NATIONAL BANK

REPORT TO SHAREHOLDERS THIRD QUARTER 2017

National Bank reports its results for the Third Quarter of 2017

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter and nine-month period ended July 31, 2017 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, August 30, 2017 – For the third quarter of 2017, National Bank is reporting net income of $518 million compared to $478 million in the third quarter of 2016, a $40 million year-over-year increase driven by net income growth in its main business segments. Diluted earnings per share stood at $1.37 in the third quarter of 2017 compared to $1.31 in the same quarter last year.

Net income excluding specified items totalled $524 million in the third quarter of 2017, up 8% from $486 million in the third quarter of 2016. Diluted earnings per share excluding specified items stood at $1.39 in the third quarter of 2017 compared to $1.33 in the same quarter of 2016. The specified items are described on page 4.

For the first nine months of 2017, the Bank's net income totalled $1,499 million compared to $949 million in the same nine-month period of 2016, and its nine-month diluted earnings per share stood at $3.99 versus $2.51 in the same period of 2016. These increases were generated by the net income growth across all the business segments, the sectoral provision that had been recorded in the second quarter of 2016, and the write-off of the Bank's equity interest in associate Maple Financial Group Inc. in the first quarter of 2016. Net income excluding specified items for the nine months ended July 31, 2017 totalled $1,518 million, up 32% from $1,150 million in the same period of 2016. Nine-month diluted earnings per share excluding specified items stood at $4.05 compared to $3.11 in the first nine months of 2016.

"For the third quarter of 2017, the Bank posted excellent results owing to solid performance across all its business segments," said Louis Vachon, President and Chief Executive Officer of National Bank. "Sustained revenue growth and cost control also contributed to this performance."

Highlights

(millions of Canadian dollars)	Quarter ended July 31			Nine months ended July 31		
	2017	2016	% Change	**2017**	2016	% Change
Net income	**518**	478	8	**1,499**	949	58
Diluted earnings per share *(dollars)*	**$ 1.37**	$ 1.31	5	**$ 3.99**	$ 2.51	59
Return on common shareholders' equity	**18.2 %**	18.7 %		**18.2 %**	12.0 %	
Dividend payout ratio	**47 %**	62 %		**47 %**	62 %	
Excluding specified items[1]						
Net income excluding specified items	**524**	486	8	**1,518**	1,150	32
Diluted earnings per share excluding specified items *(dollars)*	**$ 1.39**	$ 1.33	5	**$ 4.05**	$ 3.11	30
Return on common shareholders' equity excluding specified items	**18.4 %**	19.0 %		**18.4 %**	14.9 %	
Dividend payout ratio excluding specified items	**42 %**	50 %		**42 %**	50 %	

	As at July 31, 2017	As at October 31, 2016
CET1 capital ratio under Basel III	**11.2 %**	10.1 %
Leverage ratio under Basel III	**4.0 %**	3.7 %

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

Personal and Commercial

- Net income totalled $240 million in the third quarter of 2017, up 21% from $199 million in the third quarter of 2016.
- At $785 million, the segment's third-quarter total revenues rose $46 million or 6% year over year.
- Rising 5% from a year ago, personal lending experienced sustained growth, particularly due to mortgage lending, while commercial lending (excluding oil and gas producers and service companies) grew 6% from a year ago.
- The net interest margin stood at 2.27% in the third quarter of 2017 versus 2.26% in the third quarter of 2016.
- The 2017 third-quarter non-interest expenses were down 2% year over year.
- At 52.6%, the efficiency ratio improved from 57.1% in the third quarter of 2016.

Wealth Management

- Net income totalled $106 million in the third quarter of 2017, a 31% increase from $81 million in the third quarter of 2016.
- The 2017 third-quarter total revenues amounted to $403 million compared to $361 million in the same quarter of 2016, a $42 million or 12% increase driven by growth in net interest income and fee-based revenues.
- The 2017 third-quarter non-interest expenses stood at $259 million compared to $249 million in the third quarter of 2016.
- The efficiency ratio excluding specified items(1) was 62.6%, an improvement from 67.2% in the third quarter of 2016.

Financial Markets

- Net income totalled $168 million in the third quarter of 2017, an 8% increase from $156 million in the same quarter of 2016.
- Total revenues on a taxable equivalent basis amounted to $392 million, a $22 million or 6% year-over-year increase driven primarily by trading activity revenues, particularly revenues from equity securities.
- Non-interest expenses for the third quarter of 2017 stood at $162 million, a $6 million year-over-year increase associated with revenue growth.
- The efficiency ratio was 41.3%, an improvement from 42.2% in the third quarter of 2016.

U.S. Specialty Finance and International

- Net income totalled $51 million in the third quarter of 2017 compared to $64 million in the same quarter of 2016, due to a $41 million non-taxable gain on revaluation of the previously held equity interest in ABA Bank that had been recorded in the third quarter of 2016, partly offset by significant growth in net interest income.
- The segment's 2017 third-quarter total revenues amounted to $147 million, up $22 million or 18%.
- Third-quarter non-interest expenses stood at $58 million, a $6 million year-over-year increase attributable essentially to business growth at the ABA Bank subsidiary.

Other

- The *Other* heading posted a net loss of $47 million in the third quarter of 2017 versus a $22 million net loss in the same quarter of 2016, primarily because of higher non-interest expenses.

Capital Management

- As at July 31, 2017, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 11.2%, an increase from 10.1% as at October 31, 2016 resulting essentially from net income, net of dividends.
- As at July 31, 2017, the Basel III leverage ratio was 4.0%, an increase from 3.7% as at October 31, 2016.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 29, 2017

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 and nine-month period ended July 31, 2017 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 and nine-month period ended July 31, 2017 and with the *2016 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 *2016 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 2017 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 2017 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 48 of the *2016 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 *2016 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

The presentation of segment disclosures is consistent with the presentation adopted by the Bank for the fiscal year beginning November 1, 2016. This presentation reflects the fact that the activities of subsidiary Credigy Ltd., which had previously been presented in the Financial Markets segment, and that the activities of subsidiary Advanced Bank of Asia Limited (ABA Bank) and of other international investments, which had previously been presented in the *Other* heading, are now presented in the U.S. Specialty Finance and International (USSF&I) segment. The Bank made this change to better align the monitoring of its activities with its management structure.

Non-GAAP Measures

The Bank uses a number of financial measures when assessing its results and measuring Bank-wide 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 July 31			Nine months ended July 31		
	2017	2016	% Change	**2017**	2016	% Change
Net income excluding specified items						
Personal and Commercial	**240**	199	21	**686**	366	87
Wealth Management	**112**	87	29	**323**	255	27
Financial Markets	**168**	156	8	**526**	454	16
U.S. Specialty Finance and International	**51**	64	(20)	**129**	126	2
Other	**(47)**	(20)		**(146)**	(51)	
Net income excluding specified items	**524**	486	8	**1,518**	1,150	32
Items related to holding restructured notes(1)	**–**	(1)		**–**	(5)	
Acquisition-related items(2)	**(6)**	(7)		**(19)**	(33)	
Write-off of an equity interest in an associate(3)	**–**	–		**–**	(145)	
Impact of changes to tax measures(4)	**–**	–		**–**	(18)	
Net income	**518**	478	8	**1,499**	949	58
Diluted earnings per share excluding specified items	**$ 1.39**	$ 1.33	5	**$ 4.05**	$ 3.11	30
Items related to holding restructured notes(1)	**–**	–		**–**	(0.01)	
Acquisition-related items(2)	**(0.02)**	(0.02)		**(0.06)**	(0.10)	
Write-off of an equity interest in an associate(3)	**–**	–		**–**	(0.43)	
Impact of changes to tax measures(4)	**–**	–		**–**	(0.05)	
Premium paid on preferred shares redeemed for cancellation(5)	**–**	–		**–**	(0.01)	
Diluted earnings per share	**$ 1.37**	$ 1.31	5	**$ 3.99**	$ 2.51	59
Return on common shareholders' equity						
Including specified items	**18.2 %**	18.7 %		**18.2 %**	12.0 %	
Excluding specified items	**18.4 %**	19.0 %		**18.4 %**	14.9 %	

(1) During the quarter ended July 31, 2016, the Bank had recorded $2 million in financing costs ($1 million net of income taxes) related to holding restructured notes. During the nine months ended July 31, 2016, the Bank had recorded $7 million in financing costs ($5 million net of income taxes).

(2) During the quarter ended July 31, 2017, the Bank recorded $8 million ($6 million net of income taxes) in acquisition-related charges (2016: $8 million, $7 million net of income taxes). For the nine months ended July 31, 2017, these charges stood at $23 million ($19 million net of income taxes) and, for the same period in 2016, they were $42 million ($33 million net of income taxes). These charges consisted mostly of retention bonuses and also included the Bank's share in the integration costs incurred by Fiera Capital Corporation (Fiera Capital) as well as the Bank's share in the charges related to its equity interest in TMX Group Limited (TMX), particularly goodwill and intangible asset impairment losses of $18 million ($13 million net of income taxes) recorded in the first quarter of 2016.

(3) During the nine-month period ended July 31, 2016, the Bank had written off its equity interest in associate Maple Financial Group Inc. (Maple) in an amount of $164 million ($145 million net of income taxes) following the February 6, 2016 event described in the Analysis of the Consolidated Balance Sheet section on page 35 of the *2016 Annual Report*.

(4) During the nine months ended July 31, 2016, an $18 million tax provision had been recorded to reflect the impact of substantively enacted changes to tax measures.

(5) During the nine months ended July 31, 2016, a $3 million premium had been paid on the Series 20 First Preferred Shares redeemed for cancellation.

HIGHLIGHTS

(millions of Canadian dollars, except per share amounts)	Quarter ended July 31			Nine months ended July 31		
	2017	2016	% Change	2017	2016	% Change
Operating results						
Total revenues	1,675	1,557	8	4,905	4,271	15
Net income	518	478	8	1,499	949	58
Net income attributable to the Bank's shareholders	494	460	7	1,434	892	61
Return on common shareholders' equity	18.2 %	18.7 %		18.2 %	12.0 %	
Earnings per share						
Basic	$ 1.39	$ 1.32	5	$ 4.04	$ 2.52	60
Diluted	1.37	1.31	5	3.99	2.51	59
Operating results on a taxable equivalent basis[1] **and excluding specified items**[2]						
Total revenues on a taxable equivalent basis and excluding specified items	1,743	1,610	8	5,104	4,647	10
Net income excluding specified items	524	486	8	1,518	1,150	32
Return on common shareholders' equity excluding specified items	18.4 %	19.0 %		18.4 %	14.9 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	55.4 %	57.9 %		56.2 %	58.1 %	
Earnings per share excluding specified items[2]						
Basic	$ 1.41	$ 1.35	4	$ 4.09	$ 3.13	31
Diluted	1.39	1.33	5	4.05	3.11	30
Common share information						
Dividends declared	$ 0.58	$ 0.55		$ 1.70	$ 1.63	
Book value				30.84	28.39	
Share price						
High	56.44	46.65		58.75	46.65	
Low	51.77	40.98		46.83	35.83	
Close	56.15	44.71		56.15	44.71	
Number of common shares *(thousands)*	341,580	336,826		341,580	336,826	
Market capitalization	19,180	15,059		19,180	15,059	

(millions of Canadian dollars)	As at July 31, 2017	As at October 31, 2016	% Change
Balance sheet and off-balance-sheet			
Total assets	240,072	232,206	3
Loans and acceptances, net of allowances	133,167	126,178	6
Impaired loans, net of total allowances	(307)	(289)	
As a % of average loans and acceptances	(0.2) %	(0.2) %	
Deposits[3]	152,310	142,066	7
Equity attributable to common shareholders	10,536	9,642	9
Assets under administration and under management	427,663	397,342	8
Earnings coverage	12.00	7.84	
Regulatory ratios under Basel III			
Capital ratios[4]			
Common Equity Tier 1 (CET1)	11.2 %	10.1 %	
Tier 1	15.2 %	13.5 %	
Total	15.5 %	15.3 %	
Leverage ratio[4]	4.0 %	3.7 %	
Liquidity coverage ratio (LCR)	134 %	134 %	
Other information			
Number of employees	21,526	21,770	(1)
Number of branches in Canada	443	450	(2)
Number of banking machines in Canada	932	938	(1)

(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) An amount of $2.2 billion classified in *Due to clients, dealers and brokers* on the Consolidated Balance Sheet as at October 31, 2016 is now reported in *Deposits*.
(4) The ratios are calculated using the "all-in" methodology.

FINANCIAL ANALYSIS

Consolidated Results

On November 1, 2016, the Bank reclassified certain amounts in the Consolidated Statement of Income to better reflect the nature of revenues reported in the Personal and Commercial segment. Accordingly, for the quarter ended July 31, 2016, an amount of $11 million reported in the *Non-interest income – Credit fees* item was reclassified to *Net interest income – Loans* ($27 million for the nine-month period ended July 31, 2016). This reclassification had no impact on *Net income*.

(millions of Canadian dollars)	Quarter ended July 31			Nine months ended July 31		
	2017	2016	% Change	**2017**	2016	% Change
Operating results						
Net interest income	**831**	783	6	**2,391**	2,214	8
Non-interest income	**844**	774	9	**2,514**	2,057	22
Total revenues	**1,675**	1,557	8	**4,905**	4,271	15
Non-interest expenses	**971**	937	4	**2,881**	2,716	6
Contribution	**704**	620	14	**2,024**	1,555	30
Provisions for credit losses(1)	**58**	45	29	**174**	425	(59)
Income before income taxes	**646**	575	12	**1,850**	1,130	64
Income taxes	**128**	97	32	**351**	181	94
Net income	**518**	478	8	**1,499**	949	58
Diluted earnings per share *(dollars)*	**1.37**	1.31	5	**3.99**	2.51	59
Taxable equivalent basis(2)						
Net interest income	**55**	48		**169**	178	
Non-interest income	**10**	–		**21**	2	
Income taxes	**65**	48		**190**	180	
Impact of taxable equivalent basis on net income	**–**	–		**–**	–	
Specified items(3)						
Items related to holding restructured notes	**–**	(2)		**–**	(7)	
Acquisition-related items	**(8)**	(8)		**(23)**	(42)	
Write-off of an equity interest in an associate	**–**	–		**–**	(164)	
Specified items before income taxes	**(8)**	(10)		**(23)**	(213)	
Income taxes on specified items(4)	**(2)**	(2)		**(4)**	(12)	
Specified items after income taxes	**(6)**	(8)		**(19)**	(201)	
Operating results on a taxable equivalent basis(2) and excluding specified items(3)						
Net interest income on a taxable equivalent basis and excluding specified items	**886**	833	6	**2,560**	2,399	7
Non-interest income on a taxable equivalent basis and excluding specified items	**857**	777	10	**2,544**	2,248	13
Total revenues on a taxable equivalent basis and excluding specified items	**1,743**	1,610	8	**5,104**	4,647	10
Non-interest expenses excluding specified items	**966**	932	4	**2,867**	2,699	6
Contribution on a taxable equivalent basis and excluding specified items	**777**	678	15	**2,237**	1,948	15
Provisions for credit losses(1)	**58**	45	29	**174**	425	(59)
Income before income taxes on a taxable equivalent basis and excluding specified items	**719**	633	14	**2,063**	1,523	35
Income taxes on a taxable equivalent basis and excluding specified items	**195**	147	33	**545**	373	46
Net income excluding specified items	**524**	486	8	**1,518**	1,150	32
Diluted earnings per share excluding specified items *(dollars)* (5)	**1.39**	1.33	5	**4.05**	3.11	30
Average assets	**245,096**	237,447	3	**247,357**	233,439	6
Average loans and acceptances	**130,287**	122,267	7	**127,888**	119,673	7
Impaired loans, net of total allowances	**(307)**	(328)		**(307)**	(328)	
Average deposits	**155,421**	142,243	9	**152,990**	141,210	8
Efficiency ratio excluding specified items(3)	**55.4 %**	57.9 %		**56.2 %**	58.1 %	

(1) During the nine-month period ended July 31, 2017, the Bank reversed, by $40 million, the sectoral provision on non-impaired loans recorded for the oil and gas producer and service company loan portfolio, and an amount of $40 million in provisions for credit losses was recorded to reflect an increase in the collective allowance for credit risk on non-impaired loans. For the nine-month period ended July 31, 2016, the provisions for credit losses had included a $250 million sectoral provision on non-impaired loans recorded for the oil and gas producer and service company loan portfolio.

(2) 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 different assets regardless of their tax treatment.

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

(4) For the nine-month period ended July 31, 2016, the income taxes on specified items included an $18 million tax provision recorded to reflect the impact of substantively enacted changes to tax measures.

(5) For the nine months ended July 31, 2016, the specified items included a premium of $3 million, or $0.01 per share, on the redemption of the Series 20 preferred shares for cancellation.

Financial Results

For the third quarter of 2017, the Bank reported net income of $518 million compared to $478 million in the third quarter of 2016, a $40 million year-over-year increase driven by net income growth in its main business segments. Diluted earnings per share stood at $1.37 in the third quarter of 2017 compared to $1.31 in the same quarter last year.

Net income excluding specified items totalled $524 million in the third quarter of 2017, up 8% from $486 million in the third quarter of 2016. Diluted earnings per share excluding specified items stood at $1.39 in the third quarter of 2017 compared to $1.33 in the same quarter of 2016. For the third quarter of 2017, the specified items, net of income taxes, consisted of $6 million (2016: $7 million) in acquisition-related items. For the third quarter of 2016, the specified items, net of income taxes, had also included $1 million in items related to holding restructured notes.

For the nine months ended July 31, 2017, the Bank's net income totalled $1,499 million compared to $949 million in the same nine-month period of 2016, and its nine-month diluted earnings per share stood at $3.99 versus $2.51 in the same period of 2016. These increases were generated by net income growth across all the business segments, particularly the net income contribution from the ABA Bank subsidiary, by the sectoral provision that had been recorded in the second quarter of 2016, and by the write-off of the Bank's equity interest in associate Maple in the first quarter of 2016. Net income excluding specified items for the nine months ended July 31, 2017 totalled $1,518 million, up 32% from $1,150 million in the same period of 2016. Nine-month diluted earnings per share excluding specified items stood at $4.05 compared to $3.11 in the first nine months of 2016. For the nine-month period ended July 31, 2017, the specified items, net of income taxes, consisted of $19 million (2016: $33 million) in acquisition-related items. For the same nine-month period of 2016, the specified items, net of income taxes, had also included a $145 million write-off of the Bank's equity interest in associate Maple, $5 million in items related to holding restructured notes, and an $18 million tax provision recorded to reflect the impact of changes to tax measures.

Return on common shareholders' equity excluding specified items was 18.4% for the nine months ended July 31, 2017 compared to 14.9% in the same period of 2016; this change was essentially due to the sectoral provision recorded in 2016.

Total Revenues

For the third quarter of 2017, the Bank's total revenues amounted to $1,675 million, rising $118 million or 8% year over year. Third-quarter net interest income was up, mainly because of growth in personal and commercial loans and deposits, net interest income growth in the Wealth Management segment that was partly driven by deposit growth and improved margins, net interest income growth at Credigy Ltd., and the revenues generated by the ABA Bank subsidiary. These increases were partly offset by a decrease in the net interest income generated by the Financial Markets segment. Third-quarter non-interest income was also up, posting year-over-year growth of 9% owing to increases in trading revenues, gains on available-for-sale securities, mutual fund revenues, trust service revenues, revenues from credit fees, card revenues, and other-than-trading foreign exchange revenues. These increases were tempered somewhat by decreases in revenues from underwriting and advisory fees, in securities brokerage commissions, and in other revenues, partly due to a $41 million non-taxable gain on the revaluation of the previously held equity interest in ABA Bank that had been recorded in the third quarter of 2016. Total revenues on a taxable equivalent basis and excluding specified items amounted to $1,743 million in the third quarter of 2017, up 8% from $1,610 million in the third quarter of 2016.

For the nine months ended July 31, 2017, total revenues amounted to $4,905 million, up 15% from $4,271 million in the same period of 2016. The increase was driven, in part, by 8% growth in net interest income attributable to the same reasons provided above for the quarter. Non-interest income was up by 22%, mainly due to increases in trading revenues, gains on available-for-sale securities, Wealth Management revenues, revenues from credit fees and deposit and payment service charges, card revenues and insurance revenues. The Bank's nine-month share in the net income of associates and joint ventures also increased year-over-year, partly due to a $18 million amount representing the Bank's share in the goodwill and intangible asset impairment losses arising from its interest in TMX that had been recorded during the first nine months of 2016. The increase in other income is attributable to the $164 million write-off of the equity interest in associate Maple that had been recorded in the first nine months of 2016, tempered by a decrease in the portion of Credigy Ltd. revenues included in non-interest income and by a non-taxable gain of $41 million on the revaluation of the previously held equity interest in ABA Bank recorded in the third quarter of 2016. However, these increases were tempered by lower revenues from underwriting and advisory fees and from securities brokerage commissions, while other-than-trading foreign exchange revenues remained steady. Total revenues on a taxable equivalent basis and excluding specified items amounted to $5,104 million for the nine months ended July 31, 2017 compared to $4,647 million in the same period of 2016.

Provisions for Credit Losses

For the third quarter of 2017, the Bank recorded $58 million in provisions for credit losses compared to $45 million in the same quarter of 2016. This increase was mainly due to the credit loss provisions recorded for loans in the U.S. Specialty Finance and International segment, essentially attributable to the Credigy Ltd. subsidiary.

For the nine months ended July 31, 2017, the Bank recorded $174 million in provisions for credit losses, $251 million less than in the same period of 2016. This decrease is related mainly to the sectoral provision on non-impaired loans recorded for the oil and gas producer and service company loan portfolio, which was reversed by $40 million in the second quarter of 2017 compared to a $250 million provision recorded in the second quarter of 2016, as well as to a decrease in the provisions for credit losses on Commercial Banking loans. These lower credit loss provisions were partly offset by a $40 million increase in the collective allowance on non-impaired loans for credit risk related to growth in the Bank's overall credit portfolio as well as by higher credit loss provisions recorded for loans in the U.S. Specialty Finance and International segment that are essentially attributable to the Credigy Ltd. subsidiary.

As at July 31, 2017, gross impaired loans stood at $460 million, declining $32 million since October 31, 2016, mainly due to a decrease in the personal and commercial loan portfolios, partly offset by the ABA Bank subsidiary's loan portfolio. Impaired loans represented 5.3% of the tangible capital adjusted for allowances as at July 31, 2017, down 1.0 percentage point from 6.3% as at October 31, 2016. As at July 31, 2017, the total allowances for credit losses exceeded gross impaired loans by $307 million versus $289 million as at October 31, 2016.

Non-Interest Expenses

The 2017 third-quarter non-interest expenses stood at $971 million, a 4% year-over-year increase owing to an increase in compensation and employee benefits, particularly the variable compensation associated with revenue growth and the cost of pension plans, and to an increase in technology investment expenses. These increases were partly offset by a decrease in other expenses. Non-interest expenses excluding specified items stood at $966 million in the third quarter of 2017 compared to $932 million in the third quarter of 2016.

For the nine months ended July 31, 2017, non-interest expenses were up 6% year over year, with the increase being attributable to the same reasons provided above for the quarter, except for other expenses, which remained relatively stable year over year. In addition, some of the overall growth in non-interest expenses came from the ABA Bank subsidiary, whose results have been consolidated into the Bank's results since the third quarter of 2016. Non-interest expenses excluding specified items stood at $2,867 million for the nine months ended July 31, 2017, up 6% from $2,699 million in the same period of 2016.

Income Taxes

For the third quarter of 2017, income taxes stood at $128 million compared to $97 million in the same quarter of 2016. The 2017 third-quarter effective tax rate was 20% compared to 17% in the same quarter of 2016. The change in the effective tax rate was due to the tax impact of the gain realized in the third quarter of 2016 following the revaluation of the previously held equity interest in ABA Bank.

For the nine months ended July 31, 2017, the effective tax rate was 19% versus 16% in the same nine-month period of 2016. In addition to the reason mentioned for the quarter, the change in the effective tax rate resulted from the tax impact of recording a sectoral provision on non-impaired loans for the oil and gas producer and service company loan portfolio in the second quarter of 2016 as well as from a write-off of the equity interest in associate Maple recorded in the first quarter of 2016. Lastly, during the second quarter of 2016, a tax provision had been recorded to reflect the impact of changes to tax measures.

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 July 31			Nine months ended July 31		
	2017	2016[1]	% Change	**2017**	2016[1]	% Change
Operating results						
Net interest income	**527**	497	6	**1,533**	1,453	6
Non-interest income	**258**	242	7	**741**	708	5
Total revenues	**785**	739	6	**2,274**	2,161	5
Non-interest expenses	**413**	422	(2)	**1,235**	1,239	–
Contribution	**372**	317	17	**1,039**	922	13
Provisions for credit losses[2]	**45**	44	2	**103**	421	(76)
Income before income taxes	**327**	273	20	**936**	501	87
Income taxes	**87**	74	18	**250**	135	85
Net income	**240**	199	21	**686**	366	87
Net income excluding the impact of the sectoral provision[2]				**657**	549	20
Net interest margin[3]	**2.27 %**	2.26 %		**2.25 %**	2.24 %	
Average interest-bearing assets	**91,964**	87,302	5	**91,065**	86,586	5
Average assets	**96,766**	92,300	5	**95,788**	91,762	4
Average loans and acceptances	**96,344**	91,963	5	**95,397**	91,410	4
Net impaired loans	**225**	245	(8)	**225**	245	(8)
Net impaired loans as a % of average loans and acceptances	**0.2 %**	0.3 %		**0.2 %**	0.3 %	
Average deposits	**55,253**	49,318	12	**53,525**	47,723	12
Efficiency ratio	**52.6 %**	57.1 %		**54.3 %**	57.3 %	

(1) For the quarter and nine-month period ended July 31, 2016, certain amounts have been revised from those previously reported, including a reclassification between *Non-interest income* and *Net interest income* to better reflect the nature of the revenues.
(2) During the nine months ended July 31, 2017, the Bank recorded a $40 million reversal ($29 million net of income taxes) of the sectoral provision on non-impaired loans taken for the oil and gas producer and service company loan portfolio. For the nine months ended July 31, 2016, the provisions for credit losses had included a $250 million ($183 million net of income taxes) sectoral provision on non-impaired loans recorded for the oil and gas producer and service company loan portfolio. Given the materiality of this sectoral provision, recorded in accordance with GAAP, net income excluding the impact of the sectoral provision has been presented to provide a better assessment of the segment's results.
(3) Net interest margin is calculated by dividing net interest income by average interest-bearing assets.

In the Personal and Commercial segment, net income totalled $240 million in the third quarter of 2017 compared to $199 million in the third quarter of 2016. The segment's third-quarter total revenues increased by $46 million year over year owing to growth in net interest income, which rose $30 million, and to a $16 million increase in non-interest income. The higher net interest income came from growth in personal and commercial loans and deposits and from a higher net interest margin, which was 2.27% in the third quarter of 2017 versus 2.26% in the third quarter of 2016.

Personal Banking's third-quarter total revenues rose $32 million year over year. The rise in net interest income came mainly from growth in loan and deposit volumes as well as from an increase in credit card balances outstanding. The increase in non-interest income came mainly from credit card revenues and internal commission revenues generated by the distribution of Wealth Management products. Commercial Banking's total revenues were up $14 million, mainly due to an increase in net interest income as a result of growth in loan and deposit volumes and in revenues from foreign exchange activities.

The segment's 2017 third-quarter non-interest expenses decreased by $9 million year over year, mainly as a result of lower compensation and employee benefits related to the transformation plan adopted by the Bank to improve operational efficiency. At 52.6%, the efficiency ratio for the third quarter of 2017 improved by 4.5 percentage points compared to the same quarter of 2016. The segment's third-quarter provisions for credit losses were $45 million, $1 million more than in the same quarter of 2016.

For the nine months ended July 31, 2017, the Personal and Commercial segment posted net income of $686 million, up from $366 million in the same nine-month period of 2016. This change is mainly related to the sectoral provision on non-impaired loans for the oil and gas producer and service company loan portfolio, which was reversed by $29 million, net of income taxes, in the second quarter of 2017 compared to a $183 million provision, net of income taxes, recorded in the second quarter of 2016. Net income excluding the impact of the sectoral provision was $657 million for the nine months ended July 31, 2017, up $108 million or 20% from the same period in 2016. The segment's total revenues grew 5%. The growth in Personal Banking's total revenues was driven by the same reasons provided for the quarter as well as by an increase in insurance revenues, which included a gain realized in the first quarter of 2017 following a change to the distribution model for property and casualty insurance. Commercial Banking's total revenues were up owing to growth in loan and deposit volumes and to a higher net interest margin. This increase was partly offset by decreases in revenues from bankers' acceptances and in revenues from derivative financial instruments. For the nine months ended July 31, 2017, non-interest expenses were down $4 million year over year, due to the lower compensation and employee benefits resulting from the transformation plan adopted by the Bank to improve operational efficiency, partly offset by higher technology expenses related to business development. The segment's contribution increased $117 million or 13%. The segment's nine-month provisions for credit losses were $318 million less than those recorded in the same period of 2016. This decrease is essentially related to the impact of the sectoral provision, which was reversed by $40 million in the second quarter of 2017 compared to the $250 million provision recorded in the second quarter of 2016, as well as to lower provisions for credit losses on personal and commercial loans. At 54.3% for the nine months ended July 31, 2017, the efficiency ratio improved by 3.0 percentage points versus the same nine-month period of 2016.

Wealth Management

(millions of Canadian dollars)	Quarter ended July 31			Nine months ended July 31		
	2017	2016[(1)]	% Change	2017	2016[(1)]	% Change
Operating results						
Net interest income	108	94	15	314	274	15
Fee-based revenues	232	202	15	673	590	14
Transaction-based and other revenues	63	65	(3)	206	206	–
Total revenues	403	361	12	1,193	1,070	11
Non-interest expenses	259	249	4	776	744	4
Contribution	144	112	29	417	326	28
Provisions for credit losses	1	1	–	2	4	(50)
Income before income taxes	143	111	29	415	322	29
Income taxes	37	30	23	109	86	27
Net income	106	81	31	306	236	30
Specified items after income taxes[(2)]	6	6		17	19	
Net income excluding specified items[(2)]	112	87	29	323	255	27
Average assets	11,804	11,007	7	11,496	10,991	5
Average loans and acceptances	10,093	9,413	7	9,780	9,356	5
Net impaired loans	4	5		4	5	
Average deposits	30,990	28,743	8	31,565	27,756	14
Assets under administration and under management	427,663	387,027	10	427,663	387,027	10
Efficiency ratio excluding specified items[(2)]	62.6 %	67.2 %		63.5 %	67.6 %	

(1) For the quarter and nine-month period ended July 31, 2016, certain amounts have been revised from those previously reported.
(2) See the Financial Reporting Method section on page 4 for additional information on non-GAAP financial measures.

In the Wealth Management segment, net income totalled $106 million in the third quarter of 2017, a 31% increase from $81 million in the same quarter of 2016. At $112 million in the third quarter of 2017, the segment's net income excluding specified items (with the specified items including the acquisition-related items of recent years) rose 29% from $87 million in the same quarter of 2016. The segment's third-quarter total revenues amounted to $403 million, up 12% from $361 million in the third quarter of 2016. This increase was mainly driven by growth in net interest income, attributable to deposit growth and improved margins, and by fee-based revenues given net inflows across all solutions and a steady rise in stock market performance during the third quarter of 2017.

Non-interest expenses stood at $259 million in the third quarter of 2017, a 4% year-over-year increase driven mainly by higher variable compensation and external management fees associated with growth in the segment's business volume that generated higher revenues. The efficiency ratio excluding specified items was 62.6% in the third quarter of 2017, an improvement of 4.6 percentage points from the same quarter of 2016.

For the nine months ended July 31, 2017, the Wealth Management segment's net income totalled $306 million, up 30% from $236 million in the same period of 2016. Net income excluding specified items totalled $323 million in the nine months ended July 31, 2017, up $68 million or 27% from the same period in 2016. The segment's total revenues amounted to $1,193 million for the nine months ended July 31, 2017, up from $1,070 million in the same period a year earlier. This increase was attributable to growth in net interest income and fee-based revenues owing to the same reasons provided above for the quarter. Non-interest expenses stood at $776 million for the nine months ended July 31, 2017 compared to $744 million in the same period of 2016, an increase attributable to the same reasons provided for the quarter as well as to expenses related to developing services for affluent clients in Western Canada. At 63.5%, the nine-month efficiency ratio improved from 67.6% in the same nine-month period of 2016.

Assets under administration and under management increased by $40.6 billion or 10% from a year ago due to net inflows in various solutions and to a steady rise in stock market performance.

Financial Markets

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

	Quarter ended July 31			Nine months ended July 31		
	2017	2016[2]	% Change	**2017**	2016[2]	% Change
Operating results						
Trading activity revenues						
Equities	**118**	85	39	**365**	320	14
Fixed-income	**70**	75	(7)	**228**	183	25
Commodities and foreign exchange	**19**	21	(10)	**83**	92	(10)
	207	181	14	**676**	595	14
Financial market fees	**90**	93	(3)	**240**	214	12
Gains (losses) on available-for-sale securities, net	**5**	7		**39**	11	
Banking services	**84**	84	–	**246**	231	6
Other	**6**	5	20	**14**	(139)	
Total revenues on a taxable equivalent basis	**392**	370	6	**1,215**	912	33
Non-interest expenses	**162**	156	4	**497**	455	9
Contribution on a taxable equivalent basis	**230**	214	7	**718**	457	57
Provisions for credit losses	**–**	–		**–**	–	
Income before income taxes on a taxable equivalent basis	**230**	214	7	**718**	457	57
Income taxes on a taxable equivalent basis	**62**	58	7	**192**	148	30
Net income	**168**	156	8	**526**	309	70
Specified items after income taxes[3]	**–**	–		**–**	145	
Net income excluding specified items[3]	**168**	156	8	**526**	454	16
Average assets	**92,063**	88,449	4	**95,664**	85,321	12
Average loans and acceptances (Corporate Banking only)	**13,236**	13,234	–	**12,844**	12,279	5
Average deposits	**20,914**	14,677	42	**20,679**	14,709	41
Efficiency ratio excluding specified items[3]	**41.3 %**	42.2 %		**40.9 %**	42.3 %	

(1) See Note 23 to the consolidated financial statements.
(2) For the quarter and nine-month period ended July 31, 2016, certain amounts have been revised from those previously reported, notably amounts related to the Credigy Ltd. subsidiary, which are now reported in the USSF&I segment.
(3) See the Financial Reporting Method section on page 4 for additional information on non-GAAP financial measures.

In the Financial Markets segment, net income totalled $168 million in the third quarter of 2017 compared to $156 million in the same quarter of 2016, and total revenues on a taxable equivalent basis amounted to $392 million compared to $370 million in the third quarter of 2016. Third-quarter trading activity revenues were up 14% year over year, mainly due to an increase in revenues from equity securities, which rose 39%, whereas revenues from fixed income securities were down 7% and commodity and foreign exchange revenues were down 10%. As for financial market fees, they were down 3% year over year, while banking service and other revenues remained stable. In the third quarter of 2017, the gains on available-for-sale securities were less than those recorded in the same quarter of 2016.

For the third quarter of 2017, the segment's non-interest expenses stood at $162 million, a $6 million year-over-year increase resulting mainly from the higher variable compensation associated with revenue growth and from higher operations support charges. At 41.3%, the third-quarter efficiency ratio excluding specified items improved by 0.9 percentage points compared to third quarter 2016. Provisions for credit losses were nil in the third quarters of both 2017 and 2016.

For the nine months ended July 31, 2017, the segment generated net income of $526 million, a $217 million year-over-year increase that is partly explained by the Bank's write-off of its equity interest in associate Maple during the first quarter of 2016. In addition, nine-month trading activity revenues were up 14%, driven mainly by year-over-year increases in revenues from equity securities and from fixed-income securities, which rose 14% and 25%, respectively, as well as by year-over-year increases in revenues from financial market fees and banking services, which were up 12% and 6%, respectively. Furthermore, gains on available-for-sale securities were higher in the nine months ended July 31, 2017 than those recorded in the same period of 2016. Excluding the write-off of the equity interest in associate Maple recorded in the first quarter of 2016, net income excluding specified items increased by 16%.

For the nine months ended July 31, 2017, non-interest expenses were up year over year due to the same reasons provided for the quarter. The segment did not record any provisions for credit losses for the nine months ended July 31, 2017 and 2016.

U.S. Specialty Finance and International

(millions of Canadian dollars)	Quarter ended July 31			Nine months ended July 31		
	2017	2016[1]	% Change	**2017**	2016[1]	% Change
Operating results						
Net interest income	**73**	28	161	**163**	42	288
Non-interest income	**74**	97	(24)	**224**	267	(16)
Total revenues	**147**	125	18	**387**	309	25
Credigy	**117**	70	67	**298**	244	22
International[2]	**30**	55	(45)	**89**	65	37
Non-interest expenses	**58**	52	12	**169**	141	20
Credigy	**43**	42	2	**125**	129	(3)
International[2]	**15**	10	50	**44**	12	267
Contribution	**89**	73	22	**218**	168	30
Provisions for credit losses	**12**	–		**29**	–	
Income before income taxes	**77**	73	5	**189**	168	13
Income taxes	**26**	9	189	**60**	42	43
Net income	**51**	64	(20)	**129**	126	2
Non-controlling interests	**9**	4	125	**23**	16	44
Net income attributable to the Bank's shareholders	**42**	60	(30)	**106**	110	(4)
Average assets	**7,940**	5,586	42	**7,135**	4,985	43
Average loans and receivables	**6,657**	3,739	78	**5,556**	3,209	73
Average other revenue-bearing assets	**308**	1,064	(71)	**562**	1,241	(55)
Average deposits	**1,294**	843	53	**1,214**	283	
Efficiency ratio	**39.5 %**	41.6 %		**43.7 %**	45.6 %	

(1) The amounts presented for the quarter and nine-month period ended July 31, 2016 are consistent with the segment disclosure presentation adopted by the Bank for the fiscal year beginning November 1, 2016.
(2) Includes the ABA Bank subsidiary and other international investments.

In the U.S. Specialty Finance and International segment, net income totalled $51 million in the third quarter of 2017 compared to $64 million in the same quarter of 2016. The segment's third-quarter total revenues amounted to $147 million versus $125 million in the third quarter of 2016, an 18% year-over-year increase resulting from higher net interest income, at both the Credigy Ltd. and ABA Bank subsidiaries, driven by growth in loan volume. Third-quarter non-interest income was down year over year, essentially due to a $41 million non-taxable gain on the revaluation of the previously held equity interest in ABA Bank that had been recorded in the third quarter of 2016.

For the third quarter of 2017, non-interest expenses stood at $58 million, a $6 million year-over-year increase associated with the business growth of the subsidiaries. The segment's third-quarter provisions for credit losses were $12 million, mainly due to the provisions for credit losses recorded for the Credigy Ltd. subsidiary.

For the nine months ended July 31, 2017, the segment generated net income of $129 million compared to $126 million in the same nine-month period of 2016. The segment's nine-month total revenues amounted to $387 million versus $309 million for the nine months ended July 31, 2016, an increase attributable to the same reasons provided for the quarter as well as to the revenues of ABA Bank, which have been consolidated into the Bank's results since the third quarter of 2016.

Nine-month non-interest expenses stood at $169 million, a $28 million year-over-year increase resulting mainly from the ABA Bank subsidiary, whose results have been consolidated into the Bank's results since the third quarter of 2016. The segment's nine-month provisions for credit losses were $29 million, mainly due to the provisions for credit losses recorded for the Credigy Ltd. subsidiary.

Other

(taxable equivalent basis)[1] (millions of Canadian dollars)	Quarter ended July 31		Nine months ended July 31	
	2017	2016[2]	**2017**	2016[2]
Operating results				
Net interest income	**(8)**	(19)	**(65)**	(90)
Non-interest income	**21**	29	**91**	89
Total revenues on a taxable equivalent basis	**13**	10	**26**	(1)
Non-interest expenses	**79**	58	**204**	137
Contribution on a taxable equivalent basis	**(66)**	(48)	**(178)**	(138)
Provisions for credit losses[3]	**–**	–	**40**	–
Income before income taxes on a taxable equivalent basis	**(66)**	(48)	**(218)**	(138)
Income taxes (recovery) on a taxable equivalent basis	**(19)**	(26)	**(70)**	(50)
Net loss	**(47)**	(22)	**(148)**	(88)
Non-controlling interests	**15**	14	**42**	41
Net loss attributable to the Bank's shareholders	**(62)**	(36)	**(190)**	(129)
Specified items after income taxes[4]	**–**	2	**2**	37
Net loss excluding specified items[4]	**(47)**	(20)	**(146)**	(51)
Average assets	**36,523**	40,105	**37,274**	40,380

(1) See Note 23 to the consolidated financial statements.
(2) For the quarter and nine-month period ended July 31, 2016, certain amounts have been revised from those previously reported, notably amounts related to the ABA Bank subsidiary and the other international investments that are now reported in the USSF&I segment.
(3) For the nine-month period ended July 31, 2017, the $40 million in provisions for credit losses constitutes an increase in the collective allowance for credit risk on non-impaired loans.
(4) See the Financial Reporting Method section on page 4 for additional information on non-GAAP financial measures.

For the *Other* heading of segment results, there was a net loss of $47 million in the third quarter of 2017 compared to a net loss of $22 million in the same quarter of 2016. This change came essentially from a $21 million year-over-year increase in non-interest expenses, attributable to compensation and employee benefits, particularly the cost of pension plans and variable compensation.

For the nine months ended July 31, 2017, net loss stood at $148 million compared to a net loss of $88 million in the same nine-month period of 2016. This change reflects an increase of $40 million ($29 million net of income taxes) in the collective allowance on non-impaired loans for credit risk resulting from growth in the Bank's overall credit portfolio and an increase in non-interest expenses attributable to the same reasons provided for the quarter. These items were partly offset by the contribution from treasury activities, which was higher in the nine months ended July 31, 2017 than in the same period of 2016. In addition, the 2016 nine-month net loss had included the Bank's share in the charges related to its equity interest in TMX, particularly goodwill and intangible asset impairment losses of $13 million, net of income taxes, and an $18 million tax provision reflecting the impact of changes to tax measures.

Consolidated Balance Sheet

The Bank changed the classification of certain amounts reported in the *Deposits* item and the *Due to clients, dealers and brokers* item of the Consolidated Balance Sheet to better reflect the nature of the balances presented. As a result, as at October 31, 2016, an amount of $2.2 billion was reclassified from the *Due to clients, dealers and brokers* item to the *Deposits* item.

Consolidated Balance Sheet Summary

(millions of Canadian dollars)	**As at July 31, 2017**	As at October 31, 2016[1]	% Change
Assets			
Cash and deposits with financial institutions	**10,462**	8,183	28
Securities	**62,521**	64,541	(3)
Securities purchased under reverse repurchase agreements and securities borrowed	**16,600**	13,948	19
Loans and acceptances (net of allowances for credit losses)	**133,167**	126,178	6
Other	**17,322**	19,356	(11)
	240,072	232,206	3
Liabilities and equity			
Deposits	**152,310**	142,066	7
Other	**74,381**	77,026	(3)
Subordinated debt	**9**	1,012	(99)
Equity attributable to the Bank's shareholders	**12,586**	11,292	11
Non-controlling interests	**786**	810	(3)
	240,072	232,206	3

(1) Certain amounts have been revised from those previously reported.

Assets

As at July 31, 2017, the Bank had total assets of $240.1 billion compared to $232.2 billion as at October 31, 2016, a $7.9 billion or 3% increase. Cash and deposits with financial institutions, totalling $10.5 billion as at July 31, 2017, rose $2.3 billion, mainly due to deposits with financial institutions. Securities decreased by $2.0 billion since October 31, 2016, essentially available-for-sale securities, due to a decrease in securities issued or guaranteed by governments. This decrease was partly offset by an increase in held-to-maturity securities. Securities purchased under reverse repurchase agreements and securities borrowed also increased, rising $2.7 billion since October 31, 2016.

As at July 31, 2017, loans and acceptances, net of allowances for credit losses, increased by $7.0 billion since October 31, 2016 owing essentially to growth in Credigy Ltd.'s lending activities and to increases in both personal loans and business and government loans. The following table provides a breakdown of the main loan and acceptance portfolios.

(millions of Canadian dollars)	**As at July 31, 2017**	As at October 31, 2016	As at July 31, 2016
Loans and acceptances			
Consumer	**34,230**	31,787	31,289
Residential mortgage	**50,276**	48,868	47,531
Credit card receivables	**2,205**	2,177	2,140
Business and government	**47,223**	44,127	44,609
	133,934	126,959	125,569

Consumer loans increased by 8% since October 31, 2016, mainly due to growth at the Credigy Ltd. subsidiary and within Personal Banking. Rising 3% since October 31, 2016, residential mortgages were also up, with the growth coming from the activities of Personal Banking and the ABA Bank subsidiary. Loans and acceptances to business and government rose $3.1 billion since October 31, 2016 due to business growth at Credigy Ltd. and within Commercial Banking. When compared to a year ago, loans and acceptances increased by $8.3 billion or 7%. Also compared to a year ago, consumer loans, residential mortgages and credit card receivables increased by 9%, 6% and 3%, respectively. Loans and acceptances to business and government also contributed to the growth, rising 6% from a year ago.

Liabilities
As at July 31, 2017, the Bank had total liabilities of $226.7 billion compared to $220.1 billion as at October 31, 2016.

As at July 31, 2017, the Bank's total deposit liability was $152.3 billion versus $142.1 billion as at October 31, 2016, an increase of $10.2 billion or 7%. The following table provides a breakdown of total personal savings.

(millions of Canadian dollars)	As at July 31, 2017	As at October 31, 2016[(1)]	As at July 31, 2016[(1)]
Balance sheet			
Deposits	52,370	52,521	51,698
Off-balance-sheet			
Brokerage	118,255	117,157	113,576
Mutual funds	30,909	28,706	28,068
Other	412	463	518
	149,576	146,326	142,162
Total personal savings	201,946	198,847	193,860

(1) Certain amounts have been revised from those previously reported.

At $52.4 billion as at July 31, 2017, personal deposits decreased by $0.1 billion since October 31, 2016, essentially in the Wealth Management segment as a result of customer migration to off-balance-sheet products. Since the beginning of the fiscal year, personal savings included in assets under administration and under management increased $3.3 billion or 2% essentially due to net inflows in various solutions and to a steady rise in stock market performance. From a year ago, personal deposits rose $0.7 billion or 1% as a result of growth in deposits in Personal Banking and the acquisition of the ABA Bank subsidiary, and personal savings included in assets under administration and under management were also up, rising $7.4 billion or 5%.

At $94.9 billion, business and government deposits rose $11.0 billion since October 31, 2016. This increase came mainly from growth in banking and governmental activities, new issuances of structured notes, and term deposits. Other funding activities decreased by $2.6 billion since October 31, 2016, as all other types of liabilities were down. Subordinated debt decreased by $1.0 billion as the result of an early redemption, in April 2017, of medium-term notes maturing on April 11, 2022.

Equity
As at July 31, 2017, the Bank's equity amounted to $13.4 billion, up $1.3 billion from October 31, 2016. This increase was essentially driven by an increase in retained earnings attributable to net income, net of dividends, by common share issuances under the stock option plan, and by the $400 million issuance of Series 38 preferred shares.

As at August 25, 2017, there were 341,196,166 common shares and 15,018,969 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, 2016 and Note 13 to the consolidated financial statements of this quarter.

Related Party Transactions

The Bank's policies and procedures regarding related party transactions have not significantly changed since October 31, 2016. For additional information, see Note 29 to the audited annual consolidated financial statements for the year ended October 31, 2016.

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 36 and 37 of the *2016 Annual Report*. During the first quarter of 2017, given the repayment of the restructured notes, the Bank ceased its commitment to contribute to the margin funding facility of the master asset vehicle (MAV) conduits. For additional information on guarantees and commitments, see Note 27 to the audited annual consolidated financial statements for the year ended October 31, 2016.

For additional information about financial assets transferred but not derecognized and structured entities, see Notes 7 and 22, respectively, to the consolidated financial statements.

Income Taxes

In March 2017, the Canada Revenue Agency (CRA) issued a proposed reassessment to the Bank for the 2011 and 2012 taxation years. In May 2017, the CRA reassessed the Bank for the 2012 taxation year. The transactions to which the proposed reassessment and the actual reassessment relate are similar to those prospectively addressed by the synthetic equity arrangement rules introduced in the 2015 Canadian federal budget. The proposed reassessment and the actual reassessment (including estimated provincial income taxes and interest) total approximately $173 million. The CRA may issue reassessments to the Bank in respect of similar activities for fiscal years subsequent to 2012. The Bank is confident that its tax position was appropriate and intends to vigorously defend its position. As a result, no amount has been recognized in 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 recent 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 plaintiff is 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 first quarter of 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 have been prepared in accordance with IAS 34 – *Interim Financial Reporting* using the same accounting policies described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2016.

On November 1, 2016, the Bank reclassified certain Personal and Commercial segment revenues in the Consolidated Statement of Income to better reflect the nature of the revenues reported. As a result, for the quarter ended July 31, 2016, an amount of $11 million reported in *Non-interest income – Credit fees* was reclassified to *Interest income – Loans* ($27 million for the nine-month period ended July 31, 2016). Also on November 1, 2016, the Bank changed the presentation of certain items on the Consolidated Balance Sheet, and certain amounts were revised from those previously reported. The *Due from clients, dealers and brokers* item as at October 31, 2016 is now presented in *Other assets* on the Consolidated Balance Sheet. All deposits have been grouped into a single *Deposits* item. To better reflect the nature of certain liabilities on the Consolidated Balance Sheet, an amount of $2.2 billion reported in the *Due to clients, dealers and brokers* item was reclassified to the *Deposits* item as at October 31, 2016. The *Due to clients, dealers and brokers* item is now presented in *Other liabilities* on the Consolidated Balance Sheet.

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. Certain accounting policies are considered critical given their importance to the presentation of the Bank's financial position and operating results and require difficult, subjective and complex judgments and estimates because they relate to 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 remain substantially unchanged from those described on pages 83 to 86 of the *2016 Annual Report*.

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. 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, 2016 or in the Future Accounting Policy Changes section on pages 87 to 89 of the *2016 Annual Report*, except as described below:

IFRS 9 – *Financial Instruments*

The IFRS 9 project is proceeding according to the implementation schedule. For the remainder of the year, the Bank expects to complete a parallel run, refine and validate new impairment models, finalize governance and control frameworks applicable to new processes, complete documentation of updated accounting policies, and continue to provide educational sessions to affected internal stakeholders. On March 29, 2017, the Basel Committee on Banking Supervision (BCBS) released details of the interim regulatory treatment of accounting provisions as well as standards for transitional arrangements. These measures were issued in anticipation of the IFRS 9 adoption, which incorporates forward-looking assessments in the estimation of credit losses. Given the imminent coming into effect of IFRS 9, the BCBS will retain the current Basel Accord regulatory treatment for provisions during a transition period. Jurisdictions may adopt transitional measures to phase in any potential significant negative impacts on regulatory capital arising from the new expected credit loss impairment model under IFRS 9. On August 21, 2017, OSFI released for comment a new, revised version of the *Capital Adequacy Requirements Guideline*. This new version, which applies the same principles set forth by the BCBS, addresses the treatment of allowances following the adoption of IFRS 9. However, OSFI is considering mitigation measures for banks whose capital position could be affected by IFRS 9 adoption.

IFRS 17 – *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 – *Insurance Contracts*, a new standard that replaces IFRS 4, the current insurance contract accounting standard. IFRS 17 introduces a new accounting framework that will improve the comparability and quality of financial information. IFRS 17 is effective for annual periods beginning on or after January 1, 2021, which will be November 1, 2021 for the Bank.

IFRIC Interpretation 23 – *Uncertainty Over Income Tax Treatments*

In June 2017, the IASB issued IFRIC Interpretation 23, which addresses how to reflect tax treatment uncertainty in accounting for income taxes. IFRIC Interpretation 23 is effective for annual periods beginning on or after January 1, 2019, which will be November 1, 2019 for the Bank.

Financial Disclosure

During the third quarter of 2017, 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 Bank's internal control over financial reporting.

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 $425 million as at July 31, 2017 ($483 million as at October 31, 2016).

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 July 31, 2017, total commitments for this type of loan stood at $2,978 million ($2,694 million as at October 31, 2016). 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 *2016 Annual Report*, in this *Report to Shareholders*, and in the documents entitled *Supplementary Regulatory Capital Disclosure for the Third Quarter Ended July 31, 2017,* and *Supplementary Financial Information for the Third Quarter Ended July 31, 2017*, 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		
		2016 Annual Report	Report to Shareholders(1)	Supplementary Regulatory Capital Disclosure(1)
General				
1	Location of risk disclosures	7	19	
	Management's Discussion and Analysis	39 to 82, 94 and 98	20 to 38	
	Consolidated Financial Statements	Notes 1, 7, 17, 24 and 30	Notes 6 and 14	
	Supplementary Regulatory Capital Disclosure			4 to 29
2	Risk terminology and risk measures	48 to 82		
3	Top and emerging risks	48 and 49		
4	New key regulatory ratios	40 to 42, 71 and 76	20 and 21, 30, 33 and 61	
Risk governance and risk management				
5	Risk management organization, processes and key functions	51 to 65		
6	Risk management culture	51 and 52		
7	Key risks by business segment, risk management and risk appetite	47, 51 and 52		
8	Stress testing	39, 52, 60 and 69 to 73		
Capital adequacy and risk-weighted assets (RWA)				
9	Minimum Pillar 1 capital requirements	40 to 42	20 and 21	
10	Reconciliation of the accounting balance sheet to the regulatory balance sheet			4 to 7
11	Movements in regulatory capital	44	22	
12	Capital planning	39 to 47		
13	RWA by business segment and by risk type	45 and 47	23	8
14	Capital requirements by risk and RWA calculation method	45 and 56 to 60	23	8
15	Banking book credit risk	45	23	8 and 11 to 16
16	Movements in RWA by risk type	46	24	9
17	Assessment of credit risk model performance	55, 58 and 67		11 to 17
Liquidity				
18	Liquidity management and components of the liquidity buffer	71 to 77	30 to 34	
Funding				
19	Summary of encumbered and unencumbered assets	74 and 75	32	
20	Residual contractual maturities of balance sheet items and off-balance-sheet commitments	183 to 187	35 to 38	
21	Funding strategy and funding sources	77 to 79	34	
Market risk				
22	Linkage of market risk measures to balance sheet	65 and 66	27 and 28	
23	Market risk factors	64, 67 to 70, 170 to 172	28 to 30	
24	VaR: Assumptions, limitations and validation procedures	67 to 69		
25	Stress tests, stressed VaR and backtesting	67 to 70		
Credit risk				
26	Credit risk exposures	59, 63 and 141 to 144	26 and 55 to 57	10 to 24 and 19 to 25(2)
27	Policies for identifying impaired loans	61, 114 and 115		
28	Movements in impaired loans and allowances for credit losses	94, 98 and 141 to 144	55 to 57	20
29	Counterparty credit risk relating to derivatives transactions	61, 62 and 154 to 156		25 and 26
30	Credit risk mitigation	60 to 62		22 and 24
Other risks				
31	Other risks: Governance, measurement and management	50 and 80 to 82		
32	Publicly known risk events	80	No risk event	

(1) For the third quarter ended July 31, 2017.
(2) These pages are included in the document entitled *Supplementary Financial Information for the Third Quarter Ended July 31, 2017.*

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 39 to 47 of the Bank's *2016 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 2017, 72%, 77% and 81% 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.

Since January 1, 2015, OSFI has been requiring Canadian banks to meet a Basel III leverage ratio of at least 3.0%. The leverage ratio is a measure independent of risk that is calculated by dividing the amount of Tier 1 capital by total exposure. Total exposure is defined as the sum of on-balance-sheet assets (including derivative exposures and securities financing transaction exposures) and off-balance-sheet items. The assets deducted from Tier 1 capital are also deducted from total exposure.

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, 2016, which is still the current context, see pages 42 and 43 of the Capital Management section in the *2016 Annual Report.* Since November 1, 2016, the below-described regulatory developments should also be considered.

In December 2016, OSFI released an update to the *Capital Adequacy Requirements Guideline*. The guideline notably clarifies the rules for recognizing equity investments in funds and for calculating countercyclical buffers. In the Bank's opinion, countercyclical buffers will have a minimal impact on its capital ratios given that it does not have significant exposures in countries affected by the buffer.

On March 15, 2017, the BCBS issued a revised, second version of the consultative document entitled *Identification and Measurement of Step-In Risk,* which assesses the risk of the Bank providing support to an unconsolidated entity, should that entity experience financial stress, and do so beyond or in the absence of any contractual obligation, in order to mitigate the impact from the shadow banking system.

On March 29, 2017, the BCBS issued the final version of *Regulatory Treatment of Accounting Provisions – Interim Approach and Transitional Arrangements.* This document was issued in anticipation of the IFRS 9 adoption, which will require provisions to be recognized according to expected credit losses rather than incurred losses, as required by the current standard. Given the imminent coming into effect of IFRS 9, the BCBS will retain the current Basel Accord regulatory treatment for provisions during a transition period. Jurisdictions may adopt transitional measures to phase in any potential significant negative impacts on regulatory capital arising from the new expected credit loss impairment model under IFRS 9. On August 21, 2017, OSFI released for comment a new, revised version of the *Capital Adequacy Requirements Guideline*. This new version, which applies the same principles set forth by the BCBS, addresses the treatment of allowances following the adoption of IFRS 9. However, OSFI is considering mitigation measures for banks whose capital position could be affected by IFRS 9 adoption.

On April 20, 2017, OSFI issued the final version of the *Pillar 3 Disclosure Requirements* guideline. This guideline, applicable to D-SIBs, defines OSFI's expectations regarding implementation in Canada of the standards issued by the BCBS in January 2015. This guideline is effective October 31, 2018.

On June 16, 2017, OSFI released for comment a draft guideline entitled *Total Loss Absorbing Capacity* (TLAC). The draft guideline requires D-SIBS to maintain a minimum capacity to absorb losses as required under the *Bank Act* (Canada) and is part of the bank recapitalization (bail-in) regime. Also on June 16, 2017, the Government of Canada released for comment bank bail-in regulations that set out the main features of the regime, including the types of debt instruments that will be subject to the regulations. Eligible shares and liabilities issued before the bail-in regulations come into force would not be subject to conversion. In addition, the regulations officially designate the Canada Deposit Insurance Corporation (CDIC) as the resolution authority for Canada's largest banks and requires D-SIBs to submit resolution plans to the CDIC. D-SIBs will have until November 1, 2021 to comply.

On June 29, 2017, the BCBS issued a consultative paper, *Simplified Alternative to the Standardised Approach to Market Risk Capital Requirements*, which proposes a simplified alternative to the standardized approach rules set out in the January 2016 document, *Minimum Capital Requirements for Market Risk*.

On July 6, 2017, the BCBS issued a consultative paper, *Capital Treatment for Simple, Transparent and Comparable Short-Term Securitisations,* which defines short-term securitization rules to supplement the July 2016 document, *Revisions to the Securitisation Framework*. On August 21, 2017, OSFI announced its intention to implement a new securitization framework in the first quarter of 2019.

On July 20, 2017, OSFI issued a letter indicating its intention to extend, by at least one year, the implementation timeline for the rules on minimum capital requirements for market risk (also known as the Fundamental Review of the Trading Book or FRTB), for which the final rules were published in January 2016. Consequently, the first regulatory declaration period will not be before the first quarter of 2021.

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 July 31, 2017	As at October 31, 2016	BCBS 2017 (1)	OSFI 2017 (1)(2)
Capital ratios				
CET1	**11.2 %**	10.1 %	5.75 %	8.0 %
Tier 1	**15.2 %**	13.5 %	7.25 %	9.5 %
Total	**15.5 %**	15.3 %	9.25 %	11.5 %
Leverage ratio	**4.0 %**	3.7 %	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.

Management Activities

On April 11, 2017, the Bank redeemed $1.0 billion of medium-term notes maturing on April 11, 2022 at a price equal to their nominal value plus accrued interest.

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. During the quarter ended July 31, 2017, the Bank repurchased 500,000 common shares for an amount of $26 million, which reduced *Common share capital* by $4 million and *Retained earnings* by $22 million.

On June 13, 2017, the Bank issued 16,000,000 Non-Cumulative 5-year Rate-Reset Series 38 First Preferred Shares at a per-share price of $25.00 for gross proceeds of $400 million. Given that the Series 38 preferred shares satisfy the non-viability contingent capital requirements, they qualify for the purposes of calculating regulatory capital under Basel III.

Movement in Regulatory Capital[1]

(millions of Canadian dollars)	Nine months ended July 31, 2017
Common Equity Tier 1 (CET1) capital	
Balance at beginning	6,865
Issuance of common shares (including Stock Option Plan)	160
Impact of shares purchased or sold for trading	19
Repurchase of common shares	(26)
Contributed surplus	(15)
Dividends on preferred and common shares	(638)
Net income attributable to the Bank's shareholders	1,434
Removal of own credit spread net of income taxes	18
Other	56
Movements in accumulated other comprehensive income	
Translation adjustments	(82)
Available-for-sale securities	(14)
Other	(1)
Change in goodwill and intangible assets (net of related tax liability)	(38)
Other, including regulatory adjustments and transitional arrangements	
Change in defined benefit pension plan asset (net of related tax liability)	(7)
Change in amount exceeding 15% threshold	
Deferred tax assets	–
Significant investment in common shares of financial institutions	–
Change in other regulatory adjustments[2]	2
Balance at end	7,733
Additional Tier 1 capital	
Balance at beginning	2,400
New Tier 1 eligible capital issuances	400
Redeemed capital	–
Change in non-qualifying Additional Tier 1 subject to phase-out	–
Other, including regulatory adjustments and transitional arrangements	1
Balance at end	2,801
Total Tier 1 capital	10,534
Tier 2 capital	
Balance at beginning	1,241
New Tier 2 eligible capital issuances	–
Redeemed capital	(1,000)
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	(20)
Other, including regulatory adjustments and transitional arrangements	–
Balance at end	221
Total regulatory capital	10,755

(1) Figures are presented on an "all-in" basis.
(2) Represents the change in investments in the Bank's own CET1 capital.

Risk-Weighted Assets by Key Risk Drivers

CET1 risk-weighted assets (RWA) amounted to $69.2 billion as at July 31, 2017, rising $1.0 billion from $68.2 billion as at October 31, 2016. This organic growth in RWA was partly offset by the 2017 first-quarter repayment of the restructured notes of the master asset vehicle (MAV) conduits and by foreign exchange movements.

Capital Adequacy Under Basel III(1)

(millions of Canadian dollars)	As at July 31, 2017						As at October 31, 2016
	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	47,198	849	4,789	–	5,638	451	5,455
Qualifying revolving retail	6,027	–	1,210	–	1,210	97	1,178
Other retail	16,556	2,423	5,136	–	7,559	605	6,823
Non-retail							
Corporate	62,311	1,821	25,148	–	26,969	2,157	27,393
Sovereign	25,737	287	724	–	1,011	81	875
Financial institutions	5,470	311	1,220	–	1,531	122	1,574
Banking book equities(3)	932	–	932	–	932	75	875
Securitization	5,152	–	423	–	423	34	831
Other assets	25,288	–	–	3,455	3,455	276	3,176
Counterparty credit risk							
Corporate	12,574	33	123	–	156	12	347
Sovereign	33,602	–	50	–	50	4	34
Financial institutions	47,850	–	508	–	508	41	402
Trading portfolio	8,168	118	2,033	–	2,151	172	2,345
Credit valuation adjustment charge(4)		1,916	–	–	1,916	153	2,055
Regulatory scaling factor		–	2,557	–	2,557	205	2,540
Total – Credit risk	296,865	7,758	44,853	3,455	56,066	4,485	55,903
Market risk							
VaR		–	972	–	972	78	1,014
Stressed VaR		–	1,630	–	1,630	130	1,067
Interest-rate-specific risk		661	–	–	661	53	726
Total – Market risk		661	2,602	–	3,263	261	2,807
Operational risk		9,827	–	–	9,827	786	9,495
Total	296,865	18,246	47,455	3,455	69,156	5,532	68,205

(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
			July 31, 2017	April 30, 2017	January 31, 2017
	Non-counterparty credit risk	Counterparty credit risk[2]	Total	Total	Total
Credit risk – Risk-weighted assets at beginning	**51,733**	**5,122**	**56,855**	55,148	55,903
Book size	**770**	**(317)**	**453**	889	455
Book quality	**(280)**	**137**	**(143)**	176	(832)
Model updates	**–**	**–**	**–**	–	–
Methodology and policy	**–**	**–**	**–**	–	–
Acquisitions and disposals	**–**	**–**	**–**	–	–
Foreign exchange movements	**(938)**	**(161)**	**(1,099)**	642	(378)
Credit risk – Risk-weighted assets at end	**51,285**	**4,781**	**56,066**	56,855	55,148
Market risk – Risk-weighted assets at beginning			**2,768**	3,815	2,807
Movement in risk levels[3]			**353**	(1,047)	1,008
Model updates			**142**	–	–
Methodology and policy			**–**	–	–
Acquisitions and disposals			**–**	–	–
Market risk – Risk-weighted assets at end			**3,263**	2,768	3,815
Operational risk – Risk-weighted assets at beginning			**9,760**	9,611	9,495
Movement in risk levels			**67**	149	116
Acquisitions and disposals			**–**	–	–
Operational risk – Risk-weighted assets at end			**9,827**	9,760	9,611
Risk-weighted assets at end			**69,156**	69,383	68,574

(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 July 31, 2017, the Bank's CET1, Tier 1 and Total capital ratios were, respectively, 11.2%, 15.2% and 15.5%, i.e., above the regulatory requirements, compared to ratios of, respectively, 10.1%, 13.5% and 15.3% as at October 31, 2016. The increase in the CET1 capital ratio stems essentially from 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, partly offset by a repurchase of common shares during the quarter ended July 31, 2017. The increase in the Tier 1 capital ratio stems essentially from the same factors as well as a $400 million issuance of preferred shares on June 13, 2017. The above factors also explain the increase in the Total capital ratio, partly offset by the April 11, 2017 redemption of medium-term notes maturing on April 11, 2022. As at July 31, 2017, the leverage ratio was 4.0% compared to 3.7% as at October 31, 2016.

Regulatory Capital and Ratios Under Basel III(1)

(millions of Canadian dollars)	As at July 31, 2017	As at October 31, 2016
Capital		
CET1	**7,733**	6,865
Tier 1	**10,534**	9,265
Total	**10,755**	10,506
Risk-weighted assets		
CET1 capital	**69,156**	68,205
Tier 1 capital	**69,289**	68,430
Total capital	**69,396**	68,623
Total exposure	**260,318**	253,097
Capital ratios		
CET1	**11.2 %**	10.1 %
Tier 1	**15.2 %**	13.5 %
Total	**15.5 %**	15.3 %
Leverage ratio	**4.0 %**	3.7 %

(1) Figures are presented on an "all-in" basis.

Dividends

On August 29, 2017, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 58 cents per common share payable on November 1, 2017 to shareholders of record on September 25, 2017.

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 *2016 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 48 to 82 of the *2016 Annual Report*. Risk management information is also provided in Note 6 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 July 31, 2017	As at October 31, 2016
	Drawn	Undrawn commitments	Repo-style transactions(1)	OTC derivatives	Other off-balance-sheet items(2)	Total	Total
Retail							
Residential mortgages	40,891	6,307	–	–	–	47,198	46,578
Qualifying revolving retail	2,797	3,230	–	–	–	6,027	5,716
Other retail	15,086	1,412	–	–	58	16,556	15,374
	58,774	10,949	–	–	58	69,781	67,668
Non-retail							
Corporate	44,022	15,368	12,559	15	2,921	74,885	72,707
Sovereign	21,834	3,773	33,267	335	130	59,339	57,713
Financial institutions	4,624	221	47,414	437	624	53,320	42,094
	70,480	19,362	93,240	787	3,675	187,544	172,514
Trading portfolio	–	–	–	8,168	–	8,168	9,623
Securitization	–	–	–	–	5,152	5,152	4,068
Total – Gross Credit Risk	129,254	30,311	93,240	8,955	8,885	270,645	253,873
Standardized Approach	11,268	244	1,904	134	418	13,968	13,802
AIRB Approach	117,986	30,067	91,336	8,821	8,467	256,677	240,071
Total – Gross Credit Risk	129,254	30,311	93,240	8,955	8,885	270,645	253,873

(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 Third Quarter Ended July 31, 2017* and in *Supplementary Regulatory Capital Disclosure for the Third Quarter Ended July 31, 2017*, 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 July 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	10,462	205	9,733	524	Interest rate(3)
Securities					
At fair value through profit or loss	45,201	44,489	712	–	Interest rate(3)
Available-for-sale	8,722	–	8,722	–	Interest rate(3) and equity(4)
Held-to-maturity	8,598	–	8,598	–	Interest rate(3)
Securities purchased under reverse repurchase agreements and securities borrowed	16,600	–	16,600	–	Interest rate(3)(5)
Loans, net of allowances	127,185	6,027	121,158	–	Interest rate(3)
Customers' liability under acceptances	5,982	–	5,982	–	Interest rate(3)
Derivative financial instruments	9,641	8,682	959	–	Interest rate and exchange rate
Purchased receivables	1,678	–	1,678	–	Interest rate
Defined benefit asset	72	–	72	–	Other
Other	5,931	–	–	5,931	
	240,072	59,403	174,214	6,455	
Liabilities					
Deposits	152,310	5,317	146,993	–	Interest rate(3)
Acceptances	5,982	–	5,982	–	Interest rate(3)
Obligations related to securities sold short	13,816	13,816	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	21,812	–	21,812	–	Interest rate(3)(5)
Derivative financial instruments	7,880	6,799	1,081	–	Interest rate and exchange rate
Liabilities related to transferred receivables	19,558	3,896	15,662	–	Interest rate(3)
Defined benefit liability	192	–	192	–	Other
Other	5,141	16	948	4,177	Interest rate(3)
Subordinated debt	9	–	9	–	Interest rate(3)
	226,700	29,844	192,679	4,177	

(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 *2016 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 *2016 Annual Report*.
(4) The fair value of equity securities classified as available-for-sale is presented in Notes 3 and 5 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, 2016

		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	8,183	181	7,580	422	Interest rate(3)
Securities					
At fair value through profit or loss	45,964	44,545	1,419	–	Interest rate(3) and other(4)
Available-for-sale	14,608	–	14,608	–	Interest rate(3) and equity(5)
Held-to-maturity	3,969	–	3,969	–	Interest rate(3)
Securities purchased under reverse repurchase agreements and securities borrowed	13,948	–	13,948	–	Interest rate(3)(6)
Loans, net of allowances	119,747	6,454	113,293	–	Interest rate(3)
Customers' liability under acceptances, net of allowances	6,431	–	6,431	–	Interest rate(3)
Derivative financial instruments	10,416	9,195	1,221	–	Interest rate(7) and exchange rate
Purchased receivables	1,858	–	1,858	–	Interest rate
Defined benefit asset	48	–	48	–	Other(8)
Other	7,034	–	–	7,034	
	232,206	60,375	164,375	7,456	
Liabilities					
Deposits(9)	142,066	4,826	137,240	–	Interest rate(3)
Acceptances	6,441	–	6,441	–	Interest rate(3)
Obligations related to securities sold short	14,207	14,207	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	22,636	–	22,636	–	Interest rate(3)(6)
Derivative financial instruments	7,725	6,818	907	–	Interest rate(7) and exchange rate
Liabilities related to transferred receivables	20,131	4,378	15,753	–	Interest rate(3)
Defined benefit liability	314	–	314	–	Other(8)
Other(9)	5,572	43	1,346	4,183	Interest rate(3)
Subordinated debt	1,012	–	1,012	–	Interest rate(3)
	220,104	30,272	185,649	4,183	

(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 *2016 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 *2016 Annual Report*.
(4) See the Master Asset Vehicles section in Note 6 to the audited annual consolidated financial statements as at October 31, 2016.
(5) The fair value of equity securities classified as available-for-sale is presented in Notes 3 and 5 to the consolidated financial statements.
(6) 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.
(7) See Notes 17 and 18 to the audited annual consolidated financial statements as at October 31, 2016.
(8) See Note 24 to the audited annual consolidated financial statements as at October 31, 2016.
(9) An amount of $2.2 billion classified in *Liabilities – Other* as at October 31, 2016 is now reported in *Deposits*.

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								Nine months ended	
	July 31, 2017				April 30, 2017		July 31, 2016		**July 31, 2017**	July 31, 2016
	Low	**High**	**Average**	**Period end**	Average	Period end	Average	Period end	**Average**	Average
Interest rate	**(2.1)**	**(4.3)**	**(3.2)**	**(3.4)**	(4.2)	(3.4)	(3.3)	(3.0)	**(4.3)**	(4.2)
Exchange rate	**(1.4)**	**(3.0)**	**(2.2)**	**(2.1)**	(2.4)	(2.4)	(3.2)	(2.1)	**(2.4)**	(3.3)
Equity	**(2.8)**	**(7.3)**	**(4.1)**	**(3.3)**	(3.4)	(3.7)	(3.1)	(3.2)	**(3.6)**	(3.9)
Commodity	**(0.5)**	**(2.0)**	**(0.7)**	**(1.5)**	(0.7)	(0.7)	(1.1)	(1.3)	**(0.8)**	(1.2)
Correlation effect(2)	**n.m.**	**n.m.**	**5.3**	**5.3**	5.8	5.7	5.2	3.8	**5.6**	6.4
Total trading VaR	**(3.7)**	**(6.8)**	**(4.9)**	**(5.0)**	(4.9)	(4.5)	(5.5)	(5.8)	**(5.5)**	(6.2)

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		Nine months ended
				July 31, 2017	April 30, 2017		July 31, 2016		**July 31, 2017**	July 31, 2016
	Low	**High**	**Average**	**Period end**	Average	Period end	Average	Period end	**Average**	Average
Interest rate	**(4.2)**	**(13.4)**	**(9.3)**	**(10.9)**	(5.5)	(5.1)	(6.4)	(4.9)	**(7.5)**	(7.9)
Exchange rate	**(1.6)**	**(3.5)**	**(2.4)**	**(3.5)**	(2.6)	(2.7)	(3.8)	(2.8)	**(2.8)**	(4.2)
Equity	**(3.4)**	**(9.2)**	**(5.3)**	**(6.8)**	(4.0)	(5.8)	(3.6)	(3.8)	**(4.8)**	(4.9)
Commodity	**(0.8)**	**(2.7)**	**(1.1)**	**(1.9)**	(0.8)	(0.8)	(1.2)	(1.4)	**(1.1)**	(1.5)
Correlation effect[2]	**n.m.**	**n.m.**	**10.0**	**13.7**	7.5	8.3	7.3	7.0	**9.0**	9.7
Total trading SVaR	**(4.4)**	**(13.7)**	**(8.1)**	**(9.4)**	(5.4)	(6.1)	(7.7)	(5.9)	**(7.2)**	(8.8)

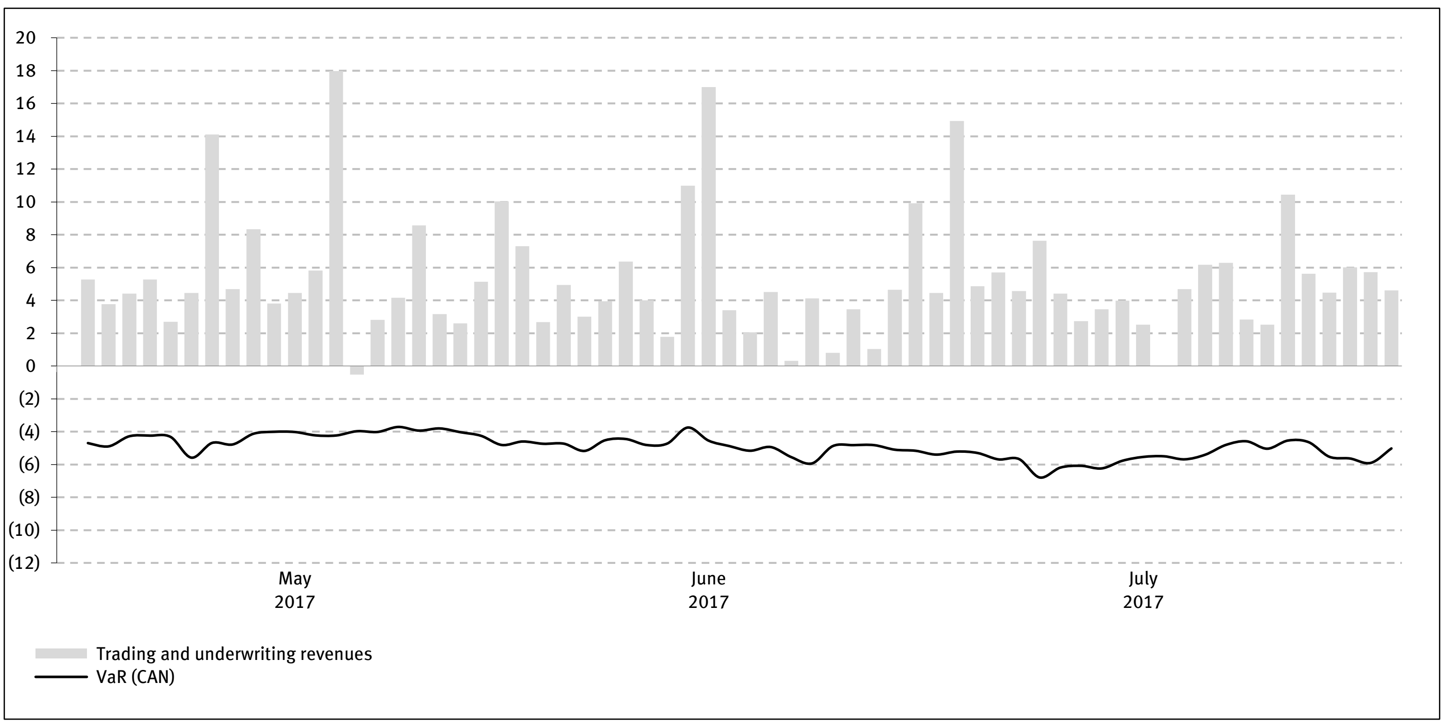
n.m. Computation of a correlation effect for the high and low is not meaningful, as highs and lows may occur on different days and be attributable to different types of risk.
(1) Amounts are presented on a pre-tax basis and represent one-day SVaR using a 99% confidence level.
(2) The total trading SVaR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

The average total trading VaR was $4.9 million for the quarter ended July 31, 2017, unchanged from the quarter ended April 30, 2017. The average total trading SVaR was $8.1 million for the quarter ended July 31, 2017, an increase of $2.7 million from $5.4 million the preceding quarter. This increase came mainly from higher average interest rate SVaR and higher average equity SVaR, which were up $3.8 million and $1.3 million, respectively. Furthermore, the increase in total trading SVaR also came from a change in the interest rate risk model implemented during the third quarter of 2017.

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 97% of the days for the quarter ended July 31, 2017. No trading day was marked by net losses in excess of $1 million. None of these losses exceeded the VaR limit.

Quarter ended July 31, 2017
(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 July 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	(207)	10	(197)	2	37	39
100-basis-point decrease in the interest rate	187	23	210	(1)	(6)	(7)

(millions of Canadian dollars)						As at October 31, 2016
			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	(210)	26	(184)	(10)	33	23
100-basis-point decrease in the interest rate	169	(33)	136	18	(37)	(19)

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, 2016, which is still the current context, see page 71 of the Risk Management section in the *2016 Annual Report.* Since November 1, 2016, the below-described regulatory developments should also be considered.

On March 6, 2017, OSFI notified Canadian deposit-taking institutions of its intention to extend the implementation timeline of the net stable funding ratio (NSFR) to January 1, 2019. The BCBS's final *Net Stable Funding Ratio Disclosure Standards* document, issued in June 2015, proposed a common framework for public disclosures that would not be required before the planned implementation date of January 1, 2019.

On June 16, 2017, OSFI released for comment a draft guideline entitled *Total Loss Absorbing Capacity* (TLAC). The draft guideline requires D-SIBs to maintain a minimum capacity to absorb losses as required under the *Bank Act* (Canada) and is part of the bank recapitalization (bail-in) regime. Also on June 16, 2017, the Government of Canada released for comment bank bail-in regulations that set out the main features of the regime, including the types of debt instruments that will be subject to the regulations. Eligible shares and liabilities issued before the bail-in regulations come into force would not be subject to conversion. In addition, the regulations officially designate the Canada Deposit Insurance Corporation (CDIC) as the resolution authority for Canada's largest banks and requires D-SIBs to submit resolution plans to the CDIC. D-SIBs will have until November 1, 2021 to comply.

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 July 31, 2017	As at October 31, 2016
	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	10,462	–	10,462	1,924	8,538	6,201
Securities						
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	19,923	23,497	43,420	26,779	16,641	15,356
Issued or guaranteed by Canadian provincial and municipal governments	13,581	12,125	25,706	20,102	5,604	7,553
Other debt securities	5,296	1,248	6,544	2,401	4,143	3,488
Equity securities	23,721	43,671	67,392	54,292	13,100	9,349
Loans						
Securities backed by insured residential mortgages	9,707	–	9,707	4,345	5,362	4,236
As at July 31, 2017	82,690	80,541	163,231	109,843	53,388	
As at October 31, 2016	80,541	71,292	151,833	105,650		46,183

(millions of Canadian dollars)	As at July 31, 2017	As at October 31, 2016
Unencumbered liquid assets by entity		
National Bank (parent)	24,919	25,951
Domestic subsidiaries	8,303	8,185
Foreign subsidiaries and branches	20,166	12,047
	53,388	46,183

(millions of Canadian dollars)	As at July 31, 2017	As at October 31, 2016
Unencumbered liquid assets by currency		
Canadian dollar	26,806	28,629
U.S. dollar	18,450	13,829
Other currencies	8,132	3,725
	53,388	46,183

Liquid Asset Portfolio – Average(4)

(millions of Canadian dollars)					Quarter ended July 31, 2017
	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	11,154	–	11,154	2,069	9,085
Securities					
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	20,395	22,970	43,365	28,181	15,184
Issued or guaranteed by Canadian provincial and municipal governments	13,443	13,751	27,194	21,101	6,093
Other debt securities	5,176	1,261	6,437	2,374	4,063
Equity securities	24,775	48,614	73,389	58,165	15,224
Loans					
Securities backed by insured residential mortgages	10,062	–	10,062	4,265	5,797
	85,005	86,596	171,601	116,155	55,446

(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 July 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	83	1,841	8,538	–	10,462	0.8
Securities	25,817	–	36,704	–	62,521	10.7
Securities purchased under reverse repurchase agreements and securities borrowed	–	13,816	2,784	–	16,600	5.8
Loans, net of allowances	36,333	–	5,362	85,490	127,185	15.1
Customers' liability under acceptances	–	–	–	5,982	5,982	–
Derivative financial instruments	–	–	–	9,641	9,641	–
Purchased receivables	–	–	–	1,678	1,678	–
Investments in associates and joint ventures	–	–	–	640	640	–
Premises and equipment	–	–	–	674	674	–
Goodwill	–	–	–	1,403	1,403	–
Intangible assets	–	–	–	1,195	1,195	–
Other assets	–	–	–	2,091	2,091	–
	62,233	15,657	53,388	108,794	240,072	32.4

(millions of Canadian dollars)						As at October 31, 2016
		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	94	1,888	6,201	–	8,183	0.9
Securities	28,176	–	35,746	619	64,541	12.1
Securities purchased under reverse repurchase agreements and securities borrowed	–	13,948	–	–	13,948	6.0
Loans, net of allowances	36,151	–	4,236	79,360	119,747	15.6
Customers' liability under acceptances, net of allowances	–	–	–	6,431	6,431	–
Derivative financial instruments	–	–	–	10,416	10,416	–
Purchased receivables	–	–	–	1,858	1,858	–
Investments in associates and joint ventures	–	–	–	645	645	–
Premises and equipment	–	–	–	1,338	1,338	–
Goodwill	–	–	–	1,412	1,412	–
Intangible assets	–	–	–	1,140	1,140	–
Other assets(4)	–	–	–	2,547	2,547	–
	64,421	15,836	46,183	105,766	232,206	34.6

(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) The *Due from clients, dealers and brokers* amount of $843 million presented separately on the Consolidated Balance Sheet as at October 31, 2016 is now reported in *Other assets*.

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% since January 1, 2015. 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 July 31, 2017, the Bank's average LCR was 134%, 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
		July 31, 2017	April 30, 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.	44,293	46,702
Cash outflows			
2 Retail deposits and deposits from small business customers, of which:	38,179	2,529	2,611
3 Stable deposits	18,404	552	545
4 Less stable deposits	19,775	1,977	2,066
5 Unsecured wholesale funding, of which:	58,239	30,791	31,638
6 Operational deposits (all counterparties)	11,137	2,674	2,746
7 Non-operational deposits (all counterparties)	40,156	21,171	21,334
8 Unsecured debt	6,946	6,946	7,558
9 Secured wholesale funding	n.a.	13,708	12,661
10 Additional requirements, of which:	36,296	8,837	8,549
11 Outflows related to derivative exposures and other collateral requirements	8,130	4,203	4,308
12 Outflows related to loss of funding on secured debt securities	932	932	721
13 Backstop liquidity and credit enhancement facilities and commitments to extend credit	27,234	3,702	3,520
14 Other contractual commitments to extend credit	1,360	272	642
15 Other contingent commitments to extend credit	74,537	963	908
16 Total cash outflows	n.a.	57,100	57,009
Cash inflows			
17 Secured lending (e.g., reverse repos)	68,403	13,552	12,622
18 Inflows from fully performing exposures	7,779	4,416	4,239
19 Other cash inflows	6,142	6,142	6,432
20 Total cash inflows	82,324	24,110	23,293
		Total adjusted value(4)	Total adjusted value(4)
21 Total HQLA	n.a.	44,293	46,702
22 Total net cash outflows	n.a.	32,990	33,716
23 Liquidity coverage ratio (%)(5)	n.a.	134 %	139 %

n.a. Not applicable
(1) OSFI prescribed a table format in order 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 89% 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 July 31, 2017 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 is aligned with the 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 July 31, 2017
	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]	1,924	96	75	62	2,157	–	–	2,157
Certificates of deposit and commercial paper[3]	951	2,249	788	1,934	5,922	642	–	6,564
Asset-backed commercial paper	–	–	–	–	–	–	–	–
Senior unsecured medium-term notes[4]	750	1,944	1,963	898	5,555	2,707	6,665	14,927
Senior unsecured structured notes	–	–	–	–	–	146	4,027	4,173
Covered bonds and asset-backed securities								
Mortgage securitization	–	550	1,469	1,483	3,502	2,934	13,122	19,558
Covered bonds	–	–	–	935	935	1,466	4,323	6,724
Securitization of credit card receivables	–	–	–	–	–	36	872	908
Subordinated liabilities[5]	–	–	–	–	–	–	9	9
Other[6]	2,937	3	–	–	2,940	–	–	2,940
	6,562	4,842	4,295	5,312	21,011	7,931	29,018	57,960
Secured funding	–	550	1,469	2,418	4,437	4,436	18,317	27,190
Unsecured funding	6,562	4,292	2,826	2,894	16,574	3,495	10,701	30,770
	6,562	4,842	4,295	5,312	21,011	7,931	29,018	57,960
As at October 31, 2016	6,207	3,880	4,854	5,850	20,791	7,250	29,549	57,590

(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.
(6) The *Other* item includes non-negotiable term deposits from non-bank financial institutions such as broker-dealers, pension funds and trust companies.

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 July 31, 2017
	One-notch downgrade	Three-notch downgrade
Derivatives[1]	–	26

(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 July 31, 2017 with comparative figures as at October 31, 2016. 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 July 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	7,599	592	21	16	–	4	–	–	2,230	10,462
Securities										
At fair value through profit or loss	869	1,536	902	1,371	1,824	3,747	7,724	4,223	23,005	45,201
Available-for-sale	50	16	55	20	33	552	4,006	3,433	557	8,722
Held-to-maturity	–	524	25	–	–	262	6,750	1,037	–	8,598
	919	2,076	982	1,391	1,857	4,561	18,480	8,693	23,562	62,521
Securities purchased under reverse repurchase agreements and securities borrowed	6,532	2,112	1,691	176	–	3,055	1,249	–	1,785	16,600
Loans and acceptances[(1)]										
Residential mortgage	1,027	1,099	1,502	1,432	3,069	7,933	32,778	1,421	15	50,276
Personal and credit card	242	344	497	522	874	2,779	9,330	2,778	19,069	36,435
Business and government	7,372	2,105	2,331	1,959	2,450	4,801	9,473	2,640	8,110	41,241
Customers' liability under acceptances	5,146	768	68	–	–	–	–	–	–	5,982
Allowances for credit losses									(767)	(767)
	13,787	4,316	4,398	3,913	6,393	15,513	51,581	6,839	26,427	133,167
Other										
Derivative financial instruments	480	985	649	361	442	947	2,588	3,189	–	9,641
Purchased receivables									1,678	1,678
Investments in associates and joint ventures									640	640
Premises and equipment									674	674
Goodwill									1,403	1,403
Intangible assets									1,195	1,195
Other assets[(1)]	328	105	109	101	93	99	10	110	1,136	2,091
	808	1,090	758	462	535	1,046	2,598	3,299	6,726	17,322
	29,645	10,186	7,850	5,958	8,785	24,179	73,908	18,831	60,730	240,072

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

(millions of Canadian dollars)									As at July 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	770	1,483	1,887	2,280	2,173	5,146	8,384	2,286	27,961	52,370
Business and government	10,434	5,207	4,776	3,940	2,089	7,501	11,404	4,546	44,971	94,868
Deposit-taking institutions	2,240	98	325	63	–	–	–	52	2,294	5,072
	13,444	6,788	6,988	6,283	4,262	12,647	19,788	6,884	75,226	152,310
Other										
Acceptances	5,146	768	68	–	–	–	–	–	–	5,982
Obligations related to securities sold short[3]	142	175	501	314	207	508	3,121	5,760	3,088	13,816
Obligations related to securities sold under repurchase agreements and securities loaned	12,681	1,791	4,401	1,609	–	–	–	–	1,330	21,812
Derivative financial instruments	848	906	601	303	289	1,011	1,828	2,094	–	7,880
Liabilities related to transferred receivables[4]	–	550	1,469	450	1,033	2,934	9,391	3,731	–	19,558
Securitization – Credit card[5]	–	–	–	–	–	36	872	–	–	908
Other liabilities – Other items[1][5]	265	8	236	42	93	57	129	171	3,424	4,425
	19,082	4,198	7,276	2,718	1,622	4,546	15,341	11,756	7,842	74,381
Subordinated debt	–	–	–	–	–	–	–	9	–	9
Equity									13,372	13,372
	32,526	10,986	14,264	9,001	5,884	17,193	35,129	18,649	96,440	240,072
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	69	62	621	409	462	732	612	335	–	3,302
Credit card receivables[6]									7,487	7,487
Backstop liquidity and credit enhancement facilities[7]	–	3,021	15	2,298	15	–	–	–	–	5,349
Commitments to extend credit[8]	1,114	1,224	1,616	1,155	2,054	8,713	10,932	503	23,571	50,882
Lease commitments and other contracts	86	168	243	235	222	717	1,515	451	–	3,637

(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 $32.4 billion that is unconditionally revocable at the Bank's discretion at any time.

(millions of Canadian dollars)										As at October 31, 2016
	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	5,487	199	21	22	7	–	–	–	2,447	8,183
Securities										
At fair value through profit or loss	1,066	1,207	2,646	702	935	4,800	7,864	5,641	21,103	45,964
Available-for-sale	108	177	134	76	63	365	7,553	5,580	552	14,608
Held-to-maturity	–	–	–	–	472	30	3,263	204	–	3,969
	1,174	1,384	2,780	778	1,470	5,195	18,680	11,425	21,655	64,541
Securities purchased under reverse repurchase agreements and securities borrowed	4,842	2,320	2,846	1,532	10	456	–	–	1,942	13,948
Loans and acceptances(1)										
Residential mortgage	874	1,155	1,607	2,389	1,839	7,764	32,034	1,193	13	48,868
Personal and credit card	873	413	592	724	570	2,235	8,797	2,041	17,719	33,964
Business and government	6,266	2,116	1,937	2,321	1,731	4,684	8,578	2,275	7,778	37,686
Customers' liability under acceptances	5,633	718	90	–	–	–	–	–	–	6,441
Allowances for credit losses									(781)	(781)
	13,646	4,402	4,226	5,434	4,140	14,683	49,409	5,509	24,729	126,178
Other										
Derivative financial instruments	569	730	457	293	219	838	2,628	4,682	–	10,416
Purchased receivables									1,858	1,858
Investments in associates and joint ventures									645	645
Premises and equipment									1,338	1,338
Goodwill									1,412	1,412
Intangible assets									1,140	1,140
Other assets(1)(2)	294	122	71	77	92	123	90	125	1,553	2,547
	863	852	528	370	311	961	2,718	4,807	7,946	19,356
	26,012	9,157	10,401	8,136	5,938	21,295	70,807	21,741	58,719	232,206

(1) Amounts collectible on demand are considered to have no specified maturity.
(2) The *Due from clients, dealers and brokers* amount of $843 million presented separately on the Consolidated Balance Sheet as at October 31, 2016 is now reported in *Other assets*.

(millions of Canadian dollars)										As at October 31, 2016
	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(3)	978	1,905	2,827	1,824	1,499	4,448	9,208	1,776	28,056	52,521
Business and government(3)(4)	9,493	4,210	4,591	1,981	3,419	5,880	9,012	6,343	38,976	83,905
Deposit-taking institutions(3)	3,466	222	310	31	7	–	–	61	1,543	5,640
	13,937	6,337	7,728	3,836	4,925	10,328	18,220	8,180	68,575	142,066
Other										
Acceptances	5,631	719	91	–	–	–	–	–	–	6,441
Obligations related to securities sold short(5)	84	201	50	41	53	586	4,652	5,629	2,911	14,207
Obligations related to securities sold under repurchase agreements and securities loaned	11,992	1,505	3,555	4,260	–	–	–	–	1,324	22,636
Derivative financial instruments	661	693	486	303	182	740	1,608	3,052	–	7,725
Liabilities related to transferred receivables(6)	–	1,341	324	1,107	548	2,465	9,795	4,551	–	20,131
Securitization – Credit card(7)	424	–	–	–	–	–	873	–	–	1,297
Other liabilities – Other items(1)(4)(7)	470	296	127	19	77	43	88	197	3,272	4,589
	19,262	4,755	4,633	5,730	860	3,834	17,016	13,429	7,507	77,026
Subordinated debt	–	–	1,003	–	–	–	–	9	–	1,012
Equity									12,102	12,102
	33,199	11,092	13,364	9,566	5,785	14,162	35,236	21,618	88,184	232,206
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	145	614	288	286	282	693	741	212	–	3,261
Credit card receivables(8)									7,187	7,187
Backstop liquidity and credit enhancement facilities(9)	–	2,056	3,898	15	–	–	–	–	–	5,969
Commitments to extend credit(10)	1,149	1,293	1,012	1,927	1,685	8,525	10,565	550	21,109	47,815
Lease commitments and other contracts	87	169	243	236	221	718	1,526	520	–	3,720

(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) Certain amounts have been revised from those previously reported.
(4) An amount of $2,699 million reported in *Due to clients, dealers and brokers* on the Consolidated Balance Sheet as at October 31, 2016 is now reported in *Deposits – Business and government* ($2,159 million) and in *Other liabilities – Other items* ($540 million).
(5) Amounts are disclosed according to the remaining contractual maturity of the underlying security.
(6) These amounts mainly include liabilities related to the securitization of mortgage loans.
(7) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(8) These amounts are unconditionally revocable at the Bank's discretion at any time.
(9) 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.
(10) These amounts include $21.1 billion that is unconditionally revocable at the Bank's discretion at any time.

QUARTERLY FINANCIAL INFORMATION

(millions of Canadian dollars, except per share amounts)			2017				2016	2015	2016	2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Total	Total
Total revenues	**1,675**	1,597	1,633	1,569	1,557	1,425	1,289	1,405	5,840	5,746
Net income	**518**	484	497	307	478	210	261	347	1,256	1,619
Earnings per share ($)										
Basic	**1.39**	1.30	1.35	0.79	1.32	0.52	0.68	0.96	3.31	4.56
Diluted	**1.37**	1.28	1.34	0.78	1.31	0.52	0.67	0.95	3.29	4.51
Dividends per common share ($)	**0.58**	0.56	0.56	0.55	0.55	0.54	0.54	0.52	2.18	2.04
Return on common shareholders' equity (%)	**18.2**	17.9	18.4	11.0	18.7	7.7	9.5	13.6	11.7	16.9
Total assets	**240,072**	239,020	234,119	232,206	229,896	220,734	219,301	216,090		
Impaired loans, net	**240**	213	226	281	251	300	234	254		
Per common share ($)										
Book value	**30.84**	29.97	29.51	28.52	28.39	27.75	27.77	28.26		
Share price										
High	**56.44**	58.75	56.60	47.88	46.65	45.56	44.11	46.33		
Low	**51.77**	52.94	46.83	44.14	40.98	35.95	35.83	40.75		

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

CONSOLIDATED BALANCE SHEETS

(unaudited) (millions of Canadian dollars)

	As at July 31, 2017	As at October 31, 2016
Assets		
Cash and deposits with financial institutions	10,462	8,183
Securities (Notes 4 and 5)		
At fair value through profit or loss	45,201	45,964
Available-for-sale	8,722	14,608
Held-to-maturity	8,598	3,969
	62,521	64,541
Securities purchased under reverse repurchase agreements and securities borrowed	16,600	13,948
Loans (Note 6)		
Residential mortgage	50,276	48,868
Personal and credit card	36,435	33,964
Business and government	41,241	37,686
	127,952	120,518
Customers' liability under acceptances	5,982	6,441
Allowances for credit losses	(767)	(781)
	133,167	126,178
Other		
Derivative financial instruments	9,641	10,416
Purchased receivables	1,678	1,858
Investments in associates and joint ventures	640	645
Premises and equipment	674	1,338
Goodwill	1,403	1,412
Intangible assets	1,195	1,140
Other assets (Note 8)	2,091	2,547
	17,322	19,356
	240,072	232,206
Liabilities and equity		
Deposits (Notes 4 and 9)	152,310	142,066
Other		
Acceptances	5,982	6,441
Obligations related to securities sold short	13,816	14,207
Obligations related to securities sold under repurchase agreements and securities loaned	21,812	22,636
Derivative financial instruments	7,880	7,725
Liabilities related to transferred receivables (Notes 4 and 7)	19,558	20,131
Other liabilities (Note 10)	5,333	5,886
	74,381	77,026
Subordinated debt (Note 12)	9	1,012
Equity		
Equity attributable to the Bank's shareholders (Notes 13 and 17)		
Preferred shares	2,050	1,650
Common shares	2,816	2,645
Contributed surplus	58	73
Retained earnings	7,540	6,706
Accumulated other comprehensive income	122	218
	12,586	11,292
Non-controlling interests (Note 15)	786	810
	13,372	12,102
	240,072	232,206

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

CONSOLIDATED STATEMENTS OF INCOME

(unaudited) (millions of Canadian dollars)

	Quarter ended July 31		Nine months ended July 31	
	2017	2016	**2017**	2016
Interest income				
Loans	**1,140**	1,004	**3,265**	2,849
Securities at fair value through profit or loss	**150**	157	**466**	476
Available-for-sale securities	**47**	77	**180**	244
Held-to-maturity securities	**40**	8	**86**	11
Deposits with financial institutions	**31**	18	**75**	50
	1,408	1,264	**4,072**	3,630
Interest expense				
Deposits	**447**	358	**1,278**	1,040
Liabilities related to transferred receivables	**99**	100	**296**	304
Subordinated debt	**–**	9	**15**	25
Other	**31**	14	**92**	47
	577	481	**1,681**	1,416
Net interest income	**831**	783	**2,391**	2,214
Non-interest income				
Underwriting and advisory fees	**100**	116	**278**	285
Securities brokerage commissions	**51**	58	**166**	178
Mutual fund revenues	**105**	94	**307**	266
Trust service revenues	**133**	113	**382**	336
Credit fees	**99**	90	**266**	259
Card revenues	**37**	32	**99**	89
Deposit and payment service charges	**71**	67	**203**	190
Trading revenues (losses) (Note 16)	**70**	12	**240**	67
Gains (losses) on available-for-sale securities, net	**26**	18	**101**	58
Insurance revenues, net	**31**	31	**92**	85
Foreign exchange revenues, other than trading	**21**	19	**62**	62
Share in the net income of associates and joint ventures	**7**	6	**24**	13
Other	**93**	118	**294**	169
	844	774	**2,514**	2,057
Total revenues	**1,675**	1,557	**4,905**	4,271
Provisions for credit losses (Note 6)	**58**	45	**174**	425
	1,617	1,512	**4,731**	3,846
Non-interest expenses				
Compensation and employee benefits	**595**	556	**1,757**	1,605
Occupancy	**58**	60	**177**	174
Technology	**144**	137	**420**	405
Communications	**16**	16	**47**	51
Professional fees	**64**	66	**190**	193
Other	**94**	102	**290**	288
	971	937	**2,881**	2,716
Income before income taxes	**646**	575	**1,850**	1,130
Income taxes (Note 19)	**128**	97	**351**	181
Net income	**518**	478	**1,499**	949
Net income attributable to				
Preferred shareholders	**19**	14	**58**	41
Common shareholders	**475**	446	**1,376**	851
Bank shareholders	**494**	460	**1,434**	892
Non-controlling interests	**24**	18	**65**	57
	518	478	**1,499**	949
Earnings per share *(dollars)* (Note 20)				
Basic	**1.39**	1.32	**4.04**	2.52
Diluted	**1.37**	1.31	**3.99**	2.51
Dividends per common share *(dollars)*	**0.58**	0.55	**1.70**	1.63

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (millions of Canadian dollars)

	Quarter ended July 31		Nine months ended July 31	
	2017	2016	**2017**	2016
Net income	**518**	478	**1,499**	949
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	**(162)**	54	**(125)**	24
Net foreign currency translation (gains) losses on investments in foreign operations reclassified to net income	**–**	–	**–**	(12)
Impact of hedging net foreign currency translation gains (losses)	**55**	(33)	**43**	(16)
Impact of hedging net foreign currency translation (gains) losses reclassified to net income	**–**	–	**–**	5
	(107)	21	**(82)**	1
Net change in available-for-sale securities				
Net unrealized gains (losses) on available-for-sale securities	**(4)**	74	**82**	90
Net (gains) losses on available-for-sale securities reclassified to net income	**(32)**	(27)	**(96)**	(61)
	(36)	47	**(14)**	29
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**42**	13	**13**	57
Net (gains) losses on designated derivative financial instruments reclassified to net income	**(5)**	(6)	**(18)**	(13)
	37	7	**(5)**	44
Share in the other comprehensive income of associates and joint ventures	**(1)**	–	**(1)**	1
Items that will not be subsequently reclassified to net income				
Remeasurements of pension plans and other post-employment benefit plans	**101**	(86)	**140**	(223)
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	**26**	(4)	**(30)**	(44)
	127	(90)	**110**	(267)
Total other comprehensive income, net of income taxes	**20**	(15)	**8**	(192)
Comprehensive income	**538**	463	**1,507**	757
Comprehensive income attributable to				
Bank shareholders	**522**	442	**1,448**	697
Non-controlling interests	**16**	21	**59**	60
	538	463	**1,507**	757

INCOME TAXES – OTHER COMPREHENSIVE INCOME

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

	Quarter ended July 31		Nine months ended July 31	
	2017	2016	**2017**	2016
Net foreign currency translation adjustments				
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	**1**	1	**1**	2
Net foreign currency translation (gains) losses on investments in foreign operations reclassified to net income	**–**	–	**–**	(2)
Impact of hedging net foreign currency translation gains (losses)	**9**	(6)	**7**	(7)
Impact of hedging net foreign currency translation (gains) losses reclassified to net income	**–**	–	**–**	2
	10	(5)	**8**	(5)
Net change in available-for-sale securities				
Net unrealized gains (losses) on available-for-sale securities	**(1)**	27	**29**	33
Net (gains) losses on available-for-sale securities reclassified to net income	**(12)**	(10)	**(35)**	(22)
	(13)	17	**(6)**	11
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**16**	4	**5**	20
Net (gains) losses on designated derivative financial instruments reclassified to net income	**(3)**	(1)	**(7)**	(4)
	13	3	**(2)**	16
Remeasurements of pension plans and other post-employment benefit plans	**37**	(31)	**51**	(81)
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	**9**	(2)	**(11)**	(16)
	56	(18)	**40**	(75)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) (millions of Canadian dollars)

	Nine months ended July 31	
	2017	2016
Preferred shares at beginning (Note 13)	1,650	1,023
Issuance of Series 34, 36 and 38 preferred shares	400	800
Redemption of Series 20 preferred shares for cancellation	–	(173)
Preferred shares at end	2,050	1,650
Common shares at beginning (Note 13)	2,645	2,614
Issuances of common shares		
Stock Option Plan	160	31
Repurchase of common shares for cancellation	(4)	–
Impact of shares purchased or sold for trading	19	(53)
Other	(4)	–
Common shares at end	2,816	2,592
Contributed surplus at beginning	73	67
Stock option expense (Note 17)	8	9
Stock options exercised	(23)	(4)
Other	–	(1)
Contributed surplus at end	58	71
Retained earnings at beginning	6,706	6,705
Net income attributable to the Bank's shareholders	1,434	892
Dividends (Note 13)		
Preferred shares	(58)	(38)
Common shares	(580)	(550)
Premium paid on preferred shares redeemed for cancellation	–	(3)
Premium paid on common shares repurchased for cancellation	(22)	–
Share issuance expenses	(7)	(11)
Remeasurements of pension plans and other post-employment benefit plans	140	(223)
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	(30)	(44)
Impact of a financial liability resulting from put options written to non-controlling interests	(31)	(45)
Other	(12)	–
Retained earnings at end	7,540	6,683
Accumulated other comprehensive income at beginning	218	145
Net foreign currency translation adjustments	(82)	1
Net change in unrealized gains (losses) on available-for-sale securities	(14)	29
Net change in gains (losses) on cash flow hedges	1	41
Share in the other comprehensive income of associates and joint ventures	(1)	1
Accumulated other comprehensive income at end	122	217
Equity attributable to the Bank's shareholders	12,586	11,213
Non-controlling interests at beginning (Note 15)	810	801
Net income attributable to non-controlling interests	65	57
Other comprehensive income attributable to non-controlling interests	(6)	3
Distributions to non-controlling interests	(83)	(57)
Non-controlling interests at end	786	804
Equity	13,372	12,017

ACCUMULATED OTHER COMPREHENSIVE INCOME

	As at July 31, 2017	As at July 31, 2016
Accumulated other comprehensive income		
Net foreign currency translation adjustments	(56)	5
Net unrealized gains (losses) on available-for-sale securities	37	41
Net gains (losses) on instruments designated as cash flow hedges	136	165
Share in the other comprehensive income of associates and joint ventures	5	6
	122	217

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (millions of Canadian dollars)

	Nine months ended July 31	
	2017	2016
Cash flows from operating activities		
Net income	1,499	949
Adjustments for		
Provisions for credit losses	174	425
Amortization of premises and equipment and intangible assets	273	312
Write-off of an equity interest in an associate	–	164
Gain on the revaluation of the previously held equity interest in Advanced Bank of Asia Limited	–	(41)
Gain on disposal of an equity interest in a joint venture	(12)	–
Deferred taxes	(4)	(74)
Translation adjustment on foreign currency denominated subordinated debt	(1)	–
Losses (gains) on sales of available-for-sale securities, net	(101)	(62)
Impairment losses on available-for-sale securities	–	4
Share in the net income of associates and joint ventures	(24)	(13)
Stock option expense	8	9
Change in operating assets and liabilities		
Securities at fair value through profit or loss	763	(3,530)
Securities purchased under reverse repurchase agreements and securities borrowed	(2,652)	2,822
Loans, net of securitization	(8,184)	(11,873)
Deposits	10,244	9,611
Obligations related to securities sold short	(391)	(4,585)
Obligations related to securities sold under repurchase agreements and securities loaned	(824)	9,769
Derivative financial instruments, net	930	111
Purchased receivables	180	(115)
Interest and dividends receivable and interest payable	(77)	(31)
Current tax assets and liabilities	(113)	160
Other items	1,367	448
	3,055	4,460
Cash flows from financing activities		
Issuance of preferred shares	400	800
Redemption of preferred shares for cancellation	–	(176)
Issuance of common shares, net of the impact of shares purchased or sold for trading	156	(26)
Repurchase of common shares for cancellation	(26)	–
Redemption of subordinated debt	(1,000)	(500)
Share issuance expenses	(7)	(11)
Dividends paid	(628)	(585)
Distributions to non-controlling interests	(83)	(57)
	(1,188)	(555)
Cash flows from investing activities		
Acquisition of Advanced Bank of Asia Limited	–	(119)
Net change in investments in associates and joint ventures	15	–
Purchases of available-for-sale securities	(2,820)	(4,967)
Maturities of available-for-sale securities	466	601
Sales of available-for-sale securities	7,853	4,647
Purchases of held-to-maturity securities	(4,629)	(2,755)
Net change in tangible assets leased under operating leases	556	276
Net change in premises and equipment	(62)	(108)
Net change in intangible assets	(178)	(186)
	1,201	(2,611)
Impact of currency rate movements on cash and cash equivalents	(789)	(37)
Increase in cash and cash equivalents	2,279	1,257
Cash and cash equivalents at beginning	8,183	7,567
Cash and cash equivalents at end[1]	10,462	8,824
Supplementary information about cash flows from operating activities		
Interest paid	1,779	1,478
Interest and dividends received	4,093	3,633
Income taxes paid	476	215

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

(1) This item is the equivalent of Consolidated Balance Sheet item *Cash and deposits with financial institutions*. It includes an amount of $1.8 billion as at July 31, 2017 ($1.9 billion as at October 31, 2016) for which there are restrictions. In addition, a negligible amount was held in escrow as at July 31, 2017 ($3 million as at October 31, 2016).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of Canadian dollars)

NOTE 1 – BASIS OF PRESENTATION

On August 29, 2017, 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 July 31, 2017.

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 have been prepared in accordance with IAS 34 – *Interim Financial Reporting* using the same accounting policies described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2016. Since these 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, 2016.

On November 1, 2016, the Bank reclassified certain Personal and Commercial segment revenues in the Consolidated Statement of Income to better reflect the nature of the revenues reported. As a result, for the quarter ended July 31, 2016, an amount of $11 million reported in *Non-interest income – Credit fees* was reclassified to *Interest income – Loans* ($27 million for the nine-month period ended July 31, 2016). Also on November 1, 2016, the Bank changed the presentation of certain items on the Consolidated Balance Sheet, and certain amounts were revised from those previously reported. The *Due from clients, dealers and brokers* item as at October 31, 2016 is now presented in *Other assets* on the Consolidated Balance Sheet. All deposits have been grouped into a single *Deposits* item. To better reflect the nature of certain liabilities on the Consolidated Balance Sheet, an amount of $2.2 billion reported in the *Due to clients, dealers and brokers* item was reclassified to the *Deposits* item as at October 31, 2016. The *Due to clients, dealers and brokers* item is now presented in *Other liabilities* on the Consolidated Balance Sheet.

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

NOTE 2 – 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. 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, 2016, except as described below.

IFRS 17 – *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 – *Insurance Contracts*, a new standard that replaces IFRS 4, the current insurance contract accounting standard. IFRS 17 introduces a new accounting framework that will improve the comparability and quality of financial information. IFRS 17 is effective for annual periods beginning on or after January 1, 2021, which will be November 1, 2021 for the Bank.

IFRIC Interpretation 23 – *Uncertainty Over Income Tax Treatments*

In June 2017, the IASB issued IFRIC Interpretation 23, which addresses how to reflect tax treatment uncertainty in accounting for income taxes. IFRIC Interpretation 23 is effective for annual periods beginning on or after January 1, 2019, which will be November 1, 2019 for the Bank.

(unaudited) (millions of Canadian dollars)

NOTE 3 – 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 July 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 at amortized cost	Financial instruments at amortized cost	Total carrying value	Total fair value
Financial assets							
Cash and deposits with financial institutions	–	–	–	10,462	10,462	10,462	10,462
Securities	44,446	755	8,722	8,598	8,566	62,521	62,489
Securities purchased under reverse repurchase agreements and securities borrowed	–	234	–	16,366	16,366	16,600	16,600
Loans and acceptances, net of allowances	5,924	103	–	127,140	127,313	133,167	133,340
Other							
Derivative financial instruments	9,641	–	–	–	–	9,641	9,641
Purchased receivables	–	–	–	1,678	1,678	1,678	1,678
Other assets	–	–	–	900	900	900	900
Financial liabilities							
Deposits	–	5,152		147,158 (1)	147,451	152,310	152,603
Other							
Acceptances	–	–		5,982	5,982	5,982	5,982
Obligations related to securities sold short	13,816	–		–	–	13,816	13,816
Obligations related to securities sold under repurchase agreements and securities loaned	–	300		21,512	21,512	21,812	21,812
Derivative financial instruments	7,880	–		–	–	7,880	7,880
Liabilities related to transferred receivables	–	5,663		13,895	13,956	19,558	19,619
Other liabilities	16	–		2,715	2,718	2,731	2,734
Subordinated debt	–	–		9	6	9	6

(1) Including embedded derivative financial instruments.

(unaudited) (millions of Canadian dollars)

As at October 31, 2016

	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 at amortized cost	Financial instruments at amortized cost	Total carrying value	Total fair value
Financial assets							
Cash and deposits with financial institutions	–	–	–	8,183	8,183	8,183	8,183
Securities	44,499	1,465	14,608	3,969	3,993	64,541	64,565
Securities purchased under reverse repurchase agreements and securities borrowed	–	158	–	13,790	13,790	13,948	13,948
Loans and acceptances, net of allowances	6,290	164	–	119,724	120,641	126,178	127,095
Other							
Derivative financial instruments	10,416	–	–	–	–	10,416	10,416
Purchased receivables	–	–	–	1,858	1,858	1,858	1,858
Other assets(1)	–	–	–	1,317	1,317	1,317	1,317
Financial liabilities							
Deposits(2)	–	4,655		137,411 (3)	138,267	142,066	142,922
Other							
Acceptances	–	–		6,441	6,441	6,441	6,441
Obligations related to securities sold short	14,207	–		–	–	14,207	14,207
Obligations related to securities sold under repurchase agreements and securities loaned	–	–		22,636	22,636	22,636	22,636
Derivative financial instruments	7,725	–		–	–	7,725	7,725
Liabilities related to transferred receivables	–	6,206		13,925	13,974	20,131	20,180
Other liabilities(2)	43	–		3,158	3,173	3,201	3,216
Subordinated debt	–	–		1,012	1,013	1,012	1,013

(1) The *Due from clients, dealers and brokers* amount of $843 million presented separately on the Consolidated Balance Sheet as at October 31, 2016 is now reported in *Other assets*.
(2) An amount of $2,699 million reported in *Due to clients, dealers and brokers* on the Consolidated Balance Sheet as at October 31, 2016 is now reported in *Deposits* ($2,159 million) and in *Other liabilities* ($540 million).
(3) 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, 2016. 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)

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

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, 2016.

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 July 31, 2017, $113 million in securities classified as at fair value through profit or loss and $3 million in obligations related to securities sold short were transferred from Level 2 to Level 1 resulting from changing market conditions (amounts of $132 million and $11 million, respectively, transferred during the quarter ended April 30, 2017). In addition, during the quarter ended July 31, 2017, $17 million in securities classified as at fair value through profit or loss and $22 million in obligations related to securities sold short were transferred from Level 1 to Level 2 (amounts of $67 million and $9 million, respectively, transferred during the quarter ended April 30, 2017). During the nine-month period ended July 31, 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 July 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	3,387	5,012	–	8,399
Canadian provincial and municipal governments	–	8,871	–	8,871
U.S. Treasury, other U.S. agencies and other foreign governments	1,600	374	–	1,974
Other debt securities	–	2,932	–	2,932
Equity securities	22,531	482	12	23,025
	27,518	17,671	12	45,201
Available-for-sale				
Securities issued or guaranteed by				
Canadian government	118	4,116	–	4,234
Canadian provincial and municipal governments	–	2,751	–	2,751
U.S. Treasury, other U.S. agencies and other foreign governments	504	63	–	567
Other debt securities	–	474	–	474
Equity securities	130	214	352	696
	752	7,618	352	8,722
Securities purchased under reverse repurchase agreements and securities borrowed	–	234	–	234
Loans and acceptances, net of allowances	–	6,027	–	6,027
Other				
Derivative financial instruments	50	9,490	101	9,641
	28,320	41,040	465	69,825
Financial liabilities				
Deposits	–	5,333	3	5,336
Other				
Obligations related to securities sold short	9,131	4,685	–	13,816
Obligations related to securities sold under repurchase agreements	–	300	–	300
Derivative financial instruments	95	7,707	78	7,880
Liabilities related to transferred receivables	–	5,663	–	5,663
Other liabilities	–	16	–	16
	9,226	23,704	81	33,011

(unaudited) (millions of Canadian dollars)

			As at October 31, 2016	
	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	2,284	4,904	–	7,188
Canadian provincial and municipal governments	–	10,547	–	10,547
U.S. Treasury, other U.S. agencies and other foreign governments	3,968	206	–	4,174
Other debt securities	–	2,934	–	2,934
Equity securities	20,410	693	18	21,121
	26,662	19,284	18	45,964
Available-for-sale				
Securities issued or guaranteed by				
Canadian government	241	6,040	–	6,281
Canadian provincial and municipal governments	–	4,996	–	4,996
U.S. Treasury, other U.S. agencies and other foreign governments	1,614	95	–	1,709
Other debt securities	–	948	30	978
Equity securities	201	168	275	644
	2,056	12,247	305	14,608
Securities purchased under reverse repurchase agreements and securities borrowed	–	158	–	158
Loans and acceptances, net of allowances	–	6,454	–	6,454
Other				
Derivative financial instruments	87	10,196	133	10,416
	28,805	48,339	456	77,600
Financial liabilities				
Deposits	–	4,788	7	4,795
Other				
Obligations related to securities sold short	8,732	5,475	–	14,207
Derivative financial instruments	117	7,490	118	7,725
Liabilities related to transferred receivables	–	6,206	–	6,206
Other liabilities	–	43	–	43
	8,849	24,002	125	32,976

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 fiscal year ended October 31, 2016. For the quarter and nine months ended July 31, 2017, 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, 2016. For the nine months ended July 31, 2017, there were no significant changes in the sensitivity analyses of Level 3 financial instruments.

(unaudited) (millions of Canadian dollars)

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

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.

	Nine months ended July 31, 2017			
	Securities at fair value through profit or loss	**Available-for-sale securities**	**Derivative financial instruments[1]**	**Deposits**
Fair value as at October 31, 2016	**18**	**305**	**15**	**(7)**
Total realized and unrealized gains (losses) included in *Net income* [2]	**(1)**	**19**	**(5)**	**–**
Total realized and unrealized gains (losses) included in *Other comprehensive income*	**–**	**(6)**	**–**	**–**
Purchases	**2**	**84**	**–**	**–**
Sales	**(9)**	**(46)**	**–**	**–**
Issuances	**–**	**–**	**–**	**(9)**
Settlements and other	**–**	**(4)**	**17**	**1**
Financial instruments transferred into Level 3	**2**	**–**	**–**	**(1)**
Financial instruments transferred out of Level 3	**–**	**–**	**(4)**	**13**
Fair value as at July 31, 2017	**12**	**352**	**23**	**(3)**
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at July 31, 2017[3]	**(1)**	**–**	**(5)**	**–**

	Nine months ended July 31, 2016			
	Securities at fair value through profit or loss	Available-for-sale securities	Derivative financial instruments[1]	Deposits
Fair value as at October 31, 2015	21	261	(38)	(20)
Total realized and unrealized gains (losses) included in *Net income* [4]	6	7	(28)	9
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	8	–	–
Purchases	18	42	–	–
Sales	(8)	(10)	–	–
Issuances	–	–	–	(7)
Settlements and other	–	(8)	15	4
Financial instruments transferred into Level 3	–	1	68	(32)
Financial instruments transferred out of Level 3	–	–	(6)	35
Fair value as at July 31, 2016	37	301	11	(11)
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at July 31, 2016[5]	(2)	–	(28)	9

(1) The derivative financial instruments include assets and liabilities presented on a net basis.
(2) Total net gains included in *Non-interest income* was $13 million.
(3) Total unrealized losses included in *Non-interest income* was $6 million.
(4) Total net losses included in *Non-interest income* was $6 million.
(5) Total unrealized losses included in *Non-interest income* was $21 million.

(unaudited) (millions of Canadian dollars)

NOTE 4 – 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 criteria presented in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2016. Consistent with its risk management strategy and as permitted by the fair value option, when the designation eliminates or significantly reduces the measurement or recognition mismatch resulting 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.

The Bank also designated certain deposits that include embedded derivative financial instruments and certain loans at fair value through profit or loss. There is no exposure to credit risk on the loans to the extent that they are fully collateralized.

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 July 31, 2017	Change in total fair value (including the change in the fair value attributable to credit risk) for the quarter ended July 31, 2017	Change in total fair value (including the change in the fair value attributable to credit risk) for the nine months ended July 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	(7)	(6)	15
Securities purchased under reverse repurchase agreements	234	–	–	–
Loans	103	(23)	(27)	(52)
	1,092	(30)	(33)	(37)
Financial liabilities designated at fair value through profit or loss				
Deposits(1)(2)	5,152	75	(17)	77
Securities sold under repurchase agreements	300	–	–	–
Liabilities related to transferred receivables	5,663	89	143	(67)
	11,115	164	126	10

	Carrying value as at July 31, 2016	Change in total fair value (including the change in the fair value attributable to credit risk) for the quarter ended July 31, 2016	Change in total fair value (including the change in the fair value attributable to credit risk) for the nine months ended July 31, 2016	Change in fair value since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss				
Securities	1,660	17	22	342
Securities purchased under reverse repurchase agreements	460	–	–	–
Loans	134	17	(5)	(24)
	2,254	34	17	318
Financial liabilities designated at fair value through profit or loss				
Deposits(1)(2)	4,133	(73)	(114)	(33)
Liabilities related to transferred receivables	6,097	(17)	12	(235)
	10,230	(90)	(102)	(268)

(1) For the quarter ended July 31, 2017, 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 gain of $35 million ($6 million loss for the quarter ended July 31, 2016). For the nine months ended July 31, 2017, this change resulted in a loss of $41 million recorded in *Other comprehensive income* (net loss of $45 million, including a loss of $60 million recorded in *Other comprehensive income* and a $15 million gain recorded in *Net income*, for the nine months ended July 31, 2016).

(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 5 – SECURITIES

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

				As at July 31, 2017
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Carrying value**
Securities issued or guaranteed by				
Canadian government	**4,273**	**5**	**(44)**	**4,234**
Canadian provincial and municipal governments	**2,688**	**88**	**(25)**	**2,751**
U.S. Treasury, other U.S. agencies and other foreign governments	**580**	**–**	**(13)**	**567**
Other debt securities	**467**	**9**	**(2)**	**474**
Equity securities	**631**	**87**	**(22)**	**696**
	8,639	**189**	**(106)**	**8,722**

				As at October 31, 2016
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities issued or guaranteed by				
Canadian government	6,201	83	(3)	6,281
Canadian provincial and municipal governments	4,704	312	(20)	4,996
U.S. Treasury, other U.S. agencies and other foreign governments	1,702	11	(4)	1,709
Other debt securities	951	29	(2)	978
Equity securities	588	94	(38)	644
	14,146	529	(67)	14,608

Impairment Losses Recognized
At the end of each financial reporting period, the Bank determines whether there is objective evidence of impairment for each available-for-sale security. During the quarter ended July 31, 2017, no impairment loss (no impairment loss for the quarter ended July 31, 2016) was recognized in *Gains (losses) on available-for-sale securities, net* in the Consolidated Statement of Income. There were no impairment losses for the nine months ended July 31, 2017 (impairment losses totalling $4 million for the nine months ended July 31, 2016). In addition, during the nine-month periods ended July 31, 2017 and 2016, no amounts were 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 July 31, 2017 and as at October 31, 2016, the Bank 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.

Master Asset Vehicles (MAV)

As at July 31, 2017, the carrying value of the restructured notes of the MAV conduits and of the other restructured notes held by the Bank was nil ($619 million as at October 31, 2016). The change in the carrying value of the restructured notes of the MAV conduits during the nine months ended July 31, 2017 was mainly attributable to capital repayments.

During the nine months ended July 31, 2017, revenues amounting to $4 million were recorded to reflect capital repayments ($19 million during the nine months ended July 31, 2016). These amounts were recorded in *Trading revenues* in the Consolidated Statement of Income.

Held-to-Maturity Securities

At the end of each financial reporting period, the Bank determines whether there is objective evidence of impairment for each held-to-maturity security. As at July 31, 2017 and 2016, there was no objective evidence of impairment on held-to-maturity securities.

(unaudited) (millions of Canadian dollars)

NOTE 6 – LOANS

Credit Quality

				As at July 31, 2017
	Residential mortgage	Personal and credit card	Business and government(1)(2)	Total
Neither past due(3) nor impaired	49,970	35,985	46,789	132,744
Past due(3) but not impaired	235	364	131	730
Impaired	71	86	303	460
Gross loans	50,276	36,435	47,223	133,934
Less: Allowances on impaired loans				
Individual allowances	14	21	164	199
Collective allowances	–	18	3	21
Allowances on impaired loans	14	39	167	220
	50,262	36,396	47,056	133,714
Less:				
Sectoral allowance on non-impaired loans – Oil and gas(4)				141
Collective allowance on non-impaired loans(5)				406
				547
Loans and acceptances, net of allowances				133,167

				As at October 31, 2016
	Residential mortgage	Personal and credit card	Business and government(1)(2)	Total
Neither past due(3) nor impaired	48,552	33,591	43,673	125,816
Past due(3) but not impaired	245	294	112	651
Impaired	71	79	342	492
Gross loans	48,868	33,964	44,127	126,959
Less: Allowances on impaired loans				
Individual allowances	13	20	156	189
Collective allowances	–	19	3	22
Allowances on impaired loans	13	39	159	211
	48,855	33,925	43,968	126,748
Less:				
Sectoral allowance on non-impaired loans – Oil and gas(4)				204
Collective allowance on non-impaired loans(5)				366
				570
Loans and acceptances, net of allowances				126,178

(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) Including 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.

(unaudited) (millions of Canadian dollars)

NOTE 6 – LOANS (cont.)

Loans Past Due But Not Impaired[1]

	As at July 31, 2017			As at October 31, 2016		
	Residential mortgage	Personal and credit card	Business and government	Residential mortgage	Personal and credit card	Business and government
Past due but not impaired						
31 to 60 days	128	125	56	115	112	51
61 to 90 days	35	83	29	48	36	9
Over 90 days	72	156	46	82	146	52
	235	364	131	245	294	112

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

Impaired Loans

	As at July 31, 2017			
	Gross	Individual allowances	Collective allowances	Net
Loans				
Residential mortgage	71	14	–	57
Personal and credit card	86	21	18	47
Business and government	303	164	3	136
	460	199	21	240

	As at October 31, 2016			
	Gross	Individual allowances	Collective allowances	Net
Loans				
Residential mortgage	71	13	–	58
Personal and credit card	79	20	19	40
Business and government[1]	342	156	3	183
	492	189	22	281

(1) Includes customers' liability under acceptances.

(unaudited) (millions of Canadian dollars)

Allowances for Credit Losses

	Nine months ended July 31, 2017						
	Balance at beginning	Provisions for credit losses	Write-offs	Write-offs on credit cards	Recoveries and other(1)	Transfers(2)	Balance at end
Allowances on impaired loans							
Residential mortgage							
Individual allowances	13	9	(9)	–	1	–	14
Collective allowances	–	–	–	–	–	–	–
Personal and credit card							
Individual allowances	20	116	(52)	(63)	–	–	21
Collective allowances	19	20	(27)	–	6	–	18
Business and government							
Individual allowances	156	27	(44)	–	2	23	164
Collective allowances	3	2	(2)	–	–	–	3
Individual allowances	189	152	(105)	(63)	3	23	199
Collective allowances	22	22	(29)	–	6	–	21
	211	174	(134)	(63)	9	23	220
Sectoral allowance on non-impaired loans – Oil and gas(3)	204	(40)	–	–	–	(23)	141
Collective allowance on non-impaired loans(4)	366	40	–	–	–	–	406
	570	–	–	–	–	(23)	547
	781	174	(134)	(63)	9	–	767

	Nine months ended July 31, 2016						
	Balance at beginning	Provisions for credit losses	Write-offs	Write-offs on credit cards	Recoveries and other(1)	Transfers(2)	Balance at end
Allowances on impaired loans							
Residential mortgage							
Individual allowances	10	9	(8)	–	1	–	12
Collective allowances	–	–	–	–	–	–	–
Personal and credit card							
Individual allowances	18	90	(28)	(62)	1	–	19
Collective allowances	22	22	(31)	–	6	–	19
Business and government							
Individual allowances	151	51	(87)	–	(3)	37	149
Collective allowances	2	3	(3)	–	–	–	2
Individual allowances	179	150	(123)	(62)	(1)	37	180
Collective allowances	24	25	(34)	–	6	–	21
	203	175	(157)	(62)	5	37	201
Sectoral allowance on non-impaired loans – Oil and gas(3)	–	250	–	–	–	(37)	213
Collective allowance on non-impaired loans(4)	366	–	–	–	–	–	366
	366	250	–	–	–	(37)	579
	569	425	(157)	(62)	5	–	780

(1) Includes foreign exchange movements.
(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.

(unaudited) (millions of Canadian dollars)

NOTE 7 – 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 July 31, 2017	As at October 31, 2016
Carrying value of financial assets transferred but not derecognized		
Securities[1]	42,028	39,989
Residential mortgages	18,787	19,093
	60,815	59,082
Carrying value of associated liabilities[2]	34,446	34,992
Fair value of financial assets transferred but not derecognized		
Securities[1]	42,028	39,989
Residential mortgages	18,883	19,403
	60,911	59,392
Fair value of associated liabilities[2]	34,507	35,041

(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 $2,071 million as at July 31, 2017 ($3,521 million as at October 31, 2016) 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 $8,995 million as at July 31, 2017 ($11,296 million as at October 31, 2016).

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

	As at July 31, 2017	As at October 31, 2016
Carrying value of financial assets transferred but not derecognized		
Securities backed by insured residential mortgage loans and other securities sold to Canada Housing Trust	19,567	20,030
Securities sold under repurchase agreements	14,959	14,615
Securities loaned	26,289	24,437
	60,815	59,082

NOTE 8 – OTHER ASSETS

	As at July 31, 2017	As at October 31, 2016
Receivables, prepaid expenses and other items	682	668
Interest and dividends receivable	453	474
Due from clients, dealers and brokers[1]	447	843
Defined benefit asset	72	48
Deferred tax assets	345	402
Current tax assets	61	80
Reinsurance assets	31	32
	2,091	2,547

(1) The *Due from clients, dealers and brokers* amount of $843 million presented separately on the Consolidated Balance Sheet as at October 31, 2016 is now reported in *Other assets*.

(unaudited) (millions of Canadian dollars)

NOTE 9 – DEPOSITS

	As at July 31, 2017			As at October 31, 2016 [1]
	On demand or after notice[2]	Fixed term[3]	Total	Total
Personal	27,961	24,409	52,370	52,521
Business and government	44,971	49,897	94,868	83,905
Deposit-taking institutions	2,294	2,778	5,072	5,640
	75,226	77,084	152,310	142,066

(1) Certain amounts have been revised from those previously reported, particularly an amount of $2,159 million classified in *Due to clients, dealers and brokers* on the Consolidated Balance Sheet as at October 31, 2016 that is now reported in *Deposits*.
(2) 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.
(3) 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 $6.7 billion as at July 31, 2017 ($6.7 billion as at October 31, 2016).

During the nine months ended July 31, 2017, the Bank issued covered bonds in an amount of 70 million pounds sterling (no issuance during the nine months ended July 31, 2016). See Note 22 for additional information on covered bonds.

NOTE 10 – OTHER LIABILITIES

	As at July 31, 2017	As at October 31, 2016
Accounts payable and accrued expenses	1,551	1,510
Subsidiaries' debts to third parties	1,088	1,447
Interest and dividends payable	744	832
Due to clients, dealers and brokers[1]	622	540
Defined benefit liability	192	314
Deferred tax liabilities	36	57
Current tax liabilities	84	215
Insurance liabilities	58	71
Other items[2][3]	958	900
	5,333	5,886

(1) An amount of $540 million reported in the *Due to clients, dealers and brokers* item on the Consolidated Balance Sheet as at October 31, 2016 is now reported in *Other liabilities*.
(2) As at July 31, 2017, other items included a $65 million restructuring provision ($152 million as at October 31, 2016). See Note 11 for additional information.
(3) As at July 31, 2017, other items included a $15 million litigation provision ($18 million as at October 31, 2016).

NOTE 11 – 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, 2015	51	16	67
Restructuring charge	129	2	131
Payments during the year	(34)	(12)	(46)
As at October 31, 2016	146	6	152
Payments during the period	(86)	(1)	(87)
As at July 31, 2017	**60**	**5**	**65**

(unaudited) (millions of Canadian dollars)

NOTE 12 – SUBORDINATED DEBT

On April 11, 2017, the Bank redeemed $1.0 billion of medium-term notes maturing on April 11, 2022 at a price equal to their nominal value plus accrued interest.

NOTE 13 – SHARE CAPITAL

Issuance of Preferred Shares

On June 13, 2017, the Bank issued 16,000,000 Non-Cumulative 5-Year Rate-Reset Series 38 First Preferred Shares at a per-share price of $25.00 for gross proceeds of $400 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 November 15, 2022 and on November 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 3.43%) non-cumulative Series 39 First Preferred Shares, subject to certain conditions, on November 15, 2022 and on November 15 every five years thereafter. The Series 38 preferred shares carry a non-cumulative quarterly dividend of $0.2781 for the initial period ending November 15, 2022. 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 3.43%, by $25.00. Given that the Series 38 preferred shares satisfy the non-viability contingent capital requirements, they qualify for the purposes of calculating regulatory capital under Basel III.

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. The shares will be repurchased on the open market at market prices through the Toronto Stock Exchange. Amounts paid above the average book value of the common shares will be charged to *Retained earnings.* During the quarter ended July 31, 2017, the Bank repurchased 500,000 common shares for an amount of $26 million, which reduced *Common share capital* by $4 million and *Retained earnings* by $22 million.

Shares Outstanding

	As at July 31, 2017		As at October 31, 2016	
	Number of shares	Shares $	Number of shares	Shares $
First Preferred Shares				
Series 28	8,000,000	200	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	–	–
	82,000,000	2,050	66,000,000	1,650
Common shares at beginning of the fiscal year	338,053,054	2,645	337,236,322	2,614
Issued pursuant to the Stock Option Plan	3,789,316	160	1,122,756	43
Repurchase of common shares for cancellation	(500,000)	(4)	–	–
Impact of shares purchased or sold for trading(1)	345,994	19	(306,024)	(12)
Other	(108,341)	(4)	–	–
Common shares at end of the period	341,580,023	2,816	338,053,054	2,645

(1) As at July 31, 2017, 383,857 shares were sold short for trading, representing a total amount of $21 million (37,863 shares representing $2 million as at October 31, 2016).

(unaudited) (millions of Canadian dollars)

Dividends Declared

	Nine months ended July 31			
	2017		2016	
	Dividends $	**Dividends per share**	Dividends $	Dividends per share
First Preferred Shares				
Series 28	**6**	**0.7125**	6	0.7125
Series 30	**10**	**0.7688**	10	0.7688
Series 32	**9**	**0.7313**	9	0.7313
Series 34	**17**	**1.0500**	13	0.7873
Series 36	**16**	**1.0125**	–	–
	58		38	
Common shares	**580**	**1.7000**	550	1.6300
	638		588	

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 July 31, 2017, the number of common shares held in escrow was 28,881 (936,785 as at October 31, 2016). The Bank expects that the remaining shares in escrow will be settled by the end of calendar year 2017.

NOTE 14 – CAPITAL DISCLOSURE

OSFI is requiring Canadian banks to meet the 2019 minimum "all-in" requirements, regardless of the transition period set out by the Basel Committee on Banking Supervision (BCBS). 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.

Since January 1, 2015, OSFI has been requiring Canadian banks to meet a Basel III leverage ratio of at least 3.0%. The leverage ratio is a measure independent of risk that is calculated by dividing the amount of Tier 1 capital by total exposure. Total exposure is defined as the sum of on-balance-sheet assets (including derivative exposures and securities financing transaction exposures) and off-balance-sheet items. The assets deducted from Tier 1 capital are also deducted from total exposure.

During the quarter and nine months ended July 31, 2017, the Bank was in compliance with all of OSFI's regulatory capital requirements.

Regulatory Capital and Ratios Under Basel III(1)

	As at July 31, 2017	As at October 31, 2016
Capital		
CET1	**7,733**	6,865
Tier 1	**10,534**	9,265
Total	**10,755**	10,506
Risk-weighted assets		
CET1 capital	**69,156**	68,205
Tier 1 capital	**69,289**	68,430
Total capital	**69,396**	68,623
Total exposure	**260,318**	253,097
Capital ratios		
CET1	**11.2 %**	10.1 %
Tier 1	**15.2 %**	13.5 %
Total	**15.5 %**	15.3 %
Leverage ratio	**4.0 %**	3.7 %

(1) Figures are presented on an "all-in" basis.

(unaudited) (millions of Canadian dollars)

NOTE 15 – NON-CONTROLLING INTERESTS

	As at July 31, 2017	As at October 31, 2016
Trust units issued by NBC Asset Trust (NBC CapS II)		
Series 1[1]	403	410
Series 2[2]	352	359
Other	31	41
	786	810

(1) Includes $3 million in accrued interest ($10 million as at October 31, 2016).
(2) Includes $2 million in accrued interest ($9 million as at October 31, 2016).

NOTE 16 – 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.

	Quarter ended July 31		Nine months ended July 31	
	2017	2016	2017	2016
Net interest income	85	140	319	398
Non-interest income	70	12	240	67
	155	152	559	465

NOTE 17 – SHARE-BASED PAYMENTS

Stock Option Plan

During the quarters ended July 31, 2017 and 2016, the Bank did not award any stock options. During the nine months ended July 31, 2017, the Bank awarded 1,804,016 stock options (2,140,420 stock options during the nine-month period ended July 31, 2016) with an average fair value of $5.75 per option ($3.70 in 2016).

As at July 31, 2017, there were 15,055,264 stock options outstanding (17,302,322 stock options as at October 31, 2016).

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.

	Nine months ended July 31	
	2017	2016
Risk-free interest rate	1.59%	1.43%
Expected life of options	7 years	7 years
Expected volatility	20.53%	21.12%
Expected dividend yield	4.41%	5.33%

Compensation expense is presented in the following table.

	Quarter ended July 31		Nine months ended July 31	
	2017	2016	2017	2016
Compensation expense recorded for stock options	2	3	8	9

(unaudited) (millions of Canadian dollars)

NOTE 18 – 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 July 31
	Pension plans		Other post-employment benefit plans	
	2017	2016	**2017**	2016
Current service cost	**28**	19	**2**	1
Interest expense (income), net	**2**	(2)	**1**	2
Administrative expenses	**1**	1		
Expense recognized in *Net income*	**31**	18	**3**	3
Remeasurements(1)				
Actuarial (gains) losses on defined benefit obligation	**(256)**	303	**(12)**	14
Return on plan assets(2)	**130**	(200)		
Remeasurements recognized in *Other comprehensive income*	**(126)**	103	**(12)**	14
	(95)	121	**(9)**	17

				Nine months ended July 31
	Pension plans		Other post-employment benefit plans	
	2017	2016	**2017**	2016
Current service cost	**85**	57	**4**	3
Interest expense (income), net	**5**	(6)	**5**	6
Administrative expenses	**3**	3		
Expense recognized in *Net income*	**93**	54	**9**	9
Remeasurements(1)				
Actuarial (gains) losses on defined benefit obligation	**(221)**	491	**(11)**	22
Return on plan assets(2)	**41**	(209)		
Remeasurements recognized in *Other comprehensive income*	**(180)**	282	**(11)**	22
	(87)	336	**(2)**	31

(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) Excluding interest income.

NOTE 19 – INCOME TAXES

In March 2017, the Canada Revenue Agency (CRA) issued a proposed reassessment to the Bank for the 2011 and 2012 taxation years. In May 2017, the CRA reassessed the Bank for the 2012 taxation year. The transactions to which the proposed reassessment and the actual reassessment relate are similar to those prospectively addressed by the synthetic equity arrangement rules introduced in the 2015 Canadian federal budget. The proposed reassessment and the actual reassessment (including estimated provincial income taxes and interest) total approximately $173 million. The CRA may issue reassessments to the Bank in respect of similar activities for fiscal years subsequent to 2012. The Bank is confident that its tax position was appropriate and intends to vigorously defend its position. As a result, no amount has been recognized in the consolidated financial statements.

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 July 31		Nine months ended July 31	
	2017	2016	**2017**	2016
Basic earnings per share				
Net income attributable to the Bank's shareholders	**494**	460	**1,434**	892
Dividends on preferred shares	**19**	14	**58**	38
Premium paid on preferred shares redeemed for cancellation	**–**	–	**–**	3
Net income attributable to common shareholders	**475**	446	**1,376**	851
Weighted average basic number of common shares outstanding *(thousands)*	**341,555**	337,553	**340,708**	337,318
Basic earnings per share *(dollars)*	**1.39**	1.32	**4.04**	2.52
Diluted earnings per share				
Net income attributable to common shareholders	**475**	446	**1,376**	851
Weighted average basic number of common shares outstanding *(thousands)*	**341,555**	337,553	**340,708**	337,318
Adjustment to average number of common shares *(thousands)*				
Stock options(1)	**3,798**	2,643	**3,907**	2,309
Weighted average diluted number of common shares outstanding *(thousands)*	**345,353**	340,196	**344,615**	339,627
Diluted earnings per share *(dollars)*	**1.37**	1.31	**3.99**	2.51

(1) For the quarter ended July 31, 2017, the calculation of diluted earnings per share excluded an average number of 1,782,262 options outstanding with a weighted average exercise price of $54.69 (5,688,912 options outstanding with a weighted average exercise price of $46.54 for the quarter ended July 31, 2016), as the exercise price of these options was greater than the average price of the Bank's common shares. For the nine months ended July 31, 2017, the calculation of diluted earnings per share excluded an average number of 1,517,597 options outstanding with a weighted average exercise price of $54.69 (7,593,756 options outstanding with a weighted average exercise price of $45.35 for the nine months ended July 31, 2016), 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 recent developments in the main legal proceeding involving the Bank are as follows:

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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 plaintiff is 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 first quarter of 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, 2016. 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, 2016. 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 July 31, 2017
	Multi-seller conduits(1)	Master asset vehicles(2)	Investment funds(3)	Private investments(4)	Asset-backed structured entity(5)
Assets on the Consolidated Balance Sheet					
Securities at fair value through profit or loss	–	–	42	–	–
Available-for-sale securities	–	–	60	79	–
Held-to-maturity securities	–	–	–	–	1,452
	–	–	102	79	1,452
As at October 31, 2016	10	619	86	97	503
Maximum exposure to loss					
Securities	–	–	102	79	1,452
Liquidity, credit enhancement facilities and commitments	3,021	–	–	–	181
	3,021	–	102	79	1,633
As at October 31, 2016	2,883	1,419	86	97	503
Total assets of the structured entities	3,057	–	441	2,994	3,207
As at October 31, 2016	2,912	–	303	2,650	813

(1) The main underlying assets, located in Canada, are residential mortgages, automobile loans, automobile inventory financings, and other receivables. As at July 31, 2017, the notional committed amount of the global-style liquidity facilities totalled $3.0 billion ($2.9 billion as at October 31, 2016), 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, 2016). The maximum exposure to loss cannot exceed the amount of commercial paper outstanding. As at July 31, 2017, the Bank held a negligible amount of commercial paper ($4 million as at October 31, 2016) and, consequently, the maximum potential amount of future payments as at July 31, 2017 was limited to $3.0 billion ($2.9 billion as at October 31, 2016), which represents the undrawn liquidity and credit enhancement facilities.

(2) As at July 31, 2017, the carrying value of the restructured notes of the master asset vehicle (MAV) conduits and of the other restructured notes held by the Bank was nil ($619 million as at October 31, 2016). The change in the carrying value of the restructured notes of the MAV conduits during the nine months ended July 31, 2017 was mainly attributable to capital repayments. During the nine months ended July 31, 2017, given the repayment of the restructured notes, the Bank ceased its commitment to contribute to the margin funding facility of the MAV conduits. The undrawn margin funding facility amounted to $800 million as at October 31, 2016.

(3) The underlying assets are various financial instruments and are presented on a net asset basis. Certain investment funds are in a trading portfolio.

(4) 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.

(5) The underlying assets are 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 July 31, 2017		As at October 31, 2016	
	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)	837	1,763	343	1,882
Investment funds(4)	202	217	156	199
Covered bonds(5)	11,920	12,225	13,908	14,176
Building(6)	65	58	66	59
NBC Asset Trust(7)	1,350	2,107	1,350	2,121
Third-party structured entities(8)	212	212	867	867
	14,586	16,582	16,690	19,304

(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 July 31, 2017, the total amount of transferred mortgage loans was $11.9 billion ($13.9 billion as at October 31, 2016), and the total amount of covered bonds of $6.7 billion was recognized in *Deposits* on the Consolidated Balance Sheet ($6.7 billion as at October 31, 2016). For additional information, see Note 9.
(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 July 31, 2017, insured loans amounted to $94 million ($148 million as at October 31, 2016). 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 presentation of segment disclosures is consistent with the presentation adopted by the Bank for the fiscal year beginning November 1, 2016. This presentation reflects the fact that the activities of subsidiary Credigy Ltd., which had previously been presented in the Financial Markets segment, and that the activities of subsidiary Advanced Bank of Asia Limited (ABA Bank) and of other international investments, which had previously been presented in the *Other* heading, are now presented in the U.S. Specialty Finance and International (USSF&I) segment. The Bank made this change to better align the monitoring of its activities with its management structure.

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 July 31[1]

	Personal and Commercial		Wealth Management		Financial Markets		USSF&I		Other		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Net interest income[2]	**527**	497	**108**	94	**186**	231	**73**	28	**(63)**	(67)	**831**	783
Non-interest income[2]	**258**	242	**295**	267	**206**	139	**74**	97	**11**	29	**844**	774
Total revenues	**785**	739	**403**	361	**392**	370	**147**	125	**(52)**	(38)	**1,675**	1,557
Non-interest expenses	**413**	422	**259**	249	**162**	156	**58**	52	**79**	58	**971**	937
Contribution	**372**	317	**144**	112	**230**	214	**89**	73	**(131)**	(96)	**704**	620
Provisions for credit losses	**45**	44	**1**	1	**–**	–	**12**	–	**–**	–	**58**	45
Income before income taxes (recovery)	**327**	273	**143**	111	**230**	214	**77**	73	**(131)**	(96)	**646**	575
Income taxes (recovery)[2]	**87**	74	**37**	30	**62**	58	**26**	9	**(84)**	(74)	**128**	97
Net income	**240**	199	**106**	81	**168**	156	**51**	64	**(47)**	(22)	**518**	478
Non-controlling interests	**–**	–	**–**	–	**–**	–	**9**	4	**15**	14	**24**	18
Net income attributable to the Bank's shareholders	**240**	199	**106**	81	**168**	156	**42**	60	**(62)**	(36)	**494**	460
Average assets	**96,766**	92,300	**11,804**	11,007	**92,063**	88,449	**7,940**	5,586	**36,523**	40,105	**245,096**	237,447

Nine months ended July 31[1]

	Personal and Commercial		Wealth Management		Financial Markets		USSF&I		Other		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Net interest income[3]	**1,533**	1,453	**314**	274	**615**	713	**163**	42	**(234)**	(268)	**2,391**	2,214
Non-interest income[3]	**741**	708	**879**	796	**600**	199	**224**	267	**70**	87	**2,514**	2,057
Total revenues	**2,274**	2,161	**1,193**	1,070	**1,215**	912	**387**	309	**(164)**	(181)	**4,905**	4,271
Non-interest expenses	**1,235**	1,239	**776**	744	**497**	455	**169**	141	**204**	137	**2,881**	2,716
Contribution	**1,039**	922	**417**	326	**718**	457	**218**	168	**(368)**	(318)	**2,024**	1,555
Provisions for credit losses[4]	**103**	421	**2**	4	**–**	–	**29**	–	**40**	–	**174**	425
Income before income taxes (recovery)	**936**	501	**415**	322	**718**	457	**189**	168	**(408)**	(318)	**1,850**	1,130
Income taxes (recovery)[3]	**250**	135	**109**	86	**192**	148	**60**	42	**(260)**	(230)	**351**	181
Net income	**686**	366	**306**	236	**526**	309	**129**	126	**(148)**	(88)	**1,499**	949
Non-controlling interests	**–**	–	**–**	–	**–**	–	**23**	16	**42**	41	**65**	57
Net income attributable to the Bank's shareholders	**686**	366	**306**	236	**526**	309	**106**	110	**(190)**	(129)	**1,434**	892
Average assets	**95,788**	91,762	**11,496**	10,991	**95,664**	85,321	**7,135**	4,985	**37,274**	40,380	**247,357**	233,439

(1) For the quarter and nine-month period ended July 31, 2016, certain amounts have been revised from those previously reported, particularly in the Personal and Commercial segment, where an amount of $11 million reported in *Non-interest income* was reclassified to *Net interest income* ($27 million for the nine months ended July 31, 2016).

(2) *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 $55 million ($48 million in 2016), *Non-interest income* was grossed up by $10 million (nil in 2016) and an equivalent amount was recognized in *Income taxes (recovery)*. The effect of these adjustments is reversed under the *Other* heading.

(3) For the nine months ended July 31, 2017, *Net interest income* was grossed up by $169 million ($178 million in 2016), *Non-interest income* was grossed up by $21 million ($2 million in 2016), and an equivalent amount was recognized in *Income taxes (recovery)*. The effect of these adjustments is reversed under the *Other* heading.

(4) During the nine months ended July 31, 2017, the Bank reversed, by $40 million, the sectoral provision on non-impaired loans recorded for the oil and gas producer and service company loan portfolio presented in the Personal and Commercial segment, and the $40 million in provisions for credit losses in the *Other* heading reflects an increase in the collective allowance for credit risk on non-impaired loans. For the nine-month period ended July 31, 2016, the provisions for credit losses included a $250 million sectoral provision on non-impaired loans recorded for the oil and gas producer and service company loan portfolio that was presented in the Personal and Commercial segment.

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*
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Public Affairs
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Quarterly Report Publication Dates for Fiscal 2017
(subject to approval by the Board of Directors of the Bank)

First quarter	March 1
Second quarter	May 31
Third quarter	August 30
Fourth quarter	December 1

Disclosure of Third Quarter 2017 Results

Conference Call
- A conference call for analysts and institutional investors will be held on Wednesday, August 30, 2017 at 1:00 p.m. EDT.
- Access by telephone in listen-only mode: 1-866-862-3930 or 416-695-7806. The access code is 5481709#.
- A recording of the conference call can be heard until September 28, 2017 by dialing 1-800-408-3053 or 905-694-9451. The access code is 8316104#.

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