TD BANK GROUP
Q1 2015 EARNINGS CONFERENCE CALL
FEBRUARY 26, 2015

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PRESENTATION

Rudy Sankovic – TD – SVP, Investor Relations

Good afternoon and welcome to TD Bank Group's First Quarter 2015 Investor Presentation. My name is Rudy Sankovic and 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 first quarter operating results. Mark Chauvin, our Chief Risk Officer, will then offer comments on credit quality. After which, we will entertain questions from those present 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; and 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 would like to caution our listeners that this presentation contains forward-looking statements. There are risks that actual results could differ materially from what is discussed and that certain material factors or assumptions are applied in making these forward-looking statements.

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

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

Additional information on items of note, the Bank's reported results and factors and assumptions related to forward-looking information, are all available in our Q1 2015 Report to Shareholders.

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

Bharat Masrani – TD – Group President and CEO

Thank you, Rudy, and good afternoon. I want to comment briefly on Q1 before I turn it over to Colleen for a more detailed review of our results.

Overall, I'm very pleased with the quarter. Earnings per share were up a solid 6% year-over-year, with all of our businesses performing well.

Today, we announced a $0.04 increase to our dividend, up a healthy 9%, reflecting the board's confidence in the stability and strength of TD's long-term earnings power. This increase should move our payout ratio closer to the midpoint of our 40% to 50% target range. On the capital front, our Common Equity Tier 1 Capital position remains strong at 9.5%.

Let's take a closer look at our financial performance. TD's earnings of $2.1 billion speak to the strength of our business model, diverse business mix and organic growth engines, which were evident in the healthy loan and deposit growth we delivered on both sides of the border. The strength in both credit and the U.S. dollar were also helpful contributors to our financial performance.

Our Canadian Retail business delivered year-over-year earnings growth of 8%. This result was fueled by good volume growth in our personal, commercial and wealth businesses. In fact, just recently, TD Mutual Funds exceeded $100 billion in AUM. We also benefited from great performances in credit cards and insurance.

Strong results in our U.S. Retail segment led to a year-over-year increase in earnings of 15%. Good organic growth in loans and deposits, strong credit quality, good expense management and improved margins versus the fourth quarter contributed to an impressive start to 2015.

However, we continue to expect modest growth in the U.S. for the full year. We expect credit to normalize. Our NIM for the full year will be down compared to 2014 and we anticipate lower securities gains.

Our Wholesale Bank had a solid quarter with good trading results in a volatile market, offset by lower fee-based revenues.

Let me now turn to some of our major focus areas for this year. TD's strategy is and has been about growth. We have delivered on this goal in the past and we intend to do so in the future.

This quarter demonstrated the strength of our growth engines, but major external forces like technology innovation, regulatory changes and the sustained low-rate environment impact our business and industry. We are evolving our strategies to adapt to these changes. Let me share a few examples.

We're making great strides in advancing our digital and mobile capabilities, including modernizing our technology infrastructure to drive agility and improve efficiency. Equally important, these efforts will better serve our customers' needs across all of TD's distribution networks.

We continue to extend our service and convenience model into our digital channels. Mobile deposit, remote deposit capture and image-enabled ATMs on both sides of the border are great examples.

We're also piloting different branch and store formats, working to both optimize our retail distribution network and adapt to changing customer preferences.

Additionally, we're enhancing our products to better meet the needs of our customers. The recent launch and success of our new FlexLine HELOC product in Canada is a great example. In the U.S., we are very focused on increasing our customer share of wallet by proactively offering new products and services.

All these initiatives will help TD to be more responsive to our customers' evolving needs.

We're also adapting to a world where many new competitors are unencumbered by legacy systems and using their speed to compete and win. As such, we're working harder to become a fitter and faster organization. Our productivity focus is an important element of this initiative. I said previously that we would redouble our efforts to increase our efficiency and streamline our cost base. While I'm satisfied with our expense performance so far, we know we have to do more and we are.

We continuously review our Canadian and U.S. retail distribution networks to ensure our branch and store locations are optimized. And last year we reviewed some of our corporate functions. Given our significant growth over the past decade, including integrating our acquisitions, we've expanded these reviews across the organization. They will take place over the balance of the year.

In particular, we are focusing on streamlining our executive and corporate management structures outside of our client-facing areas. We are working hard at modernizing our processes and infrastructure for better efficiency and effectiveness. Initiatives range from digitizing processes with a view to eliminate duplication, to leveraging our North American platform to drive cost savings. And finally, we're adding more discipline to our expense processes and practices with particular focus on all discretionary spending, big and small. This is simply a reality of today's slower growth world.

All these initiatives are being carried out in a systematic and thoughtful way, the TD way. We want to enhance our ability to compete and win without sacrificing long-term growth prospects for short-term gains. It will take some time before we see a meaningful impact to our expense base, but we expect to see an improvement in our efficiency in the medium term.

Looking ahead, a number of economic headwinds will continue to challenge the industry in 2015. I'll talk about two that are top of mind with just about everybody: oil prices and interest rates.

The Bank of Canada has said the decline in oil prices is unambiguously negative for the Canadian economy. We agree. However, the impact will be uneven. Oil-producing provinces will bear the brunt of the drop, while others, including Ontario, will likely benefit from a weaker dollar and stronger export demand.

From a credit perspective, we believe our direct exposure to oil & gas producers is manageable. We are not seeing any signs of deterioration, though it is early days. From a business perspective, we believe TD is relatively well placed given our higher concentration of business in Ontario.

In the U.S., the drop in oil prices is equal to a long-awaited fiscal stimulus, leaving more money in the hands of consumers. Lower energy prices are likely to be a positive for the U.S., which is already in the midst of a recovery. Again, I think TD is well positioned to benefit from an improving U.S. economy, particularly in our markets along the eastern seaboard, where oil prices should help drive future growth.

On the interest rate front, during the quarter, we saw a flattening of the yield curve and material drop in both short and long rates. The 30-day BA rate dropped by 27 basis points and the five-year swap rate by 84 basis points. The impact of these declines will place continued pressure on our margins in Canada.

Overall, 2015 will continue to be a tough and uncertain environment with increased regulatory expectations and intense competition on both sides of the border. However, the fundamentals of our business remain strong and I'm confident in the resilience of our model.

Our Canadian Retail business continues to deliver good results and is well positioned for future growth. Our U.S. franchise continues to deliver peer-leading loan growth and will further benefit from our exposure to a robust U.S. recovery. Our Wholesale business continues to grow by extending its franchise model into the U.S. to take advantage of our strong retail and commercial presence.

To conclude, I'm confident that our strategy, brand and great people will continue to create value for our customers, grow our franchise and Build an Even Better Bank.

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

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

Thanks, Bharat, and good afternoon everyone. Let me take you through our results.

Please turn to slide four. Turning to Q1, we delivered adjusted EPS of $1.12, up 6% year-over-year. The quarter reflected strong growth in our Retail businesses, with record results on both sides of the border, solid Wholesale performance and a higher Corporate segment loss. The quarter benefited from continued credit favorability and a strong U.S. dollar.

Adjusted total revenue increased 4% year-over-year, or 2% excluding FX, led by strong loan, deposit and wealth asset growth, the addition of Aeroplan, and better insurance performance. The strong growth this quarter was partially offset by margin compression, reduced security gains and lower Corporate segment revenue.

Adjusted expense growth was 7% year-over-year, or 3% excluding FX. Half of this quarter's expense growth was due to business initiatives, including regulatory projects. The remaining expense growth was related to base expenses, partly offset by productivity savings.

As Bharat mentioned, we announced a $0.04 dividend increase this quarter, up 9%. Overall, a solid result for the Bank this quarter.

Please turn to slide five. This slide presents our reported and adjusted earnings this quarter with the difference due to one item of note, which you've seen before.

Please turn to slide six. Canadian Retail delivered a record quarter with adjusted net income of $1.4 billion, up 8% year-over-year. The increase was driven by continued good loan, deposit and wealth asset growth, good credit management and strong growth in insurance and credit card earnings, including the full-quarter impact of Aeroplan.

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 growth up a strong 9%. Card growth also remains strong at 9%, driven by Aeroplan, while auto lending grew 15%. Deposits increased by 5% due to strong growth in core checking and savings accounts, up 9%, while business deposits were up 8%.

Margin was down 4 basis points sequentially, primarily due to competitive pricing, a decline in refinancing revenue and the low-rate environment. We expect margins to trend down slightly for the balance of the year, reflecting the impact of the continued low-rate environment.

Credit performance continues to be favorable with the quarter also benefiting from a debt sale. PCL in personal banking was down $29 million. Business banking PCL decreased $11 million, mainly driven by higher recoveries.

Adjusted expenses were up 8% year-over-year, primarily due to higher employee-related costs, including revenue-based variable expenses and growth initiatives. These increases were partially offset by productivity gains.

Overall, a great start to the year for Canadian Retail.

Please turn to slide seven. U.S. Retail, excluding TD Ameritrade, had earnings of US$457 million, up 15% year-over-year. Results for the quarter reflected strong organic growth, favorable credit and good expense management, partially offset by margin compression and lower security gains.

Revenue decreased by 1% year-over-year, as strong volume and deposit growth was offset by lower gains on sale of securities, lower Target revenues and lower margins, partially driven by competition. Excluding the decline in security gains on lower Target revenue, U.S. Retail revenue rose 2% year-over-year. Target's contributions to earnings was relatively consistent year-over-year. The lower Target revenues were largely driven by an accounting reclassification.

Average loans were up 9% year-over-year, with a 3% increase in personal loans and a 15% increase in business loans. Average deposits increased by 5%.

Margin increased 6 basis points quarter-over-quarter, driven primarily by an increase in deposit margins as a result of treasury actions, partially offset by loan margin compression. We are forecasting some variability in margins over the course of the year, but we expect the full-year margin to be roughly at the same level as Q4 of 2014.

PCL decreased 31% due primarily to lower losses in auto lending and real estate secured lending.

Expenses were down 3% versus last year. The decrease was driven by strong cost control, a positive pension item, and lower Target revenue share.

Earnings from our ownership stake in TD Ameritrade in U.S. dollars were up 22% year-over-year due mainly to increased TD Ameritrade earnings, which rose 10% versus last year.

All in, a strong performance in the U.S.

Please turn to slide eight. Net income for Wholesale was $192 million, down 17% compared to a strong first quarter last year. Revenue was down 1% year-over-year as strong equities and FX performance was offset by lower fixed income trading. Non-interest expenses were up 5%, driven by higher initiative spend and the impact of foreign exchange. ROE this quarter was 13%, reflecting higher allocated capital to the segment and foreign exchange.

Please turn to slide nine. The Corporate segment posted an adjusted loss of $143 million in the quarter compared to a loss of $38 million in the same period last year. The elevated loss was the result of a prior-year gain on sale of TD Ameritrade shares of $38 million, the impact of treasury activities and funding mix, including lower preferred share recoveries and lower favorable tax items. Compared to the prior quarter, adjusted net income improved $22 million.

Please turn to slide 10. Our Basel III Common Equity Tier 1 ratio was 9.5% in the first quarter versus 9.4% in the previous quarter. The increase reflects solid organic capital generation, partially offset by actuarial losses on employee benefit plans due to the decline in long-term interest rates. Overall, we continue to remain well-positioned for the evolving regulatory and capital environment.

With that, let me turn it over to Mark.

Mark Chauvin – TD – Group Head and Chief Risk Officer

Thank you, Colleen, and good afternoon everyone.

Please turn to slide 11. Strong credit performance continued across all portfolios during the quarter. Provision for credit loss rates are at cyclically low levels with new impaired formations and gross impaired loans remaining stable quarter-over-quarter when adjusted for the weakening in the Canadian dollar. The provision for credit loss rate decreased to 29 basis points in the quarter, down 4 basis points from Q4 and 11 basis points year-over-year.

With respect to the oil & gas sector, a series of stress tests were completed during the quarter to determine the potential impact of sustained low oil prices on the Canadian and Wholesale business segments. The test indicated that sustained low oil prices are not expected to have a significant impact on the Bank for the following reasons.

First, lending within the oil & gas industry is governed by disciplined underwriting standards, based on strong collateral positions; second, unsecured consumer credit exposure to the regions most impacted is less than 2% of the Bank's total Canadian consumer credit exposure; third, the Bank's higher concentration in Ontario; and lastly, the positive impact of low oil prices on our Ontario and U.S. businesses. As a result, I don't believe the sustained low oil prices represent a material risk to the Bank.

Looking forward, I'm satisfied that credit quality across the portfolio should remain strong over the balance of the year based on current economic forecasts.

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. To give everyone a chance to participate, please keep to one question and then re-queue if there's time. For those participating in person, can I ask you to identify your name and firm before asking your question?

Before ending the call today, I will ask Bharat to offer some final remarks.

So, why don't we get started in the room? John, you're the only guy in the room.

John Aiken – Barclays – Analyst

Mike, was hoping to pick on you first. I know it's a little bit old news with the tick down that we saw in the number of branches in the U.S. Was wondering if you could update us in terms of what the plans are for de novo expansion within your operations, but also address a couple points that Bharat touched upon in his prepared commentary, talking about managing expenses in this type of environment, mirrored with the potential growth that we're going to see in the U.S. economy at some point?

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

Lots there. I think the stats this quarter were that we opened three and we closed 21 stores. You will see us do both. And the numbers will go up and down by quarter. We are still of the view that opening stores in great locations is a fantastic way to ensure continued customer acquisition and continued sales. Our sales activity, our customer acquisition activity, is still about 85% through stores. It's changing, but it's still really important. So, we'll still do that.

But clearly, given what's going on in terms of digital adoption, mobile and so on, where we're seeing huge transaction increases both on the service and the sales side. For example, 10% of our checking accounts are now sold through mobile and digital. We are also continuing to optimize our store networks. We'll have more to say on this as the quarters evolve, but we will continue to do both.

On expenses, I was obviously pleased with the performance this quarter. I'd say things did go our way a bit. But even if you ignore those things, we were at least flat year-over-year on expenses. And I think that's very pleasing given that we're investing in stores, investing in technology, digital, regulatory changes and so on. So, productivity's a big focus for us going forward. It involves everything from optimizing our distribution capabilities across digital and physical to looking at end-to-end processes, to looking at the kinds of organizational issues that Bharat alluded to, et cetera, et cetera.

I'm sorry, there was one more thing, which I didn't actually catch.

John Aiken – Barclays – Analyst

Just the outlook for growth on the eventual rise in the U.S. economy in terms of what can we expect in terms of relative deployment of capital within the region?

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

We're obviously very bullish on the U.S. in the medium to long term. In the short term, it's a difficult environment because of the things we talked about before. In TD's case, the year-over-year securities

gains affect the potential normalization of credit and the year-over-year margin. And we still think, though, that we can deliver modest growth this year and that we'll continue to invest in the business in digital, in technology, in improving our store network. Obviously, any rate increases are upside to all of that.

John Aiken – Barclays – Analyst

Great. Thanks, Mike.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, John. So, operator, why don't we go to the phones, please?

Operator

We will now take our first question from Meny Grauman from Cormark Securities. Please go ahead.

Meny Grauman – Cormark Securities – Analyst

Hi. Good afternoon. Bharat, you talked about how it will take time before you see meaningful impact on expenses. So, just wondered if you could elaborate a little bit in terms of why that's the case. And then, just as a related follow-up, if you needed to, could you speed that up and what kind of signals would you look for in order to give you the sign that it would be appropriate to speed that up?

Bharat Masrani – TD – Group President and CEO

What I meant by these things take time, in a sense, that you want to make sure this is done in a thoughtful way. We have a fantastic franchise and these are opportunities that are natural for us, in the sense that we've grown tremendously over the past few years. We've acquired a lot of companies, lot of businesses. We've been integrating those. But there comes a time where we can optimize our structure so that we are more effective in dealing with our customers, get closer to our customers, et cetera.

For us, the effectiveness part is as important as anything else in it. And so, want to do it in a thoughtful way. And frankly, our culture is such that we want to ensure that when we do it that every stakeholder of ours is well informed and we are doing it in a manner that is consistent with our strategy and what we stand for. And so, I don't see this as an immediate need for us. We've been very clear that we are not going to make short-term goals just to meet a particular number. This is franchise building for us. This is how we sustain our model and we feel the pace at which we're going is most appropriate.

The second part of your question, yeah, we are an adaptable company, obviously. That is the key hallmark of TD. And if circumstances change, obviously, we will look at what else we can do to make sure we're adapting. But I'm pretty happy with the pace at which we are going and I think it's a good thing for our company.

Meny Grauman – Cormark Securities – Analyst

Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Meny. Next question operator.

Operator

We will now take our next question from Steve Theriault from Bank of America Merrill Lynch. Please go ahead.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Thanks very much. I'd like to ask a couple of questions on cards for Riaz. Riaz, next quarter, the year-on-year comps get more meaningful with Aeroplan in now for a full year. So, maybe timely to provide us with an outlook on how you see that book growing. We've had indications from a couple of other banks that card growth may be picking up a little. So, is that true at TD? And you acquired some – a number of non-TD customers with the purchase. Can you update us on how much success you've been having cross selling to those acquired customers, who weren't previously TD customers, and which products you're having the most success with?

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

Yeah, Steve. I'd say in terms of the outlook I'm very pleased with where our sales volumes are going. And I think that we acquired a number of assets, and are in the middle of now optimizing our infrastructure and our model. We are seeing our performance in both our historic card business as well as Aeroplan continues to exceed our expectations and I'm pretty happy with where that's at.

In terms of the acquisitions of direct business, those are – and the private level portfolios – it is not that easy necessarily to franchise those customers to other products. We continue to sort of take a look at what we can do on that front. But that is not what the direct mail model generally does and that is not usually what the private-label model does either.

But as you saw today, we did announce an extension of our program agreement with Target. So, that should tell you that we're very happy with that business model, as is Target, and we're quite happy to have it extended and gives us more confidence to continue to invest in the program. And then, particularly to your point, on the co-brand side of that program, we should be able to see a better performance from here on.

Steve Theriault – Bank of America Merrill Lynch – Analyst

When I hear you say optimizing the infrastructure and the model, should I take that to mean there is still a little bit of time where you're going to take a pause before it's – you accelerate that process or not necessarily?

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

Well, I think in the post-conversion period, just before we entered our conversion of the direct mail MBNA business, we had stopped marketing. And then, in the post-conversion stabilization period, our marketing initiatives haven't picked up. So, I think that, yes, you would continue to see some softness, but I'm very optimistic that we'll be able to bring that up as our marketing campaign start kicking back in later on this year.

Steve Theriault – Bank of America Merrill Lynch – Analyst

You mentioned Target earlier in your remarks. I noticed the Target balances were up for the first time in a little while. Is that getting back on track and is that momentum sustainable?

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

Yes, it is getting back on track and, yes, I think it is sustainable. And I think with the extension of the program, it gives both parties more confidence to invest in it. And I think that you'll see as those investments are made, that the program should expand nicely.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Thanks for all that color.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Steve. Operator, next question, please.

Operator

We will now take our next question from Peter Routledge from National Bank Financial. Please go ahead.

Peter Routledge – National Bank Financial – Analyst

Hello. Thank you. Two of your peers have now reduced their minority stakes in wealth managers. The argument or at least one of the rationale for doing so was it's very expensive in terms of capital. Are you – how do you think about that in – with respect to Ameritrade and your minority stake in Ameritrade?

Bharat Masrani – TD – Group President and CEO

Peter, this is Bharat. We're very happy with our stake in Ameritrade. This has been central to our wealth strategy for many, many years. It continues to perform well. So, I can't comment on what others are doing, but we are very happy and this is a key investment for us. And it's more than just an investment. It plays a very important role in our wealth strategy going forward in the U.S. as well. So, very happy with our positioning.

Peter Routledge – National Bank Financial – Analyst

I mean, my back-of-the-envelope analysis would be that if you looked at the earnings and contribution, both direct and indirect you get from your Ameritrade alliance, relative to the capital that would be freed up, if you divested yourself entirely of it, seems to me that the ROIC isn't that great. Am I wrong in that assessment?

Bharat Masrani – TD – Group President and CEO

I mean you can look at ROIC in many different ways. You can look at it a point in time. For us, this is very strategic and important in our overall business mix, and we've been in it for many decades and feel that it

provides great value for us. The returns you're talking about, I don't know what inputs you're using, Peter, but we are happy with not only the strategic positioning, but the returns we're getting. Last time I checked, TD Ameritrade was trading at US$36. That will put their market cap at about US$20 billion and that would not be a bad return for any investment these days.

Peter Routledge – National Bank Financial – Analyst

I guess, the point I was making is if you were to divest it, that'd be a heck of a game and a heck of a release of capital for TD. That's just my point.

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

It's Colleen. Maybe I can just clarify in terms of our total return. We have our direct contribution from earnings, but also earnings on the sweep deposits and the U.S. Retail bank, and our returns overall are in the mid-teens. So, we're quite happy with our returns in that business.

Peter Routledge – National Bank Financial – Analyst

That's on the allocated capital, too?

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

Correct.

Peter Routledge – National Bank Financial – Analyst

Yeah. Okay. Quick technical question, in your Basel III Common Equity Tier 1, noticed there was a big spike in the deduction for the cash flow hedge reserve. What's driving that? Is that just currency or something else?

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

Well, that's driven, yeah, and on the interest rate side as well.

Peter Routledge – National Bank Financial – Analyst

Okay. Does that settle back down or is that going to be a recurring drag through 2015 on capital?

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

So, there's only certain parts of that number that actually directly affect capital, not all of it. I could take you through the details separately in terms of the piece that does and doesn't.

Peter Routledge – National Bank Financial – Analyst

Okay. We will take it offline.

Rudy Sankovic – TD – SVP, Investor Relations

Okay. Thank you, Peter. Can we have the next question, please?

Operator

We will now take our next question from Robert Sedran from CIBC. Please proceed.

Rob Sedran – CIBC World Markets – Analyst

Hi. Good afternoon. Colleen, you mentioned the growth in auto lending in Canada. And so, I don't know if this is a question for risk or if it's a question for the business line. But a few of your competitors have noted that they've been underemphasizing that business, because they don't like the risk profile. So, how does the Bank feel about the risk-reward in that sector? And has it been deteriorating and what might make you deemphasize that business as well? What conditions would you need to see?

Tim Hockey – TD – Group Head, Canadian Banking

So, Rob, it's Tim. From our point of view, in the U.S., there's no question that there has been some, call it, degradation in the U.S. industry, but frankly our strategy is almost contrary. We've actually gone up-market, even beyond our original business plan into the prime and the super-prime space. I'm just looking at some numbers and I can see there that our credit scores have gone up. Our leverage has gone down. The average term has gone down. And our 30-day delinquency rates are dramatically lower than the industry. So, I get very much the optics around what's happened at the frothy end of the auto market, but we're not participating at that level and we're actually quite comfortable with the space we're in.

Rob Sedran – CIBC World Markets – Analyst

I was actually coming more from the Canadian angle. Tim, is it similar story in Canada?

Tim Hockey – TD – Group Head, Canadian Banking

We're not seeing anywhere near the amount of change in the profile in the prime or the near-prime space. There has been more activity and entrants into the non-prime space. A number of years ago, there was a very small number of players. You have to remember, in the competitive non-prime space in Canada, it gets lots of participation at the best times in the market and all of the participation from competitors dries up. We're a consistent player. We're very comfortable with our asset quality and our business performance. But right now, there are new entrants in the non-prime space. But again, we're quite comfortable with our credit metrics.

Rob Sedran – CIBC World Markets – Analyst

So, the Canadian growth rates you're seeing you're comfortable with and you were comfortable that they're sustainable?

Tim Hockey – TD – Group Head, Canadian Banking

Absolutely and we're taking share.

Rob Sedran – CIBC World Markets – Analyst

Thank you.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Rob. Next question, please.

Operator

We will now take our next question from Gabriel Dechaine from Canaccord Genuity. Please proceed.

Gabriel Dechaine – Canaccord Genuity – Analyst

Hi. Good afternoon. Colleen, could you dumb the accounting down for me a bit, just to explain the impact that you were referring to on your revenues and on the expense line from Target. You said that year-over-year the profit wasn't that much different, but somehow it doesn't work out that way due to some accounting?

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

Gabriel, just stepping back on it, the way the accounting works for Target is that we include 100% of the revenues, 100% of the credit losses in our P&L, and then the way that we square the equation is through the expense line, which is essentially the revenue share. And those lines will move. The accounting classification that affected us this quarter was essentially a move between credit losses and revenues, which gives the appearance that revenues are down more than they are.

When you net the various lines out and take some of our own specific costs, the net contribution is relatively consistent, but because, again, of the gross-up factor, it can create some distortions in the individual P&L lines. That's why we like to call it out when it makes a difference.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. Maybe I'll take that one offline, but just from an expense standpoint, it was cited as one of the reasons why expenses were down, less profit share, I guess, to Target.

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

That's right.

Gabriel Dechaine – Canaccord Genuity – Analyst

What would the expenses have looked like if not for that factor?

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

If not for that factor and the pension credit, expenses would have been relatively flat on a year-over-year basis in the U.S., which I think is a terrific result when you consider the investments that we're making in

the business. Obviously, the bar being raised on everything we're doing in our operations there, obviously a great sign that the productivity initiatives are working and I know this has been a huge area of emphasis for the U.S. retail banks. So, I think a great result.

Gabriel Dechaine – Canaccord Genuity – Analyst

I'd agree with that. And then Mike or Colleen on the, let's say, the Fed raises in Q4, calendar Q4 or whenever it is, would we see a material pickup in your U.S. margins in 2016, all else equal, or do we have to wait a little longer than that?

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

If you start, Colleen, I can finish.

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

Oh, I see. What we've talked about in the past is – we've talked about various scenarios. The one that we cite the most often is a 25 basis point increase, but that's really happening across the curve. And where we've talked about the first year impact of being about $300 million, that's not strictly in the U.S., that's split between Canada and the U.S., about 60/40.

On that specific question, as rates rise, we would start to see some benefits, but if only the short end moves, we wouldn't see a benefit of that size. I don't know whether Riaz wanted to weigh it in from a treasury standpoint. Anything to add?

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

It's Mike. I was just going to say that, as we've said before, roughly speaking, the benefit to the U.S is proportional to our share of deposits within the Bank. Your specific question, I'll just add one thing. We've said to you that we've effectively locked in our 2015 deposit margins. If rates were to stay where they are, there's some downward pressure. So, a 25 basis point increase would mitigate that. But notwithstanding that, it would clearly be positive for us.

Gabriel Dechaine – Canaccord Genuity – Analyst

And the lock in of those deposit margins, that's just this year, not next year?

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

That's what we're saying at this point, right.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. Thank you so much.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Gabriel. Can we have the next question, please?

Operator

We will now take our next question from Sohrab Movahedi from BMO Capital Markets. Please go ahead.

Rudy Sankovic – TD – SVP, Investor Relations

Sohrab, are you on the line? Okay. Why don't we move on then?

Operator

We'll now take our next question from Sumit Malhotra from Scotia Capital. Please go ahead.

Sumit Malhotra – Scotiabank – Analyst

Thanks and good afternoon. My question is a two-parter for Tim Hockey. And first in the Canadian P&C segment, it didn't look like we saw the normal seasonal decline in the core expense line from Q4 to Q1 that's been the normal pattern for TD Canada Trust. Can you talk a little bit about the project activity that's been impacting that line and whether we are going to see a more, "normalized expense growth trend," especially given some of the revenue headwinds you've talked about in the upcoming quarters?

Tim Hockey – TD – Group Head, Canadian Banking

Sure. If I take a look at the Canadian Retail expense growth, no question that the first quarter was elevated per our normal run rate. There's a number of reasons for that. Part of it is actually an elevated level of project spend. Part of it is timing, and you might think that's a bit unusual, because it's not normal. We tend to have a bit of a low investment in Q1 and then ramping up to Q4, as everybody knows. In actual fact, we've got quite a bit of project activity; you alluded to. I'm not going to give specific examples, but we're quite excited about many of the things that will be launched in the spring market, new customer enhancements products, for example. But what I can assure you is that that year-over-year gain will be drifting down throughout the rest of the year and this was a bit of an anomaly.

Sumit Malhotra – Scotiabank – Analyst

You're starting off a little bit behind the 8-ball, so to speak, but do you think positive operating leverage in this business line on a full-year basis is a reasonable goal?

Tim Hockey – TD – Group Head, Canadian Banking

That's our goal.

Sumit Malhotra – Scotiabank – Analyst

And then second question also for your, Tim, is on the pure Wealth portion of the business, we see on the pure Wealth side earnings flat on both the quarter-over-quarter and then more surprised to see on a year-over-year basis. Despite choppiness recently, I think equity markets over the course of the year have still been conducive and we see that in some of your individual lines, like Mutual Fund line. So, specifically, for Wealth earnings, is that more of an expense issue in your view as well, or is there other parts of the revenue line that are holding that business back?

Tim Hockey – TD – Group Head, Canadian Banking

Yeah. It's actually many moving parts. So, if you look at the underlying fundamentals, as you mentioned, we're actually thrilled with the performance and the asset growth 14%, up year-over-year. We mentioned the high watermark that we've reached on the Mutual Fund business. In fact, our long-term fund sales in the quarter, for example, were up 63% year-over-year. So, we're accelerating that business.

There's couple of reasons for why the actual headline 1% year-over-year number is a bit anomalous. And that is, we had some positives in the first quarter of last year. So, we had a high jump off. We have, as you know, an overweight in the direct investing business and notwithstanding trades were up. The revenues per trade due to mix is a little bit down. New issuance, for example, for our advisory businesses, were down in the quarter.

So, net, net, net, the 1% sort of belies the underlying activity. By the way, some of those investments we're talking about in projects are directly on the platforms in our Wealth business and they'll come to be launched in the spring as well. So, at the end of the day, we look at that and we think, well, 1% is a disappointing financial number. We're still on track to have a quite a manageable shot at getting to double-digit earnings for the full year in our Wealth business.

Sumit Malhotra – Scotiabank – Analyst

That's helpful. Thanks for your time.

Rudy Sankovic – TD – SVP, Investor Relations

Yeah. Thanks, Sumit. Next question, please.

Operator

We will now take our next question from Sohrab Movahedi from BMO Capital Markets. Please go ahead.

Sohrab Movahedi – BMO Capital Markets – Analyst

Hi, guys. Sorry about that technical difficulties at this end. Bharat, you've mentioned – obviously focused on expenses, feeling adequately capitalized. As the outlook improves, as you're able to pull on the levers you're pulling on, where do you think the ROE of the Bank can go?

Bharat Masrani – TD – Group President and CEO

Sohrab, we do have a fantastic business mix. But as important as the mix we have, is the growth engines. And we feel that as long as we are organically growing the Bank, which we are on both sides of the border, and given how we measure capital, that should be additive to our capital. Now, there will be bumps quarter-over-quarter, depending on what happens with the FX, in Bob's business or whatever. But overall, we feel pretty good about, as long as we are organically growing the Bank, we have more customers today than we had yesterday and, hopefully, we'll have more tomorrow. And if we keep on doing what we've been doing for many years, I see we'll get decent returns from this activity.

So, we feel comfortable with that. I think if the environment were to go hugely positive, obviously, that'll be hugely positive to us as well. But in the meantime, it's not as if we're not focused on what really matters. It's fundamentally growing the Bank, and growing the Bank means better returns for our shareholders.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. So, just maybe just specifically to that, for Mike. Mike, on page seven, the U.S. Retail ROE, as you've reported, is 8.5%. I mean, these are with obviously abnormally low credit losses, but also tough margin environment and so on. So, when you think over the next, I don't know, 12 months to 18 months, maybe three years, something like that, I mean, where do you think you – what are you aspiring for as far as ROE in the U.S. is concerned?

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

Well, our current operating ROE is well into the double digits, and we think we can continue that and improve it. And as we grow the business, obviously, the goodwill overhang that we have will slowly dissipate. I think the things we want to prosecute, if you will, to improve that ROE, are things like the productivity agenda I spoke to earlier, obviously, in addition to continuing to grow the franchise in terms of new customers. And we're doing very well there.

Our household acquisition this year was 3.5%, which is way higher than the industry. But we also have this big share of wallet opportunity, given that this is something we're starting later than other banks. And as I've said before, we're making tremendous progress on that and I think we'll continue to. And one also does hope that eventually rates will start to rise a bit, which will help.

So, I think there are lots of levers we have at our disposal to positively affect our operating ROE. And in combination with the fact that we'll grow organically and goodwill becomes smaller, that should help us going forward.

Sohrab Movahedi – BMO Capital Markets – Analyst

Thank you very much.

Rudy Sankovic – TD – SVP, Investor Relations

Thanks, Sohrab. Next question, please.

Operator

There are no further questions at this time. You may continue.

Rudy Sankovic – TD – SVP, Investor Relations

Thank you very much. Bharat, I'll turn it over to you for final remarks.

Bharat Masrani – TD – Group President and CEO

Thanks, Rudy. Very pleased with the quarter, very pleased with the dividend increase that we announced. When I look out into the future, I'm very happy with our positioning, business mix and geographic diversification that we have in our businesses, so looking forward to make sure that we continue to perform in the appropriate way, which is the TD way. And I should mention that I couldn't be more proud of our 85,000 TD bankers around the world who continue to deliver for our shareholders on a consistent basis. Thank you for that.

And with that, Rudy, I will pass it back to you.

Rudy Sankovic – TD – SVP, Investor Relations

Thank you so much. And with that, we will end the meeting and thank everyone for joining us today. So, thank you very much.