.

The positive trend continues with loss rates remaining at cyclically low levels during the fourth quarter. The increase noted in U.S. personal impairment loans during the quarter is attributed to full implementation of continuing regulatory guidance on troubled debt restructuring, related primarily to our home equity line of credit portfolio, the continued mortgage for closure backlog in the courts of Massachusetts, New York and New Jersey, and a weakening Canadian dollar.

Notwithstanding their impaired status, roughly one-third of the mortgage and HELOC-impaired balances are current with their payments. We remain satisfied with the credit quality of the U.S. real estate secured portfolio.

Looking forward, current economic forecasts suggest that credit quality will remain strong in 2015, while the volume growth is expected to result in a moderate increase in total credit losses.

Lastly, given the focus on current oil prices, I would like to briefly comment on our exposure in near- to mid-term outlook. The information provided in appendix slides number 31 and 33 has been expanded to provide additional information on our oil and gas credit exposure. Our oil and gas loan portfolio consists of a well-diversified mix of global and North American oil and gas companies. The majority of non-investment-grade loans are subject to a secured borrowing base using discounted oil and gas prices, risk based independent engineer reports and semi-annual redeterminations.

We also stress each borrower to a conservative level, which is well below current prices. At present, we would not expect to see any material loan impairment or losses in an environment where oil dropped to $60 for an extended period. Historically, our experience with this sector has been very good. For context, we incurred no credit losses in the 2008/2009 financial crisis during a period in which oil prices touched $35.

Now I'll turn the presentation back to Rudy.

QUESTION AND ANSWER

Rudy Sankovic – TD – SVP, Investor Relations

Thank you, Mark. We'll now open it up for questions. So to give everyone a chance to participate, please keep to one question and then re-queue if there's time. For those participating in the room, can I ask you to identify your name and firm before asking your question? Before ending the call today, I will ask Bharat to offer some final remarks.

So why don't we get started in the room? Jason?

Jason Bilodeau – Macquarie Capital Markets – Analyst

Just picking up about that last issue about energy. Mark, you addressed this sort of from a credit perspective. I don't know who in the board wants to talk to what does it mean from a growth perspective? So what does the corporate and commercial loan book look like in a $60 oil environment? What does the investment banking activity look like in a $60 oil environment?

Bharat Masrani – TD – Group President and CEO

You want to start, Bob?

Bob Dorrance – TD – Group Head, Wholesale Banking

Sure. I can do it from the investment corporate banking perspective. The energy business upstream, midstream, pipeline utilities, et cetera has been approximately 5% to 10% of our revenue over the last number of years. And with the current activity going on in oil pricing, it certainly is impacting activity levels in the business. And so, things have slowed down and I would expect that until oil starts to establish a range wherein businesses can plan around what their activities would be, it will probably remain slow until that time.

As Mark alluded to, it's not something that hasn't happened before. There's a cyclicality in the business and hence the 5% to 10% range of what it represents to our overall capital markets' revenues. So I think what we'll have to do is look to other areas to augment revenue growth and not be reliant on energy, especially the oil part of the patch, companies like midstream and the utility part can remain relatively active. But it's the equity raising on the oil and gas part that will be, I think, slow for a while for the industry.

Jason Bilodeau – Macquarie Capital Markets – Analyst

And then in sort of the smaller books like in small business or commercial-type lending, is there any weakness that you'd expect in that part of the business?

Tim Hockey – TD – Group Head, Canadian Banking

No. As you can imagine, we've both stressed that book often and obviously frequently recently. Not too much to add to what Mark and Bob would offer other than if you look at the sort of Canadian economic picture overall as a result of this, given that our economics team would say it's sort of a net negative for the Canadian economy overall but it would probably be at these low rates, a one or a two-quarter period of time until the supply side starts to equilibrate.

So for example if you look at the housing market in Calgary which has been one of our three hottest markets across the country, then the expectation is that would start to moderate over time. But the overall economic impact on Canada is relatively muted, probably 25 basis points, 50 basis points, even over a sustained multi-quarter low-oil shock. And as far as our commercial and commercial national accounts book, we're actually quite comfortable with our clients and their exposure even at low levels.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Jay. Next question, John?

John Aiken – Barclays – Analyst

Bharat, you framed your outlook for 2015 in your opening comments. A couple of things that stuck out for me is obviously that you're – to paraphrase – you're challenged to hit your medium-term guidance in terms of 7% to 10%. You also stressed organic growth being part of the process. I would be very interested to see if you could frame this around the outlook for dividends and what conversations the board has been having around that. The increase that you took in the first quarter was obviously to break out of that pattern of every second quarter. But are we now looking at TD falling into a pattern of an annual dividend increase and what that may mean for the outlook?

Bharat Masrani – TD – Group President and CEO

John, on the dividends, we did signal at the time, as you rightly point out, that we're going to make this an autopilot way of doing it. And our current plan is to look at our dividends like we did last year at the same time and we will do so. And what pattern we follow, we will let you know. But it should not surprise you that we will declare dividends when we think it is appropriate for the bank to do so based on where we are in our thinking on where earnings are going and secondly where we are in the range as well. And both those issues are important to us. But for now, you should assume that we will stick to the timeline we did – that we outlined last time we talked about this.

Rudy Sankovic – TD – SVP, Investor Relations

Thank you. Anything else in the room? Okay. Operator, why don't we go to the phones, please?

Operator

Our first question comes from the line of Steve Theriault at Bank of America Merrill Lynch.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Thanks very much. A question for Tim Hockey. So Tim, balances have been flat the last several quarters in U.S. indirect auto, but showed some nice growth in Q4. I know you've been optimizing dealer relationships, dealing with some issues and a little bit of restructuring. So does this signal that you're back in growth mode, the rightsizing and restructuring is passed, maybe a bit of an update there, please?

Tim Hockey – TD – Group Head, Canadian Banking

Sure. Actually, we're quite pleased with the level of growth. As you know, we have been restructuring. The industry overall was pressured by margins. So we took significant cost out of the business and we have been skewing more to the prime and the – actually super prime end of the spectrum. So as a result, we're quite confident. As Mark pointed out, our credit losses have dropped in that particular business. And because of the very high fixed to variable cost base of putting on additional prime and super prime, it's a business that we actually like. So yes, we're quite pleased with both our risk profile as well as the increased growth on that book

Steve Theriault – Bank of America Merrill Lynch – Analyst

Do you expect to be able to report some relatively consistent growth through next year?

Tim Hockey – TD – Group Head, Canadian Banking

Yes, we can.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Okay. Thank you, Steve. Next question, please.

Operator

Our next question comes from the line of Gabriel Dechaine at Canaccord Genuity. Please go ahead.

Gabriel Dechaine – Canaccord Genuity – Analyst

Hi. I just want to ask about the earnings outlook for the U.S. business, considering your revenue outlook, margin trajectory and maybe some uptick in PCL just because we had a bit of a low point in PCL in Q2 and Q3 this year?

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

We did say in Q3 that earnings would be down a bit in Q4 as you saw. We had strong fundamentals in Q4. Growth continued to outpace the industry. In fact, I'd say we accelerated in Q4 which was nice to see. Our NIAT was flat the last year because of lower securities gains and margin compression which Colleen alluded to. We also had a few tax and expense items related to the year-end, but I'd point out that our expenses were nevertheless lower than they were in Q4 last year.

So I'd think about growth for next year in terms of modest growth over the full 2014 year. So in 2014, we're up 5.3%, a bit better than we expected. We outperformed our U.S. peers across most metrics as we built the franchise. I'd share that the full year loans were up 10.2%. Deposits up 7% year-over-year, much better than our peers. And we also outperformed in checking accounts and household acquisitions.

Expenses for the full year grew 1.4%. That's ex-acquisitions and that's even as we continued to invest in the business including 34 new stores for the year.

In terms of the modest NIAT growth outlook for 2014, I do expect that we'll continue to grow the business very strongly still. There are really three issues that make it a bit tough next year. One is margins. This is, as you know, always hard to predict. But based on everything I see now in terms of rates and mix and competition and accretion trends and so on, I'd expect that our 2015 margin will be relatively stable from the fourth quarter although it may jump around a bit during the year. But nevertheless, even though we expect it to be relatively stable from the fourth quarter, the full year margin will be down from 2014 because the margin declined during 2014.

The second sort of headwind is that we haven't planned for much in the way of securities gains in 2015, and we had $61 million in 2015. And then the last one is PCLs and you asked about that. We had a very good – better-than-expected year on PCLs in 2015, low charge-offs, some strong recoveries. We do think we're near the end of that, although we may be wrong again. But we're expecting, as we talk about modest growth, that PCL growth will sort of normalize along with loan growth.

So just to be clear, all of what I've just said assumes no rate increases. And given this outlook, we're obviously also very, very focused on expenses for 2015.

Gabriel Dechaine – Canaccord Genuity – Analyst

To call that a thorough response would be an understatement. Thanks for that, Mike.

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

It was a wide-ranging thorough question.

Gabriel Dechaine – Canaccord Genuity – Analyst

Actually, I lost my question list. But anyway, thanks.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Gabriel. Next question, please?

Operator

Our next question comes from the line of Sumit Malhotra at Scotiabank. Please go ahead.

Sumit Malhotra – Scotiabank – Analyst

Thanks. Good afternoon. Let's stay with you, Mike, and to go back specifically on the revenue outlook. I know securities gains have played a role but you've obviously had on a constant currency basis a tougher comparison for revenue in the last couple of quarters in the second half of this year. When I hear you talk about net interest margin. You're talking about no interest rate increase assumption in your outlook, bond yields have obviously moved a lot lower, and looking at some of your regional bank counterparts in the U.S., they seem to be talking about continued NIM compression in a pretty significant way, at least for the first half of 2015.

Is it something to do with accounting or the accretion that TD has had that leaves you to make that statement, or maybe you can give me some visibility as to why you think you can buck the trend on margins?

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

I think a few things. So first of all on loan margins, we are starting to see the pressure moderate a little bit and I think you've heard that from other banks as well in particular on commercial corporate banking but also in auto finance. So it feels a little better than it did. We expect our deposit margins to be stable to up during 2015. We've been able to do some things on the treasury side as rates have evolved that make that the likelihood.

And the acquired loan portfolio is obviously smaller and smaller but we expect the impact on the margin to be lower this year than it's been in the last year. It was pretty significant in 2014. You saw from Q4, 25 basis point decline year-over-year and over two-thirds of that was accretion. So those will be the kinds of things we thought through as we tell you that.

Sumit Malhotra – Scotiabank – Analyst

Is it your view that the positive operating leverage is a realistic goal again on a constant-currency basis for this segment in 2015?

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

We obviously have a much smaller securities gains issued than we did and that's what made it difficult in 2014. We're very focused on expenses. As I said, 1.4% ex-acquisitions was a good result for this year. We're hoping to repeat that sort of performance roughly. And so, I think positive operating leverage, I would say that we are targeting it but not necessarily predicting it. It's a difficult environment, that's hard to predict anything in.

Sumit Malhotra – Scotiabank – Analyst

Thanks for your time.

Rudy Sankovic – TD – SVP, Investor Relations

Yeah. Thanks, Sumit. Next question, please.

Operator

Our next question comes from the line of Robert Sedran at CIBC. Please go ahead.

Rob Sedran – CIBC World Markets – Analyst

Hi. Good afternoon. So Mike, you're on a bit of a roll, so I guess I'll stick with you. I want to ask you about the personal loan growth. The outlook both for the industry in general and then also for TD and maybe you can touch on Target and some of the other initiatives in so doing it – and I want to know, I know you're not banking on any interest rate increases, but what you think any interest rate increases might do to that loan demand through your footprint?

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

Okay. I'll try. It's tough in the personal loan space right now. It improved a little bit in Q4 across most of the categories but especially auto. Let me try to comment on each of them. Mortgages, we're still way down from where we've been. Our year-over-year growth was 2%. Last quarter, it was 1%. So you could say it's on an annualized basis increasing a little bit but frankly, there's just very little trend or hard indicators to hang your head on. In the fourth quarter, we saw a refi spike for about 10 days until rates went back up.

I'd say cautious expectation that 2015 would be a bit better on mortgages. Home sales are rising, stated intentions to buy are up. House values are improving. But really, I think we need wages and incomes to rise. I think the key thing for me is that household incomes are still nowhere near recovered from pre-crisis. And if you think about how that feels from a personal point of view, it doesn't really matter what other statistics are. That makes it a little tough. So that's why I'm cautious about predicting much growth in the mortgage space.

When and if it starts to happen, I think we're well positioned. We got very low penetration. We're growing our mortgage sales force. We got our store network which is very strong and have also invested now in digital mortgage originations. So I think we're well positioned.

On home equity lending, I'm a little puzzled as to why that isn't growing better given what's happened with employment and housing. But I think the industry was down like 4% or 5% in the last numbers I saw. We've been flat so we can feel good about that but it doesn't feel very good. Again, I think this will come but again I think it's related more to wages and income than to anything else.

Tim talked about auto, so I won't repeat that. I agree with what he said.

On cards, Target is the large part of our existing portfolio, and it's still down from a year ago but continuing to recover. So sales and new account growth is now back to where it was before the pre-breach levels. The non-Target TD card portfolio is showing strong growth but it's a small base in the context of Target being included. So you don't really see that show up. But to give you a data point, a year ago, 9.6% of our households had a TD credit card. Today, it's 12.8%. So there's a big focus for us, deepening customer relationships in general is a big focus for us and will be even more so going forward.

Another data point and then I'll quit. A year ago, we had ~~3.8~~ [4.8] products and services per customer. Today, it's ~~4.2~~ [5.2].[1] That's really good progress. I'm really happy with that. There's more opportunity because we've got upside there compared to other banks.

Rob Sedran – CIBC World Markets – Analyst

And just a quick follow-up. And that was another detailed answer. Just a quick follow-up on that credit card answer. Is it a question of – is the goal credit card volume? Is the goal credit card balances? What are you looking to grow in terms of the credit card business?

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

Well, the goal is credit card profitability and customer profitability and customer retention. But cards are a very attractive product set in today's capital environment and Riaz runs that business very effectively, and we're delighted with what we're seeing from a U.S. perspective, and we've got lots of plans to grow that business.

Riaz, I'll invite you to jump in to the extent you want.

1 Incorrect figures were cited on the Q4 2014 Earnings Conference Call. Corrections appear in square brackets.

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

No, that's great. We're hoping to grow both.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Robert. Next question, please.

Operator

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

Peter Routledge – National Bank Financial – Analyst

Hi. Thanks. I just want to go back to an issue, I think, Tim referenced in his answer, and it relates to the price of oil and what that might mean for his household book. I think, Mark, you said you stress-tested your commercial portfolio for oil at $60 for an extended period of time, and you didn't view credit as a major issue. What would that do to household PCLs if you had $60 oil for an extended period of time?

Tim Hockey – TD – Group Head, Canadian Banking

Shorter answer is I have no idea. I don't think we've actually tried to take a look at that particular item.

Mark Chauvin – TD – Group Head and Chief Risk Officer

We have looked at the economic forecast, and it's very early in the process. So, I wouldn't have an answer to the question. But it would look to increase unemployment by 5% or 10% from what the base would have been. So that would have some impact on PCL but not in the scope of a material or a large one, in our view, but we are going to spend more time looking at that over the next couple of months.

Peter Routledge – National Bank Financial – Analyst

Okay. And then either for Tim or Bharat, you think about your personal and commercial bank in Canada. It's been on, let's call it, a great 15- to 20-year growth run and I'm sure the platform is still somewhat geared towards growth mode. If you decided to get very aggressive, could you still grow earnings at 5% a year even if you did have flat revenues because of slowing loan growth and higher PCLs and what have you?

Tim Hockey – TD – Group Head, Canadian Banking

Yes.

Bharat Masrani – TD – Group President and CEO

I was going to say that since Tim said it, I will reiterate that the answer is yes. In fact, we'd be disappointed with that.

Tim Hockey – TD – Group Head, Canadian Banking

I wasn't going to say that but I guess my boss just chimed in, but okay.

Peter Routledge – National Bank Financial – Analyst

How quickly could you act if all of a sudden, the Canadian environment shifted and you really were worried about falling earnings? How ready are you for that?

Tim Hockey – TD – Group Head, Canadian Banking

It depends on what you say in terms of shifting. On one hand, we're a large organization. On the other hand, if I look back at some of the investments we've made in 2014 and the momentum that we're already seeing in the business, I'm actually feeling pretty good about the 2015 outlook relative to our growth. We've had an uptick in our linked-quarter growth in lending. We've got products coming on stream. We have new services that we've offered. There's, I think, a sense of momentum here that we've got going forward into 2015 notwithstanding low interest rates, et cetera.

So if you're asking if things went south quickly, you'd have to illustrate the scenario. But I'm quite confident about our growth aspect going forward. And as many have said, we've made investments in 2014 and we will continue to make some investments in 2015 going forward. But we will be also focused on positive operating leverage.

Peter Routledge – National Bank Financial – Analyst

Let me reframe it then. A year from today, oil is $60. What sort of efficiency initiatives would you be ready to go with?

Tim Hockey – TD – Group Head, Canadian Banking

Well, we've explained this the way we approach it in Canada and many of the other parts of the business. We have an ongoing productivity focus in all of our businesses, and that is, we expect our businesses to operate under a pretty simple paradigm which is they get to grow their expenses inside their growth of revenue. And to do that, to be ready for a shift in revenue outlook then they have to constantly be investing in productivity gains. And then, if the revenue warrants it, then the expenses can grow in new initiatives.

So we've been on this program for three or four years. Our operating leverage, for example, in Canadian Retail in 2014 was exactly the same number as it was in 2013 at about 150 basis points. So if you're saying that all of a sudden revenue growth falls off a cliff then we would have to severely curtail our investments in future in order to bank, if you will, the productivity gains. That would be a tough choice to make, given that we don't like expensive fire drills. But it's one we would make.

Peter Routledge – National Bank Financial – Analyst

Okay. Thank you very much.

Bharat Masrani – TD – Group President and CEO

The only thing I would add, Peter, is that we – our franchise is national as you know. So if there is a problem with oil, I'm sure there'll be more of a regional story than, perhaps, as big as a national story. And given the size of our business, the diversity of our business, you would think there'd be offsets elsewhere in our business. We do the stress testing, as you would expect, and would make sure that we adapt to the environment we find ourselves in.

Peter Routledge – National Bank Financial – Analyst

Okay, thanks.

Rudy Sankovic – TD – SVP, Investor Relations

Thank you, Peter. Next question, please?

Operator

Our next question comes from the line of Meny Grauman at Cormark Securities. Please go ahead.

Meny Grauman – Cormark Securities – Analyst

Hi, good afternoon. Bharat in your opening remarks, you referenced non-traditional players as being a source of increased competition. And I'm wondering whether you could just flesh that a little more and just talk about what you're talking about and specifically in the non-traditional side?

Bharat Masrani – TD – Group President and CEO

Yeah, great question. I'd say one example would be obviously, you've heard as I have, there's intense interest in the payment system for example. You have potential entrants that are not banks in that space and that's an important business for TD, for the Canadian banks. And we got to figure out a way as to how we compete with those players, how can we be as agile, as flexible, as them.

What it takes is – and banks have generally been pretty good, I can talk about TD. We take those issues very seriously. And so we will make the right investments to make sure that if and when that were to happen that we are prepared for it and are able to effectively compete. So that's just one example.

You hear a lot of other non-traditional type of threats. The shadow banks as regulation is changing in various jurisdictions where we operate. And those are all the issues that we think about as to how we can effectively compete especially in our core businesses that are very important to us. So that'd be just one example, Meny.

Meny Grauman – Cormark Securities – Analyst

Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Meny. Next question, please?

Operator

Our next question comes from the line of Mario Mendonca at TD Securities. Please go ahead.

Mario Mendonca – TD Securities – Analyst

Good afternoon. Colleen and Bharat, if we could go to the capital question, so the Basel III Common Equity Tier 1 ratio 9.4% relative to global peers, I'm sure it's fine, but among the big five Canadian banks, not so much. What I'm struggling with is, is this actually a meaningful disadvantage or should we expect TD to be able to manage RWAs and to get that ratio through 10% relatively quickly?

Bharat Masrani – TD – Group President and CEO

Riaz, do you want to take it first as to what's going on with the ratio and then perhaps I can follow up on the first part of his question on whether this is a disadvantage or not?

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

Sure. Hi, Mario. If you look at the quarterly capital development for us, you saw that in the first quarter, we were down a bit. Second quarter, we grew quite a bit. And then Q3 and Q4, we grew by about 10 basis points each quarter. So our overall organic capital generation net of dividends and net of risk-weighted asset growth is about 20 basis points is how you should think about it.

And in the first quarter, we took a CVA charge. Second quarter, you saw that capital growth. And then in Q3 and Q4, some small things were undertaken. We completed our buyback program in Q3 and then in Q4, we had the pension valuation go against us. So I'm not overall worried about the rate of capital generation and I think we're quite optimally placed in terms of where we'd like to be, and in the organic growth strategy that we're looking at in 2015, I don't see it as being something that I worry about.

Mario Mendonca – TD Securities – Analyst

But Riaz, do you think 20 basis points is still a good number to use for organic capital generation quarterly?

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

Yes.

Bharat Masrani – TD – Group President and CEO

The only thing I'd add – I think Riaz covered it off – no, Mario, we would not consider ourselves to be strategically challenged from a capital perspective. That's not how I think about it. In fact, we would consider ourselves to be well capitalized and have whatever flexibility we need to make sure we remain within our strategy.

Mario Mendonca – TD Securities – Analyst

Are buybacks still part of the outlook?

Bharat Masrani – TD – Group President and CEO

Well, we've talked about this more generally. I look at buybacks as our overall – within our overall capital deployment framework where we look at what's the amount we're going to require to meet our organic growth aspirations. Those are important. Those are our core businesses.

We also look at is there any strategic or capability gap within our franchises. And you've seen we've taken advantage of opportunities when they emerge. Epoch comes to mind, where we thought it provides capability that would enhance where we were already as we'd use our capital for that. We've also said that if an appropriate smallish tuck-in acquisitions appear in Mike's business, especially in a certain part of his geography, we would seriously look at that.

So this is the kind of hierarchy we go through. And at the end, if all of them turn out that, yeah, we still have too much capital, we don't have any need, based on what I just said, of course, we'll look at buybacks at that point. But that's how we think about it, Mario, rather than targeting a particular date.

Mario Mendonca – TD Securities – Analyst

And then real quickly, Colleen, I think, Bharat, you both referred to the tax rate being a bit higher next year. Not so much interested in the details as to why, but more what numbers are we talking about? 100 basis points, 200 basis points?

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

I think, Mario, you got it right-on. I would say versus, and taking as a base the effective adjusted tax rate for 2014, I would say, we're probably about a point to two points higher in 2015.

Mario Mendonca – TD Securities – Analyst

Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

And I think we have time for one last question, please operator.

Operator

Our next question comes from the line of Darko Mihelic at RBC Capital Markets.

Darko Mihelic – RBC Capital Markets – Analyst

Thank you for letting me squeeze in here. Just, my question is actually on capital as well but I wanted to ask it in a different way, and what I'm really looking at is the U.S. Retail segment.

Bharat Masrani – TD – Group President and CEO

What are you asking, Darko?

Darko Mihelic – RBC Capital Markets – Analyst

We know that you're going to have to comply, I guess, with U.S. regulatory demand in the next couple of years. So the question is should we expect to see the capital build continue even though you have modest earnings expectations, such that we get a low return in this business in the next two, three years. And I guess turning that on its head, if we do have low return expectations on this capital, question over to Colleen, is there anything that we have to think about with respect to goodwill write-downs and so on?

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

Darko, it's Riaz. So I think it's been awhile, I can't remember exactly when but three or four quarters ago, I had highlighted that as the U.S. rules continue to develop and the Basel III rules continue to develop, in our business, we're seeing a convergence between the amount of capital that the U.S regulators are requiring and the amount of capital we're holding for the same risks at the consolidated level.

So I don't think you should necessarily assume that as we go through and meet the rest of the Dodd-Frank requirements that our capital requirement are automatically rising. That is not the correct way to look at it. Right now, in fact, I'd say that we're experiencing a high level of convergence between the two.

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

And Darko, it's Colleen. So we obviously have to go through an annual process of testing our goodwill valuation. And we've gone through that process, and I think it's safe to say we have a generous buffer in that calculation. So I don't have any concerns whatsoever concerning goodwill

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

Darko, it's Mike. I was asked earlier about upside and I didn't answer it. Needless to say, the modest language is with respect to the short-term outlook 2015. I think there's lots of growth opportunity in the U.S. business beyond 2015. We have productivity upsides. We have cross-sell upsides. We have lots of growth upside. Not even factoring in the fact that as rates rise, obviously, we stand to benefit somewhat from that. And the headwinds we face in 2015 are largely temporary in nature.

Darko Mihelic – RBC Capital Markets – Analyst

Okay, great. Thank you very much.

Rudy Sankovic – TD – SVP, Investor Relations

Okay. Thank you, Darko. And I'll ask Bharat for final remarks.

Bharat Masrani – TD – Group President and CEO

Thanks, Rudy. In typical TD style, we gave you all the headwinds we think that are going to be out there in 2015. But notwithstanding that, we have a fantastic business model. We have a brand that is second to none. Our mix of businesses is to die for. And we have a great team. And so, as long as we execute, I feel very, very good about the Bank's long-term prospects as to what we can do together. And in case if I don't see you folks before the end of the year, I wish you happy holidays and thank you very much.

Rudy Sankovic – TD – SVP, Investor Relations

With that, we will end the meeting. And thank you, everybody, for joining us. Thank you.