NATIONAL BANK

Report to Shareholders — First Quarter 2021

National Bank reports its results for the First Quarter of 2021

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter ended January 31, 2021 and is prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), unless otherwise indicated. IFRS represent Canadian generally accepted accounting principles (GAAP). All amounts are presented in Canadian dollars.

MONTREAL, February 24, 2021 – For the first quarter of 2021, National Bank is reporting net income of $761 million compared to $610 million in the first quarter of 2020, an increase of 25%. First-quarter diluted earnings per share stood at $2.15 compared to $1.67 in the first quarter of 2020, an increase of 29%. These year-over-year increases were driven by net income growth across all the business segments.

Commenting on the Bank's financial results for the first quarter of 2021, Louis Vachon, President and Chief Executive Officer of National Bank of Canada, stated: "I am very satisfied with our performance, which was driven by strong momentum in all of our businesses. The Bank generated a strong ROE for the quarter, while maintaining robust capital levels and significant reserves for credit losses. This speaks to the adaptability of our franchise and sound diversification of our earnings stream."

Highlights

(millions of Canadian dollars)		Quarter ended January 31	
	2021	2020	% Change
Net income	**761**	610	25
Diluted earnings per share *(dollars)*	**$ 2.15**	$ 1.67	29
Return on common shareholders' equity[(1)]	**21.2 %**	18.0 %	
Dividend payout ratio	**45.7 %**	41.4 %	
Excluding specified items[(1)]			
Net income excluding specified items	**761**	620	23
Diluted earnings per share excluding specified items *(dollars)*	**$ 2.15**	$ 1.70	26
Return on common shareholders' equity excluding specified items	**21.2 %**	18.3 %	
Dividend payout ratio excluding specified items	**43.4 %**	41.1 %	
	As at January 31, 2021	As at October 31, 2020	
CET1 capital ratio under Basel III	**11.9 %**	11.8 %	
Leverage ratio under Basel III	**4.3 %**	4.4 %	

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.

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Personal and Commercial

- Net income totalled $262 million in the first quarter of 2021 compared to $242 million in the first quarter of 2020, an increase of 8%.
- Income before provisions for credit losses and income taxes(1) totalled $412 million in the first quarter of 2021, up 3% from $400 million in the first quarter of 2020.
- At $902 million, the 2021 first-quarter total revenues were up $23 million or 3% year over year, mainly due to the increase in net interest income driven by growth in loan and deposit volumes.
- Compared to a year ago, personal lending grew 6% and commercial lending grew 3%.
- Net interest margin stood at 2.18% in the first quarter of 2021 versus 2.21% in the first quarter of 2020.
- First-quarter non-interest expenses stood at $490 million, up 2% from the first quarter of 2020.
- At 54.3%, the efficiency ratio(1) improved from 54.5% in the first quarter of 2020.

Wealth Management

- Net income totalled $160 million in the first quarter of 2021, a 20% increase from $133 million in the first quarter of 2020.
- First-quarter total revenues amounted to $519 million compared to $466 million in the first quarter of 2020, a $53 million or 11% increase driven mainly by growth in transaction-based and other revenues as well as in fee-based revenues.
- First-quarter non-interest expenses stood at $303 million, up 6% from $285 million in the first quarter of 2020.
- At 58.4%, the efficiency ratio(1) improved from 61.2% in the first quarter of 2020.

Financial Markets

- Net income totalled $250 million in the first quarter of 2021, a 37% increase from $183 million in the first quarter of 2020.
- Total revenues on a taxable equivalent basis(1) amounted to $577 million, a $119 million or 26% year-over-year increase.
- First-quarter non-interest expenses stood at $228 million compared to $200 million in the first quarter of 2020, an increase in part attributable to variable compensation.
- At 39.5%, the first-quarter efficiency ratio on a taxable equivalent basis(1) improved from 43.7% in the first quarter of 2020.

U.S. Specialty Finance and International

- Net income totalled $136 million in the first quarter of 2021, a 60% increase from $85 million in the same quarter of 2020.
- First-quarter total revenues amounted to $274 million, a 41% year-over-year increase driven by revenue growth at the Credigy and ABA Bank subsidiaries.
- First-quarter non-interest expenses stood at $83 million, an increase of 6%.
- At 30.3%, the first-quarter efficiency ratio(1) improved by almost 10 percentage points compared to the same quarter in 2020.

Other

- Net loss of $47 million in the first quarter of 2021 compared to a net loss of $33 million in the first quarter of 2020. This change came from a lower contribution from Treasury activities and from an increase in non-interest expenses due to higher variable compensation, COVID-19 expenses, and technology investment expenses.

Capital Management

- As at January 31, 2021, the Common Equity Tier 1 (CET1) capital ratio under Basel III stood at 11.9%, up from 11.8% as at October 31, 2020.
- As at January 31, 2021, the Basel III leverage ratio was 4.3%, a decrease from 4.4% as at October 31, 2020.

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.

Management's Discussion and Analysis

February 23, 2021

The following Management's Discussion and Analysis (MD&A) presents the financial condition and operating results of National Bank of Canada (the Bank). This analysis was prepared in accordance with the requirements set out in *National Instrument 51-102, Continuous Disclosure Obligations,* released by the Canadian Securities Administrators (CSA). It is based on the unaudited interim condensed consolidated financial statements (the consolidated financial statements) for the quarter ended January 31, 2021 and prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), unless otherwise indicated. IFRS represent Canadian generally accepted accounting principles (GAAP). This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes for the quarter ended January 31, 2021 and with the *2020 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 forward-looking statements such as those contained in this document, in other filings with Canadian securities regulators, and in other communications. In addition, representatives of the Bank may make forward-looking statements orally to analysts, investors, the media and others. All such statements are made in accordance with applicable securities legislation in Canada and the United States. Forward-looking statements in this document may include, but are not limited to, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, the Bank's objectives, outlook and priorities for fiscal year 2021 and beyond, its strategies or future actions for achieving them, expectations for the Bank's financial condition, the regulatory environment in which it operates, the potential impacts of—and the Bank's response to—the COVID-19 pandemic, and certain risks it faces. These forward-looking statements are typically identified by future or conditional verbs or words such as "outlook", "believe", "foresee", "forecast", "anticipate", "estimate", "project", "expect", "intend", "plan", and similar expressions of future or conditional verbs such as "will", "may", "should", "could" or "would". Such forward-looking statements are made for the purpose of assisting the holders of the Bank's securities in understanding the Bank's financial position and results of operations as at and for the periods ended on the dates presented, as well as the Bank's vision, strategic objectives and its financial performance targets, and may not be appropriate for other purposes.

By their very nature, these 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 2021, including in the context of the COVID-19 pandemic, and how that will affect the Bank's business are among the main factors considered in setting the Bank's strategic priorities and objectives, including provisions for credit losses. In determining its expectations for economic conditions, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the governments of Canada, the United States and certain other countries in which the Bank conducts business, as well as their agencies.

There is a strong possibility that the Bank's express or implied predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that its assumptions may not be confirmed and that its vision, strategic objectives and financial performance targets will not be achieved. The Bank recommends that readers not place undue reliance on forward-looking statements, as a number of factors, many of which are beyond the Bank's control, including the impacts of the COVID-19 pandemic, could cause actual results to differ significantly from the expectations, estimates or intentions expressed in these 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 and social risk, all of which are described in more detail in the Risk Management section beginning on page 68 of the Bank's *2020 Annual Report*, and more specifically, general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business; regulatory changes affecting the Bank's business; geopolitical and sociopolitical uncertainty; important changes in consumer behaviour; the housing and household indebtedness situation and real estate market in Canada; changes in the Bank's customers' and counterparties' performance and creditworthiness; 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; 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; potential disruption to key suppliers of goods and services to the Bank; potential disruptions to the Bank's information technology systems, including evolving cyberattack risk as well as identity theft and theft of personal information; and possible impacts of catastrophic events affecting local and global economies, including natural disasters and public health emergencies such as the COVID-19 pandemic. Statements about the expected impacts of the COVID-19 pandemic on the Bank's business, results of operations, reputation, financial position and liquidity, and on the global economy may be inaccurate and differ, possibly materially, from what is currently expected as they depend on future developments that are highly uncertain and cannot be predicted. The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the COVID-19 Pandemic and Risk Management sections of the Bank's *2020 Annual Report* and in this Report to Shareholders for the First Quarter of 2021, especially in the COVID-19 Pandemic section. 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 risks 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.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization (WHO) declared that the COVID-19 outbreak constituted a pandemic, requiring that important protective measures be taken to prevent overcrowding of health services and to strengthen preventive hygiene. The global pandemic prompted many countries, including Canada, to implement lockdown and social distancing measures designed to slow down new outbreaks. Those measures included the closing of borders in many countries. This exceptional situation has led to significant changes in the overall market environment, including business closures, temporary layoffs, low interest rates and the government measures implemented in response to COVID-19.

Certain restrictions imposed at the start of the pandemic were eased during the summer of 2020, but a second wave of COVID-19 in early fall forced authorities in a number of countries, including Canada, to reintroduce some lockdown measures, effectively shutting down parts of the economy again. Although the recent introduction of several vaccines against COVID-19 constitutes an encouraging development, uncertainty remains as to their effectiveness, their distribution, their acceptance by the public and the reduction of the anticipated infection rates, in particular following the multiplication of cases linked to COVID-19 variants that appear to be more contagious. Authorities in a number of countries, including Canada, are working actively to ensure that vaccines are administered as quickly as possible. It is anticipated that certain measures by the public health authorities in Canada will remain in place until extensive immunization is achieved in order to continue to limit the spread of COVID-19 and its variants.

In Canada, banking services are considered essential services and are therefore being maintained despite the lockdown and social distancing measures. Given the current economic and social conditions, the Bank is committed to supporting its employees, clients, and communities. The Bank has ensured the continuity of all its activities since the beginning of this unprecedented crisis. All of its experts have been mobilized to guide and support clients and answer their questions during this ongoing period of uncertainty.

In addition to the impacts of the COVID-19 pandemic on the global economy and in the countries where the Bank conducts business, the pandemic has affected and may continue to affect the Bank, the way it conducts business, and its clients. The Bank continues to closely monitor the effects and potential consequences of the COVID-19 pandemic. The actual impacts will depend on future events that are highly uncertain, including the extent, severity and duration of the COVID-19 pandemic and its variants, as well as the effectiveness of actions and measures taken by governments, monetary authorities and regulators over the long term.

For additional information on the impact of the COVID-19 risk factor, on relief measures offered to the Bank's clients and on the measures introduced by regulators, see the COVID-19 Pandemic section of the *2020 Annual Report*, on pages 16 to 21.

A number of relief measures offered to the Bank's clients ended at the end of 2020, although some new measures are being offered in connection with various government programs in which the Bank continues to participate. These new measures mainly consist of loans subject to government guarantees, particularly for businesses in sectors that were among the hardest hit by the pandemic. The Bank is continuing to address the specific needs of its clients in the normal course of business to support them during this unprecedented crisis. The number of loans and gross carrying value of loans subject to deferrals are presented in the following table.

Payment Deferrals

(millions of Canadian dollars)	As at January 31, 2021		As at October 31, 2020	
	Number of loans	Gross carrying value of loans	Number of loans	Gross carrying value of loans
Residential mortgage	1,441	309	2,865	695
Personal	–	–	–	–
Credit card	–	–	–	–
Business and government	89	349	780	1,182
	1,530	658	3,645	1,877

Economic Review and Outlook

Global Economy

After spiking in late 2020 and in early 2021, the number of new coronavirus infections now appears to be on the decline in various regions around the globe. If this trend continues, many countries should be able to relax certain social distancing measures within the coming weeks. However, people should not expect a return to normal life in the near future. It is important to remember that a number of countries are now dealing with more contagious variants of the virus. Public health authorities must take a cautious approach to avoid yet another wave. While mass vaccination could change everything, the worldwide vaccination campaign is lagging behind. After a bumpy first six months, the global economy is expected to strengthen in the latter half of the year, provided that vaccines can be rolled out without too many setbacks. The monetary and fiscal stimulus measures being provided to support household spending in advanced economies were beneficial to emerging-market economies, which produce most of the goods manufactured around the world. In fact, industrial production in these countries entered a phase of economic expansion while advanced economies are still recovering and have yet to return to pre-pandemic production levels. Global GDP is expected to rebound by 5.4%(1) this year, after contracting by a record 3.4% in 2020.

Despite the recent drop in the number of COVID-19 cases in the United States, the country continues to be in the grips of a serious health crisis. However, U.S. tolerance for high infection levels is limiting negative economic fallout from the pandemic. Despite a spike in the number of infections in the final quarter of 2020, U.S. GDP recorded a 4.0% growth in annualized terms. In the wake of this increase, production stood at 2.5% below pre-pandemic levels, which compares favourably with the variances seen in other advanced economies. One key factor that explains the good performance of the U.S. economy is Washington's response to the crisis. Only a few weeks after President Trump signed the $900 billion recovery plan, the new Biden administration is already promising a new $1,900 billion package. This would bring Washington's total fiscal stimulus spending to more than $5,000 billion since the start of the crisis, which is much higher than the approximately $750 billion in stimulus spending in 2008-2009. As we await the details of the new stimulus package, growth is expected to rebound by a solid 5.2%(1) in 2021 after contracting by 3.5% last year.

Canadian Economy

The most recent public health measures have paid off in Canada, since the number of COVID-19 cases overwhelming the health care system is on the decline. Ontario and Quebec ordered the closure of non-essential businesses to achieve this objective. In other words, governments encountered obstacles as they tried to get the pandemic under control and the economy may contract in the first quarter as a result. The labour market lost no fewer than 266,000 jobs in December and January, eliminating the progress made since August. However, if the sectors directly impacted by the lockdown measures are excluded, employment numbers continued to increase in January. Another positive development in the report is the fact that full-time employment continues to show resilience, recording a new increase during the month, for a ninth month of consecutive gains. We are therefore not overly concerned by this temporary dry spell caused by the public health measures, which do not seem to be having repercussions beyond the sectors that are directly impacted. The decrease in the number of new cases in the country suggests a loosening of public health measures in the near future. While this positive development could be delayed by a slower rollout of vaccines, the light at the end of the tunnel is boosting business confidence, suggesting that employment numbers and economic performance will rebound solidly once the pandemic is under control. The growth outlook for the rest of year also seems more encouraging since Canada is expected to benefit indirectly from the generosity of the U.S. government, which will be felt for exports, and since Canada's raw materials price index is at its highest level since 2014. This should allow for economic growth to rebound by 4.2%(1) in 2021 after contracting by 5.4% last year.

Quebec Economy

To limit the growing spread of COVID-19, Quebec ordered the closure of bars, restaurant dining rooms, public venues and gyms in a number of affected regions last October. In December 2020, the government introduced additional measures, ordering the closure of non-essential businesses. Between September and January, Quebec's labour market lost 120,000 jobs, a decline of 3%. This is not much compared to the severe 19% decline last spring. This time, however, the sector-based closures are much more focused, thereby limiting the economic consequences. Most of the job losses are related to part-time positions in sectors with below-average salaries. Given the generous income support programs currently being provided by the federal government, household income is not expected to be severely impacted by the devastating job market situation. The resilience of full-time employment explains the vibrant real estate market, which has not slowed down in recent months. Housing prices in the greater Montreal area are up nearly 16% since last year, an increase not seen in 30 years. The sea change in preferences attributable to the pandemic has generated significant real estate activity and lower borrowing costs have provided buyers with more spending power. The economy is expected to resume its growth trajectory in February 2021 since a significant drop in the number of hospitalizations has made it possible to reopen non-essential businesses. We remain optimistic about the next stages of the recovery given the budget maneuvering room enjoyed by the Quebec government as well as the fact that Quebec households are in a better financial position than elsewhere in Canada. After contracting by 5.2% in 2020, the Quebec economy is expected to rebound by 3.9%(1) in 2021.

(1) GDP growth forecasts, Economy and Strategy group, National Bank Financial

Financial Reporting Method

Non-GAAP Financial Measures

The Bank uses a number of financial measures when assessing its results and measuring 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. The Bank cautions readers that it uses non-GAAP financial measures that do not have standardized meanings under GAAP and therefore may not be comparable to similar measures used by other companies.

Like many other financial institutions, the Bank uses the taxable equivalent basis to calculate net interest income, non-interest income, and income taxes. This calculation method consists of grossing up certain tax-exempt income (particularly dividends) by the income tax that would have been otherwise payable. An equivalent amount is added to income taxes. This adjustment is necessary in order to perform a uniform comparison of the return on different assets regardless of their tax treatment. The Bank also uses the return on common shareholders' equity, which is a financial performance measure calculated by dividing net income attributable to common shareholders by the average value of common shareholders' equity for the period. Finally, the efficiency ratio is also used to assess the Bank's consolidated results and results by segment. The efficiency ratio is calculated by dividing non-interest expenses by total revenues.

Fiscal 2020 was marked by the effects of the COVID-19 pandemic on macroeconomic factors, which resulted in a significant increase in the Bank's provisions for credit losses. Given the materiality of the provisions for credit losses recorded in accordance with IFRS, the Bank believes it is useful to show income before provisions for credit losses and income taxes, income before provisions for credit losses and income taxes on a taxable equivalent basis as well as income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items (as presented in the Consolidated Results table on page 8 and in the Results by Segment tables on pages 10 to 14 of this MD&A), thereby providing readers with additional information to help them better understand the main components of the financial results of the Bank and its business segments.

Financial Information

(millions of Canadian dollars, except per share amounts)	Quarter ended January 31		
	2021	2020	% Change
Net income excluding specified items(1)			
Personal and Commercial	**262**	242	8
Wealth Management	**160**	133	20
Financial Markets	**250**	183	37
U.S. Specialty Finance and International	**136**	85	60
Other	**(47)**	(23)	
Net income excluding specified items	**761**	620	23
Charge related to Maple(2)	**–**	(10)	
Net income	**761**	610	25
Diluted earnings per share excluding specified items	**$ 2.15**	$ 1.70	26
Charge related to Maple(2)	**–**	(0.03)	
Diluted earnings per share	**$ 2.15**	$ 1.67	29
Return on common shareholders' equity			
Including specified items	**21.2 %**	18.0 %	
Excluding specified items	**21.2 %**	18.3 %	

(1) For the quarter ended January 31, 2020, certain amounts have been reclassified.
(2) During the quarter ended January 31, 2020, the Bank had recorded a charge of $13 million ($10 million net of income taxes) related to the company Maple Financial Group Inc. (Maple) following the event in December 2019, as described in the Contingent Liabilities section on page 111 of the *2020 Annual Report*.

Highlights

(millions of Canadian dollars, except per share amounts)			Quarter ended January 31
	2021	2020	% Change
Operating results			
Total revenues	2,224	1,923	16
Income before provisions for credit losses and income taxes(1)	1,044	832	25
Net income	761	610	25
Net income attributable to the Bank's shareholders and holders of other equity instruments	761	594	28
Return on common shareholders' equity(1)	21.2 %	18.0 %	
Earnings per share			
Basic	$ 2.16	$ 1.69	28
Diluted	2.15	1.67	29
Operating results on a taxable equivalent basis and excluding specified items(1)			
Total revenues on a taxable equivalent basis	2,281	2,010	13
Income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items	1,101	932	18
Net income excluding specified items	761	620	23
Return on common shareholders' equity excluding specified items	21.2 %	18.3 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	51.7 %	53.6 %	
Earnings per share excluding specified items(1)			
Basic	$ 2.16	$ 1.72	26
Diluted	2.15	1.70	26
Common share information			
Dividends declared	$ 0.71	$ 0.71	–
Book value	41.48	37.58	
Share price			
High	73.81	74.22	
Low	65.54	68.25	
Close	71.87	73.43	
Number of common shares *(thousands)*	336,770	335,818	
Market capitalization	24,204	24,659	

(millions of Canadian dollars)	As at January 31, 2021	As at October 31, 2020	% Change
Balance sheet and off-balance-sheet			
Total assets	343,637	331,625	4
Loans and acceptances, net of allowances	167,690	164,740	2
Deposits	227,677	215,878	5
Equity attributable to common shareholders	13,970	13,430	4
Assets under administration and under management	656,263	596,656	10
Regulatory ratios under Basel III(2)			
Capital ratios			
Common Equity Tier 1 (CET1)	11.9 %	11.8 %	
Tier 1	14.9 %	14.9 %	
Total	16.0 %	16.0 %	
Leverage ratio	4.3 %	4.4 %	
Liquidity coverage ratio (LCR)	154 %	161 %	
Net stable funding ratio (NSFR)	124 %		
Regulatory ratios under Basel III (adjusted)(3)			
Capital ratios			
CET1	11.7 %	11.5 %	
Tier 1	14.8 %	14.6 %	
Total	16.0 %	16.0 %	
Leverage ratio	4.3 %	4.3 %	
Other information			
Number of employees – Worldwide	26,231	26,517	(1)
Number of branches in Canada	402	403	–
Number of banking machines in Canada	935	940	(1)

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.
(2) The ratios include the transitional measures granted by the Office of the Superintendent of Financial Institutions (Canada) (OSFI). For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*.
(3) The adjusted ratios do not include the transitional measure applicable to expected credit loss provisioning. For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*.

Financial Analysis

Consolidated Results

(millions of Canadian dollars)	Quarter ended January 31		
	2021	2020	% Change
Operating results			
Net interest income	1,207	930	30
Non-interest income	1,017	993	2
Total revenues	2,224	1,923	16
Non-interest expenses	1,180	1,091	8
Income before provisions for credit losses and income taxes[1]	1,044	832	25
Provisions for credit losses	81	89	(9)
Income before income taxes	963	743	30
Income taxes	202	133	52
Net income	761	610	25
Diluted earnings per share *(dollars)*	2.15	1.67	29
Taxable equivalent basis[1]			
Net interest income	54	57	
Non-interest income	3	30	
Income taxes	57	87	
Impact of taxable equivalent basis on net income	–	–	
Specified items[1]			
Charge related to Maple	–	(13)	
Specified items before income taxes	–	(13)	
Income taxes on specified items	–	(3)	
Specified items after income taxes	–	(10)	
Operating results on a taxable equivalent basis and excluding specified items[1]			
Net interest income on a taxable equivalent basis	1,261	987	28
Non-interest income on a taxable equivalent basis	1,020	1,023	–
Total revenues on a taxable equivalent basis	2,281	2,010	13
Non-interest expenses excluding specified items	1,180	1,078	9
Income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items	1,101	932	18
Provisions for credit losses	81	89	(9)
Income before income taxes on a taxable equivalent basis and excluding specified items	1,020	843	21
Income taxes on a taxable equivalent basis and excluding specified items	259	223	16
Net income excluding specified items	761	620	23
Diluted earnings per share excluding specified items *(dollars)*	2.15	1.70	26
Average assets	358,113	301,511	19
Average loans and acceptances	165,588	154,558	7
Average deposits	227,641	198,974	14
Efficiency ratio on a taxable equivalent basis and excluding specified items[1]	51.7 %	53.6 %	

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.

Financial Results
For the first quarter of 2021, National Bank is reporting net income of $761 million compared to $610 million in the first quarter of 2020, an increase of 25%. First-quarter diluted earnings per share stood at $2.15, compared to $1.67 in the first quarter of 2020, an increase of 29%. Income before provisions for credit losses and income taxes(1) totalled $1,044 million in the first quarter of 2021, a 25% year-over-year increase. These increases were driven by good performance across all the business segments.

Net income excluding specified items(1) totalled $761 million in the first quarter of 2021, up 23% from $620 million in the first quarter of 2020. First-quarter diluted earnings per share excluding specified items(1) stood at $2.15, up from $1.70 in the same quarter of 2020. For the first quarter of 2020, the specified item, net of income taxes, was a $10 million charge related to Maple.

Return on common shareholders' equity excluding specified items(1) was 21.2% for the quarter ended January 31, 2021 compared to 18.3% in the same quarter of 2020.

Total Revenues
For the first quarter of 2021, the Bank's total revenues amounted to $2,224 million, up $301 million or 16% from the same quarter of 2020. Total revenues for the Personal and Commercial segment rose 3% due to growth in loan and deposit volumes, partly offset by a narrowing of the net interest margin as a result of lower interest rates, as well as to higher credit fee revenues and revenues from bankers' acceptances. These positive factors were tempered by a decline in credit card revenues and revenues from deposit and payment service charges as a result of the impacts of COVID-19 on certain sectors of the economy and on consumer spending by clients, as well as by lower insurance revenues. Revenues from the Wealth Management segment grew 11%, resulting mainly from the increase in fee-based revenues related to average growth in assets under administration and under management and the increase in transaction volume. Total revenues on a taxable equivalent basis(1) recorded in the Financial Markets segment in the first quarter of 2021 increased by 26% compared to the same quarter in 2020 due to the increase in global markets revenues and corporate and investment banking revenues. Moreover, the USSF&I segment's total revenues rose 41%, owing to sustained revenue growth at the ABA Bank subsidiary due to increase in loan and deposit volumes, and to revenue growth at the Credigy subsidiary, in particular due to a gain realized in the first quarter of 2021 following the disposal of loan portfolios. Total revenues on a taxable equivalent basis(1) totalled $2,281 million in the first quarter of 2021, up 13% from $2,010 million in the first quarter of 2020.

Non-Interest Expenses
For the first quarter of 2021, non-interest expenses stood at $1,180 million, up 8% compared to the first quarter of 2020. The increase in non-interest expenses was mainly due to an increase in compensation and employee benefits, in particular the variable compensation associated with the revenue growth experienced across all business segments and to an increase in the technology investments made by the Bank for its transformation plan and business development purposes. However, the other expenses item in the first quarter of 2020 included a $13 million charge related to Maple. First-quarter non-interest expenses excluding specified items(1) stood at $1,180 million, up 9% from $1,078 million in the first quarter of 2020.

Provisions for Credit Losses
For the first quarter of 2021, the Bank recorded $81 million in credit losses compared to $89 million for the first quarter of 2020, a decrease essentially due to provisions for credit losses on the non-impaired loans and impaired loans of Personal Banking as well as the provisions for credit losses on impaired credit card receivables. The provisions for credit losses on Commercial Banking impaired loans and loans of the Credigy subsidiary, notably purchased or originated credit-impaired (POCI) loans, increased compared to the first quarter of 2020.

Income Taxes
For the first quarter of 2021, income taxes stood at $202 million compared to $133 million in the same quarter of 2020. The 2021 first-quarter effective income tax rate was 21% compared to 18% in the first quarter of 2020. This change in effective tax rate stems mainly from a higher level and proportion of tax-exempt dividend income during the first quarter of 2020.

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.

Results by Segment

The Bank carries out its activities in four business segments: Personal and Commercial, Wealth Management, Financial Markets, and U.S. Specialty Finance and International. For presentation purposes, other operating activities, certain specified items and Treasury activities are grouped in the *Other* heading. Each reportable segment is distinguished by services offered, type of clientele, and marketing strategy.

Personal and Commercial

(millions of Canadian dollars)	Quarter ended January 31		
	2021	2020[1]	% Change
Operating results			
Net interest income	**638**	611	4
Non-interest income	**264**	268	(1)
Total revenues	**902**	879	3
Non-interest expenses	**490**	479	2
Income before provisions for credit losses and income taxes[2]	**412**	400	3
Provisions for credit losses	**56**	70	(20)
Income before income taxes	**356**	330	8
Income taxes	**94**	88	7
Net income	**262**	242	8
Net interest margin[3]	**2.18 %**	2.21 %	
Average interest-bearing assets	**116,333**	110,020	6
Average assets	**121,877**	115,946	5
Average loans and acceptances	**121,478**	115,445	5
Net impaired loans[4]	**356**	375	(5)
Net impaired loans[4] as a % of average loans and acceptances	**0.3 %**	0.3 %	
Average deposits	**74,229**	64,388	15
Efficiency ratio[2]	**54.3 %**	54.5 %	

(1) For the quarter ended January 31, 2020, certain amounts have been reclassified.
(2) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.
(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 $262 million in the first quarter of 2021 compared to $242 million in the first quarter of 2020, an increase of 8%. Net interest income in the first quarter of 2021 grew 4% year over year. The growth in personal and commercial loan and deposit volumes more than offset the impact of lower interest rates on the net interest margin, which was 2.18% compared to 2.21% in the first quarter of 2020. Non-interest income was down $4 million or 1% year over year.

Personal Banking's first-quarter total revenues increased by $9 million year over year. The increase in net interest income, essentially related to growth in loan and deposit volumes, more than offset the impact of lower interest rates. This increase was partly offset by a decline in credit card revenues and revenues from deposit and payment service charges as a result of the impacts of COVID-19 on certain sectors of the economy and on consumer spending by clients, as well as by a decrease in insurance revenues. Commercial Banking's total revenues grew $14 million due to growth in loan and deposit volumes and revenues from derivative financial instruments and bankers' acceptances.

For the first quarter of 2021, the Personal and Commercial segment's non-interest expenses stood at $490 million, up 2% from the first quarter of 2020. An increase in compensation and employee benefits and operations support charges were tempered by a decrease in certain variable expenses, notably business development expenses, given the social distancing and lockdown measures imposed by governments due to the pandemic. At 54.3%, the first-quarter efficiency ratio[1] improved by 0.2 percentage points when compared to the first quarter of 2020. The segment recorded $56 million in provisions for credit losses, a $14 million year-over-year decrease related mainly to a decrease in provisions on impaired and non-impaired Personal Banking loans and on impaired credit card receivables. These decreases were partly offset by the increase in provisions for credit losses on impaired Commercial Banking loans.

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.

Wealth Management

(millions of Canadian dollars)	Quarter ended January 31		
	2021	2020(1)	% Change
Operating results			
Net interest income	110	119	(8)
Fee-based revenues	302	273	11
Transaction-based and other revenues	107	74	45
Total revenues	519	466	11
Non-interest expenses	303	285	6
Income before provisions for credit losses and income taxes(2)	216	181	19
Provisions for credit losses	(2)	–	
Income before income taxes	218	181	20
Income taxes	58	48	21
Net income	160	133	20
Average assets	6,537	5,943	10
Average loans and acceptances	5,384	4,766	13
Net impaired loans(3)	3	3	–
Average deposits	34,887	32,430	8
Assets under administration and under management	656,263	606,804	8
Efficiency ratio(2)	58.4 %	61.2 %	

(1) For the quarter ended January 31, 2020, certain amounts have been reclassified.
(2) See the Financial Reporting Method section on page 6 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 $160 million in the first quarter of 2021, a 20% increase from $133 million in the same quarter of 2020. The segment's first-quarter total revenues amounted to $519 million, up $53 million or 11% from $466 million in the first quarter of 2020. This increase was mainly driven by a 45% increase in transaction-based and other revenues related to an increase in transaction volume due to stock market volatility and by an 11% increase in fee-based revenues attributable to growth in average assets under administration and under management as a result of net inflows into the various solutions and stronger stock market performance in the first quarter of 2021. The segment's net interest income was down 8% due to lower interest rates, partly offset by higher deposit volumes.

For the first quarter of 2021, non-interest expenses stood at $303 million, up 6% from the first quarter of 2020. The increase was mainly from higher compensation, and employee benefits, notably the variable compensation associated with growth in the segment's revenues. At 58.4%, the first-quarter efficiency ratio[1] improved by 2.8 percentage points when compared to the first quarter of 2020. For the first quarter of 2021, the segment recorded $2 million in recoveries for credit losses on impaired loans compared to provisions for credit losses of a negligible amount in the same quarter of 2020.

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.

Financial Markets

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

	Quarter ended January 31		
	2021	2020[2]	% Change
Operating results			
Global markets			
Equities	**201**	174	16
Fixed-income	**116**	85	36
Commodities and foreign exchange	**38**	30	27
	355	289	23
Corporate and investment banking	**222**	169	31
Total revenues on a taxable equivalent basis	**577**	458	26
Non-interest expenses	**228**	200	14
Income before provisions for credit losses and income taxes on a taxable equivalent basis[1]	**349**	258	35
Provisions for credit losses	**9**	9	–
Income before income taxes on a taxable equivalent basis	**340**	249	37
Income taxes on a taxable equivalent basis	**90**	66	36
Net income	**250**	183	37
Average assets	**151,197**	121,612	24
Average loans and acceptances (Corporate Banking only)	**18,522**	17,025	9
Net impaired loans[3]	**11**	40	(73)
Average deposits	**39,477**	34,166	16
Efficiency ratio on a taxable equivalent basis[1]	**39.5 %**	43.7 %	

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.
(2) For the quarter ended January 31, 2020, certain amounts have been reclassified.
(3) Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn.

In the Financial Markets segment, net income totalled $250 million in the first quarter of 2021, up 37% from $183 million in the first quarter of 2020. Total revenues on a taxable equivalent basis[1] amounted to $577 million, up 26% compared to the first quarter of 2020. First-quarter global markets revenues increased by $66 million, driven by growth in all revenue categories. As for corporate and investment banking revenues, they increased $53 million from the first quarter of 2020 due to higher revenues generated by capital markets activities and revenues from banking services.

First-quarter non-interest expenses stood at $228 million, up 14% from the first quarter of 2020. This increase was essentially due to the increase in variable compensation resulting from revenue growth in the first quarter of 2021 and to higher operations support charges. At 39.5%, the first-quarter efficiency ratio on a taxable equivalent basis[1] improved by 4.2 percentage points compared to 43.7% in the first quarter of 2020. The segment's first-quarter provisions for credit losses stood at $9 million, stable compared to the same quarter of 2020.

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.

U.S. Specialty Finance and International (USSF&I)

(millions of Canadian dollars)	Quarter ended January 31		
	2021	2020	% Change
Total revenues			
Credigy	155	98	58
ABA Bank	119	95	25
International	–	2	
	274	195	41
Non-interest expenses			
Credigy	39	36	8
ABA Bank	44	41	7
International	–	1	
	83	78	6
Income before provisions for credit losses and income taxes(1)	191	117	63
Provisions for credit losses			
Credigy	16	7	129
ABA Bank	2	3	(33)
	18	10	80
Income before income taxes	173	107	62
Income taxes			
Credigy	21	12	75
ABA Bank	16	10	60
	37	22	68
Net income			
Credigy	79	43	84
ABA Bank	57	41	39
International	–	1	
	136	85	60
Non-controlling interests	–	9	
Net income attributable to the Bank's shareholders and holders of other equity instruments	136	76	79
Average assets	15,545	12,494	24
Average loans and receivables	11,945	9,880	21
Net impaired loans – Stage 3(2)	30	18	67
Purchased or originated credit-impaired (POCI) loans	722	1,024	(29)
Average deposits	6,175	4,373	41
Efficiency ratio(1)	30.3 %	40.0 %	

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.
(2) Net impaired loans – Stage 3 exclude POCI loans and are presented net of allowances for credit losses on Stage 3 loan amounts drawn.

In the USSF&I segment, net income totalled $136 million in the first quarter of 2021, a 60% increase from $85 million in first quarter 2020. For the first quarter of 2021, the segment's total revenues amounted to $274 million, a $79 million or 41% increase from $195 million in first quarter 2020. The revenue growth came mainly from a $57 million increase in the revenues from the Credigy subsidiary and a $24 million increase in the revenues from the ABA Bank subsidiary.

Credigy

The Credigy subsidiary's net income totalled $79 million for the first quarter of 2021, up $36 million or 84% year over year. Credigy's first-quarter total revenues amounted to $155 million, up from $98 million in the first quarter of 2020, mainly due to growth in loan volumes and to a gain of $26 million realized in the first quarter of 2021 following a disposal of loan portfolios. Credigy's first-quarter non-interest expenses increased 8%, in particular the variable compensation associated with the revenue growth during the first quarter of 2021. The 2021 first-quarter provisions for credit losses were $16 million compared to $7 million in the same quarter of 2020, a year-over-year increase essentially due to provisions for credit losses on POCI loans.

During the first quarter ended January 31, 2021, the Bank acquired the entire remaining non-controlling interest in the Credigy subsidiary. For additional information, see Note 18 to these consolidated financial statements.

ABA Bank

For the first quarter of 2021, the ABA Bank subsidiary's net income totalled $57 million, up $16 million or 39% from the first quarter of 2020. A 25% increase in ABA Bank's first-quarter revenues was driven by sustained growth in loan and deposit volumes, partly offset by lower interest rates. The subsidiary's first-quarter non-interest expenses stood at $44 million compared to $41 million in the first quarter of 2020. Provisions for credit losses for the first quarter of 2021 totalled $2 million compared to $3 million in the same quarter of 2020.

Other

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

	Quarter ended January 31	
	2021	2020(2)
Operating results		
Net interest income on a taxable equivalent basis	**(33)**	(44)
Non-interest income on a taxable equivalent basis	**42**	56
Total revenues on a taxable equivalent basis	**9**	12
Non-interest expenses	**76**	49
Income before provisions for credit losses and income taxes on a taxable equivalent basis(1)	**(67)**	(37)
Provisions for credit losses	**–**	–
Income before income taxes on a taxable equivalent basis	**(67)**	(37)
Income taxes (recovery) on a taxable equivalent basis	**(20)**	(4)
Net loss	**(47)**	(33)
Non-controlling interests	**–**	7
Net loss attributable to the Bank's shareholders and holders of other equity instruments	**(47)**	(40)
Specified items after income taxes(1)	**–**	(10)
Net loss excluding specified items(1)	**(47)**	(23)
Average assets	**62,957**	45,516

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.
(2) For the quarter ended January 31, 2020, certain amounts have been reclassified.

For the *Other* heading of segment results, there was a net loss of $47 million in the first quarter of 2021 compared to a net loss of $33 million in the same quarter of 2020. The change in total revenues on a taxable basis(1) was partly due to a lower contribution made by treasury activities compared to the first quarter of 2020. The growth in non-interest expenses was due to increased technology investments, the increase in variable compensation associated with revenue growth, and expenses incurred by the Bank to implement pandemic-related health and safety measures for employees and clients. The specified item recorded in the first quarter of fiscal 2020, net of income taxes, was a $10 million charge related to Maple. The net loss excluding specified items(1) was $47 million for the quarter ended January 31, 2021 compared to a $23 million net loss in the same quarter of 2020.

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.

Consolidated Balance Sheet

Consolidated Balance Sheet Summary

(millions of Canadian dollars)	As at January 31, 2021	As at October 31, 2020	% Change
Assets			
Cash and deposits with financial institutions	33,726	29,142	16
Securities	110,640	102,131	8
Securities purchased under reverse repurchase agreements and securities borrowed	10,419	14,512	(28)
Loans and acceptances, net of allowances	167,690	164,740	2
Other	21,162	21,100	–
	343,637	331,625	4
Liabilities and equity			
Deposits	227,677	215,878	5
Other	98,267	98,589	–
Subordinated debt	773	775	–
Equity attributable to the Bank's shareholders and holders of other equity	16,920	16,380	3
Non-controlling interests	–	3	
	343,637	331,625	4

Assets

As at January 31, 2021, the Bank had total assets of $343.6 billion, a $12.0 billion or 4% increase from $331.6 billion as at October 31, 2020. Cash and deposits with financial institutions, totalling $33.7 billion as at January 31, 2021, increased by $4.6 billion, mainly due to deposits with the U.S. Federal Reserve.

Since October 31, 2020, securities rose $8.5 billion due to a $10.0 billion or 13% increase in securities at fair value through profit or loss, particularly equity securities, offset by a decrease of $1.5 billion in securities other than those measured at fair value through profit or loss. Securities purchased under reverse repurchase agreements and securities borrowed decreased by $4.1 billion, mainly related to activities of the Financial Markets segment and of Treasury.

Totalling $167.7 billion as at January 31, 2021, loans and acceptances, net of allowances, rose $3.0 billion or 2% compared to October 31, 2020. The following table provides a breakdown of the main loan and acceptance portfolios.

(millions of Canadian dollars)	As at January 31, 2021	As at October 31, 2020	As at January 31, 2020
Loans and acceptances			
Residential mortgage and home equity lines of credit	91,345	89,097	81,635
Personal	13,220	13,475	13,707
Credit card	1,846	2,038	2,255
Business and government	62,428	61,288	59,247
	168,839	165,898	156,844
Allowances for credit losses	(1,149)	(1,158)	(693)
	167,690	164,740	156,151

Residential mortgages (including home equity lines of credit) were up $2.2 billion or 2% compared to October 31, 2020 due to sustained demand for mortgage credit. Personal loans decreased since October 31, 2020, in particular due to the disposal of loan portfolios of the Credigy subsidiary. Credit card receivables were down $0.2 billion compared to October 31, 2020, consequence of the effects of COVID-19 on consumer spending habits. Loans and acceptances to business and government were up $1.1 billion or 2% since October 31, 2020 owing to growth in Commercial Banking activities and to growth at the Credigy subsidiary.

When compared to January 31, 2020, loans and acceptances grew $11.5 billion or 7%, while residential mortgages (including home equity lines of credit) were up $9.7 billion or 12% due to sustained demand for mortgage credit, the acquisition of mortgage portfolios and business growth at the ABA Bank subsidiary. Compared to a year ago, personal loans were down 4%, a decrease related essentially to the Credigy subsidiary. Credit card receivables were down $0.4 billion compared to January 31, 2020, consequence of the effects of COVID-19 on consumer spending habits. Loans and acceptances to business and government grew $3.2 billion or 5% from a year ago, driven by the activities in Commercial Banking, the Financial Markets segment and the Credigy subsidiary.

Impaired loans include loans classified in Stage 3 of the expected credit loss model and the purchased or originated credit-impaired (POCI) loans of the Credigy subsidiary. As at January 31, 2021, gross impaired loans excluding POCI loans stood at $757 million compared to $817 million as at October 31, 2020. Net impaired loans excluding POCI loans stood at $400 million as at January 31, 2021 compared to $465 million as at October 31, 2020, a $65 million decrease related mainly to decreases in the net impaired loans in the Personal Banking and Commercial Banking portfolios as well as the portfolios of the Financial Markets segment. Gross POCI loans stood at $722 million as at January 31, 2021, whereas they had stood at $855 million as at October 31, 2020 as a result of repayments and maturities of certain loan portfolios.

Other assets totalling $21.2 billion as at January 31, 2021 increased $0.1 billion since October 31, 2020.

Liabilities
As at January 31, 2021, the Bank had total liabilities of $326.7 billion compared to $315.2 billion as at October 31, 2020.

The Bank's total deposit liability stood at $227.7 billion as at January 31, 2021 compared to $215.9 billion as at October 31, 2020, rising $11.8 billion or 5% as at October 31, 2020. As at January 31, 2021, personal deposits stood at $68.6 billion, rising $1.1 billion since October 31, 2020. This increase stems from Personal Banking activities and business growth at the ABA Bank subsidiary.

Business and government deposits totalled $153.9 billion as at January 31, 2021, rising $10.1 billion from October 31, 2020. This increase came from the funding activities of the Financial Markets segment and of Treasury, including $1.3 billion in deposits subject to bank recapitalization (bail-in) conversion regulations, from the Wealth Management segment's activities, as well as from Commercial Banking activities.

At $5.2 billion as at January 31, 2021, deposits from deposit-taking institutions rose $0.6 billion since October 31, 2020.

Other liabilities totalling $98.3 billion as at January 31, 2021 decreased $0.3 billion compared to October 31, 2020. The increase of $1.9 billion in obligations related to securities sold short was more than offset by the $2.6 billion decrease in obligations related to securities sold under repurchase agreements and securities loaned.

Equity
As at January 31, 2021, equity attributable to the Bank's shareholders and holders of other equity instruments was $16.9 billion, rising $0.5 billion since October 31, 2020. This increase came from net income net of dividends and from remeasurements of pension plans and other post-employment benefit plans. These increases were partly offset by accumulated other comprehensive income, in particular unrealized foreign exchange losses on investments in foreign operations. Lastly, non-controlling interests were down $3 million, essentially due to the purchase of the remaining non-controlling interest in the Credigy subsidiary.

Acquisition

On December 15, 2020, the Bank acquired the entire remaining non-controlling interest in the Credigy Ltd. subsidiary following the decision of the non-controlling shareholders to exercise their put options for an amount of $300 million according to an agreement reached in 2013. Following this transaction, Credigy Ltd. became a wholly owned subsidiary of the Bank.

Exposures to Certain Activities

The recommendations made by the Financial Stability Board's Enhanced Disclosure Task Force (EDTF) 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. The Bank does not have any significant direct position in residential and commercial mortgage-backed securities that are not insured by the CMHC. Credit derivative positions are presented in the *Supplementary Regulatory Capital and Pillar 3 Disclosure* report, which is available on the Bank's website at nbc.ca.

Leveraged finance is commonly employed to achieve a specific objective, for example, to make an acquisition, complete a buy-out or repurchase shares. Leveraged finance risk exposure takes the form of both funded and unfunded commitments. As at January 31, 2021, total commitments for this type of loan stood at $4,042 million ($3,681 million as at October 31, 2020). Details about other exposures are provided in the table on structured entities in Note 27 to the audited annual consolidated financial statements for the year ended October 31, 2020.

Related Party Transactions

The Bank's policies and procedures regarding related party transactions have not significantly changed since October 31, 2020. For additional information, see Note 28 to the audited annual consolidated financial statements for the year ended October 31, 2020.

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 under amounts other than their notional or contractual values. These arrangements include, among others, transactions with structured entities, derivative financial instruments, the 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 57 and 58 of the *2020 Annual Report*.

For additional information on guarantees, commitments and structured entities, see Notes 26 and 27 to the audited annual consolidated financial statements for the year ended October 31, 2020. For additional information about financial assets transferred but not derecognized, see Note 8 to these consolidated financial statements.

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 activities and 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 59 to 67 of the Bank's *2020 Annual Report*.

Basel Accord

The Bank and all other major Canadian banks have to maintain minimum capital ratios established by OSFI: a CET1 capital ratio of at least 9.0%, a Tier 1 capital ratio of at least 10.5%, and a Total capital ratio of at least 12.5%. All of these ratios are to include a capital conservation buffer of 2.5% established by the Basel Committee on Banking Supervision (BCBS) and OSFI as well as a 1.0% surcharge applicable solely to Domestic Systemically Important Banks (D-SIBs) and a 1.0% domestic stability buffer established by OSFI. The domestic stability buffer, which can vary from 0% to 2.5% of risk-weighted assets, consists exclusively of CET1 capital. A D-SIB that fails to meet this buffer requirement will not be subject to automatic constraints to reduce capital distributions but will have to provide a remediation plan to OSFI. The banks also have to meet the capital floor that sets the regulatory capital level according to the Basel II standardized approach. If the capital requirement under Basel III is less than 70% of the capital requirement as calculated under Basel II, the difference is added to risk-weighted assets. OSFI requires Canadian banks to meet a Basel III leverage ratio of at least 3.0%. The leverage ratio is a measure independent of risk that is calculated by dividing the amount of Tier 1 capital by total exposure. Total exposure is defined as the sum of on-balance-sheet assets (including derivative exposures and securities financing transaction exposures) and off-balance-sheet items. The assets deducted from Tier 1 capital are also deducted from total exposure.

In addition to those measures, OSFI is requiring 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. As at January 31, 2021, the Bank has one remaining non-NVCC Tier 2 subordinated debt capital instrument which it expects to phase out without resorting to any regulatory event redemption clause.

OSFI's *Total Loss Absorbing Capacity* (TLAC) guideline, which applies to all D-SIBs under the federal government's bail-in regulations, came into effect on September 23, 2018. The purpose of the TLAC guideline is to ensure that a D-SIB has sufficient loss-absorbing capacity to support its recapitalization in the unlikely event it becomes non-viable. OSFI is requiring D-SIBs to maintain a minimum risk-based TLAC ratio of 22.50% (including the domestic stability buffer) of risk-weighted assets and a minimum TLAC leverage ratio of 6.75% by November 1, 2021. During the year ended October 31, 2019, the Bank started to issue qualifying bail-in debt and expects its TLAC ratios to improve through the normal refinancing of its maturing unsecured term debt. The Bank does not anticipate any challenges in meeting these TLAC requirements.

Requirements – Regulatory Ratios Under Basel III

							As at January 31, 2021
	Minimum	Capital conservation buffer	Minimum set by BCBS	D-SIB surcharge	Minimum set by OSFI[1]	Domestic stability buffer[2]	Minimum set by OSFI[1], including the buffer
Capital ratios							
CET1	4.5 %	2.5 %	7.0 %	1.0 %	8.0 %	1.0 %	9.0 %
Tier 1	6.0 %	2.5 %	8.5 %	1.0 %	9.5 %	1.0 %	10.5 %
Total	8.0 %	2.5 %	10.5 %	1.0 %	11.5 %	1.0 %	12.5 %
Leverage ratio	3.0 %	n.a.	n.a.	n.a.	3.0 %	n.a.	3.0 %

n.a. Not applicable
(1) The capital ratios include the capital conservation buffer and the D-SIB surcharge.
(2) On December 8, 2020, OSFI confirmed that the buffer is maintained at 1.0%.

The Bank ensures that its capital levels are always above the minimum regulatory requirements. 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 and Pillar 3 Disclosure* report published quarterly and available on the Bank's website at nbc.ca. Also available on the Bank's website is a complete list of capital instruments and their main features.

Regulatory Developments

The Bank closely monitors regulatory developments and participates actively in various consultative processes. During the second quarter of 2020, in response to the impact of the COVID-19 pandemic, OSFI announced a series of regulatory adjustments to support the financial and operational resilience of banks. For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*. For additional information on the regulatory context on October 31, 2020, see pages 62 and 63 of the Capital Management section in the *2020 Annual Report.* Since November 1, 2020, there are no significant new regulatory developments to be considered.

Management Activities

On March 13, 2020, OSFI indicated that it was expecting all banks to cease any dividend increases or share buybacks. During the quarter ended January 31, 2021, the Bank did not issue or repurchase any equity instruments.

Shares, Other Equity Instruments and Stock Options

	As at January 31, 2021	
	Number of shares or LRCN	$ million
First preferred shares		
Series 30	14,000,000	350
Series 32	12,000,000	300
Series 34	16,000,000	400
Series 36	16,000,000	400
Series 38	16,000,000	400
Series 40	12,000,000	300
Series 42	12,000,000	300
	98,000,000	2,450
Other equity instruments		
Limited Recourse Capital Notes (LRCN), Series 1	500,000	500
Common shares	336,770,311	3,094
Stock options	12,623,271	

As at February 19, 2021, there were 336,784,884 common shares and 12,566,315 stock options outstanding. NVCC provisions require the conversion of capital instruments into a variable number of common shares should OSFI deem a bank to be non-viable or should the government publicly announce that a bank has accepted or agreed to accept an injection of capital. If an NVCC trigger event were to occur, all of the Bank's preferred shares, the Bank's LRCN and medium-term notes maturing on February 1, 2028, which are NVCC capital instruments, would be converted into common shares of the Bank according to an automatic conversion formula at a conversion price corresponding to the greater of the following amounts: (i) a $5.00 contractual floor price; or (ii) the market price of the Bank's common shares on the date of the trigger event (10-day weighted average price). Based on a $5.00 floor price and including an estimate for accrued dividends and interest, these NVCC capital instruments would be converted into a maximum of 825 million Bank common shares, which would have a 71.0% dilutive effect based on the number of Bank common shares outstanding as at January 31, 2021.

Dividends

On February 23, 2021, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 71 cents per common share, payable on May 1, 2021 to shareholders of record on March 29, 2021.

Movement in Regulatory Capital

(millions of Canadian dollars)	Quarter ended January 31, 2021
Common Equity Tier 1 (CET1) capital	
Balance at beginning	11,167
Issuance of common shares (including Stock Option Plan)	34
Impact of shares purchased or sold for trading	(2)
Repurchase of common shares	–
Other contributed surplus	3
Dividends on preferred and common shares and distributions on other equity instruments	(273)
Net income attributable to the Bank's shareholders and holders of other equity instruments	761
Removal of own credit spread (net of income taxes)	81
Other	66
Movements in accumulated other comprehensive income	
Translation adjustments	(109)
Debt securities at fair value through other comprehensive income	26
Change in goodwill and intangible assets (net of related tax liability)	(2)
Other, including regulatory adjustments and transitional arrangements	
Change in defined benefit pension plan asset (net of related tax liability)	(117)
Change in amount exceeding 15% threshold	
Deferred tax assets	–
Significant investment in common shares of financial institutions	–
Deferred tax assets, unless they result from temporary differences (net of related tax liability)	–
Other deductions or regulatory adjustments to CET1 implemented by OSFI(1)	(72)
Change in other regulatory adjustments(2)	–
Balance at end	11,563
Additional Tier 1 capital	
Balance at beginning	2,945
New Tier 1 eligible capital issuances	–
Redeemed capital	–
Change in non-qualifying Additional Tier 1 subject to phase-out	–
Other, including regulatory adjustments and transitional arrangements	4
Balance at end	2,949
Total Tier 1 capital	14,512
Tier 2 capital	
Balance at beginning	1,055
New Tier 2 eligible capital issuances	–
Redeemed capital	–
Change in non-qualifying Tier 2 subject to phase-out	–
Tier 2 instruments issued by subsidiaries and held by third parties	–
Change in certain allowances for credit losses	85
Other, including regulatory adjustments and transitional arrangements	(63)
Balance at end	1,077
Total regulatory capital	15,589

(1) This item includes the transitional measure applicable to expected credit loss provisioning implemented during the second quarter of 2020. For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*.
(2) This item includes the change in investments in the Bank's CET1 capital.

Risk-Weighted Assets by Key Risk Drivers

Risk-weighted assets (RWA) amounted to $97.2 billion as at January 31, 2021 compared to $94.8 billion as at October 31, 2020, a $2.4 billion increase resulting mainly from organic growth in RWA, partly offset by foreign exchange movements. The changes in the Bank's risk-weighted assets by risk type are presented in the following table.

Risk-Weighted Assets Movements by Key Drivers

(millions of Canadian dollars)

				Quarter ended
			January 31, 2021	October 31, 2020
	Non-counterparty credit risk	Counterparty credit risk	Total	Total
Credit risk – Risk-weighted assets at beginning	71,224	7,761	78,985	77,944
Book size	2,736	587	3,323	812
Book quality	(115)	51	(64)	801
Model updates	(211)	(1)	(212)	(447)
Methodology and policy	–	–	–	–
Acquisitions and disposals	–	–	–	–
Foreign exchange movements	(781)	(151)	(932)	(125)
Credit risk – Risk-weighted assets at end	72,853	8,247	81,100	78,985
Market risk – Risk-weighted assets at beginning			3,497	4,724
Movement in risk levels[1]			(8)	(1,227)
Model updates			–	–
Methodology and policy			–	–
Acquisitions and disposals			–	–
Market risk – Risk-weighted assets at end			3,489	3,497
Operational risk – Risk-weighted assets at beginning			12,326	12,146
Movement in risk levels			268	180
Acquisitions and disposals			–	–
Operational risk – Risk-weighted assets at end			12,594	12,326
Risk-weighted assets at end			97,183	94,808

(1) Also includes foreign exchange rate movements that are not considered material.

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

The *Book size* item reflects organic changes in book 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 resulting from changes in regulatory policies as a result, for example, of new regulations.

Regulatory Capital Ratios

As at January 31, 2021, the Bank's CET1, Tier 1, and Total capital ratios were, respectively, 11.9%, 14.9% and 16.0%, i.e., above the regulatory requirements, compared to ratios of, respectively, 11.8%, 14.9% and 16.0% as at October 31, 2020. The increase in the CET1 capital ratio since October 31, 2020 was essentially due to net income net of dividends and common share issuances under the Stock Option Plan. These factors were partly offset by the organic growth in RWA and the impact of the transitional measures applicable to ECL provisioning, of which the scaling factor decreased to 50% from 70%. The Tier 1 capital ratio and the Total capital ratio remained stable. As at January 31, 2021, the leverage ratio was 4.3%, a decrease from 4.4% as at October 31, 2020. The decrease in the leverage ratio is explained by the growth in Tier 1 capital, due to the same factors as described above, and by significant growth in total exposure, partly offset by temporary measures announced by OSFI with respect to the exclusion of exposures from central bank reserves and sovereign-issued securities that qualify as HQLA securities under the *Liquidity Adequacy Requirements* guideline.

Regulatory Capital and Ratios Under Basel III

(millions of Canadian dollars)	**As at January 31, 2021**		As at October 31, 2020	
	Adjusted(1)		Adjusted(1)	
Capital				
CET1	**11,392**	**11,563**	10,924	11,167
Tier 1	**14,341**	**14,512**	13,869	14,112
Total	**15,589**	**15,589**	15,167	15,167
Risk-weighted assets	**97,183**	**97,183**	94,808	94,808
Total exposure	**334,013**	**334,013**	321,038	321,038
Capital ratios				
CET1	**11.7 %**	**11.9 %**	11.5 %	11.8 %
Tier 1	**14.8 %**	**14.9 %**	14.6 %	14.9 %
Total	**16.0 %**	**16.0 %**	16.0 %	16.0 %
Leverage ratio	**4.3 %**	**4.3 %**	4.3 %	4.4 %

(1) The adjusted Basel III regulatory capital and ratios do not include the transitional measure applicable to expected credit loss provisioning. For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*.

Global Systemically Important Banks – Public Disclosure Requirements

On July 3, 2013, the BCBS published *Global systemically important banks: Assessment methodology and the additional loss absorbency requirement*, which describes the annual assessment methodology and the 12 indicators used by the BCBS and the Financial Stability Board to identify global systemically important banks (G-SIBs). The document also sets out the annual public disclosure requirements applicable to large globally active banks.

In September 2015, OSFI published an Advisory on the implementation of the G-SIBs public disclosure requirements in Canada. Canadian banks, including the Bank, which have not been identified as G-SIBs and whose total exposure (as calculated based on the Basel III leverage ratio) is greater than the equivalent of 200 billion euros at year-end, are required to publish the 12 indicators annually. The indicators are calculated and presented based on specific instructions issued by the BCBS, which are updated annually. As a result, values may not be directly comparable against other measures disclosed in this report. The following table provides the 12 indicators used in the BCBS assessment methodology to identify G-SIBs.

Indicators – Global Systemically Important Banks (G-SIBs)(1)

(millions of Canadian dollars) — As at October 31, 2020

Category	Indicators	
Cross-jurisdictional activity(2)	Cross-jurisdictional claims	82,516
	Cross-jurisdictional liabilities	72,765
Size(3)	Total exposures as defined for use in the Basel III leverage ratio	359,980
Interconnectedness(4)	Intra-financial system assets	41,445
	Intra-financial system liabilities	28,938
	Securities outstanding	82,474
Substitutability/financial institutions infrastructure(5)	Payment activity(6)	14,045,497
	Assets under custody	596,656
	Underwritten transactions in debt and equity markets	35,095
Complexity(7)	Notional amount of over-the-counter derivative financial instruments	1,177,539
	Trading and investments securities	29,438
	Level 3 financial assets	1,232

(1) The G-SIBs indicators are prepared based on the methodology prescribed in the BCBS guidelines published in July 2013 and instructions provided by BCBS in January 2021. The indicators are based on the scope of regulatory consolidation.
(2) Represents the Bank's level of interaction outside Canada.
(3) Represents the total on-and-off balance sheet exposures of the Bank determined as per OSFI's Basel III leverage ratio rules before regulatory adjustments.
(4) Represents transactions with other financial institutions.
(5) Represents the extent to which the Bank's services could be substituted by other institutions.
(6) For the year ended October 31, 2020.
(7) Includes the level of complexity and volume of the Bank's trading activities represented through derivatives financial instruments, trading securities, investments securities and level 3 financial assets.

Risk Management

Risk-taking is intrinsic to a financial institution's business. The Bank views risk as an integral part of its development and the diversification of its activities. It advocates a risk management approach consistent with its business strategy. The Bank voluntarily exposes itself to certain risk categories, particularly credit and market risk, in order to generate revenue. It assumes certain risks that are inherent to its activities—to which it does not choose to expose itself—and that do not generate revenue, i.e., mainly operational risks.

The COVID-19 pandemic has affected general economic conditions as well as capital market conditions in Canada, the United States, and other countries where the Bank conducts business. COVID-19 has also put certain top and emerging risks into perspective. Despite the exceptional situation, risks are being rigorously managed. Consequently, decision-making is supported by risk assessments and management processes that are consistent with the Bank's risk appetite and by prudent levels of capital and liquidity. The purpose of sound and effective risk management is to provide reasonable assurance that incurred risks do not exceed acceptable thresholds, to control the volatility in the Bank's results, and to ensure that risk-taking contributes to the creation of shareholder value. The Bank's governance structure for risk management has remained largely unchanged from that described in the *2020 Annual Report.*

Despite the exercise of stringent risk management and the mitigation measures in place, risk cannot be suppressed entirely, and residual risks may occasionally cause significant losses. Certain risks are discussed hereafter. For additional information, refer to the section entitled COVID-19 Pandemic – Impact of the COVID-19 risk factor on pages 16 and 17 of the *2020 Annual Report* and to the Risk Management section on pages 68 to 106 of the *2020 Annual Report.* Risk management information is also provided in Note 7 to these 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 debtors, issuers, counterparties or guarantors. Credit risk is the most significant risk facing the Bank in the normal course of business. Obligors have been affected by the difficult economic environment resulting from COVID-19 and its impact on the global and local economies. This exceptional situation has led to significant changes in the overall market environment, including business closures and temporary layoffs. However, certain government measures have been implemented to assist retail and business clients affected by COVID-19.

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

Maximum Credit Risk Exposure Under the Basel Asset Categories

(millions of Canadian dollars)						As at January 31, 2021	As at October 31, 2020
	Drawn	Undrawn commitments	Repo-style transactions(1)	Derivative financial instruments	Other off-balance-sheet items(2)	Total	Total
Retail							
Residential mortgages	57,919	10,009	–	–	–	67,928	66,813
Qualifying revolving retail	2,248	5,936	–	–	–	8,184	8,774
Other retail	14,123	2,352	–	–	30	16,505	16,740
	74,290	18,297	–	–	30	92,617	92,327
Non-retail							
Corporate	64,834	25,700	23,037	–	4,769	118,340	115,402
Sovereign	61,144	5,608	63,714	165	105	130,736	119,167
Financial institutions	3,876	399	73,905	2,781	487	81,448	72,917
	129,854	31,707	160,656	2,946	5,361	330,524	307,486
Trading portfolio	–	–	–	14,873	–	14,873	14,011
Securitization	2,152	–	–	–	3,718	5,870	6,054
Total – Gross credit risk	206,296	50,004	160,656	17,819	9,109	443,884	419,878
Standardized Approach	21,273	229	20,346	2,805	265	44,918	37,939
AIRB Approach	185,023	49,775	140,310	15,014	8,844	398,966	381,939
Total – Gross credit risk	206,296	50,004	160,656	17,819	9,109	443,884	419,878

(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.

To meet OSFI's mortgage loan disclosure requirements, additional information has been provided in *Supplementary Financial Information – First Quarter 2021* and in *Supplementary Regulatory Capital and Pillar 3 Disclosure – First Quarter 2021,* which are available on the Bank's website at nbc.ca.

Market Risk

Market risk is the risk of losses arising from movements in market prices. The Bank is exposed to market risk through its participation in trading, investment and asset/liability management activities. Because of COVID-19 and its impact on global and local economies, the Bank faces a volatile and challenging environment. This exceptional situation has led to significant changes in the overall market environment, including low interest rates.

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

Reconciliation of Market Risk With Consolidated Balance Sheet Items

(millions of Canadian dollars)					As at January 31, 2021
		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	33,726	714	16,722	16,290	Interest rate[3]
Securities					
At fair value through profit or loss	88,328	85,304	3,024	–	Interest rate[3] and equity
At fair value through other comprehensive income	11,156	–	11,156	–	Interest rate[3] and equity[4]
At amortized cost	11,156	–	11,156	–	Interest rate[3]
Securities purchased under reverse repurchase agreements and securities borrowed	10,419	–	10,419	–	Interest rate[3][5]
Loans and acceptances, net of allowances	167,690	7,629	160,061	–	Interest rate[3]
Derivative financial instruments	12,877	12,735	142	–	Interest rate and exchange rate
Defined benefit asset	287	–	287	–	Other
Other	7,998	–	–	7,998	
	343,637	106,382	212,967	24,288	
Liabilities					
Deposits	227,677	12,218	215,459	–	Interest rate[3]
Acceptances	6,878	–	6,878	–	Interest rate[3]
Obligations related to securities sold short	18,273	18,273	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	31,282	–	31,282	–	Interest rate[3][5]
Derivative financial instruments	14,010	13,543	467	–	Interest rate and exchange rate
Liabilities related to transferred receivables	22,664	6,189	16,475	–	Interest rate[3]
Defined benefit liability	156	–	156	–	Other
Other	5,004	–	64	4,940	Interest rate[3]
Subordinated debt	773	–	773	–	Interest rate[3]
	326,717	50,223	271,554	4,940	

(1) Trading positions whose risk measures are VaR and SVaR. For additional information, 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 section of the *2020 Annual Report*.
(2) Non-trading positions that use other risk measures.
(3) For additional information, 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 section of the *2020 Annual Report*.
(4) The fair value of equity securities designated at fair value through other comprehensive income is presented in Notes 4 and 6 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.

(millions of Canadian dollars) As at October 31, 2020

	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	29,142	617	12,799	15,726	Interest rate[3]
Securities					
At fair value through profit or loss	78,326	75,279	3,047	–	Interest rate[3] and equity[4]
At fair value through other comprehensive income	12,726	–	12,726	–	Interest rate[3] and equity[5]
Amortized cost	11,079	–	11,079	–	Interest rate[3]
Securities purchased under reverse repurchase agreements and securities borrowed	14,512	–	14,512	–	Interest rate[3][6]
Loans and acceptances, net of allowances	164,740	7,545	157,195	–	Interest rate[3]
Derivative financial instruments	13,422	13,207	215	–	Interest rate[7] and exchange rate[7]
Defined benefit asset	126	–	126	–	Other[8]
Other	7,552	–	–	7,552	
	331,625	96,648	211,699	23,278	
Liabilities					
Deposits	215,878	9,998	205,880	–	Interest rate[3]
Acceptances	6,866	–	6,866	–	Interest rate[3]
Obligations related to securities sold short	16,368	16,368	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	33,859	–	33,859	–	Interest rate[3][6]
Derivative financial instruments	12,923	12,300	623	–	Interest rate[7] and exchange rate[7]
Liabilities related to transferred receivables	22,855	6,135	16,720	–	Interest rate[3]
Defined benefit liability	201	–	201	–	Other[8]
Other	5,517	–	64	5,453	Interest rate[3]
Subordinated debt	775	–	775	–	Interest rate[3]
	315,242	44,801	264,988	5,453	

(1) Trading positions whose risk measures are VaR and SVaR. For additional information, 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 section of the *2020 Annual Report*.
(2) Non-trading positions that use other risk measures.
(3) For additional information, 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 section of the *2020 Annual Report*.
(4) For additional information, see Note 6 to the audited annual consolidated financial statements for the fiscal year ended October 31, 2020.
(5) The fair value of equity securities designated at fair value through other comprehensive income is presented in Notes 4 and 6 to these consolidated financial statements.
(6) These instruments are recorded at amortized cost and are subject to credit risk for capital management purposes. For trading-related transactions with maturities of more than one day, interest rate risk is included in the VaR and SVaR measures.
(7) For additional information, see Notes 16 and 17 to the audited annual consolidated financial statements for the year ended October 31, 2020.
(8) For additional information, see Note 23 to the audited annual consolidated financial statements for the year ended October 31, 2020.

Trading Activities

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

VaR of Trading Portfolios by Risk Category[1]

(millions of Canadian dollars) Quarter ended

	January 31, 2021				October 31, 2020		January 31, 2020	
	Low	**High**	**Average**	**Period end**	Average	Period end	Average	Period end
Interest rate	**(4.5)**	**(9.7)**	**(7.3)**	**(7.9)**	(7.0)	(8.0)	(4.9)	(4.5)
Exchange rate	**(0.4)**	**(2.3)**	**(0.9)**	**(1.1)**	(0.8)	(1.5)	(0.8)	(0.7)
Equity	**(4.4)**	**(10.2)**	**(6.2)**	**(9.4)**	(8.6)	(8.0)	(3.4)	(4.0)
Commodity	**(0.6)**	**(1.1)**	**(0.8)**	**(0.7)**	(1.0)	(0.8)	(1.1)	(0.8)
Correlation effect[2]	**n.m.**	**n.m.**	**7.6**	**9.7**	8.6	9.1	4.6	5.1
Total trading VaR	**(6.2)**	**(10.9)**	**(7.6)**	**(9.4)**	(8.8)	(9.2)	(5.6)	(4.9)

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

SVaR of Trading Portfolios by Risk Category[1]

(millions of Canadian dollars)								Quarter ended
				January 31, 2021		October 31, 2020		January 31, 2020
	Low	High	Average	Period end	Average	Period end	Average	Period end
Interest rate	**(12.6)**	**(22.2)**	**(16.6)**	**(17.3)**	(10.0)	(15.1)	(14.7)	(11.2)
Exchange rate	**(0.3)**	**(4.1)**	**(1.4)**	**(1.2)**	(0.8)	(1.6)	(1.4)	(0.7)
Equity	**(4.8)**	**(20.6)**	**(9.5)**	**(18.6)**	(10.5)	(8.4)	(8.7)	(7.7)
Commodity	**(0.5)**	**(3.1)**	**(1.6)**	**(1.7)**	(0.7)	(0.6)	(2.1)	(2.3)
Correlation effect[2]	**n.m.**	**n.m.**	**13.4**	**17.5**	7.7	7.8	10.5	10.4
Total trading SVaR	**(8.2)**	**(23.1)**	**(15.7)**	**(21.3)**	(14.3)	(17.9)	(16.4)	(11.5)

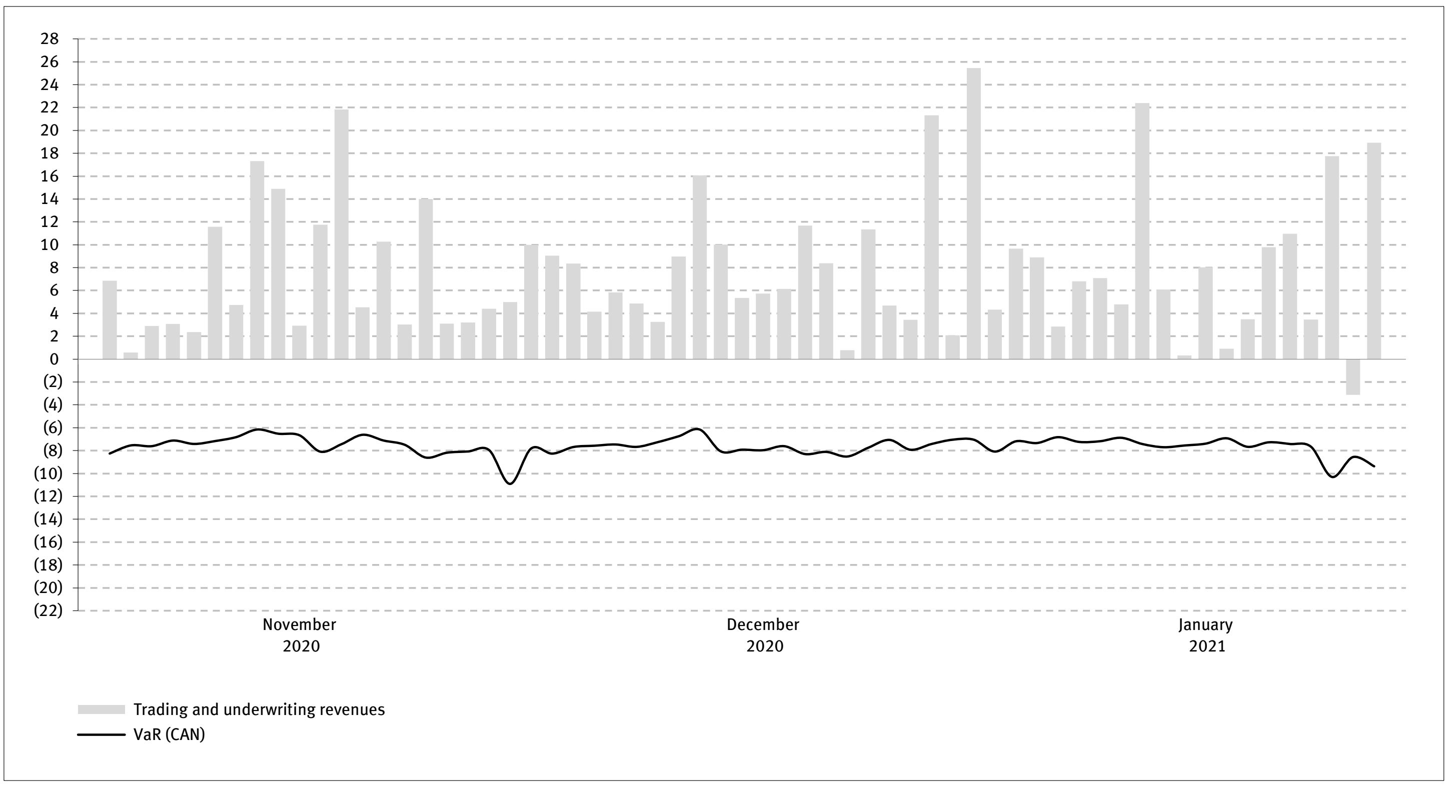
n.m. Computation of a correlation effect for the high and low is not meaningful, as highs and lows may occur on different days and be attributable to different types of risk.
(1) Amounts are presented on a pre-tax basis and represent one-day SVaR using a 99% confidence level.
(2) The total trading SVaR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

The average total trading VaR decreased from $8.8 million to $7.6 million between the fourth quarter of 2020 and the first quarter of 2021, mainly due to a decrease in equity risk. The average total trading SVaR increased from $14.3 million to $15.7 million, mainly caused by an increase in interest rate risk. During the first quarter of 2021, the Bank changed the SVaR simulation period from the 2020 COVID-19 period back to the 2008 global financial crisis (GFC) period.

Daily Trading and Underwriting Revenues

The following table shows daily trading and underwriting revenues as well as VaR. During the quarter ended January 31, 2021, daily trading and underwriting revenues were positive 98% of the days. One trading day was marked by daily trading and underwriting net loss of more than $1 million and did not exceed the VaR.

Quarter Ended January 31, 2021
(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 of an immediate and sustained 25-basis-point decrease in interest rates on the economic value of equity and on the net interest income of the Bank's non-trading portfolios for the next 12 months, assuming no further hedging is undertaken. In the current environment of very low interest rates, the Bank believes that a sensitivity analysis reflecting an immediate and sustained 25-basis-point decrease in interest rates provides more relevant information.

(millions of Canadian dollars)	As at January 31, 2021			As at October 31, 2020		
	Canadian dollar	**Other currencies**	**Total**	Canadian dollar	Other currencies	Total
Impact on equity						
100-basis-point increase in the interest rate	**(267)**	**58**	**(209)**	(239)	15	(224)
25-basis-point decrease in the interest rate	**59**	**(8)**	**51**	49	(4)	45
Impact on net interest income						
100-basis-point increase in the interest rate	**(35)**	**45**	**10**	(31)	21	(10)
25-basis-point decrease in the interest rate	**8**	**(7)**	**1**	5	(5)	–

Liquidity and Funding Risk

Liquidity and funding risk are the risks that the Bank will be unable to honour daily cash and financial obligations without resorting to costly and untimely measures. Liquidity and funding 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 from the characteristics of certain products such as credit commitments and non-fixed-term deposits.

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 funding management priority is to achieve an optimal balance between deposits, securitization, secured funding and unsecured funding. This brings optimal stability to the funding and reduces vulnerability to unpredictable events.

COVID-19 has affected overall economic and market conditions. The Bank is facing a challenging and volatile environment, but its sound liquidity and funding management is helping it to maintain an optimal balance between its sources of cash and anticipated payments.

Regulatory Developments

The Bank continues to closely monitor regulatory developments and participates actively in various consultative processes. In response to the impact of COVID-19, OSFI took exceptional action in the second quarter of 2020 to address operational issues stemming from COVID-19. For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*. For additional information on the regulatory context as at October 31, 2020, see page 93 of the Risk Management section in the *2020 Annual Report.* In addition, since November 1, 2020, there are no significant new regulatory developments to be considered.

Liquidity Management

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. The majority of unencumbered liquid assets are held in Canadian or U.S. dollars. Moreover, all assets that can be quickly monetized are considered liquid assets. The Bank's liquidity reserves do not factor in the availability of the central emergency liquidity facilities. The following tables provide information on the Bank's encumbered and unencumbered assets.

Liquid Asset Portfolio

(millions of Canadian dollars)					As at January 31, 2021	As at October 31, 2020
	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	33,726	–	33,726	5,635	28,091	23,271
Securities						
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	29,521	24,550	54,071	31,617	22,454	21,103
Issued or guaranteed by Canadian provincial and municipal governments	14,104	7,631	21,735	16,174	5,561	7,371
Other debt securities	6,484	1,605	8,089	2,515	5,574	5,332
Equity securities	60,531	37,870	98,401	59,006	39,395	33,346
Loans						
Securities backed by insured residential mortgages	9,108	–	9,108	6,963	2,145	3,950
As at January 31, 2021	153,474	71,656	225,130	121,910	103,220	
As at October 31, 2020	140,783	60,560	201,343	106,970		94,373

(millions of Canadian dollars)	As at January 31, 2021	As at October 31, 2020
Unencumbered liquid assets by entity		
National Bank (parent)	51,151	47,135
Domestic subsidiaries	17,553	21,928
Foreign subsidiaries and branches	34,516	25,310
	103,220	94,373

(millions of Canadian dollars)	As at January 31, 2021	As at October 31, 2020
Unencumbered liquid assets by currency		
Canadian dollar	44,821	50,568
U.S. dollar	38,186	26,099
Other currencies	20,213	17,706
	103,220	94,373

Liquid Asset Portfolio – Average[4]

(millions of Canadian dollars)						Quarter ended
					January 31, 2021	October 31, 2020
	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	36,059	–	36,059	5,847	30,212	27,622
Securities						
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	33,401	27,308	60,709	39,788	20,921	18,026
Issued or guaranteed by Canadian provincial and municipal governments	14,976	7,685	22,661	16,361	6,300	6,889
Other debt securities	6,530	1,520	8,050	2,536	5,514	5,501
Equity securities	63,076	35,503	98,579	61,422	37,157	34,763
Loans						
Securities backed by insured residential mortgages	8,966	–	8,966	6,267	2,699	3,655
	163,008	72,016	235,024	132,221	102,803	96,456

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

Summary of Encumbered and Unencumbered Assets

(millions of Canadian dollars)						As at January 31, 2021
	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	362	5,273	28,091	–	33,726	1.6
Securities	37,656	–	72,984	–	110,640	11.0
Securities purchased under reverse repurchase agreements and securities borrowed	–	10,419	–	–	10,419	3.0
Loans and acceptances, net of allowances	36,290	–	2,145	129,255	167,690	10.6
Derivative financial instruments	–	–	–	12,877	12,877	–
Investments in associates and joint ventures	–	–	–	404	404	–
Premises and equipment	–	–	–	1,143	1,143	–
Goodwill	–	–	–	1,408	1,408	–
Intangible assets	–	–	–	1,446	1,446	–
Other assets	–	–	–	3,884	3,884	–
	74,308	15,692	103,220	150,417	343,637	26.2

(millions of Canadian dollars)						As at October 31, 2020
	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	344	5,527	23,271	–	29,142	1.8
Securities	34,979	–	67,152	–	102,131	10.5
Securities purchased under reverse repurchase agreements and securities borrowed	–	14,512	–	–	14,512	4.4
Loans and acceptances, net of allowances	37,556	–	3,950	123,234	164,740	11.3
Derivative financial instruments	–	–	–	13,422	13,422	–
Investments in associates and joint ventures	–	–	–	409	409	–
Premises and equipment	–	–	–	1,155	1,155	–
Goodwill	–	–	–	1,414	1,414	–
Intangible assets	–	–	–	1,434	1,434	–
Other assets	–	–	–	3,266	3,266	–
	72,879	20,039	94,373	144,334	331,625	28.0

(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 that cannot therefore 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 (e.g., mortgages insured by the Canada Mortgage and Housing Corporation that can be securitized into mortgage-backed securities under the *National Housing Act* (Canada)).

Liquidity Coverage Ratio

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

The following table provides average LCR data calculated using the daily figures in the quarter. For the quarter ended January 31, 2021, the Bank's average LCR was 154%, well above the 100% regulatory requirement and demonstrating the Bank's solid liquidity in a short term position.

LCR Disclosure Requirements[1]

(millions of Canadian dollars)			For the quarter ended
		January 31, 2021	October 31, 2020
	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.	67,366	68,118
Cash outflows			
2 Retail deposits and deposits from small business customers, of which:	57,277	4,767	4,455
3 Stable deposits	26,692	801	797
4 Less stable deposits	30,585	3,966	3,658
5 Unsecured wholesale funding, of which:	94,775	52,499	51,234
6 Operational deposits (all counterparties)	19,025	4,229	4,205
7 Non-operational deposits (all counterparties)	68,015	40,535	38,806
8 Unsecured debt	7,735	7,735	8,223
9 Secured wholesale funding	n.a.	23,989	16,058
10 Additional requirements, of which:	44,567	12,428	12,056
11 Outflows related to derivative exposures and other collateral requirements	12,903	6,324	6,154
12 Outflows related to loss of funding on secured debt securities	1,624	1,624	1,464
13 Backstop liquidity and credit enhancement facilities and commitments to extend credit	30,040	4,480	4,438
14 Other contractual commitments to extend credit	2,613	986	1,497
15 Other contingent commitments to extend credit	100,073	1,617	1,579
16 Total cash outflows	n.a.	96,286	86,879
Cash inflows			
17 Secured lending (e.g., reverse repos)	105,451	19,494	16,953
18 Inflows from fully performing exposures	10,409	7,003	7,922
19 Other cash inflows	25,711	25,711	19,505
20 Total cash inflows	141,571	52,208	44,380
		Total adjusted value[4]	Total adjusted value[4]
21 Total HQLA	n.a.	67,366	68,118
22 Total net cash outflows	n.a.	44,078	42,499
23 Liquidity coverage ratio (%)[5]	n.a.	154 %	161 %

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

As at January 31, 2021, Level 1 liquid assets represented 85% of the Bank's HQLA, which includes cash, central bank deposits, and bonds issued or guaranteed by the Canadian government and Canadian provincial governments.

Cash outflows arise from the application of OSFI-prescribed assumptions on deposits, debt, secured funding, commitments and additional collateral requirements. The cash outflows are partly offset by cash inflows, which come mainly from secured loans and performing loans. The Bank expects some quarter-over-quarter variation between reported LCRs, and such variation may not be indicative of a trend. The variation between the quarter ended January 31, 2021 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 is prescribed by the EDTF, the Bank's internal liquidity metrics use assumptions that are calibrated according to its business model and experience.

Net Stable Funding Ratio

The BCBS has developed the Net Stable Funding Ratio (NSFR) to promote a more resilient banking sector. The NSFR requires institutions to maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to an institution's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. OSFI has been requiring Canadian banks to maintain a minimum NSFR of 100%.

The following table provides the available stable funding and the required stable funding. For the quarter ended January 31, 2021, the Bank's NSFR was 124%, well above the 100% regulatory requirement and demonstrating the Bank's solid liquidity in a long term position.

NSFR Disclosure Requirements (1)

(millions of Canadian dollars)					As at January 31, 2021
	Unweighted value by residual maturity				
	No maturity	6 months or less	Over 6 months to 1 year	Over 1 year	Weighted value
	a	b	c	d	e
Available Stable Funding (ASF) Items					
1 Capital:	16,920	–	–	773	17,693
2 Regulatory capital	16,920	–	–	773	17,693
3 Other capital instruments	–	–	–	–	–
4 Retail deposits and deposits from small business customers:	53,669	8,929	6,210	15,831	78,422
5 Stable deposits	25,207	3,632	2,857	5,974	36,085
6 Less stable deposits	28,462	5,297	3,353	9,857	42,337
7 Wholesale funding:	62,992	73,048	6,206	31,850	78,157
8 Operational deposits	20,532	–	–	–	10,266
9 Other wholesale funding	42,460	73,048	6,206	31,850	67,891
10 Liabilities with matching interdependent assets(2)	–	2,198	1,428	19,036	–
11 Other liabilities:	20,647	9,709	206	1,233	1,048
12 NSFR derivative liabilities(3)	n.a.	8,188			n.a.
13 All other liabilities and equity not included in the above categories	20,647	1,521	206	1,233	1,048
14 Total ASF	n.a.	n.a.	n.a.	n.a	175,320
Required Stable Funding (RSF) Items					
15 Total NSFR high-quality liquid assets (HQLA)	n.a.	n.a.	n.a.	n.a.	6,332
16 Deposits held at other financial institutions for operational purposes	–	–	–	–	–
17 Performing loans and securities:	39,888	66,390	17,165	80,297	116,497
18 Performing loans to financial institutions secured by Level 1 HQLA	386	1,016	–	–	70
19 Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	4,268	38,733	667	863	5,573
20 Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	14,411	21,666	11,126	30,284	54,399
21 With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	188	2,675	515	88	1,774
22 Performing residential mortgages, of which:	9,247	4,774	4,708	45,283	42,896
23 With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	9,247	4,774	4,708	45,283	42,896
24 Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	11,576	201	664	3,867	13,559
25 Assets with matching interdependent liabilities(2)	–	2,198	1,428	19,036	–
26 Other assets(3):	4,538	34,872			15,692
27 Physical traded commodities, including gold	362	n.a.	n.a.	n.a.	362
28 Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs(3)	n.a.	6,647			5,650
29 NSFR derivative assets(3)	n.a.	9,773			1,585
30 NSFR derivative liabilities before deduction of the variation margin posted(3)	n.a.	14,131			707
31 All other assets not included in the above categories	4,176	3,335	283	703	7,388
32 Off-balance-sheet items	41,466	15,831	13,917	17,122	3,360
33 Total RSF	n.a.	n.a.	n.a.	n.a.	141,881
34 Net Stable Funding Ratio (%)	n.a.	n.a.	n.a.	n.a.	124%

n.a. Not applicable
(1) OSFI prescribed a table format in order to standardize disclosure throughout the banking industry.
(2) As per OSFI's specifications, liabilities arising from transactions involving the Canada Mortgage Bond program and their corresponding encumbered mortgages are given RSF and ASF of 0%, respectively.
(3) As per OSFI's specifications, there is no need to differentiate by maturities.

The NSFR represents the amount of ASF relative to the amount of RSF. ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of RSF of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance-sheet exposures. The amounts of available and required stable funding are calibrated to reflect the degree of stability of liabilities and liquidity of assets. The Bank expects some quarter-over-quarter variation between reported NSFRs, and such variation may not be indicative of a trend.

The NSFR 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 is prescribed by the EDTF, the Bank's internal liquidity metrics use assumptions that are calibrated according to its business model and experience.

Funding

The Bank continuously monitors and analyzes the possibilities for accessing less expensive and more flexible funding. The deposit strategy remains a priority for the Bank, which continues to prefer deposits to institutional funding. The table below presents the residual contractual maturities of the Bank's wholesale funding. The information has been presented in accordance with the categories recommended by the EDTF for comparison purposes with other banks.

Residual Contractual Maturities of Wholesale Funding(1)

(millions of Canadian dollars)								As at January 31, 2021
	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)	937	32	–	8	977	–	–	977
Certificates of deposit and commercial paper(3)	3,235	5,432	3,086	1,145	12,898	–	–	12,898
Senior unsecured medium-term notes(4)(5)	–	688	771	881	2,340	2,872	6,681	11,893
Senior unsecured structured notes	–	–	–	398	398	133	2,835	3,366
Covered bonds and asset-backed securities								
Mortgage securitization	–	335	2,064	1,402	3,801	4,266	14,597	22,664
Covered bonds	–	1,557	–	2,246	3,803	1,276	4,643	9,722
Securitization of credit card receivables	–	–	–	36	36	–	28	64
Subordinated liabilities(6)	–	–	–	–	–	–	773	773
	4,172	8,044	5,921	6,116	24,253	8,547	29,557	62,357
Secured funding	–	1,892	2,064	3,684	7,640	5,542	19,268	32,450
Unsecured funding	4,172	6,152	3,857	2,432	16,613	3,005	10,289	29,907
	4,172	8,044	5,921	6,116	24,253	8,547	29,557	62,357
As at October 31, 2020	2,192	5,359	8,080	5,770	21,401	9,312	28,389	59,102

(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) Includes deposits subject to bank recapitalization (Bail-in) conversion regulations.
(6) 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 approach already incorporates additional collateral requirements in the event of a one-notch to three-notch downgrade. The table below presents the additional collateral requirements in the event of a one-notch or three-notch credit rating downgrade.

(millions of Canadian dollars)		As at January 31, 2021
	One-notch downgrade	Three-notch downgrade
Derivatives(1)	25	35

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

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

The following tables present balance sheet items and off-balance-sheet commitments by residual contractual maturity as at January 31, 2021 with comparative figures as at October 31, 2020. 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 as well as for other contracts, mainly commitments to purchase loans and contracts for outsourced information technology services. Most of the lease commitments are related to operating leases.

(millions of Canadian dollars)										As at January 31, 2021
	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	9,055	304	449	495	331	–	–	–	23,092	33,726
Securities										
At fair value through profit or loss	2,086	4,788	935	1,208	1,454	2,698	6,255	9,024	59,880	88,328
At fair value through other comprehensive income	–	104	998	384	21	974	4,872	3,152	651	11,156
At amortized cost	33	146	286	320	840	1,715	6,995	821	–	11,156
	2,119	5,038	2,219	1,912	2,315	5,387	18,122	12,997	60,531	110,640
Securities purchased under reverse repurchase agreements and securities borrowed	3,202	844	1,005	–	–	640	–	–	4,728	10,419
Loans(1)										
Residential mortgage	901	1,005	3,015	2,944	2,348	8,782	41,858	5,363	611	66,827
Personal	181	352	747	865	831	3,088	14,124	3,463	14,087	37,738
Credit card									1,846	1,846
Business and government	9,916	2,928	5,416	3,052	3,078	5,904	13,212	3,499	8,545	55,550
Customers' liability under acceptances	5,424	1,393	61	–	–	–	–	–	–	6,878
Allowances for credit losses									(1,149)	(1,149)
	16,422	5,678	9,239	6,861	6,257	17,774	69,194	12,325	23,940	167,690
Other										
Derivative financial instruments	1,568	2,479	1,163	448	714	1,021	2,103	3,381	–	12,877
Investments in associates and joint ventures									404	404
Premises and equipment									1,143	1,143
Goodwill									1,408	1,408
Intangible assets									1,446	1,446
Other assets(1)	1,291	153	162	137	265	356	82	77	1,361	3,884
	2,859	2,632	1,325	585	979	1,377	2,185	3,458	5,762	21,162
	33,657	14,496	14,237	9,853	9,882	25,178	89,501	28,780	118,053	343,637

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

(millions of Canadian dollars)									As at January 31, 2021	
	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	1,850	2,961	1,790	1,960	4,314	5,479	6,969	3,700	39,536	68,559
Business and government	28,406	11,451	5,000	3,334	2,994	5,113	11,049	4,109	82,489	153,945
Deposit-taking institutions	1,868	505	80	27	23	–	1	39	2,630	5,173
	32,124	14,917	6,870	5,321	7,331	10,592	18,019	7,848	124,655	227,677
Other										
Acceptances	5,424	1,393	61	–	–	–	–	–	–	6,878
Obligations related to securities sold short[(3)]	623	378	305	94	155	1,977	2,683	4,905	7,153	18,273
Obligations related to securities sold under repurchase agreements and securities loaned	14,740	7,898	2,239	163	–	1,482	–	–	4,760	31,282
Derivative financial instruments	2,081	2,389	995	467	507	874	4,953	1,744	–	14,010
Liabilities related to transferred receivables[(4)]	–	335	2,064	398	1,004	4,266	11,233	3,364	–	22,664
Securitization – Credit card[(5)]	–	–	–	–	36	–	28	–	–	64
Lease liabilities[(5)]	8	16	22	23	23	90	232	194	–	608
Other liabilities – Other items[(1)(5)]	775	227	127	56	134	49	41	49	3,030	4,488
	23,651	12,636	5,813	1,201	1,859	8,738	19,170	10,256	14,943	98,267
Subordinated debt	–	–	–	–	–	–	–	773	–	773
Equity									16,920	16,920
	55,775	27,553	12,683	6,522	9,190	19,330	37,189	18,877	156,518	343,637
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	248	536	993	1,203	1,940	81	143	–	–	5,144
Credit card receivables[(6)]									8,262	8,262
Backstop liquidity and credit enhancement facilities[(7)]	–	–	15	–	15	4,502	–	–	3,001	7,533
Commitments to extend credit[(8)]	2,680	3,494	7,009	6,028	5,265	6,610	9,648	606	31,267	72,607
Obligations related to:										
Lease commitments[(9)]	1	1	2	1	1	4	3	5	–	18
Other contracts[(10)]	14	27	41	39	38	143	85	–	98	485

(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 $4.5 billion.
(8) These amounts include $40.9 billion that is unconditionally revocable at the Bank's discretion at any time.
(9) These amounts include leases for which the underlying asset is of low value and leases other than for real estate of less than one year.
(10) These amounts include $0.3 billion in contractual commitments related to the head office building under construction.

(millions of Canadian dollars)										As at October 31, 2020
	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	6,126	345	372	264	488	–	–	–	21,547	29,142
Securities										
At fair value through profit or loss	4,084	2,352	2,778	603	1,832	2,383	6,080	9,413	48,801	78,326
At fair value through other comprehensive income	1	–	858	1,060	400	984	5,322	3,482	619	12,726
At amortized cost	20	256	306	367	1,678	2,218	5,450	784	–	11,079
	4,105	2,608	3,942	2,030	3,910	5,585	16,852	13,679	49,420	102,131
Securities purchased under reverse repurchase agreements and securities borrowed	7,984	1,658	133	–	–	666	–	–	4,071	14,512
Loans(1)										
Residential mortgage	1,352	1,230	2,043	3,170	3,152	9,320	38,719	5,343	630	64,959
Personal	278	447	660	796	890	3,221	13,435	3,475	14,411	37,613
Credit card									2,038	2,038
Business and government	8,815	2,548	3,608	3,971	4,208	5,679	13,563	3,622	8,408	54,422
Customers' liability under acceptances	6,049	765	52	–	–	–	–	–	–	6,866
Allowances for credit losses									(1,158)	(1,158)
	16,494	4,990	6,363	7,937	8,250	18,220	65,717	12,440	24,329	164,740
Other										
Derivative financial instruments	1,816	2,586	1,139	706	318	968	2,298	3,591	–	13,422
Investments in associates and joint ventures									409	409
Premises and equipment									1,155	1,155
Goodwill									1,414	1,414
Intangible assets									1,434	1,434
Other assets(1)	1,193	351	147	149	134	344	64	12	872	3,266
	3,009	2,937	1,286	855	452	1,312	2,362	3,603	5,284	21,100
	37,718	12,538	12,096	11,086	13,100	25,783	84,931	29,722	104,651	331,625

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

(millions of Canadian dollars)										As at October 31, 2020
	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	1,845	2,728	3,462	1,647	2,084	6,909	6,958	2,962	38,904	67,499
Business and government	21,801	7,168	9,916	2,185	2,462	6,860	10,341	3,602	79,452	143,787
Deposit-taking institutions	1,435	111	14	80	17	5	1	42	2,887	4,592
	25,081	10,007	13,392	3,912	4,563	13,774	17,300	6,606	121,243	215,878
Other										
Acceptances	6,049	765	52	–	–	–	–	–	–	6,866
Obligations related to securities sold short(3)	618	620	952	69	92	1,516	2,361	4,321	5,819	16,368
Obligations related to securities sold under repurchase agreements and securities loaned	14,084	3,335	8,803	136	–	1,487	–	–	6,014	33,859
Derivative financial instruments	1,738	2,070	877	603	266	875	3,116	3,378	–	12,923
Liabilities related to transferred receivables(4)	–	2,138	311	1,850	397	3,430	11,059	3,670	–	22,855
Securitization – Credit card(5)	–	–	–	–	–	36	28	–	–	64
Lease liabilities(5)	8	14	21	22	21	85	224	233	–	628
Other liabilities – Other items(1)(5)	1,087	192	200	87	76	85	37	281	2,981	5,026
	23,584	9,134	11,216	2,767	852	7,514	16,825	11,883	14,814	98,589
Subordinated debt	–	–	–	–	–	–	–	775	–	775
Equity									16,383	16,383
	48,665	19,141	24,608	6,679	5,415	21,288	34,125	19,264	152,440	331,625
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	200	1,579	603	948	1,187	1,322	134	–	–	5,973
Credit card receivables(6)									7,999	7,999
Backstop liquidity and credit enhancement facilities(7)	–	15	4,502	15	–	–	–	–	3,126	7,658
Commitments to extend credit(8)	2,846	4,143	4,504	6,429	5,688	5,651	10,690	1,165	29,213	70,329
Obligations related to:										
Lease commitments(9)	1	1	2	2	1	4	2	1	–	14
Other contracts(10)	15	28	41	41	39	145	114	–	278	701

(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 $4.5 billion.
(8) These amounts include $39.4 billion that is unconditionally revocable at the Bank's discretion at any time.
(9) These amounts include leases for which the underlying asset is of low value and leases other than for real estate of less than one year.
(10) These amounts include $0.3 billion in contractual commitments related to the head office building under construction.

Risk Disclosures

One of the purposes of the *2020 Annual Report,* the *Report to Shareholders – First Quarter 2021,* and the related supplementary information documents is to provide transparent, high-quality risk disclosures in accordance with the recommendations made by the Financial Stability Board's EDTF group. The following table lists the references where users can find information that responds to the EDTF's 32 recommendations.

				Pages
		2020 Annual Report	Report to Shareholders(1)	Supplementary Regulatory Capital and Pillar 3 Disclosure(1)
General				
1	Location of risk disclosures	13	38	
	Management's Discussion and Analysis	59 to 106, 119, 121 and 122	18 to 37	
	Consolidated Financial Statements	Notes 1, 7, 16, 23 and 29	Notes 7 and 13	
	Supplementary Financial Information			19 to 29(2)
	Supplementary Regulatory Capital and Pillar 3 Disclosure			5 to 48
2	Risk terminology and risk measures	68 to 106		
3	Top and emerging risks	16 to 21, 28 and 73 to 77	4 and 5	
4	New key regulatory ratios	60 to 63, 93 and 98	18, 19, 28 and 31 to 33	
Risk governance and risk management				
5	Risk management organization, processes and key functions	68 to 87, 93 to 95 and 99		
6	Risk management culture	68 and 69		
7	Key risks by business segment, risk management and risk appetite	67 to 69 and 73		
8	Stress testing	59, 69, 81, 91, 92 and 95		
Capital adequacy and risk-weighted assets (RWA)				
9	Minimum Pillar 1 capital requirements	60 to 63	18 and 19	
10	Reconciliation of the accounting balance sheet to the regulatory balance sheet			7 to 13, 16 and 17
11	Movements in regulatory capital	65	20	
12	Capital planning	59 to 67		
13	RWA by business segment and by risk type	67		6
14	Capital requirements by risk and the RWA calculation method	77 to 81		6
15	Banking book credit risk			6
16	Movements in RWA by risk type	66	21	6
17	Assessment of credit risk model performance	72, 78 to 81 and 86		31
Liquidity				
18	Liquidity management and components of the liquidity buffer	93 to 99	28 to 33	
Funding				
19	Summary of encumbered and unencumbered assets	96 and 97	30	
20	Residual contractual maturities of balance sheet items and off-balance-sheet commitments	217 to 221	34 to 37	
21	Funding strategy and funding sources	99 to 101	33	
Market risk				
22	Linkage of market risk measures to balance sheet	88 and 89	25 and 26	
23	Market risk factors	86 to 92, 205 and 206	25 to 28	
24	VaR: Assumptions, limitations and validation procedures	89 and 90		
25	Stress tests, stressed VaR and backtesting	86 to 92		
Credit risk				
26	Credit risk exposures	85 and 167 to 178	24 and 60 to 68	18 to 40 and 19 to 27(2)
27	Policies for identifying impaired loans	82, 141 and 142		
28	Movements in impaired loans and allowances for credit losses	119, 121, 122 and 167 to 178	60 to 68	24 to 26(2)
29	Counterparty credit risk relating to derivatives transactions	82 to 84 and 185 to 188		33 to 40 and 28(2) and 29(2)
30	Credit risk mitigation	80 to 83 and 164		20, 24 and 38 to 48
Other risks				
31	Other risks: Governance, measurement and management	76, 77 and 102 to 106		
32	Publicly known risk events	16 to 21, 28 and 102	4 and 5	

(1) First quarter 2021.
(2) These pages are included in the document entitled *Supplementary Financial Information – First Quarter 2021.*

Accounting Policies and Financial Disclosure

Accounting Policies and Critical Accounting Estimates

The Bank's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The financial statements also comply with section 308(4) of the *Bank Act* (Canada), which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions (Canada) (OSFI), the consolidated financial statements are to be prepared in accordance with IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). None of the OSFI accounting requirements are exceptions to IFRS. The unaudited interim condensed consolidated financial statements for the quarter ended January 31, 2021 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, 2020, except for the changes described in Note 2 to the unaudited interim condensed consolidated financial statements, which have been applied since November 1, 2020.

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 accounting policies are considered critical given their importance to the presentation of the Bank's financial position and operating results and require difficult, subjective and complex judgments and estimates 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 107 to 112 of the *2020 Annual Report*.

COVID-19 Pandemic Considerations

The COVID-19 pandemic continues to evolve and as a result of the heightened uncertainty associated with the unprecedented nature of the COVID-19 pandemic, developing reliable estimates and applying judgment has become even more challenging. Some of the Bank's accounting policies such as measurement of expected credit losses require particularly complex judgments and estimates. See Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2020 for a summary of the most significant estimation processes used to prepare the consolidated financial statements in accordance with IFRS and for the measurement techniques used to determine carrying values and fair values of assets and liabilities. The uncertainty regarding certain key inputs used in measuring ECLs is described in Note 7 to these unaudited interim condensed consolidated financial statements.

Accounting Policy Changes

The Bank adopted the following new standard and framework on November 1, 2020.

Interest Rate Benchmark Reform

In August 2020, the IASB finalized its response to the ongoing reform of interbank offered rates (IBOR) and other interest rate benchmarks by issuing amendments to its new and former financial instrument standards, IFRS 9 – *Financial Instruments* (IFRS 9), IAS 39 as well as the related disclosure standard IFRS 7, IFRS 4 – *Insurance Contracts* (IFRS 4) and IFRS 16 – *Leases* (IFRS 16). The amendments complement those issued in 2019 and focus on the effects on financial statements once existing benchmark rates are replaced with alternative benchmark rates. The amendments in this final phase relate to changes to contractual cash flows, hedge accounting, and disclosures. On November 1, 2020, the Bank early adopted amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The amendments introduce a practical expedient to account for a change in the basis for determining the contractual cash flows for non-derivative financial instruments by revising prospectively the effective interest rate to reflect the change in the interest rate benchmark if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis. If additional changes are made and are not directly related to the reform, the applicable requirements of IFRS 9 are applied.

A temporary relief is also provided to hedge accounting requirements such that existing relationships that do not qualify under IAS 39 will be permitted if the change is affected by the interest benchmark reform. The Bank will update the hedge documentation without discontinuing the hedging relationship. For cash flow hedges, if the hedged item is modified due to the interest rate benchmark reform, the cumulative gain or loss in the cash flow hedge reserve for designated IBOR cash flow hedges is deemed to be based on the alternative benchmark rate. For the fair value hedges of a non-contractually specified benchmark component of interest rate risk, if that risk rate is not separately identifiable upon transition to the alternative benchmark rate, at the date of designation, it will be deemed to have met the separately identifiable requirement at that date. If the Bank reasonably expects the term specific interest rate component to be separately identifiable within a period of 24 months from the date the alternative benchmark rate is first designated, regardless of the term for which the risk is designated in that hedge, the 24-month period will apply on a rate by rate basis.

The reform of benchmark interest rates is a global initiative that is being coordinated and led by central banks and governments around the world, including Canada. The objective is to improve benchmarks by ensuring that they meet robust international standards. The initiative introduces other benchmarks as recommended rates (risk-free rates, such as Secured Overnight Financing Rate (SOFR), Canadian Overnight Repo Rate Average (CORRA) and Euro Short-Term Rate (ESTR)) to replace the Interbank Offered Rate (IBOR), which are the benchmark rates used by the world's major banks for short-term lending in the interbank market. These rates, in particular LIBOR (London Interbank Offered Rates), are widely used around the world as benchmarks for derivative financial instruments, bonds and other variable-rate instruments. To ensure an orderly transition to the risk-free rates for derivatives, the industry has proposed a solution through ISDA (International Swaps and Derivatives Association) via a protocol (2020 IBOR Fallbacks Protocol), as well as a supplement to the 2006 definitions, which came into force on January 25, 2021. The Bank adhered to the 2020 IBOR Fallbacks Protocol on October 16, 2020 and is monitoring the adherence by its derivatives counterparties to plan the transition of its legacy derivatives contracts accordingly. For certain other types of contracts, contractual amendments are expected by the end of 2021, at which time certain LIBOR rates are expected to be withdrawn. On November 30, 2020, the administrator of the LIBOR rates, ICE Benchmark Administration, announced the launching of a consultation on discontinuing USD LIBOR main settings as of June 30, 2023, an announcement which was immediately relayed with supportive statements by the public sector, the UK Financial Conduct Authority (FCA), the Federal Reserve Board and U.S. agencies, reiterating the regulatory expectation that market participants stop new use of USD LIBOR at the end of 2021.

To prepare for the interest rate benchmark reform, the Bank developed an enterprise-wide project, put together a dedicated team and established a formal governance structure. Several committees were created to ensure the success of the project and to prepare for the benchmark interest rate reform. The project team is made up of qualified resources from different fields of expertise to ensure an in-depth analysis of all aspects of the changes as well as the financial, legal, operational and technological impacts. Many of these experts, who have in-depth knowledge of accounting standards and reform-related activities, are involved in the Canadian Bankers Association's working group where representatives of the major Canadian banks discuss the issues and interpretations of the reform. The Bank also participates in meetings with OSFI to discuss these same issues and interpretations. Furthermore, workshops are held to analyze the impact of the reform's implementation, ensuring that information is disseminated to stakeholders affected by this reform; information-sharing meetings are held with all stakeholders affected by the reform, and participants in various industry committees share the latest developments.

The project team regularly reports on the project's progress to the project steering committee and the Financial Markets Risk Committee, committees made up of members of management and experts from all departments involved. As at January 31, 2021, the project is progressing according to schedule. Finally, a training plan for staff, management and board members has been created.

The Bank is exposed to several risks, including interest rate risk and operational risk, which arise from non-derivative financial assets, non-derivative financial liabilities and derivative financial instruments. The project team ensures that risks are mitigated while ensuring a positive experience for its clients. The Bank is taking all necessary steps to identify, measure and control all risks to ensure a smooth transition to the interest rate benchmark reform.

The following table discloses the non-derivative financial assets, non-derivative financial liabilities and derivative financial instruments subject to the interest rate benchmark reform as at November 1, 2020 that have yet to transition to alternative benchmark rates and will mature after December 31, 2021.

(millions of Canadian dollars)					As at November 1, 2020
	USD LIBOR	EUR LIBOR	GBP LIBOR	JPY LIBOR	CHF LIBOR
Non-derivative financial assets(1)	9,308	330	168	–	–
Non-derivative financial liabilities(2)	1,983	418	–	–	–
Derivative financial instruments(3)	176,577	39,209	1,649	534	38

(1) Non-derivative financial assets include the carrying value of securities and securities purchased under reverse repurchase agreements or securities borrowed as well as the outstanding balances on loans.
(2) Non-derivative financial liabilities include the notional amounts of deposits and subordinated debt as well as the carrying value of obligations related to securities sold short and obligations related to securities sold under repurchase agreements or securities loaned.
(3) Derivative financial instruments include the notional amounts of interest rate contracts and foreign exchange contracts.

For additional information on Interest Rate Benchmark Reform – Phase 1, see Notes 1 and 17 to the audited annual consolidated financial statements for the year ended October 31, 2020.

Conceptual Framework for Financial Reporting
The Revised Conceptual Framework stipulates that financial information must be relevant and achieve fair presentation to be useful. The framework provides revised definitions and recognition criteria for assets and liabilities and confirms that different measurement bases are useful and permitted. The adoption of the Revised Conceptual Framework did not have a significant impact on the Bank.

Future Accounting Policy Changes

The Bank closely monitors both new accounting standards and amendments to existing accounting standards issued by the IASB. The following standard has been issued but is not yet effective. The Bank is currently assessing the impact of the application of this standard on the consolidated financial statements.

Effective Date – November 1, 2023
IFRS 17 – *Insurance Contracts*
In May 2017, the IASB issued IFRS 17 – *Insurance Contracts* (IFRS 17), a new standard that replaces IFRS 4, the current insurance contract accounting standard. IFRS 17 introduces a new accounting framework that will improve the comparability and quality of financial information. IFRS 17 provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts. In June 2020, issued amendments to IFRS 17 included a two-year deferral of the effective date along with other changes aimed at addressing concerns and implementation challenges identified after IFRS 17 was published in 2017. IFRS 17, as amended, is effective retrospectively for annual periods beginning on or after January 1, 2023, with earlier application permitted. If full retrospective application to a group of insurance contracts is impractical, the modified retrospective approach or the fair value approach may be used.

Financial Disclosure

During the first quarter of 2021, 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.

Quarterly Financial Information

(millions of Canadian dollars, except per share amounts)	2021				2020			2019	2020	2019
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Total	Total
Total revenues	**2,224**	2,000	1,968	2,036	1,923	1,915	1,948	1,770	7,927	7,432
Net income	**761**	492	602	379	610	604	608	558	2,083	2,322
Earnings per share ($)										
Basic	**2.16**	1.37	1.67	1.01	1.69	1.68	1.68	1.52	5.73	6.39
Diluted	**2.15**	1.36	1.66	1.01	1.67	1.67	1.66	1.51	5.70	6.34
Dividends per common share ($)	**0.71**	0.71	0.71	0.71	0.71	0.68	0.68	0.65	2.84	2.66
Return on common shareholders' equity (%)	**21.2**	13.7	17.0	10.7	18.0	18.2	18.7	17.8	14.9	18.0
Total assets	**343,637**	331,625	322,453	316,950	289,191	281,458	276,312	269,106		
Net impaired loans[1]	**400**	465	453	479	436	450	420	379		
Per common share ($)										
Book value	**41.48**	39.97	38.91	38.74	37.58	36.89	36.12	35.49		
Share price										
High	**73.81**	72.85	65.54	74.79	74.22	68.02	64.16	63.82		
Low	**65.54**	62.99	51.38	38.73	68.25	60.38	60.71	60.31		

(1) All loans classified in Stage 3 of the expected credit loss model are impaired loans; the net impaired loans presented in this table exclude POCI loans.

Interim Condensed Consolidated Financial Statements

(unaudited)

Consolidated Balance Sheets

(unaudited) (millions of Canadian dollars)

	As at January 31, 2021	As at October 31, 2020
Assets		
Cash and deposits with financial institutions	33,726	29,142
Securities (Notes 4, 5 and 6)		
At fair value through profit or loss	88,328	78,326
At fair value through other comprehensive income	11,156	12,726
At amortized cost	11,156	11,079
	110,640	102,131
Securities purchased under reverse repurchase agreements and securities borrowed	10,419	14,512
Loans (Note 7)		
Residential mortgage	66,827	64,959
Personal	37,738	37,613
Credit card	1,846	2,038
Business and government	55,550	54,422
	161,961	159,032
Customers' liability under acceptances	6,878	6,866
Allowances for credit losses	(1,149)	(1,158)
	167,690	164,740
Other		
Derivative financial instruments	12,877	13,422
Investments in associates and joint ventures	404	409
Premises and equipment	1,143	1,155
Goodwill	1,408	1,414
Intangible assets	1,446	1,434
Other assets (Note 9)	3,884	3,266
	21,162	21,100
	343,637	331,625
Liabilities and equity		
Deposits (Notes 5 and 10)	227,677	215,878
Other		
Acceptances	6,878	6,866
Obligations related to securities sold short	18,273	16,368
Obligations related to securities sold under repurchase agreements and securities loaned[1] (Note 8)	31,282	33,859
Derivative financial instruments	14,010	12,923
Liabilities related to transferred receivables (Notes 5 and 8)	22,664	22,855
Other liabilities (Note 11)	5,160	5,718
	98,267	98,589
Subordinated debt	773	775
Equity		
Equity attributable to the Bank's shareholders and holders of other equity instruments (Notes 12 and 14)		
Preferred shares and other equity instruments	2,950	2,950
Common shares	3,094	3,057
Contributed surplus	45	47
Retained earnings	10,998	10,444
Accumulated other comprehensive income	(167)	(118)
	16,920	16,380
Non-controlling interests (Note 18)	–	3
	16,920	16,383
	343,637	331,625

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

(1) As at January 31, 2021, *Obligations related to securities sold under repurchase agreements and securities loaned* include term repurchase transactions with the Bank of Canada, for which the underlying asset is a Bank issued security such as bearer deposit notes and covered bonds.

Consolidated Statements of Income

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2021	2020
Interest income		
Loans	**1,376**	1,648
Securities at fair value through profit or loss	**297**	280
Securities at fair value through other comprehensive income	**42**	55
Securities at amortized cost	**45**	59
Deposits with financial institutions	**18**	32
	1,778	2,074
Interest expense		
Deposits	**426**	890
Liabilities related to transferred receivables	**86**	106
Subordinated debt	**4**	6
Other	**55**	142
	571	1,144
Net interest income(1)	**1,207**	930
Non-interest income		
Underwriting and advisory fees	**107**	86
Securities brokerage commissions	**59**	48
Mutual fund revenues	**132**	120
Trust service revenues	**187**	166
Credit fees	**131**	110
Card revenues	**33**	39
Deposit and payment service charges	**65**	68
Trading revenues (losses)	**126**	225
Gains (losses) on non-trading securities, net	**36**	30
Insurance revenues, net	**28**	36
Foreign exchange revenues, other than trading	**34**	24
Share in the net income of associates and joint ventures	**6**	10
Other	**73**	31
	1,017	993
Total revenues	**2,224**	1,923
Non-interest expenses		
Compensation and employee benefits	**731**	660
Occupancy	**79**	66
Technology	**200**	169
Communications	**13**	16
Professional fees	**56**	59
Other	**101**	121
	1,180	1,091
Income before provisions for credit losses and income taxes	**1,044**	832
Provisions for credit losses (Note 7)	**81**	89
Income before income taxes	**963**	743
Income taxes	**202**	133
Net income	**761**	610
Net income attributable to		
Preferred shareholders and holders of other equity instruments	**33**	29
Common shareholders	**728**	565
Bank shareholders and holders of other equity instruments	**761**	594
Non-controlling interests	**–**	16
	761	610
Earnings per share *(dollars)* (Note 16)		
Basic	**2.16**	1.69
Diluted	**2.15**	1.67
Dividends per common share *(dollars)* (Note 12)	**0.71**	0.71

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

(1) *Net interest income* includes dividend income. For additional information, see Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2020.

Consolidated Statements of Comprehensive Income

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2021	2020
Net income	761	610
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	(176)	13
Impact of hedging net foreign currency translation gains (losses)	54	(6)
	(122)	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	37	23
Net (gains) losses on debt securities at fair value through other comprehensive income reclassified to net income	(10)	(11)
Change in allowances for credit losses on debt securities at fair value through other comprehensive income reclassified to net income	(1)	–
	26	12
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	32	(38)
Net (gains) losses on designated derivative financial instruments reclassified to net income	2	(3)
	34	(41)
Share in the other comprehensive income of associates and joint ventures	–	–
Items that will not be subsequently reclassified to net income		
Remeasurements of pension plans and other post-employment benefit plans	132	(63)
Net gains (losses) on equity securities designated at fair value through other comprehensive income	27	11
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	(84)	(31)
	75	(83)
Total other comprehensive income, net of income taxes	13	(105)
Comprehensive income	774	505
Comprehensive income attributable to		
Bank shareholders and holders of other equity instruments	787	488
Non-controlling interests	(13)	17
	774	505

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

Consolidated Statements of Comprehensive Income (cont.)

(unaudited) (millions of Canadian dollars)

Income Taxes – Other Comprehensive Income

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

	Quarter ended January 31	
	2021	2020
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	**4**	–
Impact of hedging net foreign currency translation gains (losses)	**15**	(2)
	19	(2)
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	**13**	8
Net (gains) losses on debt securities at fair value through other comprehensive income reclassified to net income	**(4)**	(4)
Change in allowances for credit losses on debt securities at fair value through other comprehensive income reclassified to net income	**–**	–
	9	4
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**11**	(14)
Net (gains) losses on designated derivative financial instruments reclassified to net income	**1**	(1)
	12	(15)
Share in the other comprehensive income of associates and joint ventures	**–**	–
Items that will not be subsequently reclassified to net income		
Remeasurements of pension plans and other post-employment benefit plans	**47**	(22)
Net gains (losses) on equity securities designated at fair value through other comprehensive income	**10**	5
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	**(30)**	(12)
	27	(29)
	67	(42)

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

Consolidated Statements of Changes in Equity

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2021	2020
Preferred shares and other equity instruments at beginning and at end (Note 12)	2,950	2,450
Common shares at beginning (Note 12)	3,057	2,949
Issuances of common shares pursuant to the Stock Option Plan	39	79
Impact of shares purchased or sold for trading	(2)	–
Common shares at end	3,094	3,028
Contributed surplus at beginning	47	51
Stock option expense (Note 14)	3	2
Stock options exercised	(5)	(9)
Contributed surplus at end	45	44
Retained earnings at beginning	10,444	9,312
Net income attributable to the Bank's shareholders and holders of other equity instruments	761	594
Dividends on preferred shares and distributions on other equity instruments (Note 12)	(34)	(29)
Dividends on common shares (Note 12)	(239)	(238)
Remeasurements of pension plans and other post-employment benefit plans	132	(63)
Net gains (losses) on equity securities designated at fair value through other comprehensive income	27	11
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	(84)	(31)
Other	(9)	–
Retained earnings at end	10,998	9,556
Accumulated other comprehensive income at beginning	(118)	16
Net foreign currency translation adjustments	(109)	6
Net change in unrealized gains (losses) on debt securities at fair value through other comprehensive income	26	12
Net change in gains (losses) on cash flow hedges	34	(41)
Share in the other comprehensive income of associates and joint ventures	–	–
Accumulated other comprehensive income at end	(167)	(7)
Equity attributable to the Bank's shareholders and holders of other equity instruments	16,920	15,071
Non-controlling interests at beginning	3	358
Purchase of the non-controlling interest of the Credigy Ltd. subsidiary (Note 18)	10	–
Net income attributable to non-controlling interests	–	16
Other comprehensive income attributable to non-controlling interests	(13)	1
Distributions to non-controlling interests	–	(25)
Non-controlling interests at end	–	350
Equity	16,920	15,421

Accumulated Other Comprehensive Income

	As at January 31, 2021	As at January 31, 2020
Accumulated other comprehensive income		
Net foreign currency translation adjustments	(48)	14
Net unrealized gains (losses) on debt securities at fair value through other comprehensive income	127	26
Net gains (losses) on instruments designated as cash flow hedges	(249)	(47)
Share in the other comprehensive income of associates and joint ventures	3	–
	(167)	(7)

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

Consolidated Statements of Cash Flows

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2021	2020
Cash flows from operating activities		
Net income	761	610
Adjustments for		
Provisions for credit losses	81	89
Amortization of premises and equipment including right-of-use assets	54	48
Amortization of intangible assets	73	61
Deferred taxes	47	24
Losses (gains) on sales of non-trading securities, net	(36)	(30)
Share in the net income of associates and joint ventures	(6)	(10)
Stock option expense	3	2
Change in operating assets and liabilities		
Securities at fair value through profit or loss	(10,002)	(11,328)
Securities purchased under reverse repurchase agreements and securities borrowed	4,093	6,034
Loans and acceptances, net of securitization	(3,206)	(3,503)
Deposits	11,799	7,938
Obligations related to securities sold short	1,905	(586)
Obligations related to securities sold under repurchase agreements and securities loaned	(2,577)	154
Derivative financial instruments, net	1,632	(706)
Interest and dividends receivable and interest payable	(105)	20
Current tax assets and liabilities	52	(117)
Other items	(226)	(780)
	4,342	(2,080)
Cash flows from financing activities		
Issuances of common shares (including the impact of shares purchased for trading)	32	70
Purchase of the non-controlling interest of the Credigy Ltd. subsidiary (Note 18)	(300)	–
Repayments of lease liabilities	(24)	(21)
Dividends paid on shares and distributions on other equity instruments	(273)	(495)
Distributions to non-controlling interests	–	(25)
	(565)	(471)
Cash flows from investing activities		
Net change in investments in associates and joint ventures	5	–
Purchases of non-trading securities	(1,575)	(1,545)
Maturities of non-trading securities	675	445
Sales of non-trading securities	2,226	2,436
Net change in premises and equipment, excluding right-of-use assets	(40)	(53)
Net change in intangible assets	(85)	(75)
	1,206	1,208
Impact of currency rate movements on cash and cash equivalents	(399)	99
Increase (decrease) in cash and cash equivalents	4,584	(1,244)
Cash and cash equivalents at beginning	29,142	13,698
Cash and cash equivalents at end(1)	33,726	12,454
Supplementary information about cash flows from operating activities		
Interest paid	641	1,171
Interest and dividends received	1,743	2,121
Income taxes paid	209	185

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

(1) This item is the equivalent of Consolidated Balance Sheet item *Cash and deposits with financial institutions*. It includes an amount of $5.6 billion as at January 31, 2021 ($5.9 billion as at October 31, 2020) for which there are restrictions.

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited) (millions of Canadian dollars)

Note 1 – Basis of Presentation

On February 23, 2021, the Board of Directors authorized the publication of the Bank's unaudited interim condensed consolidated financial statements (the consolidated financial statements) for the quarter ended January 31, 2021.

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, 2020, except for the changes described in Note 2 to these consolidated financial statements, which have been applied since November 1, 2020.

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

COVID-19 Pandemic Considerations

The COVID-19 pandemic continues to evolve and as a result of the heightened uncertainty associated with the unprecedented nature of the COVID-19 pandemic, developing reliable estimates and applying judgment has become even more challenging. Some of the Bank's accounting policies such as measurement of expected credit losses require particularly complex judgments and estimates. See Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2020 for a summary of the most significant estimation processes used to prepare the consolidated financial statements in accordance with IFRS and for the measurement techniques used to determine carrying values and fair values of assets and liabilities. The uncertainty regarding certain key inputs used in measuring ECLs is described in Note 7 to these consolidated financial statements.

Note 2 – Accounting Policy Changes

The Bank adopted the following new standard and framework on November 1, 2020.

Interest Rate Benchmark Reform

In August 2020, the IASB finalized its response to the ongoing reform of interbank offered rates (IBOR) and other interest rate benchmarks by issuing amendments to its new and former financial instrument standards, IFRS 9 – *Financial Instruments* (IFRS 9), IAS 39 as well as the related disclosure standard IFRS 7, IFRS 4 – *Insurance Contracts* (IFRS 4) and IFRS 16 – *Leases* (IFRS 16). The amendments complement those issued in 2019 and focus on the effects on financial statements once existing benchmark rates are replaced with alternative benchmark rates. The amendments in this final phase relate to changes to contractual cash flows, hedge accounting, and disclosures. On November 1, 2020, the Bank early adopted amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The amendments introduce a practical expedient to account for a change in the basis for determining the contractual cash flows for non-derivative financial instruments by revising prospectively the effective interest rate to reflect the change in the interest rate benchmark if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis. If additional changes are made and are not directly related to the reform, the applicable requirements of IFRS 9 are applied.

A temporary relief is also provided to hedge accounting requirements such that existing relationships that do not qualify under IAS 39 will be permitted if the change is affected by the interest benchmark reform. The Bank will update the hedge documentation without discontinuing the hedging relationship. For cash flow hedges, if the hedged item is modified due to the interest rate benchmark reform, the cumulative gain or loss in the cash flow hedge reserve for designated IBOR cash flow hedges is deemed to be based on the alternative benchmark rate. For the fair value hedges of a non-contractually specified benchmark component of interest rate risk, if that risk rate is not separately identifiable upon transition to the alternative benchmark rate, at the date of designation, it will be deemed to have met the separately identifiable requirement at that date. If the Bank reasonably expects the term specific interest rate component to be separately identifiable within a period of 24 months from the date the alternative benchmark rate is first designated, regardless of the term for which the risk is designated in that hedge, the 24-month period will apply on a rate by rate basis.

The reform of benchmark interest rates is a global initiative that is being coordinated and led by central banks and governments around the world, including Canada. The objective is to improve benchmarks by ensuring that they meet robust international standards. The initiative introduces other benchmarks as recommended rates (risk-free rates, such as Secured Overnight Financing Rate (SOFR), Canadian Overnight Repo Rate Average (CORRA) and Euro Short-Term Rate (ESTR)) to replace the Interbank Offered Rate (IBOR), which are the benchmark rates used by the world's major banks for short-term lending in the interbank market. These rates, in particular LIBOR (London Interbank Offered Rates), are widely used around the world as benchmarks for derivative financial instruments, bonds and other variable-rate instruments. To ensure an orderly transition to the risk-free rates for derivatives, the industry has proposed a solution through ISDA (International Swaps and Derivatives Association) via a protocol (2020 IBOR Fallbacks Protocol), as well as a supplement to the 2006 definitions, which came into force on January 25, 2021. The Bank adhered to the 2020 IBOR Fallbacks Protocol on October 16, 2020 and is monitoring the adherence by its derivatives counterparties to plan the transition of its legacy derivatives contracts accordingly. For certain other types of contracts, contractual amendments are expected by the end of 2021, at which time certain LIBOR rates are expected to be withdrawn. On November 30, 2020, the administrator of the LIBOR rates, ICE Benchmark Administration, announced the launching of a consultation on discontinuing USD LIBOR main settings as of June 30, 2023, an announcement which was immediately relayed with supportive statements by the public sector, the UK Financial Conduct Authority (FCA), the Federal Reserve Board and U.S. agencies, reiterating the regulatory expectation that market participants stop new use of USD LIBOR at the end of 2021.

To prepare for the interest rate benchmark reform, the Bank developed an enterprise-wide project, put together a dedicated team and established a formal governance structure. Several committees were created to ensure the success of the project and to prepare for the benchmark interest rate reform. The project team is made up of qualified resources from different fields of expertise to ensure an in-depth analysis of all aspects of the changes as well as the financial, legal, operational and technological impacts. Many of these experts, who have in-depth knowledge of accounting standards and reform-related activities, are involved in the Canadian Bankers Association’s working group where representatives of the major Canadian banks discuss the issues and interpretations of the reform. The Bank also participates in meetings with OSFI to discuss these same issues and interpretations. Furthermore, workshops are held to analyze the impact of the reform’s implementation, ensuring that information is disseminated to stakeholders affected by this reform; information-sharing meetings are held with all stakeholders affected by the reform, and participants in various industry committees share the latest developments.

The project team regularly reports on the project’s progress to the project steering committee and the Financial Markets Risk Committee, committees made up of members of management and experts from all departments involved. As at January 31, 2021, the project is progressing according to schedule. Finally, a training plan for staff, management and board members has been created.

The Bank is exposed to several risks, including interest rate risk and operational risk, which arise from non-derivative financial assets, non-derivative financial liabilities and derivative financial instruments. The project team ensures that risks are mitigated while ensuring a positive experience for its clients. The Bank is taking all necessary steps to identify, measure and control all risks to ensure a smooth transition to the interest rate benchmark reform.

(unaudited) (millions of Canadian dollars)

Note 2 – Accounting Policy Changes (cont.)

The following table discloses the non-derivative financial assets, non-derivative financial liabilities and derivative financial instruments subject to the interest rate benchmark reform as at November 1, 2020 that have yet to transition to alternative benchmark rates and will mature after December 31, 2021.

					As at November 1, 2020
	USD LIBOR	EUR LIBOR	GBP LIBOR	JPY LIBOR	CHF LIBOR
Non-derivative financial assets[1]	9,308	330	168	–	–
Non-derivative financial liabilities[2]	1,983	418	–	–	–
Derivative financial instruments[3]	176,577	39,209	1,649	534	38

(1) Non-derivative financial assets include the carrying value of securities and securities purchased under reverse repurchase agreements or securities borrowed as well as the outstanding balances on loans.
(2) Non-derivative financial liabilities include the notional amounts of deposits and subordinated debt as well as the carrying value of obligations related to securities sold short and obligations related to securities sold under repurchase agreements or securities loaned.
(3) Derivative financial instruments include the notional amounts of interest rate contracts and foreign exchange contracts.

For additional information on Interest Rate Benchmark Reform – Phase 1, see Notes 1 and 17 to the audited annual consolidated financial statements for the year ended October 31, 2020.

Conceptual Framework for Financial Reporting
The Revised Conceptual Framework stipulates that financial information must be relevant and achieve fair presentation to be useful. The framework provides revised definitions and recognition criteria for assets and liabilities and confirms that different measurement bases are useful and permitted. The adoption of the Revised Conceptual Framework did not have a significant impact on the Bank.

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 following standard has been issued but is not yet effective. The Bank is currently assessing the impact of the application of this standard on the consolidated financial statements.

Effective Date – November 1, 2023
IFRS 17 – *Insurance Contracts*
In May 2017, the IASB issued IFRS 17 – *Insurance Contracts* (IFRS 17), a new standard that replaces IFRS 4, the current insurance contract accounting standard. IFRS 17 introduces a new accounting framework that will improve the comparability and quality of financial information. IFRS 17 provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts. In June 2020, issued amendments to IFRS 17 included a two-year deferral of the effective date along with other changes aimed at addressing concerns and implementation challenges identified after IFRS 17 was published in 2017. IFRS 17, as amended, is effective retrospectively for annual periods beginning on or after January 1, 2023, with earlier application permitted. If full retrospective application to a group of insurance contracts is impractical, the modified retrospective approach or the fair value approach may be used.

(unaudited) (millions of Canadian dollars)

Note 4 – Fair Value of Financial Instruments

Fair Value and Carrying Value of Financial Instruments by Category

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

								As at January 31, 2021
	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 classified as 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	–	–	–	–	33,726	33,726	33,726	33,726
Securities	85,916	2,412	10,505	651	11,156	11,356	110,640	110,840
Securities purchased under reverse repurchase agreements and securities borrowed	–	–	–	–	10,419	10,419	10,419	10,419
Loans and acceptances, net of allowances	8,151	–	–	–	159,539	162,026	167,690	170,177
Other								
Derivative financial instruments	12,877	–	–	–	–	–	12,877	12,877
Other assets	–	–	–	–	1,610	1,610	1,610	1,610
Financial liabilities								
Deposits	–	13,661			214,016 (1)	214,962	227,677	228,623
Other								
Acceptances	–	–			6,878	6,878	6,878	6,878
Obligations related to securities sold short	18,273	–			–	–	18,273	18,273
Obligations related to securities sold under repurchase agreements and securities loaned	–	–			31,282	31,282	31,282	31,282
Derivative financial instruments	14,010	–			–	–	14,010	14,010
Liabilities related to transferred receivables	–	8,599			14,065	14,394	22,664	22,993
Other liabilities	–	–			1,484	1,486	1,484	1,486
Subordinated debt	–	–			773	791	773	791

(1) Includes embedded derivative financial instruments.

(unaudited) (millions of Canadian dollars)

Note 4 – Fair Value of Financial Instruments (cont.)

As at October 31, 2020

				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 classified as 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	–	–	–	–	29,142	29,142	29,142	29,142
Securities	75,647	2,679	12,107	619	11,079	11,290	102,131	102,342
Securities purchased under reverse repurchase agreements and securities borrowed	–	–	–	–	14,512	14,512	14,512	14,512
Loans and acceptances, net of allowances	8,109	–	–	–	156,631	159,473	164,740	167,582
Other								
Derivative financial instruments	13,422	–	–	–	–	–	13,422	13,422
Other assets	–	–	–	–	1,153	1,153	1,153	1,153
Financial liabilities								
Deposits	–	11,418			204,460 (1)	205,337	215,878	216,755
Other								
Acceptances	–	–			6,866	6,866	6,866	6,866
Obligations related to securities sold short	16,368	–			–	–	16,368	16,368
Obligations related to securities sold under repurchase agreements and securities loaned	–	–			33,859	33,859	33,859	33,859
Derivative financial instruments	12,923	–			–	–	12,923	12,923
Liabilities related to transferred receivables	–	8,762			14,093	14,432	22,855	23,194
Other liabilities	–	–			1,892	1,894	1,892	1,894
Subordinated debt	–	–			775	787	775	787

(1) Includes 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. The Bank's valuation was based on its assessment of the conditions prevailing as at January 31, 2021 and may change in the future. Furthermore, there may be valuation uncertainty resulting from the choice of valuation model used.

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, 2020. The valuation techniques used to determine the fair value of financial assets and financial 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 measurement 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, 2020.

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

During the quarter ended January 31, 2021, $6 million in securities classified as at fair value through profit or loss were transferred from Level 2 to Level 1 resulting from changing market conditions ($7 million in securities classified as at fair value through profit or loss during the quarter ended January 31, 2020). Also during the quarter ended January 31, 2021, $10 million in securities classified as at fair value through profit or loss were transferred from Level 1 to Level 2 resulting from changing market conditions ($2 million in securities classified as at fair value through profit or loss during the quarter ended January 31, 2020). During the quarters ended January 31, 2021 and 2020, financial instruments were transferred to (or from) Level 3 due to changes in the availability of observable market inputs resulting from changing market conditions.

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

				As at January 31, 2021
	Level 1	Level 2	Level 3	Total financial assets/liabilities at fair value
Financial assets				
Securities				
At fair value through profit or loss				
Securities issued or guaranteed by				
Canadian government	1,826	7,398	–	9,224
Canadian provincial and municipal governments	–	8,027	–	8,027
U.S. Treasury, other U.S. agencies and other foreign governments	6,788	1,973	–	8,761
Other debt securities	–	2,396	40	2,436
Equity securities	58,715	581	584	59,880
	67,329	20,375	624	88,328
At fair value through other comprehensive income				
Securities issued or guaranteed by				
Canadian government	60	3,309	–	3,369
Canadian provincial and municipal governments	–	3,823	–	3,823
U.S. Treasury, other U.S. agencies and other foreign governments	2,089	254	–	2,343
Other debt securities	–	970	–	970
Equity securities	–	278	373	651
	2,149	8,634	373	11,156
Loans	–	7,815	336	8,151
Other				
Derivative financial instruments	392	12,473	12	12,877
	69,870	49,297	1,345	120,512
Financial liabilities				
Deposits	–	13,771	–	13,771
Other				
Obligations related to securities sold short	12,652	5,621	–	18,273
Derivative financial instruments	513	13,491	6	14,010
Liabilities related to transferred receivables	–	8,599	–	8,599
	13,165	41,482	6	54,653

(unaudited) (millions of Canadian dollars)

Note 4 – Fair Value of Financial Instruments (cont.)

			As at October 31, 2020	
	Level 1	Level 2	Level 3	Total financial assets/liabilities at fair value
Financial assets				
Securities				
At fair value through profit or loss				
Securities issued or guaranteed by				
Canadian government	1,852	7,632	–	9,484
Canadian provincial and municipal governments	–	9,105	–	9,105
U.S. Treasury, other U.S. agencies and other foreign governments	7,852	996	–	8,848
Other debt securities	–	2,048	40	2,088
Equity securities	47,941	443	417	48,801
	57,645	20,224	457	78,326
At fair value through other comprehensive income				
Securities issued or guaranteed by				
Canadian government	877	3,535	–	4,412
Canadian provincial and municipal governments	–	4,154	–	4,154
U.S. Treasury, other U.S. agencies and other foreign governments	2,165	284	–	2,449
Other debt securities	–	1,092	–	1,092
Equity securities	–	246	373	619
	3,042	9,311	373	12,726
Loans	–	7,737	372	8,109
Other				
Derivative financial instruments	343	13,049	30	13,422
	61,030	50,321	1,232	112,583
Financial liabilities				
Deposits(1)	–	11,575	(2)	11,573
Other				
Obligations related to securities sold short	11,575	4,793	–	16,368
Derivative financial instruments	242	12,680	1	12,923
Liabilities related to transferred receivables	–	8,762	–	8,762
	11,817	37,810	(1)	49,626

(1) The amount classified in Level 3 represents the fair value of embedded derivative financial instruments related to deposits.

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, 2020. For the quarter ended January 31, 2021, 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 for 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 an unobservable input might affect the fair value measurements of Level 3 financial instruments, see Note 3 to the audited annual consolidated financial statements for the year ended October 31, 2020. For the quarter ended January 31, 2021, there were no significant changes in the sensitivity analyses of Level 3 financial instruments.

(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 Levels 1 or 2 by the Bank. In addition, the Bank may hedge the fair value of financial instruments classified in Level 3 using other financial instruments classified in Level 3. The effect of these hedges is not included in the net amount presented in the following tables. The gains and losses presented hereafter may comprise changes in fair value based on observable and unobservable inputs.

					Quarter ended January 31, 2021
	Securities at fair value through profit or loss	**Securities at fair value through other comprehensive income**	**Loans**	**Derivative financial instruments[(1)]**	**Deposits[(2)]**
Fair value as at October 31, 2020	**457**	**373**	**372**	**29**	**2**
Total realized and unrealized gains (losses) included in *Net income*[(3)]	**165**	**–**	**15**	**(22)**	**–**
Total realized and unrealized gains (losses) included in *Other comprehensive income*	**–**	**–**	**–**	**–**	**–**
Purchases	**10**	**–**	**–**	**–**	**–**
Sales	**(8)**	**–**	**–**	**–**	**–**
Issuances	**–**	**–**	**3**	**–**	**–**
Settlements and other	**–**	**–**	**(54)**	**(1)**	**–**
Financial instruments transferred into Level 3	**–**	**–**	**–**	**–**	**–**
Financial instruments transferred out of Level 3	**–**	**–**	**–**	**–**	**(2)**
Fair value as at January 31, 2021	**624**	**373**	**336**	**6**	**–**
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at January 31, 2021[(4)]	**166**	**–**	**15**	**(22)**	**–**

					Quarter ended January 31, 2020
	Securities at fair value through profit or loss	Securities at fair value through other comprehensive income	Loans	Derivative financial instruments[(1)]	Deposits[(2)]
Fair value as at October 31, 2019	458	362	360	4	–
Total realized and unrealized gains (losses) included in *Net income*[(5)]	40	–	3	2	–
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	–	–	–	–
Purchases	10	–	–	–	–
Sales	(5)	–	–	–	–
Issuances	–	–	1	–	–
Settlements and other	–	–	(3)	1	–
Financial instruments transferred into Level 3	–	–	–	–	(4)
Financial instruments transferred out of Level 3	–	–	–	(2)	–
Fair value as at January 31, 2020	503	362	361	5	(4)
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at January 31, 2020[(6)]	39	–	3	2	–

(1) The derivative financial instruments include assets and liabilities presented on a net basis.
(2) The amounts represent the fair value of embedded derivative financial instruments related to deposits.
(3) Total gains (losses) included in *Non-interest income* was a gain of $158 million.
(4) Total unrealized gains (losses) included in *Non-interest income* was an unrealized gain of $159 million.
(5) Total gains (losses) included in *Non-interest income* was a gain of $45 million.
(6) Total unrealized gains (losses) included in *Non-interest income* was an unrealized gain of $44 million.

(unaudited) (millions of Canadian dollars)

Note 5 – 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, 2020. Consistent with its risk management strategy and in accordance with 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 financial liabilities or recognizing the gains and losses thereon on different bases, the Bank designated at fair value through profit or loss certain securities, certain securities purchased under reverse repurchase agreements, and certain liabilities related to transferred receivables. The fair value of liabilities related to transferred receivables does not include credit risk, as the holders of these liabilities are not exposed to the Bank's credit risk. The Bank also designated certain deposits that include embedded derivative financial instruments at fair value through profit or loss.

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

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

	Carrying value as at January 31, 2021	**Unrealized gains (losses) for the quarter ended January 31, 2021**	**Unrealized gains (losses) since the initial recognition of the instrument**
Financial assets designated at fair value through profit or loss			
Securities	**2,412**	**(6)**	**86**
Financial liabilities designated at fair value through profit or loss			
Deposits(1)(2)	**13,661**	**(691)**	**(70)**
Liabilities related to transferred receivables	**8,599**	**(1)**	**(222)**
	22,260	**(692)**	**(292)**

	Carrying value as at January 31, 2020	Unrealized gains (losses) for the quarter ended January 31, 2020	Unrealized gains (losses) since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss			
Securities	3,223	13	39
Financial liabilities designated at fair value through profit or loss			
Deposits(1)(2)	11,228	(165)	(320)
Liabilities related to transferred receivables	7,755	(15)	(90)
	18,983	(180)	(410)

(1) For the quarter ended January 31, 2021, the change in the fair value of deposits designated at fair value through profit or loss attributable to credit risk, and recorded in *Other comprehensive income,* resulted in a loss of $114 million ($43 million loss for the quarter ended January 31, 2020).
(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 6 – Securities

Credit Quality

As at January 31, 2021 and as at October 31, 2020, securities at fair value through other comprehensive income and securities at amortized cost are classified in Stage 1, with their credit quality falling mostly in the "Excellent" category according to the Bank's internal risk-rating categories. For additional information on the reconciliation of allowances for credit losses, see Note 7 to these consolidated financial statements.

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

				As at January 31, 2021
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value[1]
Securities issued or guaranteed by				
Canadian government	3,263	106	–	3,369
Canadian provincial and municipal governments	3,692	131	–	3,823
U.S. Treasury, other U.S. agencies and other foreign governments	2,326	18	(1)	2,343
Other debt securities	933	38	(1)	970
Equity securities	629	33	(11)	651
	10,843	326	(13)	11,156

				As at October 31, 2020
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value[1]
Securities issued or guaranteed by				
Canadian government	4,302	110	–	4,412
Canadian provincial and municipal governments	4,013	142	(1)	4,154
U.S. Treasury, other U.S. agencies and other foreign governments	2,430	19	–	2,449
Other debt securities	1,051	42	(1)	1,092
Equity securities	633	13	(27)	619
	12,429	326	(29)	12,726

(1) The allowances for credit losses on securities at fair value through other comprehensive income, representing an amount of $2 million as at January 31, 2021 ($3 million as at October 31, 2020), are reported in *Other comprehensive income*. For additional information, see Note 7 to these consolidated financial statements.

Equity Securities Designated at Fair Value Through Other Comprehensive Income

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

During the quarter ended January 31, 2021, an amount of $3 million in dividend income was recognized for these investments ($4 million for the quarter ended January 31, 2020), including negligible amounts in dividend income for investments that were sold during the quarters ended January 31, 2021 and 2020.

			Quarter ended January 31, 2021			Quarter ended January 31, 2020
	Equity securities of private companies	Equity securities of public companies	Total	Equity securities of private companies	Equity securities of public companies	Total
Fair value at beginning	373	246	619	362	260	622
Change in fair value	–	37	37	–	16	16
Designated at fair value through other comprehensive income	–	7	7	–	31	31
Sales[1]	–	(12)	(12)	–	(54)	(54)
Fair value at end	373	278	651	362	253	615

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

(unaudited) (millions of Canadian dollars)

Note 6 – Securities (cont.)

Securities at Amortized Cost

	As at January 31, 2021	As at October 31, 2020
Securities issued or guaranteed by		
Canadian government	5,823	6,163
Canadian provincial and municipal governments	2,254	2,353
U.S. Treasury, other U.S. agencies and other foreign governments	1	21
Other debt securities	3,079	2,543
Gross carrying value	11,157	11,080
Allowances for credit losses	1	1
Carrying value	11,156	11,079

Gains (Losses) on Disposals of Securities at Amortized Cost

During the quarter ended January 31, 2021, the Bank sold certain debt securities measured at amortized cost. The carrying value of these securities upon disposal was $143 million for quarter ended January 31, 2021 and the Bank had recognized negligible gains in *Non-interest income – Gains (losses) on non-trading securities, net* in the Consolidated Statement of Income. During the quarter ended January 31, 2020, the Bank did not dispose of any securities measured at amortized cost.

Note 7 – Loans and Allowances for Credit Losses

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 between initial recognition and the reporting date 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 at the reporting date, 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.

For additional information, see Notes 1 and 7 to the audited annual consolidated financial statements for the year ended October 31, 2020.

Credit Quality of Loans

The following tables present the gross carrying amounts of loans as at January 31, 2021 and as at October 31, 2020, 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 Internal Default Risk Ratings table on page 80 in the Credit Risk section of the *2020 Annual Report*.

(unaudited) (millions of Canadian dollars)

						As at January 31, 2021
	Non-impaired loans[1]		Impaired loans		Loans at fair value through profit or loss[2]	
	Stage 1	Stage 2	Stage 3	POCI		Total
Residential mortgage						
Excellent	26,161	3	–	–	–	26,164
Good	15,660	41	–	–	–	15,701
Satisfactory	9,402	993	–	–	–	10,395
Special mention	535	301	–	–	–	836
Substandard	223	168	–	–	–	391
Default	–	–	114	–	–	114
AIRB approach	51,981	1,506	114	–	–	53,601
Standardized approach	5,068	27	44	467	7,620	13,226
Gross carrying amount	57,049	1,533	158	467	7,620	66,827
Allowances for credit losses[3]	60	28	31	(48)	–	71
Carrying amount	56,989	1,505	127	515	7,620	66,756
Personal						
Excellent	14,846	25	–	–	–	14,871
Good	10,473	811	–	–	–	11,284
Satisfactory	4,967	1,723	–	–	–	6,690
Special mention	321	623	–	–	–	944
Substandard	97	171	–	–	–	268
Default	–	–	120	–	–	120
AIRB approach	30,704	3,353	120	–	–	34,177
Standardized approach	3,243	45	18	255	–	3,561
Gross carrying amount	33,947	3,398	138	255	–	37,738
Allowances for credit losses[3]	78	135	69	(6)	–	276
Carrying amount	33,869	3,263	69	261	–	37,462
Credit card						
Excellent	294	–	–	–	–	294
Good	259	–	–	–	–	259
Satisfactory	636	19	–	–	–	655
Special mention	338	183	–	–	–	521
Substandard	26	66	–	–	–	92
Default	–	–	–	–	–	–
AIRB approach	1,553	268	–	–	–	1,821
Standardized approach	25	–	–	–	–	25
Gross carrying amount	1,578	268	–	–	–	1,846
Allowances for credit losses[3]	48	123	–	–	–	171
Carrying amount	1,530	145	–	–	–	1,675
Business and government[4]						
Excellent	4,671	–	–	–	278	4,949
Good	20,422	17	–	–	163	20,602
Satisfactory	21,492	7,751	–	–	66	29,309
Special mention	203	1,817	–	–	–	2,020
Substandard	97	261	–	–	–	358
Default	–	–	388	–	–	388
AIRB approach	46,885	9,846	388	–	507	57,626
Standardized approach	4,558	147	73	–	24	4,802
Gross carrying amount	51,443	9,993	461	–	531	62,428
Allowances for credit losses[3]	130	244	257	–	–	631
Carrying amount	51,313	9,749	204	–	531	61,797
Total loans						
Gross carrying amount	144,017	15,192	757	722	8,151	168,839
Allowances for credit losses[3]	316	530	357	(54)	–	1,149
Carrying amount	143,701	14,662	400	776	8,151	167,690

(1) In response to the COVID-19 pandemic, the Bank has approved certain payment deferrals for all types of loans. As at January 31, 2021, the gross carrying value of loans for which deferrals have been approved totalled $309 million for residential mortgages and $349 million for business and government loans. These loans are presented in the stage in which they were positioned immediately prior to application of the payment deferral.
(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 7 – Loans and Allowances for Credit Losses (cont.)

As at October 31, 2020

	Non-impaired loans[1]		Impaired loans		Loans at fair value through profit or loss[2]	
	Stage 1	Stage 2	Stage 3	POCI		Total
Residential mortgage						
Excellent	23,139	29	–	–	–	23,168
Good	15,753	108	–	–	–	15,861
Satisfactory	10,418	741	–	–	–	11,159
Special mention	730	299	–	–	–	1,029
Substandard	283	174	–	–	–	457
Default	–	–	149	–	–	149
AIRB approach	50,323	1,351	149	–	–	51,823
Standardized approach	4,993	31	44	531	7,537	13,136
Gross carrying amount	55,316	1,382	193	531	7,537	64,959
Allowances for credit losses[3]	63	23	35	(56)	–	65
Carrying amount	55,253	1,359	158	587	7,537	64,894
Personal						
Excellent	15,072	40	–	–	–	15,112
Good	9,680	1,039	–	–	–	10,719
Satisfactory	4,395	2,024	–	–	–	6,419
Special mention	300	696	–	–	–	996
Substandard	116	185	–	–	–	301
Default	–	–	140	–	–	140
AIRB approach	29,563	3,984	140	–	–	33,687
Standardized approach	3,532	48	22	324	–	3,926
Gross carrying amount	33,095	4,032	162	324	–	37,613
Allowances for credit losses[3]	87	145	76	(10)	–	298
Carrying amount	33,008	3,887	86	334	–	37,315
Credit card						
Excellent	385	–	–	–	–	385
Good	307	–	–	–	–	307
Satisfactory	660	28	–	–	–	688
Special mention	335	205	–	–	–	540
Substandard	29	64	–	–	–	93
Default	–	–	–	–	–	–
AIRB approach	1,716	297	–	–	–	2,013
Standardized approach	25	–	–	–	–	25
Gross carrying amount	1,741	297	–	–	–	2,038
Allowances for credit losses[3]	45	124	–	–	–	169
Carrying amount	1,696	173	–	–	–	1,869
Business and government[4]						
Excellent	4,732	–	–	–	289	5,021
Good	21,380	10	–	–	163	21,553
Satisfactory	19,421	7,037	–	–	73	26,531
Special mention	218	1,915	–	–	–	2,133
Substandard	10	246	–	–	–	256
Default	–	–	361	–	–	361
AIRB approach	45,761	9,208	361	–	525	55,855
Standardized approach	5,122	163	101	–	47	5,433
Gross carrying amount	50,883	9,371	462	–	572	61,288
Allowances for credit losses[3]	135	250	241	–	–	626
Carrying amount	50,748	9,121	221	–	572	60,662
Total loans						
Gross carrying amount	141,035	15,082	817	855	8,109	165,898
Allowances for credit losses[3]	330	542	352	(66)	–	1,158
Carrying amount	140,705	14,540	465	921	8,109	164,740

(1) In response to the COVID-19 pandemic, the Bank has approved certain payment deferrals for all types of loans. As at October 31, 2020, the gross carrying value of loans for which deferrals have been approved had totalled $695 million for residential mortgages and $1,182 million for business and government loans. These loans are presented in the stage in which they had been positioned immediately prior to application of the payment deferral.
(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)

The following table presents the credit risk exposures of off-balance-sheet commitments as at January 31, 2021 and as at October 31, 2020 according to credit quality and ECL impairment stage.

	As at January 31, 2021				As at October 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Off-balance-sheet commitments[1]								
Retail								
Excellent	**15,642**	**24**	**–**	**15,666**	15,255	43	–	15,298
Good	**4,181**	**254**	**–**	**4,435**	3,967	309	–	4,276
Satisfactory	**1,332**	**234**	**–**	**1,566**	1,273	255	–	1,528
Special mention	**89**	**65**	**–**	**154**	84	69	–	153
Substandard	**4**	**12**	**–**	**16**	4	12	–	16
Default	**–**	**–**	**3**	**3**	–	–	3	3
Non-retail								
Excellent	**11,034**	**–**	**–**	**11,034**	10,616	–	–	10,616
Good	**17,191**	**299**	**–**	**17,490**	17,442	343	–	17,785
Satisfactory	**5,789**	**4,135**	**–**	**9,924**	5,013	3,450	–	8,463
Special mention	**22**	**363**	**–**	**385**	28	324	–	352
Substandard	**33**	**80**	**–**	**113**	2	84	–	86
Default	**–**	**–**	**9**	**9**	–	–	6	6
AIRB approach	**55,317**	**5,466**	**12**	**60,795**	53,684	4,889	9	58,582
Standardized approach	**10,126**	**3**	**1**	**10,130**	10,335	5	1	10,341
Total exposure	**65,443**	**5,469**	**13**	**70,925**	64,019	4,894	10	68,923
Allowances for credit losses	**116**	**80**	**–**	**196**	115	61	–	176
Total exposure, net of allowances	**65,327**	**5,389**	**13**	**70,729**	63,904	4,833	10	68,747

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

Loans Past Due But Not Impaired[1]

	As at January 31, 2021[2]				As at October 31, 2020[2]			
	Residential mortgage	**Personal**	**Credit card**	**Business and government**[3]	Residential mortgage	Personal	Credit card	Business and government[3]
Past due but not impaired								
31 to 60 days	**49**	**57**	**18**	**47**	58	74	20	22
61 to 90 days	**18**	**25**	**10**	**12**	24	27	9	10
Over 90 days[4]	**–**	**–**	**25**	**–**	–	–	24	–
	67	**82**	**53**	**59**	82	101	53	32

(1) Loans less than 31 days past due are not presented as they are not considered past due from an administrative standpoint.
(2) In response to the COVID-19 pandemic, the Bank has approved certain payment deferrals for all types of loans. These loans are presented in the loan category in which they were positioned immediately prior to the application of the payment deferral.
(3) Includes customers' liability under acceptances.
(4) All loans more than 90 days past due, except for credit card receivables, are considered impaired (Stage 3).

Impaired Loans

	As at January 31, 2021			As at October 31, 2020		
	Gross	**Allowances for credit losses**	**Net**	Gross	Allowances for credit losses	Net
Loans – Stage 3						
Residential mortgage	**158**	**31**	**127**	193	35	158
Personal	**138**	**69**	**69**	162	76	86
Credit card[1]	**–**	**–**	**–**	–	–	–
Business and government[2]	**461**	**257**	**204**	462	241	221
	757	**357**	**400**	817	352	465
POCI loans	**722**	**(54)**	**776**	855	(66)	921
	1,479	**303**	**1,176**	1,672	286	1,386

(1) Credit card receivables are considered impaired, at the latest, when payment is 180 days past due, and they are written off at that time.
(2) Includes customers' liability under acceptances.

(unaudited) (millions of Canadian dollars)

Note 7 – 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 type of off-balance-sheet commitment.

						Quarter ended January 31, 2021
	Allowances for credit losses as at October 31, 2020	Provisions for credit losses	Write-offs[1]	Disposals	Recoveries and other	Allowances for credit losses as at January 31, 2021
Balance sheet						
Cash and deposits with financial institutions[2][3]	5	1	–	–	–	6
Securities[3]						
At fair value through other comprehensive income[4]	3	(1)	–	–	–	2
At amortized cost[2]	1	–	–	–	–	1
Securities purchased under reverse repurchase agreements and securities borrowed[2][3]	–	–	–	–	–	–
Loans[5]						
Residential mortgage	65	8	(1)	–	(1)	71
Personal	298	7	(24)	(7)	2	276
Credit card	169	12	(15)	–	5	171
Business and government	533	38	(27)	–	(2)	542
Customers' liability under acceptances	93	(4)	–	–	–	89
	1,158	61	(67)	(7)	4	1,149
Other assets[2][3]	–	–	–	–	–	–
Off-balance-sheet commitments[6]						
Letters of guarantee and documentary letters of credit	15	–	–	–	–	15
Undrawn commitments	157	20	–	–	–	177
Backstop liquidity and credit enhancement facilities	4	–	–	–	–	4
	176	20	–	–	–	196
	1,343	81	(67)	(7)	4	1,354

						Quarter ended January 31, 2020
	Allowances for credit losses as at October 31, 2019	Provisions for credit losses	Write-offs[1]	Disposals	Recoveries and other	Allowances for credit losses as at January 31, 2020
Balance sheet						
Cash and deposits with financial institutions[2][3]	2	–	–	–	–	2
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	21	7	(2)	–	–	26
Personal	232	26	(35)	–	6	229
Credit card	128	26	(27)	–	3	130
Business and government	268	27	(21)	–	1	275
Customers' liability under acceptances	29	4	–	–	–	33
	678	90	(85)	–	10	693
Other assets[2][3]	–	–	–	–	–	–
Off-balance-sheet commitments[6]						
Letters of guarantee and documentary letters of credit	6	–	–	–	–	6
Undrawn commitments	66	(1)	–	–	–	65
Backstop liquidity and credit enhancement facilities	2	–	–	–	–	2
	74	(1)	–	–	–	73
	755	89	(85)	–	10	769

(1) The contractual amount outstanding on financial assets that were written off during the quarter ended January 31, 2021 and that are still subject to enforcement activity was $29 million ($43 million for the quarter ended January 31, 2020).
(2) These financial assets are presented net of the allowances for credit losses on the Consolidated Balance Sheet.
(3) As at January 31, 2021 and 2020, these financial assets were mainly classified in Stage 1 and their credit quality fell mostly within the *Excellent* category.
(4) The allowances for credit losses are reported in the *Accumulated other comprehensive income* item of 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 January 31, 2021					Quarter ended January 31, 2020				
	Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans			Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans		
	Stage 1	Stage 2	Stage 3	POCI[1]	Total	Stage 1	Stage 2	Stage 3	POCI[1]	Total
Residential mortgage										
Balance at beginning	63	23	35	(56)	65	37	12	25	(53)	21
Originations or purchases	2	–	–	–	2	2	–	–	–	2
Transfers[2]:										
to Stage 1	8	(4)	(4)	–	–	4	(3)	(1)	–	–
to Stage 2	(1)	1	–	–	–	(1)	1	–	–	–
to Stage 3	–	–	–	–	–	–	(1)	1	–	–
Net remeasurement of loss allowances[3]	(10)	9	2	6	7	(2)	4	3	1	6
Derecognitions[4]	–	(1)	–	–	(1)	–	(1)	–	–	(1)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	(1)	5	(2)	6	8	3	–	3	1	7
Write-offs	–	–	(1)	–	(1)	–	–	(2)	–	(2)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	1	–	1	–	–	–	–	–
Foreign exchange movements and other	(2)	–	(2)	2	(2)	1	–	(1)	–	–
Balance at end	60	28	31	(48)	71	41	12	25	(52)	26
Includes:										
Amounts drawn	60	28	31	(48)	71	41	12	25	(52)	26
Undrawn commitments[5]	–	–	–	–	–	–	–	–	–	–
Personal										
Balance at beginning	89	148	76	(10)	303	65	104	69	(4)	234
Originations or purchases	8	–	–	–	8	11	–	–	–	11
Transfers[2]:										
to Stage 1	26	(23)	(3)	–	–	23	(21)	(2)	–	–
to Stage 2	(3)	4	(1)	–	–	(5)	6	(1)	–	–
to Stage 3	–	(8)	8	–	–	(2)	(17)	19	–	–
Net remeasurement of loss allowances[3]	(30)	23	9	4	6	(30)	35	18	(2)	21
Derecognitions[4]	(3)	(4)	–	–	(7)	(2)	(3)	(1)	–	(6)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	(2)	(8)	13	4	7	(5)	–	33	(2)	26
Write-offs	–	–	(24)	–	(24)	–	–	(35)	–	(35)
Disposals	(6)	(1)	–	–	(7)	–	–	–	–	–
Recoveries	–	–	5	–	5	–	–	7	–	7
Foreign exchange movements and other	(1)	(1)	(1)	–	(3)	–	–	(1)	–	(1)
Balance at end	80	138	69	(6)	281	60	104	73	(6)	231
Includes:										
Amounts drawn	78	135	69	(6)	276	59	103	73	(6)	229
Undrawn commitments[5]	2	3	–	–	5	1	1	–	–	2

(1) No POCI loan was acquired during the quarters ended January 31, 2021 and 2020.
(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 7 – Loans and Allowances for Credit Losses (cont.)

	Quarter ended January 31, 2021					Quarter ended January 31, 2020				
	Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans			Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans		
	Stage 1	Stage 2	Stage 3	POCI[1]	Total	Stage 1	Stage 2	Stage 3	POCI[1]	Total
Credit card										
Balance at beginning	68	137	–	–	205	47	113	–	–	160
Originations or purchases	2	–	–	–	2	2	–	–	–	2
Transfers[2]:										
to Stage 1	29	(29)	–	–	–	25	(25)	–	–	–
to Stage 2	(3)	3	–	–	–	(4)	4	–	–	–
to Stage 3	–	(7)	7	–	–	–	(10)	10	–	–
Net remeasurement of loss allowances[3]	(23)	30	3	–	10	(23)	33	14	–	24
Derecognitions[4]	(1)	–	–	–	(1)	(1)	–	–	–	(1)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	4	(3)	10	–	11	(1)	2	24	–	25
Write-offs	–	–	(15)	–	(15)	–	–	(27)	–	(27)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	5	–	5	–	–	3	–	3
Foreign exchange movements and other	–	–	–	–	–	–	–	–	–	–
Balance at end	72	134	–	–	206	46	115	–	–	161
Includes:										
Amounts drawn	48	123	–	–	171	26	104	–	–	130
Undrawn commitments[5]	24	11	–	–	35	20	11	–	–	31
Business and government[6]										
Balance at beginning	214	287	241	–	742	83	105	141	–	329
Originations or purchases	29	–	–	–	29	7	–	–	–	7
Transfers[2]:										
to Stage 1	6	(5)	(1)	–	–	4	(2)	(2)	–	–
to Stage 2	(24)	25	(1)	–	–	(1)	3	(2)	–	–
to Stage 3	–	(5)	5	–	–	–	(9)	9	–	–
Net remeasurement of loss allowances[3]	(10)	6	44	–	40	(2)	14	20	–	32
Derecognitions[4]	(6)	(5)	(3)	–	(14)	(3)	(2)	(3)	–	(8)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	(5)	16	44	–	55	5	4	22	–	31
Write-offs	–	–	(27)	–	(27)	–	–	(21)	–	(21)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	1	–	1	–	–	1	–	1
Foreign exchange movements and other	–	(1)	(2)	–	(3)	–	–	–	–	–
Balance at end	209	302	257	–	768	88	109	143	–	340
Includes:										
Amounts drawn	130	244	257	–	631	62	103	143	–	308
Undrawn commitments[5]	79	58	–	–	137	26	6	–	–	32
Total allowances for credit losses at end[7]	421	602	357	(54)	1,326	235	340	241	(58)	758
Includes:										
Amounts drawn	316	530	357	(54)	1,149	188	322	241	(58)	693
Undrawn commitments[5]	105	72	–	–	177	47	18	–	–	65

(1) No POCI loan was acquired during the quarters ended January 31, 2021 and 2020.
(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)

Main Macroeconomic Factors

The following tables show the main macroeconomic factors used to estimate the allowances for credit losses on loans. For each scenario, namely, the base scenario, upside scenario and downside scenario, the average values of the factors over the next 12 months (used for Stage 1 credit loss calculations) and over the remaining forecast period (used for Stage 2 credit loss calculations) are presented.

						As at January 31, 2021
		Base scenario		Upside scenario		Downside scenario
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Macroeconomic factors[1]						
GDP growth[2]	3.9 %	2.5 %	4.4 %	2.8 %	(5.2) %	3.9 %
Unemployment rate	8.3 %	7.1 %	8.0 %	6.6 %	10.9 %	9.1 %
Housing price index growth[2]	4.0 %	2.3 %	6.0 %	3.9 %	(11.5) %	1.2 %
BBB spread[3]	1.8 %	1.8 %	1.7 %	1.7 %	3.1 %	2.1 %
S&P/TSX growth[2][4]	10.8 %	3.0 %	13.1 %	4.1 %	(17.0) %	5.5 %
WTI oil price[5] *(US$ per barrel)*	47	54	51	64	27	34

						As at October 31, 2020
		Base scenario		Upside scenario		Downside scenario
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Macroeconomic factors[1]						
GDP growth[2]	3.0 %	2.6 %	3.7 %	2.8 %	0.4 %	2.7 %
Unemployment rate	8.9 %	8.0 %	8.4 %	7.3 %	10.4 %	9.8 %
Housing price index growth[2]	(5.2) %	2.4 %	(1.5) %	2.9 %	(9.9) %	(0.1) %
BBB spread[3]	2.0 %	1.9 %	1.8 %	1.8 %	2.9 %	2.4 %
S&P/TSX growth[2][4]	(1.1) %	3.3 %	6.9 %	3.2 %	(15.6) %	5.1 %
WTI oil price[5] *(US$ per barrel)*	41	54	51	64	26	32

(1) All macroeconomic factors are based on the Canadian economy unless otherwise indicated.
(2) Growth rate is annualized.
(3) Yield on corporate BBB bonds less yield on Canadian federal government bonds with 10-year maturity.
(4) Main stock index in Canada.
(5) The West Texas Intermediate (WTI) index is commonly used as a benchmark for the price of oil.

The main macroeconomic factors used for the personal credit portfolio are unemployment rate and growth in the housing price index, based on the economy of Canada or Quebec. The main macroeconomic factors used for the business and government credit portfolio are unemployment rate, BBB spread, S&P/TSX growth, and WTI oil price.

An increase in unemployment rate or spread on corporate BBB bonds will generally correlate with higher allowances for credit losses, whereas an increase in the other macroeconomic factors (GDP, S&P/TSX, housing price index and WTI oil price) will generally correlate with lower allowances for credit losses.

(unaudited) (millions of Canadian dollars)

Note 7 – Loans and Allowances for Credit Losses (cont.)

Macroeconomic factors changed during the quarter ended January 31, 2021.

In the base scenario, the Canadian economy will continue to recover as the introduction of several COVID-19 vaccines on the market make it possible to gradually relax the public health measures. Nonetheless, the unemployment rate will be 7.9% at the end of 2021, which is still significantly above the pre-recession level (5.7%). Housing prices will rise more slowly at an annual rate of 4%. The S&P/TSX will end 2021 at 18,500 points and the price of oil at US$50.

In the upside scenario, the economy will rebound more strongly due to quick and effective vaccination campaigns. Very accommodative fiscal and monetary stimulus measures will make it possible to limit the damage arising from destroyed production capacity. The unemployment rate of 7.4% at year-end 2021 will be more favourable than in the base scenario. Housing prices will increase by 6%, the S&P/TSX will end 2021 at 18,900 points and the price of oil at US$55.

According to the downside scenario, a rise in the number of COVID-19 cases and delays in the rollout of vaccines will cause increased stress in the financial markets. This will cause the economy to falter and to slip into recession again. Unemployment will trend upward again, reaching 11.7% at the end of 2021. Housing prices will decrease considerably. The S&P/TSX will end 2021 at 13,900 points and the price of oil at US$24.

Given uncertainty surrounding these key inputs used to measure credit losses, the Bank has applied expert credit judgment to adjust the modelled ECL results.

Sensitivity Analysis of Allowances for Credit Losses on Non-Impaired Loans

Scenarios

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired loans (Stages 1 and 2) as at January 31, 2021 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

	Allowances for credit losses on non-impaired loans
Balance as at January 31, 2021	**1,023**
Simulations	
100% upside scenario	**897**
100% base scenario	**927**
100% downside scenario	**1,223**

(unaudited) (millions of Canadian dollars)

Note 8 – Financial Assets Transferred But Not Derecognized

In the normal course of its 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. For additional information on the nature of those transactions, see Note 8 to the audited annual consolidated financial statements for the year ended October 31, 2020.

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

	As at January 31, 2021	As at October 31, 2020
Carrying value of financial assets transferred but not derecognized		
Securities[1]	71,764	61,599
Residential mortgages	20,818	20,731
	92,582	82,330
Carrying value of associated liabilities[2]	47,617	45,781
Fair value of financial assets transferred but not derecognized		
Securities[1]	71,764	61,599
Residential mortgages	21,261	21,252
	93,025	82,851
Fair value of associated liabilities[2]	47,947	46,120

(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 and excludes bearer deposit notes issued by the Bank and covered bonds issued by the Bank.

(2) Associated liabilities include liabilities related to transferred receivables and obligations related to securities sold under repurchase agreements before the offsetting impact of $4,153 million as at January 31, 2021 ($959 million as at October 31, 2020) excluding repurchase agreements guaranteed by bearer deposit notes issued by the Bank and covered bonds issued by the Bank. 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 $4,923 million as at January 31, 2021 ($6,327 million as at October 31, 2020).

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

	As at January 31, 2021	As at October 31, 2020
Carrying value of financial assets transferred but not derecognized		
Securities backed by insured residential mortgage loans and other securities sold to Canada Housing Trust	22,093	21,211
Securities sold under repurchase agreements	26,755	25,442
Securities loaned	43,734	35,677
	92,582	82,330

(unaudited) (millions of Canadian dollars)

Note 9 – Other Assets

	As at January 31, 2021	As at October 31, 2020
Receivables, prepaid expenses and other items	**1,040**	946
Interest and dividends receivable	**602**	567
Due from clients, dealers and brokers	**1,008**	586
Defined benefit asset	**287**	126
Deferred tax assets	**588**	643
Current tax assets	**318**	360
Reinsurance assets	**30**	30
Insurance assets	**11**	8
	3,884	3,266

Note 10 – Deposits

				As at January 31, 2021	As at October 31, 2020
	On demand(1)	After notice(2)	Fixed term(3)	Total	Total
Personal	**5,868**	**33,668**	**29,023**	**68,559**	67,499
Business and government	**54,184**	**28,305**	**71,456**	**153,945**	143,787
Deposit-taking institutions	**1,939**	**691**	**2,543**	**5,173**	4,592
	61,991	**62,664**	**103,022**	**227,677**	215,878

(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.
(2) Notice deposits are deposits for which the Bank may legally require notice of withdrawal and consist mainly of deposits in savings accounts.
(3) Fixed-term deposits are deposits that can be withdrawn by the holder on a specified date and include term deposits, guaranteed investment certificates, savings accounts and plans, covered bonds and similar instruments.

The *Deposits – Business and government* item includes, among other items, covered bonds, the balance of which was $9.7 billion as at January 31, 2021 ($10.1 billion as at October 31, 2020). During the quarter ended January 31, 2021, an amount of US$270 million of covered bonds came to maturity (no transaction during the quarter ended January 31, 2020). For additional information on covered bonds, see Note 27 to the audited annual consolidated financial statements for the year ended October 31, 2020.

In addition, as at January 31, 2021, the *Deposits – Business and government* item also includes deposits of $9.7 billion ($8.4 billion as at October 31, 2020) that are subject to the bank bail-in conversion regulations issued by the Government of Canada. These regulations provide certain powers to the Canada Deposit Insurance Corporation (CDIC), notably the power to convert certain eligible Bank shares and liabilities into common shares should the Bank become non-viable.

Note 11 – Other Liabilities

	As at January 31, 2021	As at October 31, 2020
Accounts payable and accrued expenses	**1,640**	1,993
Subsidiaries' debts to third parties	**468**	386
Interest and dividends payable	**551**	621
Lease liabilities	**608**	628
Due to clients, dealers and brokers	**626**	652
Defined benefit liability	**156**	201
Allowances for credit losses – off-balance-sheet commitments (Note 7)	**196**	176
Deferred tax liabilities	**19**	–
Current tax liabilities	**131**	121
Insurance liabilities	**6**	–
Other items(1)(2)(3)	**759**	940
	5,160	5,718

(1) As at January 31, 2021, *Other* items included an $8 million litigation provision ($7 million as at October 31, 2020).
(2) As at January 31, 2021, *Other* items included $33 million provisions for onerous contracts ($33 million as at October 31, 2020).
(3) As at October 31, 2020, *Other* items included the financial liability resulting from put options written to non-controlling interests of Credigy Ltd. who exercised their options on December 15, 2020. For more information, see Note 18 to these consolidated financial statements.

(unaudited) (millions of Canadian dollars)

Note 12 – Share Capital and Other Equity Instruments

Shares and Other Equity Instruments Outstanding

	As at January 31, 2021		As at October 31, 2020	
	Number of shares or LRCN	Shares or LRCN $	Number of shares or LRCN	Shares or LRCN $
First Preferred Shares				
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	12,000,000	300
Series 42	12,000,000	300	12,000,000	300
	98,000,000	2,450	98,000,000	2,450
Other equity instruments				
Limited Recourse Capital Notes (LRCN) – Series 1	500,000	500	500,000	500
Preferred shares and other equity instruments	98,500,000	2,950	98,500,000	2,950
Common shares at beginning of fiscal year	335,997,660	3,057	334,172,411	2,949
Issued pursuant to the Stock Option Plan	802,093	39	2,318,926	111
Repurchases of common shares for cancellation	–	–	(525,000)	(5)
Impact of shares purchased or sold for trading[1]	(29,442)	(2)	31,323	2
Common shares at end of period	336,770,311	3,094	335,997,660	3,057

(1) As at January 31, 2021, a total of 1,965 shares were held for trading, representing a negligible amount (27,477 shares were sold short for trading representing $2 million as at October 31, 2020).

Dividends Declared and Distributions on Other Equity Instruments Capital Note

	Quarter ended January 31			
	2021		2020	
	Dividends or interest $	Dividends per share	Dividends $	Dividends per share
First Preferred Shares				
Series 30	3	0.2516	3	0.2516
Series 32	3	0.2399	3	0.2438
Series 34	6	0.3500	6	0.3500
Series 36	5	0.3375	5	0.3375
Series 38	5	0.2781	5	0.2781
Series 40	3	0.2875	3	0.2875
Series 42	4	0.3094	4	0.3094
	29		29	
Other equity instruments				
LRCN – Series 1[1]	5			
	34		29	
Common shares	239	0.7100	238	0.7100
	273		267	

(1) The LRCN – Series 1 bear interest at a fixed rate of 4.3% per annum.

Reserved Common Shares

As at January 31, 2021, there were 15,507,568 common shares reserved under the Dividend Reinvestment and Share Purchase Plan (15,507,568 as at October 31, 2020). As at January 31, 2021, there were 16,563,612 common shares (17,365,705 as at October 31, 2020) reserved under the Stock Option Plan.

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. As at January 31, 2021, the number of common shares held in escrow was 21,510 (21,510 as at October 31, 2020). The Bank expects that the remaining shares in escrow will be settled by the end of calendar year 2021.

(unaudited) (millions of Canadian dollars)

Note 13 – Capital Disclosure

The Bank and all other major Canadian banks have to maintain minimum capital ratios established by OSFI: a CET1 capital ratio of at least 9.0%, a Tier 1 capital ratio of at least 10.5%, and a Total capital ratio of at least 12.5%. All of these ratios are to include a capital conservation buffer of 2.5% established by the Basel Committee on Banking Supervision and OSFI as well as a 1.0% surcharge applicable solely to Domestic Systemically Important Banks (D-SIBs), and a 1.0% domestic stability buffer. The domestic stability buffer, which can vary from 0% to 2.5% of risk-weighted assets, consists exclusively of CET1 capital. A D-SIB that fails to meet this buffer requirement will not be subject to automatic constraints to reduce capital distributions but will have to provide a remediation plan to OSFI. On December 8, 2020, OSFI confirmed that the buffer is maintained at 1.0%. The banks also have to meet the capital floor that sets the regulatory capital level according to the Basel II standardized approach. If the capital requirement under Basel III is less than 70% of the capital requirements as calculated under Basel II, the difference is added to risk-weighted assets. OSFI requires Canadian banks to meet a Basel III leverage ratio of at least 3.0%.

During the quarter ended January 31, 2021, the Bank was in compliance with all of OSFI's regulatory capital requirements.

Regulatory Capital and Ratios Under Basel III

	As at January 31, 2021		As at October 31, 2020	
	Adjusted(1)		Adjusted(1)	
Capital				
CET1	**11,392**	**11,563**	10,924	11,167
Tier 1	**14,341**	**14,512**	13,869	14,112
Total	**15,589**	**15,589**	15,167	15,167
Risk-weighted assets	**97,183**	**97,183**	94,808	94,808
Total exposure	**334,013**	**334,013**	321,038	321,038
Capital ratios				
CET1	**11.7 %**	**11.9 %**	11.5 %	11.8 %
Tier 1	**14.8 %**	**14.9 %**	14.6 %	14.9 %
Total	**16.0 %**	**16.0 %**	16.0 %	16.0 %
Leverage ratio	**4.3 %**	**4.3 %**	4.3 %	4.4 %

(1) The adjusted Basel III regulatory capital and ratios do not include the transitional measure applicable to expected credit loss provisioning. For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*.

(unaudited) (millions of Canadian dollars)

Note 14 – Share-Based Payments

Stock Option Plan

During the quarter ended January 31, 2021, the Bank awarded 2,043,196 stock options (1,789,280 stock options during the quarter ended January 31, 2020) with an average fair value of $8.24 per option ($5.11 in 2020).

As at January 31, 2021, there were 12,623,271 stock options outstanding (11,425,403 stock options as at October 31, 2020).

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

	Quarter ended January 31	
	2021	2020
Risk-free interest rate	**1.02%**	1.94%
Expected life of options	**7 years**	7 years
Expected volatility	**22.59%**	14.97%
Expected dividend yield	**4.24%**	4.29%

During the quarter ended January 31, 2021, a $3 million compensation expense was recorded for this plan ($2 million for the quarter ended January 31, 2020).

Note 15 – Employee Benefits – Pension Plans and Other Post-Employment Benefits

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

Cost for Pension Plans and Other Post-Employment Benefit Plans

	Quarter ended January 31			
	Pension plans		Other post-employment benefit plans	
	2021	2020	**2021**	2020
Current service cost	**36**	32	**–**	–
Interest expense (income), net	**–**	2	**1**	1
Administrative expenses	**1**	1		
Expense recognized in *Net income*	**37**	35	**1**	1
Remeasurements(1)				
Actuarial (gains) losses on defined benefit obligation	**(40)**	290	**(1)**	8
Return on plan assets(2)	**(138)**	(213)		
Remeasurements recognized in *Other comprehensive income*	**(178)**	77	**(1)**	8
	(141)	112	**–**	9

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

Note 16 – 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 the redemption of preferred shares.

	Quarter ended January 31	
	2021	2020
Basic earnings per share		
Net income attributable to the Bank's shareholders and holders of other equity instruments	**761**	594
Dividends on preferred shares and distributions on LRCNs	**33**	29
Net income attributable to common shareholders	**728**	565
Weighted average basic number of common shares outstanding *(thousands)*	**336,408**	335,020
Basic earnings per share *(dollars)*	**2.16**	1.69
Diluted earnings per share		
Net income attributable to common shareholders	**728**	565
Weighted average basic number of common shares outstanding *(thousands)*	**336,408**	335,020
Adjustment to average number of common shares *(thousands)*		
Stock options[1]	**2,209**	3,091
Weighted average diluted number of common shares outstanding *(thousands)*	**338,617**	338,111
Diluted earnings per share *(dollars)*	**2.15**	1.67

(1) For the quarter ended January 31, 2021, the calculation of diluted earnings per share excluded an average number of 1,752,270 options outstanding with a weighted average exercise price of $71.86 (1,050,230 options outstanding with a weighted average exercise price of $71.86 for the quarter ended January 31, 2020), as the exercise price of these options was greater than the average price of the Bank's common shares.

(unaudited) (millions of Canadian dollars)

Note 17 – 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, advisors 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 corporate banking and investment banking and financial solutions for large and mid-size corporations, public sector organizations, and institutional investors.

U.S. Specialty Finance and International (USSF&I)
The USSF&I segment encompasses the specialty finance expertise provided by the Credigy subsidiary; the activities of the ABA Bank subsidiary, 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, liquidity management, Bank funding, asset/liability management activities, certain specified items and the unallocated portion of corporate units.

Quarter ended January 31[1]

	Personal and Commercial		Wealth Management		Financial Markets		USSF&I		Other		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Net interest income[2]	**638**	611	**110**	119	**327**	120	**219**	181	**(87)**	(101)	**1,207**	930
Non-interest income[2]	**264**	268	**409**	347	**250**	338	**55**	14	**39**	26	**1,017**	993
Total revenues	**902**	879	**519**	466	**577**	458	**274**	195	**(48)**	(75)	**2,224**	1,923
Non-interest expenses[3]	**490**	479	**303**	285	**228**	200	**83**	78	**76**	49	**1,180**	1,091
Income before provisions for credit losses and income taxes	**412**	400	**216**	181	**349**	258	**191**	117	**(124)**	(124)	**1,044**	832
Provisions for credit losses	**56**	70	**(2)**	–	**9**	9	**18**	10	**–**	–	**81**	89
Income before income taxes (recovery)	**356**	330	**218**	181	**340**	249	**173**	107	**(124)**	(124)	**963**	743
Income taxes (recovery)[2]	**94**	88	**58**	48	**90**	66	**37**	22	**(77)**	(91)	**202**	133
Net income	**262**	242	**160**	133	**250**	183	**136**	85	**(47)**	(33)	**761**	610
Non-controlling interests	**–**	–	**–**	–	**–**	–	**–**	9	**–**	7	**–**	16
Net income attributable to the Bank's shareholders and holders of other equity instruments	**262**	242	**160**	133	**250**	183	**136**	76	**(47)**	(40)	**761**	594
Average assets	**121,877**	115,946	**6,537**	5,943	**151,197**	121,612	**15,545**	12,494	**62,957**	45,516	**358,113**	301,511

(1) For the quarter ended January 31, 2020, certain amounts have been reclassified.
(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 $54 million ($57 million in 2020), *Non-interest income* was grossed up by $3 million ($30 million in 2020), and an equivalent amount was recognized in *Income taxes (recovery)*. The effect of these adjustments is reversed under the *Other* heading.
(3) For the quarter ended January 31, 2020, the *Non-interest expenses* presented in the *Other* heading of segment results included a $13 million charge related to the company Maple Financial Group Inc. (Maple) following the event in December 2019, as described in the Contingent Liabilities section on page 111 of the Bank's *2020 Annual Report*.

Note 18 – Acquisition

On December 15, 2020, the Bank acquired the entire remaining non-controlling interest in the Credigy Ltd. subsidiary following the decision of the non-controlling shareholders to exercise their put options for an amount of $300 million according to an agreement reached in 2013. Following this transaction, Credigy Ltd. became a wholly owned subsidiary of the Bank.

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
Email: *investorrelations@nbc.ca*
Website: nbc.ca/investorrelations

Communications and Corporate Social Responsibility
600 De La Gauchetière Street West, 18th Floor
Montreal, Quebec H3B 4L2
Telephone: 514-394-8644
Email: *pa@nbc.ca*

Quarterly Report Publication Dates for Fiscal 2021
(subject to approval by the Board of Directors of the Bank)

First quarter	February 24
Second quarter	May 28
Third quarter	August 25
Fourth quarter	December 1

Disclosure of First Quarter 2021 Results

Conference Call
- A conference call for analysts and institutional investors will be held on Wednesday, February 24, 2021 at 1:00 p.m. EST.
- Access by telephone in listen-only mode: 1-800-898-3989 or 416-406-0743. The access code is 1995846#.
- A recording of the conference call can be heard until March 24, 2021 by dialing 1-800-408-3053 or 905-694-9451. The access code is 1381684#.

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 and Pillar 3 Disclosure*, and a slide presentation will be available on the Investor Relations page of National Bank's website on the morning of the day of the conference call.

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

Computershare Trust Company of Canada
Share Ownership Management
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1
Telephone: 1-888-838-1407
Fax: 1-888-453-0330
Email: *service@computershare.com*
Website: computershare.com

Shareholders whose shares are held by a market intermediary are asked to contact the market intermediary concerned.

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
National 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 $1 per payment, up to a maximum of $5,000 per quarter.

For additional 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
Dividends paid are "eligible dividends" in accordance with the *Income Tax Act* (Canada).

NATIONAL BANK