TD BANK GROUP

TD, AIMIA AND CIBC CONFIRM AGREEMENTS REGARDING AEROPLAN CONFERENCE CALL

SEPTEMBER 16, 2013

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With respect to the program agreement and the proposed purchase of part of the existing CIBC card portfolio, there can be no assurance that TD will realize the anticipated benefits or results; actual results could differ materially from the expectations expressed in the forward-looking statements. Examples of material assumptions made by TD in the forward-looking statements, including TD's expectations regarding the impact to earnings in 2014 and 2015, include: costs to launch the cards; performance of the acquired credit card portfolio; ability to attract and retain new credit card accounts; costs associated with conversion of accounts; cost of funds; and the amount of migration payments. Earnings per share contribution estimates above are based on TD's average number of diluted common shares outstanding for the quarter ended July 31, 2013.

Other factors that may cause actual results to differ materially from the expectations expressed in the forward-looking statements include: higher than anticipated costs to launch the cards; lower than anticipated (i) interchange rates, account origination, or card usage, (ii) appeal or market acceptance of Aeroplan's program, and/or (iii) yields (finance charges/fees); industry competition; risks associated with conversion of accounts; cost of funds; necessary approvals, and other closing conditions, in respect of the acquisition are not received or met; differences in the credit performance and risk characteristics of the Aeroplan program relative to TD's expectations; and changes in network rules, regulatory or legal environment.

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Sumit Malhotra
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Brad Smith
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PRESENTATION

Rudy Sankovic – TD – SVP, Investor Relations

Good morning and welcome to TD Bank Group's announcement of our three-way agreement with Aimia and CIBC in connection with Aeroplan.

My name is Rudy Sankovic and I'm the Head of Investor Relations at the Bank. We will begin today's presentation with some remarks from Ed Clark, the Bank's CEO, after which Riaz Ahmed, Group Head Insurance, Credit Cards & Enterprise Strategy, and Colleen Johnston, the Bank's CFO, will offer some brief comments. Also present to answer your questions this morning are Mark Chauvin, the Bank's Chief Risk Officer, and Michael Rhodes, Executive Vice President of North American Credit Cards & Merchant Services. After our prepared remarks, we will open the call for Q&A.

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

Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting the Bank'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 also would 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 a better understanding of how management views the Bank's performance.

With that, let me turn the presentation over to Ed. Ed?

Ed Clark – TD – Group President and CEO

Thank you, Rudy. Good morning, everyone and thank you for joining us today on such short notice. I know you're all aware of the exciting news announced today – that we have signed agreements with CIBC and Aimia under which TD will become the primary issuer of Aeroplan Visa credit cards on January 1, 2014, and that TD will acquire approximately 50% of the existing Aeroplan credit card portfolio from CIBC. Riaz and Colleen are going to provide you with the details of the agreement. Let me provide you with some overall comments on how this deal fits into our strategy and why we have decided to do a three-way deal.

First though, let me congratulate the teams from all three companies. This was a complicated deal. Three-way deals are hard, but the teams hung in there, stayed focused on getting a better deal for everyone and got it done. Let me also congratulate Rupert and Gerry; your leadership was essential, thank you for providing it.

As you all are aware, we identified some time ago our desire to grow our card business. We have had tremendous success, moving from the fifth largest card issuer in Canada to number one today. We did this by producing great products for our customers sold through our wonderful distribution channels. We added size and capability by acquiring the MBNA business in Canada – capability to attract non-customers with credit needs. This has turned out to be a spectacular acquisition.

The Aeroplan Visa card represented an opportunity to secure the most popular travel card in Canada. So, we naturally jumped on the opportunity to bid to be Aimia's new card issuer when that chance arose. With this deal today, we will not only solidify our position as the number one card issuer in Canada, as measured by outstanding card loan balances, we also now have an unrivalled line-up of products and capabilities.

Having secured the agreement with Aimia, why then do today's deal? For a number of reasons. It is better for the customers. That's very important for us. The transition to us for the 50% of the portfolio we are acquiring will be seamless.

At the same time, we maintain our exclusive mass marketing rights and our position as the primary Aeroplan Visa issuer. This puts us in a position to grow the portfolio aggressively.

The risks with this deal are dramatically lower and the profile of earnings better because we are gaining an immediate, solid, earnings base.

And finally, life teaches you something – that working to get deals where everybody wins is always preferable.

I want to thank our wonderful TD team. You delivered, for TD, a great strategic and financial deal.

With that, I'll turn it over to Riaz.

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

Thanks, Ed. Please turn to slide four.

As Ed mentioned, these transactions significantly advance our card strategy and give our customers the ability to choose from among the premiere card products available in the marketplace. With the addition of Aeroplan, we will now have two top travel cards. And with MBNA, we have the leading revolver card. We have a world-class distribution system within our retail branch network. And to leverage all of these capabilities, we have substantially strengthened our management team and resources and are pleased to have Michael Rhodes leading the business for us.

The new Aeroplan Distinction program represents a significantly improved value proposition for Aeroplan members. To begin, we plan to launch five new Aeroplan Visa cards, which will have both Aeroplan Distinction and new Air Canada benefits.

For January 1, 2014, we expect to launch a series of new cards for consumers, including a TD Aeroplan High Net Worth card, an Infinite card and a Platinum card. We will also be launching a separate Small Business card. And a fifth card, the TD Aeroplan U.S. dollar card, is targeted for launch later in 2014.

Second, Aeroplan members will be able to use miles earned at their leisure as there will be no miles expiration. It will also be easier to earn flights under the new program, requiring 20% to 50% fewer miles for a flight under Market Fare Rewards. And it will be much easier to earn miles under Distinction as we will have a network of more than 150 partners, through which members can generate rewards. Just to give you some context for the size of the program, approximately 1.6 million flights were redeemed in 2012.

Finally, our agreement with CIBC will also provide a much more comfortable customer experience, as there will be no interruption in the earning of miles. We will have joint communication to plan members and CIBC will provide continuing services to cardholders for TD in advance of portfolio conversion. As you can see, there is a lot to be excited about.

Please turn to slide five.

We have listed on this slide the key terms of the updated agreement between TD and Aimia. TD and Aimia will work together under a 10-year program agreement to develop and offer an excellent Aeroplan Card program. This commitment includes an upfront payment from TD to help facilitate the launch and development of the new Distinction program and joint marketing commitments to help promote and grow the program. TD will guarantee to Aimia payments based on Aeroplan miles purchased by both TD and CIBC. And for its part, Aimia has given TD certain point value protections.

TD will have the exclusive right to mass market the Aeroplan Visa card, while CIBC will continue to issue cards through its bank channels, primarily to CIBC customers. In addition to the TD Aeroplan Visa card, TD will be working to develop a complementary suite of other Aeroplan co-branded bank products.

With this 10-year agreement, we will be able to offer both immediate benefits and incredible potential to our existing and future cardholders.

I will now turn the call over to Colleen to discuss the terms of the purchase.

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

Thanks, Riaz and good morning. Please turn to slide six.

This slide lays out the key terms of purchase between TD, Aimia and CIBC. With respect to the acquisition of the existing portfolio from CIBC, TD will acquire approximately $3 billion in card balances, totaling $20 billion in customer spend and 550,000 accounts.

To acquire CIBC's Aeroplan accounts, TD will make a payment at closing in the amount of par plus $50 million. In connection with this acquisition, TD and CIBC entered into a separate commercial subsidy agreement, whereby TD is to pay CIBC $112.5 million plus HST over three years.

Depending on the migration of Aeroplan-branded credit card accounts between CIBC and TD over the next five years, there is a potential for payments of up to $400 million by TD and Aimia or CIBC. TD will be responsible for – or entitled to receive – up to $300 million of these payments.

Please turn to slide seven.

From an earnings standpoint, we expect that the agreements with CIBC and Aimia will positively impact our 2014 adjusted earnings per share by approximately $0.10. The impact will be dilutive by approximately $0.07 on a reported basis.

The difference reflects the commercial subsidy agreement with CIBC, some integration and conversion costs and amortization of intangibles.

In 2015, we expect a contribution of approximately $0.15 per share on both a reported and an adjusted basis. We expect our Basel III Common Equity Tier 1 ratio to decrease by 19 basis points on close.

With that, I'll open the call up for Q&A. Operator?

QUESTION AND ANSWER

Operator

Thank you. Your first question on the line today comes from Robert Sedran with CIBC. Please go ahead.

Robert Sedran – CIBC – Analyst

Good morning. Can I just ask what percentage of the acquired customers have TD checking accounts or would otherwise would be considered TD customers today?

Ed Clark – TD – Group President and CEO

I don't think we know that exact number. Until we get to do a cross-hatch, which we weren't allowed to do, we won't be able to answer to that. But I think you could probably assume that we have our normal market share of that number in the half.

Robert Sedran – CIBC – Analyst

Okay. And then in terms of the accretion that's forecast, is there any assumption around any potential leakage from the deal to customers that may not be yours, that might go home to their institution, or do you just assume you keep the entire 50%?

Ed Clark – TD – Group President and CEO

In terms of the – you're talking about the attrition payment?

Robert Sedran – CIBC – Analyst

No. I'm asking in terms of the accretion to earnings that you're forecasting for the deal, are you assuming that you keep every customer that you're acquiring or that there is some level of customer loss to other non-CIBC competitors?

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

We anticipate the balances to be stable and to grow from there.

Robert Sedran – CIBC – Analyst

Okay. Thanks.

Ed Clark – TD – Group President and CEO

But there'll be some attrition, but it will be offset by movements within our existing card base to that amount.

Operator

Your next question on the line comes from Peter Routledge with National Bank Financial. Please go ahead.

Peter Routledge – National Bank Financial – Analyst

Looking at CIBC's disclosure, it looks like the business you're acquiring, it generates about $180 to $200 million in earnings annually, is that fair?

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

Yeah, so why don't I start. I think if you take CIBC's disclosures and look at the effect of the new program, you'd sort of say that our number, on that basis, should be roughly $160 million a year.

Peter Routledge – National Bank Financial – Analyst

Okay.

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

And we do start to move up to that level as we get into 2015 and beyond. For next year, the number is lower due to a number of items. First of all, there are some costs related to operational readiness and product origination. We do have the program fee to Aimia. And we do have higher marketing costs in year one as well. So that would account for the difference between what you might expect to see longer term with what we're delivering in 2014.

Peter Routledge – National Bank Financial – Analyst

Following the start-up, a good run rate is $160 million?

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

Yeah, I think that's reasonable.

Peter Routledge – National Bank Financial – Analyst

And capital required to back this – about what, $250 million to $270 million, just on a...?

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

Our model currently has $550 million.

Peter Routledge – National Bank Financial – Analyst

Okay.

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

And that consists of intangibles of about $150.

Peter Routledge – National Bank Financial – Analyst

All right.

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

Which is the $50 million that we're paying to CIBC plus the credit mark and then we've made a fairly conservative assumption at the moment on risk-weighted assets, which is giving rise to about $400 million in operating capital, although it's highly likely that that number will come down.

Peter Routledge – National Bank Financial – Analyst

Okay. That's it. Thank you.

Operator

Your next question comes from Sumit Malhotra with Macquarie Capital Markets. Please go ahead.

Sumit Malhotra – Macquarie Capital Markets – Analyst

Good morning. First, Colleen, just on the comment you made on the credit mark. Often, when a loan portfolio is acquired, we'll see the bank, for lack of a better term, clean up the portfolio on close, so that loan losses are very low at the beginning. Is that what you're referring to or was this just a normal establishment of an allowance?

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

So, we obviously have to establish a normal allowance for the lifetime losses embedded in the portfolio. So, that's roughly the $100 million or so. Similar to what you've seen in the accounting for MBNA, as well as Target, our initial charge-offs go against the credit mark but at the same time we build up a GA. So, we don't get any free ride from a P&L standpoint associated with the way we mark the book.

Sumit Malhotra – Macquarie Capital Markets – Analyst

So, I think Commerce has been showing loan losses in and around 4% on their card portfolio, so assuming all else equal, which I know is never the case, but your ongoing – or your run rate loan losses – would be normal here, wouldn't be abnormally low because of the establishment of the GA?

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

So, the 4% would certainly be high. Maybe I'll ask Mark to just expand on that.

Mark Chauvin – TD – Group Head and Chief Risk Officer

Yeah. We view this as a high quality portfolio, which will have loan losses closer to our TDCT portfolio. So I'd put it at the lower end of the range of 3% to 4%, closer to 3%.

Sumit Malhotra – Macquarie Capital Markets – Analyst

All right. That's helpful. Thank you very much. And my second question more strategically is for Riaz.

I noticed on slide four you mentioned that with the Aeroplan Visa cards you're launching, it's going to be not only in Canada, but also in the U.S. I think it's fair to say and correct me if I'm wrong here, before the deal with Target, getting the credit card loan portfolio growing in the U.S. has been a challenge for the Bank. What do you think the Aimia relationship does for you in terms of organic credit card growth and how do you contrast that with the relationship you have with Target?

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

Sumit, I wouldn't say that it's been a challenge for us to launch a bank card portfolio in the U.S. As you know, we have launched one and as our distribution and sales capability has been maturing in the U.S., we've actually been growing our U.S. bank card program quite well. And we think that this addition of a U.S. dollar card with Aeroplan benefits will only enhance that.

Sumit Malhotra – Macquarie Capital Markets – Analyst

Thanks for your time.

Operator

Your next question on the line comes from Michael Goldberg with Desjardins Securities. Please go ahead.

Michael Goldberg – Desjardins Securities – Analyst

Thank you. I have a couple of questions. First of all, the fact that you negotiated with CIBC and that you're compensating them tells me that your June agreement with Aimia didn't turn out exactly as you originally expected and I'd like to clarify what happened. Were you so proactive in this case that you, maybe, missed the details of CIBC's right to match or were you misled by Aimia, or a little bit of both?

Ed Clark – TD – Group President and CEO

It's Ed here. You're hurting my feelings because I thought I tried to address your questions in my remarks. But I obviously failed to do that. But the answer is probably ‘no’ to all your suppositions. I think we had a terrific deal with Aimia, we loved that deal. We thought we were in a very strong business position with that deal. And we wouldn't have done this deal, if we didn't think it was a better deal for us. But we do think it's a better deal.

And I start with, we are a customer-focused bank. That's how we've built our brand. And it's a lot different to go out in the marketplace and try to win everybody and make people have to give up their old card and get a new card, than to simply acquire the customer base that you're originally trying to get after. And the predominant customer base that we thought we would get would be the half of the customers that were not CIBC customers. And so from our point of view, this is a very customer-friendly deal.

But the second is that in getting this deal, we preserved what we think is the big thing, the future, and so we have the exclusive mass marketing rights. And so, I think over the next 10 years, that will become a big feature for us. And at the same time, you get quite a different earnings profile and so instead of having to go out and win every single customer, you start off with more than 500,000 customers. And that's a $3 billion portfolio; with $20 billion of spend and 500,000 plus customers, that's a real prize.

So, no, we looked at that and said, this deal is – it happens to be one of those circumstances that I think it's a very good deal for CIBC, given the position they found themselves in, but it was a very good deal for us. And just the fact that it was also a good deal for CIBC doesn't mean that we should turn down what is a very good deal for us.

Michael Goldberg – Desjardins Securities – Analyst

So are you saying that there was no basis to their threat of litigation?

Ed Clark – TD – Group President and CEO

I'm not going to get into the legal thing, but we were not, from our point of view, worried about the legal issues.

Michael Goldberg – Desjardins Securities – Analyst

Okay. I have one other question. How much on a per mile basis does your $112 million subsidy to CIBC amount to and what does this mean that they pay per mile versus what you'll be paying per mile? Will CIBC actually be buying its miles from you or will they be buying them from Aimia?

Ed Clark – TD – Group President and CEO

They will be buying them from Aimia. This is simply a payment that we're making that's spread over three years for the CIBC. And so I think if you take a look and say what earnings stream did we buy and what did we pay for that earnings stream, I think you'd be hard pressed to find very many M&A deals in the universe that come close to this deal.

Michael Goldberg – Desjardins Securities – Analyst

Thank you.

Operator

And your next question here on the line comes from Brad Smith with Stonecap Securities. Please go ahead.

Brad Smith – Stonecap Securities – Analyst

Yes, I was just curious, Ed, you mentioned the $20 billion spend on this card. Can you compare that with your existing spend on our card portfolio?

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

Michael?

Michael Rhodes – TD – EVP, North American Credit Cards & Merchant Services

This is probably about twice or a little more than twice where our existing travel suite is and our total card portfolio is about $40 billion.

Brad Smith – Stonecap Securities – Analyst

Okay, terrific. And I was just wondering, with respect to the $400 million payment, what proportion of out-migration do you have to experience before you would be entitled to some of that?

Ed Clark – TD – Group President and CEO

We would have to get about half the portfolio, remaining portfolio that CIBC has, or we would have to send them about half of our portfolio that we acquired. So you can think of it as about $1.5 billion in balances and about $10 billion in spend.

Brad Smith – Stonecap Securities – Analyst

Perfect. Thank you very much.

Operator

And we seem to have no further questions at this time. I'll turn the call back over to management for any closing comments.

Ed Clark – TD – Group President and CEO

Anyway, thank you very much for your time. We're obviously very, very pleased with the deal. It's a great deal, as I said, both financially and strategically. And it really has put us in a position where we have the leading credit card business in Canada without question. Thank you very much.

Rudy Sankovic – TD – SVP, Investor Relations

And with that, we will conclude our call. Thank you for joining us today. Thank you.

Operator

Thank you, ladies and gentlemen, that does conclude our conference call for today. We thank you for your participation. You may now disconnect your lines.