TD BANK GROUP
Q4 2015 EARNINGS CONFERENCE CALL
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PRESENTATION

Rudy Sankovic – TD – Head of Investor Relations

Thank you very much, operator. Good afternoon, everybody. We'll begin today's presentation with remarks from Bharat Masrani, the Bank's 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 invite questions from pre-qualified analysts and investors on the phone.

Also present today to answer your questions are Tim Hockey, Group Head Canadian Banking 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 of the Bank.

Please turn to slide 2. At this time, I would like to caution our listeners that this presentation contains forward-looking statements. There are risks that actual results could differ materially from what is discussed and that certain material factors or assumptions were applied in making these forward-looking statements.

Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities, and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes. I would also like to remind listeners that the Bank uses non-GAAP financial measures to arrive at adjusted results to assess each of its businesses and to measure overall bank performance. The Bank believes that adjusted results provide readers with a better understanding of how management views the Bank's performance.

Bharat will be referring to adjusted results in his remarks. Additional information on items of note, the Bank's reported results and factors and assumptions related to forward-looking information are all available in our Q4 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, everyone. As Rudy mentioned, Colleen will be up shortly to discuss our financial results in detail, but let me start by sharing my perspectives on our performance.

Overall, I'm pleased with our results this quarter. The Bank generated EPS of a CAD 1.14, up 16% from a softer quarter in the prior year. Good volume growth, along with positive operating leverage and a stronger U.S. dollar, helped drive our results. As expected, we saw increased credit provisions, but quality remains strong. Our full year EPS of CAD 4.61 was up 8%, a good outcome in mixed market conditions. These results were driven by revenue growth across all of our businesses along with stable credit quality and improvements in productivity.

We ended the year with CET1 of 9.9%. We continue to have strong capital, leverage and liquidity ratios. And today, we announced a 9.5 million share buyback program in 2016, subject to regulatory approvals. This is to offset dilution from the dividend reinvestment plan and issuance related to stock options.

Let's take a closer at each of our business segments. Canadian Retail earnings were up 8%, driven by growth in personal and commercial banking and insurance, strong asset growth in wealth, and a healthy increase in loan and deposit volumes. We delivered good operating leverage, and credit quality across all products remains high. TD continues to stand out as the brand of choice in the marketplace. J.D. Power recently awarded TD Wealth top honors among the Big Five Banks in its Full Service Investor Satisfaction survey. And Ipsos recognized TD as the best bank in customer service among the Big Five. 2015 marked the 11th consecutive year that we receive this award.

Our U.S. Retail earnings were up 5%. We continue to deliver above-average volume growth and good expense management while maintaining solid credit quality. Our U.S. wealth business has good momentum, exceeding $100 billion in assets under management for the first time. This quarter, we completed our acquisition of Nordstrom's U.S. Visa and private label card portfolio. This builds upon our leadership position in the North American credit card business.

What's more, TD Bank, America's Most Convenient Bank continues to win accolades in the marketplace. Money Magazine named us as the Best Big Bank in America for the third year in a row. And for the second time, J.D. Power ranked TD as the best small business bank in the Northeast.

On both sides of the border, our retail businesses are facing margin pressures due to the prolonged low-interest rate environment. It's difficult to predict exactly when rates will rise and at what pace. Until they do, I'm confident that our diverse business mix and business model centered around organic growth will continue to drive positive results.

TD Securities had a very good year as well. Full-year earnings were up 7%, driven by solid trading results and strong loan growth. In Canada, we continue to win marquee deals; and south of the border, we are seeing good progress in growing our corporate, government and investor client businesses by leveraging a local scale and network. The U.S. represents a significant growth area for our Wholesale business.

In 2015, TD made progress on the expense front and delivered positive operating leverage despite the low growth environment and continued investments to drive future growth. The difficult measures we took this year to permanently reduce our cost structure and increase expense discipline were necessary and effective. We took these steps to streamline our processes and capacity to invest in the future and moderate our ongoing expense growth. Most importantly, the organizational review, which is largely behind us, will enhance our competitiveness by making us more agile and bring us closer to the customer.

Now, let me comment on our three key priorities for 2016. First, we will focus on organic growth. We have growth opportunities across all of our businesses and a proven track record of delivering against them. In Canadian Personal and Business Banking, we will take market share in underrepresented products and geographies. In wealth, we'll reaffirm our leadership in direct investing and accelerate our growth initiatives to capture share in the mass affluent and high net worth segments.

In the U.S., we are well positioned to benefit from an improving economy. We expect to continue outgrowing the competition, driving profitability both by attracting new customers and deepening relationships with our existing base. And in TD Securities, we will further leverage our brand and capabilities to target key segments and grow our U.S. presence.

Second, we will continue to adapt and innovate. New technologies provide us with opportunities to extend our leadership position in service and convenience. TD will lead new initiatives, make new investments and form new partnerships in the digital space over the coming years. Our focus will remain on providing our customers with a truly seamless experience wherever, whenever and however they want to bank. To this end, we will further modernize and simplify our information technology infrastructure and invest in our omni-channel capabilities.

You will also see our retail space adapt and innovate in ways that help us enhance our personalized advice and human experiences. This is what helps differentiate TD both from traditional and non-traditional players. We are the high-tech, high-touch bank.

Finally, we will remain relentlessly committed to improving productivity. We will further simplify our processes, optimize our physical distribution costs and improve our sales efficiency. These efforts will free up more of our people's time to serve TD customers and clients, and free up more of our Bank's resources to reinvest in our growth strategies.

Let me now comment on the economic environment and what it means for TD going forward. In Canada, we expect modest GDP growth of around 2%. Sustained low energy prices is a headwind to the economy, and despite that, our business model positions us for growth. In the U.S., robust spending in domestic sectors is expected to offset some weakness in exports which, on an overall basis, should position us for continued growth and outperformance.

When it comes to our earnings growth outlook, our aspirations have not changed. Our objective remains to deliver 7% to 10% EPS growth over the medium term. For 2016, we expect earnings to benefit from strong growth in loans, deposits and wealth assets, prudent expense management, and the likely impact of a stronger U.S. dollar and possible U.S. interest rate hikes. However, while credit quality is expected to remain strong, provisions will likely normalize and we'll see a higher effective tax rate. On balance, it is difficult to see how we will get into our medium term range in 2016.

To conclude, I couldn't be more proud of nearly 85,000 TD bankers around the world who continue to deliver for our shareholders year in and year out. Thank you for your efforts.

With that, let me turn it over to Colleen.

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

Well, thanks, Bharat, and good afternoon, everyone. Please turn to slide 4. Before we look at the fourth quarter in detail, let's start with a brief review of 2015. For the full year, total bank adjusted net income was $8.8 billion, up 8% from 2014. Adjusted EPS was $4.61, also up 8%. Our retail businesses had a great year. Canadian Retail delivered strong earnings growth of 8%, driven by good growth in loans, deposits and wealth assets net of margin compression, lower credit losses, higher insurance earnings, and positive operating leverage.

U.S. Retail earnings grew 21%, reflecting good organic growth and the stronger U.S. dollar. In U.S. dollars, earnings grew by 5% due to strong loan and deposit growth, steady credit performance, good expense management, and a lower effective tax rate, partially offset by margin compression and lower security gains.

Wholesale Banking earnings increased 7% this year due largely to strong top line growth. The Corporate segment loss increased in 2015 due largely to non-recurring positive items in 2014.

We were pleased to achieve positive operating leverage for the year. We finished the year with a CET1 ratio of 9.9%. Overall, a good performance from our businesses in 2015.

Please turn to slide 5. This quarter, we delivered adjusted EPS of $1.14, up 16% year-over-year. The quarter reflected strong results from Canadian and U.S. Retail, up 10% and 6%, respectively. Wholesale

delivered earnings growth of 23% versus a soft Q4 in 2014. The Corporate segment posted a loss of $161 million. We continue to benefit from a stronger U.S. dollar.

Adjusted total revenue increased 11% year-over-year net of claims or 3.5% excluding FX and acquisitions, led by good loan, deposit and wealth asset growth, higher insurance premium growth and higher fee-based and trading revenue. Growth was partially offset by margin compression.

Adjusted expense growth was 7% year-over-year or down 1.1% excluding FX and acquisitions. Quarter-over-quarter, expenses rose $62 million on the same basis. We achieved strong, positive operating leverage in the quarter. Overall, a strong finish to the year.

Please turn to slide 6. This slide presents our reported and adjusted earnings this quarter with the difference due to four items of note. This quarter, we completed the second phase of our productivity review representing a $349 million pre-tax restructuring charge. I'll comment further on this later in my presentation. We've also incurred a $51 million charge after-tax related to the Nordstrom transaction.

Please turn to slide 7. Canadian Retail delivered a strong quarter with adjusted net income of $1.5 billion, up 10% year-over-year. The increase was driven by continued good loan and deposit volume growth, wealth asset growth, lower credit losses, higher insurance earnings, and good expense management.

Loan and deposit growth continued at a good pace in Q4 2015. Total loan growth was 5% year-over-year with real estate secured lending volume up 5%, business lending growth up 9%, and auto lending up 16%. Deposits increased by 6% due to strong growth in core checking and savings accounts which were up 10%. Business deposits grew 5%. In addition, wealth management assets were up 7%, mainly driven by new client money.

The margin declined 4 basis points quarter-over-quarter, primarily due to deposit margin compression and seasonal factors, very similar to our experience in last year's Q4. We expect margins to continue to remain under modest downward pressure, depending on product mix and competitive factors.

PCLs decreased 12% year-over-year, due largely to business banking PCLs which declined $26 million year-over-year, driven by higher recoveries. Adjusted expenses were flat versus last year, reflecting productivity savings from strong expense management, partially offset by higher revenue-based compensation in wealth. For fiscal 2015, Canadian Retail produced 135 basis points of positive operating leverage when insurance claims are netted from revenue. Overall, a strong result for Canadian Retail.

I should note that in 2016, we expect lower tax benefits in our insurance business of $30 million to $35 million per quarter due to legislative tax changes.

Please turn to slide 8. U.S. Retail, excluding TD Ameritrade, posted adjusted earnings of $407 million, up 6% from Q4 2014. Results for the quarter reflected strong organic volume growth and a lower tax rate, partially offset by higher PCLs. The fourth quarter included one month of the Nordstrom acquisition.

Revenue increased 6% year-over-year due to strong volume growth, broad-based fee growth and the addition of Nordstrom, partially offset by margin compression. Strong loan and deposit growth continued in the quarter. Total loan growth was a strong 12% year-over-year, with a 5% increase in personal loans and a 17% increase in business loans. Average deposits increased by 7%.

Margin increased 9 basis points quarter-over-quarter, with just over half of the increase attributable to the acquisition of Nordstrom's credit card portfolio. The balance of the increase was driven by balance sheet mix and accretion. We expect margins to remain under modest downward pressure in 2016.

PCL increased 47% year-over-year due mainly to provisions related to the flooding in South Carolina and the Nordstrom acquisition. Expenses increased 5% year-over-year mainly due to the impact of Nordstrom, higher legal costs and investing for business growth, partially offset by ongoing productivity savings.

Earnings from our ownership stake in TD Ameritrade in U.S. dollars increased 9% year-over-year due primarily to strong asset growth and higher transaction revenue. Overall, a strong result from the U.S. Bank this quarter. Please turn to slide 9.

Net income for Wholesale was $196 million, up a strong 23% from a soft quarter last year. Revenue increased 10% year-over-year, reflecting higher trading-related revenue, corporate lending growth and the positive impact of foreign exchange, partially offset by lower debt and equity underwriting fees. Prior year results included a reserve build for FVA.

Non-interest expenses were up 2%, driven primarily by the impact of foreign exchange and higher operating expenses, partly offset by lower variable compensation. ROE this quarter was 13%. Please turn to slide 10.

The Corporate segment posted an adjusted loss of $161 million in the quarter, compared to a loss of $165 million in the same period last year. The slightly lower loss was the result of lower net corporate expenses, partially offset by higher incurred but not yet identified credit losses due to higher loan volumes and some modest credit migration. Please turn to slide 11.

Our Basel III Common Equity Tier 1 ratio was 9.9% in the fourth quarter versus 10.1% in Q3. The decrease was driven primarily by the impact of the Q4 restructuring charge and growth in RWA due to strong loan growth in Wholesale and the U.S., including the acquisition of Nordstrom. Both our leverage and liquidity ratios are consistent with last quarter.

We announced our intention to launch an NCIB for 9.5 million shares or approximately $500 million of common shares, subject to regulatory approval. This is primarily to offset the share issuance for the dividend reinvestment plan and stock option exercises. Overall, we remain well positioned for the evolving regulatory and capital environment. Please turn to slide 12.

With respect to the restructuring charge announced today, the $243 million after-tax amount reflects the second phase of our productivity review which was first recorded in the second quarter of 2015. Similar to Q2, the second phase of the review focused on three key areas: process redesign and business restructuring; retail branch and real estate optimization; and an organizational review.

The expected ongoing annual savings from the restructuring are approximately $600 million, once fully realized in 2017. Some of this will be reinvested back into the business to fund technology and digital innovation.

With that, now let me turn it over to Mark.

Mark Chauvin – TD – Group Head and Chief Risk Officer

Good afternoon, everyone. Please turn to slide 13. We've had another good quarter to close out a strong year from our credit quality perspective. The increase in provision for credit losses during the quarter was attributed to one-time provisions of $34 million U.S. dollars to account for the South Carolina floods, $18 million in provisions relating to two borrowers in the oil and gas segment; and lastly, an increase in incurred but not yet identified provision for losses, largely due to volume growth.

The full year annual provision for credit loss rate was constant year-over-year at 34 basis points. Gross impaired loans remain stable at 58 basis points, up 2 basis points year-over-year. Based on current economic forecast, we expect 2016 performance to be largely in line with 2015.

I would like to speak in more detail to two specific areas. First, this quarter, we saw an increase of $140 million U.S. dollars in gross impaired loans resulting from the renewal of legacy HELOC interest-only products which are no longer offered by the U.S. Bank.

Let me take a minute to explain why this occurs and why I don't believe it will result in a material increase in credit losses. If a customer does not qualify under current underwriting standards when their interest-only HELOC comes due to renewal, we are required to classify the exposure impaired based on regulatory guidance even if the customer is still making their payments.

To put this into perspective, of the total U.S. legacy interest-only HELOC impaired population, 90% are current with their payments. We expect this trend in increased gross HELOC impaired loans to continue during 2016, leveling off by year end. Based on the current strength of the U.S. economy, increasing home prices and existing reserve levels, we do not expect to experience a material increase and HELOC credit losses in 2016.

Next, with respect to our oil and gas exposure, we were not surprised by the level of impaired loan formations this quarter. Ongoing analysis indicates that the oil and gas non-retail credit portfolio continues to perform within expectations given the current level and near-term outlook for commodity prices in this sector. We are beginning to see signs of deterioration in the oil-impacted provinces consumer credit portfolios which, again, are well within our earlier expectations. Based on ongoing stress tests conducted against the credit portfolios, I remain comfortable that the potential impact of low energy prices on the Bank's credit losses remains well within the range of a 5% to 10% increase over 2015 levels.

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

QUESTION AND ANSWER

Operator

And we'll go ahead with our first question from Gabriel Dechaine of Canaccord Genuity. Please go ahead.

Gabriel Dechaine – Canaccord Genuity – Analyst

Morning – or afternoon, sorry. The general provision that you took, the general allowance, you talked about the overall growth in the book, in the loan book, but also some migration. I'm wondering if the migration issue is related at all to some of the data I'm seeing in your supplement here.

On page 76, it showed the big increase, $9 billion quarter-over-quarter in RWAs for corporate exposures. And then if I look at page 66, the fair bit of migration into the non-investment grade category and the low end of the investment grade category. Are those related, and if not, what was behind the capital move?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Hello. It's Mark. Maybe I'll take the provision question first or the allowance. The increase in the general allowances, so the old terminology for it which I continue to use, was really two-thirds volume growth, so just an increase of business activities. And there's been a lot of growth in the various sectors which you pointed out.

And I'd say about one-third of it would be migration in the oil and gas sector because we had anticipated through the lower oil prices that this would increase, the accounts would drift down into lower non-investment grade or even into the non-pass grade, and that's kind of living within the expectations that we originally expected. And originally, we also expected that it would be relatively small in the impaired area and that's being consistent with what we thought as well.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. And the capital?

Bharat Masrani – TD – Group President and CEO

Gabriel, this is Bharat. I'm not understanding the question related to capital.

Gabriel Dechaine – Canaccord Genuity – Analyst

In your RWA disclosure, big increases in RWAs for corporate exposures and in the...

Bharat Masrani – TD – Group President and CEO

Volume growth.

Gabriel Dechaine – Canaccord Genuity – Analyst

That's volume growth? Okay.

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

Yeah. This is on a quarter-over-quarter basis. We did have strong RWA growth, and as I mentioned, it was mainly in U.S. Bank as well as in the Wholesale side and...

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay.

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

...that's business volume.

Gabriel Dechaine – Canaccord Genuity – Analyst

Okay. And then just my, I guess, bigger picture question, Colleen, you said some of the $600 million would be reinvested. What does that mean? Proportionally, how much is reinvested? How much is falling to the bottom line, if you will?

And then I guess Bharat as well, going through these big changes and big restructurings, we just see the numbers but is it making it more difficult to manage the Bank or to manage the culture, more specifically? TD may have been historically more of a revenue-focused bank, at least in my opinion. And drilling down this cost culture, I wonder how much of an impact that's having on the Bank and your strategies.

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

So, Gabriel, why don't I start. So I did mention the $600 million in savings by 2017. So we had about $100 million of savings in 2015, about $400 million into 2016 and then another $100 million or so in 2017. So, it takes a while to fully phase that in.

I'll just step you through sort of the math and the way we think about our overall rate of expense growth. And I know I've done this before, but I'll just step back in terms of the general math. So if we look at 2015, we did have higher investment in projects and initiatives, and that drove on its own about 2% expense growth, and our base expenses grew by about 3% so that's, I'll get into a sort of an explanation of that as well. But then we achieved productivity savings which then reduced our expenses probably by about 2%. And we also have a few positive non-recurring items this year that helped us, and then the remaining growth was due to higher direct drive variable compensation.

So if I sort of explain a few of the amounts of projects and initiatives, as we've mentioned, we're investing more in our digital and mobile capabilities, technology modernization and transformation. And it's important there to be able to increase our agility and reduce cost, regulatory infrastructure, particularly areas like Dodd-Frank. And an increasing project portfolio also impacts depreciation cost going forward because some of our project costs are capitalized. So that gives rise to an increased investment in projects and initiatives.

And then base expenses, we have things like merit and volume growth as well, but then we obviously do try to bring our unit cost down. So then obviously looking ahead, as revenue growth remains challenging, we need to make sure that we can reduce our expense growth, and that's where restructuring does come into play and some of the numbers that I just mentioned. And the name of the game at the end of the day is to try to moderate our rate of expense growth, and I think you certainly saw us do that in 2015.

Bharat Masrani – TD – Group President and CEO

And, Gabriel, this is Bharat. On the second part of your question, in a simplistic way, revenue growth, again this is simplistic, it comes in two ways at least from TD's perspective. First and foremost is our outperformance, our desire to grow the Bank. We take share on a consistent basis. And that part of the revenue growth continues to be the story at TD, and I feel great that we're not losing our mojo on that.

The second part of revenue growth comes from the macro environment. And what we've seen over the recent past, and we've been talking about it, is that the operating environment is challenging. And that part of the growth for the whole industry is challenging. And hence, you see how revenues have worked out. So I think your supposition that we are losing our revenue focus and revenue mojo would be incorrect in the way I look at it.

With respect to driving costs down and looking at that side of our P&L, I'd say that this is nothing new to this Bank. It is very much part of our culture to adapt to the environment we find ourselves in. When we have a low growth revenue environment, the way I described it, we will adapt, and we will adapt to make sure that our business model continues to be viable and that we are investing for the future.

And there are a lot of forces here. Most of them are positive, in fact, from my perspective, but it requires investment, and that's what we are doing. We are adapting to the environment as we have done many, many times before, and I would consider that to be one of the strengths of TD.

Gabriel Dechaine – Canaccord Genuity – Analyst

Well, I wasn't implying you were going to lose revenue focus, but thanks for the answer there. And, Tim and Colleen, it's been a pleasure dealing with you over the last few years. Good luck in your new roles, and hopefully we cross paths again.

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

Thank you.

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

Thank you.

Operator

Your next question will come from the line of Steve Theriault of Bank of America. Please go ahead.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Thanks very much. Just to follow up to start a little bit, Bharat, you said in your opening remarks that your organizational review is largely behind you. After the Q2 charge, you made it known that there was another one likely on the way in Q4. So, my question is, is that it on the restructuring front for the foreseeable future, or is there the possibility of a phase 3 coming over the course of 2016?

Bharat Masrani – TD – Group President and CEO

The current program that I talked about in Q2 is now, we are at the tail end of it, is complete. And that's the best way I can answer your question. I mean never is a long time, Steve, so I don't want to be commenting multiple years here. But the phase that I talked about in Q2 and the difficult decisions we have made around it to reposition the Bank as we have done is now complete.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Okay. So not forever, but certainly over the next – for the next year or so, you wouldn't expect to see anything else?

Bharat Masrani – TD – Group President and CEO

This phase is complete, yes.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Yeah. Okay. And then seeing some even better momentum this quarter in indirect auto in Canada and in the U.S., so for Tim and/or Mike, just wanted to confirm that this momentum is coming from prime and super prime segments or are you getting any more comfortable wading a little bit more into the near prime space. I know you flagged some new systems as a catalyst for growth. So now, you've had some time, I guess, to use those systems. You've seen some acceleration. Can you talk about the kind of growth

you're expecting maybe next year and maybe comment on the competitive environment generally, particularly in the U.S.?

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

So, why don't I start in Canada and look backwards as opposed to forward a little bit maybe. So, you saw the 16% growth. As you know, the prime book that we have is about a little less than 90% of the total book. And in fact, it was growing much faster than our non-prime segment throughout 2015. That's largely driven by, in fact, almost predominantly driven by the growth in originations year-over-year in the subvented loans which are, from our point of view, a higher degree of profitability.

Even with lower margin, they actually have even lower PCL rates. So, we're quite comfortable that it's a combination of a strong auto market as you saw in North America, number one, and that we're not going any way out the risk curve. And in fact, with our relationships with OEMs, we're quite comfortable that we can grow a profitable subvented business. Going forward in Canada, we see similar trends, but probably not taking the share that we have in this past year.

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

It's Mike. From a U.S. perspective, you've probably seen how strong auto sales have been in the U.S., record levels for the last three months, and we're doing very well in this environment. To answer your question, our growth is overwhelmingly in the super prime and prime segments, and we're gaining share there.

Our current mix is about 60% super prime, less than 10% near prime, and the rest is prime, so very, very high-quality credits, and the credit metrics are excellent. I would say that we look at this on an ongoing basis depending on what's going on in the sector in terms of pricing, margins and so on. So we'll swing from those numbers from time to time, but the growth is very good.

I would just add that in the U.S., this is a business where service matters. And as you know, that's something TD is very good at. And in our U.S. auto business, this year, we've moved from number 14 in J.D. Power to number 3 this year because of some of the changes we've made recently. So, that's part of what's driving our good growth.

Steve Theriault – Bank of America Merrill Lynch – Analyst

And are the new systems, is the end result of the new systems better distribution into the dealers, or does it lend more comfort to your underwriting standards over time? Maybe I don't understand the new systems well enough.

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

I think it's a little bit of both. There was a bit of bumpiness last year in Canada when we introduced it, so some of the share gain is getting through that frankly. And as Mike said, better service to the dealer gets better response times. And so as a result, that helps you build share.

Steve Theriault – Bank of America Merrill Lynch – Analyst

Okay. Thanks. And Tim and Colleen, my congratulations as well. All the best.

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

Thank you.

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

Thanks.

Operator

Your next question will come from the line of Meny Grauman of Cormark Securities. Please go ahead.

Meny Grauman – Cormark Securities – Analyst

Hi. Good afternoon. Mark, you mentioned deterioration in consumer credit in oil provinces. I'm wondering if you could just be more specific in terms of what you're seeing, what's that deterioration that you're referring to?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Yes. So, what we're – we've been watching it very closely, especially the impacted Prairies provinces which would be Alberta, Saskatchewan and Newfoundland. And what we're seeing in two categories, being the indirect auto but the non-prime segment primarily and then in the card segment, we've seen a gradual increase in delinquency rates over the last four months or five months. And they haven't translated into a very large PCL at this point.

I'd say in the cards, it's really somewhat de minimis. But we are seeing it in the non-prime auto which is maybe in the single digits of $4 million to $5 million range that we would attribute in the Q4. So in many respects, we look at that as an early indicator because that would be the customer that would be more challenged than the typical customer.

Now, I'd stress that these two categories are less than 1% of our total book and that we expected to see losses of this level. So after a couple of quarters of saying we haven't seen them yet, we're now starting to see them. But they're not changing our view or my expectations relative to the impacts. It's kind of just being consistent to what we thought.

Meny Grauman – Cormark Securities – Analyst

Thanks for that. And then maybe just a bigger picture question for Bharat or Tim. It seems like Canadian P&C banking is getting tougher. And not just related to macro developments; it seems like lagging competitors are getting better and strategies are seeming to converge. I'm just wondering what your perspective is and what you're seeing in terms of competitive dynamics and how they're changing more recently.

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

Meny, it's Tim. I think that's true, the competitive elements, because the space itself in traditional retail banking has always been our basic bread and butter, and I think it will be more competitive. But this is a team that, as Bharat has said, adapts. And I could probably say having been here many years that I've never seen the innovation quotient inside the organization as high as it is right now which is a wonderful thing to see. And it's all centered on serving our customers better.

And so, you'll start to see some great things in the future rollout, just as you have in the past that will continue to keep us at the forefront of competitiveness.

Meny Grauman – Cormark Securities – Analyst

Thank you.

Operator

Your next question will come from the line of Sohrab Movahedi of BMO Capital Markets. Please go ahead.

Sohrab Movahedi – BMO Capital Markets – Analyst

Thank you. Tim, just on Canadian Retail, 2013, 2014, 2015, the NIX ratio on an adjusted basis has been in that 42.2% to 42.7% range. So, is that about as good as it's going to get, or is there opportunity with some of these restructuring charges and the like that that number can drift lower?

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

Well, I'm tempted to make predictions, but I'm looking at Teri next to me, and I don't think that's probably a good idea going forward. Look, we've constantly been striving for an ever-lower NIX ratio. But over the last decade, a good portion of that has been through increasing operating leverage as a result of strong revenues.

So as you know, even with the restructuring charges and with a lower expense growth environment, it is also a lower revenue growth environment. So, our target continues to be to reduce the efficiency ratio even lower, but that will probably flow over the next period of time with low revenue.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay, okay. And Mike, last year this time around, you provided some metrics around, I think, a number of products per customer or something that you would keep track of internally as to how well you're deepening the relationship with your customers in the U.S. Did you have whatever metric that you measure? What is that this year versus last year?

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

Yeah, so it's up in all of the respects that I measured last year. I'm very pleased with the progress we're making on deepening relationships, and that goes for retail, for small business, for commercial, for corporate. This is a broad effort across the entire U.S. Bank. The ones I probably mentioned last year are ones like these. So, one thing we measure is how many products and services does a customer sign up for when they're brand new, i.e. when they come into a store for the first time.

And in 2014, that was 2.7 products and services. It's now 4.3 which is a terrific increase. And even in the last quarter, it was up another 6 basis points. And an example of that is that it used to be that new customers, 37% of them, would walk out with a savings account. It's now 61%.

Another thing I might have shared was for existing customers, so this is all our 8 million customers. And when we began this in 2014, they had 4.82 products and services per household. We measure it in households for existing customers. A year ago, that had gone up to 5.17. We're now at 5.46, and that was up 7 basis points in the fourth quarter. And as an example of the progress there, our card penetration when we began was at 9.6% of households. It's now at 15.3% of households. So, really good progress.

On commercial banking for example – I'll stop now. But closed referrals to wealth and treasury management are both up by more than 25% year-over-year. So there's a major focus that's going well.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. Perfect. And sorry, I'm going to sneak in one last one here. Since 2012, lots of focus on the cards business, MBNA, Aeroplan, Nordstrom, about – by my math, let's say, a couple of billion dollars of capital deployed, but probably close to $500 million to $550 million of integration and various other after-tax charges as well. Are you getting the types of IRRs you expected to get from these portfolios?

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

Sohrab, it's Riaz. So, the short answer to your question is yes. I think if you look at the target acquisition and the portfolio acquisition there and then we added Nordstrom to it, I think you can safely assume that we're very happy with those deals. And as we – because they contribute a fair bit to our understanding of the business and also as we, in the longer term, think about how we could pursue more service and retain deals.

And in Canada, Aeroplan, as we indicated earlier, we are now the lead issuer. And if you look at the premium we paid to get Aeroplan, it was rather little. So that has been a transaction that has worked out nicely for us. And as we continue to work that asset and work with Aimia, we have a very improved relationship. We've got some fantastic product improvements that we continue to work on, and so that relationship has been very good for us.

On the MBNA side, we acquired a good capability there, and you can see in our numbers that we're beginning to grow that business again, and it's starting to edge our balances back up again. So I'm very pleased with that. And I think, again, over time, the platform that we have there will prove out to be very strategic to us in how we develop the U.S. business as well. So, yes, I'm very happy with the overall acquisitions and how they're doing.

Sohrab Movahedi – BMO Capital Markets – Analyst

So like, for example, you would have factored in this $50 million after-tax this quarter on the Nordstrom acquisition?

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

Yes.

Sohrab Movahedi – BMO Capital Markets – Analyst

Okay. Thank you.

Operator

Your next question will come from the line of Robert Sedran of CIBC Capital Markets. Please go ahead.

Rob Sedran – CIBC World Markets – Analyst

Hi. Good afternoon. I'm kind of used to catastrophe losses in TD Insurance but less so in the banking businesses. I'm curious what kind of loans we're talking about in South Carolina related to that flood. What kind of security may or may not be attached to them, and what kind of assumption do you have around the performance of those loans?

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

It's Mike. Most of it is residential real estate loans. There are some small business, some commercial.

Rob Sedran – CIBC World Markets – Analyst

So, is the expectation that the flooded property is worthless and therefore, the loans are as well? Or is there some collection assumed on that?

Mark Chauvin – TD – Group Head and Chief Risk Officer

So, it's Mark. The difference was that the properties that were impacted were in areas that aren't normal – would not normally flood. Therefore, they didn't have flood insurance. So, it's largely the fact that they're not insured.

Rob Sedran – CIBC World Markets – Analyst

Okay. So, the property is effectively – the loan is effectively worthless then in those cases?

Mark Chauvin – TD – Group Head and Chief Risk Officer

No, I wouldn't say that. I think that would be an extreme. I mean it was proven we had a situation in Alberta that was very similar, and that wasn't the case. But the reality is it just – there was an assessment made at the properties and the areas where the insurance was less. And we just did what we thought was an appropriate reserving level.

Rob Sedran – CIBC World Markets – Analyst

Can you give a sense of the LTV on these loans?

Mark Chauvin – TD – Group Head and Chief Risk Officer

No, I wouldn't have that detail at this point.

Rob Sedran – CIBC World Markets – Analyst

All right. Maybe I'll follow up. Thank you.

Operator

Your next question will come from the line of Sumit Malhotra of Scotia Capital. Please go ahead.

Sumit Malhotra – Scotia Capital – Analyst

Thanks. Good afternoon. For Bharat or Colleen, when I look at your page 2 of your supplement, you give us your efficiency ratio on an enterprise basis, adjusted. And I think it's been three years now that this ratio has moved in the wrong direction for the Bank. Now that you've taken this level of restructuring charges in 2015, do you think we're at the stage now where, whether it's an official target or at least a goal of being able to deliver positive operating leverage or lower efficiency at an all-bank basis for TD, it becomes a more realistic objective going forward?

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

Sumit, I'll start. It's Colleen. So, when you look at that efficiency ratio as published, we don't show that net of claims revenue, net of claims, which is actually really the way we think of it when we think of operating leverage because there's a lot of revenue items that move between revenue and claims in the insurance business. So, we think that's sort of the better way to look at it.

So obviously, on that basis, we did achieve positive operating leverage for 2015 which would indicate an improvement in the efficiency ratio. So I'll turn it over to Bharat to talk about his view of the ability to drive positive operating leverage going forward.

Bharat Masrani – TD – Group President and CEO

Hi, Sumit. Of course, our goal, our aspiration is to generate positive operating leverage. What we have said is that there may be instances, and sometimes it takes a few quarters, where there are compelling investment needs as well.

We never want to give up the opportunity to make the right investments for future growth. And that's how we've been running the Bank for many, many years. So there could be instances where we are not achieving our goal, but our overall aspiration and goal is to drive operating leverage for the whole bank.

Sumit Malhotra – Scotia Capital – Analyst

And in the aftermath of the restructuring, do you think this is a more – this is something you can deliver more consistently in the coming years, or is a lot of that benefit offset elsewhere in your view?

Bharat Masrani – TD – Group President and CEO

No. As Colleen mentioned, our expectation is that the restructuring charge will continue to allow us to make the right investments but would also result in lower expense growth than you might have seen previously.

So we're saying our expense growth will be more moderated going forward, thanks to the restructuring efforts that we undertook, as well as allow us the capacity to reinvest. And reinvestment, we feel, is important. That's the way TD has been able to drive growth consistently, and we feel that we should continue doing that

Sumit Malhotra – Scotia Capital – Analyst

And then quickly for Mike Pedersen, when I look at your business on a constant currency basis, 5% earnings growth in 2015, but for all that – for all my questions about expense growth, it looks like your expenses were actually outright down along with provisions. Your outlook calls for another year of moderate growth in earnings. In your view, however, is this more of a – is this to be driven more by revenue now or is that a piece of the puzzle that you still see as challenged heading into 2016?

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

Yes. So, it's a good question. So, the outlook is basically that in the absence of rate increases, we still expect modest growth and that's because we expect good volume growth and good expense management. But we do think we'll have margin pressure, although perhaps more moderate than this year, and we think PCLs will normalize. And then there's always potential regulatory headwinds and so on.

On expenses, we'll invest in the business but we do want to see positive operating leverage in the coming year, and rate increases would obviously be a revenue upside in that respect. The expenses in 2015 for the full year were down over 2014, if you take out Nordstrom. So, we were very pleased with that. I don't think we'll repeat that in 2016. We are investing in digital, in our sales forces, new stores, technology, regulatory stuff. And we've, of course, got inflation and so on. But I would, as I said, expect positive operating leverage in 2016 for the U.S. business.

Sumit Malhotra – Scotia Capital – Analyst

Thanks for your time.

Operator

Your next question will come from the line Peter Routledge of National Bank Financial. Please go ahead.

Peter Routledge – National Bank Financial – Analyst

Hi. Thanks. A quick one for Tim. On page 16 of the presentation, you show the net interest margin for Canadian Retail. And I understand why deposit margins might be dropping, but I was curious as to why loan margins weren't rising, particularly since it looks like indirect auto is your fastest growing asset class.

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

So of the 4 basis points of the Canadian Retail, 3 basis points at the P&C level, essentially, we had, as you know, there's couple of basis points due to lower deposit margins. We have about 1 basis point that's from, as we always have in Q4, seasonally lower real estate mortgage breakage activity. And then there's a number that is basically smaller items which are sort of balance sheet mix.

As you know, there's a prime BA compression effect that is happening. But it was sort of late in the quarter, so that would be a small effect although that probably would be a bit larger in Q1. But I would say overall, other than those factors, it continues to be quite a competitive environment. I would say mortgage margins in particular in Q4 were more under pressure than you normally would have seen.

Peter Routledge – National Bank Financial – Analyst

Okay. And then coming back to the capital question, I noticed on the same schedule Gabe referenced, RWAs in your standardized class are growing much faster than in your internal ratings base. So I wonder what dynamics are going on that is causing that?

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

Peter, the growth that Mike referred to in the U.S. Bank, we're on standardized basis for the U.S. Bank, right?

Peter Routledge – National Bank Financial – Analyst

Yeah, yeah. So, that's where I'm going. If you were to be able to shift the U.S. Bank from standardized or parts of the U.S. Bank from standardized to internal, what does that do to your RWA inflation? I mean absent any one-time change in RWA on a roll forward basis, do you get less RWA inflation when you get to internal ratings-based approach?

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

I think, Peter that we would, although, as you know, the AIRB approach is also more pro-cyclical. So, you'd get lower inflation but you might get more volatility.

Peter Routledge – National Bank Financial – Analyst

Okay. And where are you in terms of moving from standardized to AIRB in the U.S.?

Mark Chauvin – TD – Group Head and Chief Risk Officer

Peter, it's Mark. So, our applications have been filed with OSFI, so we're really doing it for Canadian rules. And really, our expected timeline to hear is sometime in 2016.

Peter Routledge – National Bank Financial – Analyst

Okay. Thank you.

Operator

Your next question will come from the line of Mario Mendonca of TD Securities. Please go ahead.

Mario Mendonca – TD Securities – Analyst

Good afternoon. A question, perhaps for Riaz. The Bank's Basel III Common Equity Tier 1 ratio 9.9%, leverage ratio of 3.7% tied for the lowest in the group in both cases. What I'm trying to understand is from your perspective, the Bank's perspective, does TD's business mix support a lower capital ratio, might be a lower leverage ratio? Is that something that is tolerable because of the business mix?

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

When we've undertaken a deeper examination of the capital ratios and how they might behave under various scenarios, Mario, we do remain very comfortable. And so, I think that where we are at CET1 now feels, and leverage ratio, feels fine to me.

Mario Mendonca – TD Securities – Analyst

And these scenarios clearly aren't formed by the business mix then? Like that's the reason why you don't get the volatility, is that fair?

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

We're not, for example, in the deeper sub-prime businesses as an example. And as I mentioned earlier, our U.S. Bank is also on a standardized basis, and we have a lower-risk wholesale dealer. So, I think that you would expect all that to be consistent with the result.

Mario Mendonca – TD Securities – Analyst

Okay. So, just taking this one step further then, and this is a discussion on ROE. It's the issue that's sort of been running through my mind a lot lately. TD is the only bank that doesn't provide an ROE outlook. And I bring this up in the context of the CET1 because if we were to try to normalize for that CET1, TD's ROE would be still lower.

And it's also entirely reasonable to expect that the ROE drops further in 2016, given everything we're talking about. The nature of the question is this, when the senior executive team sits down to meet on various issues, does ROE and an ROE outlook, does that get any airtime at all?

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

Mario, we actually continue to look at ROE very much so. I think if you look at our capital mix and say that it is the appropriate ROE mix, you have to also look at the fact that we acquired a fair number of our businesses and particularly the U.S. segment. So, you have to look at our ROE. We have never written anything off in the past. So, if you're doing a peer analysis, you have to sort of look at that and adjust for those as well because people tend to forget what you did for me in the past.

So, I think overall, we feel comfortable and I think where our ROEs are currently, I think it's a reasonable place to be in, given the market conditions right now.

Mario Mendonca – TD Securities – Analyst

So, I'll just...

Bharat Masrani – TD – Group President and CEO

Mario, this Bharat. Let me add something to it. Of course, we look at ROE. Returns are important to the Bank. And I think in addition to what Riaz just said, it is also important to see what kind of operating ROEs we are generating out of our businesses because that is very important to us, as to whether we are generating good returns on organic growth strategies, which is a key pillar for our success going forward.

And I feel quite comfortable that on an operating basis, not only in many cases we're outperforming many of our competitors, but we are showing healthy levels on a consistent basis. So, I just wanted to make sure that that perspective is added as well.

Mario Mendonca – TD Securities – Analyst

Sure. Yes. It's a sincere question because the market has awarded TD the highest multiples, so maybe the answer is it doesn't matter and that's kind of why I was asking the question. Appreciate your time.

Bharat Masrani – TD – Group President and CEO

That's a good question. And I think the bottom line is, of course, we look at returns in everything we do. It's an important metric, but it's important to keep our history. And I think you rightly pointed out the business model we have and what concentrations we have in Retail versus Wholesale and the type of retail businesses we do. All that plays into what kind of risk-adjusted return you should expect from the Bank.

Mario Mendonca – TD Securities – Analyst

Thank you.

Operator

Your next question will come from the line Darko Mihelic of RBC Capital Markets. Please go ahead.

Darko Mihelic – RBC Capital Markets – Analyst

Hi. Thank you. Question for Mike. Just with respect to the NIM being up 9 basis points, half of that being to Nordstrom, what was the other half up for? And then secondly, why do you maintain such a dour look on margins given that Nordstrom is only in there for one month in this quarter? So presumably, it'll have a nice positive impact for the rest of next year. What is it that's causing such a dour look on margins?

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

Yeah. So, I wasn't talking about the Nordstrom effect, Darko, so like ex-Nordstrom. So, to answer your first question, a little over half of it was Nordstrom. The other was mostly mix, so we had strong loan growth and then there was a bit of accretion. And those things offset some loan margin compression.

And so if you look at the loan margin compression, and you'll see this with the other banks, we've continued to see some pressure there probably in the neighborhood of 3 basis points in the quarter. I think that'll continue but moderate going into 2016, but that is a core trend still. And the issue is that higher margin loans are rolling off than what we're originating. So, market forces aside, it should to start to abate late in 2016 and into 2017, depending on the category.

So, as I look out at the margin outlook for 2016, I still think that take out Nordstrom and what else may happen in terms of mix and accretion and so on, that there are core pressures both on loan and deposit margins. Obviously, a rate increase or two would also help that, but that's the context of my comments.

Darko Mihelic – RBC Capital Markets – Analyst

And just to confirm, there's nothing on the tractoring side that's changed?

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

No.

Darko Mihelic – RBC Capital Markets – Analyst

Okay. Thanks very much.

Operator

And there are no further questions at this time. I would now like to turn the call back over to Mr. Bharat Masrani for closing remarks.

Bharat Masrani – TD – Group President and CEO

Thank you very much, operator. Just to conclude, great quarter. Very happy with the progress we are making in the Bank, good year-over-year performance, and looking forward to 2016 or a good start to 2016.

I just want to take a minute to recognize some executives that you've dealt with over many years. We have new positions, new responsibilities for some of them. The first three I'll mention is Riaz, Tim and Teri. I think many of you met with them and dealt with them, so I wanted to thank them for building the Bank we have and looking forward to working with them in their new positions as they add even more value to the TD shareholder.

And also, I want to take this opportunity to thank Colleen. This is Colleen's 40th investor call as the Bank's CFO and you've dealt with her on an ongoing basis. Colleen obviously has done a terrific job for the Bank. Thank you for that, Colleen. And I know you've set the bar very high for Riaz, and I'm sure he'll be thinking about that through the holidays. So, thanks very much.

And I think Colleen wanted to say a word. Before I pass it on to her, in case I don't see many of you before the holidays, happy holidays and very best for the New Year.

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

Well, thanks, Bharat. And if you'll indulge me, I just like to say that being CFO of this venerable institution for 10 years has really been a dream come true for me, and I've absolutely loved it. A big part of that has been our investors and analysts, and it's been a true, true privilege to work with you as CFO. I just can't say that enough. So, thank you for your trust and confidence and for your wise advice. It's actually been fun.

And to my incredible team, what can I say? You are awesome and tireless and you're second to none anywhere in the world, and I couldn't have asked for more from you. So, it's been a great run with more to come, and I'm delighted with Bharat's faith in me and the Board's faith in me as I head into my new exciting role, so thank you very much.

Bharat Masrani – TD – Group President and CEO

Thanks, Colleen. And thanks very much, all. See you then.