NATIONAL BANK

REPORT TO SHAREHOLDERS — SECOND QUARTER 2018

National Bank reports its results for the Second Quarter of 2018 and raises its quarterly dividend by 2 cents to 62 cents per share

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter and six-month period ended April 30, 2018 and is prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), unless otherwise indicated. IFRS represent Canadian generally accepted accounting principles (GAAP). All amounts are presented in Canadian dollars.

MONTREAL, May 30, 2018 – For the second quarter of 2018, National Bank is reporting net income of $547 million, up 13% from $484 million in the second quarter of 2017, as well as diluted earnings per share of $1.44 compared to $1.28 in the second quarter of 2017. Excluding the specified items described on page 4, second-quarter diluted earnings per share stood at $1.45, up 12% from $1.30 in the same quarter last year. The year-over-year increase in the Bank's second-quarter net income was attributable to the contributions made by each business segment.

For the first six months of 2018, the Bank's net income totalled $1,097 million, up 12% from $981 million in the same period of 2017, and its diluted earnings per share stood at $2.90 versus $2.62 in the same period of 2017. These increases were driven by net income growth across all the business segments. As for first-half diluted earnings per share excluding specified items, it stood at $2.93, up 11% from $2.65 in the same period of 2017.

"The Bank delivered excellent results in the second quarter of 2018," said Louis Vachon, President and Chief Executive Officer of National Bank. "Both business growth and improved efficiency were major contributors to this performance."

Highlights

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2018	2017	% Change	**2018**	2017	% Change
Net income	**547**	484	13	**1,097**	981	12
Diluted earnings per share *(dollars)*	**$ 1.44**	$ 1.28	13	**$ 2.90**	$ 2.62	11
Return on common shareholders' equity	**18.6 %**	17.9 %		**18.6 %**	18.1 %	
Dividend payout ratio	**41 %**	47 %		**41 %**	47 %	
Excluding specified items(1)						
Net income excluding specified items	**551**	492	12	**1,107**	994	11
Diluted earnings per share excluding specified items *(dollars)*	**$ 1.45**	$ 1.30	12	**$ 2.93**	$ 2.65	11
Return on common shareholders' equity excluding specified items	**18.7 %**	18.2 %		**18.8 %**	18.4 %	
Dividend payout ratio excluding specified items	**41 %**	42 %		**41 %**	42 %	

	As at April 30, 2018	As at October 31, 2017
CET1 capital ratio under Basel III	**11.3 %**	11.2 %
Leverage ratio under Basel III	**4.0 %**	4.0 %

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

Personal and Commercial

- Net income totalled $213 million in the second quarter of 2018, down 6% from $226 million in the second quarter of 2017. This decrease stems mainly from the fact that, in the second quarter of 2017, the Bank had partially reversed a sectoral provision on non-impaired loans recorded for the oil and gas producer and service company loan portfolio.
- At $213 million, the 2018 second-quarter net income was up $16 million or 8% when compared to the $197 million in net income excluding the impact of the sectoral provision(1) in the second quarter of 2017.
- At $777 million, second-quarter total revenues rose $45 million or 6% year over year.
- Rising 3% from a year ago, personal lending experienced growth, particularly due to mortgage lending, while commercial lending grew 6% from a year ago.
- Net interest margin was 2.31% in the second quarter of 2018 versus 2.23% in the second quarter of 2017.
- Second-quarter non-interest expenses were up 3% year over year.
- At 55.2%, the efficiency ratio improved from 57.0% in the second quarter of 2017.

Wealth Management

- Net income totalled $119 million in the second quarter of 2018, a 23% increase from $97 million in the second quarter of 2017.
- Second-quarter total revenues amounted to $431 million compared to $393 million in second quarter 2017, a $38 million or 10% increase driven by growth in net interest income and in fee-based revenues.
- Second-quarter non-interest expenses stood at $269 million compared to $261 million in the second quarter of 2017.
- At 61.4%, the efficiency ratio excluding specified items(2) improved from 64.8% in the second quarter of 2017.

Financial Markets

- Net income totalled $190 million in the second quarter of 2018, an 11% increase from $171 million in the same quarter of 2017.
- Total revenues on a taxable equivalent basis amounted to $437 million, a $37 million or 9% year-over-year increase driven by trading activity revenues and banking service revenues.
- Second-quarter non-interest expenses stood at $176 million, a $10 million year-over-year increase associated primarily with revenue growth.
- At 40.3%, the efficiency ratio on a taxable equivalent basis improved from 41.5% in the second quarter of 2017.

U.S. Specialty Finance and International

- Net income totalled $63 million in the second quarter of 2018, a 58% increase from $40 million in the same quarter of 2017.
- Second-quarter total revenues amounted to $174 million, a $52 million or 43% increase driven by net interest income growth at the Credigy and ABA Bank subsidiaries.
- Second-quarter non-interest expenses stood at $62 million, a $7 million year-over-year increase attributable mainly to business growth at the ABA Bank subsidiary.

Other

- The *Other* heading posted a net loss of $38 million in the second quarter of 2018 versus a $50 million net loss in the same quarter of 2017. This change stems mainly from the fact that, in the second quarter of 2017, the Bank increased its collective allowance for credit risk on non-impaired loans by $40 million to reflect growth in its overall credit portfolio.

Capital Management

- As at April 30, 2018, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 11.3%, an increase from 11.2% as at October 31, 2017.
- As at April 30, 2018, the Basel III leverage ratio was 4.0%, unchanged from October 31, 2017.

(1) For additional information on the impact of the sectoral provision, refer to the Personal and Commercial segment's results on page 9.
(2) See the Financial Reporting Method section on page 4 for additional information on non-GAAP financial measures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 29, 2018

The following Management's Discussion and Analysis (MD&A) presents the financial condition and operating results of National Bank of Canada (the Bank). This analysis was prepared in accordance with the requirements set out in *National Instrument 51-102 Continuous Disclosure Obligations* released by the Canadian Securities Administrators (CSA). It is based on the unaudited interim condensed consolidated financial statements (the consolidated financial statements) for the quarter and six-month period ended April 30, 2018 prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), unless otherwise indicated. IFRS represent Canadian generally accepted accounting principles (GAAP). This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes for the quarter and six-month period ended April 30, 2018 and with the *2017 Annual Report*. All amounts are presented in Canadian dollars. Additional information about the Bank, including the *Annual Information Form*, can be obtained from the Bank's website at nbc.ca and SEDAR's website at sedar.com.

Caution Regarding Forward-Looking Statements

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

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

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

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

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

FINANCIAL REPORTING METHOD

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

Non-GAAP Financial Measures

The Bank uses a number of financial measures when assessing its results and overall performance. Some of these financial measures are not calculated in accordance with GAAP, which are based on IFRS. Presenting non-GAAP financial measures helps readers to better understand how management analyzes results, shows the impacts of specified items on the results of the reported periods, and allows readers to assess results without the specified items if they consider such items not to be reflective of the underlying performance of the Bank's operations. Securities regulators require companies to caution readers that non-GAAP financial 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 April 30			Six months ended April 30		
	2018	2017	% Change	**2018**	2017	% Change
Net income excluding specified items[1]						
Personal and Commercial	**213**	226	(6)	**443**	434	2
Wealth Management	**123**	103	19	**249**	207	20
Financial Markets	**190**	171	11	**394**	350	13
U.S. Specialty Finance and International	**63**	40	58	**113**	78	45
Other	**(38)**	(48)		**(92)**	(75)	
Net income excluding specified items	**551**	492	12	**1,107**	994	11
Acquisition-related items[2]	**(4)**	(8)		**(10)**	(13)	
Net income	**547**	484	13	**1,097**	981	12
Diluted earnings per share excluding specified items	**$ 1.45**	$ 1.30	12	**$ 2.93**	$ 2.65	11
Acquisition-related items[2]	**(0.01)**	(0.02)		**(0.03)**	(0.03)	
Diluted earnings per share	**$ 1.44**	$ 1.28	13	**$ 2.90**	$ 2.62	11
Return on common shareholders' equity						
Including specified items	**18.6 %**	17.9 %		**18.6 %**	18.1 %	
Excluding specified items	**18.7 %**	18.2 %		**18.8 %**	18.4 %	

(1) For the quarter and six-month period ended April 30, 2017, certain amounts have been reclassified.

(2) During the quarter ended April 30, 2018, the Bank recorded $5 million ($4 million net of income taxes) in charges related to the acquisitions (2017: $9 million, $8 million net of income taxes). For the six-month period ended April 30, 2018, these charges were $12 million ($10 million net of income taxes) compared to $15 million ($13 million net of income taxes) for the same six-month period of 2017.

HIGHLIGHTS

(millions of Canadian dollars, except per share amounts)	Quarter ended April 30			Six months ended April 30		
	2018	2017	% Change	2018	2017	% Change
Operating results						
Total revenues	**1,754**	1,597	10	**3,560**	3,230	10
Net income	**547**	484	13	**1,097**	981	12
Net income attributable to the Bank's shareholders	**522**	462	13	**1,049**	940	12
Return on common shareholders' equity	**18.6 %**	17.9 %		**18.6 %**	18.1 %	
Earnings per share						
Basic	**$ 1.46**	$ 1.30	12	**$ 2.94**	$ 2.65	11
Diluted	**1.44**	1.28	13	**2.90**	2.62	11
Operating results on a taxable equivalent basis[1] and excluding specified items[2]						
Total revenues on a taxable equivalent basis and excluding specified items	**1,820**	1,654	10	**3,688**	3,361	10
Net income excluding specified items	**551**	492	12	**1,107**	994	11
Return on common shareholders' equity excluding specified items	**18.7 %**	18.2 %		**18.8 %**	18.4 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	**54.3 %**	56.6 %		**54.5 %**	56.6 %	
Earnings per share excluding specified items[2]						
Basic	**$ 1.47**	$ 1.32	11	**$ 2.97**	$ 2.69	10
Diluted	**1.45**	1.30	12	**2.93**	2.65	11
Common share information						
Dividends declared	**$ 0.60**	$ 0.56		**$ 1.20**	$ 1.12	
Book value				**32.64**	29.97	
Share price						
High	**64.08**	58.75		**65.35**	58.75	
Low	**58.69**	52.94		**58.69**	46.83	
Close	**60.98**	53.05		**60.98**	53.05	
Number of common shares *(thousands)*	**339,348**	341,524		**339,348**	341,524	
Market capitalization	**20,693**	18,118		**20,693**	18,118	

(millions of Canadian dollars)	As at April 30, 2018	As at October 31, 2017	% Change
Balance sheet and off-balance-sheet			
Total assets	**256,259**	245,827	4
Loans and acceptances, net of allowances	**139,864**	136,457	2
Gross impaired loans[3] as a % of loans and acceptances, net of allowances	**0.4 %**	0.3 %	
Deposits	**164,774**	156,671	5
Equity attributable to common shareholders	**11,077**	10,700	4
Assets under administration and under management	**495,422**	477,358	4
Earnings coverage	**12.29**	13.61	
Regulatory ratios under Basel III			
Capital ratios[4]			
Common Equity Tier 1 (CET1)	**11.3 %**	11.2 %	
Tier 1[5]	**15.3 %**	14.9 %	
Total[5]	**16.6 %**	15.1 %	
Leverage ratio[4]	**4.0 %**	4.0 %	
Liquidity coverage ratio (LCR)	**137 %**	132 %	
Other information			
Number of employees – worldwide	**22,359**	21,635	3
Number of branches in Canada	**428**	429	–
Number of banking machines in Canada	**933**	931	–

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

FINANCIAL ANALYSIS

Consolidated Results

On November 1, 2017, the Bank changed the presentation of certain Consolidated Balance Sheet items; in particular, the *Purchased receivables* item is now reported in *Loans*. As a result of this change, for the quarter ended April 30, 2017, a $53 million amount reported in *Non-interest income* was reclassified to *Net interest income* ($108 million for the six-month period ended April 30, 2017).

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2018	2017	% Change	**2018**	2017	% Change
Operating results						
Net interest income	**885**	815	9	**1,719**	1,668	3
Non-interest income	**869**	782	11	**1,841**	1,562	18
Total revenues	**1,754**	1,597	10	**3,560**	3,230	10
Non-interest expenses	**992**	941	5	**2,016**	1,910	6
Contribution	**762**	656	16	**1,544**	1,320	17
Provisions for credit losses(1)	**91**	56	63	**178**	116	53
Income before income taxes	**671**	600	12	**1,366**	1,204	13
Income taxes	**124**	116	7	**269**	223	21
Net income	**547**	484	13	**1,097**	981	12
Diluted earnings per share *(dollars)*	**1.44**	1.28	13	**2.90**	2.62	11
Taxable equivalent basis(2)						
Net interest income	**36**	46		**74**	114	
Non-interest income	**28**	7		**49**	11	
Income taxes	**64**	53		**123**	125	
Impact of taxable equivalent basis on net income	**–**	–		**–**	–	
Specified items(3)						
Acquisition-related items	**(5)**	(9)		**(12)**	(15)	
Specified items before income taxes	**(5)**	(9)		**(12)**	(15)	
Income taxes on specified items	**(1)**	(1)		**(2)**	(2)	
Specified items after income taxes	**(4)**	(8)		**(10)**	(13)	
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	**921**	861	7	**1,793**	1,782	1
Non-interest income on a taxable equivalent basis and excluding specified items	**899**	793	13	**1,895**	1,579	20
Total revenues on a taxable equivalent basis and excluding specified items	**1,820**	1,654	10	**3,688**	3,361	10
Non-interest expenses excluding specified items	**989**	936	6	**2,009**	1,901	6
Contribution on a taxable equivalent basis and excluding specified items	**831**	718	16	**1,679**	1,460	15
Provisions for credit losses(1)	**91**	56	63	**178**	116	53
Income before income taxes on a taxable equivalent basis and excluding specified items	**740**	662	12	**1,501**	1,344	12
Income taxes on a taxable equivalent basis and excluding specified items	**189**	170	11	**394**	350	13
Net income excluding specified items	**551**	492	12	**1,107**	994	11
Diluted earnings per share excluding specified items *(dollars)*	**1.45**	1.30	12	**2.93**	2.65	11
Average assets	**264,407**	251,033	5	**263,275**	248,505	6
Average loans and acceptances	**138,365**	128,883	7	**137,279**	128,433	7
Net impaired loans(4) as a % of average loans and acceptances	**0.3 %**	0.2 %		**0.3 %**	0.2 %	
Average deposits	**166,201**	153,220	8	**165,227**	151,754	9
Efficiency ratio on a taxable equivalent basis(2) and excluding specified items(3)	**54.3 %**	56.6 %		**54.5 %**	56.6 %	

(1) During the quarter ended April 30, 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 the provisions for credit losses included an amount of $40 million to reflect an increase in the collective allowance for credit risk on non-impaired loans.

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

Financial Results

For the second quarter of 2018, the Bank is reporting net income of $547 million, up $63 million or 13% from $484 million in the second quarter of 2017 as well as diluted earnings per share of $1.44 compared to $1.28 in the second quarter of 2017. These increases were driven by business growth across all the segments (for the Personal and Commercial segment, the growth excludes the impact of the 2017 second-quarter partial reversal of the sectoral provision on non-impaired loans recorded for the oil and gas producer and service company loan portfolio).

Net income excluding specified items totalled $551 million in the second quarter of 2018, up 12% from $492 million in the second quarter of 2017. Second-quarter diluted earnings per share excluding specified items stood at $1.45, a 12% increase from $1.30 in the same quarter of 2017. The 2018 second-quarter specified items, net of income taxes, consisted of $4 million (2017: $8 million) in items related to the acquisitions carried out by the Wealth Management segment.

For the six months ended April 30, 2018, the Bank's net income totalled $1,097 million versus $981 million in the same six-month period of 2017, and its first-half diluted earnings per share stood at $2.90 versus $2.62 in the same period of 2017. These increases were driven by net income growth across all the business segments. First-half net income excluding specified items totalled $1,107 million, an 11% increase from $994 million in the same period of 2017. First-half diluted earnings per share excluding specified items stood at $2.93 compared to $2.65 in the same period of 2017. For the six months ended April 30, 2018, the specified items, net of income taxes, consisted of $10 million in acquisition-related charges (2017: $13 million).

Return on common shareholders' equity excluding specified items was 18.8% for the six months ended April 30, 2018 compared to 18.4% in the same period of 2017.

Total Revenues

For the second quarter of 2018, the Bank's total revenues amounted to $1,754 million, up $157 million or 10% from second quarter 2017. This year-over-year increase was driven by growth in the net interest income of the Personal and Commercial segment owing to higher loan and deposit volumes and an improved net interest margin, by growth in the net interest income of the Wealth Management segment owing in part to improved margins, by growth in the net interest income of Credigy and ABA Bank, and by increases in trading revenues, trust service revenues, and revenues from credit fees. These increases were tempered by a year-over-year decrease in the gain on securities. Total revenues on a taxable equivalent basis and excluding specified items amounted to $1,820 million in the second quarter of 2018, up 10% from $1,654 million in the second quarter of 2017.

For the six months ended April 30, 2018, total revenues amounted to $3,560 million compared to $3,230 million in the same six-month period of 2017, a 10% increase driven partly by 3% growth in net interest income that was essentially due to the same reasons provided for the quarter. As for the first-half non-interest income, it grew by 18%, mainly due to increases in trading revenues and trust service revenues. These increases were tempered somewhat by decreases in gains on securities and other revenues, as a 2017 first-quarter gain had been realized following a change to the distribution model for property and casualty insurance. Total revenues on a taxable equivalent basis and excluding specified items amounted to $3,688 million for the six months ended April 30, 2018 compared to $3,361 million in the same period of 2017.

Provisions for Credit Losses

For the second quarter of 2018, the Bank recorded $91 million in provisions for credit losses compared to $56 million in the same quarter of 2017. The higher year-over-year provisions stem mainly from higher credit loss provisions recorded for Personal and Commercial Banking loans as well as for USSF&I segment loans that were essentially attributable to the Credigy subsidiary. In the second quarter of 2017, the provisions for credit losses had included a $40 million reversal of the sectoral provision on non-impaired loans in the oil and gas producer and service company loan portfolio, while a $40 million increase in the collective allowance for credit risk on non-impaired loans had been recorded to reflect growth in the Bank's overall credit portfolio.

For the six months ended April 30, 2018, the Bank recorded $178 million in provisions for credit losses, $62 million more than in the same period of 2017. The reasons for this increase are the same as those provided above for the second quarter.

As at April 30, 2018, gross impaired loans stood at $586 million compared to $599 million as at November 1, 2017. As at April 30, 2018, net impaired loans stood at $382 million compared to $360 million as at November 1, 2017. Following IFRS 9 adoption on November 1, 2017, all loans classified in Stage 3 of the expected credit loss model constitute impaired loans and do not include purchased or originated credit-impaired loans.

Non-Interest Expenses

For the second quarter of 2018, non-interest expenses stood at $992 million, a 5% year-over-year increase attributable to higher compensation and employee benefits, particularly the variable compensation associated with revenue growth, as well as to higher technology investment expenses and other expenses. These increases were tempered somewhat by a decrease in professional fees related to the servicing fees of Credigy's business activities. Non-interest expenses excluding specified items stood at $989 million in the second quarter of 2018 compared to $936 million in the second quarter of 2017.

For the six months ended April 30, 2018, the segment's non-interest expenses stood at $2,016 million, a 6% year-over-year increase attributable to the same reasons provided for the quarter. First-half non-interest expenses excluding specified items stood at $2,009 million, up 6% from $1,901 million in the same period of 2017.

Income Taxes

For the second quarter of 2018, income taxes stood at $124 million compared to $116 million in the same quarter of 2017. The 2018 second-quarter effective tax rate was 18% compared to 19% in second quarter 2017. This change in effective tax rate stems partly from a decrease in income taxes arising from the U.S. tax reform.

For the six months ended April 30, 2018, the effective tax rate stood at 20% compared to 19% in the same period of 2017.

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 April 30			Six months ended April 30		
	2018	2017[1]	% Change	2018	2017[1]	% Change
Operating results						
Net interest income	532	496	7	1,076	1,006	7
Non-interest income	245	236	4	500	481	4
Total revenues	777	732	6	1,576	1,487	6
Non-interest expenses	429	417	3	857	836	3
Contribution	348	315	10	719	651	10
Provisions for credit losses[2]	58	6		115	58	
Income before income taxes	290	309	(6)	604	593	2
Income taxes	77	83	(7)	161	159	1
Net income	213	226	(6)	443	434	2
Net income excluding the impact of the sectoral provision[2]	213	197	8	443	405	9
Net interest margin[3]	2.31 %	2.23 %		2.31 %	2.23 %	
Average interest-bearing assets	94,566	91,269	4	94,093	90,810	4
Average assets	99,807	95,956	4	98,956	95,493	4
Average gross loans and acceptances	99,683	95,565	4	99,066	95,119	4
Net impaired loans[4] under IFRS 9	355			355		
Net impaired loans under IAS 39		207			207	
Net impaired loans[4] as a % of average loans and acceptances	0.4 %	0.2 %		0.4 %	0.2 %	
Average deposits	56,333	53,580	5	56,263	52,648	7
Efficiency ratio	55.2 %	57.0 %		54.4 %	56.2 %	

(1) For the quarter and six-month period ended April 30, 2017, certain amounts have been reclassified.
(2) During the quarter ended April 30, 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. 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.
(4) Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn.

In the Personal and Commercial segment, net income totalled $213 million in the second quarter of 2018, down 6% from $226 million in the second quarter of 2017. The decrease stems mainly from the fact that, in the second quarter of 2017, the Bank had recorded a net-of-tax $29 million reversal to the sectoral provision on non-impaired loans in the oil and gas producer and service company loan portfolio. The $213 million in second-quarter net income was up 8% when compared to $197 million in net income excluding the impact of the sectoral provision recorded in the second quarter of 2017. The segment's second-quarter total revenues increased by $45 million year over year owing to growth in net interest income, which rose $36 million, as well as to growth in non-interest income, which rose $9 million. This increase in net interest income came from higher personal and commercial loan and deposit volumes and a wider net interest margin (2.31% in second quarter 2018 versus 2.23% in second quarter 2017) driven mainly by higher deposit margins.

Personal Banking's second-quarter total revenues rose $20 million year over year. Its net interest income was up owing to growth in loan and deposit volumes and to widening deposit margins, and its non-interest income was up $4 million owing mainly to growth in card revenues and internal commission revenues generated by the distribution of Wealth Management products. Commercial Banking's second-quarter total revenues rose $25 million year over year, mainly due to higher net interest income that was driven by growth in loan and deposit volumes and by improved deposit margins. Also contributing to Commercial Banking's revenue growth were increases in revenues from bankers' acceptances and in revenues from derivative financial instruments.

For the second quarter of 2018, the segment's non-interest expenses were up $12 million year over year, mainly due to increases in compensation and employee benefits and technology investment expenses. At 55.2%, the second-quarter efficiency ratio improved by 1.8 percentage points when compared to the second quarter of 2017. The segment recorded second-quarter provisions for credit losses of $58 million, a $52 million year-over-year increase attributable mainly to the $40 million reversal of the sectoral provision in second quarter 2017 as well as to higher credit loss provisions on personal loans, commercial loans, and credit card receivables.

For the six months ended April 30, 2018, the Personal and Commercial segment's net income totalled $443 million, up from $434 million in the same period of 2017. First-half net income grew 9% when compared to the net income excluding the impact of the sectoral provision for the same period of 2017. The segment's first-half total revenues grew 6% year over year. Growth in Personal Banking's total revenues came from the same reasons provided for the quarter; in addition, in the first quarter of 2017, a gain had been realized following a change to the distribution model for property and casualty insurance. Growth in Commercial Banking's total revenues came from higher loan and deposit volumes, improved deposit margins, and increases in revenues from credit fees, revenues from bankers' acceptances, and revenues from derivative financial instruments and foreign exchange activities. The first-half non-interest expenses were up $21 million year over year, the reasons being essentially the same as those provided for the second quarter. The segment's first-half contribution increased $68 million or 10%. At 54.4% for the six months ended April 30, 2018, the efficiency ratio improved by 1.8 percentage points when compared with the same six-month period of 2017. The segment's first-half provisions for credit losses were up $57 million from the same period last year for the same reasons provided for the quarter.

Wealth Management

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2018	2017[1]	% Change	2018	2017[1]	% Change
Operating results						
Net interest income	125	102	23	249	206	21
Fee-based revenues	243	222	9	490	441	11
Transaction-based and other revenues	63	69	(9)	133	143	(7)
Total revenues	431	393	10	872	790	10
Non-interest expenses	269	261	3	546	522	5
Contribution	162	132	23	326	268	22
Provisions for credit losses	–	–		1	1	–
Income before income taxes	162	132	23	325	267	22
Income taxes	43	35	23	86	71	21
Net income	119	97	23	239	196	22
Specified items after income taxes[2]	4	6		10	11	
Net income excluding specified items[2]	123	103	19	249	207	20
Average assets	12,312	11,382	8	12,204	11,340	8
Average loans and acceptances	10,887	9,687	12	10,726	9,621	11
Net impaired loans[3] under IFRS 9	15			15		
Net impaired loans under IAS 39		4			4	
Average deposits	31,448	31,984	(2)	31,389	31,857	(1)
Assets under administration and under management	495,422	425,847	16	495,422	425,847	16
Efficiency ratio excluding specified items[2]	61.4 %	64.8 %		61.5 %	64.6 %	

(1) For the quarter and six-month period ended April 30, 2017, certain amounts have been reclassified.
(2) See the Financial Reporting Method section on page 4 for additional information on non-GAAP financial measures.
(3) Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn.

In the Wealth Management segment, net income totalled $119 million in the second quarter of 2018, a 23% increase from $97 million in the same quarter of 2017. At $123 million, second-quarter net income excluding specified items (with the specified items including the acquisition-related items) rose 19% from $103 million in the same quarter of 2017. The segment's second-quarter total revenues amounted to $431 million compared to $393 million in the second quarter of 2017, a 10% year-over-year increase driven mainly by growth in net interest income, owing to improved margins, and by growth in fee-based revenues given net inflows across all solutions. As for transaction-based and other revenues, they were down 9% compared to the second quarter of 2017.

The segment's second-quarter non-interest expenses stood at $269 million, a 3% year-over-year increase attributable mainly to higher variable compensation, to business volume growth that generated higher revenues, and to an increase in operations support charges. The efficiency ratio excluding specified items was 61.4% in the second quarter of 2018, an improvement of 3.4 percentage points from second quarter 2017. The segment's provisions for credit losses were nil in both the second quarters of 2018 and 2017.

For the six months ended April 30, 2018, the Wealth Management segment's net income totalled $239 million, up 22% from $196 million in the same six-month period of 2017. First-half net income excluding specified items totalled $249 million, up $42 million or 20% from the same period of 2017. At $872 million, the segment's first-half total revenues grew from $790 million in the same period of 2017. This increase was generated by higher net interest income attributable to improved margins and by fee-based revenue growth attributable to the same factors provided for the quarter. First-half non-interest expenses stood at $546 million compared to $522 million in first-half 2017, for an increase resulting from higher variable compensation and external management fees (due to business volume growth that generated higher revenues) and from operations support charges and the costs incurred to develop affluent client services in Western Canada. At 61.5%, the efficiency ratio for the six-month period ended April 30, 2018 improved from 64.6% in the same period of 2017. Year over year, first-half provisions for credit losses remained stable.

Assets under administration and under management increased by $69.6 billion or 16% from a year ago due to net inflows into various solutions.

Financial Markets

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

	Quarter ended April 30			Six months ended April 30		
	2018	2017(2)	% Change	2018	2017(2)	% Change
Operating results						
Trading activity revenues						
Equities	159	113	41	294	247	19
Fixed-income	66	72	(8)	148	148	–
Commodities and foreign exchange	35	23	52	71	64	11
	260	208	25	513	459	12
Financial market fees	69	77	(10)	159	149	7
Gains (losses) on investments, net	7	30		25	39	
Banking services	94	78	21	179	156	15
Other	7	7	–	15	13	15
Total revenues on a taxable equivalent basis	437	400	9	891	816	9
Non-interest expenses	176	166	6	352	338	4
Contribution on a taxable equivalent basis	261	234	12	539	478	13
Provisions for credit losses	2	–		2	–	
Income before income taxes on a taxable equivalent basis	259	234	11	537	478	12
Income taxes on a taxable equivalent basis	69	63	10	143	128	12
Net income	190	171	11	394	350	13
Average assets	100,674	98,161	3	101,254	97,459	4
Average loans and acceptances (Corporate Banking only)	14,756	12,546	18	14,384	12,644	14
Net impaired loans	–	–		–	–	
Average deposits	22,827	20,266	13	22,625	20,559	10
Efficiency ratio on a taxable equivalent basis(1)	40.3 %	41.5 %		39.5 %	41.4 %	

(1) See Note 19 to the consolidated financial statements.
(2) For the quarter and six-month period ended April 30, 2017, certain amounts have been reclassified.

In the Financial Markets segment, net income totalled $190 million in the second quarter of 2018 compared to $171 million in the same quarter of 2017, and total revenues on a taxable equivalent basis amounted to $437 million compared to $400 million in the second quarter of 2017. Second-quarter trading activity revenues were up 25% year over year due to increases in revenues from equity securities, which rose 41%, and revenues from commodities and foreign exchange activities, which rose 52%. As for revenues from fixed-income securities, they were down 8%. Year over year, second-quarter financial market fee revenues were down 10%, whereas banking service revenues were up 21%, particularly due to growth in lending volume.

For the second quarter of 2018, the segment's non-interest expenses stood at $176 million, a $10 million year-over-year increase resulting mainly from higher variable compensation associated with revenue growth. At 40.3%, the efficiency ratio on a taxable equivalent basis improved by 1.2 percentage points when compared to the second quarter of 2017. The segment recorded $2 million in provisions for credit losses on non-impaired loans during the second quarter of 2018, whereas no provisions had been recorded in the second quarter of 2017.

For the six months ended April 30, 2018, the segment's net income totalled $394 million, up $44 million from the same six-month period in 2017. Total revenues on a taxable equivalent basis amounted to $891 million, up $75 million from $816 million in first-half 2017. Trading activity revenues were up 12% as a result of growth in revenues from equity securities and revenues from commodities and foreign exchange activities, which rose 19% and 11%, respectively. As for revenues from financial market fees, they were up 7% year over year, particularly due to sound performance in both underwriting and merger and acquisition activities during the first quarter of 2018. First-half banking service revenues rose 15% year over year, whereas higher gains on investments had been recorded during the six-month period ended April 30, 2017.

The segment's first-half non-interest expenses increased 4% year over year, mainly due to the higher variable compensation associated with revenue growth as well as to higher operations support charges. At 39.5%, the first-half efficiency ratio on a taxable equivalent basis improved by 1.9 percentage points compared to the first half of 2017.

U.S. Specialty Finance and International

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2018	2017[1]	% Change	2018	2017[1]	% Change
Operating results						
Net interest income	150	101	49	297	198	50
Non-interest income	24	21	14	38	42	(10)
Total revenues	174	122	43	335	240	40
Credigy	129	91	42	246	181	36
ABA Bank and International	45	31	45	89	59	51
Non-interest expenses	62	55	13	122	111	10
Credigy	39	39	–	78	82	(5)
ABA Bank and International	23	16	44	44	29	52
Contribution	112	67	67	213	129	65
Provisions for credit losses	31	10		60	17	
Income before income taxes	81	57	42	153	112	37
Income taxes	18	17	6	40	34	18
Net income	63	40	58	113	78	45
Non-controlling interests	11	8	38	20	14	43
Net income attributable to the Bank's shareholders	52	32	63	93	64	45
Average assets	9,104	6,799	34	8,938	6,726	33
Average loans and acceptances	7,856	5,269	49	7,778	4,997	56
Net impaired loans[2] under IFRS 9	12			12		
Net impaired loans under IAS 39		2			2	
Purchased or originated credit-impaired loans	1,475	1,696	(13)	1,475	1,696	(13)
Average other revenue-bearing assets	10	578		28	691	
Average deposits	1,795	1,225	47	1,661	1,173	42
Efficiency ratio	35.6 %	45.1 %		36.4 %	46.3 %	

(1) For the quarter and six-month period ended April 30, 2017, certain amounts have been reclassified.
(2) Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn and do not include purchased or originated credit-impaired loans.

In the U.S. Specialty Finance and International segment, net income totalled $63 million in the second quarter of 2018, a 58% increase from $40 million in the same quarter of 2017. The segment's second-quarter total revenues amounted to $174 million compared to $122 million in the second quarter of 2017, a 43% year-over-year increase driven by net interest income growth at the Credigy subsidiary (as a result of higher loan volumes) and at the ABA Bank subsidiary (as a result of higher loan and deposit volumes). Second-quarter non-interest income grew $3 million year over year and came mainly from the revenues of the Credigy subsidiary.

For the second quarter of 2018, non-interest expenses stood at $62 million, a $7 million year-over-year increase attributable to ABA Bank's growing banking network. The segment recorded $31 million in provisions for credit losses, $21 million more than in the same quarter of 2017, primarily due to credit loss provisions recorded by the Credigy subsidiary.

The segment's effective income tax rate was down in the second quarter of 2018 compared to the same quarter of 2017, as the U.S. tax reform resulted in a lower income tax rate for Credigy.

For the six months ended April 30, 2018, the segment's net income totalled $113 million compared to $78 million in the same six-month period of 2017. Its first-half total revenues amounted to $335 million versus $240 million in first-half 2017; this revenue growth was driven partly by a 36% increase in Credigy's revenues, particularly due to growth in loan volumes, and partly by ABA Bank's revenues, which increased steadily due to growth in loan and deposit volumes.

First-half non-interest expenses stood at $122 million, an $11 million year-over-year increase that came essentially from the non-interest expenses of the ABA Bank subsidiary. As for the non-interest expenses of the Credigy subsidiary, they were down 5% year over year, primarily due to lower servicing fees. The segment's first-half provisions for credit losses were $60 million, mainly reflecting the credit loss provisions recorded for the Credigy Ltd. subsidiary.

For the six months ended April 30, 2018, the effective tax rate was down year over year. However, Credigy's lower income tax rate arising from the U.S. tax reform was partly offset by a decrease in the value of deferred tax assets and by income taxes on the deemed repatriation of foreign profits.

Other

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

	Quarter ended April 30		Six months ended April 30	
	2018	2017(2)	**2018**	2017(2)
Operating results				
Net interest income	**(32)**	(32)	**(74)**	(51)
Non-interest income	**31**	35	**83**	73
Total revenues on a taxable equivalent basis	**(1)**	3	**9**	22
Non-interest expenses	**56**	42	**139**	103
Contribution on a taxable equivalent basis	**(57)**	(39)	**(130)**	(81)
Provisions for credit losses(3)	**–**	40	**–**	40
Income before income taxes on a taxable equivalent basis	**(57)**	(79)	**(130)**	(121)
Income taxes (recovery) on a taxable equivalent basis	**(19)**	(29)	**(38)**	(44)
Net loss	**(38)**	(50)	**(92)**	(77)
Non-controlling interests	**14**	14	**28**	27
Net loss attributable to the Bank's shareholders	**(52)**	(64)	**(120)**	(104)
Specified items after income taxes(4)	**–**	2	**–**	2
Net loss excluding specified items(4)	**(38)**	(48)	**(92)**	(75)
Average assets	**42,510**	38,735	**41,923**	37,487

(1) See Note 19 to the consolidated financial statements.
(2) For the quarter and six-month period ended April 30, 2017, certain amounts have been reclassified.
(3) For the quarter and six-month period ended April 30, 2017, the $40 million in provisions for credit losses consisted of 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 $38 million in the second quarter of 2018 compared to a net loss of $50 million in the same quarter of 2017. This lower net loss mainly stems from the fact that, in the second quarter of 2017, the collective allowance for credit risk on non-impaired loans was increased by $40 million ($29 million net of income taxes) to reflect growth in the Bank's overall credit portfolio. The lower net loss was partly offset by an increase in non-interest expenses, in particular those related to technology investments made as part of the Bank's transformation plan and for business development purposes.

For the six months ended April 30, 2018, there was a net loss of $92 million compared to a net loss of $77 million in the same six-month period of 2017. This change in net loss is explained by the same reasons provided for the quarter and by a higher contribution from Treasury activities during the first six months of 2017. The first-half net loss excluding specified items was $92 million compared to a $75 million loss in the same period of 2017.

Consolidated Balance Sheet

The presentation of the Consolidated Balance Sheet as at April 30, 2018 reflects the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these consolidated financial statements. Comparative information has not been restated.

Consolidated Balance Sheet Summary

(millions of Canadian dollars)	As at April 30, 2018	As at October 31, 2017[(1)]	% Change
Assets			
Cash and deposits with financial institutions	**10,948**	8,802	24
Securities	**73,442**	65,343	12
Securities purchased under reverse repurchase agreements and securities borrowed	**17,636**	20,789	(15)
Loans and acceptances (net of allowances for credit losses)	**139,864**	136,457	2
Other	**14,369**	14,436	–
	256,259	245,827	4
Liabilities and equity			
Deposits	**164,774**	156,671	5
Other	**76,722**	75,589	1
Subordinated debt	**755**	9	
Equity attributable to the Bank's shareholders	**13,227**	12,750	4
Non-controlling interests	**781**	808	(3)
	256,259	245,827	4

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

Assets

As at April 30, 2018, the Bank had total assets of $256.3 billion compared to $245.8 billion as at October 31, 2017, a $10.5 billion or 4% increase. Cash and deposits with financial institutions, totalling $10.9 billion as at April 30, 2018, rose $2.1 billion, mainly due to deposits with financial institutions. Since October 31, 2017, securities rose $8.1 billion, essentially due to an $11.9 billion or 25% increase in securities at fair value through profit or loss, in particular equity securities, which rose $6.0 billion, and securities issued or guaranteed by the Canadian government, which rose $2.9 billion. These increases were tempered by a $3.8 billion decrease in securities other than those measured at fair value through profit or loss. Securities purchased under reverse repurchase agreements and securities borrowed decreased by $3.2 billion, mainly related to Financial Markets operations.

At $140.5 billion as at April 30, 2018, loans and acceptances rose $3.4 billion since October 31, 2017, as loans to businesses and governments were up $2.6 billion or 5% and personal loans were up $0.6 billion. The following table provides a breakdown of the main loan and acceptance portfolios.

(millions of Canadian dollars)	As at April 30, 2018	As at October 31, 2017[(1)]	As at April 30, 2017[(1)]
Loans and acceptances			
Residential mortgage	**51,874**	51,634	51,006
Personal	**36,155**	35,590	33,614
Credit card	**2,245**	2,247	2,190
Business and government	**50,256**	47,681	45,413
	140,530	137,152	132,223

(1) On November 1, 2017, the Bank changed the presentation of certain Consolidated Balance Sheet items, and the figures as at October 31, 2017 and as at April 30, 2017 were reclassified to reflect those changes.

When compared to a year ago, loans and acceptances increased by $8.3 billion or 6%, residential mortgage loans and personal loans rose 2% and 8%, respectively, and loans and acceptances to businesses and governments were up 11% due to the Personal and Commercial segment's activities and to corporate financing.

Liabilities
As at April 30, 2018, the Bank had total liabilities of $242.3 billion compared to $232.3 billion as at October 31, 2017.

The Bank's total deposit liability stood at $164.8 billion as at April 30, 2018, up $8.1 billion from $156.7 billion as at October 31, 2017. The following table provides a breakdown of total personal savings.

(millions of Canadian dollars)	As at April 30, 2018	As at October 31, 2017	As at April 30, 2017
Balance sheet			
Deposits	**55,543**	53,719	53,606
Off-balance-sheet			
Brokerage	**122,827**	124,212	120,363
Mutual funds	**32,911**	32,192	30,939
Other	**457**	408	418
	156,195	156,812	151,720
Total personal savings	**211,738**	210,531	205,326

As at April 30, 2018, personal deposits were $55.5 billion, rising $1.8 billion since October 31, 2017, and total personal savings were $211.7 billion, rising 1% from $210.5 billion since October 31, 2017. Compared to a year ago, personal deposits were up 4%, owing essentially to the Bank's initiatives to grow this type of deposit. Off-balance-sheet personal savings stood at $156.2 billion, a $4.5 billion or 3% increase from a year ago and attributable to excellent net inflows in brokerage operations and a steady rise in stock markets.

At $102.9 billion, business and government deposits rose $5.3 billion since October 31, 2017, meeting the needs to fund growth of the Bank's assets. Other liabilities stood at $76.7 billion, rising $1.1 billion since October 31, 2017 due to a $4.8 billion increase in obligations related to securities sold under repurchase agreements and securities loaned, partly offset by a $2.6 billion decrease in obligations related to securities sold short, a $0.5 billion decrease in liabilities related to transferred receivables, and a $0.8 billion decrease in derivative financial instruments. Since October 31, 2017, subordinated debt increased due to a $750 million issuance of medium-term notes on February 1, 2018.

Equity
As at April 30, 2018, equity attributable to the Bank's shareholders was $13.2 billion, rising $0.4 billion from October 31, 2017. This increase came from higher retained earnings (attributable to net income net of dividends) and from the issuance of Series 40 preferred shares for $300 million, tempered by a redemption of Series 28 preferred shares for cancellation in an amount of $200 million. Also contributing to the increase in equity were the common shares issued under the stock option plan and the impact of shares purchased or sold for trading, partly offset by common shares repurchased for cancellation.

As at May 25, 2018, there were 339,376,789 common shares and 14,081,453 stock options outstanding. For additional information on share capital, see Note 19 to the audited annual consolidated financial statements for the year ended October 31, 2017 and Note 14 to the consolidated financial statements of this quarter.

Event After the Consolidated Balance Sheet Date

Redemption of Trust Units Issued by NBC Asset Trust
On May 22, 2018, NBC Asset Trust (the Trust), a closed-end trust established by the Bank, announced its intention to redeem all of the outstanding 400,000 Trust units – Series 1 (NBC CapS II – Series 1) on June 30, 2018 at a per-unit price of $1,000. The redemption has been approved by the Office of the Superintendent of Financial Institutions (Canada) (OSFI).

Related Party Transactions

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

Securitization and Off-Balance-Sheet Arrangements

In the normal course of business, the Bank is party to various financial arrangements that, under IFRS, are not required to be recorded on the Consolidated Balance Sheet or are recorded at amounts other than their notional or contractual values. These arrangements include, among others, transactions with structured entities, derivative financial instruments, issuances of guarantees, credit instruments, and financial assets received as collateral. A complete analysis of these types of arrangements, including their nature, business purpose and importance, is provided on pages 39 and 40 of the *2017 Annual Report*. For additional information on guarantees, commitments and structured entities, see Notes 27 and 28 to the audited annual consolidated financial statements for the year ended October 31, 2017.

For additional information about financial assets transferred but not derecognized, see Note 9 to the consolidated financial statements.

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 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. The unaudited interim condensed consolidated financial statements for the quarter and the six-month period ended April 30, 2018 were prepared in accordance with IAS 34 – *Interim Financial Reporting* and using the same accounting policies described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2017, except for the changes described in Note 2 to the interim condensed consolidated financial statements, which have been applied since November 1, 2017 following the Bank's adoption of IFRS 9 – *Financial Instruments.*

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

On November 1, 2017, the Bank changed the presentation of certain items on the Consolidated Balance Sheet and reclassified certain amounts. The former *Personal and credit card* loans item is now presented in two separate items. The *Purchased receivables* item, which had been presented net of allowances for credit losses, in an amount of $2,014 million as at October 31, 2017, is now reported in *Residential mortgage* loans ($1,116 million) and in *Personal* loans ($874 million), and the *Allowances for credit losses* item was reduced by $24 million. As a result of this presentation change, for the quarter ended April 30, 2017, a $53 million amount reported in *Non-interest income – Other* was reclassified to *Interest income – Loans* ($108 million for the six-month period ended April 30, 2017).

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

Future Accounting Policy Changes

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

Effective Date – November 1, 2020

On March 29, 2018, the IASB issued the revised *Conceptual Framework for Financial Reporting* to replace its 2010 conceptual framework. For the IASB, the revised conceptual framework has been in effect since its publication date. Early application is permitted.

Financial Disclosure

During the second quarter of 2018, no changes were made to the policies, procedures and other processes that comprise the Bank's internal control over financial reporting that had or could reasonably have a significant impact on the internal control over financial reporting.

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 $395 million as at April 30, 2018 ($408 million as at October 31, 2017).

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

Leveraged financing structures are defined by the Bank as loans granted to large corporate and financial sponsor-backed companies that are typically non-investment grade with much higher levels of debt relative to other companies in the same industry. Leveraged finance is commonly employed to achieve a specific objective, for example, to make an acquisition, complete a buy-out or repurchase shares. Leveraged finance risk exposure takes the form of both funded and unfunded commitments. As at April 30, 2018, total commitments for this type of loan stood at $3,223 million ($3,269 million as at October 31, 2017). Details about other exposures are provided in the table on structured entities in Note 28 to the audited annual consolidated financial statements for the year ended October 31, 2017.

The FSB created the Enhanced Disclosure Task Force (EDTF), a working group that, on October 29, 2012, published a report entitled *Enhancing the Risk Disclosures of Banks*, which contains 32 recommendations. The Bank ensures overall compliance with those recommendations and is continuing to enhance its risk disclosures to meet the best practices on an ongoing basis. The risk disclosures required by the EDTF are provided in the *2017 Annual Report*, in this *Report to Shareholders*, and in the documents entitled *Supplementary Regulatory Capital Disclosure for the Second Quarter Ended April 30, 2018,* and *Supplementary Financial Information for the Second Quarter Ended April 30, 2018*, which are available on the Bank's website at nbc.ca. In addition, on the following page is a table of contents to help users locate information relative to the 32 recommendations.

Risk Disclosures

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

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

(1) For the second quarter ended April 30, 2018.
(2) These pages are included in the document entitled *Supplementary Financial Information for the Second Quarter Ended April 30, 2018*.

CAPITAL MANAGEMENT

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

Basel Accord

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

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

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

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

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

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

Regulatory Developments

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

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

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

On February 27, 2018, the BCBS issued *Pillar 3 Disclosure Requirements – Updated Framework,* a consultative document that presents the additional disclosure requirements that will apply when the outstanding Basel III regulatory reforms take effect as of 2022. The revisions to the Pillar 3 disclosure requirements made during Phase 1 and Phase 2 (issued January 28, 2015 and March 11, 2016, respectively) combined with these new disclosure requirements will form a single Pillar 3 disclosure framework.

On March 22, 2018, the BCBS issued a consultative document entitled *Pillar 3 Disclosure Requirements: Regulatory Treatment of Accounting Provisions*. This document is a technical amendment on the Pillar 3 disclosure requirements addressing provisions for expected credit losses and the related transitional arrangements. The proposed implementation date is January 1, 2019.

On March 22, 2018, the BCBS also issued *Revisions to the Minimum Capital Requirements for Market Risk*, a consultative document prepared to resolve shortcomings in the *Minimum Capital Requirements for Market Risk* standard, which will have to be applied as of 2022.

On April 18, 2018, the Government of Canada issued the final regulations under the *Canadian Deposit Insurance Corporation (CDIC) Act* and the *Bank Act* providing the details of conversion, issuance and compensation regimes for bail-in instruments issued by D-SIBs, including the Bank, (collectively, the "Bail-In Regulations"). Pursuant to the *CDIC Act*, in circumstances where OSFI has determined that the Bank has ceased, or is about to cease, to be viable, the Governor in Council may, upon a Minister of Finance recommendation indicating that he or she believes that it is in the public interest to do so, grant an order directing CDIC to convert all or a portion of certain shares and liabilities of the Bank into common shares of the Bank (a "Bail-In Conversion"). The Bail-in Regulations governing the conversion and issuance of bail-in instruments will come into force on September 23, 2018, and those governing compensation for holders of converted instruments came into force on March 27, 2018. Any shares and liabilities issued before the date the Bail-In Regulations come into force will not be subject to a Bail-In Conversion, unless, in the case of a liability, the terms of such liability are, on or after that day, amended to increase its principal amount or to extend its term to maturity and the liability, as amended, meets the requirements to be subject to a Bail-In Conversion.

In conjunction with the issuance of the Bail-In Regulations, OSFI also issued its final *Total Loss Absorbing Capacity (TLAC) Guideline*, which will come into effect on September 23, 2018 as well as revisions to its *Capital Adequacy Requirements (CAR) Guideline*. The TLAC Guideline requires D-SIBs to maintain sufficient loss absorbing capacity to support their recapitalization in the unlikely event of a failure so that they can remain open and operating without requiring public funds or threatening financial stability. As provided for in the *Bank Act*, OSFI is expected to issue orders setting the minimum TLAC levels applicable to each D-SIB in the near future. D-SIBs must fully meet their minimum TLAC requirements by November 1, 2021 and public disclosure and regulatory reporting relating to the TLAC Guideline will commence as of the first quarter of 2019. The revisions of the CAR Guideline implement the prudential treatment for holdings of other TLAC instruments (as defined in the TLAC Guideline) and apply to all DSIBs effective the first quarter of 2019.

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 April 30, 2018	As at October 31, 2017	BCBS 2018 (1)	OSFI 2018 (1)(2)
Capital ratios				
CET1	**11.3 %**	11.2 %	6.375 %	8.0 %
Tier 1(3)	**15.3 %**	14.9 %	7.875 %	9.5 %
Total(3)	**16.6 %**	15.1 %	9.875 %	11.5 %
Leverage ratio	**4.0 %**	4.0 %	n.a.	3.0 %

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

Management Activities

During the six months ended April 30, 2018, the Bank repurchased 3,000,000 common shares for $184 million, which reduced *Common share capital* by $25 million and *Retained earnings* by $159 million. This repurchase was carried out under the normal course issuer bid to repurchase for cancellation program launched by the Bank on June 5, 2017.

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

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

On February 1, 2018, the Bank issued medium-term notes for a total amount of $750 million, bearing interest at a rate of 3.183% and maturing on February 1, 2028. As these medium-term notes satisfy the NVCC requirements, they qualify for the purposes of calculating regulatory capital under Basel III.

Movement in Regulatory Capital[1]

(millions of Canadian dollars)	Six months ended April 30, 2018
Common Equity Tier 1 (CET1) capital	
Balance at beginning	7,856
Issuance of common shares (including Stock Option Plan)	80
Impact of shares purchased or sold for trading	33
Repurchase of common shares	(184)
Other contributed surplus	6
Dividends on preferred and common shares	(457)
Net income attributable to the Bank's shareholders	1,049
Common share capital issued by subsidiaries and held by third parties	2
Removal of own credit spread net of income taxes	6
Impact of adopting IFRS 9 on November 1, 2017	(122)
Other	18
Movements in accumulated other comprehensive income	
Translation adjustments	(4)
Debt securities at fair value through other comprehensive income	(7)
Impact of adopting IFRS 9 on November 1, 2017	(10)
Other	1
Change in goodwill and intangible assets (net of related tax liability)	(36)
Other, including regulatory adjustments and transitional arrangements	
Change in defined benefit pension plan asset (net of related tax liability)	–
Change in amount exceeding 15% threshold	
Deferred tax assets	–
Significant investment in common shares of financial institutions	–
Change in other regulatory adjustments[2]	5
Balance at end	8,236
Additional Tier 1 capital	
Balance at beginning	2,601
New Tier 1 eligible capital issuances	300
Redeemed capital[3]	–
Change in non-qualifying Additional Tier 1 subject to phase-out	–
Other, including regulatory adjustments and transitional arrangements	–
Balance at end	2,901
Total Tier 1 capital	11,137
Tier 2 capital	
Balance at beginning	204
New Tier 2 eligible capital issuances	750
Redeemed capital	–
Change in non-qualifying Tier 2 subject to phase-out	–
Tier 2 instruments issued by subsidiaries and held by third parties	1
Change in certain allowances for credit losses	(29)
Other, including regulatory adjustments and transitional arrangements	–
Balance at end	926
Total regulatory capital	12,063

(1) Figures are presented on an "all-in" basis.
(2) Represents the change in investments in the Bank's own CET1 capital.
(3) Figures for the six months ended April 30, 2018 do not include the November 15, 2017 redemption of Series 28 preferred shares that had been excluded from the calculation of capital as at October 31, 2017.

Risk-Weighted Assets by Key Risk Drivers

CET1 risk-weighted assets (RWA) amounted to $72.8 billion as at April 30, 2018 compared to $70.2 billion as at October 31, 2017, a $2.6 billion increase resulting mainly from organic growth in RWA.

Capital Adequacy Under Basel III[1]

(millions of Canadian dollars)	As at April 30, 2018						As at October 31, 2017
	Exposure at default	Risk-weighted assets				Capital requirement[2]	Risk-weighted assets
		Standardized Approach	AIRB Approach	Other Approach	Total		Total
Credit risk							
Retail							
Residential mortgages	50,762	1,424	4,627	–	6,051	484	5,555
Qualifying revolving retail	6,130	–	1,313	–	1,313	105	1,275
Other retail	16,707	2,151	5,113	–	7,264	581	7,611
Non-retail							
Corporate	68,733	2,084	27,879	–	29,963	2,397	27,544
Sovereign	28,113	342	667	–	1,009	81	985
Financial institutions	5,546	472	1,030	–	1,502	120	1,531
Banking book equities[3]	977	–	977	–	977	78	910
Securitization	5,017	–	409	–	409	33	390
Other assets	25,133	–	–	2,967	2,967	237	3,645
Counterparty credit risk							
Corporate	17,797	123	266	–	389	31	197
Sovereign	46,575	–	84	–	84	7	43
Financial institutions	60,857	–	717	–	717	57	366
Trading portfolio	8,617	115	2,093	–	2,208	177	2,178
Credit valuation adjustment charge[4]		813	–	–	813	65	2,227
Regulatory scaling factor		–	2,711	–	2,711	217	2,580
Total – Credit risk	340,964	7,524	47,886	2,967	58,377	4,670	57,037
Market risk							
VaR		–	1,028	–	1,028	82	867
Stressed VaR		–	2,209	–	2,209	177	1,324
Interest-rate-specific risk		818	–	–	818	65	906
Total – Market risk		818	3,237	–	4,055	324	3,097
Operational risk		10,402	–	–	10,402	832	10,039
Total	340,964	18,744	51,123	2,967	72,834	5,826	70,173

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

Risk-Weighted Assets Movement by Key Drivers[1]

(millions of Canadian dollars)				Quarter ended
			April 30, 2018	January 31, 2018
	Non-counterparty credit risk	Counterparty credit risk[2]	Total	Total
Credit risk – Risk-weighted assets at beginning	52,200	5,425	57,625	57,037
Book size	1,619	355	1,974	1,289
Book quality	(29)	(1,652)	(1,681)	(143)
Model updates	(74)	–	(74)	–
Methodology and policy	–	–	–	–
Acquisitions and disposals	–	–	–	–
Foreign exchange movements	450	83	533	(558)
Credit risk – Risk-weighted assets at end	54,166	4,211	58,377	57,625
Market risk – Risk-weighted assets at beginning			3,336	3,097
Movement in risk levels[3]			719	239
Model updates			–	–
Methodology and policy			–	–
Acquisitions and disposals			–	–
Market risk – Risk-weighted assets at end			4,055	3,336
Operational risk – Risk-weighted assets at beginning			10,218	10,039
Movement in risk levels			184	179
Acquisitions and disposals			–	–
Operational risk – Risk-weighted assets at end			10,402	10,218
Risk-weighted assets at end			72,834	71,179

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

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

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

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

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 April 30, 2018, the Bank's CET1, Tier 1 and Total capital ratios were, respectively, 11.3%, 15.3% and 16.6%, i.e., above the regulatory requirements, compared to ratios of, respectively, 11.2%, 14.9% and 15.1% as at October 31, 2017. The increase in the CET1 capital ratio stems essentially from net income net of dividends, common share issuances under the Stock Option Plan, and remeasurements of pension plans and other post-employment benefit plans, tempered by the growth in risk-weighted assets, by the common share repurchases made during the six months ended April 30, 2018 and by the impact of IFRS 9 adoption on November 1, 2017. Both the Tier 1 and the Total capital ratios increased, essentially due to the same items. The increase in the Tier 1 capital ratio was also due to the $300 million issuance of preferred shares on January 22, 2018, while the $750 million issuance of medium-term notes on February 1, 2018 contributed to the higher Total capital ratio. As at April 30, 2018, the leverage ratio was 4.0%, unchanged from October 31, 2017.

Regulatory Capital and Ratios Under Basel III(1)

(millions of Canadian dollars)	As at April 30, 2018	As at October 31, 2017
Capital		
CET1	**8,236**	7,856
Tier 1(2)	**11,137**	10,457
Total(2)	**12,063**	10,661
Risk-weighted assets		
CET1 capital	**72,834**	70,173
Tier 1 capital	**72,865**	70,327
Total capital	**72,895**	70,451
Total exposure	**278,826**	262,539
Capital ratios		
CET1	**11.3 %**	11.2 %
Tier 1(2)	**15.3 %**	14.9 %
Total(2)	**16.6 %**	15.1 %
Leverage ratio	**4.0 %**	4.0 %

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

Dividends

On May 29, 2018, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 62 cents per common share, up 2 cents or 3.3%, payable on August 1, 2018 to shareholders of record on June 26, 2018.

RISK MANAGEMENT

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

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

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

Credit Risk

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

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

Maximum Credit Risk Exposure Under the Basel Asset Categories

(millions of Canadian dollars)						As at April 30, 2018	As at October 31, 2017
	Drawn	Undrawn commitments	Repo-style transactions(1)	OTC derivatives	Other off-balance-sheet items(2)	Total	Total
Retail							
Residential mortgages	42,718	8,044	–	–	–	50,762	49,028
Qualifying revolving retail	2,762	3,368	–	–	–	6,130	6,196
Other retail	15,187	1,507	–	–	13	16,707	16,635
	60,667	12,919	–	–	13	73,599	71,859
Non-retail							
Corporate	47,911	17,822	17,782	15	3,000	86,530	80,059
Sovereign	22,985	4,981	46,202	373	147	74,688	64,096
Financial institutions	4,626	313	60,412	445	607	66,403	58,508
	75,522	23,116	124,396	833	3,754	227,621	202,663
Trading portfolio	–	–	–	8,617	–	8,617	8,309
Securitization	–	–	–	–	5,017	5,017	4,740
Total – Gross credit risk	136,189	36,035	124,396	9,450	8,784	314,854	287,571
Standardized Approach	12,576	240	2,417	141	359	15,733	16,040
AIRB Approach	123,613	35,795	121,979	9,309	8,425	299,121	271,531
Total – Gross credit risk	136,189	36,035	124,396	9,450	8,784	314,854	287,571

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

In order to meet OSFI's mortgage loan disclosure requirements, additional information has been provided in *Supplementary Financial Information for the Second Quarter Ended April 30, 2018* and in *Supplementary Regulatory Capital Disclosure for the Second Quarter Ended April 30, 2018*, which are available on the Bank's website at nbc.ca.

Market Risk

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

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

Reconciliation of Market Risk With Consolidated Balance Sheet Items

(millions of Canadian dollars)					As at April 30, 2018
		Market risk measures			
	Balance sheet	Trading[1]	Non-Trading[2]	Not subject to market risk	Non-traded risk primary risk sensitivity
Assets					
Cash and deposits with financial institutions	10,948	185	10,326	437	Interest rate[3]
Securities					
At fair value through profit or loss	59,368	54,581	4,787	–	Interest rate[3]
At fair value through other comprehensive income	6,395	–	6,395	–	Interest rate[3] and equity[4]
At amortized cost	7,679	–	7,679	–	Interest rate[3]
Securities purchased under reverse repurchase agreements and securities borrowed	17,636	–	17,636	–	Interest rate[3][5]
Loans and acceptances, net of allowances	139,864	5,571	134,293	–	Interest rate[3]
Derivative financial instruments	7,905	7,131	774	–	Interest rate and exchange rate
Defined benefit asset	56	–	56	–	Other
Other	6,408	–	–	6,408	
	256,259	67,468	181,946	6,845	
Liabilities					
Deposits	164,774	6,146	158,628	–	Interest rate[3]
Acceptances	6,652	–	6,652	–	Interest rate[3]
Obligations related to securities sold short	12,827	12,827	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	26,645	–	26,645	–	Interest rate[3][5]
Derivative financial instruments	5,782	4,807	975	–	Interest rate and exchange rate
Liabilities related to transferred receivables	19,620	3,879	15,741	–	Interest rate[3]
Defined benefit liability	243	–	243	–	Other
Other	4,953	17	941	3,995	Interest rate[3]
Subordinated debt	755	–	755	–	Interest rate[3]
	242,251	27,676	210,580	3,995	

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

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

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

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

Trading Activities

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

VaR of Trading Portfolios by Risk Category(1)

(millions of Canadian dollars)

	Quarter ended								Six months ended	
	April 30, 2018				January 31, 2018		April 30, 2017		**April 30, 2018**	April 30, 2017
	Low	**High**	**Average**	**Period end**	Average	Period end	Average	Period end	**Average**	Average
Interest rate	**(3.3)**	**(5.0)**	**(4.2)**	**(3.9)**	(3.8)	(3.5)	(4.2)	(3.4)	**(4.0)**	(4.9)
Exchange rate	**(0.7)**	**(1.3)**	**(1.0)**	**(1.2)**	(0.8)	(1.2)	(2.4)	(2.4)	**(0.9)**	(2.5)
Equity	**(1.9)**	**(4.2)**	**(2.9)**	**(3.9)**	(2.4)	(1.9)	(3.4)	(3.7)	**(2.7)**	(3.3)
Commodity	**(0.5)**	**(1.7)**	**(1.1)**	**(1.1)**	(0.7)	(0.6)	(0.7)	(0.7)	**(0.9)**	(0.8)
Correlation effect(2)	**n.m.**	**n.m.**	**4.1**	**3.7**	3.8	3.8	5.8	5.7	**4.0**	5.7
Total trading VaR	**(3.1)**	**(7.2)**	**(5.1)**	**(6.4)**	(3.9)	(3.4)	(4.9)	(4.5)	**(4.5)**	(5.8)

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 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		Six months ended
	April 30, 2018				January 31, 2018		April 30, 2017		April 30, 2018	April 30, 2017
	Low	High	Average	Period end	Average	Period end	Average	Period end	Average	Average
Interest rate	**(7.5)**	**(15.7)**	**(12.0)**	**(14.9)**	(10.6)	(9.1)	(5.5)	(5.1)	**(11.3)**	(6.6)
Exchange rate	**(0.6)**	**(1.6)**	**(1.0)**	**(1.4)**	(0.9)	(1.5)	(2.6)	(2.7)	**(1.0)**	(3.0)
Equity	**(1.7)**	**(5.8)**	**(2.9)**	**(3.5)**	(2.3)	(1.9)	(4.0)	(5.8)	**(2.6)**	(4.5)
Commodity	**(0.4)**	**(2.8)**	**(2.0)**	**(2.4)**	(0.8)	(0.9)	(0.8)	(0.8)	**(1.4)**	(1.1)
Correlation effect(2)	**n.m.**	**n.m.**	**6.9**	**8.5**	7.6	7.4	7.5	8.3	**7.3**	8.4
Total trading SVaR	**(5.0)**	**(17.8)**	**(11.0)**	**(13.7)**	(7.0)	(6.0)	(5.4)	(6.1)	**(9.0)**	(6.8)

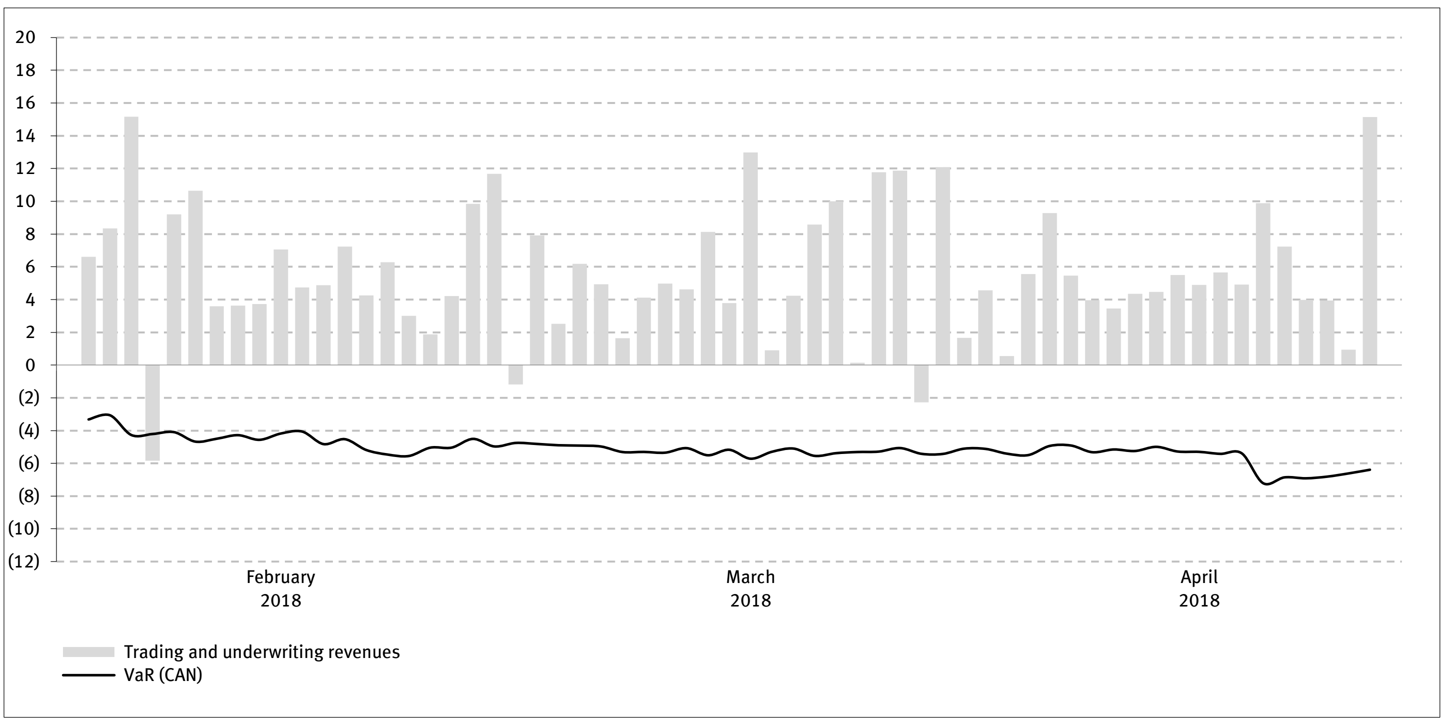
n.m. Computation of a correlation effect for the high and low is not meaningful, as highs and lows may occur on different days and be attributable to different types of risk.
(1) Amounts are presented on a pre-tax basis and represent one-day SVaR using a 99% confidence level.
(2) The total trading SVaR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

Between the end of the first quarter and end of the second quarter of 2018, total trading VAR increased from $3.4 million to $6.4 million and total trading SVaR increased from $6.0 million to $13.7 million. These increases were primarily attributable to higher equity risk and higher interest rate risk.

Daily Trading and Underwriting Revenues

The following table shows daily trading and underwriting revenues as well as VaR. Daily trading and underwriting revenues were positive 95% of the days for the quarter ended April 30, 2018. Three trading day were marked by net losses in excess of $1 million, and one of these losses exceeded the VaR.

Quarter ended April 30, 2018
(millions of Canadian dollars)



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

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

(millions of Canadian dollars)						As at April 30, 2018
			Impact on equity			Impact on net interest income
	Canadian dollar	Other currencies	Total	Canadian dollar	Other currencies	Total
100-basis-point increase in the interest rate	(191)	26	(165)	5	25	30
100-basis-point decrease in the interest rate	141	53	194	(8)	60	52

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

Liquidity Risk

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

Regulatory Developments

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

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

On April 18, 2018, the final regulations for implementing the bank recapitalization (bail-in) regime and the final version of the *Total Loss Absorbing Capacity (TLAC) Guideline* were released. The recapitalization regulations applicable to conversions and issuances of debt instruments subject to the regime will take effect September 23, 2018, and the regulations applicable to compensating holders of converted instruments have been in effect since March 27, 2018. The TLAC guideline will take effect September 23, 2018, but affected banks have until November 1, 2021 to comply. Additional information on the implementation regulations are provided in the Capital Management section of this MD&A.

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 securitized 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 April 30, 2018	As at October 31, 2017
	Bank-owned liquid assets(1)	Liquid assets received(2)	Total liquid assets	Encumbered liquid assets(3)	Unencumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	10,948	–	10,948	1,999	8,949	6,845
Securities						
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	22,617	26,538	49,155	26,653	22,502	19,321
Issued or guaranteed by Canadian provincial and municipal governments	13,425	3,580	17,005	11,212	5,793	4,705
Other debt securities	4,717	1,827	6,544	2,984	3,560	3,485
Equity securities	32,683	27,024	59,707	40,045	19,662	19,663
Loans						
Securities backed by insured residential mortgages	9,296	–	9,296	4,891	4,405	5,392
As at April 30, 2018	93,686	58,969	152,655	87,784	64,871	
As at October 31, 2017	83,650	58,254	141,904	82,493		59,411

(millions of Canadian dollars)	As at April 30, 2018	As at October 31, 2017
Unencumbered liquid assets by entity		
National Bank (parent)	28,089	27,769
Domestic subsidiaries	10,720	9,871
Foreign subsidiaries and branches	26,062	21,771
	64,871	59,411

(millions of Canadian dollars)	As at April 30, 2018	As at October 31, 2017
Unencumbered liquid assets by currency		
Canadian dollar	33,380	31,146
U.S. dollar	17,403	21,260
Other currencies	14,088	7,005
	64,871	59,411

Liquid Asset Portfolio – Average(4)

(millions of Canadian dollars)					Quarter ended April 30, 2018
	Bank-owned liquid assets(1)	Liquid assets received(2)	Total liquid assets	Encumbered liquid assets(3)	Unencumbered liquid assets
Cash and deposits with financial institutions	10,253	–	10,253	2,231	8,022
Securities					
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	24,032	30,712	54,744	34,251	20,493
Issued or guaranteed by Canadian provincial and municipal governments	12,782	7,024	19,806	15,007	4,799
Other debt securities	4,929	1,939	6,868	3,133	3,735
Equity securities	35,230	27,356	62,586	40,193	22,393
Loans					
Securities backed by insured residential mortgages	9,638	–	9,638	4,961	4,677
	96,864	67,031	163,895	99,776	64,119

(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 April 30, 2018
		Encumbered assets(1)		Unencumbered assets	Total	Encumbered assets as a % of total assets
	Pledged as collateral	Other(2)	Available as collateral	Other(3)		
Cash and deposits with financial institutions	83	1,916	8,949	–	10,948	0.8
Securities	26,733	–	46,709	–	73,442	10.4
Securities purchased under reverse repurchase agreements and securities borrowed	–	12,828	4,808	–	17,636	5.0
Loans and acceptances, net of allowances	29,533	–	4,405	105,926	139,864	11.5
Derivative financial instruments	–	–	–	7,905	7,905	–
Investments in associates and joint ventures	–	–	–	649	649	–
Premises and equipment	–	–	–	560	560	–
Goodwill	–	–	–	1,408	1,408	–
Intangible assets	–	–	–	1,275	1,275	–
Other assets	–	–	–	2,572	2,572	–
	56,349	14,744	64,871	120,295	256,259	27.7

(millions of Canadian dollars)						As at October 31, 2017
		Encumbered assets(1)		Unencumbered assets	Total	Encumbered assets as a % of total assets
	Pledged as collateral	Other(2)	Available as collateral	Other(3)		
Cash and deposits with financial institutions	76	1,881	6,845	–	8,802	0.8
Securities	23,595	–	41,748	–	65,343	9.6
Securities purchased under reverse repurchase agreements and securities borrowed	–	15,363	5,426	–	20,789	6.2
Loans and acceptances, net of allowances(4)	30,775	–	5,392	100,290	136,457	12.5
Derivative financial instruments	–	–	–	8,423	8,423	–
Investments in associates and joint ventures	–	–	–	631	631	–
Premises and equipment	–	–	–	558	558	–
Goodwill	–	–	–	1,409	1,409	–
Intangible assets	–	–	–	1,239	1,239	–
Other assets	–	–	–	2,176	2,176	–
	54,446	17,244	59,411	114,726	245,827	29.1

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

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

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

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

Liquidity Coverage Ratio (LCR)

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

The following table provides average LCR data calculated using the daily figures in the quarter. For the quarter ended April 30, 2018, the Bank's average LCR was 137%, 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
		April 30, 2018	January 31, 2018
	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.	45,625	44,813
Cash outflows			
2 Retail deposits and deposits from small business customers, of which:	40,587	2,740	2,667
3 Stable deposits	18,841	565	565
4 Less stable deposits	21,746	2,175	2,102
5 Unsecured wholesale funding, of which:	62,238	33,464	33,939
6 Operational deposits (all counterparties)	10,730	2,573	2,649
7 Non-operational deposits (all counterparties)	43,700	23,083	23,770
8 Unsecured debt	7,808	7,808	7,520
9 Secured wholesale funding	n.a.	23,305	19,605
10 Additional requirements, of which:	31,958	8,679	7,942
11 Outflows related to derivative exposures and other collateral requirements	6,766	3,601	3,612
12 Outflows related to loss of funding on secured debt securities	1,375	1,375	941
13 Backstop liquidity and credit enhancement facilities and commitments to extend credit	23,817	3,703	3,389
14 Other contractual commitments to extend credit	1,569	611	526
15 Other contingent commitments to extend credit	84,581	1,291	1,248
16 Total cash outflows	n.a.	70,090	65,927
Cash inflows			
17 Secured lending (e.g., reverse repos)	90,313	20,457	17,389
18 Inflows from fully performing exposures	8,794	5,413	4,864
19 Other cash inflows	10,916	10,916	10,503
20 Total cash inflows	110,023	36,786	32,756
		Total adjusted value[(4)]	Total adjusted value[(4)]
21 Total HQLA	n.a.	45,625	44,813
22 Total net cash outflows	n.a.	33,304	33,171
23 Liquidity coverage ratio (%)[(5)]	n.a.	137 %	135 %

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

Level 1 liquid assets represent 86% 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 April 30, 2018 and the preceding quarter was a result of normal business activities. The Bank's liquid asset buffer is well in excess of its total net cash outflows.

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

Funding Risk

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

On April 19, 2018, the DBRS credit rating agency (DBRS) changed its outlook for the Bank's long-term deposits, long-term senior debt, and non-NVCC subordinated debt from "negative" to "stable." DBRS also lowered the credit ratings for the non-NVCC subordinated debt of all Canadian D-SIBs by one notch; accordingly, the credit rating for such subordinated debt of the Bank went from A (high) to A. These changes stem from the issuance of the final Bail-In Regulations on April 18, 2018. Additional information on the implementation regulations are provided in the Capital Management section of this MD&A.

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

Residual Contractual Maturities of Wholesale Funding[1]

(millions of Canadian dollars)								As at April 30, 2018
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Subtotal 1 year or less	Over 1 year to 2 years	Over 2 years	Total
Deposits from banks[2]	1,151	–	–	8	1,159	–	–	1,159
Certificates of deposit and commercial paper[3]	726	2,187	2,452	1,172	6,537	379	–	6,916
Senior unsecured medium-term notes[4]	90	1,140	960	1,771	3,961	3,807	6,438	14,206
Senior unsecured structured notes	–	–	13	–	13	1,022	3,782	4,817
Covered bonds and asset-backed securities								
Mortgage securitization	–	1,555	–	2,158	3,713	3,291	12,616	19,620
Covered bonds	–	–	–	1,566	1,566	–	5,917	7,483
Securitization of credit card receivables	–	–	–	36	36	873	–	909
Subordinated liabilities[5]	–	–	–	–	–	–	755	755
	1,967	4,882	3,425	6,711	16,985	9,372	29,508	55,865
Secured funding	–	1,555	–	3,760	5,315	4,164	18,533	28,012
Unsecured funding	1,967	3,327	3,425	2,951	11,670	5,208	10,975	27,853
	1,967	4,882	3,425	6,711	16,985	9,372	29,508	55,865
As at October 31, 2017	2,198	5,306	5,136	4,332	16,972	8,968	28,789	54,729

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

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

(millions of Canadian dollars)		As at April 30, 2018
	One-notch downgrade	Three-notch downgrade
Derivatives[1]	1	12

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

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

The following tables present balance sheet items and off-balance-sheet commitments by residual contractual maturity as at April 30, 2018 with comparative figures as at October 31, 2017. The information gathered from this maturity analysis is a component of liquidity and funding management. However, this maturity profile does not represent how the Bank manages its interest rate risk or its liquidity risk and funding needs. The Bank considers factors other than contractual maturity in the assessment of liquid assets or in determining expected future cash flows.

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

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

(millions of Canadian dollars)										As at April 30, 2018
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Assets										
Cash and deposits with financial institutions	7,424	592	10	4	15	–	–	–	2,903	10,948
Securities										
At fair value through profit or loss	193	1,246	3,185	1,664	1,132	4,725	9,567	5,398	32,258	59,368
At fair value through other comprehensive income	1	23	14	171	7	536	3,198	2,199	246	6,395
At amortized cost	–	6	640	56	–	454	5,921	602	–	7,679
	194	1,275	3,839	1,891	1,139	5,715	18,686	8,199	32,504	73,442
Securities purchased under reverse repurchase agreements and securities borrowed	6,937	707	1,732	1,312	321	2,054	742	–	3,831	17,636
Loans(1)										
Residential mortgage	852	1,854	1,977	1,652	1,646	8,967	32,649	1,814	463	51,874
Personal	268	530	621	626	1,063	3,493	9,776	2,884	16,894	36,155
Credit card	–	–	–	–	–	–	–	–	2,245	2,245
Business and government	7,514	2,418	2,149	2,141	2,052	5,285	11,474	2,448	8,123	43,604
Customers' liability under acceptances	5,057	1,539	53	2	1	–	–	–	–	6,652
Allowances for credit losses									(666)	(666)
	13,691	6,341	4,800	4,421	4,762	17,745	53,899	7,146	27,059	139,864
Other										
Derivative financial instruments	537	498	345	702	271	813	1,789	2,950	–	7,905
Investments in associates and joint ventures									649	649
Premises and equipment									560	560
Goodwill									1,408	1,408
Intangible assets									1,275	1,275
Other assets(1)	389	78	80	114	81	135	121	149	1,425	2,572
	926	576	425	816	352	948	1,910	3,099	5,317	14,369
	29,172	9,491	10,806	8,444	6,589	26,462	75,237	18,444	71,614	256,259

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

(millions of Canadian dollars)									As at April 30, 2018	
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Liabilities and equity										
Deposits(1)(2)										
Personal	1,235	2,298	2,929	2,368	2,491	5,044	7,749	2,263	29,166	55,543
Business and government	14,492	5,333	5,520	5,010	2,135	5,767	10,786	6,126	47,753	102,922
Deposit-taking institutions	2,792	281	543	116	23	–	–	50	2,504	6,309
	18,519	7,912	8,992	7,494	4,649	10,811	18,535	8,439	79,423	164,774
Other										
Acceptances	5,057	1,539	53	2	1	–	–	–	–	6,652
Obligations related to securities sold short(3)	699	522	102	21	34	873	3,398	4,469	2,709	12,827
Obligations related to securities sold under repurchase agreements and securities loaned	9,648	1,867	3,892	1,681	–	–	–	–	9,557	26,645
Derivative financial instruments	397	497	322	536	234	536	1,417	1,843	–	5,782
Liabilities related to transferred receivables(4)	–	1,555	–	1,932	226	3,291	9,305	3,311	–	19,620
Securitization – Credit card(5)	–	–	–	36	–	873	–	–	–	909
Other liabilities – Other items(1)(5)	218	33	81	75	72	72	58	112	3,566	4,287
	16,019	6,013	4,450	4,283	567	5,645	14,178	9,735	15,832	76,722
Subordinated debt	–	–	–	–	–	–	–	755	–	755
Equity									14,008	14,008
	34,538	13,925	13,442	11,777	5,216	16,456	32,713	18,929	109,263	256,259
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	188	809	329	1,009	562	490	8	–	–	3,395
Credit card receivables(6)									7,837	7,837
Backstop liquidity and credit enhancement facilities(7)	15	–	–	15	4,982	–	–	–	–	5,012
Commitments to extend credit(8)	3,004	4,064	4,619	4,501	3,194	3,674	7,366	334	26,321	57,077
Lease commitments and other contracts	79	147	199	195	191	674	1,426	384	–	3,295

(1) Amounts payable upon demand or notice are considered to have no specified maturity.
(2) The *Deposits* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(3) Amounts are disclosed according to the remaining contractual maturity of the underlying security.
(4) These amounts mainly include liabilities related to the securitization of mortgage loans.
(5) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(6) These amounts are unconditionally revocable at the Bank's discretion at any time.
(7) In the event of payment on one of the backstop liquidity facilities, the Bank will receive as collateral government bonds in an amount up to $2.3 billion.
(8) These amounts include $41.8 billion that is unconditionally revocable at the Bank's discretion at any time.

(millions of Canadian dollars)										As at October 31, 2017
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Assets										
Cash and deposits with financial institutions	6,181	534	23	1	1	4	–	–	2,058	8,802
Securities										
At fair value through profit or loss	467	1,182	931	1,623	909	3,413	8,166	4,502	26,343	47,536
Available-for-sale	–	67	19	29	30	419	3,973	3,496	519	8,552
Held-to-maturity	25	–	–	–	603	388	7,181	1,058	–	9,255
	492	1,249	950	1,652	1,542	4,220	19,320	9,056	26,862	65,343
Securities purchased under reverse repurchase agreements and securities borrowed	8,235	2,717	1,534	129	19	3,677	770	–	3,708	20,789
Loans(1)(2)										
Residential mortgage	758	1,039	1,428	2,735	2,046	8,014	33,603	1,544	467	51,634
Personal	227	345	563	1,318	813	2,893	9,838	2,779	16,814	35,590
Credit card	–	–	–	–	–	–	–	–	2,247	2,247
Business and government	7,576	2,493	2,014	2,192	1,840	4,636	9,946	2,718	8,275	41,690
Customers' liability under acceptances	5,030	865	96	–	–	–	–	–	–	5,991
Allowances for credit losses									(695)	(695)
	13,591	4,742	4,101	6,245	4,699	15,543	53,387	7,041	27,108	136,457
Other										
Derivative financial instruments	562	872	403	255	180	904	2,070	3,177	–	8,423
Investments in associates and joint ventures									631	631
Premises and equipment									558	558
Goodwill									1,409	1,409
Intangible assets									1,239	1,239
Other assets(1)	381	109	71	85	36	83	79	109	1,223	2,176
	943	981	474	340	216	987	2,149	3,286	5,060	14,436
	29,442	10,223	7,082	8,367	6,477	24,431	75,626	19,383	64,796	245,827

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

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

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

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

QUARTERLY FINANCIAL INFORMATION

(millions of Canadian dollars, except per share amounts)	2018		2017				2016		2017	2016
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Total	Total
Total revenues	**1,754**	1,806	1,704	1,675	1,597	1,633	1,569	1,557	6,609	5,840
Net income	**547**	550	525	518	484	497	307	478	2,024	1,256
Earnings per share ($)										
Basic	**1.46**	1.48	1.40	1.39	1.30	1.35	0.79	1.32	5.44	3.31
Diluted	**1.44**	1.46	1.39	1.37	1.28	1.34	0.78	1.31	5.38	3.29
Dividends per common share ($)	**0.60**	0.60	0.58	0.58	0.56	0.56	0.55	0.55	2.28	2.18
Return on common shareholders' equity (%)	**18.6**	18.7	17.8	18.2	17.9	18.4	11.0	18.7	18.1	11.7
Total assets	**256,259**	251,065	245,827	240,072	239,020	234,119	232,206	229,896		
Net impaired loans(1) under IFRS 9	**382**	371								
Net impaired loans under IAS 39			206	240	213	226	281	251		
Per common share ($)										
Book value	**32.64**	31.75	31.51	30.84	29.97	29.51	28.52	28.39		
Share price										
High	**64.08**	65.35	62.74	56.44	58.75	56.60	47.88	46.65		
Low	**58.69**	62.33	55.29	51.77	52.94	46.83	44.14	40.98		

(1) Given the adoption of IFRS 9, all loans classified in Stage 3 of the expected credit loss model are impaired loans and do not include purchased or originated credit-impaired loans. During the second quarter of 2018, upon refinement of the impaired loans identification process, certain loans classified in Stage 1 and 2 as at January 31, 2018, were classified to Stage 3. Under IAS 39, loans were considered impaired according to different criteria. Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

CONSOLIDATED BALANCE SHEETS

(unaudited) (millions of Canadian dollars)

	As at April 30, 2018[(1)]	As at November 1, 2017[(1)]	As at October 31, 2017
Assets			
Cash and deposits with financial institutions	**10,948**	8,801	8,802
Securities (Notes 5, 6 and 7)			
At fair value through profit or loss	**59,368**	52,228	47,536
Available-for-sale			8,552
At fair value through other comprehensive income	**6,395**	6,424	
Held-to-maturity			9,255
At amortized cost	**7,679**	6,653	
	73,442	65,305	65,343
Securities purchased under reverse repurchase agreements and securities borrowed	**17,636**	20,789	20,789
Loans (Note 8)			
Residential mortgage	**51,874**	51,609	51,634
Personal	**36,155**	35,590	35,590
Credit card	**2,245**	2,247	2,247
Business and government	**43,604**	41,690	41,690
	133,878	131,136	131,161
Customers' liability under acceptances	**6,652**	5,991	5,991
Allowances for credit losses	**(666)**	(673)	(695)
	139,864	136,454	136,457
Other			
Derivative financial instruments	**7,905**	8,423	8,423
Investments in associates and joint ventures	**649**	631	631
Premises and equipment	**560**	558	558
Goodwill	**1,408**	1,409	1,409
Intangible assets	**1,275**	1,239	1,239
Other assets (Note 10)	**2,572**	2,226	2,176
	14,369	14,486	14,436
	256,259	245,835	245,827
Liabilities and equity			
Deposits (Notes 6 and 11)	**164,774**	156,787	156,671
Other			
Acceptances	**6,652**	5,991	5,991
Obligations related to securities sold short	**12,827**	15,363	15,363
Obligations related to securities sold under repurchase agreements and securities loaned	**26,645**	21,767	21,767
Derivative financial instruments	**5,782**	6,612	6,612
Liabilities related to transferred receivables (Notes 6 and 9)	**19,620**	20,122	20,098
Other liabilities (Note 12)	**5,196**	5,791	5,758
	76,722	75,646	75,589
Subordinated debt (Note 13)	**755**	9	9
Equity			
Equity attributable to the Bank's shareholders (Notes 14 and 16)			
Preferred shares	**2,150**	2,050	2,050
Common shares	**2,868**	2,768	2,768
Contributed surplus	**52**	58	58
Retained earnings	**8,018**	7,567	7,706
Accumulated other comprehensive income	**139**	158	168
	13,227	12,601	12,750
Non-controlling interests	**781**	792	808
	14,008	13,393	13,558
	256,259	245,835	245,827

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

(1) The Consolidated Balance Sheets as at April 30, 2018 and as at November 1, 2017 reflect the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these unaudited interim condensed consolidated financial statements. The comparative information has not been restated.

CONSOLIDATED STATEMENTS OF INCOME

(unaudited) (millions of Canadian dollars)

	Quarter ended April 30		Six months ended April 30	
	2018[(1)]	2017	**2018[(1)]**	2017
Interest income				
Loans	**1,364**	1,117	**2,688**	2,233
Securities at fair value through profit or loss	**229**	155	**386**	316
Available-for-sale securities		63		133
Securities at fair value through other comprehensive income	**36**		**71**	
Held-to-maturity securities		27		46
Securities at amortized cost	**42**		**78**	
Deposits with financial institutions	**47**	26	**93**	44
	1,718	1,388	**3,316**	2,772
Interest expense				
Deposits	**595**	431	**1,144**	831
Liabilities related to transferred receivables	**100**	100	**199**	197
Subordinated debt	**6**	7	**6**	15
Other	**132**	35	**248**	61
	833	573	**1,597**	1,104
Net interest income	**885**	815	**1,719**	1,668
Non-interest income				
Underwriting and advisory fees	**75**	90	**178**	178
Securities brokerage commissions	**47**	57	**101**	115
Mutual fund revenues	**106**	101	**217**	202
Trust service revenues	**146**	126	**291**	249
Credit fees	**97**	84	**194**	167
Card revenues	**36**	29	**76**	62
Deposit and payment service charges	**68**	64	**136**	132
Trading revenues (losses)	**164**	76	**392**	170
Gains (losses) on available-for-sale securities, net		49		75
Gains (losses) on non-trading securities, net	**19**		**47**	
Insurance revenues, net	**29**	30	**60**	61
Foreign exchange revenues, other than trading	**24**	23	**46**	41
Share in the net income of associates and joint ventures	**5**	9	**12**	17
Other	**53**	44	**91**	93
	869	782	**1,841**	1,562
Total revenues	**1,754**	1,597	**3,560**	3,230
Provisions for credit losses (Note 8)	**91**	56	**178**	116
	1,663	1,541	**3,382**	3,114
Non-interest expenses				
Compensation and employee benefits	**601**	574	**1,232**	1,162
Occupancy	**60**	60	**118**	119
Technology	**153**	139	**314**	276
Communications	**17**	15	**33**	31
Professional fees	**56**	60	**116**	126
Other	**105**	93	**203**	196
	992	941	**2,016**	1,910
Income before income taxes	**671**	600	**1,366**	1,204
Income taxes	**124**	116	**269**	223
Net income	**547**	484	**1,097**	981
Net income attributable to				
Preferred shareholders	**26**	20	**48**	39
Common shareholders	**496**	442	**1,001**	901
Bank shareholders	**522**	462	**1,049**	940
Non-controlling interests	**25**	22	**48**	41
	547	484	**1,097**	981
Earnings per share *(dollars)* (Note 18)				
Basic	**1.46**	1.30	**2.94**	2.65
Diluted	**1.44**	1.28	**2.90**	2.62
Dividends per common share *(dollars)*	**0.60**	0.56	**1.20**	1.12

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

(1) The Consolidated Statements of Income for the quarter and six-month period ended April 30, 2018 reflect the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these unaudited interim condensed consolidated financial statements. The comparative information has not been restated.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (millions of Canadian dollars)

	Quarter ended April 30		Six months ended April 30	
	2018[1]	2017	**2018**[1]	2017
Net income	**547**	484	**1,097**	981
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	**78**	94	**(3)**	37
Impact of hedging net foreign currency translation gains (losses)	**(21)**	(36)	**(1)**	(12)
	57	58	**(4)**	25
Net change in available-for-sale securities				
Net unrealized gains (losses) on available-for-sale securities		65		86
Net (gains) losses on available-for-sale securities reclassified to net income		(35)		(64)
		30		22
Net change in debt securities at fair value through other comprehensive income				
Net unrealized gains (losses) on debt securities at fair value through other comprehensive income	**(9)**		**(5)**	
Net (gains) losses on debt securities at fair value through other comprehensive income reclassified to net income	**(3)**		**(2)**	
	(12)		**(7)**	
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**–**	(29)	**11**	(29)
Net (gains) losses on designated derivative financial instruments reclassified to net income	**(11)**	(7)	**(21)**	(13)
	(11)	(36)	**(10)**	(42)
Share in the other comprehensive income of associates and joint ventures	**(1)**	–	**1**	–
Items that will not be subsequently reclassified to net income				
Remeasurements of pension plans and other post-employment benefit plans	**(3)**	(80)	**33**	39
Net gains (losses) on equity securities designated at fair value through other comprehensive income	**(3)**		**–**	
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	**19**	(41)	**(7)**	(56)
	13	(121)	**26**	(17)
Total other comprehensive income, net of income taxes	**46**	(69)	**6**	(12)
Comprehensive income	**593**	415	**1,103**	969
Comprehensive income attributable to				
Bank shareholders	**564**	389	**1,056**	926
Non-controlling interests	**29**	26	**47**	43
	593	415	**1,103**	969

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

(1) The Consolidated Statements of Comprehensive Income for the quarter and six-month period ended April 30, 2018 reflect the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these unaudited interim condensed consolidated financial statements. The comparative information has not been restated.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (cont.)

(unaudited) (millions of Canadian dollars)

INCOME TAXES – OTHER COMPREHENSIVE INCOME

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

	Quarter ended April 30		Six months ended April 30	
	2018[1]	2017	**2018[1]**	2017
Net foreign currency translation adjustments				
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	**–**	–	**–**	–
Impact of hedging net foreign currency translation gains (losses)	**(5)**	(7)	**1**	(2)
	(5)	(7)	**1**	(2)
Net change in available-for-sale securities				
Net unrealized gains (losses) on available-for-sale securities		24		30
Net (gains) losses on available-for-sale securities reclassified to net income		(13)		(23)
		11		7
Net change in debt securities at fair value through other comprehensive income				
Net unrealized gains (losses) on debt securities at fair value through other comprehensive income	**(4)**		**(2)**	
Net (gains) losses on debt securities at fair value through other comprehensive income reclassified to net income	**–**		**1**	
	(4)		**(1)**	
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**–**	(11)	**4**	(11)
Net (gains) losses on designated derivative financial instruments reclassified to net income	**(5)**	(2)	**(8)**	(4)
	(5)	(13)	**(4)**	(15)
Remeasurements of pension plans and other post-employment benefit plans	**(1)**	(29)	**12**	14
Net gains (losses) on equity securities designated at fair value through other comprehensive income	**(1)**		**–**	
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	**7**	(14)	**(3)**	(20)
	(9)	(52)	**5**	(16)

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

(1) The Consolidated Statements of Comprehensive Income for the quarter and six-month period ended April 30, 2018 reflect the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these unaudited interim condensed consolidated financial statements. The comparative information has not been restated.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) (millions of Canadian dollars)

	Six months ended April 30	
	2018[1]	2017
Preferred shares at beginning (Note 14)	2,050	1,650
Issuance of Series 40 preferred shares	300	–
Redemption of Series 28 preferred shares for cancellation	(200)	–
Preferred shares at end	2,150	1,650
Common shares at beginning (Note 14)	2,768	2,645
Issuances of common shares pursuant to the Stock Option Plan	92	149
Repurchases of common shares for cancellation	(25)	–
Impact of shares purchased or sold for trading	33	3
Other	–	(4)
Common shares at end	2,868	2,793
Contributed surplus at beginning	58	73
Stock option expense (Note 16)	6	6
Stock options exercised	(12)	(22)
Contributed surplus at end	52	57
Retained earnings at beginning	7,706	6,706
Impact of adopting IFRS 9 on November 1, 2017	(139)	
Net income attributable to the Bank's shareholders	1,049	940
Dividends (Note 14)		
Preferred shares	(48)	(39)
Common shares	(409)	(382)
Premium paid on common shares repurchased for cancellation	(159)	–
Share issuance expenses, net of income taxes	(6)	–
Remeasurements of pension plans and other post-employment benefit plans	33	39
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	(7)	(56)
Impact of a financial liability resulting from put options written to non-controlling interests	–	(31)
Other	(2)	(13)
Retained earnings at end	8,018	7,164
Accumulated other comprehensive income at beginning	168	218
Impact of adopting IFRS 9 on November 1, 2017	(10)	
Net foreign currency translation adjustments	(4)	25
Net change in unrealized gains (losses) on available-for-sale securities		22
Net change in unrealized gains (losses) on debt securities at fair value through other comprehensive income	(7)	
Net change in gains (losses) on cash flow hedges	(9)	(44)
Share in the other comprehensive income of associates and joint ventures	1	–
Accumulated other comprehensive income at end	139	221
Equity attributable to the Bank's shareholders	13,227	11,885
Non-controlling interests at beginning	808	810
Impact of adopting IFRS 9 on November 1, 2017	(16)	
Net income attributable to non-controlling interests	48	41
Other comprehensive income attributable to non-controlling interests	(1)	2
Distributions to non-controlling interests	(58)	(55)
Non-controlling interests at end	781	798
Equity	14,008	12,683

ACCUMULATED OTHER COMPREHENSIVE INCOME

	As at April 30, 2018	As at April 30, 2017
Accumulated other comprehensive income		
Net foreign currency translation adjustments	(17)	51
Net unrealized gains (losses) on available-for-sale securities		73
Net unrealized gains (losses) on debt securities at fair value through other comprehensive income	22	
Net gains (losses) on instruments designated as cash flow hedges	137	91
Share in the other comprehensive income of associates and joint ventures	(3)	6
	139	221

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

(1) The Consolidated Statement of Changes in Equity for the six-month period ended April 30, 2018 reflects the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these unaudited interim condensed consolidated financial statements. The comparative information has not been restated.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (millions of Canadian dollars)

	Six months ended April 30	
	2018[1]	2017
Cash flows from operating activities		
Net income	1,097	981
Adjustments for		
Provisions for credit losses	178	116
Amortization of premises and equipment and intangible assets	146	192
Gain on disposal of an equity interest in a joint venture	–	(12)
Deferred taxes	16	2
Losses (gains) on sales of available-for-sale securities, net		(75)
Losses (gains) on sales of non-trading securities, net	(47)	
Share in the net income of associates and joint ventures	(12)	(17)
Stock option expense	6	6
Change in operating assets and liabilities		
Securities at fair value through profit or loss	(7,140)	(1,032)
Securities purchased under reverse repurchase agreements and securities borrowed	3,153	(3,533)
Loans, net of securitization	(3,418)	(4,041)
Deposits	8,103	9,094
Obligations related to securities sold short	(2,536)	(2,030)
Obligations related to securities sold under repurchase agreements and securities loaned	4,878	2,482
Derivative financial instruments, net	(312)	602
Interest and dividends receivable and interest payable	(87)	(107)
Current tax assets and liabilities	(139)	(126)
Other items	(889)	(673)
	2,997	1,829
Cash flows from financing activities		
Issuance of preferred shares	300	–
Redemption of preferred shares for cancellation	(200)	–
Issuances of common shares (including the impact of shares purchased for trading)	113	126
Repurchases of common shares for cancellation	(184)	–
Issuance of subordinated debt	750	–
Redemption of subordinated debt	–	(1,000)
Share issuance expenses	(6)	–
Dividends paid	(452)	(418)
Distributions to non-controlling interests	(58)	(55)
	263	(1,347)
Cash flows from investing activities		
Net change in investments in associates and joint ventures	–	13
Purchases of available-for-sale securities		(2,181)
Purchases of securities at fair value through other comprehensive income	(2,012)	
Maturities of available-for-sale securities		466
Maturities of securities at fair value through other comprehensive income	10	
Sales of available-for-sale securities		5,599
Sales of securities at fair value through other comprehensive income	1,935	
Purchases of held-to-maturity securities		(3,456)
Purchases of securities at amortized cost	(1,303)	
Sales of securities at amortized cost	155	
Net change in tangible assets leased under operating leases	66	332
Net change in premises and equipment	(116)	(41)
Net change in intangible assets	(135)	(115)
	(1,400)	617
Impact of currency rate movements on cash and equivalents	287	488
Increase (decrease) in cash and cash equivalents	2,147	1,587
Cash and cash equivalents at beginning	8,801	8,183
Cash and cash equivalents at end [2]	10,948	9,770
Supplementary information about cash flows from operating activities		
Interest paid	1,623	1,184
Interest and dividends received	3,255	2,746
Income taxes paid	314	364

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

(1) The Consolidated Statement of Cash Flows for the six-month period ended April 30, 2018 reflects the adoption of IFRS 9 on November 1, 2017. For additional information on IFRS 9 adoption, refer to Notes 2 and 4 to these unaudited interim condensed consolidated financial statements. The comparative information has not been restated.

(2) This item is the equivalent of Consolidated Balance Sheet item *Cash and deposits with financial institutions*. It includes an amount of $2.0 billion as at April 30, 2018 ($2.0 billion as at October 31, 2017) for which there are restrictions.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of Canadian dollars)

NOTE 1 – BASIS OF PRESENTATION

On May 29, 2018, the Board of Directors authorized the publication of the Bank's unaudited interim condensed consolidated financial statements (the consolidated financial statements) for the quarter ended April 30, 2018.

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

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

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

On November 1, 2017, the Bank changed the presentation of certain items on the Consolidated Balance Sheet and reclassified certain amounts. The former *Personal and credit card* loans item is now presented in two separate items. The *Purchased receivables* item, which had been presented net of allowances for credit losses, in an amount of $2,014 million as at October 31, 2017, is now reported in *Residential mortgage* loans ($1,116 million) and in *Personal* loans ($874 million), and the *Allowances for credit losses* item was reduced by $24 million. As a result of this presentation change, for the quarter ended April 30, 2017, a $53 million amount reported in *Non-interest income – Other* was reclassified to *Interest income – Loans* ($108 million for the six-month period ended April 30, 2017).

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

NOTE 2 – ACCOUNTING POLICY CHANGES

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

Summary of Accounting Policy Changes

Classification and Measurement of Financial Assets

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

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

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

<u>Contractual Cash Flow Characteristics</u>

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

<u>Business Model</u>

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

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

NOTE 2 – ACCOUNTING POLICY CHANGES (cont.)

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

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

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

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

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

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

Securities Measured at Fair Value Through Profit or Loss
Securities not classified or designated as measured at fair value through other comprehensive income or at amortized cost are classified as measured at fair value through profit or loss.

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

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

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

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

Loans

Loans at Amortized Cost

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

Loans at Fair Value Through Profit or Loss

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

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

Reclassification of Financial Assets

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

Impairment of Financial Assets

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

Determining the Stage

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

Assessment of Significant Increase in Credit Risk

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

Measurement of Expected Credit Losses

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

NOTE 2 – ACCOUNTING POLICY CHANGES (cont.)

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

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

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

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

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

NOTE 3 – FUTURE ACCOUNTING POLICY CHANGES

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

Effective Date – November 1, 2020
On March 29, 2018, the IASB issued the revised *Conceptual Framework for Financial Reporting* to replace its 2010 conceptual framework. For the IASB, the revised conceptual framework has been in effect since its publication date. Early application is permitted.

NOTE 4 – IMPACTS OF IFRS 9 ADOPTION

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

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

(unaudited) (millions of Canadian dollars)

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

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

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

(unaudited) (millions of Canadian dollars)

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

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

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

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

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

(d) As at October 31, 2017, these debt securities were classified as available for sale. They were being recognized at fair value with changes in fair value being recorded in *Other comprehensive income*. On November 1, 2017, and as permitted by the IFRS 9 transitional provisions, the Bank made an irrevocable election to designate these debt securities at fair value through profit or loss under the fair value option.

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

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

(g) As at October 31, 2017, these debt securities were classified as held to maturity and accounted for at amortized cost. On November 1, 2017, and as permitted by the IFRS 9 transitional provisions, the Bank made an irrevocable election to designate certain debt securities at fair value through profit or loss under the fair value option.

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

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

(j) As at October 31, 2017, these financial liabilities were accounted for at amortized cost. On November 1, 2017, and as permitted by the IFRS 9 transitional provisions, the Bank made an irrevocable election to designate certain deposits and certain liabilities related to transferred receivables at fair value through profit or loss under the fair value option.

(unaudited) (millions of Canadian dollars)

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

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

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

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

(unaudited) (millions of Canadian dollars)

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

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

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

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

(unaudited) (millions of Canadian dollars)

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

On November 1, 2017, the Bank classified certain debt securities that were being recognized at fair value through other comprehensive income as at October 31, 2017 as measured at amortized cost. As at April 30, 2018, the fair value of these debt securities was $14 million, and the change in fair value that would have been recognized in *Other comprehensive income* for the six months ended April 30, 2018 would have been negligible.

On November 1, 2017, the Bank classified certain debt securities that were being recognized at fair value through profit or loss under the fair value option as at October 31, 2017 as measured at fair value through other comprehensive income. As at April 30, 2018, the fair value of these debt securities was $271 million, and the change in fair value that would have been recognized in the Consolidated Statement of Income for the six months ended April 30, 2018 would have been negligible.

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

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

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

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

(unaudited) (millions of Canadian dollars)

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value and Carrying Value of Financial Instruments by Category

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

								As at April 30, 2018
	Carrying value and fair value				Carrying value	Fair value		
	Financial instruments classified as at fair value through profit or loss	Financial instruments designated at fair value through profit or loss	Debt securities measured at fair value through other comprehensive income	Equity securities designated at fair value through other comprehensive income	Financial instruments at amortized cost, net	Financial instruments at amortized cost, net	Total carrying value	Total fair value
Financial assets								
Cash and deposits with financial institutions	–	–	–	–	10,948	10,948	10,948	10,948
Securities	54,977	4,391	6,040	355	7,679	7,668	73,442	73,431
Securities purchased under reverse repurchase agreements and securities borrowed	–	416	–	–	17,220	17,220	17,636	17,636
Loans and acceptances, net of allowances	5,979	–	–	–	133,885	133,780	139,864	139,759
Other								
Derivative financial instruments	7,905	–	–	–	–	–	7,905	7,905
Other assets	–	–	–	–	1,293	1,293	1,293	1,293
Financial liabilities								
Deposits	–	9,183			155,591 (1)	155,595	164,774	164,778
Other								
Acceptances	–	–			6,652	6,652	6,652	6,652
Obligations related to securities sold short	12,827	–			–	–	12,827	12,827
Obligations related to securities sold under repurchase agreements and securities loaned	–	311			26,334	26,334	26,645	26,645
Derivative financial instruments	5,782	–			–	–	5,782	5,782
Liabilities related to transferred receivables	–	7,909			11,711	11,696	19,620	19,605
Other liabilities	17	–			2,778	2,772	2,795	2,789
Subordinated debt	–	–			755	744	755	744

(1) Including embedded derivative financial instruments.

(unaudited) (millions of Canadian dollars)

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

As at October 31, 2017

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

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

Establishing Fair Value

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

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

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

(unaudited) (millions of Canadian dollars)

Financial Instruments Recorded at Fair Value on the Consolidated Balance Sheet

Hierarchy of Fair Value Measurements

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

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

During the quarter ended April 30, 2018, $45 million in securities classified as at fair value through profit or loss and $6 million in obligations related to securities sold short were transferred from Level 2 to Level 1 resulting from changing market conditions ($132 million in securities classified as at fair value through profit or loss and $11 million in obligations related to securities sold short during the quarter ended April 30, 2017). Also during the quarter ended April 30, 2018, $8 million in securities classified as at fair value through profit or loss and $1 million in obligations related to securities sold short were transferred from Level 1 to Level 2 ($67 million in securities classified as at fair value through profit or loss and $9 million in obligations related to securities sold short during the quarter ended April 30, 2017). During the six-month periods ended April 30, 2018 and 2017, financial instruments were transferred to (or from) Level 3 due to changes in the availability of observable market inputs resulting from changing market conditions.

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

				As at April 30, 2018
	Level 1	Level 2	Level 3	Total financial assets/liabilities at fair value
Financial assets				
Securities				
At fair value through profit or loss				
Securities issued or guaranteed by				
Canadian government	2,654	8,864	–	11,518
Canadian provincial and municipal governments	–	9,154	–	9,154
U.S. Treasury, other U.S. agencies and other foreign governments	3,518	110	–	3,628
Other debt securities	–	2,717	23	2,740
Equity securities	31,669	475	184	32,328
	37,841	21,320	207	59,368
At fair value through other comprehensive income				
Securities issued or guaranteed by				
Canadian government	82	2,747	–	2,829
Canadian provincial and municipal governments	–	2,666	–	2,666
U.S. Treasury, other U.S. agencies and other foreign governments	122	–	–	122
Other debt securities	–	423	–	423
Equity securities	–	122	233	355
	204	5,958	233	6,395
Securities purchased under reverse repurchase agreements and securities borrowed	–	416	–	416
Loans	–	5,571	408	5,979
Other				
Derivative financial instruments	69	7,788	48	7,905
	38,114	41,053	896	80,063
Financial liabilities				
Deposits	–	9,336	–	9,336
Other				
Obligations related to securities sold short	7,928	4,899	–	12,827
Obligations related to securities sold under repurchase agreements	–	311	–	311
Derivative financial instruments	205	5,535	42	5,782
Liabilities related to transferred receivables	–	7,909	–	7,909
Other liabilities	–	17	–	17
	8,133	28,007	42	36,182

(unaudited) (millions of Canadian dollars)

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

As at October 31, 2017

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

Financial Instruments Classified in Level 3

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

For a description of the valuation techniques and significant unobservable inputs used in determining the fair value of financial instruments classified in Level 3, see Note 3 to the audited annual consolidated financial statements for the year ended October 31, 2017. For the quarter and six-month period ended April 30, 2018, no significant change was made to the valuation techniques and significant unobservable inputs used in determining fair value.

Sensitivity Analysis of Financial Instruments Classified in Level 3

The Bank performs sensitivity analyses on the fair value measurements of financial instruments classified in Level 3, substituting unobservable inputs with one or more reasonably possible alternative assumptions. For additional information on how a change in unobservable input might affect the fair value measurements of Level 3 financial instruments, see Note 3 of the audited annual consolidated financial statements for the year ended October 31, 2017. For the six-month period ended April 30, 2018, there were no significant changes in the sensitivity analyses of Level 3 financial instruments, aside from the sensitivity analyses applied to loans. The Bank varies unobservable inputs such as a liquidity premium and establishes a reasonable fair value range that could result in a $45 million increase or decrease in the fair value of loans recorded as at April 30, 2018. As at October 31, 2017, there were no sensitivity analyses as no loans had been classified in Level 3.

(unaudited) (millions of Canadian dollars)

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

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

					Six months ended April 30, 2018
	Securities at fair value through profit or loss	Securities at fair value through other comprehensive income	Loans	Derivative financial instruments(1)	Deposits
Fair value as at November 1, 2017	184	158	428	20	(1)
Total realized and unrealized gains (losses) included in *Net income* (2)	28	–	14	(5)	–
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	–	–	–	–
Purchases	10	75	–	–	–
Sales	(15)	–	–	–	–
Issuances	–	–	4	–	–
Settlements and other	–	–	(38)	(4)	–
Financial instruments transferred into Level 3	–	–	–	(1)	–
Financial instruments transferred out of Level 3	–	–	–	(4)	1
Fair value as at April 30, 2018	207	233	408	6	–
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at April 30, 2018(3)	9	–	14	(5)	–

				Six months ended April 30, 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* (4)	–	13	1	–
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	(4)	–	–
Purchases	1	29	–	–
Sales	(9)	(38)	–	–
Issuances	–	–	–	(7)
Settlements and other	–	(4)	9	1
Financial instruments transferred into Level 3	2	–	–	(1)
Financial instruments transferred out of Level 3	–	–	3	6
Fair value as at April 30, 2017	12	301	28	(8)
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at April 30, 2017(5)	–	–	1	–

(1) The derivative financial instruments include assets and liabilities presented on a net basis.
(2) Total net gains included in *Non-interest income* was $37 million.
(3) Total unrealized gains included in *Non-interest income* was $18 million.
(4) Total net gains included in *Non-interest income* was $14 million.
(5) Total unrealized gains included in *Non-interest income* was $1 million.

(unaudited) (millions of Canadian dollars)

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

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

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

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

	Carrying value as at April 30, 2018	**Change in total fair value (including the change in the fair value attributable to credit risk) for the quarter ended April 30, 2018**	**Change in total fair value (including the change in the fair value attributable to credit risk) for the six months ended April 30, 2018**	**Change in fair value since the initial recognition of the instrument**
Financial assets designated at fair value through profit or loss				
Securities	**4,391**	**(1)**	**(39)**	**(76)**
Securities purchased under reverse repurchase agreements	**416**	**–**	**–**	**–**
	4,807	**(1)**	**(39)**	**(76)**
Financial liabilities designated at fair value through profit or loss				
Deposits[(1)(2)]	**9,183**	**122**	**161**	**130**
Securities sold under repurchase agreements	**311**	**–**	**–**	**–**
Liabilities related to transferred receivables	**7,909**	**12**	**103**	**17**
	17,403	**134**	**264**	**147**

	Carrying value as at April 30, 2017	Change in total fair value (including the change in the fair value attributable to credit risk) for the quarter ended April 30, 2017	Change in total fair value (including the change in the fair value attributable to credit risk) for the six months ended April 30, 2017	Change in fair value since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss				
Securities	759	4	–	22
Securities purchased under reverse repurchase agreements	54	–	–	–
Loans	115	9	(4)	(29)
	928	13	(4)	(7)
Financial liabilities designated at fair value through profit or loss				
Deposits[(1)(2)]	5,162	(139)	(118)	(73)
Liabilities related to transferred receivables	6,097	(1)	56	(151)
	11,259	(140)	(62)	(224)

(1) For the quarter ended April 30, 2018, the change in the fair value of deposits designated at fair value through profit or loss attributable to credit risk, and recorded in *Other comprehensive income*, resulted in a gain of $26 million ($55 million loss for the quarter ended April 30, 2017). For the six-month period ended April 30, 2018, this change resulted in a $10 million loss ($76 million loss for the six-month period ended April 30, 2017).

(2) The amount at maturity that the Bank will be contractually required to pay to the holders of these deposits varies and will differ from the reporting date fair value.

(unaudited) (millions of Canadian dollars)

NOTE 7 – SECURITIES

Credit Quality

As at April 30, 2018, securities at fair value through other comprehensive income and securities at amortized cost are classified in Stage 1, with their credit quality falling mainly in the "Excellent" category according to the Bank's internal risk-rating categories. See Note 8 for a reconciliation of the allowances for credit losses.

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

				As at April 30, 2018
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value[1]
Securities issued or guaranteed by				
Canadian government	2,862	3	(36)	2,829
Canadian provincial and municipal governments	2,655	39	(28)	2,666
U.S. Treasury, other U.S. agencies and other foreign governments	122	–	–	122
Other debt securities	429	1	(7)	423
Equity securities	357	1	(3)	355
	6,425	44	(74)	6,395

(1) The allowances for credit losses on securities at fair value through other comprehensive income, representing a negligible amount as at April 30, 2018, are reported in *Other comprehensive income*. See Note 8.

Equity Securities Designated at Fair Value Through Other Comprehensive Income

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

During the six months ended April 30, 2018, an amount of $8 million in dividend income was recognized for these investments, including a negligible amount for investments that were sold during the six months ended April 30, 2018.

			Six months ended April 30, 2018
	Equity securities of private companies	Equity securities of public companies	Total
Fair value as at November 1, 2017	158	122	280
Change in fair value	–	–	–
Designated at fair value through other comprehensive income	75	26	101
Sales[1]	–	(26)	(26)
Fair value as at April 30, 2018	233	122	355

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

(unaudited) (millions of Canadian dollars)

NOTE 7 – SECURITIES (cont.)

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

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

Impairment Losses Recognized

During the quarter and six-month period ended April 30, 2017, no impairment loss had been recognized in *Gains (losses) on available-for-sale securities, net* in the Consolidated Statement of Income, and no amounts had been reversed in the Consolidated Statement of Income to recognize subsequent increases in the fair value of previously impaired debt securities.

Gross Unrealized Losses

As at April 30, 2017, the Bank had concluded that the gross unrealized losses on available-for-sale securities were mainly due to market price fluctuations and to changes in foreign exchange rates and that there was no objective evidence of impairment requiring an impairment charge to be recognized in the Consolidated Statement of Income.

Securities at Amortized Cost

	As at April 30, 2018
Securities issued or guaranteed by	
Canadian government	4,499
Canadian provincial and municipal governments	1,605
U.S. Treasury, other U.S. agencies and other foreign governments	21
Other debt securities	1,555
Gross carrying value	7,680
Allowances for credit losses	1
Carrying value	7,679

Gains (Losses) on Disposals of Securities at Amortized Cost

During the six-month period ended April 30, 2018, the Bank sold certain debt securities measured at amortized cost given an increase in their credit risk. The carrying value of these securities upon disposal was $14 million, and the Bank recognized a negligible gain in *Non-interest income – Gains (losses) on non-trading securities, net* in the Consolidated Statement of Income.

Held-to-Maturity Securities

As at April 30, 2017, there was no objective evidence of impairment on held-to-maturity securities.

NOTE 8 – LOANS AND ALLOWANCES FOR CREDIT LOSSES

As at April 30, 2018, loans are recognized on the Consolidated Balance Sheet either at fair value through profit or loss or at amortized cost using the financial asset classification criteria defined in IFRS 9.

The information provided in the tables on the following pages is presented in accordance with IFRS 9 as at April 30, 2018 and in accordance with IAS 39 as at October 31, 2017 and reflects the presentation changes applied to certain Consolidated Balance Sheet items. For additional information, see Note 1 to these consolidated financial statements.

Determining and Measuring Expected Credit Losses (ECL)

Determining Expected Credit Losses

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

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

Impairment Governance

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

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

Measurement of Expected Credit Losses

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

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

Inputs, Assumptions and Estimation Techniques Used

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

<u>PD Estimates</u>

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

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

LGD Estimates

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

EAD Estimates

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

Expected Life

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

Incorporation of Forward-Looking Information

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

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

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

Determination That a Financial Asset is Credit-Impaired

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

Credit Quality of Loans

The following table presents the gross carrying amounts of loans as at April 30, 2018, according to credit quality and ECL impairment stage of each loan category at amortized cost, and according to credit quality for loans at fair value through profit or loss. For additional information on credit quality according to the Advanced Internal Rating-Based (AIRB) categories, see the "Credit Risk Management" section of the *2017 Annual Report*.

(unaudited) (millions of Canadian dollars)

						As at April 30, 2018
	Non-impaired loans		Impaired loans		Loans at fair value through profit or loss[2]	
	Stage 1	Stage 2	Stage 3[1]	POCI		Total
Residential mortgage						
Excellent	18,069	–	–	–	–	18,069
Good	14,760	15	–	–	–	14,775
Satisfactory	8,500	403	–	–	–	8,903
Special mention	410	743	–	–	–	1,153
Substandard	51	365	–	–	–	416
Default	–	–	126	–	–	126
AIRB approach	41,790	1,526	126	–	–	43,442
Standardized approach	2,176	15	17	565	5,659	8,432
Gross carrying amount	43,966	1,541	143	565	5,659	51,874
Allowances for credit losses[3]	26	13	18	(34)	–	23
Carrying amount	43,940	1,528	125	599	5,659	51,851
Personal						
Excellent	12,517	1	–	–	–	12,518
Good	10,264	74	–	–	–	10,338
Satisfactory	5,303	931	–	–	–	6,234
Special mention	355	693	–	–	–	1,048
Substandard	72	234	–	–	–	306
Default	–	–	135	–	–	135
AIRB approach	28,511	1,933	135	–	–	30,579
Standardized approach	4,493	153	22	908	–	5,576
Gross carrying amount	33,004	2,086	157	908	–	36,155
Allowances for credit losses[3]	74	127	65	–	–	266
Carrying amount	32,930	1,959	92	908	–	35,889
Credit card						
Excellent	403	–	–	–	–	403
Good	281	–	–	–	–	281
Satisfactory	819	33	–	–	–	852
Special mention	306	259	–	–	–	565
Substandard	12	110	–	–	–	122
Default	–	–	–	–	–	–
AIRB approach	1,821	402	–	–	–	2,223
Standardized approach	22	–	–	–	–	22
Gross carrying amount	1,843	402	–	–	–	2,245
Allowances for credit losses[3]	30	102	–	–	–	132
Carrying amount	1,813	300	–	–	–	2,113
Business and government[4]						
Excellent	3,753	–	–	–	10	3,763
Good	22,005	15	–	–	64	22,084
Satisfactory	17,444	1,028	–	–	246	18,718
Special mention	1,446	1,412	–	–	–	2,858
Substandard	13	119	–	–	–	132
Default	–	–	250	–	–	250
AIRB approach	44,661	2,574	250	–	320	47,805
Standardized approach	2,408	5	36	2	–	2,451
Gross carrying amount	47,069	2,579	286	2	320	50,256
Allowances for credit losses[3]	43	81	121	–	–	245
Carrying amount	47,026	2,498	165	2	320	50,011
Total loans						
Gross carrying amount	125,882	6,608	586	1,475	5,979	140,530
Allowances for credit losses[3]	173	323	204	(34)	–	666
Carrying amount	125,709	6,285	382	1,509	5,979	139,864

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

(unaudited) (millions of Canadian dollars)

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

The following table presents the credit risk exposures of off-balance-sheet commitments as at April 30, 2018 according to credit quality and ECL impairment stage.

				As at April 30, 2018
	Stage 1	Stage 2	Stage 3	Total
Off-balance-sheet commitments[1]				
Retail				
Excellent	11,098	8	–	11,106
Good	2,466	16	–	2,482
Satisfactory	980	125	–	1,105
Special mention	80	89	–	169
Substandard	1	17	–	18
Default	–	–	2	2
Non-retail				
Excellent	5,463	–	–	5,463
Good	12,474	–	–	12,474
Satisfactory	4,396	372	–	4,768
Special mention	180	269	–	449
Substandard	3	16	–	19
Default	–	–	2	2
AIRB approach	37,141	912	4	38,057
Standardized approach	6,643	–	–	6,643
Total exposure	43,784	912	4	44,700
Allowances for credit losses	30	21	1	52
Total exposure, net of allowances	43,754	891	3	44,648

(1) Represent letters of guarantee and documentary letters of credit, undrawn commitments, and backstop liquidity and credit enhancement facilities.

(unaudited) (millions of Canadian dollars)

Credit Quality of Loans

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

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

Loans Past Due But Not Impaired(1)

				As at April 30, 2018				As at October 31, 2017
	Residential mortgage	Personal	Credit card	Business and government(2)	Residential mortgage	Personal	Credit card	Business and government(2)
Past due but not impaired								
31 to 60 days	77	74	25	31	111	88	22	30
61 to 90 days	47	47	13	36	40	39	11	15
Over 90 days(3)	–	–	24	–	69	204	21	33
	124	121	62	67	220	331	54	78

(1) Loans less than 31 days past due are not presented as they are not considered past due from an administrative standpoint.
(2) Includes customers' liability under acceptances.
(3) Given the adoption of IFRS 9, loans more than 90 days past due, except for credit card receivables, are considered impaired (Stage 3).

Impaired Loans(1)

			As at April 30, 2018			As at October 31, 2017
	Gross	Allowances for credit losses	Net	Gross	Allowances for credit losses	Net
Loans						
Residential mortgage	143	18	125	66	13	53
Personal	157	65	92	80	40	40
Credit card(2)	–	–	–	–	–	–
Business and government(3)	286	121	165	234	121	113
	586	204	382	380	174	206

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

(unaudited) (millions of Canadian dollars)

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

Allowances for Credit Losses

The following tables present a reconciliation of the allowances for credit losses by Consolidated Balance Sheet item and by off-balance-sheet commitments.

	Quarter ended April 30, 2018					
	Allowances for credit losses as at January 31, 2018	Provisions for credit losses	Write-offs(1)	Disposals	Recoveries and other	Allowances for credit losses as at April 30, 2018
Balance sheet						
Cash and deposits with financial institutions(2)(3)	1	–	–	–	–	1
Securities(3)						
At fair value through other comprehensive income(4)	–	–	–	–	–	–
At amortized cost(2)	1	–	–	–	–	1
Securities purchased under reverse repurchase agreements and securities borrowed(2)(3)	–	–	–	–	–	–
Loans(5)						
Residential mortgage	27	(1)	(2)	–	(1)	23
Personal	260	51	(49)	(5)	9	266
Credit card	130	24	(25)	–	3	132
Business and government	233	12	(8)	(13)	4	228
Customers' liability under acceptances	13	4	–	–	–	17
	663	90	(84)	(18)	15	666
Other assets(2)(3)	–	–	–	–	–	–
Off-balance-sheet commitments(6)						
Letters of guarantee and documentary letters of credit	3	–	–	–	–	3
Undrawn commitments	47	–	–	–	–	47
Backstop liquidity and credit enhancement facilities	1	1	–	–	–	2
	51	1	–	–	–	52
	716	91	(84)	(18)	15	720

	Six months ended April 30, 2018					
	Allowances for credit losses as at November 1, 2017	Provisions for credit losses	Write-offs(1)	Disposals	Recoveries and other	Allowances for credit losses as at April 30, 2018
Balance sheet						
Cash and deposits with financial institutions(2)(3)	1	–	–	–	–	1
Securities(3)						
At fair value through other comprehensive income(4)	–	–	–	–	–	–
At amortized cost(2)	3	(2)	–	–	–	1
Securities purchased under reverse repurchase agreements and securities borrowed(2)(3)	–	–	–	–	–	–
Loans(5)						
Residential mortgage	18	10	(5)	–	–	23
Personal	261	93	(90)	(5)	7	266
Credit card	128	47	(50)	–	7	132
Business and government	250	35	(45)	(13)	1	228
Customers' liability under acceptances	16	1	–	–	–	17
	673	186	(190)	(18)	15	666
Other assets(2)(3)	–	–	–	–	–	–
Off-balance-sheet commitments(6)						
Letters of guarantee and documentary letters of credit	3	–	–	–	–	3
Undrawn commitments	54	(7)	–	–	–	47
Backstop liquidity and credit enhancement facilities	1	1	–	–	–	2
	58	(6)	–	–	–	52
	735	178	(190)	(18)	15	720

(1) The contractual amount outstanding on financial assets that were written off during the quarter ended April 30, 2018 and that are still subject to enforcement activity was $39 million ($74 million for the six-month period ended April 30, 2018).
(2) These financial assets are presented net of the allowances for credit losses on the Consolidated Balance Sheet.
(3) As at April 30, 2018, these financial assets were mainly classified in Stage 1 and their credit quality fell within the *Excellent* category.
(4) The allowances for credit losses are reported in *Accumulated other comprehensive income* on the Consolidated Balance Sheet.
(5) The allowances for credit losses are reported in the *Allowances for credit losses* item of the Consolidated Balance Sheet.
(6) The allowances for credit losses are reported in the *Other liabilities* item of the Consolidated Balance Sheet.

(unaudited) (millions of Canadian dollars)

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

					Quarter ended April 30, 2018
	Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans		
	Stage 1	Stage 2	Stage 3	POCI[1]	Total
Residential mortgage					
Balance as at January 31, 2018	26	12	19	(30)	27
Originations or purchases	3	–	–	–	3
Transfers[2]:					
to Stage 1	2	(2)	–	–	–
to Stage 2	–	1	(1)	–	–
to Stage 3	–	(1)	1	–	–
Net remeasurement of loss allowances[3]	(5)	3	2	(3)	(3)
Derecognitions[4]	–	–	(1)	–	(1)
Changes to models	–	–	–	–	–
Provisions for credit losses	–	1	1	(3)	(1)
Write-offs	–	–	(2)	–	(2)
Disposals	–	–	–	–	–
Recoveries	–	–	1	–	1
Foreign exchange movements and other	–	–	(1)	(1)	(2)
Balance as at April 30, 2018	26	13	18	(34)	23
Includes:					
Amounts drawn	26	13	18	(34)	23
Undrawn commitments[5]	–	–	–	–	–
Personal					
Balance as at January 31, 2018	81	119	60	2	262
Originations or purchases	11	–	–	–	11
Transfers[2]:					
to Stage 1	16	(16)	–	–	–
to Stage 2	(7)	9	(2)	–	–
to Stage 3	(2)	(30)	32	–	–
Net remeasurement of loss allowances[3]	(22)	47	19	3	47
Derecognitions[4]	(4)	(3)	–	–	(7)
Changes to models	–	–	–	–	–
Provisions for credit losses	(8)	7	49	3	51
Write-offs	–	–	(49)	–	(49)
Disposals	–	–	–	(5)	(5)
Recoveries	–	–	5	–	5
Foreign exchange movements and other	2	2	–	–	4
Balance as at April 30, 2018	75	128	65	–	268
Includes:					
Amounts drawn	74	127	65	–	266
Undrawn commitments[5]	1	1	–	–	2

(1) The total amount of undiscounted expected credit losses initially recognized on the new POCI loans during the quarter ended April 30, 2018 is $78 million. The discounted amount has been deducted from the initial purchase price.
(2) Represent stage transfers deemed to have taken place at the beginning of the quarter in which the transfer occurred.
(3) Includes the net remeasurement of loss allowances (after transfers) attributable mainly to changes in volumes and in the credit quality of existing loans as well as to changes in risk parameters.
(4) Represent reversals to loss allowances arising from full loan repayments (excluding write-offs and disposals).
(5) The allowances for credit losses on undrawn commitments are reported in the *Other liabilities* item of the Consolidated Balance Sheet.

(unaudited) (millions of Canadian dollars)

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

					Quarter ended April 30, 2018
	Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans		
	Stage 1	Stage 2	Stage 3	POCI(1)	Total
Credit card					
Balance as at January 31, 2018	41	114	–	–	155
Originations or purchases	2	–	–	–	2
Transfers(2):					
to Stage 1	23	(23)	–	–	–
to Stage 2	(4)	4	–	–	–
to Stage 3	–	(14)	14	–	–
Net remeasurement of loss allowances(3)	(21)	46	8	–	33
Derecognitions(4)	–	(11)	–	–	(11)
Changes to models	–	–	–	–	–
Provisions for credit losses	–	2	22	–	24
Write-offs	–	–	(25)	–	(25)
Disposals	–	–	–	–	–
Recoveries	–	–	3	–	3
Foreign exchange movements and other	–	–	–	–	–
Balance as at April 30, 2018	41	116	–	–	157
Includes:					
Amounts drawn	30	102	–	–	132
Undrawn commitments(5)	11	14	–	–	25
Business and government(6)					
Balance as at January 31, 2018	56	77	133	–	266
Originations or purchases	7	–	–	–	7
Transfers(2):					
to Stage 1	3	(2)	(1)	–	–
to Stage 2	(1)	1	–	–	–
to Stage 3	–	–	–	–	–
Net remeasurement of loss allowances(3)	(5)	11	9	–	15
Derecognitions(4)	(3)	(1)	(2)	–	(6)
Changes to models	–	–	–	–	–
Provisions for credit losses	1	9	6	–	16
Write-offs	–	–	(8)	–	(8)
Disposals	–	–	(13)	–	(13)
Recoveries	–	–	1	–	1
Foreign exchange movements and other	–	–	3	–	3
Balance as at April 30, 2018	57	86	122	–	265
Includes:					
Amounts drawn	43	81	121	–	245
Undrawn commitments(5)	14	5	1	–	20
Total allowances for credit losses as at April 30, 2018(7)	199	343	205	(34)	713
Includes:					
Amounts drawn	173	323	204	(34)	666
Undrawn commitments(5)	26	20	1	–	47

(1) The total amount of undiscounted expected credit losses initially recognized on the new POCI loans during the quarter ended April 30, 2018 is $78 million. The discounted amount has been deducted from the initial purchase price.
(2) Represent stage transfers deemed to have taken place at the beginning of the quarter in which the transfer occurred.
(3) Includes the net remeasurement of loss allowances (after transfers) attributable mainly to changes in volumes and in the credit quality of existing loans as well as to changes in risk parameters.
(4) Represent reversals to loss allowances arising from full loan repayments (excluding write-offs and disposals).
(5) The allowances for credit losses on undrawn commitments are reported in the *Other liabilities* item of the Consolidated Balance Sheet.
(6) Includes customers' liability under acceptances.
(7) Excludes allowances for credit losses on other financial assets at amortized cost and on off-balance-sheet commitments other than undrawn commitments.

(unaudited) (millions of Canadian dollars)

	Six months ended April 30, 2018				
	Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans		
	Stage 1	Stage 2	Stage 3	POCI[1]	Total
Residential mortgage					
Balance as at November 1, 2017	22	10	17	(31)	18
Originations or purchases	6	–	–	–	6
Transfers[2]:					
to Stage 1	4	(4)	–	–	–
to Stage 2	–	2	(2)	–	–
to Stage 3	–	(2)	2	–	–
Net remeasurement of loss allowances[3]	(4)	8	7	(3)	8
Derecognitions[4]	(1)	(1)	(2)	–	(4)
Changes to models	–	–	–	–	–
Provisions for credit losses	5	3	5	(3)	10
Write-offs	–	–	(5)	–	(5)
Disposals	–	–	–	–	–
Recoveries	–	–	2	–	2
Foreign exchange movements and other	(1)	–	(1)	–	(2)
Balance as at April 30, 2018	26	13	18	(34)	23
Includes:					
Amounts drawn	26	13	18	(34)	23
Undrawn commitments[5]	–	–	–	–	–
Personal					
Balance as at November 1, 2017	91	107	59	7	264
Originations or purchases	23	–	–	–	23
Transfers[2]:					
to Stage 1	32	(31)	(1)	–	–
to Stage 2	(14)	17	(3)	–	–
to Stage 3	(4)	(58)	62	–	–
Net remeasurement of loss allowances[3]	(45)	99	32	(2)	84
Derecognitions[4]	(8)	(6)	(1)	–	(15)
Changes to models	–	–	–	–	–
Provisions for credit losses	(16)	21	89	(2)	92
Write-offs	–	–	(90)	–	(90)
Disposals	–	–	–	(5)	(5)
Recoveries	–	–	8	–	8
Foreign exchange movements and other	–	–	(1)	–	(1)
Balance as at April 30, 2018	75	128	65	–	268
Includes:					
Amounts drawn	74	127	65	–	266
Undrawn commitments[5]	1	1	–	–	2

(1) The total amount of undiscounted expected credit losses initially recognized on the new POCI loans during the six-month period ended April 30, 2018 is $103 million. The discounted amount has been deducted from the initial purchase price.
(2) Represent stage transfers deemed to have taken place at the beginning of the quarter in which the transfer occurred.
(3) Includes the net remeasurement of loss allowances (after transfers) attributable mainly to changes in volumes and in the credit quality of existing loans as well as to changes in risk parameters.
(4) Represent reversals to loss allowances arising from full loan repayments (excluding write-offs and disposals).
(5) The allowances for credit losses on undrawn commitments are reported in the *Other liabilities* item of the Consolidated Balance Sheet.

(unaudited) (millions of Canadian dollars)

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

	Six months ended April 30, 2018				
	Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans		
	Stage 1	Stage 2	Stage 3	POCI[1]	Total
Credit card					
Balance as at November 1, 2017	41	112	–	–	153
Originations or purchases	4	–	–	–	4
Transfers[2]:					
to Stage 1	46	(46)	–	–	–
to Stage 2	(8)	8	–	–	–
to Stage 3	–	(26)	26	–	–
Net remeasurement of loss allowances[3]	(42)	80	17	–	55
Derecognitions[4]	–	(12)	–	–	(12)
Changes to models	–	–	–	–	–
Provisions for credit losses	–	4	43	–	47
Write-offs	–	–	(50)	–	(50)
Disposals	–	–	–	–	–
Recoveries	–	–	7	–	7
Foreign exchange movements and other	–	–	–	–	–
Balance as at April 30, 2018	41	116	–	–	157
Includes:					
Amounts drawn	30	102	–	–	132
Undrawn commitments[5]	11	14	–	–	25
Business and government[6]					
Balance as at November 1, 2017	53	74	165	–	292
Originations or purchases	18	–	–	–	18
Transfers[2]:					
to Stage 1	14	(9)	(5)	–	–
to Stage 2	(2)	3	(1)	–	–
to Stage 3	–	–	–	–	–
Net remeasurement of loss allowances[3]	(19)	20	25	–	26
Derecognitions[4]	(7)	(2)	(5)	–	(14)
Changes to models	–	–	–	–	–
Provisions for credit losses	4	12	14	–	30
Write-offs	–	–	(45)	–	(45)
Disposals	–	–	(13)	–	(13)
Recoveries	–	–	2	–	2
Foreign exchange movements and other	–	–	(1)	–	(1)
Balance as at April 30, 2018	57	86	122	–	265
Includes:					
Amounts drawn	43	81	121	–	245
Undrawn commitments[5]	14	5	1	–	20
Total allowances for credit losses as at April 30, 2018[7]	199	343	205	(34)	713
Includes:					
Amounts drawn	173	323	204	(34)	666
Undrawn commitments[5]	26	20	1	–	47

(1) The total amount of undiscounted expected credit losses initially recognized on the new POCI loans during the six-month period ended April 30, 2018 is $103 million. The discounted amount has been deducted from the initial purchase price.
(2) Represent stage transfers deemed to have taken place at the beginning of the quarter in which the transfer occurred.
(3) Includes the net remeasurement of loss allowances (after transfers) attributable mainly to changes in volumes and in the credit quality of existing loans as well as to changes in risk parameters.
(4) Represent reversals to loss allowances arising from full loan repayments (excluding write-offs and disposals).
(5) The allowances for credit losses on undrawn commitments are reported in the *Other liabilities* item of the Consolidated Balance Sheet.
(6) Includes customers' liability under acceptances.
(7) Excludes allowances for credit losses on other financial assets at amortized cost and on off-balance-sheet commitments other than undrawn commitments.

(unaudited) (millions of Canadian dollars)

	Six months ended April 30, 2017					
	Balance at beginning	Provisions for credit losses	Write-offs	Recoveries and other[1]	Transfers[2]	Balance at end
Allowances on impaired loans						
Residential mortgage						
Individual allowances	13	6	(6)	1	–	14
Collective allowances	–	–	–	–	–	–
Allowances on POCI loans	(11)	–	–	(24)	–	(35)
Personal						
Individual allowances	20	32	(34)	2	–	20
Collective allowances	19	14	(19)	4	–	18
Allowances on POCI loans	(1)	–	–	9	–	8
Credit card						
Individual allowances	–	42	(42)	–	–	–
Collective allowances	–	–	–	–	–	–
Business and government						
Individual allowances	156	21	(41)	1	17	154
Collective allowances	3	1	(1)	–	–	3
Individual allowances	189	101	(123)	4	17	188
Collective allowances	22	15	(20)	4	–	21
Allowances on POCI loans	(12)	–	–	(15)	–	(27)
	199	116	(143)	(7)	17	182
Sectoral allowance on non-impaired loans – Oil and gas[3]	204	(40)	–	–	(17)	147
Collective allowance on non-impaired loans[4]	366	40	–	–	–	406
	570	–	–	–	(17)	553
	769	116	(143)	(7)	–	735

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

(unaudited) (millions of Canadian dollars)

NOTE 9 – FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

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

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

	As at April 30, 2018	As at October 31, 2017
Carrying value of financial assets transferred but not derecognized		
Securities(1)	52,597	42,014
Residential mortgages	19,019	19,080
	71,616	61,094
Carrying value of associated liabilities(2)	39,046	33,330
Fair value of financial assets transferred but not derecognized		
Securities(1)	52,597	42,014
Residential mortgages	18,999	19,169
	71,596	61,183
Fair value of associated liabilities(2)	39,031	33,356

(1) The amount related to the securities loaned is the maximum amount of Bank securities that can be lent. For the obligations related to securities sold under repurchase agreements, the amount includes the Bank's own financial assets as well as those of third parties.

(2) Associated liabilities include obligations related to securities sold under repurchase agreements before the offsetting impact of $1,192 million as at April 30, 2018 ($1,621 million as at October 31, 2017) and liabilities related to transferred receivables. Liabilities related to securities loaned are not included, as the Bank can lend its own financial assets and those of third parties. The carrying value and fair value of liabilities related to securities loaned were $8,411 million as at April 30, 2018 ($10,156 million as at October 31, 2017).

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

	As at April 30, 2018	As at October 31, 2017
Carrying value of financial assets transferred but not derecognized		
Securities backed by insured residential mortgage loans and other securities sold to Canada Housing Trust	19,820	20,012
Securities sold under repurchase agreements	19,892	13,544
Securities loaned	31,904	27,538
	71,616	61,094

NOTE 10 – OTHER ASSETS

	As at April 30, 2018	As at October 31, 2017
Receivables, prepaid expenses and other items	737	690
Interest and dividends receivable	549	489
Due from clients, dealers and brokers	744	505
Defined benefit asset	56	56
Deferred tax assets	340	374
Current tax assets	114	31
Reinsurance assets	32	31
	2,572	2,176

(unaudited) (millions of Canadian dollars)

NOTE 11 – DEPOSITS

	As at April 30, 2018			As at October 31, 2017
	On demand or after notice[1]	Fixed term[2]	Total	Total
Personal	29,166	26,377	55,543	53,719
Business and government	47,753	55,169	102,922	97,571
Deposit-taking institutions	2,504	3,805	6,309	5,381
	79,423	85,351	164,774	156,671

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

The *Deposits – Business and government* item includes, among other items, covered bonds, the balance of which was $7.5 billion as at April 30, 2018 ($7.0 billion as at October 31, 2017). During the six months ended April 30, 2018, an amount of US$750 million of covered bonds issued under the legislative covered bond program came to maturity, and the Bank issued covered bonds for an amount of 750 million euros (70 million pounds sterling issued during the six months ended April 30, 2017). For additional information on covered bonds, see Note 28 to the audited annual consolidated financial statements for the year ended October 31, 2017.

NOTE 12 – OTHER LIABILITIES

	As at April 30, 2018	As at October 31, 2017
Accounts payable and accrued expenses	1,476	1,797
Subsidiaries' debts to third parties	1,094	1,075
Interest and dividends payable	863	883
Due to clients, dealers and brokers	570	647
Defined benefit liability	243	252
Allowances for credit losses — off-balance-sheet commitments[1]	52	–
Deferred tax liabilities	26	35
Current tax liabilities	37	93
Insurance liabilities	52	60
Other items[2][3]	783	916
	5,196	5,758

(1) Upon the IFRS 9 adoption on November 1, 2017, allowances for credit losses on off-balance-sheet commitments are now reported in the *Other liabilities* item of the Consolidated Balance Sheet.
(2) As at April 30, 2018, other items included a $28 million restructuring provision ($46 million as at October 31, 2017). For additional information, see Note 15 to the audited annual consolidated financial statements for the year ended October 31, 2017.
(3) As at April 30, 2018, other items included a $9 million litigation provision ($12 million as at October 31, 2017).

NOTE 13 – SUBORDINATED DEBT

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

(unaudited) (millions of Canadian dollars)

NOTE 14 – SHARE CAPITAL

Issuance of Preferred Shares

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

Redemption of Preferred Shares

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

Repurchase of Common Shares

On June 5, 2017, the Bank began a normal course issuer bid to repurchase for cancellation up to 6,000,000 common shares over the 12-month period ending no later than June 4, 2018. Any repurchase through the Toronto Stock Exchange is done at market prices. The amounts that are paid above the average book value of the common shares are charged to *Retained earnings.* During the six months ended April 30, 2018, the Bank repurchased 3,000,000 common shares for $184 million, which reduced *Common share capital* by $25 million and *Retained earnings* by $159 million.

Shares Outstanding

	As at April 30, 2018		As at October 31, 2017	
	Number of shares	Shares $	Number of shares	Shares $
First Preferred Shares				
Series 28	–	–	8,000,000	200
Series 30	14,000,000	350	14,000,000	350
Series 32	12,000,000	300	12,000,000	300
Series 34	16,000,000	400	16,000,000	400
Series 36	16,000,000	400	16,000,000	400
Series 38	16,000,000	400	16,000,000	400
Series 40	12,000,000	300	–	–
	86,000,000	2,150	82,000,000	2,050
Common shares at beginning of the fiscal year	339,591,965	2,768	338,053,054	2,645
Issued pursuant to the Stock Option Plan	2,217,213	92	4,239,095	179
Repurchases of common shares for cancellation	(3,000,000)	(25)	(2,000,000)	(16)
Impact of shares purchased or sold for trading[1]	540,284	33	(591,843)	(37)
Other	(1,206)	–	(108,341)	(3)
Common shares at end of the period	339,348,256	2,868	339,591,965	2,768

(1) As at April 30, 2018, 13,696 shares were held for trading, representing $2 million (553,980 shares held for trading representing $35 million as at October 31, 2017).

(unaudited) (millions of Canadian dollars)

Dividends Declared

	Six months ended April 30			
	2018		2017	
	Dividends $	**Dividends per share**	Dividends $	Dividends per share
First Preferred Shares				
Series 28	**–**	**–**	4	0.4750
Series 30	**7**	**0.5125**	7	0.5125
Series 32	**6**	**0.4875**	6	0.4875
Series 34	**11**	**0.7000**	11	0.7000
Series 36	**11**	**0.6750**	11	0.6750
Series 38	**9**	**0.5563**	–	–
Series 40	**4**	**0.3560**	–	–
	48		39	
Common shares	**409**	**1.2000**	382	1.1200
	457		421	

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, and 108,341 shares were cancelled, mainly upon the settlement of certain indemnifications guaranteed by those shares. During the second quarter of 2018, 3,778 of these shares were released to shareholders and 1,206 shares were cancelled. As at April 30, 2018, the number of common shares held in escrow was 23,897 (28,881 as at October 31, 2017). The Bank expects that the remaining shares in escrow will be settled by the end of calendar year 2018.

(unaudited) (millions of Canadian dollars)

NOTE 15 – CAPITAL DISCLOSURE

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

During the quarter and six-month period ended April 30, 2018, the Bank was in compliance with all of OSFI's regulatory capital requirements.

Regulatory Capital and Ratios Under Basel III(1)

	As at April 30, 2018	As at October 31, 2017
Capital		
CET1	8,236	7,856
Tier 1(2)	11,137	10,457
Total(2)	12,063	10,661
Risk-weighted assets		
CET1 capital	72,834	70,173
Tier 1 capital	72,865	70,327
Total capital	72,895	70,451
Total exposure	278,826	262,539
Capital ratios		
CET1	11.3 %	11.2 %
Tier 1(2)	15.3 %	14.9 %
Total(2)	16.6 %	15.1 %
Leverage ratio	4.0 %	4.0 %

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

NOTE 16 – SHARE-BASED PAYMENTS

Stock Option Plan
During the quarters ended April 30, 2018 and 2017, the Bank did not award any stock options. During the six months ended April 30, 2018, the Bank awarded 1,836,348 stock options (1,804,016 stock options during the six months ended April 30, 2017) with an average fair value of $7.42 per option ($5.75 in 2017).

As at April 30, 2018, there were 14,101,501 stock options outstanding (14,575,894 stock options as at October 31, 2017).

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

	Six months ended April 30	
	2018	2017
Risk-free interest rate	2.11%	1.59%
Expected life of options	7 years	7 years
Expected volatility	18.87%	20.53%
Expected dividend yield	3.80%	4.41%

Compensation expense is presented in the following table.

	Quarter ended April 30		Six months ended April 30	
	2018	2017	2018	2017
Compensation expense recorded for stock options	3	3	6	6

(unaudited) (millions of Canadian dollars)

NOTE 17 – 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 April 30
	Pension plans		Other post-employment benefit plans	
	2018	2017	**2018**	2017
Current service cost	**29**	29	**1**	1
Interest expense (income), net	**1**	1	**2**	2
Administrative expenses	**1**	1		
Expense recognized in *Net income*	**31**	31	**3**	3
Remeasurements[1]				
Actuarial (gains) losses on defined benefit obligation	**(66)**	282	**(3)**	13
Return on plan assets[2]	**73**	(186)		
Remeasurements recognized in *Other comprehensive income*	**7**	96	**(3)**	13
	38	127	**–**	16

				Six months ended April 30
	Pension plans		Other post-employment benefit plans	
	2018	2017	**2018**	2017
Current service cost	**57**	57	**2**	2
Interest expense (income), net	**2**	3	**4**	4
Administrative expenses	**2**	2		
Expense recognized in *Net income*	**61**	62	**6**	6
Remeasurements[1]				
Actuarial (gains) losses on defined benefit obligation	**(66)**	35	**(3)**	1
Return on plan assets[2]	**24**	(89)		
Remeasurements recognized in *Other comprehensive income*	**(42)**	(54)	**(3)**	1
	19	8	**3**	7

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

NOTE 18 – 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 April 30		Six months ended April 30	
	2018	2017	**2018**	2017
Basic earnings per share				
Net income attributable to the Bank's shareholders	**522**	462	**1,049**	940
Dividends on preferred shares	**26**	20	**48**	39
Net income attributable to common shareholders	**496**	442	**1,001**	901
Weighted average basic number of common shares outstanding *(thousands)*	**339,885**	341,107	**340,426**	340,278
Basic earnings per share *(dollars)*	**1.46**	1.30	**2.94**	2.65
Diluted earnings per share				
Net income attributable to common shareholders	**496**	442	**1,001**	901
Weighted average basic number of common shares outstanding *(thousands)*	**339,885**	341,107	**340,426**	340,278
Adjustment to average number of common shares *(thousands)*				
Stock options(1)	**4,015**	4,309	**4,191**	4,014
Weighted average diluted number of common shares outstanding *(thousands)*	**343,900**	345,416	**344,617**	344,292
Diluted earnings per share *(dollars)*	**1.44**	1.28	**2.90**	2.62

(1) For the quarter ended April 30, 2018, the calculation of diluted earnings per share excluded an average number of 1,836,348 options outstanding with a weighted average exercise price of $64.14, as the exercise price of these options was greater than the average price of the Bank's common shares. For the quarter ended April 30, 2017, as the exercise price of the options was lower than the average price of the Bank's common shares, no option was excluded from the diluted earnings per share calculation. For the six months ended April 30, 2018, the calculation of diluted earnings per share excluded an average number of 1,430,525 options outstanding with a weighted average exercise price of $64.14 (1,383,072 options outstanding with a weighted average exercise price of $54.69 for the six months ended April 30, 2017).

NOTE 19 – SEGMENT DISCLOSURES

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

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

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

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

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

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

(unaudited) (millions of Canadian dollars)

Quarter ended April 30[1]

	Personal and Commercial		Wealth Management		Financial Markets		USSF&I		Other		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Net interest income[2]	**532**	496	**125**	102	**146**	194	**150**	101	**(68)**	(78)	**885**	815
Non-interest income[2]	**245**	236	**306**	291	**291**	206	**24**	21	**3**	28	**869**	782
Total revenues	**777**	732	**431**	393	**437**	400	**174**	122	**(65)**	(50)	**1,754**	1,597
Non-interest expenses	**429**	417	**269**	261	**176**	166	**62**	55	**56**	42	**992**	941
Contribution	**348**	315	**162**	132	**261**	234	**112**	67	**(121)**	(92)	**762**	656
Provisions for credit losses[3]	**58**	6	**–**	–	**2**	–	**31**	10	**–**	40	**91**	56
Income before income taxes (recovery)	**290**	309	**162**	132	**259**	234	**81**	57	**(121)**	(132)	**671**	600
Income taxes (recovery)[2]	**77**	83	**43**	35	**69**	63	**18**	17	**(83)**	(82)	**124**	116
Net income	**213**	226	**119**	97	**190**	171	**63**	40	**(38)**	(50)	**547**	484
Non-controlling interests	**–**	–	**–**	–	**–**	–	**11**	8	**14**	14	**25**	22
Net income attributable to the Bank's shareholders	**213**	226	**119**	97	**190**	171	**52**	32	**(52)**	(64)	**522**	462
Average assets	**99,807**	95,956	**12,312**	11,382	**100,674**	98,161	**9,104**	6,799	**42,510**	38,735	**264,407**	251,033

Six months ended April 30[1]

	Personal and Commercial		Wealth Management		Financial Markets		USSF&I		Other		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Net interest income[4]	**1,076**	1,006	**249**	206	**245**	423	**297**	198	**(148)**	(165)	**1,719**	1,668
Non-interest income[4]	**500**	481	**623**	584	**646**	393	**38**	42	**34**	62	**1,841**	1,562
Total revenues	**1,576**	1,487	**872**	790	**891**	816	**335**	240	**(114)**	(103)	**3,560**	3,230
Non-interest expenses	**857**	836	**546**	522	**352**	338	**122**	111	**139**	103	**2,016**	1,910
Contribution	**719**	651	**326**	268	**539**	478	**213**	129	**(253)**	(206)	**1,544**	1,320
Provisions for credit losses[3]	**115**	58	**1**	1	**2**	–	**60**	17	**–**	40	**178**	116
Income before income taxes (recovery)	**604**	593	**325**	267	**537**	478	**153**	112	**(253)**	(246)	**1,366**	1,204
Income taxes (recovery)[4]	**161**	159	**86**	71	**143**	128	**40**	34	**(161)**	(169)	**269**	223
Net income	**443**	434	**239**	196	**394**	350	**113**	78	**(92)**	(77)	**1,097**	981
Non-controlling interests	**–**	–	**–**	–	**–**	–	**20**	14	**28**	27	**48**	41
Net income attributable to the Bank's shareholders	**443**	434	**239**	196	**394**	350	**93**	64	**(120)**	(104)	**1,049**	940
Average assets	**98,956**	95,493	**12,204**	11,340	**101,254**	97,459	**8,938**	6,726	**41,923**	37,487	**263,275**	248,505

(1) For the quarter and six-month period ended April 30, 2017, certain amounts have been reclassified, particularly in the USSF&I segment, where an amount of $53 million reported in *Non-interest income* was reclassified to *Net interest income* for the quarter ended April 30, 2017 ($108 million for the six-month period ended April 30, 2017).

(2) The *Net interest income, Non-interest income* and *Income taxes (recovery)* items 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 $36 million ($46 million in 2017), *Non-interest income* was grossed up by $28 million ($7 million in 2017), and an equivalent amount was recognized in *Income taxes (recovery)*. The effect of these adjustments is reversed under the *Other* heading.

(3) Given the adoption of IFRS 9 on November 1, 2017, the Bank accounts for provisions for credit losses within the business segments. For the quarter and the six-month period ended April 30, 2017, only provisions for credit losses on impaired loans had been recognized in the business segments, whereas provisions for credit losses on non-impaired loans had been recognized in the *Other* heading. During the quarter ended April 30, 2017, the Bank had 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 had reflected an increase in the collective allowance for credit risk on non-impaired loans.

(4) For the six months ended April 30, 2018, *Net interest income* was grossed up by $74 million ($114 million in 2017), *Non-interest income* was grossed up by $49 million ($11 million in 2017), and an equivalent amount was recognized in *Income taxes (recovery)*. The effect of the adjustments is reversed under the *Other* heading.

NOTE 20 – EVENT AFTER THE CONSOLIDATED BALANCE SHEET DATE

Redemption of Trust Units Issued by NBC Asset Trust

On May 22, 2018, NBC Asset Trust (the Trust), a closed-end trust established by the Bank, announced its intention to redeem all of the outstanding 400,000 Trust units – Series 1 (NBC CapS II – Series 1) on June 30, 2018 at a per-unit price of $1,000. The redemption has been approved by the Office of the Superintendent of Financial Institutions (Canada) (OSFI).

INFORMATION FOR SHAREHOLDERS AND INVESTORS

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

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

Public Affairs
600 De La Gauchetière Street West, 18th Floor
Montreal, Quebec H3B 4L2
Telephone: 514-394-8644
Email: *pa@bnc.ca*

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

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

Disclosure of Second Quarter 2018 Results

Conference Call
- A conference call for analysts and institutional investors will be held on Wednesday, May 30, 2018 at 1:00 p.m. EDT.
- Access by telephone in listen-only mode: 1-800-898-3989 or 416-406-0743. The access code is 8726648#.
- A recording of the conference call can be heard until June 28, 2018 by dialing 1-800-408-3053 or 905-694-9451. The access code is 4648574#.

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