NATIONAL BANK

REPORT TO SHAREHOLDERS FIRST QUARTER 2018

National Bank reports its results for the First Quarter of 2018

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter ended January 31, 2018 and is prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), unless otherwise indicated. IFRS represent Canadian generally accepted accounting principles (GAAP). All amounts are presented in Canadian dollars.

MONTREAL, February 28, 2018 – For the first quarter of 2018, National Bank is reporting net income of $550 million compared to $497 million in the first quarter of 2017 as well as diluted earnings per share of $1.46 compared to $1.34 in the same quarter of 2017. Both increases were driven by net income growth across all business segments.

Net income excluding specified items totalled $556 million in the first quarter of 2018, up 11% from $502 million in the first quarter of 2017. Diluted earnings per share excluding specified items stood at $1.48 in the first quarter of 2018, up 10% from $1.35 in the same quarter of 2017. The specified items are described on page 4.

Commenting on the Bank's results for the first quarter of 2018, Louis Vachon, President and Chief Executive Officer of National Bank pointed to "excellent performance in each business segment, particularly sustained revenue growth and effective cost management."

Highlights

(millions of Canadian dollars)			Quarter ended January 31
	2018	2017	% Change
Net income	**550**	497	11
Diluted earnings per share *(dollars)*	**$ 1.46**	$ 1.34	9
Return on common shareholders' equity	**18.7 %**	18.4 %	
Dividend payout ratio	**42 %**	55 %	
Excluding specified items[(1)]			
Net income excluding specified items	**556**	502	11
Diluted earnings per share excluding specified items *(dollars)*	**$ 1.48**	$ 1.35	10
Return on common shareholders' equity excluding specified items	**18.9 %**	18.6 %	
Dividend payout ratio excluding specified items	**41 %**	48 %	
	As at January 31, 2018	As at October 31, 2017	
CET1 capital ratio under Basel III	**11.2 %**	11.2 %	
Leverage ratio under Basel III	**4.0 %**	4.0 %	

(1) See the Financial Reporting Method section on page 4 for additional information on non-GAAP financial measures.

Personal and Commercial

- Net income totalled $230 million in the first quarter of 2018, up 11% from $208 million in the first quarter of 2017.
- At $799 million, the 2018 first-quarter total revenues rose $44 million or 6% year over year.
- Rising 3% from a year ago, personal lending experienced sustained growth, particularly due to mortgage lending, while commercial lending grew 5% from a year ago.
- Net interest margin stood at 2.30% in the first quarter of 2018 compared to 2.24% in the first quarter of 2017.
- First-quarter non-interest expenses were up 2% year over year.
- At 53.6%, the efficiency ratio improved from 55.5% in the first quarter of 2017.

Wealth Management

- Net income totalled $120 million in the first quarter of 2018, a 21% increase from $99 million in the same quarter of 2017.
- The 2018 first-quarter total revenues amounted to $441 million compared to $397 million in the same quarter of 2017, a $44 million or 11% increase driven by growth in net interest income and in fee-based revenues.
- First-quarter non-interest expenses stood at $277 million compared to $261 million in the same quarter last year.
- At 61.5%, the efficiency ratio excluding specified items[(1)] improved from 64.4% in the first quarter of 2017.

Financial Markets

- Net income totalled $204 million in the first quarter of 2018, a 14% increase from $179 million in the first quarter of 2017.
- First-quarter total revenues on a taxable equivalent basis amounted to $454 million, a $38 million or 9% year-over-year increase driven particularly by financial markets commissions.
- First-quarter non-interest expenses stood at $176 million, a $4 million year-over-year increase associated with revenue growth.
- At 38.8%, the efficiency ratio on a taxable equivalent basis improved from 41.3% in the first quarter of 2017.

U.S. Specialty Finance and International

- Net income totalled $50 million in the first quarter of 2018, a 32% increase from $38 million in the same quarter of 2017.
- The 2018 first-quarter total revenues amounted to $161 million, a $43 million or 36% increase driven by net interest income growth at the Credigy and ABA Bank subsidiaries.
- First-quarter non-interest expenses stood at $60 million, a $4 million year-over-year increase attributable mainly to business growth at the ABA Bank subsidiary.

Other

- The *Other* heading posted a net loss of $54 million in the first quarter of 2018 versus a $27 million net loss in the same quarter of 2017, mainly a result of higher non-interest expenses.

Capital Management

- As at January 31, 2018, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 11.2%, stable when compared to October 31, 2017.
- As at January 31, 2018, the Basel III leverage ratio was 4.0%, unchanged from October 31, 2017.

(1) See the Financial Reporting Method section on page 4 for additional information on non-GAAP financial measures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 27, 2018

The following Management's Discussion and Analysis (MD&A) presents the financial condition and operating results of National Bank of Canada (the Bank). This analysis was prepared in accordance with the requirements set out in *National Instrument 51-102 Continuous Disclosure Obligations* released by the Canadian Securities Administrators (CSA). It is based on the unaudited interim condensed consolidated financial statements (the consolidated financial statements) for the quarter ended January 31, 2018 prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), unless otherwise indicated. IFRS represent Canadian generally accepted accounting principles (GAAP). This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes for the quarter ended January 31, 2018 and with the *2017 Annual Report*. All amounts are presented in Canadian dollars. Additional information about the Bank, including the *Annual Information Form*, can be obtained from the Bank's website at nbc.ca and SEDAR's website at sedar.com.

Caution Regarding Forward-Looking Statements

From time to time, the Bank makes written and oral forward-looking statements, such as those contained in the Outlook for National Bank and the Major Economic Trends sections of the *2017 Annual Report*, in other filings with Canadian securities regulators, and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2018 and the objectives it hopes to achieve for that period. These forward-looking statements are made in accordance with current securities legislation in Canada and the United States. They include, among others, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, observations regarding the Bank's objectives and its strategies for achieving them, Bank-projected financial returns and certain risks faced by the Bank. These forward-looking statements are typically identified by future or conditional verbs or words such as "outlook," "believe," "anticipate," "estimate," "project," "expect," "intend," "plan," and similar terms and expressions.

By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2018 and how that will affect the Bank's business are among the main factors considered in setting the Bank's strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies.

There is a strong possibility that express or implied projections contained in these forward-looking statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank's control, could cause actual future results, conditions, actions or events to differ significantly from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include credit risk, market risk, liquidity and funding risk, operational risk, regulatory compliance risk, reputation risk, strategic risk and environmental risk, all of which are described in more detail in the Risk Management section beginning on page 51 of the *2017 Annual Report*, general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business, including regulatory changes affecting the Bank's business, capital and liquidity; changes in the accounting policies the Bank uses to report its financial condition, including uncertainties associated with assumptions and critical accounting estimates; tax laws in the countries in which the Bank operates, primarily Canada and the United States (including the U.S. *Foreign Account Tax Compliance Act* (FATCA)); changes to capital and liquidity guidelines and to the manner in which they are to be presented and interpreted; changes to the credit ratings assigned to the Bank; and potential disruptions to the Bank's information technology systems, including evolving cyber attack risk.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the Risk Management section of the *2017 Annual Report*. Investors and others who rely on the Bank's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

The forward-looking information contained in this document is presented for the purpose of interpreting the information contained herein and may not be appropriate for other purposes.

FINANCIAL REPORTING METHOD

As stated in Note 2 to its audited annual consolidated financial statements for the year ended October 31, 2017, the Bank early adopted IFRS 9 on November 1, 2017. As permitted by IFRS 9, the Bank did not restate comparative consolidated financial statements. Note 4 to these consolidated financial statements presents the impacts of IFRS 9 adoption on the Bank's Consolidated Balance Sheet as at November 1, 2017. Since interim consolidated financial statements do not include all of the annual financial statement disclosures required under IFRS, they should be read in conjunction with the audited annual consolidated financial statements and accompanying notes for the year ended October 31, 2017.

Non-GAAP Financial Measures

The Bank uses a number of financial measures when assessing its results and overall performance. Some of these financial measures are not calculated in accordance with GAAP, which are based on IFRS. Presenting non-GAAP financial measures helps readers to better understand how management analyzes results, shows the impacts of specified items on the results of the reported periods, and allows readers to assess results without the specified items if they consider such items not to be reflective of the underlying performance of the Bank's operations. Securities regulators require companies to caution readers that non-GAAP measures do not have a standardized meaning under GAAP and therefore may not be comparable to similar measures used by other companies.

Financial Information

(millions of Canadian dollars, except per share amounts)	Quarter ended January 31		
	2018	2017	% Change
Net income excluding specified items[1]			
Personal and Commercial	**230**	208	11
Wealth Management	**126**	104	21
Financial Markets	**204**	179	14
U.S. Specialty Finance and International	**50**	38	32
Other	**(54)**	(27)	
Net income excluding specified items	**556**	502	11
Acquisition-related items[2]	**(6)**	(5)	
Net income	**550**	497	11
Diluted earnings per share excluding specified items	**$ 1.48**	$ 1.35	10
Acquisition-related items[2]	**(0.02)**	(0.01)	
Diluted earnings per share	**$ 1.46**	$ 1.34	9
Return on common shareholders' equity			
Including specified items	**18.7 %**	18.4 %	
Excluding specified items	**18.9 %**	18.6 %	

(1) For the quarter ended January 31, 2017, certain amounts have been reclassified.
(2) During the quarter ended January 31, 2018, the Bank recorded $7 million in charges ($6 million net of income taxes) related to the acquisitions carried out by the Wealth Management segment (2017: $6 million, $5 million net of income taxes).

HIGHLIGHTS

(millions of Canadian dollars, except per share amounts)	Quarter ended January 31		
	2018	2017	% Change
Operating results			
Total revenues	1,806	1,633	11
Net income	550	497	11
Net income attributable to the Bank's shareholders	527	478	10
Return on common shareholders' equity	18.7 %	18.4 %	
Earnings per share			
Basic	$ 1.48	$ 1.35	10
Diluted	1.46	1.34	9
Operating results on a taxable equivalent basis[1] and excluding specified items[2]			
Total revenues on a taxable equivalent basis and excluding specified items	1,868	1,707	9
Net income excluding specified items	556	502	11
Return on common shareholders' equity excluding specified items	18.9 %	18.6 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	54.6 %	56.5 %	
Earnings per share excluding specified items[2]			
Basic	$ 1.50	$ 1.37	9
Diluted	1.48	1.35	10
Common share information			
Dividends declared	$ 0.60	$ 0.56	
Book value	31.75	29.51	
Share price			
High	65.35	56.60	
Low	62.33	46.83	
Close	63.84	56.17	
Number of common shares *(thousands)*	340,390	340,810	
Market capitalization	21,730	19,143	

(millions of Canadian dollars)	As at January 31, 2018	As at October 31, 2017	% Change
Balance sheet and off-balance-sheet			
Total assets	251,065	245,827	2
Loans and acceptances, net of allowances	136,352	136,457	–
Gross impaired loans[3] as a % of loans and acceptances	0.4 %	0.3 %	
Deposits	156,779	156,671	–
Equity attributable to common shareholders	10,808	10,700	1
Assets under administration and under management	495,702	477,358	4
Earnings coverage	13.45	13.61	
Regulatory ratios under Basel III			
Capital ratios[4]			
Common Equity Tier 1 (CET1)	11.2 %	11.2 %	
Tier 1[5]	15.3 %	14.9 %	
Total[5]	15.5 %	15.1 %	
Leverage ratio[4]	4.0 %	4.0 %	
Liquidity coverage ratio (LCR)	135 %	132 %	
Other information			
Number of employees – worldwide	21,868	21,635	1
Number of branches in Canada	429	429	–
Number of banking machines in Canada	932	931	–

(1) See the Consolidated Results section on page 6.
(2) See the Financial Reporting Method section on page 4 for additional information on non-GAAP financial measures.
(3) Excluding purchased or originated credit-impaired loans.
(4) The ratios are calculated using the "all-in" methodology.
(5) The ratios as at October 31, 2017 include the redemption of the Series 28 preferred shares on November 15, 2017.

FINANCIAL ANALYSIS

Consolidated Results

On November 1, 2017, the Bank changed the presentation of certain Consolidated Balance Sheet items; in particular, the *Purchased receivables* item is now reported in *Loans and acceptances*. As a result of this change, for the quarter ended January 31, 2017, a $55 million amount reported in *Non-interest income* was reclassified to *Net interest income*.

(millions of Canadian dollars)	Quarter ended January 31		
	2018	2017	% Change
Operating results			
Net interest income	**834**	853	(2)
Non-interest income	**972**	780	25
Total revenues	**1,806**	1,633	11
Non-interest expenses	**1,024**	969	6
Contribution	**782**	664	18
Provisions for credit losses	**87**	60	45
Income before income taxes	**695**	604	15
Income taxes	**145**	107	36
Net income	**550**	497	11
Diluted earnings per share *(dollars)*	**1.46**	1.34	9
Taxable equivalent basis(1)			
Net interest income	**38**	68	
Non-interest income	**21**	4	
Income taxes	**59**	72	
Impact of taxable equivalent basis on net income	**–**	–	
Specified items(2)			
Acquisition-related items	**(7)**	(6)	
Specified items before income taxes	**(7)**	(6)	
Income taxes on specified items	**(1)**	(1)	
Specified items after income taxes	**(6)**	(5)	
Operating results on a taxable equivalent basis(1) **and excluding specified items**(2)			
Net interest income on a taxable equivalent basis and excluding specified items	**872**	921	(5)
Non-interest income on a taxable equivalent basis and excluding specified items	**996**	786	27
Total revenues on a taxable equivalent basis and excluding specified items	**1,868**	1,707	9
Non-interest expenses excluding specified items	**1,020**	965	6
Contribution on a taxable equivalent basis and excluding specified items	**848**	742	14
Provisions for credit losses	**87**	60	45
Income before income taxes on a taxable equivalent basis and excluding specified items	**761**	682	12
Income taxes on a taxable equivalent basis and excluding specified items	**205**	180	14
Net income excluding specified items	**556**	502	11
Diluted earnings per share excluding specified items *(dollars)*	**1.48**	1.35	10
Average assets	**262,180**	246,060	7
Average loans and acceptances	**136,229**	127,997	6
Net impaired loans(3) as a percentage of average loans and acceptances	**0.2 %**	0.2 %	
Average deposits	**164,286**	150,336	9
Efficiency ratio on a taxable equivalent basis(1) and excluding specified items(2)	**54.6 %**	56.5 %	

(1) The Bank uses the taxable equivalent basis to calculate net interest income, non-interest income and income taxes. This calculation method consists of grossing up certain tax-exempt income (particularly dividends) by the income tax that would have been otherwise payable. An equivalent amount is added to income taxes. This adjustment is necessary in order to perform a uniform comparison of the return on various assets regardless of their tax treatment.

(2) See the Financial Reporting Method section on page 4 for additional information on non-GAAP financial measures.

(3) Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn and do not include purchased or originated credit-impaired loans.

Financial Results

For the first quarter of 2018, the Bank reported net income of $550 million compared to $497 million in the first quarter of 2017, a $53 million or 11% increase driven by net income growth across all the business segments. Its diluted earnings per share stood at $1.46 in the first quarter of 2018 compared to $1.34 in the same quarter of 2017.

Net income excluding specified items totalled $556 million in the first quarter of 2018, up 11% from $502 million in the first quarter of 2017. First-quarter diluted earnings per share excluding specified items stood at $1.48, a 10% increase from $1.35 in the same quarter of 2017. The 2018 first-quarter specified items, net of income taxes, consisted of $6 million in items (2017: $5 million) related to the acquisitions carried out by the Wealth Management segment.

Return on common shareholders' equity excluding specified items was 18.9% for the quarter ended January 31, 2018 compared to 18.6% in the first quarter of 2017.

Total Revenues

For the first quarter of 2018, the Bank's total revenues amounted to $1,806 million, up $173 million or 11% year over year. This increase was driven by growth in the net interest income of the Personal and Commercial segment owing to higher loan and deposit volumes and an improved deposit margin, by growth in the net interest income of the Wealth Management segment owing in part to improved margins, and by growth in the net interest income of Credigy and ABA Bank. There were also first-quarter year-over-year increases in revenues from underwriting and advisory fees, mutual fund revenues, trust service revenues, credit fee revenues, card revenues, and other-than-trading foreign exchange revenues. These increases were tempered by decreases in revenues from securities brokerage commissions and other revenues (particularly due to the portion of Credigy revenues included in non-interest income and to a first-quarter 2017 gain that had been realized following a change to the distribution model for property and casualty insurance). First-quarter total revenues on a taxable equivalent basis and excluding specified items amounted to $1,868 million, a 9% increase from $1,707 million in the first quarter of 2017.

Provisions for Credit Losses

For the first quarter of 2018, the Bank recorded $87 million in provisions for credit losses compared to $60 million in the same quarter of 2017. The increase stems mainly from higher credit loss provisions recorded for loans in the U.S. Speciality Finance and International segment and essentially attributable to the Credigy subsidiary.

As at January 31, 2018, gross impaired loans stood at $546 million compared to $583 million as at November 1, 2017, while net impaired loans stood at $335 million compared to $344 million as at November 1, 2017. Following IFRS 9 adoption on November 1, 2017, all loans classified in Stage 3 of the expected credit loss model are impaired loans and do not include purchased or originated credit-impaired loans.

Non-Interest Expenses

For the first quarter of 2018, non-interest expenses stood at $1,024 million, a 6% year-over-year increase attributable to higher compensation and employee benefits, particularly the variable compensation associated with revenue growth, as well as to higher technology investment expenses. These increases were tempered somewhat by a decrease in professional fees related to the servicing fees associated with the business activities of the Credigy subsidiary. First-quarter non-interest expenses excluding specified items stood at $1,020 million compared to $965 million in the first quarter of 2017.

Income Taxes

For the first quarter of 2018, income taxes stood at $145 million compared to $107 million in the same quarter of 2017. The 2018 first-quarter effective income tax rate was 21% versus 18% in the same quarter of 2017. This change in effective tax rate was created mainly by a year-over-year decrease in tax-exempt dividend income.

Results by Segment

The Bank carries out its activities in four business segments. For presentation purposes, other operating activities and Corporate Treasury activities are grouped in the *Other* heading. Each reportable segment is distinguished by services offered, type of clientele and marketing strategy.

Personal and Commercial

(millions of Canadian dollars)	Quarter ended January 31		
	2018	2017[(1)]	% Change
Operating results			
Net interest income	**544**	510	7
Non-interest income	**255**	245	4
Total revenues	**799**	755	6
Non-interest expenses	**428**	419	2
Contribution	**371**	336	10
Provisions for credit losses	**57**	52	10
Income before income taxes	**314**	284	11
Income taxes	**84**	76	11
Net income	**230**	208	11
Net interest margin[(2)]	**2.30 %**	2.24 %	
Average interest-bearing assets	**93,636**	90,366	4
Average assets	**98,132**	95,044	3
Average loans and acceptances	**98,470**	94,686	4
Net impaired loans[(3)] under IFRS 9	**310**		
Net impaired loans under IAS 39		220	
Net impaired loans[(3)] as a % of average loans and acceptances	**0.3 %**	0.2 %	
Average deposits	**56,194**	51,745	9
Efficiency ratio	**53.6 %**	55.5 %	

(1) For the quarter ended January 31, 2017, certain amounts have been reclassified.
(2) Net interest margin is calculated by dividing net interest income by average interest-bearing assets.
(3) Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn.

In the Personal and Commercial segment, net income totalled $230 million in the first quarter of 2018, up 11% from $208 million in the first quarter of 2017. The segment's 2018 first-quarter total revenues were up $44 million year over year owing to a $34 million increase in net interest income and a $10 million increase in non-interest income. The increase in first-quarter net interest income came from growth in personal and commercial loan and deposit volumes and from a wider net interest margin (which rose to 2.30% this quarter from 2.24% in the first quarter 2017) driven mainly by higher deposit margins.

Personal Banking's first-quarter total revenues rose $16 million year over year. Its net interest income was up owing to growth in loan and deposit volumes and to widening deposit margins. As for non-interest income, it was down $1 million, mainly due to lower insurance revenues (as a gain had been realized in the first quarter of 2017 following a change to the distribution model for property and casualty insurance), partly offset by higher card revenues and internal commission revenues generated by the distribution of Wealth Management products. Commercial Banking's first-quarter total revenues rose $28 million year over year, mainly due to higher net interest income driven by growth in deposit and loan volumes and by improved deposit margins. Also contributing to Commercial Banking's revenue growth were increases in revenues from credit fees, revenues from bankers' acceptances, and revenues from derivative financial instruments and foreign exchange activities.

The segment's non-interest expenses for the first quarter of 2018 increased by $9 million year over year, mainly due to increases in compensation and employee benefits, occupancy expenses, and operations support charges. At 53.6%, its first-quarter efficiency ratio improved by 1.9 percentage points from first-quarter 2017. And at $57 million, the segment's provisions for credit losses were up $5 million year over year as higher provisions were recorded for personal and credit card loans, partly offset by lower provisions recorded for commercial loans.

Wealth Management

(millions of Canadian dollars)		Quarter ended January 31	
	2018	2017[1]	% Change
Operating results			
Net interest income	**124**	104	19
Fee-based revenues	**247**	219	13
Transaction-based and other revenues	**70**	74	(5)
Total revenues	**441**	397	11
Non-interest expenses	**277**	261	6
Contribution	**164**	136	21
Provisions for credit losses	**1**	1	–
Income before income taxes	**163**	135	21
Income taxes	**43**	36	19
Net income	**120**	99	21
Specified items after income taxes[2]	**6**	5	
Net income excluding specified items[2]	**126**	104	21
Average assets	**12,099**	11,299	7
Average loans and acceptances	**10,570**	9,557	11
Net impaired loans[3] under IFRS 9	**12**		
Net impaired loans under IAS 39		4	
Average deposits	**31,331**	31,734	(1)
Assets under administration and under management	**495,702**	411,236	21
Efficiency ratio excluding specified items[2]	**61.5 %**	64.4 %	

(1) For the quarter ended January 31, 2017, certain amounts have been reclassified.
(2) See the Financial Reporting Method section on page 4 for additional information on non-GAAP financial measures.
(3) Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn.

In the Wealth Management segment, net income totalled $120 million for the first quarter of 2018, a 21% increase from $99 million in the same quarter of 2017. At $126 million, first-quarter net income excluding specified items (with the specified items including the acquisition-related items) rose 21% from $104 million in the same quarter of 2017. The segment's first-quarter total revenues amounted to $441 million compared to $397 million last year, an 11% year-over-year increase driven mainly by growth in net interest income, owing to improved margins, and by growth in fee-based revenues given net inflows across all solutions and a steady rise in stock markets during the first quarter of 2018. As for transaction-based and other revenues, they were down 5% compared to the first quarter of 2017.

First-quarter non-interest expenses stood at $277 million, a 6% year-over-year increase attributable mainly to the higher variable compensation associated with growth in the segment's business volume that generated higher revenues as well as to an increase in operations support charges. At 61.5%, the efficiency ratio excluding specified items improved 2.9 percentage points compared to the first quarter of 2017. Provisions for credit losses were stable year over year.

Financial Markets

(taxable equivalent basis)[1]
(millions of Canadian dollars)

	Quarter ended January 31		
	2018	2017[2]	% Change
Operating results			
Trading activity revenues			
Equities	**135**	134	1
Fixed-income	**82**	76	8
Commodities and foreign exchange	**36**	41	(12)
	253	251	1
Financial market fees	**90**	72	25
Gains (losses) on investments, net	**18**	9	
Banking services	**85**	78	9
Other	**8**	6	
Total revenues on a taxable equivalent basis	**454**	416	9
Non-interest expenses	**176**	172	2
Contribution on a taxable equivalent basis	**278**	244	14
Provisions for credit losses	**–**	–	
Income before income taxes on a taxable equivalent basis	**278**	244	14
Income taxes on a taxable equivalent basis	**74**	65	14
Net income	**204**	179	14
Average assets	**101,816**	96,781	5
Average loans and acceptances (Corporate Banking only)	**14,025**	12,739	10
Net impaired loans	**–**	–	
Average deposits	**22,430**	20,843	8
Efficiency ratio on a taxable equivalent basis[1]	**38.8 %**	41.3 %	

(1) See Note 23 to the consolidated financial statements.
(2) For the quarter ended January 31, 2017, certain amounts have been reclassified.

In the Financial Markets segment, the 2018 first-quarter net income totalled $204 million compared to $179 million in the same quarter of 2017, and first-quarter total revenues on a taxable equivalent basis amounted to $454 million compared to $416 million in the same quarter of 2017. First-quarter trading activity revenues were up 1% year over year, mainly due to an 8% increase in fixed-income revenues, and revenues from financial market fees grew 25% year over year, particularly due to sound performance in both underwriting and merger and acquisition activities. Banking service revenues rose 9% year over year, with loans and acceptances rising 10% compared to a year ago.

The segment's first-quarter non-interest expenses stood at $176 million, a $4 million year-over-year increase attributable mainly to the higher variable compensation associated with revenue growth. At 38.8%, the efficiency ratio on a taxable equivalent basis improved by 2.5 percentage points when compared to the first quarter of 2017. The segment's provisions for credit losses were nil in both the first quarters of 2018 and 2017.

U.S. Specialty Finance and International

(millions of Canadian dollars)		Quarter ended January 31	
	2018	2017[1]	% Change
Operating results			
Net interest income	147	97	52
Non-interest income	14	21	(33)
Total revenues	161	118	36
Credigy	117	90	30
ABA Bank and International	44	28	57
Non-interest expenses	60	56	7
Credigy	39	43	(9)
ABA Bank and International	21	13	62
Contribution	101	62	63
Provisions for credit losses	29	7	
Income before income taxes	72	55	31
Income taxes	22	17	29
Net income	50	38	32
Non-controlling interests	9	6	50
Net income attributable to the Bank's shareholders	41	32	28
Average assets	8,777	6,655	32
Average loans and acceptances	7,702	4,733	63
Net impaired loans[2] under IFRS 9	13		
Net impaired loans under IAS 39		2	
Purchased or originated credit-impaired loans	1,352	1,710	(21)
Average other revenue-bearing assets	46	801	
Average deposits	1,532	1,122	37
Efficiency ratio	37.3 %	47.5 %	

(1) For the quarter ended January 31, 2017, certain amounts have been reclassified.
(2) Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn and do not include purchased or originated credit-impaired loans.

In the U.S. Specialty Finance and International segment, net income totalled $50 million in the first quarter of 2018, a 32% increase from $38 million in the same quarter of 2017. The segment's first-quarter total revenues amounted to $161 million compared to $118 million in the first quarter of 2017, a 36% year-over-year increase driven by net interest income growth at the Credigy subsidiary, as a result of higher loan volumes, as well as at the ABA Bank subsidiary, as a result of higher loan and deposit volumes. First-quarter non-interest income was down $7 million year over year, as the Credigy revenues recorded as non-interest income were lower in first quarter 2018 than in first quarter 2017.

For the first quarter of 2018, non-interest expenses stood at $60 million, a $4 million year-over-year increase attributable to business growth at the ABA Bank subsidiary. The segment recorded $29 million in provisions for credit losses, $22 million more than in the same quarter of 2017, essentially due to the credit loss provisions recorded by the Credigy subsidiary.

The first-quarter effective income tax rate remained stable, as a lower income tax rate arising from U.S. tax reform was offset by a decrease in the value of deferred tax assets and by income taxes on the deemed repatriation of foreign profits.

Other

(taxable equivalent basis)(1)
(millions of Canadian dollars)

	Quarter ended January 31	
	2018	2017(2)
Operating results		
Net interest income	**(42)**	(19)
Non-interest income	**52**	38
Total revenues on a taxable equivalent basis	**10**	19
Non-interest expenses	**83**	61
Contribution on a taxable equivalent basis	**(73)**	(42)
Provisions for credit losses	**–**	–
Income before income taxes on a taxable equivalent basis	**(73)**	(42)
Income taxes (recovery) on a taxable equivalent basis	**(19)**	(15)
Net loss	**(54)**	(27)
Non-controlling interests	**14**	13
Net loss attributable to the Bank's shareholders	**(68)**	(40)
Average assets	**41,356**	36,281

(1) See Note 23 to the consolidated financial statements.
(2) For the quarter ended January 31, 2017, certain amounts have been reclassified.

For the *Other* heading of segment results, there was a net loss of $54 million in the first quarter of 2018 compared to a net loss of $27 million in the same quarter of 2017. This change was mainly due to an increase in non-interest expenses, particularly due to technology investments made as part of the Bank's transformation plan and for business development purposes, and from a higher contribution from Corporate Treasury activities in the first quarter of 2017.

Consolidated Balance Sheet

The presentation of the Consolidated Balance Sheet as at January 31, 2018 reflects the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these consolidated financial statements. Comparative information has not been restated.

Consolidated Balance Sheet Summary

(millions of Canadian dollars)	As at January 31, 2018	As at October 31, 2017[1]	% Change
Assets			
Cash and deposits with financial institutions	11,205	8,802	27
Securities	72,217	65,343	11
Securities purchased under reverse repurchase agreements and securities borrowed	16,520	20,789	(21)
Loans and acceptances (net of allowances for credit losses)	136,352	136,457	–
Other	14,771	14,436	2
	251,065	245,827	2
Liabilities and equity			
Deposits	156,779	156,671	–
Other	80,570	75,589	7
Subordinated debt	8	9	(11)
Equity attributable to the Bank's shareholders	12,958	12,750	2
Non-controlling interests	750	808	(7)
	251,065	245,827	2

(1) On November 1, 2017, the Bank changed the presentation of certain Consolidated Balance Sheet items, and the figures as at October 31, 2017 were reclassified to reflect those changes.

Assets

As at January 31, 2018, the Bank had total assets of $251.1 billion, up $5.3 billion or 2% from $245.8 billion as at October 31, 2017. At $11.2 billion as at January 31, 2018, cash and deposits with financial institutions rose $2.4 billion during the quarter, mainly due to deposits with financial institutions. Securities rose $6.9 billion from October 31, 2017, essentially due to an $11.2 billion or 24% increase in securities at fair value through profit or loss. Equity securities at fair value through profit or loss rose $6.0 billion, while securities issued or guaranteed by the Canadian government rose $2.8 billion. These increases were tempered by a $4.3 billion decrease in securities other than at fair value through profit or loss. Securities purchased under reverse repurchase agreements and securities borrowed decreased by $4.3 billion, mainly related to Corporate Treasury and Financial Markets operations.

As at January 31, 2018, loans and acceptances amounted to $137.0 billion, stable when compared to October 31, 2017. A $0.6 billion decrease in business and government loans was offset by a $0.6 billion increase in the customers' liability under acceptances. The following table provides a breakdown of the main loan and acceptance portfolios.

(millions of Canadian dollars)	As at January 31, 2018	As at October 31, 2017[1]	As at January 31, 2017[1]
Loans and acceptances			
Residential mortgage	51,549	51,634	50,863
Personal	35,556	35,590	32,752
Credit card	2,206	2,247	2,120
Business and government	47,704	47,681	43,642
	137,015	137,152	129,377

(1) As at November 1, 2017, the Bank changed the presentation of certain Consolidated Balance Sheet items, and the figures as at October 31, 2017 and as at January 31, 2017 were reclassified to reflect those changes.

When compared to a year ago, loans and acceptances grew $7.6 billion or 6%. Also compared to a year ago, residential mortgages, personal loans, and credit card receivables grew 1%, 9% and 5%, respectively. Loans and acceptances to businesses and government were up 9% from a year ago, mainly due to corporate loan financing.

Liabilities
As at January 31, 2018, the Bank had total liabilities of $237.4 billion compared to $232.3 billion as at October 31, 2017.

The Bank's total deposit liability stood at $156.8 billion as at January 31, 2018, up $0.1 billion from $156.7 billion as at October 31, 2017. The following table provides a breakdown of total personal savings.

(millions of Canadian dollars)	As at January 31, 2018	As at October 31, 2017	As at January 31, 2017
Balance sheet			
Deposits	**54,648**	53,719	53,667
Off-balance-sheet			
Brokerage	**125,834**	124,212	118,549
Mutual funds	**32,838**	32,192	29,431
Other	**469**	408	420
	159,141	156,812	148,400
Total personal savings	**213,789**	210,531	202,067

As at January 31, 2018, personal deposits were $54.6 billion, rising $0.9 billion since October 31, 2017, and total personal savings were $213.8 billion, rising 2% from $210.5 billion as at October 31, 2017. Compared to a year ago, personal deposits were up 2%, owing essentially to the Bank's initiatives to grow this type of deposit. Off-balance-sheet personal savings stood at $159.1 billion, a $10.7 billion or 7% increase from a year ago and attributable to excellent net inflows in brokerage operations and a steady rise in stock markets.

Business and government deposits totalled $96.2 billion, a $1.4 billion decrease since October 31, 2017 resulting mainly from banking and governmental activities. Other liabilities stood at $80.6 billion, rising $5.0 billion since October 31, 2017 due to a $5.0 billion increase in obligations related to securities sold under repurchase agreements and securities loaned and to a $0.7 billion increase in derivative financial instruments, partly offset by a $1.1 billion decrease in liabilities related to transferred receivables. Subordinated debt has remained stable since October 31, 2017.

Equity
As at January 31, 2018, equity attributable to the Bank's shareholders was $13.0 billion, rising $0.2 billion from October 31, 2017. This increase came from higher retained earnings (attributable to net income net of dividends) and from the issuance of Series 40 preferred shares for $300 million, tempered by a redemption of Series 28 preferred shares for cancellation in an amount of $200 million. Common shares issued under the stock option plan were offset by repurchases of common shares for cancellation.

As at February 23, 2018, there were 340,389,741 common shares and 14,614,904 stock options outstanding. For additional information on share capital, see Note 19 to the audited annual consolidated financial statements for the year ended October 31, 2017 and Note 14 to the consolidated financial statements of this quarter.

Event After the Consolidated Balance Sheet Date

Issuance of Subordinated Debt
On February 1, 2018, the Bank issued medium-term notes for a total amount of $750 million. They bear interest at 3.183% and mature on February 1, 2028. The interest on these notes will be payable semi-annually at a rate of 3.183% per annum until February 1, 2023 and, thereafter, at a floating rate equal to the three-month CDOR plus 0.72% payable quarterly. With the prior approval of the Office of the Superintendent of Financial Institutions (Canada) (OSFI), the Bank may, at its option, redeem these notes as of February 1, 2023, in whole or in part, at their nominal value plus accrued and unpaid interest. Given that the medium-term notes satisfy the non-viability contingent capital requirements, they qualify for the purposes of calculating regulatory capital under Basel III.

Related Party Transactions

The Bank's policies and procedures regarding related party transactions have not significantly changed since October 31, 2017. For additional information, see Note 29 to the audited annual consolidated financial statements for the year ended October 31, 2017.

Securitization and Off-Balance-Sheet Arrangements

In the normal course of business, the Bank is party to various financial arrangements that, under IFRS, are not required to be recorded on the Consolidated Balance Sheet or are recorded at amounts other than their notional or contractual values. These arrangements include, among others, transactions with structured entities, derivative financial instruments, issuances of guarantees, credit instruments, and financial assets received as collateral. A complete analysis of these types of arrangements, including their nature, business purpose and importance, is provided on pages 39 and 40 of the *2017 Annual Report*. For additional information on guarantees and commitments, see Note 27 to the audited annual consolidated financial statements for the year ended October 31, 2017.

For additional information about financial assets transferred but not derecognized and structured entities, see Notes 9 and 22, respectively, to the consolidated financial statements.

Contingent Liabilities

Litigation
In the normal course of business, the Bank and its subsidiaries are involved in various claims relating, among other matters, to loan portfolios, investment portfolios and supplier agreements, including court proceedings, investigations or claims of a regulatory nature, class actions or other legal remedies of varied natures. The developments in the main legal proceeding involving the Bank are as follows:

Watson
In 2011, a class action was filed in the Supreme Court of British Columbia against Visa Corporation Canada (Visa), MasterCard International Incorporated (MasterCard) as well as National Bank and a number of other financial institutions. The plaintiffs are alleging that the credit card networks and financial institutions engaged in a price-fixing system to increase or maintain the fees paid by merchants on Visa and MasterCard transactions. In so doing, they would have been in breach of the *Competition Act.* An unspecified amount of compensatory and punitive damages is being claimed. During the year ended October 31, 2017, the Bank entered into an agreement-in-principle with the plaintiffs in order to settle this dispute in the five jurisdictions where the class action was filed. This agreement is subject to the approval of the Court in each of those jurisdictions.

It is impossible to determine the outcome of the claims instituted or which may be instituted against the Bank and its subsidiaries. The Bank estimates, based on the information at its disposal, that while the amount of contingent liabilities pertaining to these claims, taken individually or in the aggregate, could have a material impact on the Bank's consolidated operating income for a particular period, it would not have a material adverse impact on the Bank's consolidated financial position.

ACCOUNTING POLICIES AND FINANCIAL DISCLOSURE

Accounting Policies and Critical Accounting Estimates

The Bank's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The financial statements also comply with section 308(4) of the *Bank Act* (Canada), which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions (Canada) (OSFI), the consolidated financial statements are to be prepared in accordance with IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). None of the OSFI accounting requirements are exceptions to IFRS. These consolidated financial statements were prepared in accordance with IAS 34 – *Interim Financial Reporting* and using the same accounting policies described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2017, except for the changes described in Note 2 to these consolidated financial statements, which have been applied since November 1, 2017 following the Bank's adoption of IFRS 9 – *Financial Instruments.*

As stated in Note 2 to its audited annual consolidated financial statements for the year ended October 31, 2017, the Bank early adopted IFRS 9 on November 1, 2017. As permitted by IFRS 9, the Bank did not restate comparative consolidated financial statements. Note 4 to these consolidated financial statements presents the impacts of IFRS 9 adoption on the Bank's Consolidated Balance Sheet as at November 1, 2017.

On November 1, 2017, the Bank changed the presentation of certain items on the Consolidated Balance Sheet and reclassified certain amounts. The former *Personal and credit card* loans item is now presented in two separate items. The *Purchased receivables* item, which had been presented net of allowances for credit losses, in an amount of $2,014 million as at October 31, 2017, is now reported in *Residential mortgage* loans ($1,116 million) and in *Personal* loans ($874 million), and the *Allowances for credit losses* item was reduced by $24 million. As a result of this change, for the quarter ended January 31, 2017, a $55 million amount reported in *Non-interest income – Other* was reclassified to *Interest income – Loans*.

In preparing consolidated financial statements in accordance with IFRS, management must exercise judgment and make estimates and assumptions that affect the reporting date carrying amounts of assets and liabilities, net income and related information. Some of these accounting policies are considered critical given their importance to the presentation of the Bank's financial position and operating results and require subjective and complex judgments and estimates on matters that are inherently uncertain. Any change in these judgments and estimates could have a significant impact on the Bank's consolidated financial statements. The critical accounting estimates are the same as those described on pages 88 to 91 of the *2017 Annual Report*, except for financial asset impairment estimates, which have been determined in accordance with IFRS 9 since November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2, 4 and 8 to these consolidated financial statements.

Future Accounting Policy Changes

The Bank closely monitors both new accounting standards and amendments to existing accounting standards issued by the IASB. The Bank is currently assessing how adoption of new and amended IASB accounting standards will impact the consolidated financial statements. Aside from the adoption of IFRS 9 on November 1, 2017, there have been no significant updates to the future accounting policy changes disclosed in Note 2 to the audited annual consolidated financial statements for the year ended October 31, 2017.

Financial Disclosure

During the first quarter of 2018, no changes were made to the policies, procedures and other processes that comprise the Bank's internal control over financial reporting that had or could reasonably have a significant impact on the internal control over financial reporting. The adoption of IFRS 9 – *Financial instruments* did not result in a significant change in internal control.

ADDITIONAL FINANCIAL DISCLOSURE

The Financial Stability Board (FSB) develops financial stability standards and seeks to promote cooperation in the oversight and monitoring of financial institutions. OSFI has asked Canadian banks to apply certain recommendations issued by the FSB. The recommendations seek to enhance the transparency and measurement of certain exposures, in particular structured entities, subprime and Alt-A exposures, collateralized debt obligations, residential and commercial mortgage-backed securities, and leveraged financing structures.

The Bank does not market any specific mortgage financing program to subprime or Alt-A clients. Subprime loans are generally defined as loans granted to borrowers with a higher credit risk profile than prime borrowers, and the Bank does not grant this type of loan. Alt-A loans are granted to borrowers who cannot provide standard proof of income. The Bank's Alt-A loan volume was $390 million as at January 31, 2018 ($408 million as at October 31, 2017).

The Bank does not have any significant direct position in residential and commercial mortgage-backed securities that are not insured by the Canada Mortgage and Housing Corporation (CMHC). Credit derivative positions are presented in the *Supplementary Regulatory Capital Disclosure* report, which is available on the Bank's website at nbc.ca.

Leveraged financing structures are defined by the Bank as loans granted to large corporate and financial sponsor-backed companies that are typically non-investment grade with much higher levels of debt relative to other companies in the same industry. Leveraged finance is commonly employed to achieve a specific objective, for example, to make an acquisition, complete a buy-out or repurchase shares. Leveraged finance risk exposure takes the form of both funded and unfunded commitments. As at January 31, 2018, total commitments for this type of loan stood at $3,020 million ($3,269 million as at October 31, 2017). Details about other exposures are provided in the table on structured entities in Note 22 to the consolidated financial statements.

The FSB created the Enhanced Disclosure Task Force (EDTF), a working group that, on October 29, 2012, published a report entitled *Enhancing the Risk Disclosures of Banks*, which contains 32 recommendations. The Bank ensures overall compliance with those recommendations and is continuing to enhance its risk disclosures to meet the best practices on an ongoing basis. The risk disclosures required by the EDTF are provided in the *2017 Annual Report*, in this *Report to Shareholders*, and in the documents entitled *Supplementary Regulatory Capital Disclosure for the First Quarter Ended January 31, 2018,* and *Supplementary Financial Information for the First Quarter Ended January 31, 2018*, which are available on the Bank's website at nbc.ca. In addition, on the following page is a table of contents to help users locate information relative to the 32 recommendations.

Risk Disclosures

The following table lists the references where users can find information that responds to the EDTF's 32 recommendations.

				Pages
		2017 Annual Report	Report to Shareholders(1)	Supplementary Regulatory Capital Disclosure(1)
General				
1	Location of risk disclosures	8	18	
	Management's Discussion and Analysis	42 to 87, 100 and 104	19 to 37	
	Consolidated Financial Statements	Notes 1, 7, 17, 24 and 30	Notes 8 and 16	
	Supplementary Regulatory Capital Disclosure			4 to 29
2	Risk terminology and risk measures	51 to 87		
3	Top and emerging risks	51 to 53		
4	New key regulatory ratios	43 to 46, 73, 75 and 80	19 and 20, 29, 32 and 77	
Risk governance and risk management				
5	Risk management organization, processes and key functions	55 to 69, 75 to 77		
6	Risk management culture	55 and 56		
7	Key risks by business segment, risk management and risk appetite	50, 55 and 56		
8	Stress testing	42, 56, 64 and 73 to 77		
Capital adequacy and risk-weighted assets (RWA)				
9	Minimum Pillar 1 capital requirements	43 to 46	19 and 20	
10	Reconciliation of the accounting balance sheet to the regulatory balance sheet			4 to 7
11	Movements in regulatory capital	47	21	
12	Capital planning	42 to 50		
13	RWA by business segment and by risk type	48 and 50	22	8
14	Capital requirements by risk and RWA calculation method	48 and 60 to 64	22	8
15	Banking book credit risk	48	22	8 and 11 to 16
16	Movements in RWA by risk type	49	23	9
17	Assessment of credit risk model performance	59, 62 and 71		11 to 17
Liquidity				
18	Liquidity management and components of the liquidity buffer	75 to 81	29 to 33	
Funding				
19	Summary of encumbered and unencumbered assets	78 and 79	31	
20	Residual contractual maturities of balance sheet items and off-balance-sheet commitments	191 to 195	34 to 37	
21	Funding strategy and funding sources	81 to 83	33	
Market risk				
22	Linkage of market risk measures to balance sheet	69 and 70	26 and 27	
23	Market risk factors	68, 71 to 74, 178 to 180	27 to 29	
24	VaR: Assumptions, limitations and validation procedures	71 to 73		
25	Stress tests, stressed VaR and backtesting	71 to 74		
Credit risk				
26	Credit risk exposures	63, 67 and 149 to 152	25 and 65 to 72	10 to 24 and 19 to 26(2)
27	Policies for identifying impaired loans	65, 120 and 121		
28	Movements in impaired loans and allowances for credit losses	100, 104 and 149 to 152	65 to 72	20
29	Counterparty credit risk relating to derivatives transactions	65, 66 and 161 to 164		25 and 26
30	Credit risk mitigation	64 to 66		22 and 24
Other risks				
31	Other risks: Governance, measurement and management	53, 54 and 84 to 87		
32	Publicly known risk events	84	No risk event	

(1) For the first quarter ended January 31, 2018.
(2) These pages are included in the document entitled *Supplementary Financial Information for the First Quarter Ended January 31, 2018*.

CAPITAL MANAGEMENT

Capital management has a dual role of ensuring a competitive return to the Bank's shareholders while maintaining a solid capital foundation that covers risks inherent to the Bank's business, supports its business segments and protects its clients. The Bank's capital management policy defines guiding principles as well as the roles and responsibilities of its internal capital adequacy assessment process. This process aims to determine the capital that the Bank needs to pursue its business operations and to accommodate unexpected losses arising from extremely adverse economic and operational conditions. For additional information on the capital management framework, see the Capital Management section on pages 42 to 50 of the Bank's *2017 Annual Report*.

Basel Accord

The Basel III regulatory framework sets out transitional arrangements for the period of 2013 to 2019. OSFI has introduced two methodologies for determining capital. The "all-in" methodology includes all of the regulatory adjustments that will be required by 2019 while retaining the phase-out rules for non-qualifying capital instruments. The "transitional" methodology adheres to the guidelines of the Basel Committee on Banking Supervision (BCBS) and, in addition to applying the phase-out rules for non-qualifying capital instruments, also applies a more flexible and steady phasing in of the required regulatory adjustments. The Bank will disclose its capital ratios calculated according to both methodologies for each quarter until the start of 2019. However, OSFI requires Canadian banks to meet the minimum "all-in" thresholds rather than the minimum thresholds calculated using the "transitional" method.

Consequently, the Bank and all other major Canadian banks have to maintain, on an "all-in" basis, a CET1 capital ratio of at least 8.0%, a Tier 1 capital ratio of at least 9.5%, and a Total capital ratio of at least 11.5%. All of these ratios are to include a capital conservation buffer of 2.5% and a 1% surcharge applicable to Domestic Systemically Important Banks (D-SIBs).

In addition to those measures, OSFI requires that regulatory capital instruments other than common equity have a non-viability contingent capital (NVCC) clause to ensure that investors bear losses before taxpayers should the government determine that it is in the public interest to rescue a non-viable financial institution. Instruments issued before January 1, 2013 that would be Basel III compliant if not for the absence of the NVCC clause are grandfathered and will be phased out over a period of ten years. The Bank expects to phase out all of its non-NVCC instruments without resorting to any regulatory event redemption.

To ensure an implementation similar to that in other countries, OSFI decided to phase in the Credit Valuation Adjustment (CVA) charge over a five-year period beginning in 2014. For fiscal 2018, 80%, 83% and 86% of total CVA will be applied to the calculation of the CET1, Tier 1 and Total capital ratios, respectively, and these percentages will continue to increase each year thereafter until they reach 100% by 2019. OSFI has also been requiring Canadian banks to meet a Basel III leverage ratio of at least 3.0%.

The Bank ensures that its capital levels are always above the minimum regulatory capital requirements for OSFI's "all-in" ratios. By maintaining a strong capital structure, the Bank can cover the risks inherent to its business activities, support its business segments and protect its clients.

Other disclosure requirements pursuant to Pillar 3 of the Basel Accord and a set of recommendations defined by the EDTF are presented in the *Supplementary Regulatory Capital Disclosure* report published quarterly and available on the Bank's website at nbc.ca. Furthermore, a complete list of capital instruments and their main features is also available on the Bank's website.

Regulatory Developments

The Bank closely monitors regulatory changes and is actively involved in consultation processes. For additional information on the regulatory context as at October 31, 2017, which is still the current context, see pages 45 and 46 of the Capital Management section in the *2017 Annual Report.* Since November 1, 2017, the below-described regulatory developments should also be considered.

On December 7, 2017, the Group of Central Bank Governors and Heads of Supervision (GHOS), which oversees the BCBS, endorsed the outstanding Basel III post-crisis regulatory reforms. The purpose of the approved reforms, set out in *Basel III: Finalising Post-Crisis Reforms,* is to reduce excessive variability in risk-weighted assets and to improve comparability and transparency among bank capital ratios. The reforms must be implemented starting in 2022 and include the following: revisions to the standardized approaches for calculating credit risk and operational risk; a constraint on using the internal ratings-based approach for calculating credit risk; and revisions to the leverage ratio, the credit valuation adjustment (CVA), and the calculation of the output floor. In spring 2018, OSFI will launch a consultation process on proposed amendments to the Basel III reforms for the Canadian context and on implementation timelines.

On January 12, 2018, OSFI issued a document that sets out revisions to capital floor calculations. The purpose of the capital floor is to reduce the risk related to internal credit risk calculation models and to improve the comparability of risk among banks. The new floor will replace the one currently being used, which is based on Basel I requirements. The revised capital floor will set the regulatory capital level that will have to be met by banks that use the internal models based on the Basel II standardized approach. The new floor will be transitioned in as of the second quarter of 2018, with a 70% floor factor increasing to 72.5% in the third quarter of 2018 and reaching 75% in the fourth quarter of 2018.

The following table presents the capital ratios and the leverage ratio calculated using the "all-in" methodology and the regulatory targets under Basel III.

	Regulatory ratios		Minimum regulatory ratios to be maintained	
	As at January 31, 2018	As at October 31, 2017	BCBS 2018 (1)	OSFI 2018 (1)(2)
Capital ratios				
CET1	**11.2 %**	11.2 %	6.375 %	8.0 %
Tier 1(3)	**15.3 %**	14.9 %	7.875 %	9.5 %
Total(3)	**15.5 %**	15.1 %	9.875 %	11.5 %
Leverage ratio	**4.0 %**	4.0 %	n.a.	3.0 %

n.a. Not applicable
(1) For the capital ratios, includes the 1.25% conservation buffer set by the BCBS and the 2.5% conservation buffer set by OSFI.
(2) For the capital ratios, includes a 1% surcharge applicable to D-SIBs since January 1, 2016.
(3) The ratios as at October 31, 2017 include the redemption of the Series 28 preferred shares on November 15, 2017.

Management Activities

During the quarter ended January 31, 2018, the Bank repurchased 1,500,000 common shares for $91 million, which reduced *Common share capital* by $13 million and *Retained earnings* by $78 million. This repurchase was carried out under the normal course issuer bid to repurchase for cancellation program launched by the Bank on June 5, 2017.

On November 15, 2017, the Bank redeemed all the issued and outstanding Non-Cumulative 5-Year Rate-Reset Series 28 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.00 per share plus the periodic dividend declared and unpaid. The Bank redeemed 8,000,000 Series 28 preferred shares for a total amount of $200 million.

On January 22, 2018, the Bank issued 12,000,000 Non-Cumulative 5-Year Rate-Reset Series 40 First Preferred Shares at a price equal to $25.00 per share for gross proceeds of $300 million. Given that the Series 40 preferred shares satisfy the NVCC requirements, they qualify for the purposes of calculating regulatory capital under Basel III.

On January 29, 2018, the Bank announced its intention to issue $750 million in medium-term notes. As these medium-term notes satisfy the NVCC requirements, they qualify for the purposes of calculating regulatory capital under Basel III. The Bank completed the issuance on February 1, 2018, after the closing date of this quarter. The Bank believes that this medium-term note issuance will increase its Total capital ratio by over 100 basis points for the second quarter of 2018.

Movement in Regulatory Capital(1)

(millions of Canadian dollars)	Quarter ended January 31, 2018
Common Equity Tier 1 (CET1) capital	
Balance at beginning	7,856
Issuance of common shares (including Stock Option Plan)	62
Impact of shares purchased or sold for trading	35
Repurchase of common shares	(91)
Other contributed surplus	3
Dividends on preferred and common shares	(227)
Net income attributable to the Bank's shareholders	527
Removal of own credit spread net of income taxes	25
Impact of adopting IFRS 9 on November 1, 2017	(122)
Other	(4)
Movements in accumulated other comprehensive income	
Translation adjustments	(61)
Debt securities at fair value through other comprehensive income	5
Impact of adopting IFRS 9 on November 1, 2017	(10)
Other	2
Change in goodwill and intangible assets (net of related tax liability)	–
Other, including regulatory adjustments and transitional arrangements	
Change in defined benefit pension plan asset (net of related tax liability)	1
Change in amount exceeding 15% threshold	
Deferred tax assets	–
Significant investment in common shares of financial institutions	–
Change in other regulatory adjustments(2)	1
Balance at end	8,002
Additional Tier 1 capital	
Balance at beginning	2,601
New Tier 1 eligible capital issuances	300
Redeemed capital(3)	–
Change in non-qualifying Additional Tier 1 subject to phase-out	–
Other, including regulatory adjustments and transitional arrangements	–
Balance at end	2,901
Total Tier 1 capital	10,903
Tier 2 capital	
Balance at beginning	204
New Tier 2 eligible capital issuances	–
Redeemed capital	–
Change in non-qualifying Tier 2 subject to phase-out	–
Tier 2 instruments issued by subsidiaries and held by third parties	–
Change in certain loan loss allowances	(39)
Other, including regulatory adjustments and transitional arrangements	(1)
Balance at end	164
Total regulatory capital	11,067

(1) Figures are presented on an "all-in" basis.
(2) Represents the change in investments in the Bank's own CET1 capital.
(3) Figures as at January 31, 2018 do not include the November 15, 2017 redemption of Series 28 preferred shares that had been excluded from the calculation of capital as at October 31, 2017.

Risk-Weighted Assets by Key Risk Drivers

CET1 risk-weighted assets (RWA) amounted to $71.2 billion as at January 31, 2018 compared to $70.2 billion as at October 31, 2017, a $1.0 billion increase resulting mainly from organic growth in RWA and foreign exchange movements.

Capital Adequacy Under Basel III[1]

(millions of Canadian dollars)	As at January 31, 2018						As at October 31, 2017
	Exposure at default	Risk-weighted assets				Capital requirement[2]	Risk-weighted assets
		Standardized Approach	AIRB Approach	Other Approach	Total		Total
Credit risk							
Retail							
Residential mortgages	49,818	1,352	4,723	–	6,075	486	5,555
Qualifying revolving retail	6,070	–	1,195	–	1,195	96	1,275
Other retail	16,302	2,057	5,137	–	7,194	576	7,611
Non-retail							
Corporate	65,116	1,693	26,840	–	28,533	2,283	27,544
Sovereign	27,853	309	679	–	988	79	985
Financial institutions	5,336	393	1,051	–	1,444	115	1,531
Banking book equities[3]	912	–	912	–	912	73	910
Securitization	5,012	–	408	–	408	33	390
Other assets	23,666	–	–	2,826	2,826	226	3,645
Counterparty credit risk							
Corporate	19,346	88	191	–	279	22	197
Sovereign	46,209	–	57	–	57	5	43
Financial institutions	54,157	–	394	–	394	31	366
Trading portfolio	9,539	76	2,170	–	2,246	179	2,178
Credit valuation adjustment charge[4]		2,449	–	–	2,449	196	2,227
Regulatory scaling factor		–	2,625	–	2,625	210	2,580
Total – Credit risk	329,336	8,417	46,382	2,826	57,625	4,610	57,037
Market risk							
VaR		–	766	–	766	61	867
Stressed VaR		–	1,388	–	1,388	111	1,324
Interest-rate-specific risk		1,182	–	–	1,182	95	906
Total – Market risk		1,182	2,154	–	3,336	267	3,097
Operational risk		10,218	–	–	10,218	817	10,039
Total	329,336	19,817	48,536	2,826	71,179	5,694	70,173

(1) Figures are presented on an "all-in" basis.
(2) The capital requirement is equal to 8% of risk-weighted assets.
(3) Calculated using the simple risk-weighted method.
(4) Calculated based on CET1 RWA.

Risk-Weighted Assets Movement by Key Drivers(1)

(millions of Canadian dollars)			Quarter ended
			January 31, 2018
	Non-counterparty credit risk	Counterparty credit risk(2)	Total
Credit risk – Risk-weighted assets at beginning	52,026	5,011	57,037
Book size	820	469	1,289
Book quality	(170)	27	(143)
Model updates	–	–	–
Methodology and policy	–	–	–
Acquisitions and disposals	–	–	–
Foreign exchange movements	(476)	(82)	(558)
Credit risk – Risk-weighted assets at end	52,200	5,425	57,625
Market risk – Risk-weighted assets at beginning			3,097
Movement in risk levels(3)			239
Model updates			–
Methodology and policy			–
Acquisitions and disposals			–
Market risk – Risk-weighted assets at end			3,336
Operational risk – Risk-weighted assets at beginning			10,039
Movement in risk levels			179
Acquisitions and disposals			–
Operational risk – Risk-weighted assets at end			10,218
Risk-weighted assets at end			71,179

(1) Figures are presented on an "all-in" basis.
(2) Calculated based on CET1 RWA.
(3) Also includes foreign exchange rate movements that are not considered material.

The table above provides the risk-weighted assets movements by key drivers underlying the different risk categories.

The *Book size* item reflects organic changes in exposure size and composition (including new loans and maturing loans). RWA movements attributable to book size include increases or decreases in exposures, measured by exposure at default, assuming a stable risk profile.

The *Book quality* item is the Bank's best estimate of changes in book quality related to experience, such as underlying customer behaviour or demographics, including changes resulting from model recalibrations or realignments.

The *Model updates* item is used to reflect implementations of new models, changes in model scope, and any other change applied to address model malfunctions.

The *Methodology and policy* item presents the impact of changes in calculation methods stemming from changes in regulatory policies as a result, for example, of new regulations.

Regulatory Capital Ratios

As at January 31, 2018, the Bank's CET1, Tier 1 and Total capital ratios were, respectively, 11.2%, 15.3% and 15.5%, i.e., above the regulatory requirements, compared to ratios of, respectively, 11.2%, 14.9% and 15.1% as at October 31, 2017. The CET1 capital ratio remained stable, essentially because net income net of dividends, common share issuances under the Stock Option Plan, remeasurements of pension plans and other post-employment benefit plans, and low growth in risk-weighted assets were offset by the common share repurchases during the quarter ended January 31, 2018 and by the impact of IFRS 9 adoption on November 1, 2017. Both the Tier 1 and the Total capital ratios increased, essentially due to the same items and to the $300 million issuance of preferred shares on January 22, 2018. As at January 31, 2018, the leverage ratio was 4.0%, unchanged from October 31, 2017.

Regulatory Capital and Ratios Under Basel III[1]

(millions of Canadian dollars)	As at January 31, 2018	As at October 31, 2017
Capital		
CET1	8,002	7,856
Tier 1[2]	10,903	10,457
Total[2]	11,067	10,661
Risk-weighted assets		
CET1 capital	71,179	70,173
Tier 1 capital	71,271	70,327
Total capital	71,362	70,451
Total exposure	269,559	262,539
Capital ratios		
CET1	11.2 %	11.2 %
Tier 1[2]	15.3 %	14.9 %
Total[2]	15.5 %	15.1 %
Leverage ratio	4.0 %	4.0 %

(1) Figures are presented on an "all-in" basis.
(2) Figures as at October 31, 2017 include the redemption of the Series 28 preferred shares on November 15, 2017.

Dividends

On February 27, 2018, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 60 cents per common share payable on May 1, 2018 to shareholders of record on March 26, 2018.

RISK MANAGEMENT

The Bank aims to maintain its financial performance by continuing to ensure prudent management and a sound balance between return and the risks assumed. The Bank views risk as an integral part of its development and the diversification of its activities and advocates a risk management approach consistent with its business expansion strategy. The Bank's governance structure for risk management has remained largely unchanged from that described in the *2017 Annual Report*.

Managing risk requires a solid understanding of every type of risk found across the Bank. In addition to providing assurance that risk levels do not exceed acceptable thresholds, effective risk management can help to control the volatility of the Bank's results. Despite the exercise of stringent risk management and the mitigation measures in place, risk cannot be suppressed entirely, and the residual risks may occasionally cause significant losses.

Certain risks are discussed below. For additional information, see the Risk Management section on pages 51 to 87 of the *2017 Annual Report*. Risk management information is also provided in Note 8 to the consolidated financial statements, which covers loans.

Credit Risk

Credit risk is the risk of incurring a financial loss if an obligor does not fully honour its contractual commitments to the Bank. Obligors may be borrowers, issuers, counterparties or guarantors. Credit risk is the most significant risk facing the Bank in the normal course of business.

The amounts shown in the following table represent the Bank's maximum exposure to credit risk as at the financial reporting date without taking into account any collateral held or any other credit enhancements. These amounts do not take into account allowances for credit losses nor amounts pledged as collateral. The table also excludes equity securities.

Maximum Credit Risk Exposure Under the Basel Asset Categories

(millions of Canadian dollars)						As at January 31, 2018	As at October 31, 2017
	Drawn	Undrawn commitments	Repo-style transactions(1)	OTC derivatives	Other off-balance-sheet items(2)	Total	
Retail							
Residential mortgages	41,981	7,837	–	–	–	49,818	49,028
Qualifying revolving retail	2,775	3,295	–	–	–	6,070	6,196
Other retail	14,842	1,446	–	–	14	16,302	16,635
	59,598	12,578	–	–	14	72,190	71,859
Non-retail							
Corporate	45,294	17,134	19,334	12	2,688	84,462	80,059
Sovereign	23,016	4,693	45,411	798	144	74,062	64,096
Financial institutions	4,474	168	53,787	370	694	59,493	58,508
	72,784	21,995	118,532	1,180	3,526	218,017	202,663
Trading portfolio	–	–	–	9,539	–	9,539	8,309
Securitization	–	–	–	–	5,012	5,012	4,740
Total – Gross Credit Risk	132,382	34,573	118,532	10,719	8,552	304,758	287,571
Standardized Approach	11,806	51	3,842	93	341	16,133	16,040
AIRB Approach	120,576	34,522	114,690	10,626	8,211	288,625	271,531
Total – Gross Credit Risk	132,382	34,573	118,532	10,719	8,552	304,758	287,571

(1) Securities purchased under reverse repurchase agreements and sold under repurchase agreements as well as securities loaned and borrowed.
(2) Letters of guarantee, documentary letters of credit and securitized assets that represent the Bank's commitment to make payments in the event that a client cannot meet its financial obligations to third parties.

In order to meet OSFI's mortgage loan disclosure requirements, additional information has been provided in *Supplementary Financial Information for the First Quarter Ended January 31, 2018* and in *Supplementary Regulatory Capital Disclosure for the First Quarter Ended January 31, 2018,* which are available on the Bank's website at nbc.ca.

Market Risk

Market risk is the risk of losses in on- and off-balance-sheet positions arising from movements in market parameters. Managing this risk is a core competency for the Bank in its market making, trading, investing and asset/liability management activities.

The following tables provide a breakdown of the Bank's Consolidated Balance Sheet into financial assets and liabilities by those that carry market risk and those that do not carry market risk, distinguishing between trading positions whose main risk measures are Value-at-Risk (VaR) and stressed VaR (SVaR) and non-trading positions that use other risk measures.

Reconciliation of Market Risk With Consolidated Balance Sheet Items

(millions of Canadian dollars)					As at January 31, 2018
		Market risk measures			
	Balance sheet	Trading(1)	Non-Trading(2)	Not subject to market risk	Non-traded risk primary risk sensitivity
Assets					
Cash and deposits with financial institutions	11,205	448	10,401	356	Interest rate(3)
Securities					
At fair value through profit or loss	58,673	53,458	5,215	–	Interest rate(3)
At fair value through other comprehensive income	6,184	–	6,184	–	Interest rate(3) and equity(4)
At amortized cost	7,360	–	7,360	–	Interest rate(3)
Securities purchased under reverse repurchase agreements and securities borrowed	16,520	–	16,520	–	Interest rate(3)(5)
Loans and acceptances, net of allowances	136,352	5,649	130,703	–	Interest rate(3)
Derivative financial instruments	8,527	7,651	876	–	Interest rate and exchange rate
Defined benefit asset	60	–	60	–	Other
Other	6,184	–	–	6,184	
	251,065	67,206	177,319	6,540	
Liabilities					
Deposits	156,779	5,768	151,011	–	Interest rate(3)
Acceptances	6,587	–	6,587	–	Interest rate(3)
Obligations related to securities sold short	15,800	15,800	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	26,772	–	26,772	–	Interest rate(3)(5)
Derivative financial instruments	7,251	6,193	1,058	–	Interest rate and exchange rate
Liabilities related to transferred receivables	19,048	3,505	15,543	–	Interest rate(3)
Defined benefit liability	220	–	220	–	Other
Other	4,892	22	945	3,925	Interest rate(3)
Subordinated debt	8	–	8	–	Interest rate(3)
	237,357	31,288	202,144	3,925	

(1) Trading positions whose risk measures are VaR and SVaR. See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category as well as their correlation effect, which are presented on the following pages and in the Market Risk Management section of the *2017 Annual Report*.
(2) Non-trading positions that use other risk measures.
(3) See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category and their correlation effect as well as the interest rate sensitivity tables, which are presented on the following pages and in the Market Risk Management section of the *2017 Annual Report*.
(4) The fair value of equity securities designated at fair value through other comprehensive income is presented in Notes 5 and 7 to the consolidated financial statements.
(5) These instruments are recorded at amortized cost and are subject to credit risk for capital management purposes. For transactions with maturities of more than one day, interest rate risk is included in the VaR and SVaR measures when they relate to trading activities.

(millions of Canadian dollars) As at October 31, 2017

		Market risk measures			
	Balance sheet	Trading[1]	Non-Trading[2]	Not subject to market risk	Non-traded risk primary risk sensitivity
Assets					
Cash and deposits with financial institutions	8,802	154	8,385	263	Interest rate[3]
Securities					
At fair value through profit or loss	47,536	46,825	711	–	Interest rate[3]
Available-for-sale	8,552	–	8,552	–	Interest rate[3] and equity[4]
Held-to-maturity	9,255	–	9,255	–	Interest rate[3]
Securities purchased under reverse repurchase agreements and securities borrowed	20,789	–	20,789	–	Interest rate[3][5]
Loans and acceptances, net of allowances[6]	136,457	5,638	130,819	–	Interest rate[3]
Derivative financial instruments	8,423	7,508	915	–	Interest rate[7] and exchange rate
Defined benefit asset	56	–	56	–	Other[8]
Other	5,957	–	–	5,957	
	245,827	60,125	179,482	6,220	
Liabilities					
Deposits	156,671	5,692	150,979	–	Interest rate[3]
Acceptances	5,991	–	5,991	–	Interest rate[3]
Obligations related to securities sold short	15,363	15,363	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	21,767	–	21,767	–	Interest rate[3][5]
Derivative financial instruments	6,612	6,045	567	–	Interest rate[7] and exchange rate
Liabilities related to transferred receivables	20,098	4,452	15,646	–	Interest rate[3]
Defined benefit liability	252	–	252	–	Other[8]
Other	5,506	15	945	4,546	Interest rate[3]
Subordinated debt	9	–	9	–	Interest rate[3]
	232,269	31,567	196,156	4,546	

(1) Trading positions whose risk measures are VaR and SVaR. See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category as well as their correlation effect, which are presented on the following pages and in the Market Risk Management section of the *2017 Annual Report*.
(2) Non-trading positions that use other risk measures.
(3) See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category and their correlation effect as well as the interest rate sensitivity tables, which are presented below and on the following page as well as in the Market Risk Management section of the *2017 Annual Report*.
(4) The fair value of equity securities classified as available for sale is presented in Notes 5 and 7 to the consolidated financial statements.
(5) These instruments are recorded at amortized cost and are subject to credit risk for capital management purposes. For trading-related transactions with maturities of more than one day, interest rate risk is included in the VaR and SVaR measures.
(6) An amount of $2,014 million classified in *Purchased receivables* and an amount of $5,991 million classified in *Customers' liability under acceptances* as at October 31, 2017 are now reported in *Loans and acceptances, net of allowances*.
(7) See Notes 17 and 18 to the audited annual consolidated financial statements as at October 31, 2017.
(8) See Note 24 to the audited annual consolidated financial statements as at October 31, 2017.

Trading Activities

The first table below shows the VaR distribution of trading portfolios by risk category as well as their correlation effect. The second table on the next page shows the SVaR distribution, i.e., the VaR of the Bank's current portfolios obtained following the calibration of risk factors over a 12-month stress period.

VaR of Trading Portfolios by Risk Category[1]

(millions of Canadian dollars) Quarter ended

	January 31, 2018				October 31, 2017		January 31, 2017	
	Low	High	Average	Period end	Average	Period end	Average	Period end
Interest rate	(3.0)	(4.6)	(3.8)	(3.5)	(3.3)	(4.1)	(5.7)	(6.4)
Exchange rate	(0.5)	(1.5)	(0.8)	(1.2)	(1.6)	(1.0)	(2.7)	(1.9)
Equity	(1.6)	(3.5)	(2.4)	(1.9)	(3.0)	(2.5)	(3.3)	(2.8)
Commodity	(0.5)	(0.9)	(0.7)	(0.6)	(0.8)	(0.7)	(1.0)	(1.1)
Correlation effect[2]	n.m.	n.m.	3.8	3.8	4.3	4.4	6.0	5.9
Total trading VaR	(3.1)	(4.9)	(3.9)	(3.4)	(4.4)	(3.9)	(6.7)	(6.3)

n.m. Computation of a correlation effect for the high and low is not meaningful, as highs and lows may occur on different days and be attributable to different types of risk.
(1) Amounts are presented on a pre-tax basis and represent one-day VaR using a 99% confidence level.
(2) The total trading VaR is less than the sum of the individual risk factor VaR results due to the correlation effect.

SVaR of Trading Portfolios by Risk Category[1]

(millions of Canadian dollars)								Quarter ended
				January 31, 2018	October 31, 2017		January 31, 2017	
	Low	High	Average	Period end	Average	Period end	Average	Period end
Interest rate	(8.6)	(13.0)	(10.6)	(9.1)	(9.6)	(10.6)	(7.7)	(8.5)
Exchange rate	(0.5)	(1.7)	(0.9)	(1.5)	(2.1)	(1.7)	(3.4)	(1.5)
Equity	(1.2)	(4.3)	(2.3)	(1.9)	(3.9)	(5.3)	(5.1)	(5.0)
Commodity	(0.4)	(1.4)	(0.8)	(0.9)	(0.9)	(0.7)	(1.4)	(1.3)
Correlation effect[2]	n.m.	n.m.	7.6	7.4	9.7	10.2	9.4	8.9
Total trading SVaR	(4.0)	(11.7)	(7.0)	(6.0)	(6.8)	(8.1)	(8.2)	(7.4)

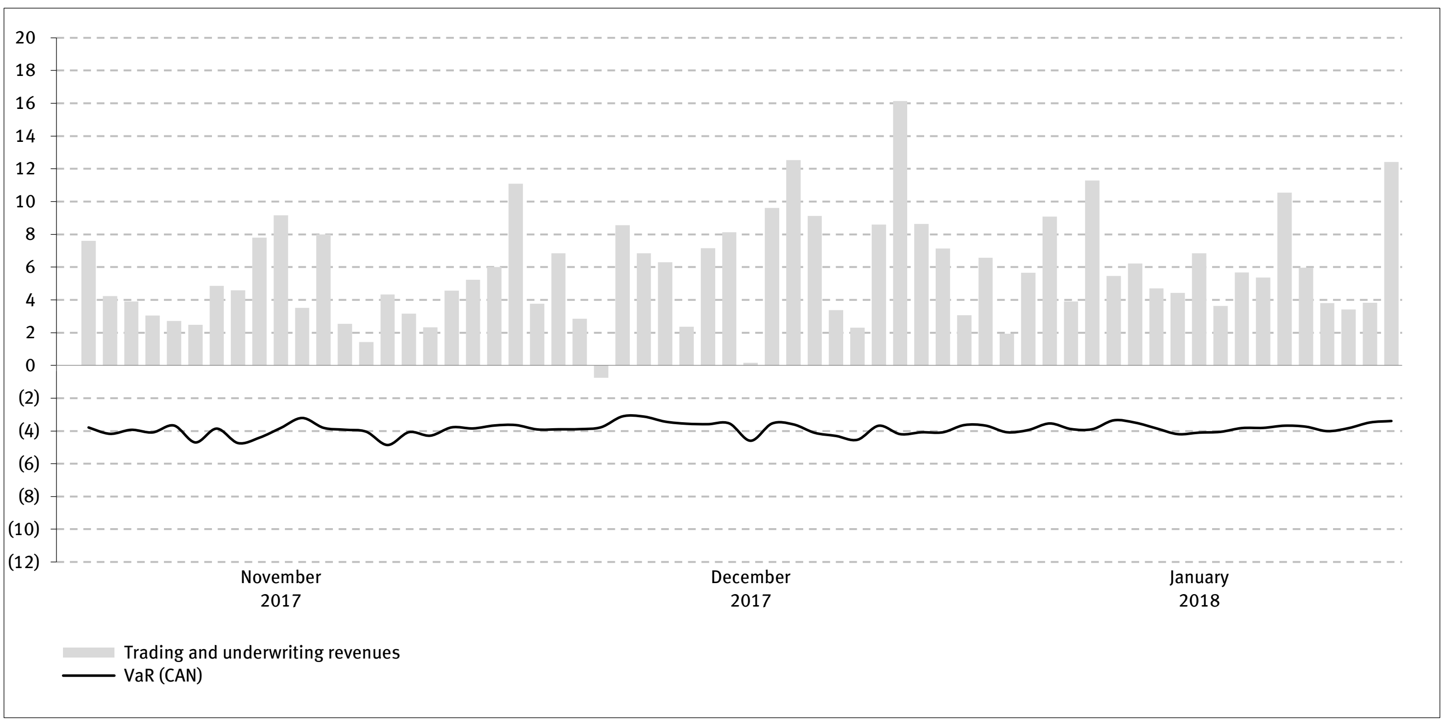
n.m. Computation of a correlation effect for the high and low is not meaningful, as highs and lows may occur on different days and be attributable to different types of risk.
(1) Amounts are presented on a pre-tax basis and represent one-day SVaR using a 99% confidence level.
(2) The total trading SVaR is less than the sum of the individual risk factor SVaR results due to the correlation effect.

Total Trading VaR decreased from $3.9 million to $3.4 million and Total Trading SVaR decreased from $8.1 million to $6.0 million between the fourth quarter of 2017 and the first quarter of 2018. These decreases were mainly driven by lower equity risk and interest rate risk.

Daily Trading and Underwriting Revenues

The following table shows daily trading and underwriting revenues as well as VaR. Daily trading and underwriting revenues were positive 98% of the days for the quarter ended January 31, 2018. No trading day was marked by net losses in excess of $1 million. None of these losses exceeded the VaR.

Quarter ended January 31, 2018
(millions of Canadian dollars)



Interest Rate Sensitivity – Non-Trading Activities (Before Tax)

The following tables present the potential before-tax impact of an immediate and sustained 100-basis-point increase or decrease in interest rates on the economic value of equity and on net interest income for the next 12 months in the Bank's non-trading portfolios, assuming no further hedging is undertaken.

(millions of Canadian dollars)						As at January 31, 2018
			Impact on equity			Impact on net interest income
	Canadian dollar	Other currencies	Total	Canadian dollar	Other currencies	Total
100-basis-point increase in the interest rate	(209)	28	(181)	(8)	41	33
100-basis-point decrease in the interest rate	187	18	205	8	7	15

(millions of Canadian dollars)						As at October 31, 2017
			Impact on equity			Impact on net interest income
	Canadian dollar	Other currencies	Total	Canadian dollar	Other currencies	Total
100-basis-point increase in the interest rate	(191)	36	(155)	3	44	47
100-basis-point decrease in the interest rate	159	(6)	153	(7)	(11)	(18)

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to honour daily cash and financial obligations without resorting to costly and untimely measures. Liquidity risk arises when sources of funds become insufficient to meet scheduled payments under the Bank's commitments. Liquidity risk stems from mismatched cash flows related to assets and liabilities as well as the characteristics of certain products such as credit commitments and non-fixed-term deposits.

Regulatory Developments

The Bank closely monitors regulatory changes and is actively involved in consultation processes. For additional information on the regulatory context as at October 31, 2017, which is still the current context, see page 75 of the Risk Management section in the *2017 Annual Report.* Since November 1, 2017, the below-described regulatory development should also be considered.

On February 6, 2018, OSFI notified Canadian deposit-taking institutions of its intention to extend the Net Stable Funding Ratio (NSFR) implementation date to January 1, 2020, one year later than planned.

Liquid Assets

To protect depositors and creditors from unexpected crisis situations, the Bank holds a portfolio of unencumbered liquid assets that can be readily liquidated to meet financial obligations. This portfolio consists of highly liquid securities, most of which are issued or guaranteed by governments, and of cash loans maturing in less than 30 days. The majority of unencumbered liquid assets are held in Canadian or U.S. dollars. Moreover, all assets that can be quickly monetized are considered liquid assets. The Bank's liquidity reserves do not factor in the availability of the central bank's emergency liquidity facilities. The following tables provide information on the Bank's encumbered and unencumbered assets.

Liquid Asset Portfolio

(millions of Canadian dollars)					As at January 31, 2018	As at October 31, 2017
	Bank-owned liquid assets(1)	Liquid assets received(2)	Total liquid assets	Encumbered liquid assets(3)	Unencumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	11,205	–	11,205	2,481	8,724	6,845
Securities						
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	22,364	30,427	52,791	36,986	15,805	19,321
Issued or guaranteed by Canadian provincial and municipal governments	11,989	13,347	25,336	21,329	4,007	4,705
Other debt securities	5,162	1,894	7,056	3,483	3,573	3,485
Equity securities	32,702	49,616	82,318	59,790	22,528	19,663
Loans						
Securities backed by insured residential mortgages	9,940	–	9,940	5,006	4,934	5,392
As at January 31, 2018	93,362	95,284	188,646	129,075	59,571	
As at October 31, 2017	83,650	92,209	175,859	116,448		59,411

(millions of Canadian dollars)	As at January 31, 2018	As at October 31, 2017
Unencumbered liquid assets by entity		
National Bank (parent)	22,024	27,769
Domestic subsidiaries	10,601	9,871
Foreign subsidiaries and branches	26,946	21,771
	59,571	59,411

(millions of Canadian dollars)	As at January 31, 2018	As at October 31, 2017
Unencumbered liquid assets by currency		
Canadian dollar	27,087	31,146
U.S. dollar	18,276	21,260
Other currencies	14,208	7,005
	59,571	59,411

Liquid Asset Portfolio – Average(4)

(millions of Canadian dollars)					Quarter ended January 31, 2018
	Bank-owned liquid assets(1)	Liquid assets received(2)	Total liquid assets	Encumbered liquid assets(3)	Unencumbered liquid assets
Cash and deposits with financial institutions	11,827	–	11,827	2,050	9,777
Securities					
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	22,205	32,493	54,698	39,385	15,313
Issued or guaranteed by Canadian provincial and municipal governments	12,993	14,936	27,929	23,454	4,475
Other debt securities	5,136	1,835	6,971	3,661	3,310
Equity securities	35,127	48,426	83,553	58,121	25,432
Loans					
Securities backed by insured residential mortgages	9,938	–	9,938	4,687	5,251
	97,226	97,690	194,916	131,358	63,558

(1) Bank-owned liquid assets include assets for which there are no legal or geographic restrictions.
(2) Securities received as collateral with respect to securities financing and derivative transactions and securities purchased under reverse repurchase agreements and securities borrowed.
(3) In the normal course of its funding activities, the Bank pledges assets as collateral in accordance with standard terms. Encumbered liquid assets include assets used to cover short sales, obligations related to securities sold under repurchase agreements and securities loaned, guarantees related to security-backed loans and borrowings, collateral related to derivative financial instrument transactions, asset-backed securities and liquid assets legally restricted from transfers.
(4) The average is based on the sum of the end-of-period balances of the three months of the quarter divided by three.

Summary of Encumbered and Unencumbered Assets

(millions of Canadian dollars)						As at January 31, 2018
		Encumbered assets(1)		Unencumbered assets	Total	Encumbered assets as a % of total assets
	Pledged as collateral	Other(2)	Available as collateral	Other(3)		
Cash and deposits with financial institutions	76	2,405	8,724	–	11,205	1.0
Securities	27,024	–	45,193	–	72,217	10.7
Securities purchased under reverse repurchase agreements and securities borrowed	–	15,800	720	–	16,520	6.3
Loans and acceptances, net of allowances	40,112	–	4,934	91,306	136,352	16.0
Derivative financial instruments	–	–	–	8,527	8,527	–
Investments in associates and joint ventures	–	–	–	635	635	–
Premises and equipment	–	–	–	581	581	–
Goodwill	–	–	–	1,401	1,401	–
Intangible assets	–	–	–	1,246	1,246	–
Other assets	–	–	–	2,381	2,381	–
	67,212	18,205	59,571	106,077	251,065	34.0

(millions of Canadian dollars)						As at October 31, 2017
		Encumbered assets(1)		Unencumbered assets	Total	Encumbered assets as a % of total assets
	Pledged as collateral	Other(2)	Available as collateral	Other(3)		
Cash and deposits with financial institutions	76	1,881	6,845	–	8,802	0.8
Securities	23,595	–	41,748	–	65,343	9.6
Securities purchased under reverse repurchase agreements and securities borrowed	–	15,363	5,426	–	20,789	6.2
Loans and acceptances, net of allowances(4)	40,415	–	5,392	90,650	136,457	16.5
Derivative financial instruments	–	–	–	8,423	8,423	–
Investments in associates and joint ventures	–	–	–	631	631	–
Premises and equipment	–	–	–	558	558	–
Goodwill	–	–	–	1,409	1,409	–
Intangible assets	–	–	–	1,239	1,239	–
Other assets	–	–	–	2,176	2,176	–
	64,086	17,244	59,411	105,086	245,827	33.1

(1) In the normal course of its funding activities, the Bank pledges assets as collateral in accordance with standard terms. Encumbered assets include assets used to cover short sales, obligations related to securities sold under repurchase agreements and securities loaned, guarantees related to security-backed loans and borrowings, collateral related to derivative financial instrument transactions, asset-backed securities, residential mortgage loans securitized and transferred under the Canada Mortgage Bond program, assets held in consolidated trusts supporting the Bank's funding activities and mortgage loans transferred under the covered bond program.

(2) Other encumbered assets include assets for which there are restrictions and which therefore cannot be used for collateral or funding purposes as well as assets used to cover short sales.

(3) Other unencumbered assets are assets that cannot be used for collateral or funding purposes in their current form. This category includes assets that are potentially eligible as funding program collateral (for example, mortgages insured by the Canada Mortgage and Housing Corporation (CMHC) that can be securitized into mortgage-backed securities under the *National Housing Act* (Canada)).

(4) An amount of $2,014 million classified in *Purchased receivables* and an amount of $5,991 million classified in *Customers' liability under acceptances* as at October 31, 2017 are now reported in *Loans and acceptances, net of allowances*.

Liquidity Coverage Ratio (LCR)

The LCR was introduced primarily to ensure banks maintain sufficient liquidity to withstand periods of severe short-term stress. OSFI has been requiring Canadian banks to maintain a minimum LCR of 100%. An LCR above 100% ensures that banks are holding sufficient high-quality liquid assets (HQLA) to cover net cash outflows given a severe, 30-day liquidity crisis. The assumptions underlying the LCR scenario were established by the BCBS and OSFI.

The following table provides average LCR data calculated using the daily figures in the quarter. For the quarter ended January 31, 2018, the Bank's average LCR was 135%, well above the 100% regulatory requirement and demonstrating the Bank's solid liquidity position.

LCR Disclosure Requirements(1)

(millions of Canadian dollars)			For the quarter ended
		January 31, 2018	October 31, 2017
	Total unweighted value(2) (average)	Total weighted value(3) (average)	Total weighted value(3) (average)
High-quality liquid assets (HQLA)			
1 Total HQLA	**n.a.**	**44,813**	44,413
Cash outflows			
2 Retail deposits and deposits from small business customers, of which:	**39,847**	**2,667**	2,535
3 Stable deposits	**18,827**	**565**	561
4 Less stable deposits	**21,020**	**2,102**	1,974
5 Unsecured wholesale funding, of which:	**61,881**	**33,939**	30,193
6 Operational deposits (all counterparties)	**11,043**	**2,649**	2,913
7 Non-operational deposits (all counterparties)	**43,318**	**23,770**	20,000
8 Unsecured debt	**7,520**	**7,520**	7,280
9 Secured wholesale funding	**n.a.**	**19,605**	15,442
10 Additional requirements, of which:	**30,576**	**7,942**	8,406
11 Outflows related to derivative exposures and other collateral requirements	**6,861**	**3,612**	3,747
12 Outflows related to loss of funding on secured debt securities	**941**	**941**	1,139
13 Backstop liquidity and credit enhancement facilities and commitments to extend credit	**22,774**	**3,389**	3,520
14 Other contractual commitments to extend credit	**1,479**	**526**	406
15 Other contingent commitments to extend credit	**84,302**	**1,248**	1,081
16 Total cash outflows	**n.a.**	**65,927**	58,063
Cash inflows			
17 Secured lending (e.g., reverse repos)	**75,470**	**17,389**	14,446
18 Inflows from fully performing exposures	**8,182**	**4,864**	4,414
19 Other cash inflows	**10,503**	**10,503**	5,635
20 Total cash inflows	**94,155**	**32,756**	24,495
		Total adjusted value(4)	Total adjusted value(4)
21 Total HQLA	**n.a.**	**44,813**	44,413
22 Total net cash outflows	**n.a.**	**33,171**	33,568
23 Liquidity coverage ratio (%)(5)	**n.a.**	**135 %**	132 %

n.a. Not applicable
(1) OSFI prescribed a table format to standardize disclosure throughout the banking industry.
(2) Unweighted values are calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).
(3) Weighted values are calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates.
(4) Total adjusted values are calculated after the application of both haircuts and inflow and outflow rates and any applicable caps.
(5) The data in this table has been calculated using averages of the daily figures in the quarter.

Level 1 liquid assets represent 85% of the Bank's HQLA, which includes cash, central bank deposits, and bonds issued or guaranteed by the Canadian government and Canadian provincial governments.

Cash outflows arise from the application of OSFI-prescribed assumptions on deposits, debt, secured funding, commitments and additional collateral requirements. The cash outflows are partly offset by cash inflows, which come mainly from secured loans and performing loans. The Bank expects some quarter-over-quarter variation between reported LCRs, and such variation may not be indicative of a trend. The variation between the quarter ended January 31, 2018 and the preceding quarter was a result of normal business activities. The Bank's liquid asset buffer is well in excess of its total net cash outflows.

The LCR assumptions differ from the assumptions used for the liquidity disclosures provided in the tables on the preceding pages or those used for internal liquidity management rules. While the liquidity disclosure framework was prescribed by the EDTF, the Bank's internal liquidity metrics use assumptions that are calibrated according to its business model and experience.

Funding Risk

Funding risk is defined as the risk to the Bank's ongoing ability to raise sufficient funds to finance actual or proposed business activities on an unsecured or secured basis at an acceptable price. The Bank maintains a good balance of its funding through appropriate diversification of its unsecured funding vehicles, securitization programs and secured funding. The Bank also diversifies its funding by currency, geography and maturity. The funding management priority is to achieve the optimal balance between the deposit liabilities of the Bank's retail network, secured funding and unsecured funding. This brings optimal stability to the funding and reduces vulnerability to unpredictable events.

The Bank's balance sheet is well diversified and supported by a funding strategy. The core banking activities are funded entirely through personal and commercial deposits and through securitization programs. In addition to core deposits, the Bank also receives non-marketable deposits from governments and corporations. Wholesale funding is invested in cash and securities. The table below presents the residual contractual maturities of the Bank's wholesale funding. The information has been presented in accordance with the categories recommended by the EDTF for comparison purposes with other banks.

Residual Contractual Maturities of Wholesale Funding(1)

(millions of Canadian dollars)								As at January 31, 2018
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Subtotal 1 year or less	Over 1 year to 2 years	Over 2 years	Total
Deposits from banks(2)	959	–	6	–	965	–	–	965
Certificates of deposit and commercial paper(3)	2,756	3,673	2,054	861	9,344	486	–	9,830
Senior unsecured medium-term notes(4)	39	197	937	2,474	3,647	1,650	6,736	12,033
Senior unsecured structured notes	–	–	–	18	18	980	3,606	4,604
Covered bonds and asset-backed securities								
Mortgage securitization	–	450	1,304	1,911	3,665	2,462	12,921	19,048
Covered bonds	–	921	–	1,547	2,468	–	4,692	7,160
Securitization of credit card receivables	–	–	–	36	36	–	873	909
Subordinated liabilities(5)	–	–	–	–	–	–	8	8
	3,754	5,241	4,301	6,847	20,143	5,578	28,836	54,557
Secured funding	–	1,371	1,304	3,494	6,169	2,462	18,486	27,117
Unsecured funding	3,754	3,870	2,997	3,353	13,974	3,116	10,350	27,440
	3,754	5,241	4,301	6,847	20,143	5,578	28,836	54,557
As at October 31, 2017	2,198	5,306	5,136	4,332	16,972	8,968	28,789	54,729

(1) Bankers' acceptances are not included in this table.
(2) Deposits from banks include all non-negotiable term deposits from banks.
(3) Includes bearer deposit notes.
(4) Certificates of deposit denominated in euros are included in senior unsecured medium-term notes.
(5) Subordinated debt is presented in this table but the Bank does not consider it as part of its wholesale funding.

As part of a comprehensive liquidity management framework, the Bank regularly reviews its contracts that stipulate that additional collateral could be required in the event of a downgrade of the Bank's credit rating. The Bank's liquidity position management already incorporates additional collateral requirements in the event of a one-notch to three-notch downgrade. The table below presents the additional collateral requirements in the event of a one-notch or three-notch credit rating downgrade.

(millions of Canadian dollars)		As at January 31, 2018
	One-notch downgrade	Three-notch downgrade
Derivatives(1)	–	12

(1) Contractual requirements related to agreements known as Credit Support Annexes.

Residual Contractual Maturities of Balance Sheet Items and Off-Balance-Sheet Commitments

The following tables present balance sheet items and off-balance-sheet commitments by residual contractual maturity as at January 31, 2018 with comparative figures as at October 31, 2017. The information gathered from this maturity analysis is a component of liquidity and funding management. However, this maturity profile does not represent how the Bank manages its interest rate risk or its liquidity risk and funding needs. The Bank considers factors other than contractual maturity in the assessment of liquid assets or in determining expected future cash flows.

In the normal course of business, the Bank enters into various off-balance-sheet commitments. The credit instruments used to meet the financing needs of its clients represent the maximum amount of additional credit the Bank could be obligated to extend if the commitments were fully drawn.

The Bank also has future minimum commitments under leases for premises as well as for other contracts, mainly contracts for outsourced information technology services. Most of the lease commitments are related to operating leases.

(millions of Canadian dollars)										As at January 31, 2018
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Assets										
Cash and deposits with financial institutions	8,111	1,005	18	1	4	–	–	–	2,066	11,205
Securities										
At fair value through profit or loss	365	1,106	1,026	1,952	2,174	3,812	10,221	5,679	32,338	58,673
At fair value through other comprehensive income	2	28	10	14	166	461	3,117	2,197	189	6,184
At amortized cost	–	–	6	635	59	215	5,764	681	–	7,360
	367	1,134	1,042	2,601	2,399	4,488	19,102	8,557	32,527	72,217
Securities purchased under reverse repurchase agreements and securities borrowed	6,412	1,251	1,479	68	1,230	2,276	732	–	3,072	16,520
Loans and acceptances(1)										
Residential mortgage	583	950	2,667	1,968	1,735	8,520	33,076	1,600	450	51,549
Personal	154	451	865	677	982	3,094	9,724	2,769	16,840	35,556
Credit card	–	–	–	–	–	–	–	–	2,206	2,206
Business and government	7,439	1,951	2,259	2,064	1,900	4,894	10,245	2,793	7,572	41,117
Customers' liability under acceptances	5,486	1,016	83	–	2	–	–	–	–	6,587
Allowances for credit losses									(663)	(663)
	13,662	4,368	5,874	4,709	4,619	16,508	53,045	7,162	26,405	136,352
Other										
Derivative financial instruments	523	760	411	253	739	795	1,948	3,098	–	8,527
Investments in associates and joint ventures									635	635
Premises and equipment									581	581
Goodwill									1,401	1,401
Intangible assets									1,246	1,246
Other assets(1)	332	55	74	61	83	118	108	144	1,406	2,381
	855	815	485	314	822	913	2,056	3,242	5,269	14,771
	29,407	8,573	8,898	7,693	9,074	24,185	74,935	18,961	69,339	251,065

(1) Amounts collectible on demand are considered to have no specified maturity.

(millions of Canadian dollars)									As at January 31, 2018	
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Liabilities and equity										
Deposits(1)(2)										
Personal	1,325	2,188	2,256	2,519	2,409	4,745	8,009	2,278	28,919	54,648
Business and government	13,262	6,798	4,293	1,995	4,947	4,422	11,184	4,635	44,637	96,173
Deposit-taking institutions	2,460	711	215	15	–	–	–	49	2,508	5,958
	17,047	9,697	6,764	4,529	7,356	9,167	19,193	6,962	76,064	156,779
Other										
Acceptances	5,486	1,016	83	–	2	–	–	–	–	6,587
Obligations related to securities sold short(3)	912	895	179	25	154	931	5,510	5,395	1,799	15,800
Obligations related to securities sold under repurchase agreements and securities loaned	10,235	835	4,681	1,678	–	–	–	–	9,343	26,772
Derivative financial instruments	889	753	447	341	638	782	1,500	1,901	–	7,251
Liabilities related to transferred receivables(4)	–	450	1,304	–	1,911	2,462	9,863	3,058	–	19,048
Securitization – Credit card(5)	–	–	–	–	36	–	873	–	–	909
Other liabilities – Other items(1)(5)	216	75	56	14	102	74	60	94	3,512	4,203
	17,738	4,024	6,750	2,058	2,843	4,249	17,806	10,448	14,654	80,570
Subordinated debt	–	–	–	–	–	–	–	8	–	8
Equity									13,708	13,708
	34,785	13,721	13,514	6,587	10,199	13,416	36,999	17,418	104,426	251,065
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	305	351	951	275	1,085	788	13	–	–	3,768
Credit card receivables(6)									7,783	7,783
Backstop liquidity and credit enhancement facilities(7)	2,298	–	15	–	2,695	–	–	–	–	5,008
Commitments to extend credit(8)	3,464	2,717	4,752	3,830	3,715	3,725	6,969	306	25,536	55,014
Lease commitments and other contracts	79	147	199	195	191	676	1,430	405	–	3,322

(1) Amounts payable upon demand or notice are considered to have no specified maturity.
(2) The *Deposits* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(3) Amounts are disclosed according to the remaining contractual maturity of the underlying security.
(4) These amounts mainly include liabilities related to the securitization of mortgage loans.
(5) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(6) These amounts are unconditionally revocable at the Bank's discretion at any time.
(7) In the event of payment on one of the backstop liquidity facilities, the Bank will receive as collateral government bonds in an amount up to $2.3 billion.
(8) These amounts include $41.0 billion that is unconditionally revocable at the Bank's discretion at any time.

(millions of Canadian dollars) As at October 31, 2017

	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Assets										
Cash and deposits with financial institutions	6,181	534	23	1	1	4	–	–	2,058	8,802
Securities										
At fair value through profit or loss	467	1,182	931	1,623	909	3,413	8,166	4,502	26,343	47,536
Available-for-sale	–	67	19	29	30	419	3,973	3,496	519	8,552
Held-to-maturity	25	–	–	–	603	388	7,181	1,058	–	9,255
	492	1,249	950	1,652	1,542	4,220	19,320	9,056	26,862	65,343
Securities purchased under reverse repurchase agreements and securities borrowed	8,235	2,717	1,534	129	19	3,677	770	–	3,708	20,789
Loans and acceptances(1)(2)										
Residential mortgage	758	1,039	1,428	2,735	2,046	8,014	33,603	1,544	467	51,634
Personal	227	345	563	1,318	813	2,893	9,838	2,779	16,814	35,590
Credit card	–	–	–	–	–	–	–	–	2,247	2,247
Business and government	7,576	2,493	2,014	2,192	1,840	4,636	9,946	2,718	8,275	41,690
Customers' liability under acceptances	5,030	865	96	–	–	–	–	–	–	5,991
Allowances for credit losses									(695)	(695)
	13,591	4,742	4,101	6,245	4,699	15,543	53,387	7,041	27,108	136,457
Other										
Derivative financial instruments	562	872	403	255	180	904	2,070	3,177	–	8,423
Investments in associates and joint ventures									631	631
Premises and equipment									558	558
Goodwill									1,409	1,409
Intangible assets									1,239	1,239
Other assets(1)	381	109	71	85	36	83	79	109	1,223	2,176
	943	981	474	340	216	987	2,149	3,286	5,060	14,436
	29,442	10,223	7,082	8,367	6,477	24,431	75,626	19,383	64,796	245,827

(1) Amounts collectible on demand are considered to have no specified maturity.
(2) The *Purchased receivables* amount of $2,014 million presented separately on the Consolidated Balance Sheet as at October 31, 2017 is now reported in *Loans and acceptances.*

(millions of Canadian dollars)										As at October 31, 2017
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Liabilities and equity										
Deposits(1)(2)										
Personal	944	1,829	2,410	2,083	2,578	4,641	8,463	2,255	28,516	53,719
Business and government	10,689	5,744	6,423	2,539	2,032	7,762	10,601	4,843	46,938	97,571
Deposit-taking institutions	2,252	495	134	–	–	–	–	53	2,447	5,381
	13,885	8,068	8,967	4,622	4,610	12,403	19,064	7,151	77,901	156,671
Other										
Acceptances	5,030	865	96	–	–	–	–	–	–	5,991
Obligations related to securities sold short(3)	1,243	472	259	118	99	578	6,147	4,553	1,894	15,363
Obligations related to securities sold under repurchase agreements and securities loaned	5,652	932	3,049	3,315	–	–	–	–	8,819	21,767
Derivative financial instruments	410	922	449	303	255	826	1,542	1,905	–	6,612
Liabilities related to transferred receivables(4)	–	1,873	448	1,081	–	3,486	9,272	3,938	–	20,098
Securitization – Credit card(5)	–	–	–	–	–	36	873	–	–	909
Other liabilities – Other items(1)(5)	327	85	231	55	51	75	130	163	3,732	4,849
	12,662	5,149	4,532	4,872	405	5,001	17,964	10,559	14,445	75,589
Subordinated debt	–	–	–	–	–	–	–	9	–	9
Equity									13,558	13,558
	26,547	13,217	13,499	9,494	5,015	17,404	37,028	17,719	105,904	245,827
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	240	848	648	906	408	892	40	2	–	3,984
Credit card receivables(6)									7,688	7,688
Backstop liquidity and credit enhancement facilities(7)	–	2,736	2,298	15	–	–	–	–	–	5,049
Commitments to extend credit(8)	3,841	3,532	3,214	4,100	3,303	3,584	6,730	124	23,963	52,391
Lease commitments and other contracts	79	147	199	195	190	676	1,431	425	–	3,342

(1) Amounts payable upon demand or notice are considered to have no specified maturity.
(2) The *Deposits* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(3) Amounts are disclosed according to the remaining contractual maturity of the underlying security.
(4) These amounts mainly include liabilities related to the securitization of mortgage loans.
(5) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(6) These amounts are unconditionally revocable at the Bank's discretion at any time.
(7) In the event of payment on one of the backstop liquidity facilities, the Bank will receive as collateral government bonds in an amount up to $2.3 billion.
(8) These amounts include $39.6 billion that is unconditionally revocable at the Bank's discretion at any time.

QUARTERLY FINANCIAL INFORMATION

(millions of Canadian dollars, except per share amounts)	2018				2017			2016	2017	2016
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Total	Total
Total revenues	**1,806**	1,704	1,675	1,597	1,633	1,569	1,557	1,425	6,609	5,840
Net income	**550**	525	518	484	497	307	478	210	2,024	1,256
Earnings per share ($)										
Basic	**1.48**	1.40	1.39	1.30	1.35	0.79	1.32	0.52	5.44	3.31
Diluted	**1.46**	1.39	1.37	1.28	1.34	0.78	1.31	0.52	5.38	3.29
Dividends per common share ($)	**0.60**	0.58	0.58	0.56	0.56	0.55	0.55	0.54	2.28	2.18
Return on common shareholders' equity (%)	**18.7**	17.8	18.2	17.9	18.4	11.0	18.7	7.7	18.1	11.7
Total assets	**251,065**	245,827	240,072	239,020	234,119	232,206	229,896	220,734		
Net impaired loans[1] under IFRS 9	**335**									
Net impaired loans under IAS 39		206	240	213	226	281	251	300		
Per common share ($)										
Book value	**31.75**	31.51	30.84	29.97	29.51	28.52	28.39	27.75		
Share price										
High	**65.35**	62.74	56.44	58.75	56.60	47.88	46.65	45.56		
Low	**62.33**	55.29	51.77	52.94	46.83	44.14	40.98	35.95		

(1) Given the adoption of IFRS 9, all loans classified in Stage 3 of the expected credit loss model are impaired loans. Under IAS 39, loans were considered impaired according to different criteria. Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn and do not include purchased or originated credit-impaired loans.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

CONSOLIDATED BALANCE SHEETS

(unaudited) (millions of Canadian dollars)

	As at January 31, 2018[(1)]	As at November 1, 2017[(1)]	As at October 31, 2017
Assets			
Cash and deposits with financial institutions	11,205	8,801	8,802
Securities (Notes 5, 6 and 7)			
At fair value through profit or loss	58,673	52,228	47,536
Available-for-sale			8,552
At fair value through other comprehensive income	6,184	6,424	
Held-to-maturity			9,255
At amortized cost	7,360	6,653	
	72,217	65,305	65,343
Securities purchased under reverse repurchase agreements and securities borrowed	16,520	20,789	20,789
Loans and acceptances (Note 8)			
Residential mortgage	51,549	51,609	51,634
Personal	35,556	35,590	35,590
Credit card	2,206	2,247	2,247
Business and government	41,117	41,690	41,690
	130,428	131,136	131,161
Customers' liability under acceptances	6,587	5,991	5,991
Allowances for credit losses	(663)	(673)	(695)
	136,352	136,454	136,457
Other			
Derivative financial instruments	8,527	8,423	8,423
Investments in associates and joint ventures	635	631	631
Premises and equipment	581	558	558
Goodwill	1,401	1,409	1,409
Intangible assets	1,246	1,239	1,239
Other assets (Note 10)	2,381	2,226	2,176
	14,771	14,486	14,436
	251,065	245,835	245,827
Liabilities and equity			
Deposits (Notes 6 and 11)	156,779	156,787	156,671
Other			
Acceptances	6,587	5,991	5,991
Obligations related to securities sold short	15,800	15,363	15,363
Obligations related to securities sold under repurchase agreements and securities loaned	26,772	21,767	21,767
Derivative financial instruments	7,251	6,612	6,612
Liabilities related to transferred receivables (Notes 6 and 9)	19,048	20,122	20,098
Other liabilities (Note 12)	5,112	5,791	5,758
	80,570	75,646	75,589
Subordinated debt	8	9	9
Equity			
Equity attributable to the Bank's shareholders (Notes 14 and 18)			
Preferred shares	2,150	2,050	2,050
Common shares	2,861	2,768	2,768
Contributed surplus	52	58	58
Retained earnings	7,785	7,567	7,706
Accumulated other comprehensive income	110	158	168
	12,958	12,601	12,750
Non-controlling interests (Note 15)	750	792	808
	13,708	13,393	13,558
	251,065	245,835	245,827

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

(1) The Consolidated Balance Sheets as at January 31, 2018 and as at November 1, 2017 reflect the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these unaudited interim condensed consolidated financial statements. The comparative information has not been restated.

CONSOLIDATED STATEMENTS OF INCOME

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31,	
	2018[1]	2017
Interest income		
Loans	1,324	1,116
Securities at fair value through profit or loss	157	161
Available-for-sale securities		70
Securities at fair value through other comprehensive income	35	
Held-to-maturity securities		19
Securities at amortized cost	36	
Deposits with financial institutions	46	18
	1,598	1,384
Interest expense		
Deposits	549	400
Liabilities related to transferred receivables	99	97
Subordinated debt	–	8
Other	116	26
	764	531
Net interest income	834	853
Non-interest income		
Underwriting and advisory fees	103	88
Securities brokerage commissions	54	58
Mutual fund revenues	111	101
Trust service revenues	145	123
Credit fees	97	83
Card revenues	40	33
Deposit and payment service charges	68	68
Trading revenues (losses) (Note 17)	228	94
Gains (losses) on available-for-sale securities, net		26
Gains (losses) on non-trading securities, net	28	
Insurance revenues, net	31	31
Foreign exchange revenues, other than trading	22	18
Share in the net income of associates and joint ventures	7	8
Other	38	49
	972	780
Total revenues	1,806	1,633
Provisions for credit losses (Note 8)	87	60
	1,719	1,573
Non-interest expenses		
Compensation and employee benefits	631	588
Occupancy	58	59
Technology	161	137
Communications	16	16
Professional fees	60	66
Other	98	103
	1,024	969
Income before income taxes	695	604
Income taxes	145	107
Net income	550	497
Net income attributable to		
Preferred shareholders	22	19
Common shareholders	505	459
Bank shareholders	527	478
Non-controlling interests	23	19
	550	497
Earnings per share *(dollars)* (Note 20)		
Basic	1.48	1.35
Diluted	1.46	1.34
Dividends per common share *(dollars)*	0.60	0.56

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

(1) The Consolidated Statement of Income for the quarter ended January 31, 2018 reflects the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these unaudited interim condensed consolidated financial statements. The comparative information has not been restated.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2018[1]	2017
Net income	**550**	497
Other comprehensive income, net of income taxes		
Items that may be subsequently reclassified to net income		
Net foreign currency translation adjustments		
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	**(81)**	(57)
Impact of hedging net foreign currency translation gains (losses)	**20**	24
	(61)	(33)
Net change in available-for-sale securities		
Net unrealized gains (losses) on available-for-sale securities		21
Net (gains) losses on available-for-sale securities reclassified to net income		(29)
		(8)
Net change in debt securities at fair value through other comprehensive income		
Net unrealized gains (losses) on debt securities at fair value through other comprehensive income	**4**	
Net (gains) losses on debt securities at fair value through other comprehensive income reclassified to net income	**1**	
	5	
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**11**	–
Net (gains) losses on designated derivative financial instruments reclassified to net income	**(10)**	(6)
	1	(6)
Share in the other comprehensive income of associates and joint ventures	**2**	–
Items that will not be subsequently reclassified to net income		
Remeasurements of pension plans and other post-employment benefit plans	**36**	119
Net gains (losses) on equity securities designated at fair value through other comprehensive income	**3**	
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	**(26)**	(15)
	13	104
Total other comprehensive income, net of income taxes	**(40)**	57
Comprehensive income	**510**	554
Comprehensive income attributable to		
Bank shareholders	**492**	537
Non-controlling interests	**18**	17
	510	554

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

(1) The Consolidated Statement of Comprehensive Income for the quarter ended January 31, 2018 reflects the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these unaudited interim condensed consolidated financial statements. The comparative information has not been restated.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (cont.)

(unaudited) (millions of Canadian dollars)

INCOME TAXES – OTHER COMPREHENSIVE INCOME

The following table presents the income tax expense or recovery for each component of other comprehensive income.

	Quarter ended January 31	
	2018[1]	2017
Net foreign currency translation adjustments		
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	–	–
Impact of hedging net foreign currency translation gains (losses)	6	5
	6	5
Net change in available-for-sale securities		
Net unrealized gains (losses) on available-for-sale securities		6
Net (gains) losses on available-for-sale securities reclassified to net income		(10)
		(4)
Net change in debt securities at fair value through other comprehensive income		
Net unrealized gains (losses) on debt securities at fair value through other comprehensive income	2	
Net (gains) losses on debt securities at fair value through other comprehensive income reclassified to net income	1	
	3	
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	4	–
Net (gains) losses on designated derivative financial instruments reclassified to net income	(3)	(2)
	1	(2)
Remeasurements of pension plans and other post-employment benefit plans	13	43
Net gains (losses) on equity securities designated at fair value through other comprehensive income	1	
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	(10)	(6)
	14	36

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

(1) The Consolidated Statement of Comprehensive Income for the quarter ended January 31, 2018 reflects the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these unaudited interim condensed consolidated financial statements. The comparative information has not been restated.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2018[1]	2017
Preferred shares at beginning (Note 14)	2,050	1,650
Issuance of Series 40 preferred shares	300	–
Redemption of Series 28 preferred shares for cancellation	(200)	–
Preferred shares at end	2,150	1,650
Common shares at beginning (Note 14)	2,768	2,645
Issuances of common shares		
Stock Option Plan	71	119
Repurchases of common shares for cancellation	(13)	–
Impact of shares purchased or sold for trading	35	3
Other	–	(4)
Common shares at end	2,861	2,763
Contributed surplus at beginning	58	73
Stock option expense (Note 18)	3	3
Stock options exercised	(9)	(19)
Contributed surplus at end	52	57
Retained earnings at beginning	7,706	6,706
Impact of adopting IFRS 9 on November 1, 2017	(139)	
Net income attributable to the Bank's shareholders	527	478
Dividends (Note 14)		
Preferred shares	(22)	(19)
Common shares	(205)	(191)
Premium paid on common shares repurchased for cancellation	(78)	–
Share issuance expenses, net of income taxes	(5)	–
Remeasurements of pension plans and other post-employment benefit plans	36	119
Net gains (losses) on equity securities designated at fair value through other comprehensive income	3	
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	(26)	(15)
Other	(12)	(13)
Retained earnings at end	7,785	7,065
Accumulated other comprehensive income at beginning	168	218
Impact of adopting IFRS 9 on November 1, 2017	(10)	
Net foreign currency translation adjustments	(61)	(33)
Net change in unrealized gains (losses) on available-for-sale securities		(8)
Net change in unrealized gains (losses) on debt securities at fair value through other comprehensive income	5	
Net change in gains (losses) on cash flow hedges	6	(4)
Share in the other comprehensive income of associates and joint ventures	2	–
Accumulated other comprehensive income at end	110	173
Equity attributable to the Bank's shareholders	12,958	11,708
Non-controlling interests at beginning (Note 15)	808	810
Impact of adopting IFRS 9 on November 1, 2017	(16)	
Net income attributable to non-controlling interests	23	19
Other comprehensive income attributable to non-controlling interests	(5)	(2)
Distributions to non-controlling interests	(60)	(28)
Non-controlling interests at end	750	799
Equity	13,708	12,507

ACCUMULATED OTHER COMPREHENSIVE INCOME

	As at January 31, 2018	As at January 31, 2017
Accumulated other comprehensive income		
Net foreign currency translation adjustments	(74)	(7)
Net unrealized gains (losses) on available-for-sale securities		43
Net unrealized gains (losses) on debt securities at fair value through other comprehensive income	34	
Net gains (losses) on instruments designated as cash flow hedges	152	131
Share in the other comprehensive income of associates and joint ventures	(2)	6
	110	173

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

(1) The Consolidated Statement of Changes in Equity for the quarter ended January 31, 2018 reflects the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these unaudited interim condensed consolidated financial statements. The comparative information has not been restated.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2018[(1)]	2017
Cash flows from operating activities		
Net income	550	497
Adjustments for		
Provisions for credit losses	87	60
Amortization of premises and equipment and intangible assets	73	98
Gain on disposal of an equity interest in a joint venture	–	(12)
Deferred taxes	28	(18)
Losses (gains) on sales of available-for-sale securities, net		(26)
Losses (gains) on sales of non-trading securities, net	(28)	
Share in the net income of associates and joint ventures	(7)	(8)
Stock option expense	3	3
Change in operating assets and liabilities		
Securities at fair value through profit or loss	(6,476)	(1,976)
Securities purchased under reverse repurchase agreements and securities borrowed	4,269	(831)
Loans and acceptances, net of securitization	(449)	(1,185)
Deposits	108	2,663
Obligations related to securities sold short	437	337
Obligations related to securities sold under repurchase agreements and securities loaned	5,005	1,297
Derivative financial instruments, net	535	(166)
Interest and dividends receivable and interest payable	(53)	(46)
Current tax assets and liabilities	(91)	(88)
Other items	(309)	(252)
	3,682	347
Cash flows from financing activities		
Issuance of preferred shares	300	–
Redemption of preferred shares for cancellation	(200)	–
Issuances of common shares, net of the impact of shares purchased for trading	97	99
Repurchases of common shares for cancellation	(91)	–
Share issuance expenses	(5)	–
Dividends paid	(225)	(208)
Distributions to non-controlling interests	(60)	(28)
	(184)	(137)
Cash flows from investing activities		
Net change in investments in associates and joint ventures	–	19
Purchases of available-for-sale securities		(1,493)
Purchases of securities at fair value through other comprehensive income	(855)	
Maturities of available-for-sale securities		329
Sales of available-for-sale securities		3,199
Sales of securities at fair value through other comprehensive income	997	
Purchases of held-to-maturity securities		(1,507)
Purchases of securities at amortized cost	(842)	
Sales of securities at amortized cost	4	
Net change in tangible assets leased under operating leases	46	110
Net change in premises and equipment	(95)	(23)
Net change in intangible assets	(56)	(50)
	(801)	584
Impact of currency rate movements on cash and equivalents	(293)	(361)
Increase (decrease) in cash and cash equivalents	2,404	433
Cash and cash equivalents at beginning	8,801	8,183
Cash and cash equivalents at end [(2)]	11,205	8,616
Supplementary information about cash flows from operating activities		
Interest paid	857	595
Interest and dividends received	1,638	1,406
Income taxes paid	201	252

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

(1) The Consolidated Statement of Cash Flows for the quarter ended January 31, 2018 reflects the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these unaudited interim condensed consolidated financial statements. The comparative information has not been restated.

(2) This item is the equivalent of Consolidated Balance Sheet item *Cash and deposits with financial institutions*. It includes an amount of $2.5 billion as at January 31, 2018 ($2.0 billion as at October 31, 2017) for which there are restrictions.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of Canadian dollars)

NOTE 1 – BASIS OF PRESENTATION

On February 27, 2018, the Board of Directors authorized the publication of the Bank's unaudited interim condensed consolidated financial statements (the consolidated financial statements) for the quarter ended January 31, 2018.

The Bank's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The financial statements also comply with section 308(4) of the *Bank Act* (Canada), which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions (Canada) (OSFI), the consolidated financial statements are to be prepared in accordance with IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). None of the OSFI accounting requirements are exceptions to IFRS.

These consolidated financial statements were prepared in accordance with IAS 34 – *Interim Financial Reporting* and using the same accounting policies as those described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2017, except for the changes described in Note 2 to these consolidated financial statements, which have been applied since November 1, 2017 following the Bank's adoption of IFRS 9 – *Financial Instruments.*

As stated in Note 2 to its audited annual consolidated financial statements for the year ended October 31, 2017, the Bank early adopted IFRS 9 on November 1, 2017. As permitted by IFRS 9, the Bank did not restate comparative consolidated financial statements. Note 4 to these consolidated financial statements presents the impacts of IFRS 9 adoption on the Bank's Consolidated Balance Sheet as at November 1, 2017. Since interim consolidated financial statements do not include all of the annual financial statement disclosures required under IFRS, they should be read in conjunction with the audited annual consolidated financial statements and accompanying notes for the year ended October 31, 2017.

On November 1, 2017, the Bank changed the presentation of certain items on the Consolidated Balance Sheet and reclassified certain amounts. The former *Personal and credit card* loans item is now presented in two separate items. The *Purchased receivables* item, which had been presented net of allowances for credit losses, in an amount of $2,014 million as at October 31, 2017, is now reported in *Residential mortgage* loans ($1,116 million) and in *Personal* loans ($874 million), and the *Allowances for credit losses* item was reduced by $24 million. As a result of this change, for the quarter ended January 31, 2017, a $55 million amount reported in *Non-interest income – Other* was reclassified to *Interest income – Loans*.

Unless otherwise indicated, all amounts are expressed in Canadian dollars, which is the Bank's functional and presentation currency.

NOTE 2 – ACCOUNTING POLICY CHANGES

The below-described accounting policies have been applied since November 1, 2017 following the adoption of IFRS 9. As permitted by IFRS 9, the Bank elected to continue applying the hedge accounting provisions set out in IAS 39 – *Financial Instruments: Recognition and Measurement* rather than apply those set out in IFRS 9. The Bank has not restated comparative consolidated financial statements. Note 4 presents the impacts of IFRS 9 adoption on the Consolidated Balance Sheet amounts as at November 1, 2017.

Summary of Accounting Policy Changes

Classification and Measurement of Financial Assets

At initial recognition, all financial assets are recorded at fair value on the Consolidated Balance Sheet. After initial recognition, financial assets must be classified as measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss. The Bank determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets.

In addition, under the fair value option, a financial asset may be irrevocably designated at fair value through profit or loss at initial recognition if certain conditions are met. The Bank may apply this option if, consistent with a documented risk management strategy, doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or liabilities or recognizing gains and losses on them on different bases and if the fair values are reliable. Financial assets thus designated are recognized at fair value, and any change in fair value is recorded in *Non-interest income* in the Consolidated Statement of Income. Interest income arising from these financial instruments designated at fair value through profit or loss is recorded in *Net interest income* in the Consolidated Statement of Income.

It is also permitted to irrevocably designate, at initial recognition, an investment in an equity instrument that is neither held for trading nor a contingent consideration recognized in a business combination as being measured at fair value through other comprehensive income. In accordance with this designation, any change in fair value is recognized in *Other comprehensive income* with no subsequent reclassification to net income. Dividend income is recorded in *Interest income* in the Consolidated Statement of Income.

<u>Contractual Cash Flow Characteristics</u>

For the purpose of classifying a financial asset, the Bank must determine whether the contractual cash flows associated with the financial asset are solely payments of principal and interest on the principal amount outstanding. The principal is generally the fair value of the financial asset at initial recognition. The interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time, and for other basic lending risks and costs as well as of a profit margin. If the Bank determines that the contractual cash flows associated with a financial asset are not solely payments of principal and interest, the financial assets must be classified as measured at fair value through profit or loss.

<u>Business Model</u>

When classifying financial assets, the Bank determines the business model used for each portfolio of financial assets that are managed together to achieve a same business objective. The business model reflects how the Bank manages its financial assets and the extent to which the financial asset cash flows are generated by the collection of the contractual cash flows, the sale of the financial assets, or both. The Bank determines the business model using scenarios that it reasonably expects to occur. The business model determination is a matter of fact and requires the use of judgment and consideration of all the relevant evidence available at the date of determination.

A financial asset portfolio falls within a “hold to collect” business model when the Bank’s primary objective is to hold these financial assets in order to collect contractual cash flows from them and not to sell them. When the Bank’s objective is achieved both by collecting contractual cash flows and by selling the financial assets, the financial asset portfolio falls within a “hold to collect and sell” business model. In this type of business model, collecting contractual cash flows and selling financial assets are both integral components to achieving the Bank’s objective for this financial asset portfolio. Financial assets are measured at fair value through profit or loss if they do not fall within either a “hold to collect” business model or a “hold to collect and sell” business model.

NOTE 2 – ACCOUNTING POLICY CHANGES (cont.)

Securities Measured at Fair Value Through Other Comprehensive Income

Securities measured at fair value through other comprehensive income include: (i) debt securities for which the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding and that fall within a "hold to collect and sell" business model and (ii) equity securities designated at fair value through other comprehensive income with no subsequent reclassification of gains and losses to net income.

The Bank recognizes securities transactions at fair value through other comprehensive income on the trade date, and transaction costs are capitalized. The amortization of premiums and discounts, calculated using the effective interest rate method, as well as interest income and dividend income, are recognized in *Interest income* in the Consolidated Statement of Income.

<u>Debt Securities Measured at Fair Value Through Other Comprehensive Income</u>

Debt securities at fair value through other comprehensive income are recognized at fair value. Unrealized gains and losses are recognized, net of expected credit losses and income taxes, and provided that they are not hedged by derivative financial instruments in a fair value hedging relationship, in *Other comprehensive income*. When the securities are sold, realized gains or losses, determined on an average cost basis, are reclassified to *Non-interest income – Gains (losses) on non-trading securities, net* in the Consolidated Statement of Income.

<u>Equity Securities Designated at Fair Value Through Other Comprehensive Income</u>

Equity securities designated at fair value through other comprehensive income are recognized at fair value. Unrealized gains and losses are presented, net of income taxes, in *Other comprehensive income* with no subsequent reclassification of realized gains and losses to net income.

Securities Measured at Amortized Cost

Securities measured at amortized cost include debt securities for which the contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding and that fall within a "hold to collect" business model.

The Bank initially recognizes securities transactions at fair value on the trade date, and the transaction costs are capitalized. In subsequent periods, they are recognized at amortized cost using the effective interest rate method, less any allowance for expected credit loss. Interest income and the amortization of premiums and discounts on these securities are recognized in *Net interest income* in the Consolidated Statement of Income. Securities measured at amortized cost are presented net of allowances for credit losses on the Consolidated Balance Sheet.

Securities Measured at Fair Value Through Profit or Loss

Securities not classified or designated as measured at fair value through other comprehensive income or at amortized cost are classified as measured at fair value through profit or loss.

Securities measured at fair value through profit or loss include (i) securities held for trading, (ii) securities designated at fair value through profit or loss under the fair value option, (iii) all equity securities other than those designated as measured at fair value through other comprehensive income with no subsequent reclassifications of gains and losses to net income, and (iv) debt securities for which the contractual cash flows are not solely payments of principal and any interest on the principal amount outstanding.

The Bank recognizes securities transactions at fair value through profit or loss on the settlement date on the Consolidated Balance Sheet. Changes in fair value between the trade date and the settlement date are recognized in *Non-interest income* in the Consolidated Statement of Income.

Securities at fair value through profit or loss are recognized at fair value, and any transaction costs are recognized directly in the Consolidated Statement of Income. Interest income as well as realized and unrealized gains or losses on securities held for trading are recognized in *Non-interest income – Trading revenues (losses)* in the Consolidated Statement of Income. Dividend income is recorded in *Interest income* in the Consolidated Statement of Income. Interest income on securities designated under the fair value option are recorded in *Interest income* in the Consolidated Statement of Income. Realized and unrealized gains or losses on these securities are recognized in *Non-interest income – Trading revenues (losses)* in the Consolidated Statement of Income.

Realized and unrealized gains or losses on equity securities at fair value through profit or loss, other than those held for trading, as well as debt securities for which the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding, are recognized in *Non-interest income – Gains (losses) on non-trading securities, net* in the Consolidated Statement of Income. The dividend and interest income on these financial assets are recognized in *Interest income* in the Consolidated Statement of Income.

Loans

Loans at Amortized Cost

Loans at amortized cost include loans originated or purchased by the Bank that are not classified as measured at fair value through profit or loss or designated at fair value through profit or loss under the fair value option. These loans are held within a business model whose objective is to collect contractual cash flows, i.e., cash flows that are solely payments of principal and interest on the principal amount outstanding. Loans originated by the Bank are recognized when cash is advanced to a borrower. Purchased loans are recognized when cash consideration is paid by the Bank. Loans are initially recognized at fair value plus directly attributable costs and are subsequently measured at amortized cost using the effective interest method. Loans are presented net of allowances for credit losses on the Consolidated Balance Sheet.

Loans at Fair Value Through Profit or Loss

Loans classified as measured at fair value through profit or loss, loans designated at fair value through profit or loss under the fair value option, and loans for which the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding are recognized at fair value on the Consolidated Balance Sheet. The interest income on loans at fair value through profit or loss is recorded in *Interest income* in the Consolidated Statement of Income.

Changes in the fair value of loans classified as at fair value through profit or loss and loans designated at fair value through profit or loss under the fair value option are recognized in *Non-interest income – Trading revenues (losses)* in the Consolidated Statement of Income. With respect to loans whose contractual cash flows are not solely payments of principal and interest on the principal amount outstanding, changes in fair value are recognized in *Non-interest income – Other* in the Consolidated Statement of Income.

Reclassification of Financial Assets

A financial asset other than a derivative financial instrument or a financial asset that, at initial recognition, was designated as measured at fair value through profit or loss, is reclassified only in rare situations, i.e., when there is a change in the business model used to manage the financial asset. The reclassification is applied prospectively from the reclassification date.

Impairment of Financial Assets

At the end of each reporting period, the Bank applies a three-stage impairment approach to measure the expected credit losses (ECL) on all debt instruments measured at amortized cost or at fair value through other comprehensive income and on loan commitments and financial guarantees that are not measured at fair value. The ECL model is forward looking. Measurement of ECLs at each reporting period reflects reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions.

Determining the Stage

The ECL three-stage impairment approach is based on the change in the credit quality of financial assets since initial recognition. If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded. When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to Stage 1, i.e., recognition of 12-month expected credit losses. When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance for credit losses equal to lifetime expected losses continues to be recorded or the financial asset is written off. The interest income is calculated on the gross carrying amount for financial assets in Stages 1 and 2 and on the net carrying amount for financial assets in Stage 3.

Assessment of Significant Increase in Credit Risk

In determining whether credit risk has increased significantly, the Bank uses an internal credit risk grading system, external risk ratings, and forward-looking information to assess deterioration in credit quality of a financial instrument. To assess whether or not the credit risk of a financial instrument has increased significantly, the Bank compares the probability of default (PD) occurring over its expected life as at the reporting date with the PD occurring over its expected life on the date of initial recognition and considers reasonable and supportable information indicative of a significant increase in credit risk since initial recognition. The Bank includes relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to Stage 2 even if other metrics do not indicate that a significant increase in credit risk has occurred. The assessment of a significant increase in credit risk requires significant judgment.

Measurement of Expected Credit Losses

ECLs are measured as the probability-weighted present value of all expected cash shortfalls over the remaining expected life of the financial instrument, and reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions is considered. The estimation and application of forward-looking information requires significant judgment. The cash shortfall is the difference between all contractual cash flows owed to the Bank and all the cash flows that the Bank expects to receive.

NOTE 2 – ACCOUNTING POLICY CHANGES (cont.)

The measurement of ECLs is primarily based on the product of the financial instrument's probability of default (PD), loss given default (LGD) and exposure at default (EAD). Forward-looking macroeconomic factors such as unemployment rates, housing price indices, interest rates, and gross domestic product (GDP) are incorporated into the risk parameters. The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The Bank incorporates three forward-looking macroeconomic scenarios in its ECL calculation process: a base scenario, an upside scenario and a downside scenario. Probability weights are attributed to each scenario. The scenarios and probability weights are reassessed quarterly and are subject to management review. The Bank applies experienced credit judgment to adjust the modelled ECL results when it becomes evident that known or expected risk factors and information were not considered in the credit risk rating and modelling process.

ECLs for all financial instruments are recognized in *Provisions for credit losses* in the Consolidated Statement of Income. In the case of debt instruments measured at fair value through other comprehensive income, ECLs are recognized in *Provisions for credit losses* in the Consolidated Statement of Income, and a corresponding amount is recognized in *Other comprehensive income* with no reduction in the carrying amount of the asset on the Consolidated Balance Sheet. As for debt instruments measured at amortized cost, they are presented net of the related allowance for credit losses on the Consolidated Balance Sheet. Allowances for credit losses for off-balance-sheet credit exposures that are not measured at fair value are included in *Other liabilities* on the Consolidated Balance Sheet.

Purchased or Originated Credit-Impaired Financial Assets
On initial recognition of a financial asset, the Bank determines whether the asset is credit-impaired. For financial assets that are credit-impaired upon purchase or origination, in subsequent reporting periods the Bank recognizes only the cumulative changes in lifetime expected credit losses since initial recognition as an allowance for credit losses. The Bank recognizes changes in ECLs in *Provisions for credit losses* in the Consolidated Statement of Income, even if the lifetime ECLs are less than ECLs that were included in the estimated cash flows on initial recognition.

Definition of Default
The definition of default used by the Bank to measure ECLs and transfer financial instruments between stages is consistent with the definition of default used for internal credit risk management purposes. The Bank considers a financial asset, other than a credit card receivable, to be credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due. Credit card receivables are considered credit-impaired, at the latest, when contractual payments are 180 days past due.

Write-offs
A financial asset and its related allowance for credit losses are normally written off in whole or in part when the Bank considers the probability of recovery to be non-existent and when all guarantees and other remedies available to the Bank have been exhausted or if the borrower is bankrupt or winding up and balances owing are not likely to be recovered. Credit card receivables and the related allowance for credit losses are written off when contractual payments are 180 days past due.

NOTE 3 – FUTURE ACCOUNTING POLICY CHANGES

The Bank closely monitors both new accounting standards and amendments to existing accounting standards issued by the IASB. The Bank is currently assessing how adoption of new and amended IASB accounting standards will impact the consolidated financial statements. Aside from the adoption of IFRS 9 on November 1, 2017, there have been no significant updates to the future accounting policy changes disclosed in Note 2 to the audited annual consolidated financial statements for the year ended October 31, 2017.

NOTE 4 – IMPACTS OF IFRS 9 ADOPTION

The IFRS 9 classification and measurement requirements as well as the impairment requirements have been applied retrospectively through adjustments to Consolidated Balance Sheet amounts on the date of initial application, i.e., November 1, 2017, with no restatement of comparative periods. The impacts of IFRS 9 adoption were recognized through adjustments to *Retained earnings*, *Accumulated other comprehensive income,* and *Non-controlling interests* on November 1, 2017.

The following information presents the Consolidated Balance Sheet impacts as at November 1, 2017.

(unaudited) (millions of Canadian dollars)

Classifications and Measurements of Financial Instruments at the Date of Initial Application of IFRS 9

The following table presents the classifications and carrying amounts of the Bank's financial assets and financial liabilities, as previously established in accordance with IAS 39 as at October 31, 2017, as well as the new classifications and new carrying amounts established in accordance with IFRS 9 as at November 1, 2017, where applicable. With respect to financial instruments for which the measurement method has changed, additional information is provided hereafter (Refer to the letter indicated in the reference column.).

	As at October 31, 2017	As at November 1, 2017			
	Carrying value under IAS 39	Carrying value under IFRS 9	Classification under IAS 39	Classification under IFRS 9	Reference
Financial assets					
Cash and deposits with financial institutions	8,802	8,801	Loans and receivables	At amortized cost	
Securities					
Debt and equity securities	46,780	46,780	At fair value through profit or loss	At fair value through profit or loss	
Debt securities	56	56	Designated at fair value through profit or loss under fair value option	Designated at fair value through profit or loss under fair value option	
Equity securities	45	45	Designated at fair value through profit or loss under fair value option	At fair value through profit or loss	(a)
Debt securities	655	655	Designated at fair value through profit or loss under fair value option	At fair value through other comprehensive income	(b)
	5,489	5,489	Available-for-sale	At fair value through other comprehensive income	
	32	25	Available-for-sale	At amortized cost	(c)
	2,359	2,359	Available-for-sale	Designated at fair value through profit or loss under fair value option	(d)
Equity securities	280	280	Available-for-sale	Designated at fair value through other comprehensive income with no subsequent reclassification of gains and losses to net income	(e)
	392	392	Available-for-sale	At fair value through profit or loss	(f)
Debt securities	6,628	6,628	Held-to-maturity	At amortized cost	
	2,627	2,596	Held-to-maturity	Designated at fair value through profit or loss under fair value option	(g)
	65,343	65,305			
Securities purchased under reverse repurchase agreements and securities borrowed	20,132	20,132	Loans and receivables	At amortized cost	
	657	657	Designated at fair value through profit or loss under fair value option	Designated at fair value through profit or loss under fair value option	
	20,789	20,789			
Loans and acceptances					
Residential mortgage	45,658	45,658	Loans and receivables	At amortized cost	
	5,523	5,523	At fair value through profit or loss	At fair value through profit or loss	
	453	428	Loans and receivables	At fair value through profit or loss	(h)
Personal	35,590	35,590	Loans and receivables	At amortized cost	
Credit card	2,247	2,247	Loans and receivables	At amortized cost	
Business and government	41,269	41,269	Loans and receivables	At amortized cost	
	306	306	Loans and receivables	At fair value through profit or loss	(h)
	115	115	Designated at fair value through profit or loss under fair value option	At fair value through profit or loss	(i)
Customers' liability under acceptances	5,991	5,991	Loans and receivables	At amortized cost	
	137,152	137,127			
Derivative financial instruments	8,423	8,423	At fair value through profit or loss	At fair value through profit or loss	
Other assets	994	994	Loans and receivables	At amortized cost	

(unaudited) (millions of Canadian dollars)

NOTE 4 – IMPACTS OF IFRS 9 ADOPTION (cont.)

	As at October 31, 2017	As at November 1, 2017			
	Carrying value under IAS 39	Carrying value under IFRS 9	Classification under IAS 39	Classification under IFRS 9	Reference
Financial liabilities					
Deposits	148,169	**148,169**	At amortized cost	**At amortized cost**	
	3,001	**3,117**	At amortized cost	**Designated at fair value through profit or loss under fair value option**	(j)
	5,501	**5,501**	Designated at fair value through profit or loss under fair value option	**Designated at fair value through profit or loss under fair value option**	
	156,671	**156,787**			
Acceptances	5,991	**5,991**	At amortized cost	**At amortized cost**	
Obligations related to securities sold short	15,363	**15,363**	At fair value through profit or loss	**At fair value through profit or loss**	
Obligations related to securities sold under repurchase agreements and securities loaned	21,233	**21,233**	At amortized cost	**At amortized cost**	
	534	**534**	Designated at fair value through profit or loss under fair value option	**Designated at fair value through profit or loss under fair value option**	
	21,767	**21,767**			
Derivative financial instruments	6,612	**6,612**	At fair value through profit or loss	**At fair value through profit or loss**	
Liabilities related to transferred receivables	11,568	**11,568**	At amortized cost	**At amortized cost**	
	2,321	**2,345**	At amortized cost	**Designated at fair value through profit or loss under fair value option**	(j)
	6,209	**6,209**	Designated at fair value through profit or loss under fair value option	**Designated at fair value through profit or loss under fair value option**	
	20,098	**20,122**			
Other liabilities	2,902	**2,902**	At amortized cost	**At amortized cost**	
	15	**15**	At fair value through profit or loss	**At fair value through profit or loss**	
Subordinated debt	9	**9**	At amortized cost	**At amortized cost**	

(a) As at October 31, 2017, these equity securities were designated at fair value through profit or loss under the fair value option. On November 1, 2017, these equity securities were classified as at fair value through profit or loss since, under IFRS 9, all investments in equity instruments, other than those designated at fair value through other comprehensive income with no subsequent reclassification of gains and losses to net income, must be classified as at fair value through profit or loss.

(b) As at October 31, 2017, these debt securities were designated at fair value through profit or loss under the fair value option. On November 1, 2017, and as permitted by the IFRS 9 transitional provisions, the Bank decided to revoke this designation and classified these securities as at fair value through other comprehensive income since (1) the financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (2) the contractual terms of these debt securities give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(c) As at October 31, 2017, these debt securities were classified as available for sale. They were being recognized at fair value with changes in fair value being recorded in *Other comprehensive income*. On November 1, 2017, under IFRS 9, the Bank reclassified these debt securities as at amortized cost since (1) the financial assets are held within a business model whose objective is achieved by collecting contractual cash flows and (2) the contractual terms of these debt securities give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(d) On November 1, 2017, and as permitted by the IFRS 9 transitional provisions, the Bank made an irrevocable election to designate these debt securities at fair value through profit or loss under the fair value option. Specifically, under IFRS 9, an entity may, at the initial application date, irrevocably designate a financial asset under the fair value option when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from using different bases to measure financial assets or liabilities or recognize the gains and losses thereon. As at October 31, 2017, these debt securities had been classified as available for sale. They were being recognized at fair value with changes in fair value being recorded in *Other comprehensive income*.

(e) On November 1, 2017, and as permitted by the IFRS 9 transitional provisions, the Bank made an irrevocable election to designate these equity securities held in non-trading portfolios at fair value through other comprehensive income with no subsequent reclassification of gains and losses to net income. As at October 31, 2017, these equity securities had been classified as available for sale.

(f) As at October 31, 2017, these equity securities were classified as available for sale. They were being recognized at fair value with changes in fair value being recorded in *Other comprehensive income.* On November 1, 2017, these equity securities were classified at fair value through profit or loss, since, under IFRS 9, all investments in equity instruments, other than those designated at fair value through other comprehensive income with no subsequent reclassification of gains and losses to net income, must be classified as at fair value through profit or loss.

(g) On November 1, 2017, and as permitted by the IFRS 9 transitional provisions, the Bank made an irrevocable election to designate certain debt securities at fair value through profit or loss under the fair value option. Under IFRS 9, an entity may, at the initial application date, irrevocably designate a financial asset under the fair value option when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from using different bases to measure financial assets and liabilities or recognize the gains and losses thereon. As at October 31, 2017, these debt securities had been classified as held to maturity and accounted for at amortized cost.

(h) As at October 31, 2017, these loans were classified as loans and receivables and accounted for at amortized cost. Under IFRS 9, these loans must be classified as at fair value through profit or loss, since, on November 1, 2017, the contractual terms of these financial assets give rise to cash flows that are not solely payments of principal and interest on the principal amount outstanding.

(i) IAS 39 had allowed for the full amount of a hybrid financial instrument containing one or more embedded derivatives that would be bifurcated and accounted for separately to be irrevocably designated at fair value through profit or loss under the fair value option. As at October 31, 2017, these loans were designated at fair value through profit or loss. On November 1, 2017, the Bank revoked this designation. Under IFRS 9, the full amount of the hybrid financial instrument is classified as at fair value through profit or loss since the contractual terms of these financial assets give rise to cash flows that are not solely payments of principal and interest on the principal amount outstanding.

(j) On November 1, 2017, and as permitted by the IFRS 9 transitional provisions, the Bank made an irrevocable election to designate certain deposits and certain liabilities related to transferred receivables at fair value through profit or loss under the fair value option. Under IFRS 9, an entity may, at the initial application date, irrevocably designate a financial liability under the fair value option when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from using different bases to measure financial assets and liabilities or recognize the gains and losses thereon. As at October 31, 2017, these financial liabilities had been being accounted for at amortized cost.

(unaudited) (millions of Canadian dollars)

NOTE 4 – IMPACTS OF IFRS 9 ADOPTION (cont.)

The following table presents a reconciliation of the financial asset and liability carrying values established in accordance with IAS 39 as at October 31, 2017 with the carrying values established in accordance with IFRS 9 as at November 1, 2017 (where applicable) as well as the impact of IFRS 9 adoption on income tax assets and liabilities.

Reconciliation of New Carrying Values Under IFRS 9 as at November 1, 2017

	IFRS 9 adjustments			Reconciliation of new carrying values under IFRS 9
	Classification	Measurement	Impairment	
Cash and deposits with financial institutions				
Under IAS 39 as at October 31, 2017				8,802
Allowances for credit losses	–	–	(1)	(1)
Under IFRS 9 as at November 1, 2017	**–**	**–**	**(1)**	**8,801**
Securities at fair value through profit or loss				
Under IAS 39 as at October 31, 2017				47,536
Reclassification into:				
Debt securities at fair value through other comprehensive income	(655)	–	–	(655)
Reclassification from:				
Available-for-sale debt securities	2,359	–	–	2,359
Available-for-sale equity securities	392	–	–	392
Held-to-maturity debt securities	2,627	(31)	–	2,596
Under IFRS 9 as at November 1, 2017	**4,723**	**(31)**	**–**	**52,228**
Available-for-sale securities				
Under IAS 39 as at October 31, 2017				8,552
Reclassification into:				
Equity securities designated at fair value through other comprehensive income with no subsequent reclassification of gains and losses to net income	(280)	–	–	(280)
Equity securities at fair value through profit or loss	(392)	–	–	(392)
Debt securities designated at fair value through profit or loss under fair value option	(2,359)	–	–	(2,359)
Debt securities at amortized cost	(32)	–	–	(32)
Debt securities at fair value through other comprehensive income	(5,489)	–	–	(5,489)
Under IFRS 9 as at November 1, 2017	**(8,552)**	**–**	**–**	**–**
Securities at fair value through other comprehensive income				
Under IAS 39 as at October 31, 2017				–
Reclassification from:				
Available-for-sale debt securities	5,489	–	–	5,489
Available-for-sale equity securities	280	–	–	280
Debt securities designated at fair value through profit or loss under fair value option	655	–	–	655
Under IFRS 9 as at November 1, 2017	**6,424**	**–**	**–**	**6,424**
Held-to-maturity securities				
Under IAS 39 as at October 31, 2017				9,255
Reclassification into:				
Debt securities designated at fair value through profit or loss under fair value option	(2,627)	–	–	(2,627)
Debt securities at amortized cost	(6,628)	–	–	(6,628)
Under IFRS 9 as at November 1, 2017	**(9,255)**	**–**	**–**	**–**
Securities at amortized cost				
Under IAS 39 as at October 31, 2017				–
Reclassification from:				
Available-for-sale debt securities	32	(4)	(3)	25
Held-to-maturity debt securities	6,628	–	–	6,628
Under IFRS 9 as at November 1, 2017	**6,660**	**(4)**	**(3)**	**6,653**

(unaudited) (millions of Canadian dollars)

Reconciliation of New Carrying Values Under IFRS 9 as at November 1, 2017 (cont.)

	IFRS 9 adjustments			Reconciliation of new carrying values under IFRS 9
	Classification	Measurement	Impairment	
Residential mortgage loans				
Under IAS 39 as at October 31, 2017				51,634
Adjustments related to classification and measurement	–	(25)	–	(25)
Under IFRS 9 as at November 1, 2017	**–**	**(25)**	**–**	**51,609**
Allowances for credit losses				
Under IAS 39 as at October 31, 2017				(695)
Impairment adjustments related to loans and acceptances at amortized cost	–	–	22	22
Under IFRS 9 as at November 1, 2017	**–**	**–**	**22**	**(673)**
Other assets				
As at October 31, 2017				2,176
Tax assets — Adjustments related to measurement and impairment	–	56	(6)	50
As at November 1, 2017	**–**	**56**	**(6)**	**2,226**
Deposits				
Under IAS 39 as at October 31, 2017				156,671
Designated at fair value through profit or loss under fair value option	–	116	–	116
Under IFRS 9 as at November 1, 2017	**–**	**116**	**–**	**156,787**
Liabilities related to transferred receivables				
Under IAS 39 as at October 31, 2017				20,098
Designated at fair value through profit or loss under fair value option	–	24	–	24
Under IFRS 9 as at November 1, 2017	**–**	**24**	**–**	**20,122**
Other liabilities				
As at October 31, 2017				5,758
Allowances for credit losses — Off-balance-sheet commitments	–	–	58	58
Tax liabilities — Adjustments related to impairment	–	–	(25)	(25)
As at November 1, 2017	**–**	**–**	**33**	**5,791**
Impact of IFRS 9 adjustments on equity as at November 1, 2017	**–**	**(144)**	**(21)**	

The following table presents a reconciliation of the *Retained earnings*, *Accumulated other comprehensive income* and *Non-controlling interests* amounts established in accordance with IAS 39 as at October 31, 2017 with those established in accordance with IFRS 9 as at November 1, 2017.

	Retained earnings	Accumulated other comprehensive income	Non-controlling interests	**Impact on equity as at November 1, 2017**
Under IAS 39 as at October 31, 2017	7,706	168	808	
Adjustments related to measurement, net of income taxes	(131)	(10)	(3)	**(144)**
Adjustments related to impairment, net of income taxes	(8)	–	(13)	**(21)**
Impact of IFRS 9 adjustments	(139)	(10)	(16)	**(165)**
Under IFRS 9 as at November 1, 2017	**7,567**	**158**	**792**	

(unaudited) (millions of Canadian dollars)

NOTE 4 – IMPACTS OF IFRS 9 ADOPTION (cont.)

On November 1, 2017, the Bank classified certain debt securities that were being recognized at fair value through other comprehensive income as at October 31, 2017 as measured at amortized cost. As at January 31, 2018, the fair value of these debt securities was $24 million, and the change in fair value that would have been recognized in *Other comprehensive income* for the quarter ended January 31, 2018 would have been negligible.

On November 1, 2017, the Bank classified certain debt securities that were being recognized at fair value through profit or loss under the fair value option as at October 31, 2017 as measured at fair value through other comprehensive income. As at January 31, 2018, the fair value of these debt securities was $443 million, and the change in fair value that would have been recognized in the Consolidated Statement of Income for the quarter ended January 31, 2018 would have been a loss of $1 million.

The following table presents a reconciliation of the *Allowances for credit losses* amounts established in accordance with IAS 39 as at October 31, 2017 with those established in accordance with IFRS 9 as at November 1, 2017.

	Allowances for credit losses under IAS 39 as at October 31, 2017(1)	Classification adjustments	Impairment remeasurement adjustments	**Allowances for credit losses under IFRS 9 as at November 1, 2017**
Cash and deposits with financial institutions	–	–	1	**1**
Securities				
At fair value through other comprehensive income	–	–	–	**–**
At amortized cost	–	3	–	**3**
Securities purchased under reverse repurchase agreements and securities borrowed	–	–	–	**–**
Loans and acceptances				
Residential mortgage	11	–	7	**18**
Personal	142	–	119	**261**
Credit card	92	–	36	**128**
Business and government	439	–	(189)	**250**
Customers' liability under acceptances	11	–	5	**16**
	695	–	(22)	**673**
Other assets	–	–	–	**–**
Other liabilities(2)	–	–	58	**58**
	695	3	37	**735**

(1) On November 1, 2017, the Bank changed the presentation of certain Consolidated Balance Sheet items and reclassified certain amounts. As at October 31, 2017, the *Purchased receivables* item had been presented net of allowances for credit losses. This item is now reported in *Loans and acceptances* and in *Allowances for credit losses* on the Consolidated Balance Sheet. As a result, the *Allowances for credit losses* item as at October 31, 2017 was reduced by $24 million.

(2) Impairment remeasurement adjustments include an amount of $58 million in allowances for credit losses recorded for off-balance-sheet commitments such as letters of guarantee and documentary letters of credit, undrawn commitments, and backstop liquidity and credit enhancement facilities. As at October 31, 2017, these allowances had been reported in *Allowances for credit losses*.

(unaudited) (millions of Canadian dollars)

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value and Carrying Value of Financial Instruments by Category

Financial assets and financial liabilities are recognized on the Consolidated Balance Sheet at fair value or at amortized cost in accordance with the categories set out in the accounting framework for financial instruments.

								As at January 31, 2018
	Carrying value and fair value				Carrying value	Fair value		
	Financial instruments classified as at fair value through profit or loss	Financial instruments designated at fair value through profit or loss	Debt securities measured at fair value through other comprehensive income	Equity securities designated at fair value through other comprehensive income	Financial instruments at amortized cost, net	Financial instruments at amortized cost, net	Total carrying value	Total fair value
Financial assets								
Cash and deposits with financial institutions	–	–	–	–	11,205	11,205	11,205	11,205
Securities	53,843	4,830	5,870	314	7,360	7,349	72,217	72,206
Securities purchased under reverse repurchase agreements and securities borrowed	–	467	–	–	16,053	16,053	16,520	16,520
Loans and acceptances, net of allowances	6,045	–	–	–	130,307	130,284	136,352	136,329
Other								
Derivative financial instruments	8,527	–	–	–	–	–	8,527	8,527
Other assets	–	–	–	–	1,192	1,192	1,192	1,192
Financial liabilities								
Deposits	–	8,731			148,048 (1)	147,441	156,779	156,172
Other								
Acceptances	–	–			6,587	6,587	6,587	6,587
Obligations related to securities sold short	15,800	–			–	–	15,800	15,800
Obligations related to securities sold under repurchase agreements and securities loaned	–	443			26,329	26,329	26,772	26,772
Derivative financial instruments	7,251	–			–	–	7,251	7,251
Liabilities related to transferred receivables	–	7,548			11,500	11,534	19,048	19,082
Other liabilities	22	–			2,765	2,759	2,787	2,781
Subordinated debt	–	–			8	6	8	6

(1) Including embedded derivative financial instruments.

(unaudited) (millions of Canadian dollars)

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

As at October 31, 2017

	Carrying value and fair value			Carrying value	Fair value		
	Financial instruments classified as at fair value through profit or loss	Financial instruments designated at fair value through profit or loss	Available-for-sale financial instruments measured at fair value	Financial instruments at amortized cost	Financial instruments at amortized cost	Total carrying value	Total fair value
Financial assets							
Cash and deposits with financial institutions	–	–	–	8,802	8,802	8,802	8,802
Securities	46,780	756	8,552	9,255	9,229	65,343	65,317
Securities purchased under reverse repurchase agreements and securities borrowed	–	657	–	20,132	20,132	20,789	20,789
Loans and acceptances, net of allowances(1)	5,523	115	–	130,819	130,958	136,457	136,596
Other							
Derivative financial instruments	8,423	–	–	–	–	8,423	8,423
Other assets	–	–	–	994	994	994	994
Financial liabilities							
Deposits	–	5,501		151,170 (2)	151,571	156,671	157,072
Other							
Acceptances	–	–		5,991	5,991	5,991	5,991
Obligations related to securities sold short	15,363	–		–	–	15,363	15,363
Obligations related to securities sold under repurchase agreements and securities loaned	–	534		21,233	21,233	21,767	21,767
Derivative financial instruments	6,612	–		–	–	6,612	6,612
Liabilities related to transferred receivables	–	6,209		13,889	13,940	20,098	20,149
Other liabilities	15	–		2,902	2,904	2,917	2,919
Subordinated debt	–	–		9	6	9	6

(1) The *Purchased receivables* amount of $2,014 million, which was presented separately on the Consolidated Balance Sheet as at October 31, 2017, is now reported in *Loans and acceptances, net of allowances*.
(2) Including embedded derivative financial instruments.

Establishing Fair Value

The fair value of a financial instrument is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction in the principal market at the measurement date under current market conditions (i.e., an exit price).

Unadjusted quoted prices in active markets provide the best evidence of fair value. When there is no quoted price in an active market, the Bank applies other valuation techniques that maximize the use of relevant observable inputs and that minimize the use of unobservable inputs. Such valuation techniques include the following: using information available from recent market transactions, referring to the current fair value of a comparable financial instrument, applying discounted cash flow analysis, applying option pricing models, or relying on any other valuation technique that is commonly used by market participants and has proven to yield reliable estimates. Judgment is required when applying many of the valuation techniques.

Fair value is established in accordance with a rigorous control framework. The Bank has policies and procedures that govern the process for determining fair value. The Bank's valuation governance structure has remained largely unchanged from that described in Note 3 to the audited annual consolidated financial statements for the year ended October 31, 2017. The valuation techniques used to determine the fair value of financial assets and liabilities are also described in this note, and no significant changes have been made to the valuation techniques.

(unaudited) (millions of Canadian dollars)

Financial Instruments Recorded at Fair Value on the Consolidated Balance Sheet

Hierarchy of Fair Value Measurements

IFRS establishes a fair value hierarchy that classifies the inputs used in financial instrument fair value measurement techniques according to three levels. This fair value hierarchy requires observable market inputs to be used whenever such inputs exist. According to the hierarchy, the highest level of inputs are unadjusted quoted prices in active markets for identical instruments and the lowest level of inputs are unobservable inputs. If inputs from different levels of the hierarchy are used, the financial instrument is classified in the same level as the lowest level input that is significant to the fair value measurement. For additional information, see Note 3 to the audited annual consolidated financial statements for the year ended October 31, 2017.

Transfers of financial instruments between Levels 1 and 2 and transfers to (or from) Level 3 are deemed to have taken place at the beginning of the quarter in which the transfer occurred. Significant transfers can occur between the fair value hierarchy levels due to new information on inputs used to determine fair value and the observable nature of those inputs.

During the quarter ended January 31, 2018, $219 million in securities classified as at fair value through profit or loss and $24 million in obligations related to securities sold short were transferred from Level 2 to Level 1 resulting from changing market conditions. Also during the quarter ended January 31, 2018, $23 million in securities classified as at fair value through profit or loss and $1 million in obligations related to securities sold short were transferred from Level 1 to Level 2. There were no significant transfers between Levels 1 and 2 during the quarter ended January 31, 2017. During the quarters ended January 31, 2018 and 2017, financial instruments were transferred to (or from) Level 3 due to changes in the availability of observable market inputs resulting from changing market conditions.

The following tables show financial instruments recorded at fair value on the Consolidated Balance Sheet according to the fair value hierarchy.

				As at January 31, 2018
	Level 1	Level 2	Level 3	Total financial assets/liabilities at fair value
Financial assets				
Securities				
At fair value through profit or loss				
Securities issued or guaranteed by				
Canadian government	1,599	9,908	–	11,507
Canadian provincial and municipal governments	–	8,495	–	8,495
U.S. Treasury, other U.S. agencies and other foreign governments	2,790	276	–	3,066
Other debt securities	–	3,194	23	3,217
Equity securities	31,678	531	179	32,388
	36,067	22,404	202	58,673
At fair value through other comprehensive income				
Securities issued or guaranteed by				
Canadian government	98	3,381	–	3,479
Canadian provincial and municipal governments	–	1,891	–	1,891
U.S. Treasury, other U.S. agencies and other foreign governments	111	–	–	111
Other debt securities	–	389	–	389
Equity securities	2	124	188	314
	211	5,785	188	6,184
Securities purchased under reverse repurchase agreements and securities borrowed	–	467	–	467
Loans and acceptances	–	5,649	396	6,045
Other				
Derivative financial instruments	53	8,420	54	8,527
	36,331	42,725	840	79,896
Financial liabilities				
Deposits	–	8,907	1	8,908
Other				
Obligations related to securities sold short	10,860	4,940	–	15,800
Obligations related to securities sold under repurchase agreements	–	443	–	443
Derivative financial instruments	145	7,067	39	7,251
Liabilities related to transferred receivables	–	7,548	–	7,548
Other liabilities	–	22	–	22
	11,005	28,927	40	39,972

(unaudited) (millions of Canadian dollars)

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

				As at October 31, 2017
	Level 1	Level 2	Level 3	Total financial assets/liabilities at fair value
Financial assets				
Securities				
At fair value through profit or loss				
Securities issued or guaranteed by				
Canadian government	2,506	6,156	–	8,662
Canadian provincial and municipal governments	–	7,770	–	7,770
U.S. Treasury, other U.S. agencies and other foreign governments	1,916	212	–	2,128
Other debt securities	–	2,599	–	2,599
Equity securities	25,751	610	16	26,377
	30,173	17,347	16	47,536
Available-for-sale				
Securities issued or guaranteed by				
Canadian government	66	4,215	–	4,281
Canadian provincial and municipal governments	–	2,584	–	2,584
U.S. Treasury, other U.S. agencies and other foreign governments	519	2	–	521
Other debt securities	–	494	–	494
Equity securities	109	237	326	672
	694	7,532	326	8,552
Securities purchased under reverse repurchase agreements and securities borrowed	–	657	–	657
Loans and acceptances	–	5,638	–	5,638
Other				
Derivative financial instruments	68	8,284	71	8,423
	30,935	39,458	413	70,806
Financial liabilities				
Deposits	–	5,708	1	5,709
Other				
Obligations related to securities sold short	10,515	4,848	–	15,363
Obligations related to securities sold under repurchase agreements	–	534	–	534
Derivative financial instruments	118	6,443	51	6,612
Liabilities related to transferred receivables	–	6,209	–	6,209
Other liabilities	–	15	–	15
	10,633	23,757	52	34,442

Financial Instruments Classified in Level 3

The Bank classifies financial instruments in Level 3 when the valuation technique is based on at least one significant input that is not observable in the markets. The Bank maximizes the use of observable inputs to determine the fair value of financial instruments.

For a description of the valuation techniques and significant unobservable inputs used in determining the fair value of financial instruments classified in Level 3, see Note 3 to the audited annual consolidated financial statements for the year ended October 31, 2017. For the quarter ended January 31, 2018, no significant change was made to the valuation techniques and significant unobservable inputs used in determining fair value.

Sensitivity Analysis of Financial Instruments Classified in Level 3

The Bank performs sensitivity analyses on the fair value measurements of financial instruments classified in Level 3, substituting unobservable inputs with one or more reasonably possible alternative assumptions. For additional information on how a change in unobservable input might affect the fair value measurements of Level 3 financial instruments, see Note 3 of the audited annual consolidated financial statements for the year ended October 31, 2017. For the quarter ended January 31, 2018, there were no significant changes in the sensitivity analyses of Level 3 financial instruments, aside from the sensitivity analyses applied to loans. The Bank varies significant unobservable inputs such as a liquidity premium and establishes a reasonable fair value range that could result in a $58 million increase or decrease in the fair value of loans recorded as at January 31, 2018. As at October 31, 2017, there were no sensitivity analyses as no loans had been classified in Level 3.

(unaudited) (millions of Canadian dollars)

Change in the Fair Value of Financial Instruments Classified in Level 3

The Bank may hedge the fair value of financial instruments classified in the various levels through offsetting hedge positions. Gains and losses for financial instruments classified in Level 3 presented in the following tables do not reflect the inverse gains and losses on financial instruments used for economic hedging purposes that may have been classified in Level 1 or 2 by the Bank. In addition, the Bank may hedge the fair value of financial instruments classified in Level 3 using other financial instruments classified in Level 3. The effect of these hedges is not included in the net amount presented in the following tables. The gains and losses presented hereafter may comprise changes in fair value based on observable and unobservable inputs.

					Quarter ended January 31, 2018
	Securities at fair value through profit or loss	Securities at fair value through other comprehensive income	Loans	Derivative financial instruments(1)	Deposits
Fair value as at November 1, 2017	184	158	428	20	(1)
Total realized and unrealized gains (losses) included in *Net income* (2)	17	–	–	(5)	–
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	–	–	–	–
Purchases	7	30	–	–	–
Sales	(6)	–	–	–	–
Issuances	–	–	2	–	–
Settlements and other	–	–	(34)	1	–
Financial instruments transferred into Level 3	–	–	–	–	–
Financial instruments transferred out of Level 3	–	–	–	(1)	–
Fair value as at January 31, 2018	**202**	**188**	**396**	**15**	**(1)**
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at January 31, 2018(3)	(1)	–	–	(5)	–

				Quarter ended January 31, 2017
	Securities at fair value through profit or loss	Available-for-sale securities	Derivative financial instruments(2)	Deposits
Fair value as at October 31, 2016	18	305	15	(7)
Total realized and unrealized gains (losses) included in *Net income* (4)	(1)	–	6	–
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	(1)	–	–
Purchases	–	1	–	–
Sales	(9)	–	–	–
Issuances	–	–	–	–
Settlements and other	–	(3)	4	2
Financial instruments transferred into Level 3	2	–	–	(1)
Financial instruments transferred out of Level 3	–	–	3	5
Fair value as at January 31, 2017	10	302	28	(1)
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at January 31, 2017(5)	(1)	–	6	–

(1) The derivative financial instruments include assets and liabilities presented on a net basis.
(2) Total net gains included in *Non-interest income* was $12 million.
(3) Total unrealized losses included in *Non-interest income* was $6 million.
(4) Total net gains included in *Non-interest income* was $5 million.
(5) Total unrealized gains included in *Non-interest income* was $5 million.

(unaudited) (millions of Canadian dollars)

NOTE 6 – FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The Bank chose to designate certain financial instruments at fair value through profit or loss according to the criteria presented in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2017 and in Note 2 to these consolidated financial statements. Consistent with its risk management strategy and under the fair value option, which permits the designation if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets and liabilities on different bases, the Bank designated at fair value through profit or loss certain securities, certain securities purchased under reverse repurchase agreements, and certain obligations related to securities sold under repurchase agreements, and certain liabilities related to transferred receivables. The fair value of liabilities related to transferred receivables does not include credit risk, as the holders of these liabilities are not exposed to the Bank's credit risk. There is no exposure to credit risk on the loans to the extent that they are fully collateralized. The Bank also designated certain deposits that include embedded derivative financial instruments at fair value through profit or loss.

To determine a change in fair value arising from a change in the credit risk of deposits designated at fair value through profit or loss, the Bank calculates, at the beginning of the period, the present value of the instrument's contractual cash flows using the following rates: first, using an observed discount rate for similar securities that reflects the Bank's credit spread and, then, using a rate that excludes the Bank's credit spread. The difference obtained between the two values is then compared to the difference obtained using the same rates at the end of the period.

Information about the financial assets and financial liabilities designated at fair value through profit or loss is provided in the following tables.

	Carrying value as at January 31, 2018	Change in total fair value (including the change in the fair value attributable to credit risk) for the quarter ended January 31, 2018	Change in fair value since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss			
Securities	4,830	(51)	(100)
Securities purchased under reverse repurchase agreements	467	–	–
	5,297	(51)	(100)
Financial liabilities designated at fair value through profit or loss			
Deposits(1)(2)	8,731	4	81
Securities sold under repurchase agreements	443	–	–
Liabilities related to transferred receivables	7,548	91	5
	16,722	95	86

	Carrying value as at January 31, 2017	Change in total fair value (including the change in the fair value attributable to credit risk) for the quarter ended January 31, 2017	Change in fair value since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss			
Securities	755	(4)	18
Loans	107	(26)	(53)
	862	(30)	(35)
Financial liabilities designated at fair value through profit or loss			
Deposits(1)(2)	4,582	42	38
Liabilities related to transferred receivables	5,955	57	(150)
	10,537	99	(112)

(1) For the quarter ended January 31, 2018, the change in the fair value of deposits designated at fair value through profit or loss attributable to credit risk, and recorded in *Other comprehensive income,* resulted in a loss of $36 million ($21 million loss for the quarter ended January 31, 2017).
(2) The amount at maturity that the Bank will be contractually required to pay to the holders of these deposits varies and will differ from the reporting date fair value.

(unaudited) (millions of Canadian dollars)

NOTE 7 – SECURITIES

Credit Quality

As at January 31, 2018, securities at fair value through other comprehensive income and securities at amortized cost are classified in Stage 1, with their credit quality falling mainly in the "Excellent" category according to the Bank's internal risk-rating categories. See Note 8 for a reconciliation of the allowances for credit losses.

Gross Gains (Losses) on Securities at Fair Value Through Other Comprehensive Income

	As at January 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value(1)
Securities issued or guaranteed by				
Canadian government	3,516	4	(41)	3,479
Canadian provincial and municipal governments	1,863	44	(16)	1,891
U.S. Treasury, other U.S. agencies and other foreign governments	111	–	–	111
Other debt securities	389	3	(3)	389
Equity securities	312	3	(1)	314
	6,191	54	(61)	6,184

(1) The allowances for credit losses on securities at fair value through other comprehensive income, representing a negligible amount as at January 31, 2018, are reported in *Other comprehensive income*. See Note 8.

Equity Securities Designated at Fair Value Through Other Comprehensive Income

The Bank designated certain equity securities, the business objective of which is to generate dividend income, at fair value through other comprehensive income without subsequent reclassification of gains and losses to net income.

During the quarter ended January 31, 2018, an amount of $1 million in dividend income was recognized for these investments, including a negligible amount for investments that were sold during the quarter ended January 31, 2018.

	Quarter ended January 31, 2018		
	Equity securities of private companies	Equity securities of public companies	Total
Fair value as at November 1, 2017	158	122	280
Change in fair value	–	4	4
Designated at fair value through other comprehensive income	30	15	45
Sales(1)	–	(15)	(15)
Fair value as at January 31, 2018	188	126	314

(1) The Bank disposed of public company equity securities for economic reasons.

(unaudited) (millions of Canadian dollars)

NOTE 7 – SECURITIES (cont.)

Gross Gains (Losses) on Available-for-Sale Securities

				As at October 31, 2017
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities issued or guaranteed by				
Canadian government	4,308	6	(33)	4,281
Canadian provincial and municipal governments	2,502	87	(5)	2,584
U.S. Treasury, other U.S. agencies and other foreign governments	536	–	(15)	521
Other debt securities	487	9	(2)	494
Equity securities	633	64	(25)	672
	8,466	166	(80)	8,552

Impairment Losses Recognized
During the quarter ended January 31, 2017, no impairment loss had been recognized in *Gains (losses) on available-for-sale securities, net* in the Consolidated Statement of Income, and no amounts had been reversed in the Consolidated Statement of Income to recognize subsequent increases in the fair value of previously impaired debt securities.

Gross Unrealized Losses
As at January 31, 2017, the Bank had concluded that the gross unrealized losses on available-for-sale securities were mainly due to market price fluctuations and to changes in foreign exchange rates and that there was no objective evidence of impairment requiring an impairment charge to be recognized in the Consolidated Statement of Income.

Gains (Losses) on Disposals of Securities at Amortized Cost

During the quarter ended January 31, 2018, the Bank sold certain debt securities measured at amortized cost given an increase in their credit risk. The carrying value of these securities upon disposal was $4 million, and the Bank recognized a negligible gain in *Non-interest income – Gains (losses) on non-trading securities, net* in the Consolidated Statement of Income.

Held-to-Maturity Securities

As at January 31 2017, there was no objective evidence of impairment on held-to-maturity securities.

NOTE 8 – LOANS AND ACCEPTANCES AND ALLOWANCES FOR CREDIT LOSSES

As at January 31, 2018, loans are recognized on the Consolidated Balance Sheet either at fair value through profit or loss or at amortized cost using the financial asset classification criteria defined in IFRS 9. For additional information on these criteria, see Note 2 to these consolidated financial statements. The IFRS 9 classification and measurement requirements as well as the impairment requirements have been applied retrospectively through adjustments to Consolidated Balance Sheet amounts on the date of initial application, i.e., November 1, 2017, without restatement of comparative periods.

The following information is presented in accordance with IFRS 9 as at January 31, 2018 and in accordance with IAS 39 as at October 31, 2017 and reflects the presentation changes applied to certain Consolidated Balance Sheet items. For additional information, see Note 1 to these consolidated financial statements.

(unaudited) (millions of Canadian dollars)

Credit Quality of Loans and Acceptances

The table below presents the gross carrying amounts of loans and acceptances as at January 31, 2018, according to credit quality and ECL impairment stage of each loan category at amortized cost, and according to credit quality of loans at fair value through profit or loss. For additional information on credit quality according to the Advanced Internal Rating-Based (AIRB) categories, see the "Credit Risk Management" section of the *2017 Annual Report*. Impairment stage definitions are provided on the following page.

						As at January 31, 2018
	Non-impaired loans		Impaired loans		Loans at fair value through profit or loss(2)	Total
	Stage 1	Stage 2	Stage 3(1)	POCI		
Residential mortgage						
Excellent	17,660	2	–	–	–	17,662
Good	14,838	33	–	–	5,283	20,154
Satisfactory	8,545	496	–	–	–	9,041
Special mention	485	624	–	–	–	1,109
Substandard	152	367	–	–	–	519
Default	–	–	114	–	–	114
AIRB approach	41,680	1,522	114	–	5,283	48,599
Standardized approach	1,942	9	15	588	396	2,950
Gross carrying amount	43,622	1,531	129	588	5,679	51,549
Allowances for credit losses(3)	26	12	19	(30)	–	27
Carrying amount	43,596	1,519	110	618	5,679	51,522
Personal						
Excellent	12,091	6	–	–	–	12,097
Good	10,152	110	–	–	–	10,262
Satisfactory	5,358	915	–	–	–	6,273
Special mention	543	600	–	–	–	1,143
Substandard	103	227	–	–	–	330
Default	–	–	122	–	–	122
AIRB approach	28,247	1,858	122	–	–	30,227
Standardized approach	4,424	132	11	762	–	5,329
Gross carrying amount	32,671	1,990	133	762	–	35,556
Allowances for credit losses(3)	80	118	60	2	–	260
Carrying amount	32,591	1,872	73	760	–	35,296
Credit card						
Excellent	344	–	–	–	–	344
Good	266	–	–	–	–	266
Satisfactory	816	48	–	–	–	864
Special mention	332	254	–	–	–	586
Substandard	22	103	–	–	–	125
Default	–	–	–	–	–	–
AIRB approach	1,780	405	–	–	–	2,185
Standardized approach	21	–	–	–	–	21
Gross carrying amount	1,801	405	–	–	–	2,206
Allowances for credit losses(3)	30	100	–	–	–	130
Carrying amount	1,771	305	–	–	–	2,076
Business and government(4)						
Excellent	3,963	–	–	–	23	3,986
Good	20,852	6	–	–	64	20,922
Satisfactory	16,511	839	–	–	279	17,629
Special mention	1,816	1,093	1	–	–	2,910
Substandard	31	176	–	–	–	207
Default	–	–	257	–	–	257
AIRB approach	43,173	2,114	258	–	366	45,911
Standardized approach	1,759	6	26	2	–	1,793
Gross carrying amount	44,932	2,120	284	2	366	47,704
Allowances for credit losses(3)	41	73	132	–	–	246
Carrying amount	44,891	2,047	152	2	366	47,458

(1) Given the adoption of IFRS 9, all loans classified in Stage 3 of the expected credit loss model are impaired loans. Under IAS 39, loans were considered impaired according to different criteria.
(2) Not subject to expected credit losses.
(3) The allowances for credit losses do not include the amounts related to undrawn commitments reported in the *Other liabilities* item of the Consolidated Balance Sheet.
(4) Includes customers' liability under acceptances.

NOTE 8 – LOANS AND ACCEPTANCES AND ALLOWANCES FOR CREDIT LOSSES (cont.)

Determining and Measuring Expected Credit Losses (ECL)

Determining Expected Credit Losses

Expected credit losses are determined using a three-stage impairment approach that is based on the change in the credit quality of financial assets since initial recognition.

- Stage 1: Financial assets that have experienced no significant increase in credit risk and for which 12-month expected credit losses are recorded at the reporting date are classified in Stage 1.
- Stage 2: Financial assets that have experienced a significant increase in credit risk between initial recognition and the reporting date, and for which lifetime expected credit losses are recorded, are classified in Stage 2.
- Stage 3: Financial assets for which there is objective evidence of impairment, for which one or more events have had a detrimental impact on estimated future cash flows at the reporting date, and for which lifetime expected credit losses are recorded, are classified in Stage 3.
- POCI: Financial assets that are credit-impaired when purchased or originated (POCI) are classified in the POCI category.

Impairment Governance

A rigorous control framework is applied to the determination of expected credit losses. The Bank has policies and procedures that govern impairments arising from credit risk. These policies are documented and periodically reviewed by the Risk Management group. All models used to calculate expected credit losses are validated, and controls are in place to ensure they are applied.

These models are validated by groups that are independent of the team that prepares the calculations. Complex questions on measurement methodologies and assumptions are reviewed by a group of experts from various functions. Furthermore, the inputs and assumptions used to determine expected credit losses are reviewed on a regular basis.

Measurement of Expected Credit Losses

Expected credit losses are estimated using three main variables: (1) probability of default (PD), (2) loss given default (LGD) and (3) exposure at default (EAD). For accounting purposes, 12-month PD and lifetime PD are the probabilities of a default occurring over the next 12 months or over the life of a financial instrument, respectively, based on conditions existing at the balance sheet date and on future economic conditions that have, or will have, an impact on credit risk. LGD reflects the losses expected should default occur and considers such factors as the mitigating effects of collateral, the realizable value thereof, and the time value of money. EAD is the expected balance owing at default and considers such factors as repayments of principal and interest between the balance sheet date and the time of default as well as any amounts expected to be drawn on a committed facility. 12-month expected credit losses are estimated by multiplying 12-month PD by LGD and by EAD. Lifetime expected credit losses are estimated using the lifetime PD.

For most financial instruments, expected credit losses are measured on an individual basis. Financial instruments that have credit losses measured on a collective basis are allocated to groups that share similar credit risk characteristics.

Inputs, Assumptions and Estimation Techniques Used

The Bank's approach to calculating expected credit losses consists essentially of leveraging existing regulatory models and then adjusting parameters for IFRS 9 purposes. These models have the advantage of having been thoroughly tested and validated. In addition, using the same base models, regardless of the purpose (capital calculations, pricing, IFRS 9 or other risk management purpose), provides consistency across risk assessments.

<u>PD Estimates</u>

Since the objective of the regulatory calibration of PD is to align historical data to the long-run default rate, adjustments are required to obtain a point-in-time, forward-looking PD, as required by IFRS 9. The Bank performs the following: (1) A point-in-time calibration, where the PD of the current portfolio is aligned with the appropriate default rate. The resulting PD estimate equals the prior-year default rate. The prior-year default rate is selected for the calibration performed at this stage, as it often reflects one of the most accurate and appropriate estimates of the upcoming-year default rate; (2) Forward-looking adjustments are incorporated through a calibration factor based on forecasts produced by the stress testing team's analyses. The team considers three macroeconomic scenarios, and, for each scenario, produces a forward-looking assessment covering the three upcoming years.

<u>LGD Estimates</u>

LGD is estimated using, as a starting point, expected LGD. In some cases, other LGD values will be used: "downturn LGD" may be used when an economic downturn is expected in the year ahead, and a "favourable LGD" may be used when economic conditions are expected to be considerably better than average. In the latter case, the starting-point LGD will be based on the LGD realized in the previous year.

EAD Estimates

For term loans, the Bank uses expected EAD, which is the outstanding balance anticipated at each point in time and assuming previous payments were made. Expected EAD decreases over time until it reaches zero upon loan maturity. For revolving loans, the EAD percentage is based on the percentage estimated by the corresponding regulatory model and, thereafter, is converted to dollars according to the authorized balance.

Expected Life

For most financial instruments, the expected life used when measuring expected credit losses is the remaining contractual life. For revolving financial instruments where there is no contractual maturity, such as credit cards or lines of credit, the expected life is based on the behavioral life of the product.

Incorporation of Forward-Looking Information

The Bank's Economy and Strategy group is responsible for developing three macroeconomic scenarios and for recommending probability weights for each scenario. Macroeconomic scenarios are not developed for specific portfolios, as the Economy and Strategy group provides a set of variables for each of the defined scenarios. The PDs are also adjusted to incorporate economic assumptions (interest rates, unemployment rates, GDP forecasts, oil prices, housing price indices, etc.) that can be statistically tied to PD changes that will have an impact beyond the next 12 months. These statistical relationships are determined using the processes developed for stress testing. In addition, the group considers other relevant factors that may not be adequately reflected in the information used to calculate the PDs (including late payments and whether the financial asset is subject to additional monitoring such as the watchlist for business and government loan portfolios).

Determination of a Significant Increase in the Credit Risk of a Financial Instrument

At each reporting period, the Bank determines whether credit risk has increased significantly since initial recognition by examining the change in the risk of default occurring over the remaining life of the financial instrument. First, the Bank compares the point-in-time forward-looking remaining lifetime PD at the reporting date with the expected point-in-time forward-looking remaining lifetime PD established at initial recognition. Based on this comparison, the Bank determines whether the loan has deteriorated when compared to the initial conditions. Because the comparison includes an adjustment based on origination-date forward-looking information and reporting-date forward-looking information, the deterioration may be caused by the following factors: (i) deterioration of the economic outlook used in the forward-looking assessment; (ii) deterioration of the borrower's conditions (payment defaults, worsening financial ratios, etc.); or (iii) a combination of both factors. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds, and a backstop is also applied. All financial instruments that are 30 days past due are migrated to Stage 2, even if the other criteria do not indicate a significant increase in credit risk.

Determination That a Financial Asset is Credit-Impaired

The Bank considers a financial asset, other than a credit card receivable, to be impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due. For credit card receivables, the conditions are essentially the same, aside from the days-past-due criterion, which is 180 days instead of 90 days and similar to the regulatory model.

(unaudited) (millions of Canadian dollars)

NOTE 8 – LOANS AND ACCEPTANCES AND ALLOWANCES FOR CREDIT LOSSES (cont.)

Allowances for Credit Losses

The following table presents the reconciliation of allowances for credit losses for each loan category at amortized cost according to ECL impairment stage.

					Quarter ended January 31, 2018
	Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans		
	Stage 1	Stage 2	Stage 3	POCI[1]	Total
Residential mortgage					
Balance as at November 1, 2017	22	10	17	(31)	18
Provisions for credit losses					
Originations or purchases	3	–	–	–	3
Transfers:					
to Stage 1	5	(3)	(2)	–	–
to Stage 2	(1)	2	(1)	–	–
to Stage 3	–	(2)	2	–	–
Net remeasurement of loss allowances[2]	(1)	6	6	–	11
Derecognitions (excluding write-offs)	(1)	(1)	(1)	–	(3)
Changes to models	–	–	–	–	–
	5	2	4	–	11
Write-offs	–	–	(3)	–	(3)
Recoveries	–	–	1	–	1
Foreign exchange movements and other	(1)	–	–	1	–
Balance as at January 31, 2018	26	12	19	(30)	27
Includes:					
Amounts drawn	26	12	19	(30)	27
Undrawn commitments[3]	–	–	–	–	–
	26	12	19	(30)	27
Personal					
Balance as at November 1, 2017	91	107	59	7	264
Provisions for credit losses					
Originations or purchases	12	–	–	–	12
Transfers:					
to Stage 1	21	(20)	(1)	–	–
to Stage 2	(8)	10	(2)	–	–
to Stage 3	(1)	(34)	35	–	–
Net remeasurement of loss allowances[2]	(28)	61	9	(5)	37
Derecognitions (excluding write-offs)	(4)	(3)	(1)	–	(8)
Changes to models	–	–	–	–	–
	(8)	14	40	(5)	41
Write-offs	–	–	(41)	–	(41)
Recoveries	–	–	3	–	3
Foreign exchange movements and other	(2)	(2)	(1)	–	(5)
Balance as at January 31, 2018	81	119	60	2	262
Includes:					
Amounts drawn	80	118	60	2	260
Undrawn commitments[3]	1	1	–	–	2
	81	119	60	2	262

(1) The total amount of undiscounted expected credit losses at initial recognition on financial assets recognized during the quarter ended January 31, 2018 is not significant.
(2) Includes the net remeasurement of loss allowances attributable mainly to changes in volumes and in the credit quality of existing loans as well as to changes in risk parameters.
(3) The allowances for credit losses on undrawn commitments are reported in the *Other liabilities* item of the Consolidated Balance Sheet.

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31, 2018				
	Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans		
	Stage 1	Stage 2	Stage 3	POCI	Total
Credit card					
Balance as at November 1, 2017	41	112	–	–	153
Provisions for credit losses					
Originations or purchases	2	–	–	–	2
Transfers:					
to Stage 1	119	(119)	–	–	–
to Stage 2	(84)	84	–	–	–
to Stage 3	–	(8)	8	–	–
Net remeasurement of loss allowances(1)	(37)	46	13	–	22
Derecognitions (excluding write-offs)	–	(1)	–	–	(1)
Changes to models	–	–	–	–	–
	–	2	21	–	23
Write-offs	–	–	(25)	–	(25)
Recoveries	–	–	4	–	4
Foreign exchange movements and other	–	–	–	–	–
Balance as at January 31, 2018	41	114	–	–	155
Includes:					
Amounts drawn	30	100	–	–	130
Undrawn commitments(2)	11	14	–	–	25
	41	114	–	–	155
Business and government(3)					
Balance as at November 1, 2017	53	74	165	–	292
Provisions for credit losses					
Originations or purchases	11	–	–	–	11
Transfers:					
to Stage 1	21	(7)	(14)	–	–
to Stage 2	(1)	7	(6)	–	–
to Stage 3	–	(1)	1	–	–
Net remeasurement of loss allowances(1)	(24)	5	30	–	11
Derecognitions (excluding write-offs)	(4)	(1)	(3)	–	(8)
Changes to models	–	–	–	–	–
	3	3	8	–	14
Write-offs	–	–	(37)	–	(37)
Recoveries	–	–	1	–	1
Foreign exchange movements and other	–	–	(4)	–	(4)
Balance as at January 31, 2018	56	77	133	–	266
Includes:					
Amounts drawn	41	73	132	–	246
Undrawn commitments(2)	15	4	1	–	20
	56	77	133	–	266

(1) Includes the net remeasurement of loss allowances attributable mainly to changes in volumes and in the credit quality of existing loans as well as to changes in risk parameters.
(2) The allowances for credit losses on undrawn commitments are reported in the *Other liabilities* item of the Consolidated Balance Sheet.
(3) Includes customers' liability under acceptances.

(unaudited) (millions of Canadian dollars)

NOTE 8 – LOANS AND ACCEPTANCES AND ALLOWANCES FOR CREDIT LOSSES (cont.)

The table below presents a reconciliation of the allowances for credit losses by Consolidated Balance Sheet item and by off-balance-sheet commitments.

					Quarter ended January 31, 2018
	Allowances for credit losses as at November 1, 2017	Provisions for credit losses	Write-offs(1)	Recoveries and other	Allowances for credit losses as at January 31, 2018
Balance sheet					
Cash and deposits with financial institutions(2)(3)	1	–	–	–	1
Securities(3)					
At fair value through other comprehensive income(4)	–	–	–	–	–
At amortized cost(2)	3	(2)	–	–	1
Securities purchased under reverse repurchase agreements and securities borrowed(2)(3)	–	–	–	–	–
Loans and acceptances(5)					
Residential mortgage	18	11	(3)	1	27
Personal	261	42	(41)	(2)	260
Credit card	128	23	(25)	4	130
Business and government	250	23	(37)	(3)	233
Customers' liability under acceptances	16	(3)	–	–	13
	673	96	(106)	–	663
Other assets(2)(3)	–	–	–	–	–
Off-balance-sheet commitments(6)					
Letters of guarantee and documentary letters of credit(7)	3	–	–	–	3
Undrawn commitments(7)	54	(7)	–	–	47
Backstop liquidity and credit enhancement facilities(8)	1	–	–	–	1
	58	(7)	–	–	51
	735	87	(106)	–	716

(1) The contractual amount outstanding on financial assets that were written off during the quarter ended January 31, 2018 and that are still subject to enforcement activity was $35 million.
(2) These financial assets are presented net of the allowances for credit losses on the Consolidated Balance Sheet.
(3) As at January 31, 2018, these financial assets were mainly classified in Stage 1 and their credit quality fell within the *Excellent* category.
(4) The allowances for credit losses are reported in *Accumulated other comprehensive income* on the Consolidated Balance Sheet.
(5) The allowances for credit losses are reported in the *Allowances for credit losses* item of the Consolidated Balance Sheet.
(6) The allowances for credit losses on off-balance-sheet commitments are reported in the *Other liabilities* item of the Consolidated Balance Sheet.
(7) As at January 31, 2018, these off-balance-sheet commitments had a total credit risk exposure of $43,436 million and were classified in Stage 1, Stage 2 and Stage 3 in amounts of $42,384 million, $1,047 million and $5 million, respectively. The credit risk exposure by credit quality category breaks downs as follows: *Excellent:* $18,248 million, *Good*: $15,234 million, *Satisfactory*: $9,194 million, *Special mention*: $726 million, *Substandard:* $29 million, and *Default*: $5 million.
(8) As at January 31, 2018, these off-balance-sheet commitments had a total credit risk exposure of $2,711 million, were mainly classified in Stage 1, and fell within the *Excellent* credit quality category.

(unaudited) (millions of Canadian dollars)

The following tables present comparative figures as at October 31, 2017 and in accordance with IAS 39.

Credit Quality of Loans and Acceptances

					As at October 31, 2017
	Residential mortgage	Personal	Credit card	Business and government(1)(2)	Total
Neither past due(3) nor impaired	50,232	34,305	2,193	47,369	134,099
Past due(3) but not impaired	220	331	54	78	683
Impaired	66	80	–	234	380
POCI	1,116	874	–	–	1,990
Gross loans	51,634	35,590	2,247	47,681	137,152
Less: Allowances on impaired loans					
Individual allowances	13	22	–	119	154
Collective allowances	–	18	–	2	20
Allowances on POCI loans	(31)	7	–	–	(24)
Allowances on impaired loans	(18)	47	–	121	150
	51,652	35,543	2,247	47,560	137,002
Less:					
Sectoral allowance on non-impaired loans – Oil and gas(4)					139
Collective allowance on non-impaired loans(5)					406
					545
Loans and acceptances, net of allowances					136,457

(1) Business credit portfolios are closely monitored and a monthly watchlist of problem commitments is produced. The watchlist is analyzed by the loan portfolio managers concerned, who must then submit a report to Credit Risk Management.
(2) Includes customers' liability under acceptances.
(3) A loan is past due when the counterparty has not made a payment by the contractual due date.
(4) The sectoral allowance on non-impaired loans was established collectively for the portfolio of loans to producers and service companies in the oil and gas sector.
(5) The collective allowance for credit risk on non-impaired loans was established taking into account the Bank's overall credit portfolio, except for loans covered by the sectoral allowance and POCI loans.

Loans Past Due But Not Impaired(1)

				As at October 31, 2017
	Residential mortgage	Personal	Credit card	Business and government
Past due but not impaired				
31 to 60 days	111	88	22	30
61 to 90 days	40	39	11	15
Over 90 days	69	204	21	33
	220	331	54	78

(1) Loans less than 31 days past due are not presented as they are not considered past due from an administrative standpoint.

Impaired Loans(1)

				As at October 31, 2017
	Gross	Individual allowances	Collective allowances	Net
Loans				
Residential mortgage	66	13	–	53
Personal	80	22	18	40
Credit card(2)	–	–	–	–
Business and government(3)	234	119	2	113
	380	154	20	206

(1) Given the adoption of IFRS 9, all loans classified in Stage 3 of the expected credit loss model are impaired loans. Under IAS 39, loans were considered impaired according to different criteria. These loans do not include POCI loans.
(2) Credit card receivables are written off when payment is 180 days past due.
(3) Includes customers' liability under acceptances.

(unaudited) (millions of Canadian dollars)

NOTE 8 – LOANS AND ACCEPTANCES AND ALLOWANCES FOR CREDIT LOSSES (cont.)

Allowances for Credit Losses

	Quarter ended January 31, 2017					
	Balance at beginning	Provisions for credit losses	Write-offs	Recoveries and other[1]	Transfers[2]	Balance at end
Allowances on impaired loans						
Residential mortgage						
Individual allowances	13	3	(3)	–	–	13
Collective allowances	–	–	–	–	–	–
Allowances on POCI loans	(11)	–	–	(6)	–	(17)
Personal						
Individual allowances	20	15	(15)	–	–	20
Collective allowances	19	7	(10)	2	–	18
Allowances on POCI loans	(1)	–	–	1	–	–
Credit card						
Individual allowances	–	21	(21)	–	–	–
Collective allowances	–	–	–	–	–	–
Business and government						
Individual allowances	156	13	(8)	1	–	162
Collective allowances	3	1	(1)	–	–	3
Individual allowances	189	52	(47)	1	–	195
Collective allowances	22	8	(11)	2	–	21
Allowances on POCI loans	(12)	–	–	(5)	–	(17)
	199	60	(58)	(2)	–	199
Sectoral allowance on non-impaired loans – Oil and gas[3]	204	–	–	–	–	204
Collective allowance on non-impaired loans[4]	366	–	–	–	–	366
	570	–	–	–	–	570
	769	60	(58)	(2)	–	769

(1) Includes foreign exchange movements as well as changes in the allowances for credit losses on POCI loans that were recorded in *Non-interest income.*
(2) When a loan covered by the *Sectoral allowance on non-impaired loans – Oil and gas* becomes impaired, the sectoral allowance related to that loan is transferred to the individual allowances on impaired loans.
(3) The sectoral allowance on non-impaired loans was established collectively for the portfolio of loans to producers and service companies in the oil and gas sector.
(4) The collective allowance for credit risk on non-impaired loans was established taking into account the Bank's overall credit portfolio, except for loans covered by the sectoral allowance and POCI loans.

(unaudited) (millions of Canadian dollars)

NOTE 9 – FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

In the normal course of business, the Bank enters into transactions in which it transfers financial assets such as securities or loans directly to third parties, in particular structured entities. According to the terms of some of those transactions, the Bank retains substantially all of the risks and rewards related to those financial assets. The risks include credit risk, interest rate risk, foreign exchange risk, prepayment risk and other price risks, whereas the rewards include income streams associated with the financial assets. As such, those financial assets are not derecognized and the transactions are treated as collateralized or secured borrowings.

The following table provides additional information about the nature of the transferred financial assets that do not qualify for derecognition and the associated liabilities.

	As at January 31, 2018	As at October 31, 2017
Carrying value of financial assets transferred but not derecognized		
Securities(1)	51,919	42,014
Residential mortgages	18,416	19,080
	70,335	61,094
Carrying value of associated liabilities(2)	39,494	33,330
Fair value of financial assets transferred but not derecognized		
Securities(1)	51,919	42,014
Residential mortgages	18,396	19,169
	70,315	61,183
Fair value of associated liabilities(2)	39,528	33,356

(1) The amount related to the securities loaned is the maximum amount of Bank securities that can be lent. For the obligations related to securities sold under repurchase agreements, the amount includes the Bank's own financial assets as well as those of third parties.
(2) Associated liabilities include obligations related to securities sold under repurchase agreements before the offsetting impact of $3,387 million as at January 31, 2018 ($1,621 million as at October 31, 2017) and liabilities related to transferred receivables. Liabilities related to securities loaned are not included, as the Bank can lend its own financial assets and those of third parties. The carrying value and fair value of liabilities related to securities loaned were $9,712 million as at January 31, 2018 ($10,156 million as at October 31, 2017).

The following table specifies the nature of the transactions related to financial assets transferred but not derecognized.

	As at January 31, 2018	As at October 31, 2017
Carrying value of financial assets transferred but not derecognized		
Securities backed by insured residential mortgage loans and other securities sold to Canada Housing Trust	19,244	20,012
Securities sold under repurchase agreements	20,959	13,544
Securities loaned	30,132	27,538
	70,335	61,094

NOTE 10 – OTHER ASSETS

	As at January 31, 2018	As at October 31, 2017
Receivables, prepaid expenses and other items	691	690
Interest and dividends receivable	449	489
Due from clients, dealers and brokers	743	505
Defined benefit asset	60	56
Deferred tax assets	332	374
Current tax assets	74	31
Reinsurance assets	32	31
	2,381	2,176

(unaudited) (millions of Canadian dollars)

NOTE 11 – DEPOSITS

	As at January 31, 2018			As at October 31, 2017
	On demand or after notice[(1)]	Fixed term[(2)]	Total	Total
Personal	28,919	25,729	54,648	53,719
Business and government	44,637	51,536	96,173	97,571
Deposit-taking institutions	2,508	3,450	5,958	5,381
	76,064	80,715	156,779	156,671

(1) Demand deposits are deposits for which the Bank does not have the right to require notice of withdrawal and consist essentially of deposits in chequing accounts. Notice deposits are deposits for which the Bank may legally require notice of withdrawal and consist mainly of deposits in savings accounts.
(2) Fixed-term deposits are deposits that can be withdrawn by the holder on a specified date and include term deposits, guaranteed investment certificates, savings accounts and plans, covered bonds and similar instruments.

The *Deposits – Business and government* item includes, among other items, covered bonds, with a balance of $7.2 billion as at January 31, 2018 ($7.0 billion as at October 31, 2017). During the quarter ended January 31, 2018, the Bank did not issue any covered bonds (70 million pounds sterling in covered bonds issued during the quarter ended January 31, 2017). See Note 22 for additional information on covered bonds.

NOTE 12 – OTHER LIABILITIES

	As at January 31, 2018	As at October 31, 2017
Accounts payable and accrued expenses	1,366	1,797
Subsidiaries' debts to third parties	1,080	1,075
Interest and dividends payable	793	883
Due to clients, dealers and brokers	640	647
Defined benefit liability	220	252
Allowances for credit losses — off-balance-sheet commitments[(1)]	51	–
Deferred tax liabilities	25	35
Current tax liabilities	45	93
Insurance liabilities	55	60
Other items[(2)(3)]	837	916
	5,112	5,758

(1) Upon the IFRS 9 adoption on November 1, 2017, allowances for credit losses on off-balance-sheet commitments are now reported in the *Other liabilities* item of the Consolidated Balance Sheet.
(2) As at January 31, 2018, other items included a $34 million restructuring provision ($46 million as at October 31, 2017). See Note 13 for additional information.
(3) As at January 31, 2018, other items included a $9 million litigation provision ($12 million as at October 31, 2017).

NOTE 13 – RESTRUCTURING

During fiscal years 2016 and 2015, the Board approved certain restructuring initiatives to accelerate its transformation plan, satisfy the changing needs of its clients and enhance operational efficiency. This transformation will allow the Bank to maintain the pace of its client-centric shift, pursue the transition to digital banking, maintain a compelling workplace and focus on operational excellence.

The table below presents the changes in the restructuring provision on the Consolidated Balance Sheet.

	Severance pay	Other	Total
As at October 31, 2016	146	6	152
Payments during the year	(104)	(2)	(106)
As at October 31, 2017	42	4	46
Payments during the period	(11)	(1)	(12)
As at January 31, 2018	31	3	34

(unaudited) (millions of Canadian dollars)

NOTE 14 – SHARE CAPITAL

Issuance of Preferred Shares

On January 22, 2018, the Bank had issued 12,000,000 Non-Cumulative 5-Year Rate-Reset Series 40 First Preferred Shares at a per-share price of $25.00 for gross proceeds of $300 million. These shares are redeemable in cash at the Bank's option, subject to the provisions of the *Bank Act* (Canada) and to OSFI approval, as of May 15, 2023 and on May 15 every five years thereafter, in whole or in part, at a price equal to $25.00 per share, plus all dividends declared and unpaid thereon on the date fixed for redemption; the shares are convertible at the option of the holder into an equal number of floating-rate (equal to the three-month Government of Canada Treasury Bills yield plus 2.58%) non-cumulative Series 41 First Preferred Shares, subject to certain conditions, on May 15, 2023 and on May 15 every five years thereafter. The Series 40 preferred shares carry a non-cumulative quarterly dividend of $0.2875 for the initial period ending May 15, 2023. Thereafter, these shares carry a non-cumulative quarterly fixed dividend in an amount per share determined by multiplying the interest rate, equal to the sum of the 5-year Government of Canada bond yield on the calculation date of the applicable fixed rate plus 2.58%, by $25.00. Given that the Series 40 preferred shares satisfy the non-viability contingent capital requirements, they qualify for the purposes of calculating regulatory capital under Basel III.

Redemption of Preferred Shares

On November 15, 2017, the Bank redeemed all the issued and outstanding Non-Cumulative 5-Year Rate-Reset Series 28 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.00 per share plus the periodic dividend declared and unpaid. The Bank redeemed 8,000,000 Series 28 preferred shares for a total amount of $200 million, which reduced *Preferred share capital.*

Repurchase of Common Shares

On June 5, 2017, the Bank began a normal course issuer bid to repurchase for cancellation up to 6,000,000 common shares over the 12-month period ending no later than June 4, 2018. Any repurchase through the Toronto Stock Exchange will be done at market prices. The amounts that will be paid above the average book value of the common shares will be charged to *Retained earnings.* During the quarter ended January 31, 2018, the Bank repurchased 1,500,000 common shares for an amount of $91 million, which reduced *Common share capital* by $13 million and *Retained earnings* by $78 million.

Shares Outstanding

	As at January 31, 2018		As at October 31, 2017	
	Number of shares	Shares $	Number of shares	Shares $
First Preferred Shares				
Series 28	–	–	8,000,000	200
Series 30	14,000,000	350	14,000,000	350
Series 32	12,000,000	300	12,000,000	300
Series 34	16,000,000	400	16,000,000	400
Series 36	16,000,000	400	16,000,000	400
Series 38	16,000,000	400	16,000,000	400
Series 40	12,000,000	300	–	–
	86,000,000	2,150	82,000,000	2,050
Common shares at beginning of the fiscal year	339,591,965	2,768	338,053,054	2,645
Issued pursuant to the Stock Option Plan	1,735,938	71	4,239,095	179
Repurchase of common shares for cancellation	(1,500,000)	(13)	(2,000,000)	(16)
Impact of shares purchased or sold for trading(1)	562,256	35	(591,843)	(37)
Other	–	–	(108,341)	(3)
Common shares at end of the period	340,390,159	2,861	339,591,965	2,768

(1) As at January 31, 2018, 8,276 shares were sold short for trading, representing a negligible amount (553,980 shares held for trading representing $35 million as at October 31, 2017).

(unaudited) (millions of Canadian dollars)

NOTE 14 – SHARE CAPITAL (cont.)

Dividends Declared

				Quarter ended January 31
		2018		2017
	Dividends $	**Dividends per share**	Dividends $	Dividends per share
First Preferred Shares				
Series 28	**–**	**–**	2	0.2375
Series 30	**3**	**0.2563**	3	0.2563
Series 32	**3**	**0.2438**	3	0.2438
Series 34	**6**	**0.3500**	6	0.3500
Series 36	**5**	**0.3375**	5	0.3375
Series 38	**5**	**0.2781**	–	–
	22		19	
Common shares	**205**	**0.6000**	191	0.5600
	227		210	

Common Shares Held in Escrow
As part of the acquisition of Wellington West Holdings Inc. in 2011, the Bank had issued common shares held in escrow. In December 2016, 799,563 of these shares were released to shareholders. In addition, 108,341 shares were cancelled, mainly upon the settlement of certain indemnifications guaranteed by those shares. As at January 31, 2018, the number of common shares held in escrow was 28,881 (28,881 as at October 31, 2017). The Bank expects that the remaining shares in escrow will be settled by the end of calendar year 2018.

NOTE 15 – NON-CONTROLLING INTERESTS

	As at January 31, 2018	As at October 31, 2017
Trust units issued by NBC Asset Trust (NBC CapS II)		
Series 1(1)	**403**	410
Series 2(2)	**352**	359
Other	**(5)**	39
	750	808

(1) Includes $3 million in accrued interest ($10 million as at October 31, 2017).
(2) Includes $2 million in accrued interest ($9 million as at October 31, 2017).

(unaudited) (millions of Canadian dollars)

NOTE 16 – CAPITAL DISCLOSURE

OSFI is requiring Canadian banks to meet the 2019 minimum "all-in" requirements rather than the minimum ratios calculated using the transitional methodology. Consequently, the Bank has to maintain, on an "all-in" basis, a Common Equity Tier 1 (CET1) capital ratio of at least 8.0%, a Tier 1 capital ratio of at least 9.5%, and a Total capital ratio of at least 11.5%. All of these ratios are to include a capital conservation buffer of 2.5% and a 1% surcharge applicable to Domestic Systemically Important Banks. OSFI has also been requiring Canadian banks to meet a Basel III leverage ratio of at least 3.0%.

During the quarters ended January 31, 2018 and 2017, the Bank was in compliance with all of OSFI's regulatory capital requirements.

Regulatory Capital and Ratios Under Basel III[1]

	As at January 31, 2018	As at October 31, 2017
Capital		
CET1	**8,002**	7,856
Tier 1[2]	**10,903**	10,457
Total[2]	**11,067**	10,661
Risk-weighted assets		
CET1 capital	**71,179**	70,173
Tier 1 capital	**71,271**	70,327
Total capital	**71,362**	70,451
Total exposure	**269,559**	262,539
Capital ratios		
CET1	**11.2 %**	11.2 %
Tier 1[2]	**15.3 %**	14.9 %
Total[2]	**15.5 %**	15.1 %
Leverage ratio	**4.0 %**	4.0 %

(1) Figures are presented on an "all-in" basis.
(2) Figures as at October 31, 2017 include the redemption of the Series 28 preferred shares on November 15, 2017.

(unaudited) (millions of Canadian dollars)

NOTE 17 – TRADING ACTIVITY REVENUES

Trading activity revenues consist of the net interest income from trading activities and trading revenues recognized in *Non-interest income* in the Consolidated Statement of Income.

Net interest income comprises dividends related to financial assets and liabilities associated with trading activities, net of interest expenses and interest income related to the financing of these financial assets and liabilities.

Non-interest income consists of realized and unrealized gains and losses as well as interest income on securities measured at fair value through profit or loss, income from held-for-trading derivative financial instruments, and the change in fair value of financial instruments designated at fair value through profit or loss and certain loans classified as at fair value through profit or loss.

	Quarter ended January 31	
	2018	2017
Net interest income	**15**	117
Non-interest income	**228**	94
	243	211

NOTE 18 – SHARE-BASED PAYMENTS

Stock Option Plan

During the quarter ended January 31, 2018, the Bank awarded 1,836,348 stock options (1,804,016 stock options during the quarter ended January 31, 2017) with an average fair value of $7.42 per option ($5.75 in 2017).

As at January 31, 2018, there were 14,623,106 stock options outstanding (14,575,894 stock options as at October 31, 2017).

The average fair value of the options awarded was estimated on the award date using the Black-Scholes model as well as the following assumptions.

	Quarter ended January 31	
	2018	2017
Risk-free interest rate	**2.11%**	1.59%
Expected life of options	**7 years**	7 years
Expected volatility	**18.87%**	20.53%
Expected dividend yield	**3.80%**	4.41%

Compensation expense is presented in the following table.

	Quarter ended January 31	
	2018	2017
Compensation expense recorded for stock options	**3**	3

(unaudited) (millions of Canadian dollars)

NOTE 19 – EMPLOYEE BENEFITS – PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Bank offers defined benefit pension plans and other post-employment benefit plans to eligible employees. The cost associated with these plans, including the remeasurements recognized in *Other comprehensive income,* is presented in the following table.

Cost for Pension Plans and Other Post-Employment Benefit Plans

				Quarter ended January 31
		Pension plans		Other post-employment benefit plans
	2018	2017	**2018**	2017
Current service cost	**28**	28	**1**	1
Interest expense (income), net	**1**	2	**2**	2
Administrative expenses	**1**	1		
Expense recognized in *Net income*	**30**	31	**3**	3
Remeasurements[1]				
Actuarial (gains) losses on defined benefit obligation	**–**	(247)	**–**	(12)
Return on plan assets[2]	**(49)**	97		
Remeasurements recognized in *Other comprehensive income*	**(49)**	(150)	**–**	(12)
	(19)	(119)	**3**	(9)

(1) Changes related to the discount rate and to the return on plan assets are reviewed and updated on a quarterly basis. All other assumptions are updated annually.
(2) Excludes interest income.

NOTE 20 – EARNINGS PER SHARE

Diluted earnings per share is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding after taking into account the dilution effect of stock options using the treasury stock method and any gain (loss) on redemption of preferred shares.

	Quarter ended January 31	
	2018	2017
Basic earnings per share		
Net income attributable to the Bank's shareholders	**527**	478
Dividends on preferred shares	**22**	19
Net income attributable to common shareholders	**505**	459
Weighted average basic number of common shares outstanding *(thousands)*	**340,950**	339,476
Basic earnings per share *(dollars)*	**1.48**	1.35
Diluted earnings per share		
Net income attributable to common shareholders	**505**	459
Weighted average basic number of common shares outstanding *(thousands)*	**340,950**	339,476
Adjustment to average number of common shares *(thousands)*		
Stock options(1)	**4,508**	3,794
Weighted average diluted number of common shares outstanding *(thousands)*	**345,458**	343,270
Diluted earnings per share *(dollars)*	**1.46**	1.34

(1) For the quarter ended January 31, 2018, the calculation of diluted earnings per share excluded an average number of 1,037,936 options outstanding with a weighted average exercise price of $64.14 (993,801 options outstanding with a weighted average exercise price of $54.69 for the quarter ended January 31, 2017), as the exercise price of these options was greater than the average price of the Bank's common shares.

NOTE 21 – CONTINGENT LIABILITIES

Litigation
In the normal course of business, the Bank and its subsidiaries are involved in various claims relating, among other matters, to loan portfolios, investment portfolios and supplier agreements, including court proceedings, investigations or claims of a regulatory nature, class actions or other legal remedies of varied natures. The developments in the main legal proceeding involving the Bank are as follows:

Watson
In 2011, a class action was filed in the Supreme Court of British Columbia against Visa Corporation Canada (Visa), MasterCard International Incorporated (MasterCard) as well as National Bank and a number of other financial institutions. The plaintiffs are alleging that the credit card networks and financial institutions engaged in a price-fixing system to increase or maintain the fees paid by merchants on Visa and MasterCard transactions. In so doing, they would have been in breach of the *Competition Act.* An unspecified amount of compensatory and punitive damages is being claimed. During the year ended October 31, 2017, the Bank entered into an agreement-in-principle with the plaintiffs in order to settle this dispute in the five jurisdictions where the class action was filed. This agreement is subject to the approval of the Court in each of those jurisdictions.

It is impossible to determine the outcome of the claims instituted or which may be instituted against the Bank and its subsidiaries. The Bank estimates, based on the information at its disposal, that while the amount of contingent liabilities pertaining to these claims, taken individually or in the aggregate, could have a material impact on the Bank's consolidated operating income for a particular period, it would not have a material adverse impact on the Bank's consolidated financial position.

(unaudited) (millions of Canadian dollars)

NOTE 22 – STRUCTURED ENTITIES

A structured entity is an entity created to accomplish a narrow and well-defined objective and is designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate solely to administrative tasks and the relevant activities are directed by means of contractual arrangements. Structured entities are assessed for consolidation in accordance with the accounting treatment described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2017. For a detailed description of the Bank's structured entities, see Note 28 to the audited annual consolidated financial statements for the year ended October 31, 2017. The Bank's maximum exposure to loss resulting from its interests in these structured entities consists primarily of the investments in these entities, the fair value of derivative financial instrument contracts entered into with them, and the backstop liquidity and credit enhancement facilities granted to certain structured entities.

In the normal course of business, the Bank may enter into financing transactions with third-party structured entities, including commercial loans, reverse repurchase agreements, prime brokerage margin lending, and similar collateralized lending transactions. While such transactions expose the Bank to the counterparty credit risk of the structured entities, this exposure is mitigated by the collateral related to these transactions. The Bank typically has neither power nor significant variable returns resulting from financing transactions with structured entities and does not consolidate such entities. Financing transactions with third-party-sponsored structured entities are included on the Bank's consolidated financial statements and are not included in the table accompanying this note.

The following table presents the carrying amounts of the assets and liabilities relating to the Bank's interests in non-consolidated structured entities, the Bank's maximum exposure to loss from these interests, as well as the total assets of these structured entities.

				As at January 31, 2018
	Multi-seller conduits[1]	**Investment funds[2]**	**Private investments[3]**	**Asset-backed structured entity[4]**
Assets on the Consolidated Balance Sheet				
Securities at fair value through profit or loss	1	57	69	–
Securities at amortized cost	–	–	–	1,355
	1	57	69	1,355
As at October 31, 2017	6	58	70	1,306
Liabilities on the Consolidated Balance Sheet				
Derivative financial instruments	15	–	–	–
As at October 31, 2017	13	–	–	–
Maximum exposure to loss				
Securities	1	57	69	1,355
Liquidity, credit enhancement facilities and commitments	2,680	–	–	157
	2,681	57	69	1,512
As at October 31, 2017	2,727	58	70	1,522
Total assets of the structured entities	2,726	331	360	3,204
As at October 31, 2017	2,768	277	437	3,201

(1) The main underlying assets, located in Canada, are residential mortgages, automobile loans, automobile inventory financings, and other receivables. As at January 31, 2018, the notional committed amount of the global-style liquidity facilities totalled \$2.7 billion (\$2.7 billion as at October 31, 2017), representing the total amount of commercial paper outstanding. The Bank also provides series-wide credit enhancement facilities for a notional committed amount of \$30 million (\$30 million as at October 31, 2017). The maximum exposure to loss cannot exceed the amount of commercial paper outstanding. As at January 31, 2018, the Bank held \$1 million in commercial paper (\$6 million as at October 31, 2017) and, consequently, the maximum potential amount of future payments as at January 31, 2018 was limited to \$2.7 billion (\$2.7 billion as at October 31, 2017), which represents the undrawn liquidity and credit enhancement facilities.
(2) The underlying assets are various financial instruments and are presented on a net asset basis. Certain investment funds are in a trading portfolio.
(3) The underlying assets are private investments. The amount of total assets of the structured entities corresponds to the amount for the most recent available period.
(4) The underlying assets are residential mortgages, consumer loans, equipment loans and leases.

(unaudited) (millions of Canadian dollars)

NOTE 22 – STRUCTURED ENTITES (cont.)

The following table presents the Bank's investments and other assets in the consolidated structured entities as well as the total assets of these entities.

	As at January 31, 2018		As at October 31, 2017	
	Investments and other assets	Total assets[1]	Investments and other assets	Total assets[1]
Consolidated structured entities				
Securitization entity for the Bank's credit card receivables[2][3]	904	1,825	863	1,784
Investment funds[4]	330	352	205	217
Covered bonds[5]	15,378	15,670	15,605	15,891
Building[6]	62	55	61	54
NBC Asset Trust[7]	1,350	2,127	1,350	2,122
Third-party structured entities[8]	25	25	74	74
	18,049	20,054	18,158	20,142

(1) There are restrictions that stem mainly from regulatory requirements, corporate or securities laws and contractual arrangements that limit the ability of certain consolidated structured entities to transfer funds to the Bank.
(2) The underlying assets are credit card receivables.
(3) The Bank's investment is presented net of third-party holdings.
(4) The underlying assets are various financial instruments and are presented on a net asset basis. Certain investment funds are in a trading portfolio.
(5) The underlying assets are uninsured residential mortgage loans of the Bank. The average maturity of these underlying assets is two years. As at January 31, 2018, the total amount of transferred mortgage loans was $15.4 billion ($15.6 billion as at October 31, 2017), and the total amount of covered bonds of $7.2 billion was recognized in *Deposits* on the Consolidated Balance Sheet ($7.0 billion as at October 31, 2017). For additional information, see Note 11.
(6) The underlying asset is a building located in Canada.
(7) The underlying assets are insured and uninsured residential mortgage loans of the Bank. As at January 31, 2018, insured loans amounted to $79 million ($82 million as at October 31, 2017). The average maturity of the underlying assets is two years. For additional information, see Note 15.
(8) The underlying assets consist of equipment leased under operating leases.

NOTE 23 – SEGMENT DISCLOSURES

The Bank carries out its activities in four business segments, which are defined below. For presentation purposes, other activities are grouped in the *Other* heading. Each reportable segment is distinguished by services offered, type of clientele and marketing strategy.

Personal and Commercial
The Personal and Commercial segment encompasses the banking, financing, and investing services offered to individuals and businesses as well as insurance operations.

Wealth Management
The Wealth Management segment comprises investment solutions, trust services, banking services, lending services and other wealth management solutions offered through internal and third-party distribution networks.

Financial Markets
The Financial Markets segment encompasses banking services, investment banking services and financial solutions for large and mid-size corporations, public sector organizations, and institutional investors. The segment is also active in proprietary trading and investment activities for the Bank.

U.S. Specialty Finance and International (USSF&I)
The USSF&I segment encompasses the specialty finance expertise provided by subsidiary Credigy Ltd.; the activities of subsidiary Advanced Bank of Asia Limited (ABA Bank), which offers financial products and services to individuals and businesses in Cambodia; and the activities of targeted investments in certain emerging markets.

Other
This heading encompasses Treasury activities, including the Bank's asset and liability management, liquidity management and funding operations, certain non-recurring items and the unallocated portion of corporate services.

(unaudited) (millions of Canadian dollars)

Quarter ended January 31[1]

	Personal and Commercial		Wealth Management		Financial Markets		USSF&I		Other		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Net interest income[2]	**544**	510	**124**	104	**99**	229	**147**	97	**(80)**	(87)	**834**	853
Non-interest income[2]	**255**	245	**317**	293	**355**	187	**14**	21	**31**	34	**972**	780
Total revenues	**799**	755	**441**	397	**454**	416	**161**	118	**(49)**	(53)	**1,806**	1,633
Non-interest expenses	**428**	419	**277**	261	**176**	172	**60**	56	**83**	61	**1,024**	969
Contribution	**371**	336	**164**	136	**278**	244	**101**	62	**(132)**	(114)	**782**	664
Provisions for credit losses[3]	**57**	52	**1**	1	**–**	–	**29**	7	**–**	–	**87**	60
Income before income taxes (recovery)	**314**	284	**163**	135	**278**	244	**72**	55	**(132)**	(114)	**695**	604
Income taxes (recovery)[2]	**84**	76	**43**	36	**74**	65	**22**	17	**(78)**	(87)	**145**	107
Net income	**230**	208	**120**	99	**204**	179	**50**	38	**(54)**	(27)	**550**	497
Non-controlling interests	**–**	–	**–**	–	**–**	–	**9**	6	**14**	13	**23**	19
Net income attributable to the Bank's shareholders	**230**	208	**120**	99	**204**	179	**41**	32	**(68)**	(40)	**527**	478
Average assets	**98,132**	95,044	**12,099**	11,299	**101,816**	96,781	**8,777**	6,655	**41,356**	36,281	**262,180**	246,060

(1) For the quarter ended January 31, 2017, certain amounts have been reclassified, particularly in the USSF&I segment, where an amount of $55 million reported in *Non-interest income* was reclassified to *Net interest income*.

(2) The *Net interest income*, *Non-interest income* and *Income taxes (recovery)* of the business segments are presented on a taxable equivalent basis. Taxable equivalent basis is a calculation method that consists of grossing up certain tax-exempt income by the amount of income tax that would have been otherwise payable. For the business segments as a whole, *Net interest income* was grossed up by $38 million ($68 million in 2017), *Non-interest income* was grossed up by $21 million ($4 million in 2017) and an equivalent amount was recognized in *Income taxes (recovery)*. The effect of these adjustments is reversed under the *Other* heading.

(3) Given the adoption of IFRS 9 on November 1, 2017, the Bank accounts for provisions for credit losses within the business segments. In the first quarter of 2017, only provisions for credit losses on impaired loans had been recognized in the business segments, whereas provisions for credit losses on non-impaired loans had been recognized in the *Other* heading.

NOTE 24 – EVENT AFTER THE CONSOLIDATED BALANCE SHEET DATE

Issuance of Subordinated Debt

On February 1, 2018, the Bank issued medium-term notes for a total amount of $750 million. They bear interest at 3.183% and mature on February 1, 2028. The interest on these notes will be payable semi-annually at a rate of 3.183% per annum until February 1, 2023 and, thereafter, at a floating rate equal to the three-month CDOR plus 0.72% payable quarterly. With the prior approval of the Office of the Superintendent of Financial Institutions (Canada) (OSFI), the Bank may, at its option, redeem these notes as of February 1, 2023, in whole or in part, at their nominal value plus accrued and unpaid interest. Given that the medium-term notes satisfy the non-viability contingent capital requirements, they qualify for the purposes of calculating regulatory capital under Basel III.

INFORMATION FOR SHAREHOLDERS AND INVESTORS

Investor Relations
Financial analysts and investors who want to obtain financial information on the Bank may contact the Investor Relations Department.

600 De La Gauchetière Street West, 7th Floor
Montreal, Quebec H3B 4L2
Toll-free: 1-866-517-5455
Fax: 514-394-6196
Email: *investorrelations@nbc.ca*
Website: nbc.ca/investorrelations

Public Affairs
600 De La Gauchetière Street West, 10th Floor
Montreal, Quebec H3B 4L2
Telephone: 514-394-8644
Fax: 514-394-6258

Quarterly Report Publication Dates for Fiscal 2018
(subject to approval by the Board of Directors of the Bank)

First quarter	February 28
Second quarter	May 30
Third quarter	August 29
Fourth quarter	December 5

Disclosure of First Quarter 2018 Results

Conference Call
- A conference call for analysts and institutional investors will be held on Wednesday, February 28, 2018 at 1:00 p.m. EST.
- Access by telephone in listen-only mode: 1-800-898-3989 or 416-406-0743. The access code is 7203614#.
- A recording of the conference call can be heard until March 29, 2018 by dialing 1-800-408-3053 or 905-694-9451. The access code is 8202895#.

Webcast
- The conference call will be webcast live at nbc.ca/investorrelations.
- A recording of the webcast will also be available on National Bank's website after the call.

Financial Documents
- The *Report to Shareholders* (which includes the quarterly consolidated financial statements) is available at all times on National Bank's website at nbc.ca/investorrelations.
- The *Report to Shareholders*, the *Supplementary Financial Information*, the *Supplementary Regulatory Capital Disclosure*, and a slide presentation will be available on the Investor Relations page of National Bank's website shortly before the start of the conference call.

Transfer Agent and Registrar
For information about stock transfers, address changes, dividends, lost certificates, tax forms, and estate transfers, shareholders are asked to contact the transfer agent, Computershare Trust Company of Canada, at the address or telephone number below.

Computershare Trust Company of Canada
Share Ownership Management
1500 Robert-Bourassa Boulevard, 7th Floor
Montreal, Quebec H3A 3S8
Telephone: 1-888-838-1407
Fax: 1-888-453-0330
Email: *service@computershare.com*
Website: computershare.com

Direct Deposit Service for Dividends
Shareholders may elect to have their dividend payments deposited directly via electronic funds transfer to their bank account at any financial institution that is a member of the Canadian Payments Association. To do so, they must send a written request to the transfer agent, Computershare Trust Company of Canada.

Dividend Reinvestment and Share Purchase Plan
The Bank has a Dividend Reinvestment and Share Purchase Plan for Canadian holders of its common and preferred shares under which they can acquire common shares of the Bank without paying commissions or administration fees. Canadian participants acquire common shares through the reinvestment of cash dividends paid on the shares they hold or through optional cash payments of at least $500 per payment, up to a maximum of $5,000 per quarter.

For more information, shareholders may contact National Bank's registrar and transfer agent, Computershare Trust Company of Canada, at 1-888-838-1407. To participate in the plan, National Bank's beneficial or non-registered common shareholders must contact their financial institution or broker.

Dividends
The dividends declared by the Bank constitute eligible dividends pursuant to the *Income Tax Act* (Canada).

NATIONAL BANK