Report to Shareholders — Third Quarter 2021

National Bank reports its results for the Third Quarter of 2021

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter and nine-month period ended July 31, 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, August 25, 2021 – For the third quarter of 2021, National Bank is reporting net income of $839 million compared to $602 million in the third quarter of 2020, and its third-quarter diluted earnings per share stood at $2.36 compared to $1.66 in the third quarter of 2020. This growth was driven by increases in total revenues across all of the business segments and by lower provisions for credit losses in third-quarter 2021, mostly due to an improved macroeconomic outlook compared to third-quarter 2020. Income before provisions for credit losses and income taxes(1) totalled $1,038 million in the third quarter of 2021 compared to $894 million in the third quarter of 2020, a 16% increase arising from good performance across all of the business segments.

For the nine-month period ended July 31, 2021, the Bank's net income totalled $2,401 million compared to $1,591 million in the same period of 2020, and its nine-month diluted earnings per share stood at $6.77 compared to $4.34 for the nine-month period ended July 31, 2020. This significant increase was driven by net income growth across all of the business segments, i.e., increases that were notably due to strong revenue growth and to lower provisions for credit losses recorded in the first nine months of fiscal 2021 given a year-over-year improvement in the macroeconomic outlook. Income before provisions for credit losses and income taxes(1) totalled $3,121 million for the nine-month period ended July 31, 2021, an 18% year-over-year increase driven by revenue growth across all of the business segments.

"The Bank's strong performance since the beginning of the fiscal year has continued in the third quarter of 2021. The continued improvement in the economic environment was conducive to growth, as demonstrated by a sustained increase in our revenues," said Louis Vachon, President and Chief Executive Officer of the National Bank of Canada. "We remain focused on our strategic objectives in order to deliver solid returns for our shareholders, while maintaining prudent allowances for credit losses and a high level of capital, " added Mr. Vachon.

Highlights

(millions of Canadian dollars)	Quarter ended July 31			Nine months ended July 31		
	2021	2020	% Change	**2021**	2020	% Change
Net income	**839**	602	39	**2,401**	1,591	51
Diluted earnings per share *(dollars)*	**$ 2.36**	$ 1.66	42	**$ 6.77**	$ 4.34	56
Income before provisions for credit losses and income taxes(1)	**1,038**	894	16	**3,121**	2,641	18
Return on common shareholders' equity(1)	**21.3 %**	17.0 %		**21.5 %**	15.3 %	
Dividend payout ratio	**34.6 %**	46.4 %		**34.6 %**	46.4 %	

	As at July 31, 2021	As at October 31, 2020
CET1 capital ratio under Basel III	**12.2 %**	11.8 %
Leverage ratio under Basel III	**4.4 %**	4.4 %

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

Personal and Commercial

- Net income totalled $330 million in the third quarter of 2021 versus $223 million in the third quarter of 2020, strong growth that was essentially driven by an increase in total revenues and lower provisions for credit losses.
- Income before provisions for credit losses and income taxes[1] totalled $451 million in the third quarter of 2021, up 18% from $383 million in the third quarter of 2020.
- At $937 million, third-quarter total revenues were up $86 million or 10% year over year, due to an increase in net interest income driven by growth in loan and deposit volumes (partly offset by a narrowing of the net interest margin as a result of lower interest rates) and to an increase in non-interest income.
- Compared to a year ago, personal lending grew 10% and commercial lending grew 14%.
- Net interest margin stood at 2.11% in the third quarter of 2021 versus 2.15% in the third quarter of 2020.
- Third-quarter non-interest expenses stood at $486 million, up 4% from the third quarter of 2020.
- Third-quarter provisions for credit losses were down $77 million compared to the third quarter of 2020, a decrease arising from reversals of allowances for credit losses on non-impaired loans and from a decrease in provisions for credit losses on impaired loans.
- At 51.9%, the efficiency ratio[1] improved from 55.0% in the third quarter of 2020.

Wealth Management

- Net income totalled $165 million in the third quarter of 2021, a 30% increase from $127 million in the third quarter of 2020.
- Third-quarter total revenues amounted to $547 million compared to $451 million in third-quarter 2020, a $96 million or 21% year-over-year increase driven mainly by growth in fee-based revenues.
- Third-quarter non-interest expenses stood at $322 million compared to $276 million in the third quarter of 2020, a 17% increase associated with revenue growth.
- At 58.9%, the efficiency ratio[1] improved from 61.2% in the third quarter of 2020.

Financial Markets

- Net income totalled $227 million in the third quarter of 2021, a 21% increase from $188 million in the third quarter of 2020.
- Income before provisions for credit losses and income taxes on a taxable equivalent basis[1] totalled $299 million in the third quarter of 2021, up 1% from $296 million in the third quarter of 2020.
- Third-quarter total revenues on a taxable equivalent basis[1] amounted to $520 million, a $17 million or 3% year-over-year increase arising from corporate and investment banking revenues.
- Third-quarter non-interest expenses stood at $221 million compared to $207 million in the third quarter of 2020, an increase that was partly attributable to compensation and employee benefits as well as to operations support charges.
- Given a more favourable macroeconomic outlook, recoveries of credit losses amounted to $10 million in the third quarter of 2021, whereas in the third quarter of 2020, $41 million in provisions for credit losses had been recorded.
- At 42.5%, the third-quarter efficiency ratio on a taxable equivalent basis[1] compares to 41.2% in the third quarter of 2020.

U.S. Specialty Finance and International

- Net income totalled $161 million in the third quarter of 2021 versus $87 million in the third quarter of 2020, for a strong 85% year-over-year increase driven by growth in total revenues and a decrease in the Credigy subsidiary's provisions for credit losses.
- Income before provisions for credit losses and income taxes[1] totalled $169 million in the third quarter of 2021, up 29% from $131 million in the third quarter of 2020.
- Third-quarter total revenues amounted to $248 million, an 18% year-over-year increase driven by revenue growth at both the Credigy and the ABA Bank subsidiaries.
- Third-quarter non-interest expenses stood at $79 million, unchanged from the third quarter of 2020.
- Recoveries of credit losses amounted to $35 million in the third quarter of 2021, of which $45 million came from the Credigy subsidiary, attributable to improved macroeconomic factors in the United States and to a remeasurement of certain portfolios of purchased or originated credit-impaired loans.
- At 31.9%, the third-quarter efficiency ratio[1] improved by 5.7 percentage points compared to the same quarter in 2020.

Other

- For the *Other* heading of segment results, there was a net loss of $44 million in the third quarter of 2021 compared to a net loss of $23 million in the third quarter of 2020. An increase in non-interest expenses associated with variable compensation was partly offset by an increase in total revenues.

Capital Management

- As at July 31, 2021, the Common Equity Tier 1 (CET1) capital ratio under Basel III stood at 12.2%, up from 11.8% as at October 31, 2020.
- As at July 31, 2021, the Basel III leverage ratio was 4.4%, unchanged from 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

August 24, 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 and nine-month period ended July 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 and nine-month period ended July 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, the strategies or actions that will be taken to achieve 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 verbs or words such as "outlook", "believe", "foresee", "forecast", "anticipate", "estimate", "project", "expect", "intend" and "plan", in their future or conditional forms, notably verbs such as "will", "may", "should", "could" or "would" as well as similar terms and expressions. 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 allowances 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 as well as 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 and its results of operations, reputation, financial position and liquidity, as well as 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 Third Quarter of 2021, notably 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 led to significant changes in the overall market environment, including business closures, temporary layoffs, low interest rates and 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 of 2020 forced authorities in a number of countries, including Canada, to reintroduce some lockdown measures, effectively shutting down parts of the economy again. During winter 2021, a vaccination campaign began in Canada and picked up steam in the spring, leading to a reopening in early summer 2021. The authorities in many countries, including Canada, are actively working to ensure that widespread vaccination coverage is achieved as quickly as possible. However, uncertainty remains regarding the long-term effectiveness of the vaccines as well as their acceptance by the public and the reduction of anticipated infection rates, in particular following a rise in cases linked to COVID-19 variants, which appear to be more contagious. Certain measures by the public health authorities in Canada are expected to remain in place 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 on pages 16 to 21 of the *2020 Annual Report* and the Regulatory Developments section of this MD&A applicable to capital management as well as to credit risk and liquidity and funding risk.

A number of relief measures offered to the Bank's clients ended in 2020, although some new measures were being offered as part of government programs in which the Bank continues to participate. These new measures mainly consist of loans subject to government guarantees, particularly for businesses operating in sectors hit hardest 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.

Economic Review and Outlook

Global Economy

After making substantial progress in the fight against COVID-19, the planet must now face a new enemy: the Delta variant. Will it endanger the global economic recovery? The answer varies depending on the level of immunity achieved in each region. In advanced economies, where vaccination campaigns are making huge strides, the Delta variant could certainly result in an increase in new cases without, however, putting excessive pressure on health care systems. Given that the main purpose of the lockdowns in developed nations was always to avoid overloading hospitals and to reduce the death rate—and not to prevent any kind of spread—the current situation remains compatible with a gradual reopening of the economy. In emerging economies, the prospects are not as bright. Delayed vaccination in these regions is increasing the risk that one or more nations will suffer the same fate as India did earlier this year. Although general lockdowns are rare in emerging nations, the virus could still cause trouble by requiring localized lockdowns. This represents a threat to the supply chain, which has yet to regain its pre-pandemic fluidity. Moreover, countries that are most dependent on tourism could face economic difficulties for some time to come. At the time of writing, and assuming that the pandemic remains under control, we anticipate 6.0%[(1)] growth of the global economy in 2021 and 4.5%[(1)] in 2022.

Economic recovery is continuing in the United States. In the first two quarters of 2021, the U.S. economy grew by more than 6.0%. As was the case during this period, household spending should constitute the main engine of growth. Corporate investment should also contribute to growth. For its part, residential investment could slow down after several months of unchecked growth. While we believe that the labour market is in a better position than some figures suggest, the positive effects of the reopening will take time to be fully reflected in the data. This will allow the Federal Reserve to maintain an extremely accommodative monetary policy in the next few months. The White House also appears determined to favour a vigorous recovery, as indicated by the Senate's adoption of an over $1 trillion infrastructure plan in early August. In this context, we continue to project a 6.9%[(1)] increase in real GDP this year, followed by a 4.3%[(1)] expansion next year.

Canadian Economy

The response from Canadians to the COVID-19 vaccination campaign has been very positive, as the proportion of its vaccinated population is among the highest in the world. With health measures being eased, there has been an uptick in cases; however, the number of hospitalizations remains low. After a slowdown in growth in the second quarter of 2021 due to health measures and production problems in the automotive sector due to a computer chip shortage, we continue to forecast impressive growth in the second half of 2021 as services with strong physical proximity rebound. Our real GDP growth forecast is 6.0%[(1)] for 2021 and 4.0%[(1)] for 2022. In nominal terms, our growth forecast is at 12.6%, something that hasn't been seen in forty years. The price of forestry products has declined sharply since May; however, soaring natural gas prices pushed the Bank of Canada Commodity Price Index to its highest level in 13 years in July. Against this backdrop, the strong job gains seen in June and July (+325,000) are expected to continue in the coming months, while hiring intentions and labour shortages suggest that there is a strong demand from employers.

Quebec Economy

Thanks to more robust health measures, Quebec performed relatively well during the third wave of the pandemic in Canada. That said, this achievement was not without its drawbacks. There was no change in total employment between September 2020 and May 2021. However, it is reassuring to note that this stagnation stems exclusively from weakness in sectors directly affected by the lockdown measures (commerce, accommodation and food services, information/recreation and other services). Over the past two months, the lifting of restrictions has stimulated the creation of jobs, which increased by 80,000, a level just 1.2% shy of pre-pandemic levels (1.3% in Canada). Although there has been an uptick in the number of COVID-19 cases, hospitalizations are still low and primarily among individuals who are not fully vaccinated. In this context, if the trend continues, the job gains will likely continue. The resilience of full-time jobs, particularly jobs in well-paying sectors, combined with low interest rates are behind the vibrant real estate market that has been seen during the pandemic. Sales of homes have slowed recently but still remain at historically high levels. In the greater Montreal area, the price of homes has risen by more than 21% over the past year, a pace not seen in three decades. We remain upbeat that the Quebec economy will continue to recover given its great diversification, the Quebec government's fiscal flexibility, and the fact that Quebec households are in better financial shape than elsewhere in the country. After contracting 5.3% in 2020, the Quebec economy is expected to rebound by 6.5%[(1)] in 2021 and 4.1%[(1)] in 2022.

(1) Real 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 11 to 15 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 July 31			Nine months ended July 31		
	2021	2020	% Change	**2021**	2020	% Change
Net income excluding specified items[1]						
Personal and Commercial	**330**	223	48	**913**	521	75
Wealth Management	**165**	127	30	**490**	401	22
Financial Markets	**227**	188	21	**715**	530	35
U.S. Specialty Finance and International	**161**	87	85	**426**	246	73
Other	**(44)**	(23)		**(143)**	(97)	
Net income excluding specified items	**839**	602	39	**2,401**	1,601	50
Charge related to Maple[2]	**–**	–		**–**	(10)	
Net income	**839**	602	39	**2,401**	1,591	51
Diluted earnings per share excluding specified items	**$ 2.36**	$ 1.66	42	**$ 6.77**	$ 4.37	55
Charge related to Maple[2]	**–**	–		**–**	(0.03)	
Diluted earnings per share	**$ 2.36**	$ 1.66	42	**$ 6.77**	$ 4.34	56
Return on common shareholders' equity						
Including specified items	**21.3 %**	17.0 %		**21.5 %**	15.3 %	
Excluding specified items	**21.3 %**	17.0 %		**21.5 %**	15.4 %	

(1) For the quarter and nine-month period ended July 31, 2020, certain amounts have been reclassified.

(2) During the nine-month period ended July 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 July 31			Nine months ended July 31		
	2021	2020	% Change	2021	2020	% Change
Operating results						
Total revenues	2,254	1,968	15	6,716	5,927	13
Income before provisions for credit losses and income taxes[1]	1,038	894	16	3,121	2,641	18
Net income	839	602	39	2,401	1,591	51
Net income attributable to the Bank's shareholders and holders of other equity instruments	839	589	42	2,401	1,551	55
Return on common shareholders' equity[1]	21.3 %	17.0 %		21.5 %	15.3 %	
Earnings per share						
Basic	$ 2.39	$ 1.67	43	$ 6.84	$ 4.37	57
Diluted	2.36	1.66	42	6.77	4.34	56
Operating results on a taxable equivalent basis and excluding specified items[1]						
Total revenues on a taxable equivalent basis	2,301	2,021	14	6,864	6,143	12
Income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items	1,085	947	15	3,269	2,870	14
Net income excluding specified items	839	602	39	2,401	1,601	50
Return on common shareholders' equity excluding specified items	21.3 %	17.0 %		21.5 %	15.4 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	52.8 %	53.1 %		52.4 %	53.3 %	
Earnings per share excluding specified items[1]						
Basic	$ 2.39	$ 1.67	43	$ 6.84	$ 4.40	55
Diluted	2.36	1.66	42	6.77	4.37	55
Common share information						
Dividends declared	$ 0.71	$ 0.71		$ 2.13	$ 2.13	
Book value	46.00	38.91		46.00	38.91	
Share price						
High	96.97	65.54		96.97	74.79	
Low	89.47	51.38		65.54	38.73	
Close	95.49	63.24		95.49	63.24	
Number of common shares *(thousands)*	337,587	335,666		337,587	335,666	
Market capitalization	32,236	21,228		32,236	21,228	

(millions of Canadian dollars)	As at July 31, 2021	As at October 31, 2020	% Change
Balance sheet and off-balance-sheet			
Total assets	354,040	331,625	7
Loans and acceptances, net of allowances	178,946	164,740	9
Deposits	236,544	215,878	10
Equity attributable to common shareholders	15,529	13,430	16
Assets under administration and under management	742,905	596,656	25
Regulatory ratios under Basel III[2]			
Capital ratios			
Common Equity Tier 1 (CET1)	12.2 %	11.8 %	
Tier 1[3]	14.8 %	14.9 %	
Total[3]	15.8 %	16.0 %	
Leverage ratio	4.4 %	4.4 %	
Liquidity coverage ratio (LCR)	154 %	161 %	
Net stable funding ratio (NSFR)	123 %		
Regulatory ratios under Basel III (adjusted)[4]			
Capital ratios			
CET1	12.1 %	11.5 %	
Tier 1[3]	14.6 %	14.6 %	
Total[3]	15.8 %	16.0 %	
Leverage ratio	4.4 %	4.3 %	
Other information			
Number of employees – Worldwide	26,428	26,517	–
Number of branches in Canada	389	403	(3)
Number of banking machines in Canada	929	940	(1)

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.
(2) The ratios are calculated according to the Basel III rules, as described on page 60 of the *2020 Annual Report*, and 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) Ratios as at July 31, 2021 include the redemption of the Series 36 preferred shares on August 15, 2021.
(4) The adjusted ratios are calculated according to the Basel III rules, as described on page 60 of the *2020 Annual Report*, and 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 July 31			Nine months ended July 31		
	2021	2020	% Change	2021	2020	% Change
Operating results						
Net interest income	1,230	1,096	12	3,593	3,131	15
Non-interest income	1,024	872	17	3,123	2,796	12
Total revenues	2,254	1,968	15	6,716	5,927	13
Non-interest expenses	1,216	1,074	13	3,595	3,286	9
Income before provisions for credit losses and income taxes[1]	1,038	894	16	3,121	2,641	18
Provisions for credit losses	(43)	143	(130)	43	736	(94)
Income before income taxes	1,081	751	44	3,078	1,905	62
Income taxes	242	149	62	677	314	116
Net income	839	602	39	2,401	1,591	51
Diluted earnings per share *(dollars)*	2.36	1.66	42	6.77	4.34	56
Taxable equivalent basis[1]						
Net interest income	46	49		142	162	
Non-interest income	1	4		6	54	
Income taxes	47	53		148	216	
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	1,276	1,145	11	3,735	3,293	13
Non-interest income on a taxable equivalent basis	1,025	876	17	3,129	2,850	10
Total revenues on a taxable equivalent basis	2,301	2,021	14	6,864	6,143	12
Non-interest expenses excluding specified items	1,216	1,074	13	3,595	3,273	10
Income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items	1,085	947	15	3,269	2,870	14
Provisions for credit losses	(43)	143	(130)	43	736	(94)
Income before income taxes on a taxable equivalent basis and excluding specified items	1,128	804	40	3,226	2,134	51
Income taxes on a taxable equivalent basis and excluding specified items	289	202	43	825	533	55
Net income excluding specified items	839	602	39	2,401	1,601	50
Diluted earnings per share excluding specified items *(dollars)*	2.36	1.66	42	6.77	4.37	55
Average assets	363,746	319,968	14	360,934	311,412	16
Average loans and acceptances	174,252	160,457	9	169,522	158,329	7
Average deposits	237,162	207,450	14	232,867	203,831	14
Efficiency ratio on a taxable equivalent basis and excluding specified items[1]	52.8 %	53.1 %		52.4 %	53.3 %	

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

Financial Results

For the third quarter of 2021, the Bank is reporting net income of $839 million compared to $602 million in the third quarter of 2020, and its third-quarter diluted earnings per share stood at $2.36 compared to $1.66 in the third quarter of 2020. This growth was driven by increases in total revenues across all of the business segments as well as by lower provisions for credit losses in third-quarter 2021 resulting from an improved macroeconomic outlook compared to that of third-quarter 2020. Income before provisions for credit losses and income taxes[(1)] totalled $1,038 million in the third quarter of 2021 compared to $894 million in the third quarter of 2020, a 16% increase arising from good performance across all of the business segments.

For the nine-month period ended July 31, 2021, the Bank's net income totalled $2,401 million compared to $1,591 million in the same nine-month period of 2020, and its nine-month diluted earnings per share stood at $6.77 compared to $4.34 for the nine-month period ended July 31, 2020. This significant growth was driven by net income increases across all the business segments, i.e., increases that were notably due to strong revenue growth and to lower provisions for credit losses recorded in the first nine months of fiscal 2021 given a year-over-year improvement in the macroeconomic outlook. Income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items[(1)] totalled $3,269 million for the nine-month period ended July 31, 2021, a 14% year-over-year increase driven by revenue growth in all business segments. Nine-month diluted earnings per share excluding specified items[(1)] stood at $6.77 compared to $4.37 in the same nine-month period of 2020. The 2020 nine-month specified item, net of income taxes, consisted of a $10 million charge related to Maple.

Return on common shareholders' equity excluding specified items[(1)] was 21.5% for the nine months ended July 31, 2021 compared to 15.4% in the same nine-month period of 2020.

Total Revenues

For the third quarter of 2021, the Bank's total revenues amounted to $2,254 million, rising $286 million or 15% year over year. In the Personal and Commercial segment, third-quarter total revenues rose 10% owing 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 increases in credit card revenues, revenues from foreign exchange activities, and internal commission revenues related to the distribution of Wealth Management products. In the Wealth Management segment, third-quarter total revenues grew 21%, resulting mainly from an increase in fee-based revenues related to growth in average assets under administration and under management and from an increase in transaction volume. In the Financial Markets segment, third-quarter total revenues on a taxable equivalent basis[(1)] increased by 3% year over year due to an increase in corporate and investment banking revenues, partly offset by a decrease in global markets revenues. In the USSF&I segment, third-quarter total revenues rose 18% owing to sustained revenue growth at the ABA Bank subsidiary, given growth in loan and deposit volumes, and also to revenue growth at the Credigy subsidiary. Total revenues on a taxable equivalent basis[(1)] amounted to $2,301 million in the third quarter of 2021, up 14% from $2,021 million in the third quarter of 2020.

For the nine-month period ended July 31, 2021, total revenues amounted to $6,716 million, up $789 million or 13% from $5,927 million in the same period of 2020. In the Personal and Commercial segment, nine-month total revenues rose $165 million or 6% due to an increase in net interest income arising from growth in loan and deposit volumes as well as to increases in credit fee revenues, revenues from derivative financial instruments, insurance revenues, and internal commission revenues related to the distribution of Wealth Management products. In the Wealth Management segment, nine-month total revenues were up 15% due to growth in fee-based revenues and in transaction-based and other revenues. In the Financial Markets segment, nine-month total revenues on a taxable equivalent basis[(1)] was up $105 million or 7% year over year given growth in corporate and investment banking revenues, tempered by a decrease in global markets revenues. Lastly, in the USSF&I segment, the 2021 nine-month total revenues were up 29% year over year. Revenue growth at the ABA Bank subsidiary was driven by higher loan and deposit volumes, while revenue growth at the Credigy subsidiary was notably due to a gain realized in the first quarter of 2021 following disposals of loan portfolios as well as to fair value remeasurements of certain loan portfolios. Nine-month total revenues on a taxable equivalent basis[(1)] amounted to $6,864 million, up 12% from $6,143 million in the same nine-month period of 2020.

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

Non-Interest Expenses

For the third quarter of 2021, non-interest expenses stood at $1,216 million, up 13% compared to the third 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 revenue growth, and to an increase in the technology investments made by the Bank for its transformation plan and business development purposes. These increases were partly offset by a decrease in the expenses incurred by the Bank to implement health and safety measures for employees and clients in response to the exceptional circumstances created by COVID-19, which were higher in the third quarter of 2020.

For the nine-month period ended July 31, 2021, non-interest expenses stood at $3,595 million, a 9% year-over-year increase that was due to higher compensation and employee benefits, in particular the variable compensation associated with revenue growth. This nine-month increase in non-interest expenses was also due to a higher technology expense arising from significant investments made by the Bank for its transformation plan and business development purposes. These increases were tempered, however, by decreases in certain variable expenses, in particular decreases in travel and business development expenses resulting from government-enacted social distancing and lockdown measures, as well as by a decrease in expenses related to the measures deployed by the Bank in response to COVID-19. In addition, in fiscal 2020, the nine-month other expenses had included a $13 million charge related to Maple. Non-interest expenses excluding specified items(1) stood at $3,595 million for the nine months ended July 31, 2021, up 10% from $3,273 million in the same nine-month period of 2020.

Provisions for Credit Losses

For the third quarter of 2021, the Bank recorded $43 million in recoveries of credit losses compared to provisions for credit losses of $143 million recorded in the third quarter of 2020. This decrease was partly due to reversals of provisions for credit losses on non-impaired loans given an improved macroeconomic outlook in the third quarter of 2021. In addition, provisions for credit losses on impaired Personal Banking loans (including credit card receivables), Commercial Banking loans, and Financial Markets' loans were down in the third quarter of 2021. Lastly, the third-quarter provisions for credit losses on impaired loans of the Credigy subsidiary were also down compared to the same quarter of 2020, notably on purchased or originated credit-impaired (POCI) loans following a remeasurement of certain portfolios.

For the nine-month period ended July 31, 2021, the Bank recorded $43 million in provisions for credit losses compared to $736 million recorded in the same period of 2020. This $693 million decrease was due to lower provisions for credit losses on non-impaired loans owing to improved macroeconomic conditions in the first nine months of fiscal 2021 compared to a significant deterioration in the macroeconomic outlook caused by COVID-19 in the same period of 2020. This decrease was also due to provisions for credit losses recorded on Personal Banking impaired loans (including credit card receivables) that were below pre-pandemic levels, in particular due to a decrease in insolvencies, a reduction in client spending in the context of the pandemic, and various assistance measures implemented by governments. The provisions for credit losses on impaired Commercial Banking and Credigy loans were also down for the nine months ended July 31, 2021 compared to the same period of 2020. As for the ABA Bank subsidiary, the provisions for credit losses were up compared to the same nine-month period of 2020.

Income Taxes

For the third quarter of 2021, income taxes stood at $242 million compared to $149 million in the same quarter of 2020. The 2021 third-quarter effective tax rate was 22% compared to 20% in the same quarter of 2020. This change in effective tax rate stems mainly from a higher level and proportion of tax-exempt dividend income during the third quarter of 2020.

For the nine-month period ended July 31, 2021, the effective tax rate was 22% versus 16% in the same nine-month period of 2020. This change in the effective tax rate is explained by the same reasons as those provided for the quarter as well as by a decrease in the income tax rate applicable to the ABA Bank subsidiary during the same period of 2020 due to tax incentive measures granted by the Cambodian government.

(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 July 31			Nine months ended July 31		
	2021	2020[1]	% Change	**2021**	2020[1]	% Change
Operating results						
Net interest income	**656**	600	9	**1,922**	1,818	6
Non-interest income	**281**	251	12	**819**	758	8
Total revenues	**937**	851	10	**2,741**	2,576	6
Non-interest expenses	**486**	468	4	**1,455**	1,416	3
Income before provisions for credit losses and income taxes[2]	**451**	383	18	**1,286**	1,160	11
Provisions for credit losses	**2**	79	(97)	**44**	450	(90)
Income before income taxes	**449**	304	48	**1,242**	710	75
Income taxes	**119**	81	47	**329**	189	74
Net income	**330**	223	48	**913**	521	75
Net interest margin[3]	**2.11 %**	2.15 %		**2.15 %**	2.19 %	
Average interest-bearing assets	**123,352**	111,014	11	**119,687**	110,728	8
Average assets	**129,689**	116,846	11	**125,485**	116,611	8
Average loans and acceptances	**128,996**	116,372	11	**124,895**	116,114	8
Net impaired loans[4]	**238**	384	(38)	**238**	384	(38)
Net impaired loans[4] as a % of average loans and acceptances	**0.2 %**	0.3 %		**0.2 %**	0.3 %	
Average deposits	**78,052**	68,970	13	**75,841**	65,757	15
Efficiency ratio[2]	**51.9 %**	55.0 %		**53.1 %**	55.0 %	

(1) For the quarter and nine-month period ended July 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 $330 million in the third quarter of 2021 compared to $223 million in the third quarter of 2020. This increase was driven by growth in total revenues, by lower provisions for credit losses given a more favourable macroeconomic outlook, and by a decrease in provisions for credit losses on impaired loans. The segment's third-quarter income before provisions for credit losses and income taxes[1] grew 18% year over year. Third-quarter net interest income grew 9% year over year, as 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 2.11% compared to 2.15% in the third quarter of 2020. Furthermore, third-quarter non-interest income was up $30 million or 12% year over year.

Personal Banking's third-quarter total revenues increased by $28 million year over year. This increase came from growth in loan and deposit volumes, tempered by a lower net interest margin, and from increases in credit card revenues and internal commission revenues related to the distribution of Wealth Management products. Commercial Banking's third-quarter total revenues grew $58 million year over year, mainly due to an increase in net interest income driven by growth in loan and deposit volumes, and also to increases in revenues from foreign exchange activities and in revenues from derivative financial instruments.

For the third quarter of 2021, the Personal and Commercial segment's non-interest expenses stood at $486 million, a 4% year-over-year increase that was mainly due to higher operations support charges and a higher amortization expense related to the segment's activities as well as to an increase in compensation and employee benefits. At 51.9%, the segment's third-quarter efficiency ratio[1] improved by 3.1 percentage points compared to the third quarter of 2020. The segment recorded $2 million in provisions for credit losses in the third quarter of 2021, $77 million less than in the same quarter of 2020. This decrease stems from reversals of allowances for credit losses on non-impaired loans given a more favourable macroeconomic outlook in the third quarter of 2021, whereas, in the third quarter of 2020, higher provisions for credit losses had been recorded to reflect a deterioration in the macroeconomic outlook caused by COVID-19. In addition, the provisions for credit losses on Personal Banking impaired loans and on Commercial Banking impaired loans as well as on impaired credit card receivables were below pre-pandemic levels, in particular due to fewer cases of insolvency and to the various assistance measures implemented by governments.

For the nine-month period ended July 31, 2021, the Personal and Commercial segment's net income totalled $913 million, an increase from $521 million in the same period of 2020. This increase was essentially due to growth of $165 million in the segment's total nine-month revenues and to the impacts of the COVID-19 pandemic on the provisions for credit losses that had been recorded during the second quarter of 2020. The segment's nine-month income before provisions for credit losses and income taxes[1] increased by $126 million or 11% year over year.

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

Personal Banking's nine-month total revenues were up, mainly due to growth in loan and deposit volumes, tempered by the impacts of lower interest rates on net interest margin, lower insurance revenues, and lower internal commission revenues related to the distribution of Wealth Management products. Commercial Banking's nine-month total revenues increased by 11% due growth in loan and deposit volumes, in credit fee revenues (in particular revenues from bankers' acceptances), in foreign exchange revenues, and in revenues from derivative financial instruments.

For the nine-month period ended July 31, 2021, the segment's non-interest expenses stood at $1,455 million, a $39 million year-over-year increase that was mainly attributable to higher compensation and employee benefits as well as to increases in operations support charges and amortization expense. These increases were partly offset by a decrease in certain variable expenses, notably lower business development expenses given the social distancing and lockdown measures enacted by governments. At 53.1%, the nine-month efficiency ratio(1) improved by 1.9 percentage points from the same period in 2020. The segment's nine-month provisions for credit losses stood at $44 million, $406 million less than in the same period of 2020 given a decrease in provisions for credit losses on both impaired and non-impaired loans and credit card receivables.

Wealth Management

(millions of Canadian dollars)	Quarter ended July 31			Nine months ended July 31		
	2021	2020(1)	% Change	**2021**	2020(1)	% Change
Operating results						
Net interest income	**112**	106	6	**333**	335	(1)
Fee-based revenues	**339**	266	27	**959**	806	19
Transaction-based and other revenues	**96**	79	22	**315**	251	25
Total revenues	**547**	451	21	**1,607**	1,392	15
Non-interest expenses	**322**	276	17	**940**	841	12
Income before provisions for credit losses and income taxes(2)	**225**	175	29	**667**	551	21
Provisions for credit losses	**–**	2	(100)	**–**	6	(100)
Income before income taxes	**225**	173	30	**667**	545	22
Income taxes	**60**	46	30	**177**	144	23
Net income	**165**	127	30	**490**	401	22
Average assets	**7,367**	5,718	29	**6,960**	5,881	18
Average loans and acceptances	**6,230**	4,655	34	**5,811**	4,738	23
Net impaired loans(3)	**7**	8	(13)	**7**	8	(13)
Average deposits	**33,246**	35,275	(6)	**34,026**	34,057	–
Assets under administration and under management	**742,905**	587,083	27	**742,905**	587,083	27
Efficiency ratio(2)	**58.9 %**	61.2 %		**58.5 %**	60.4 %	

(1) For the quarter and nine-month period ended July 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 $165 million in the third quarter of 2021, a 30% increase from $127 million in the same quarter of 2020. The segment's third-quarter total revenues amounted to $547 million, up $96 million or 21% from $451 million in the third quarter of 2020. This increase was driven by a 27% increase in fee-based revenues given growth in average assets under administration and under management as a result of net inflows into various solutions and of stronger stock market performance in the third quarter of 2021 as well as by an increase in transaction-based and other revenues, which rose 22% given greater transaction volume in the third quarter of 2021. The segment's net interest income was up 6% due to higher loan volumes.

For the third quarter of 2021, the segment's non-interest expenses stood at $322 million, up 17% from the third quarter of 2020. This increase came from higher compensation and employee benefits, in particular the variable compensation associated with the segment's higher revenues, as well as from higher external management fees. At 58.9%, the segment's third-quarter efficiency ratio(1) improved by 2.3 percentage points compared to the third quarter of 2020. For the third quarter of 2021, the segment recorded negligible provisions for credit losses compared to $2 million recorded in the third quarter of 2020.

For the first nine months of fiscal 2021, the Wealth Management segment's net income totalled $490 million, up 22% from $401 million in the same nine-month period of 2020. The segment's nine-month total revenues amounted to $1,607 million, up 15% from $1,392 million in the same nine-month period of 2020. An increase in fee-based revenues was due to growth in average assets under administration and under management as a result of stock market growth and of net inflows into various solutions in the nine-month period ended July 31, 2021. Nine-month transaction-based and other revenues grew 25% year over year owing to an increase in trading volume resulting from stronger stock market activity during this period. Nine-month net interest income was down due to a lower margin on deposits, partly offset by growth in loan volumes. The segment's nine-month non-interest expenses stood at $940 million compared to $841 million in the same nine-month period of 2020, an increase attributable to higher variable compensation associated with revenue growth and to higher operations support charges related to the segment's initiatives. At 58.5%, the nine-month efficiency ratio(1) improved from 60.4% in the same nine-month period of 2020. The segment's provisions for credit losses were negligible in the first nine months of 2021, whereas $6 million in provisions for credit losses on non-impaired loans had been recorded during the first nine months 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 July 31			Nine months ended July 31		
	2021	2020(2)	% Change	2021	2020(2)	% Change
Operating results						
Global markets						
Equities	171	157	9	510	558	(9)
Fixed-income	84	126	(33)	299	316	(5)
Commodities and foreign exchange	24	19	26	94	113	(17)
	279	302	(8)	903	987	(9)
Corporate and investment banking	241	201	20	761	572	33
Total revenues on a taxable equivalent basis	520	503	3	1,664	1,559	7
Non-interest expenses	221	207	7	674	627	7
Income before provisions for credit losses and income taxes on a taxable equivalent basis(1)	299	296	1	990	932	6
Provisions for credit losses	(10)	41	(124)	17	212	(92)
Income before income taxes on a taxable equivalent basis	309	255	21	973	720	35
Income taxes on a taxable equivalent basis	82	67	22	258	190	36
Net income	227	188	21	715	530	35
Average assets	151,253	121,544	24	149,844	121,215	24
Average loans and acceptances (Corporate Banking only)	18,334	20,093	(9)	18,411	18,847	(2)
Net impaired loans(3)	33	35	(6)	33	35	(6)
Average deposits	44,528	35,465	26	42,323	35,546	19
Efficiency ratio on a taxable equivalent basis(1)	42.5 %	41.2 %		40.5 %	40.2 %	

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.
(2) For the quarter and nine-month period ended July 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 $227 million in the third quarter of 2021 compared to $188 million in the same quarter of 2020, a 21% increase resulting essentially from lower provisions for credit losses than those that had been recorded in the third quarter of 2020. Third-quarter total revenues on a taxable equivalent basis(1) amounted to $520 million, up $17 million or 3% from $503 million in the third quarter of 2020. Third-quarter global markets revenues were down 8% year over year, as revenues from fixed-income securities declined 33%, partly offset by increases in revenues from equities and in revenues from commodities and foreign exchange activities, which rose 9% and 26%, respectively. As for third-quarter corporate and investment banking revenues, they increased 20% year over year due to increases in revenues from capital markets activities, in revenues from merger and acquisition activities, and in banking services revenues.

The segment's third-quarter non-interest expenses stood at $221 million, a 7% year-over-year increase that was essentially due to increases in compensation and employee benefits, in technology expenses, and in operations support charges. At 42.5%, the third-quarter efficiency ratio on a taxable equivalent basis(1) compares to 41.2% in the same quarter of 2020. For the third quarter of 2021, the segment recorded $10 million in recoveries of credit losses compared to $41 million in provisions for credit losses recorded in the third quarter of 2020. This decrease was partly due to reversals of allowances for credit losses on non-impaired loans in the third quarter of 2021 given a more favourable macroeconomic outlook. The third-quarter provisions for credit losses on impaired loans were down $7 million compared to the same quarter in 2020.

For the nine-month period ended July 31, 2021, the Financial Markets segment's net income totalled $715 million, up 35% year over year. Nine-month income before provisions for credit losses and income taxes on a taxable equivalent basis(1) amounted to $990 million, up $58 million or 6% from the same period in 2020. Nine-month total revenues on a taxable equivalent basis(1) amounted to $1,664 million, up $105 million or 7% from $1,559 million in the same period of 2020. Nine-month global markets revenues were down 9% given decreases across all of this category's revenue types. As for nine-month corporate and investment banking revenues, they were up 33% year over year, mainly due to increases in revenues from capital markets activities, in revenues from merger and acquisition activities, and in banking service revenues.

The segment's nine-month non-interest expenses increased 7% year over year. This increase was essentially due to higher compensation and employee benefits, in particular the variable compensation associated with revenue growth, as well as to an increase in operations support charges. At 40.5%, the nine-month efficiency ratio on a taxable equivalent basis(1) compares to 40.2% in the same period of 2020. For the first nine months of fiscal 2021, the segment recorded $17 million in provisions for credit losses compared to $212 million in the same nine-month period of 2020; this decrease stems from improved macroeconomic factors for the nine-month period of 2021 compared to the unfavourable economic environment caused by COVID-19 in the same period 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 July 31			Nine months ended July 31		
	2021	2020	% Change	2021	2020	% Change
Total revenues						
Credigy	116	104	12	386	284	36
ABA Bank	131	105	25	371	299	24
International	1	1		2	5	
	248	210	18	759	588	29
Non-interest expenses						
Credigy	36	36	–	109	106	3
ABA Bank	42	42	–	128	130	(2)
International	1	1		2	3	
	79	79	–	239	239	–
Income before provisions for credit losses and income taxes(1)	169	131	29	520	349	49
Provisions for credit losses						
Credigy	(45)	16		(41)	47	
ABA Bank	10	5	100	23	16	44
	(35)	21		(18)	63	
Income before income taxes	204	110	85	538	286	88
Income taxes						
Credigy	26	11		71	28	
ABA Bank	17	12		41	12	
	43	23		112	40	
Net income						
Credigy	99	41	141	247	103	140
ABA Bank	62	46	35	179	141	27
International	–	–		–	2	
	161	87	85	426	246	73
Non-controlling interests	–	10		–	23	
Net income attributable to the Bank's shareholders and holders of other equity instruments	161	77	109	426	223	91
Average assets	16,011	14,872	8	15,816	14,022	13
Average loans and receivables	12,539	11,931	5	12,247	11,177	10
Net impaired loans – Stage 3(2)	34	26	31	34	26	31
Purchased or originated credit-impaired (POCI) loans	534	949	(44)	534	949	(44)
Average deposits	6,773	5,040	34	6,480	4,742	37
Efficiency ratio(1)	31.9 %	37.6 %		31.5 %	40.6 %	

(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 $161 million in the third quarter of 2021 compared to $87 million in the third quarter of 2020, an 85% increase owing to growth in total revenues and to lower provisions for credit losses. The segment's third-quarter total revenues amounted to $248 million, up $38 million or 18% from $210 million in the third quarter of 2020. This revenue growth came from a $12 million increase in the Credigy subsidiary's revenues and from a $26 million increase in the ABA Bank subsidiary's revenues. For the nine-month period ended July 31, 2021, the segment generated net income of $426 million, a 73% increase from $246 million in the same nine-month period of 2020.

Credigy

For the third quarter of 2021, the Credigy subsidiary's net income totalled $99 million, a $58 million increase from the same quarter of 2020. Credigy's third-quarter total revenues amounted to $116 million, up from $104 million in the third quarter of 2020, given growth in loan volumes and strong performance of certain loan portfolios, partly offset by exchange rate movements. Third-quarter non-interest expenses stood at $36 million, stable compared to the third quarter of 2020. Credigy's provisions for credit losses were down $61 million compared to the same quarter in 2020, resulting in part from a more favourable macroeconomic outlook and from a remeasurement of POCI loan portfolios.

For the nine months ended July 31, 2021, the Credigy subsidiary's net income totalled $247 million, up $144 million from the same nine-month period of 2020. Nine-month total revenues amounted to $386 million, an increase from $284 million in the same period of 2020 that was notably due to a $26 million gain realized in the first quarter of 2021 upon disposals of loan portfolios, to a favourable impact of remeasuring certain loan portfolios at fair value, and to strong performance by certain loan portfolios. Nine-month non-interest expenses were up $3 million as an increase in variable compensation was partly offset by a decrease in service charges. Provisions for credit losses were down $88 million for the nine-month period ended July 31, 2021 compared to the same period of 2020. This decrease in provisions for credit losses is explained by the same reasons provided for the quarter and by a decrease in provisions for credit losses on impaired loans.

During the nine months ended July 31, 2021, the Bank acquired the entire remaining non-controlling interest in the Credigy subsidiary. For additional information, see Note 20 to these consolidated financial statements.

ABA Bank
For the third quarter of 2021, the ABA Bank subsidiary's net income totalled $62 million, up $16 million or 35% from the third quarter of 2020. ABA Bank's third-quarter total revenues grew 25% owing to sustained growth in loan and deposit volumes, partly offset by lower interest rates and exchange rate movements. The subsidiary's third-quarter non-interest expenses stood at $42 million, unchanged from the third quarter of 2020. The subsidiary recorded $10 million in provisions for credit losses during the third quarter of 2021 compared to $5 million in the same quarter of 2020, an increase that stems mostly from provisions for credit losses on non-impaired loans.

For the nine-month period ended July 31, 2021, the ABA Bank subsidiary's net income totalled $179 million, up 27% from the same nine-month period of 2020. Growth in the subsidiary's business activities, i.e., mainly growth in loan and deposit volumes, explains a 24% increase in nine-month total revenues. Nine-month non-interest expenses were down 2% year over year. The subsidiary's nine-month provisions for credit losses totalled $23 million, up $7 million year over year, mainly due to provisions for credit losses on non-impaired loans.

The subsidiary's effective tax rate was up in the nine-month period ended July 31, 2021, mainly due to tax incentive measures granted by the Cambodian government and recorded during the second quarter of 2020.

Other

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

	Quarter ended July 31		Nine months ended July 31	
	2021	2020(2)	**2021**	2020(2)
Operating results				
Net interest income on a taxable equivalent basis	**(51)**	(51)	**(131)**	(122)
Non-interest income on a taxable equivalent basis	**100**	57	**224**	150
Total revenues on a taxable equivalent basis	**49**	6	**93**	28
Non-interest expenses	**108**	44	**287**	163
Income before provisions for credit losses and income taxes on a taxable equivalent basis(1)	**(59)**	(38)	**(194)**	(135)
Provisions for credit losses	**–**	–	**–**	5
Income before income taxes on a taxable equivalent basis	**(59)**	(38)	**(194)**	(140)
Income taxes (recovery) on a taxable equivalent basis	**(15)**	(15)	**(51)**	(33)
Net loss	**(44)**	(23)	**(143)**	(107)
Non-controlling interests	**–**	3	**–**	17
Net loss attributable to the Bank's shareholders and holders of other equity instruments	**(44)**	(26)	**(143)**	(124)
Specified items after income taxes(1)	**–**	–	**–**	(10)
Net loss excluding specified items(1)	**(44)**	(23)	**(143)**	(97)
Average assets	**59,426**	60,988	**62,829**	53,683

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

For the *Other* heading of segment results, there was a net loss of $44 million in the third quarter of 2021 compared to a net loss of $23 million in the same quarter of 2020. Total revenues on a taxable equivalent basis(1) amounted to $49 million, a $43 million increase essentially attributable to gains on investments. Non-interest expenses were also up, arising from variable compensation associated with revenue growth as well as from greater technology investments. These items were partly offset by a decrease in the expenses incurred by the Bank to implement health and safety measures for employees and clients in response to the circumstances created by COVID-19, which were higher in the third quarter of 2020.

For the nine-month period ended July 31, 2021, net loss stood at $143 million compared to a net loss of $107 million in the same nine-month period of 2020. This change in net loss stems mainly from an increase in non-interest expenses, in particular variable compensation associated with revenue growth, and from an increase in the technology investments made by the Bank for its transformation plan and business development purposes. These increases were partly offset by a decrease in the expenses incurred by the Bank to implement health and safety measures for employees and clients in response to the pandemic, which were higher in the nine-month period ended July 31, 2020, and by a decrease in certain variable expenses and other discretionary costs in the nine-month period ended July 31, 2021. Nine-month total revenues increased year over year, explained by the same reasons as those provided for the quarter. In addition, in the nine-month period ended July 31, 2020, the Bank had recorded $5 million in provisions for credit losses to reflect a deterioration in the macroeconomic outlook caused by COVID-19. For the first quarter of 2020, the specified item, net of income taxes, had consisted of a $10 million charge related to Maple. The net loss excluding specified items(1) was $143 million for the nine months ended July 31, 2021 compared to $97 million in the same period 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 July 31, 2021	As at October 31, 2020	% Change
Assets			
Cash and deposits with financial institutions	**37,086**	29,142	27
Securities	**105,278**	102,131	3
Securities purchased under reverse repurchase agreements and securities borrowed	**8,791**	14,512	(39)
Loans and acceptances, net of allowances	**178,946**	164,740	9
Other	**23,939**	21,100	13
	354,040	331,625	7
Liabilities and equity			
Deposits	**236,544**	215,878	10
Other	**98,148**	98,589	–
Subordinated debt	**769**	775	(1)
Equity attributable to the Bank's shareholders and holders of other equity	**18,579**	16,380	13
Non-controlling interests	**–**	3	
	354,040	331,625	7

Assets

As at July 31, 2021, the Bank had total assets of $354.0 billion, rising $22.4 billion or 7% from $331.6 billion as at October 31, 2020. Cash and deposits with financial institutions, totalling $37.1 billion as at July 31, 2021, increased by $8.0 billion, mainly due to deposits with the Bank of Canada and the U.S. Federal Reserve.

Since October 31, 2020, securities rose $3.2 billion due to a $6.3 billion or 8% increase in securities at fair value through profit or loss, essentially equity securities, partly offset by a $3.1 billion decrease in securities other than those measured at fair value through profit or loss. Securities purchased under reverse repurchase agreements and securities borrowed decreased by $5.7 billion, mainly related to the activities of the Financial Markets segment and of Treasury.

Totalling $178.9 billion as at July 31, 2021, loans and acceptances, net of allowances, rose $14.2 billion or 9% since October 31, 2020. The following table provides a breakdown of the main loan and acceptance portfolios.

(millions of Canadian dollars)	As at July 31, 2021	As at October 31, 2020	As at July 31, 2020
Loans and acceptances			
Residential mortgage and home equity lines of credit	**97,056**	89,097	85,608
Personal	**13,900**	13,475	13,387
Credit card	**2,035**	2,038	2,012
Business and government	**67,009**	61,288	61,854
	180,000	165,898	162,861
Allowances for credit losses	**(1,054)**	(1,158)	(1,108)
	178,946	164,740	161,753

Residential mortgages (including home equity lines of credit) rose $8.0 billion or 9% since October 31, 2020 due to sustained demand for mortgage credit. Personal loans also grew since October 31, 2020 due to the business activities of Personal Banking, the Wealth Management segment, and the ABA Bank subsidiary, partly offset by repayments and disposals of Credigy loan portfolios. Credit card receivables remained relatively stable compared to October 31, 2020. Since October 31, 2020, loans and acceptances to business and government were up $5.7 billion or 9% owing to growth in the business activities of Commercial Banking, corporate financial services, and the Credigy subsidiary.

When compared to July 31, 2020, loans and acceptances, net of allowances for credit losses, grew $17.1 billion or 11%; residential mortgages (including home equity lines of credit) were up $11.5 billion or 13% due to sustained demand for mortgage credit, to the acquisition of mortgage portfolios, and to business growth at the ABA Bank subsidiary; and personal loans were up $0.5 billion due to the activities of Personal Banking, the Wealth Management segment, and the ABA Bank subsidiary, partly offset by repayments and disposals of Credigy loan portfolios. Also compared to a year ago, credit card receivables were stable and loans and acceptances to business and government grew $5.1 billion or 8%, essentially driven by the activities of Commercial Banking 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 July 31, 2021, gross impaired loans excluding POCI loans stood at $699 million compared to $817 million as at October 31, 2020. Net impaired loans excluding POCI loans stood at $312 million as at July 31, 2021 compared to $465 million as at October 31, 2020, a $153 million decrease related mainly to decreases in the net impaired loans in the Personal Banking and Commercial Banking portfolios, partly offset by an increase in the net impaired loans of the Financial Markets' loan portfolios. Gross POCI loans stood at $534 million as at July 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 totalled $23.9 billion as at July 31, 2021, a $2.8 billion increase since October 31, 2020 that was mainly due to an increase in derivative financial instruments.

Liabilities
As at July 31, 2021, the Bank had total liabilities of $335.5 billion compared to $315.2 billion as at October 31, 2020.

The Bank's total deposit liability stood at $236.5 billion as at July 31, 2021 compared to $215.9 billion as at October 31, 2020, rising $20.6 billion or 10% since October 31, 2020. At $69.4 billion as at July 31, 2021, personal deposits increased by $1.9 billion since October 31, 2020. This increase stems mainly from Personal Banking activities and business growth at the ABA Bank subsidiary.

Business and government deposits totalled $162.9 billion as at July 31, 2021, rising $19.1 billion since October 31, 2020. This increase came from the funding activities of the Financial Markets segment and of Treasury, including $2.4 billion in deposits subject to bank recapitalization (bail-in) conversion regulations, as well as from Commercial Banking activities.

At $4.3 billion as at July 31, 2021, deposits from deposit-taking institutions decreased $0.3 billion since October 31, 2020.

Other liabilities totalling $98.1 billion as at July 31, 2021 decreased $0.5 billion since October 31, 2020. A $2.3 billion increase in obligations related to securities sold short and a $3.7 billion increase in derivative financial instruments were more than offset by a $7.3 billion decrease in obligations related to securities sold under repurchase agreements and securities loaned.

Equity
As at July 31, 2021, equity attributable to the Bank's shareholders and holders of other equity instruments was $18.6 billion, rising $2.2 billion since October 31, 2020. This increase came from net income net of dividends, from the $500 million issuance of Series 2 limited recourse capital notes (LRCN), from issuances of common shares under the Stock Option Plan, and from remeasurements of pension plans and other post-employment benefit plans. These increases were partly offset by the $400 million redemption of Series 34 First Preferred Shares and by accumulated other comprehensive income, in particular unrealized foreign currency translation losses on investments in foreign operations, tempered by gains on cash flow hedges. Lastly, non-controlling interests were down $3 million, essentially due to the purchase of the remaining non-controlling interest in the Credigy subsidiary during the first quarter of 2021.

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.

Events After the Consolidated Balance Sheet Date

Acquisition
On July 9, 2021, the Bank entered into an agreement to increase its equity interest in Flinks Technology Inc. (Flinks) from 28% to 80% (the Transaction). Flinks is a leading fintech company specialized in the financial data aggregation and distribution industry. The Bank has been a shareholder of Flinks since its founding in 2018 through the Bank's fintech venture capital arm NAventures.

Flinks provides services to a wide North American fintech ecosystem and offers attractive data technology solutions. The Transaction strategically positions the Bank in a high growth market to continue to enhance customer experiences and benefit from future technology-driven innovations.

The Transaction will consist of a total investment of $103 million, of which $30 million represents new capital injection. The previously held equity interest will be measured at fair value, which will result in an estimated non-taxable gain upon remeasurement of $32 million. The Transaction is expected to have an estimated impact of approximately 10 basis points on the Bank's CET1 ratio and a neutral impact on future earnings per share. The Transaction is expected to close in September 2021 and is subject to customary closing conditions.

For additional information, see Note 21 to these consolidated financial statements.

Redemption of Preferred Shares
On August 16, 2021, i.e., the first business day after the August 15, 2021 redemption date, the Bank redeemed all the issued and outstanding Non-Cumulative 5-Year Rate-Reset Series 36 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.00 per share plus the periodic dividend declared and unpaid. The Bank redeemed 16,000,000 Series 36 preferred shares for a total amount of $400 million, which will reduce *Preferred share* capital.

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 July 31, 2021, total commitments for this type of loan stood at $4,366 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.

Income Taxes

In June 2021, the Bank was reassessed by the Canada Revenue Agency (CRA) for additional income tax and interest of approximately $115 million (including estimated provincial tax and interest) in respect of certain Canadian dividends received by the Bank during 2016.

In prior fiscal years, the Bank had been reassessed for additional income tax and interest of approximately $610 million (including provincial tax and interest) in respect of certain Canadian dividends received by the Bank during the 2015, 2014, 2013 and 2012 taxation years.

In the reassessments, the CRA alleges that the dividends were received as part of a "dividend rental arrangement".

The CRA may issue reassessments to the Bank for taxation years subsequent to 2016 in regard to activities similar to those that were the subject of the above-mentioned reassessments. The Bank remains confident that its tax position was appropriate and intends to vigorously defend its position. As a result, no amount has been recognized in the consolidated financial statements as at July 31, 2021.

Contingent Liabilities

Litigation

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

More specifically, the Bank is involved as a defendant in class actions instituted by consumers contesting, *inter alia*, certain transaction fees or who wish to avail themselves of certain legislative provisions relating to consumer protection. The recent developments in the main legal proceedings involving the Bank are as follows:

Watson

In 2011, a class action was filed in the Supreme Court of British Columbia against Visa Corporation Canada (Visa) and MasterCard International Incorporated (MasterCard) (the Networks) as well as National Bank and a number of other Canadian financial institutions. A similar action was also initiated in Quebec, Ontario, Alberta and Saskatchewan. In each of the actions, the Networks and financial institutions are alleged to have been involved in a price-fixing system to maintain and increase the fees paid by merchants on transactions executed using the credit cards of the Networks. In so doing, they would notably be in breach of the *Competition Act*. An unspecified amount of compensatory and punitive damages is being claimed. In 2017, a settlement was reached with the plaintiffs; in 2018 it was approved by the trial courts in each of the five jurisdictions where the action was initiated. The rulings approving the settlement were the subject of appeal proceedings in all jurisdictions. These appeal proceedings were all rejected, thereby confirming approval of the settlement reached in 2017 and ending the Bank's involvement in the class action.

Defrance

On January 21, 2019, the Quebec Superior Court authorized a class action against the National Bank and several other Canadian financial institutions. The originating application was served to the Bank on April 23, 2019. The class action was initiated on behalf of consumers residing in Quebec. The plaintiffs allege that non-sufficient funds charges, billed by all of the defendants when a payment order is refused due to non-sufficient funds, are illegal and prohibited by the *Consumer Protection Act*. The plaintiffs are claiming, in the form of damages, the repayment of these charges as well as punitive damages.

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

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%. For additional information on the ratio calculations, see page 60 of the *2020 Annual Report*. 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. As at July 31, 2021, this buffer was 1.0%, but on June 17, 2021, OSFI raised the buffer level such that it will be 2.5% starting October 31, 2021. 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 July 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 24.0% (including the domestic stability buffer) of risk-weighted assets and a minimum TLAC leverage ratio of 6.75% by November 1, 2021. The Bank started to issue qualifying bail-in debt during the fiscal year ended October 31, 2019 and is expecting 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 by November 1, 2021.

Requirements – Regulatory Ratios Under Basel III

							As at July 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 June 17, 2021, OSFI raised the buffer level such that it will be 2.5% starting October 31, 2021.

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.* In addition, since November 1, 2020, the below-described regulatory developments should also be considered.

On March 11, 2021, OSFI launched an industry consultation on regulatory changes that introduce the latest and final series of Basel III reforms into the capital, leverage, and disclosure guidelines applicable to Canadian banks. OSFI's proposals align with the international standards set by the BCBS while also reflecting the realities of the Canadian market. On May 4, 2021, OSFI launched an industry consultation on the corresponding changes to the regulatory returns, namely, the *Basel Capital Adequacy Reporting* (BCAR) return and the *Leverage Requirements* (LR) return. Finally, on June 18, 2021, OSFI launched an industry consultation on proposed regulatory changes to the treatment of credit valuation adjustments (CVA) and market risk hedges of other valuation adjustments of over-the-counter derivatives referred to as XVA. The Bank will participate actively in these consultations.

On March 16, 2021, OSFI announced the unwinding of the temporary reduction of stressed Value-at-Risk (VaR) multipliers under the market risk capital requirements for banks, returning the VaR multipliers back to the pre-pandemic level. The implementation date for this adjustment to the VaR multiplier was May 1, 2021. For the Bank, the impact on the CET1, Tier 1 and Total capital ratios was 12 basis points.

On March 31, 2021, the BCBS issued two final sets of principles addressing operational risk and operational resilience: *Principles for Operational Resilience* and *Revisions to the Principles for the Sound Management of Operational Risk*. These publications follow a consultation on both documents in August 2020. In the first document, the BCBS provides a series of principles on the topic of operational resilience. Although these principles aim to make banks better able to withstand, adapt to, and recover from severe adverse events, they are largely carried over from existing principles. In the second document, the BCBS updated its existing set of principles for the sound management of operational risk. The Bank does not expect this guidance to have a material impact on its activities at this time. On June 18, 2021, OSFI released for consultation two documents on the proposed practices for managing operational risk capital data: *Data Maintenance Expectations for Institutions Using the Standardized Approach for Operational Risk Capital Data* and *Assessment Tool – Operational Risk Capital Data*. The consultation aims to ensure that financial institutions have an effective management framework for current and historical operational risk capital data. The Bank will participate in the consultations.

On June 10, 2021, the BCBS issued a consultative document entitled *Prudential Treatment of Crypto Asset Exposures.* This document presents preliminary proposals for the prudential treatment of the crypto asset exposures of banks. On July 5, 2021, OSFI started its own consultation on crypto asset exposures in order to ensure that Canadian perspectives are well represented in international discussions. In addition to the BCBS questions listed in its consultative document, OSFI is seeking feedback on some other questions. The Bank will participate in the consultations.

On August 12, 2021, OSFI confirmed that the exclusion of sovereign-issued securities that qualify as high-quality liquid assets (HQLA) from the leverage ratio exposure measure, a mechanism that was introduced at the start of the COVID-19 pandemic, would not be extended beyond December 31, 2021. Central bank reserves will, however, continue to be excluded from the leverage ratio exposure measure.

Management Activities
On March 13, 2020, OSFI indicated that it was expecting all banks to cease any dividend increases or share buybacks. Since that date, the Bank has not increased dividends or bought back any of its common shares.

On April 21, 2021, the Bank issued $500 million of Series 2 Limited Recourse Capital Notes (LRCN – Series 2) for which noteholder recourse is limited to the assets held by an independent trustee in a consolidated limited recourse trust. The assets of this trust consist of $500 million of Series 45 first preferred shares issued by the Bank, in parallel with the LRCN – Series 2. The LRCN – Series 2 sell for $1,000 each and bear interest at a fixed rate of 4.05% per annum until August 15, 2026 exclusively and, thereafter, at an annual rate equal to the yield on five-year Government of Canada bonds plus 3.045% until August 15, 2076. Since the LRCN – Series 2 satisfy the non-viability contingent capital requirements, they qualify for the purposes of calculating regulatory capital under Basel III.

On May 17, 2021, i.e., the first business day after the May 15, 2021 redemption date, the Bank redeemed all the issued and outstanding Non-Cumulative 5-Year Rate-Reset Series 34 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.00 per share plus the periodic dividend declared and unpaid. The Bank redeemed 16,000,000 Series 34 First Preferred Shares for a total amount of $400 million.

On August 16, 2021, i.e., the first business day after the August 15, 2021 redemption date, the Bank redeemed all the issued and outstanding Non-Cumulative 5-Year Rate-Reset Series 36 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.00 per share plus the periodic dividend declared and unpaid. The Bank redeemed 16,000,000 Series 36 First Preferred Shares for a total amount of $400 million. These instruments were excluded from the capital ratio calculations as at July 31, 2021.

Shares, Other Equity Instruments and Stock Options

	As at July 31, 2021	
	Number of shares or LRCN	$ million
First preferred shares		
Series 30	14,000,000	350
Series 32	12,000,000	300
Series 36	16,000,000	400
Series 38	16,000,000	400
Series 40	12,000,000	300
Series 42	12,000,000	300
	82,000,000	2,050
Other equity instruments		
LRCN – Series 1	500,000	500
LRCN – Series 2	500,000	500
	83,000,000	3,050
Common shares	337,587,486	3,141
Stock options	11,683,708	

As at August 20, 2021, there were 337,617,366 common shares and 11,661,741 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, LRCNs 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 845 million Bank common shares, which would have a 71.5% dilutive effect based on the number of Bank common shares outstanding as at July 31, 2021.

Dividends

On August 24, 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 November 1, 2021 to shareholders of record on September 27, 2021.

Movement in Regulatory Capital

(millions of Canadian dollars)	Nine months ended July 31, 2021
Common Equity Tier 1 (CET1) capital	
Balance at beginning	11,167
Issuance of common shares (including Stock Option Plan)	78
Impact of shares purchased or sold for trading	(3)
Repurchase of common shares	–
Other contributed surplus	9
Dividends on preferred and common shares and distributions on other equity instruments	(821)
Net income attributable to the Bank's shareholders and holders of other equity instruments	2,401
Removal of own credit spread (net of income taxes)	(3)
Other	468
Movements in accumulated other comprehensive income	
Translation adjustments	(178)
Debt securities at fair value through other comprehensive income	(23)
Change in goodwill and intangible assets (net of related tax liability)	(17)
Other, including regulatory adjustments and transitional arrangements	
Change in defined benefit pension plan asset (net of related tax liability)	(392)
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)	2
Other deductions or regulatory adjustments to CET1 implemented by OSFI(1)	(114)
Change in other regulatory adjustments(2)	–
Balance at end	12,574
Additional Tier 1 capital	
Balance at beginning	2,945
New Tier 1 eligible capital issuances	500
Redeemed capital(3)	(800)
Change in non-qualifying Additional Tier 1 subject to phase-out	–
Other, including regulatory adjustments and transitional arrangements	2
Balance at end	2,647
Total Tier 1 capital	15,221
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	51
Other, including regulatory adjustments and transitional arrangements	(24)
Balance at end	1,082
Total regulatory capital	16,303

(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.
(3) Figures as at July 31, 2021 include the redemption of the Series 36 preferred shares on August 15, 2021.

Risk-Weighted Assets by Key Risk Drivers

Risk-weighted assets (RWA) amounted to $103.1 billion as at July 31, 2021 compared to $94.8 billion as at October 31, 2020, an $8.3 billion increase resulting mainly from organic growth in RWA and from an unwinding of the temporary reduction to stressed Value-at-Risk (VaR) multipliers for market risk, partly offset by improvement in the credit quality of the loan portfolio. The changes in the Bank's RWA by risk type are presented in the following table.

Risk-Weighted Assets Movements by Key Drivers

(millions of Canadian dollars)						Quarter ended
			July 31, 2021	April 30, 2021	January 31, 2021	October 31, 2020
	Non-counterparty credit risk	Counterparty credit risk	Total	Total	Total	Total
Credit risk – Risk-weighted assets at beginning	73,792	8,722	82,514	81,100	78,985	77,944
Book size	2,905	840	3,745	2,656	3,323	812
Book quality	(595)	(125)	(720)	(326)	(64)	801
Model updates	–	–	–	–	(212)	(447)
Methodology and policy	–	–	–	–	–	–
Acquisitions and disposals	–	–	–	–	–	–
Foreign exchange movements	312	63	375	(916)	(932)	(125)
Credit risk – Risk-weighted assets at end	76,414	9,500	85,914	82,514	81,100	78,985
Market risk – Risk-weighted assets at beginning			3,307	3,489	3,497	4,724
Movement in risk levels(1)			(193)	(182)	(8)	(1,227)
Model updates			–	–	–	–
Methodology and policy			958	–	–	–
Acquisitions and disposals			–	–	–	–
Market risk – Risk-weighted assets at end			4,072	3,307	3,489	3,497
Operational risk – Risk-weighted assets at beginning			12,884	12,594	12,326	12,146
Movement in risk levels			269	290	268	180
Acquisitions and disposals			–	–	–	–
Operational risk – Risk-weighted assets at end			13,153	12,884	12,594	12,326
Risk-weighted assets at end			103,139	98,705	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. On March 16, 2021, OSFI announced the unwinding of the temporary reduction of stressed Value-at-Risk (VaR) multipliers under the market risk capital requirements for banks effective May 1, 2021. The impact of this measure is reflected in the market risk-weighted assets calculation for the quarter ended July 31, 2021.

Regulatory Capital Ratios

As at July 31, 2021, the Bank's CET1, Tier 1, and Total capital ratios were, respectively, 12.2%, 14.8% and 15.8%, 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, common share issuances under the Stock Option Plan, and remeasurements of pension plans and other post-employment benefit plans. These factors were partly offset by the organic growth in RWA, by the impact of the transitional measures applicable to ECL provisioning, of which the scaling factor decreased to 50% from 70%, and by the impact of unwinding the temporary reduction of stressed VaR multipliers. The decreases in the Tier 1 capital ratio and in the Total capital ratio are explained essentially by redemptions of the Series 34 and Series 36 First Preferred Shares, tempered by the same factors described above and by the issuance of LRCN – Series 2. As at July 31, 2021, the leverage ratio was 4.4%, stable when compared to October 31, 2020. The growth in Tier 1 capital, explained by the same factors as described above, and significant growth in total exposure were 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(1)

(millions of Canadian dollars)	**As at July 31, 2021**		As at October 31, 2020	
	Adjusted(2)		Adjusted(2)	
Capital				
CET1	**12,445**	**12,574**	10,924	11,167
Tier 1(3)	**15,092**	**15,221**	13,869	14,112
Total(3)	**16,303**	**16,303**	15,167	15,167
Risk-weighted assets	**103,139**	**103,139**	94,808	94,808
Total exposure	**344,930**	**344,930**	321,038	321,038
Capital ratios				
CET1	**12.1 %**	**12.2 %**	11.5 %	11.8 %
Tier 1(3)	**14.6 %**	**14.8 %**	14.6 %	14.9 %
Total(3)	**15.8 %**	**15.8 %**	16.0 %	16.0 %
Leverage ratio	**4.4 %**	**4.4 %**	4.3 %	4.4 %

(1) Capital and regulatory ratios are calculated in accordance with the Basel III rules, as described on page 60 of the *2020 Annual Report.*
(2) Capital and adjusted regulatory ratios are calculated in accordance with the Basel III rules, as described on page 60 of the *2020 Annual Report*, and not taking into account the transitional measure for provisioning expected credit losses. 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) Figures as at July 31, 2021 include the redemption of the Series 36 First Preferred Shares on August 15, 2021.

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 12 indicators used by the BCBS and the Financial Stability Board to evaluate 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 G-SIB 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, updated annually, are calculated and presented based on specific instructions issued by the BCBS. 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 evaluate 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[(3)]	62,282
Size[(4)]	Total exposures as defined for use in the Basel III leverage ratio	359,980
Interconnectedness[(5)]	Intra-financial system assets[(3)]	40,412
	Intra-financial system liabilities	28,938
	Securities outstanding	82,474
Substitutability/financial institutions infrastructure[(6)]	Payment activity[(7)]	14,045,497
	Assets under custody	596,656
	Underwritten transactions in debt and equity markets	35,095
Complexity[(8)]	Notional amount of over-the-counter derivative financial instruments	1,177,539
	Trading and investment securities[(3)]	45,988
	Level 3 financial assets	1,232

(1) The G-SIB indicators are prepared using the methodology prescribed in the BCBS guidelines published in July 2013 and in the 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) This amount has been revised from the previously presented amount.
(4) Represents the Bank's total on-and-off balance sheet exposures as determined by OSFI's Basel III leverage ratio rules before regulatory adjustments.
(5) Represents transactions with other financial institutions.
(6) Represents the extent to which the Bank's services could be substituted by other institutions.
(7) For the year ended October 31, 2020.
(8) Includes the level of complexity and volume of the Bank's trading activities represented through derivative financial instruments, trading securities, investment 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 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.

Regulatory Developments

On April 8, 2021, OSFI announced a return to the consultation process addressing minimum qualifying interest rates for uninsured mortgages and restated the importance of having sound mortgage underwriting practices. On May 20, 2021, OSFI announced that, effective June 1, 2021, the qualifying rate for uninsured mortgages (i.e., residential mortgages with a downpayment of 20 percent or more) will be the greater of the mortgage contract interest rate plus 2% and a minimum floor of 5.25%. In addition, OSFI is requiring that calibration of the qualifying interest rate be revisited at least once a year, i.e., every December, to ensure it remains appropriate to risks in the environment.

OSFI is well aware that the country's post-pandemic economic recovery must be backed by a strong financial system capable of supporting the Canadian population in the current environment and that real estate market conditions in Canada could heighten the financial risk weighing on lenders. As such, at this time, it is taking proactive measures to ensure the sustained resilience of banks. The minimum qualifying interest rate provides an additional level of safety to ensure that borrowers have the ability to make mortgage payments should circumstances change, e.g., in the case of reduced income or a rise in mortgage interest rates.

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

Maximum Credit Risk Exposure Under the Basel Asset Categories

(millions of Canadian dollars)						As at July 31, 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	63,287	10,464	–	–	–	73,751	66,813
Qualifying revolving retail	2,378	6,638	–	–	–	9,016	8,774
Other retail	14,998	2,470	–	–	29	17,497	16,740
	80,663	19,572	–	–	29	100,264	92,327
Non-retail							
Corporate	69,920	27,347	22,667	141	5,388	125,463	115,402
Sovereign	62,066	5,935	58,264	241	114	126,620	119,167
Financial institutions	5,179	410	75,030	2,231	797	83,647	72,917
	137,165	33,692	155,961	2,613	6,299	335,730	307,486
Trading portfolio	–	–	–	16,950	–	16,950	14,011
Securitization	2,265	–	–	–	3,772	6,037	6,054
Total – Gross credit risk	220,093	53,264	155,961	19,563	10,100	458,981	419,878
Standardized Approach	22,488	224	30,747	2,254	416	56,129	37,939
AIRB Approach	197,605	53,040	125,214	17,309	9,684	402,852	381,939
Total – Gross credit risk	220,093	53,264	155,961	19,563	10,100	458,981	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 – Third Quarter 2021* and in *Supplementary Regulatory Capital and Pillar 3 Disclosure – Third 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 July 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	37,086	222	18,537	18,327	Interest rate[(3)]
Securities					
At fair value through profit or loss	84,594	82,612	1,982	–	Interest rate[(3)] and equity
At fair value through other comprehensive income	9,610	–	9,610	–	Interest rate[(3)] and equity[(4)]
At amortized cost	11,074	–	11,074	–	Interest rate[(3)]
Securities purchased under reverse repurchase agreements and securities borrowed	8,791	–	8,791	–	Interest rate[(3)(5)]
Loans and acceptances, net of allowances	178,946	7,729	171,217	–	Interest rate[(3)]
Derivative financial instruments	15,256	15,029	227	–	Interest rate and exchange rate
Defined benefit asset	673	–	673	–	Other
Other	8,010	–	–	8,010	
	354,040	105,592	222,111	26,337	
Liabilities					
Deposits	236,544	13,761	222,783	–	Interest rate[(3)]
Acceptances	6,731	–	6,731	–	Interest rate[(3)]
Obligations related to securities sold short	18,654	18,654	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	26,642	–	26,642	–	Interest rate[(3)(5)]
Derivative financial instruments	16,593	16,285	308	–	Interest rate and exchange rate
Liabilities related to transferred receivables	23,638	7,971	15,667	–	Interest rate[(3)]
Defined benefit liability	145	–	145	–	Other
Other	5,745	–	65	5,680	Interest rate[(3)]
Subordinated debt	769	–	769	–	Interest rate[(3)]
	335,461	56,671	273,110	5,680	

(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
		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	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 below and on the following page 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 pages 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		Nine months ended	
				July 31, 2021	April 30, 2021		July 31, 2020		**July 31, 2021**	July 31, 2020
	Low	**High**	**Average**	**Period end**	Average	Period end	Average	Period end	**Average**	Average
Interest rate	**(5.3)**	**(11.0)**	**(7.3)**	**(6.6)**	(7.7)	(7.7)	(8.8)	(9.5)	**(7.4)**	(7.5)
Exchange rate	**(0.3)**	**(1.5)**	**(0.6)**	**(0.9)**	(0.9)	(0.4)	(1.0)	(1.3)	**(0.8)**	(0.9)
Equity	**(5.6)**	**(8.6)**	**(6.6)**	**(6.7)**	(5.7)	(6.0)	(12.7)	(13.3)	**(6.1)**	(8.1)
Commodity	**(0.7)**	**(1.7)**	**(1.0)**	**(0.9)**	(0.8)	(0.9)	(0.9)	(0.7)	**(0.8)**	(1.1)
Correlation effect(2)	**n.m.**	**n.m.**	**7.7**	**7.3**	7.7	6.2	9.2	7.6	**7.5**	7.9
Total trading VaR	**(6.2)**	**(12.3)**	**(7.8)**	**(7.8)**	(7.4)	(8.8)	(14.2)	(17.2)	**(7.6)**	(9.7)

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

SVaR of Trading Portfolios by Risk Category[1]

(millions of Canadian dollars)							Quarter ended		Nine months ended	
				July 31, 2021	April 30, 2021		July 31, 2020		**July 31, 2021**	July 31, 2020
	Low	**High**	**Average**	**Period end**	Average	Period end	Average	Period end	**Average**	Average
Interest rate	**(15.5)**	**(26.7)**	**(19.9)**	**(17.6)**	(16.1)	(19.3)	(12.7)	(10.0)	**(17.5)**	(14.8)
Exchange rate	**(0.5)**	**(2.7)**	**(1.3)**	**(1.3)**	(1.9)	(0.7)	(1.0)	(1.3)	**(1.5)**	(1.5)
Equity	**(5.5)**	**(13.8)**	**(7.3)**	**(6.8)**	(9.7)	(7.2)	(15.7)	(19.4)	**(8.8)**	(13.9)
Commodity	**(0.8)**	**(2.5)**	**(1.3)**	**(1.5)**	(1.4)	(1.2)	(0.8)	(0.5)	**(1.5)**	(1.6)
Correlation effect[2]	**n.m.**	**n.m.**	**17.6**	**17.9**	13.1	15.4	11.2	11.6	**14.6**	13.8
Total trading SVaR	**(7.6)**	**(21.5)**	**(12.2)**	**(9.3)**	(16.0)	(13.0)	(19.0)	(19.6)	**(14.7)**	(18.0)

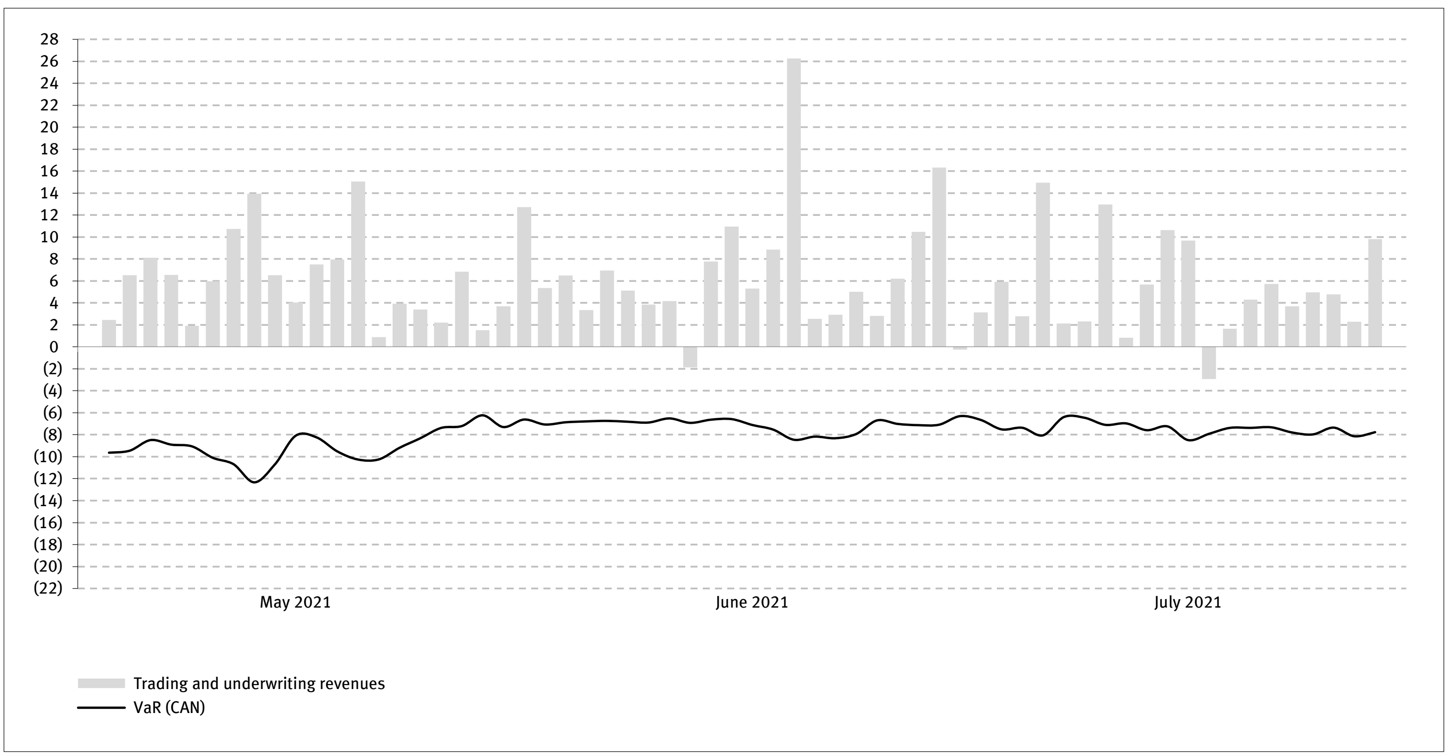
n.m. Computation of a correlation effect for the high and low is not meaningful, as highs and lows may occur on different days and be attributable to different types of risk.
(1) Amounts are presented on a pre-tax basis and represent one-day SVaR using a 99% confidence level.
(2) The total trading SVaR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

Between the second and the third quarter of 2021, the average total trading VaR remained relatively stable, whereas the average total trading SVaR decreased given that the correlation effect increased between risk factors.

Daily Trading and Underwriting Revenues

The following table shows daily trading and underwriting revenues as well as VaR. During the quarter ended July 31, 2021, daily trading and underwriting revenues were positive 95% of the days. Two trading days were marked by daily trading and underwriting net losses of more than $1 million. Neither of these losses exceeded the VaR.

Quarter Ended July 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 July 31, 2021			As at October 31, 2020[1]		
	Canadian dollar	Other currencies	Total	Canadian dollar	Other currencies	Total
Impact on equity						
100-basis-point increase in the interest rate	(222)	51	(171)	(239)	15	(224)
25-basis-point decrease in the interest rate	49	(8)	41	49	(4)	45
Impact on net interest income						
100-basis-point increase in the interest rate	101	18	119	175	7	182
25-basis-point decrease in the interest rate	(35)	(5)	(40)	(56)	(2)	(58)

(1) After refining the method used to calculate interest rate movements, certain amounts have been modified from those previously reported as at October 31, 2020.

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 risks arise 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, but the Bank's sound management of liquidity and funding risk 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 and the resulting operational challenges, OSFI took exceptional action in 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*. 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, the following significant new regulatory developments should be considered.

On March 11, 2021, OSFI published a public consultation on an updated *Liquidity Adequacy Requirements* (LAR) guideline that takes effect in the first quarter of 2023. OSFI is making changes to its LAR guideline to improve risk-sensitivity and ensure that financial institutions hold enough cash or other liquid investments to meet contingent liquidity demands and to support continued lending, particularly during periods of financial stress.

On April 6, 2021, OSFI announced that the temporary increase to the covered bond limit was being unwound effective immediately. One year ago, OSFI had applied extraordinary regulatory adjustments to support the financial and operational resilience of financial institutions in response to the COVID-19 pandemic. These measures had included a temporary increase to the covered bond limit to ease access to the Bank of Canada's liquidity mechanisms.

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 bank emergency liquidity facilities. The following tables provide information on the Bank's encumbered and unencumbered assets.

Liquid Asset Portfolio

(millions of Canadian dollars)					As at July 31, 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	37,086	–	37,086	6,330	30,756	23,271
Securities						
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	28,008	26,064	54,072	28,854	25,218	21,103
Issued or guaranteed by Canadian provincial and municipal governments	12,664	4,109	16,773	11,053	5,720	7,371
Other debt securities	6,435	1,744	8,179	1,573	6,606	5,332
Equity securities	58,171	42,434	100,605	74,915	25,690	33,346
Loans						
Securities backed by insured residential mortgages	10,886	–	10,886	5,514	5,372	3,950
As at July 31, 2021	153,250	74,351	227,601	128,239	99,362	
As at October 31, 2020	140,783	60,560	201,343	106,970		94,373

(millions of Canadian dollars)	As at July 31, 2021	As at October 31, 2020
Unencumbered liquid assets by entity		
National Bank (parent)	60,374	47,135
Domestic subsidiaries	10,215	21,928
Foreign subsidiaries and branches	28,773	25,310
	99,362	94,373

(millions of Canadian dollars)	As at July 31, 2021	As at October 31, 2020
Unencumbered liquid assets by currency		
Canadian dollar	50,479	50,568
U.S. dollar	36,793	26,099
Other currencies	12,090	17,706
	99,362	94,373

Liquid Asset Portfolio – Average[4]

(millions of Canadian dollars)						Quarter ended
					July 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	38,542	–	38,542	6,003	32,539	27,622
Securities						
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	27,380	28,438	55,818	35,174	20,644	18,026
Issued or guaranteed by Canadian provincial and municipal governments	13,719	4,655	18,374	12,473	5,901	6,889
Other debt securities	6,677	1,699	8,376	1,635	6,741	5,501
Equity securities	64,620	43,438	108,058	76,837	31,221	34,763
Loans						
Securities backed by insured residential mortgages	10,816	–	10,816	5,850	4,966	3,655
	161,754	78,230	239,984	137,972	102,012	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 July 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	**285**	**6,045**	**30,756**	**–**	**37,086**	**1.8**
Securities	**42,044**	**–**	**63,234**	**–**	**105,278**	**11.9**
Securities purchased under reverse repurchase agreements and securities borrowed	**–**	**8,791**	**–**	**–**	**8,791**	**2.4**
Loans and acceptances, net of allowances	**35,590**	**–**	**5,372**	**137,984**	**178,946**	**10.1**
Derivative financial instruments	**–**	**–**	**–**	**15,256**	**15,256**	**–**
Investments in associates and joint ventures	**–**	**–**	**–**	**338**	**338**	**–**
Premises and equipment	**–**	**–**	**–**	**1,181**	**1,181**	**–**
Goodwill	**–**	**–**	**–**	**1,404**	**1,404**	**–**
Intangible assets	**–**	**–**	**–**	**1,488**	**1,488**	**–**
Other assets	**–**	**–**	**–**	**4,272**	**4,272**	**–**
	77,919	**14,836**	**99,362**	**161,923**	**354,040**	**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. LCR is calculated by dividing the total amount of high-quality liquid assets (HQLA) by the total amount of net cash outflows. 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 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's *Liquidity Adequacy Requirements* guideline.

The following table provides average LCR data calculated using the daily figures in the quarter. For the quarter ended July 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
		July 31, 2021	April 30, 2021
	Total unweighted value[2] (average)	Total weighted value[3] (average)	Total weighted value[3] (average)
High-quality liquid assets (HQLA)			
Total HQLA	n.a.	68,127	67,379
Cash outflows			
Retail deposits and deposits from small business customers, of which:	58,953	4,847	4,825
Stable deposits	26,945	808	800
Less stable deposits	32,008	4,039	4,025
Unsecured wholesale funding, of which:	98,701	52,125	54,759
Operational deposits (all counterparties) and deposits in networks of cooperative banks	22,949	5,581	4,585
Non-operational deposits (all counterparties)	66,416	37,208	41,306
Unsecured debt	9,336	9,336	8,868
Secured wholesale funding	n.a.	22,184	21,511
Additional requirements, of which:	46,188	11,276	13,669
Outflows related to derivative exposures and other collateral requirements	11,058	4,869	7,057
Outflows related to loss of funding on secured debt securities	1,318	1,318	2,007
Backstop liquidity and credit enhancement facilities and commitments to extend credit	33,812	5,089	4,605
Other contractual commitments to extend credit	2,316	807	780
Other contingent commitments to extend credit	106,586	1,659	1,658
Total cash outflows	n.a.	92,898	97,202
Cash inflows			
Secured lending (e.g., reverse repos)	98,208	19,901	20,047
Inflows from fully performing exposures	10,986	7,160	7,006
Other cash inflows	20,842	20,842	25,062
Total cash inflows	130,036	47,903	52,115
		Total adjusted value[4]	Total adjusted value[4]
Total HQLA		68,127	67,379
Total net cash outflows		44,995	45,087
Liquidity coverage ratio (%)[5]		154 %	150 %

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 July 31, 2021, Level 1 liquid assets represented 86% of the Bank's HQLA, which includes cash, central bank deposits, and bonds issued or guaranteed by the Canadian government and Canadian provincial governments.

Cash outflows arise from the application of OSFI-prescribed assumptions on deposits, debt, secured funding, commitments and additional collateral requirements. The cash outflows are partly offset by cash inflows, which come mainly from secured loans and performing loans. The Bank expects some quarter-over-quarter variation between reported LCRs, and such variation may not be indicative of a trend. The variation between the quarter ended July 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 viable 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. NSFR is calculated by dividing available stable funding by required stable funding. 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 in accordance with OSFI's *Liquidity Adequacy Requirements* guideline. As at July 31, 2021, the Bank's NSFR was 123%, 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 July 31, 2021	As at April 30, 2021
	Unweighted value by residual maturity					
	No maturity	6 months or less	Over 6 months to 1 year	Over 1 year	Weighted value[2]	Weighted value[2]
Available Stable Funding (ASF) Items						
Capital:	18,579	–	–	769	19,349	18,927
Regulatory capital	18,579	–	–	769	19,349	18,927
Other capital instruments	–	–	–	–	–	–
Retail deposits and deposits from small business customers:	54,875	9,944	5,987	14,770	79,326	78,623
Stable deposits	25,485	4,461	3,129	4,868	36,289	36,144
Less stable deposits	29,390	5,483	2,858	9,902	43,037	42,479
Wholesale funding:	68,933	71,889	10,225	29,662	81,862	79,610
Operational deposits	24,297	–	–	–	12,148	11,052
Other wholesale funding	44,636	71,889	10,225	29,662	69,714	68,558
Liabilities with matching interdependent assets[3]	–	2,013	2,472	19,151	–	–
Other liabilities[4]:	21,266		13,088		805	773
NSFR derivative liabilities[4]	n.a.		9,355		n.a.	n.a.
All other liabilities and equity not included in the above categories	21,266	2,251	294	1,188	805	773
Total ASF	n.a.	n.a.	n.a.	n.a.	181,342	177,933
Required Stable Funding (RSF) Items						
Total NSFR high-quality liquid assets (HQLA)	n.a.	n.a.	n.a.	n.a.	6,836	6,556
Deposits held at other financial institutions for operational purposes	–	–	–	–	–	–
Performing loans and securities:	40,825	66,159	17,411	87,310	122,289	116,878
Performing loans to financial institutions secured by Level 1 HQLA	358	152	–	–	25	41
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	3,768	38,043	1,383	779	5,739	5,632
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	17,512	22,839	11,195	32,244	58,958	56,040
With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	151	2,844	12	143	1,619	1,779
Performing residential mortgages, of which:	9,057	4,520	4,795	50,153	45,122	42,673
With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	9,057	4,520	4,795	50,153	45,122	42,673
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	10,130	605	38	4,134	12,445	12,492
Assets with matching interdependent liabilities[3]	–	2,013	2,472	19,151	–	–
Other assets[4]:	2,579		37,924		15,154	15,221
Physical traded commodities, including gold	285	n.a.	n.a.	n.a.	285	308
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs[4]	n.a.		7,049		5,992	6,157
NSFR derivative assets[4]	n.a.		9,616		261	–
NSFR derivative liabilities before deduction of the variation margin posted[4]	n.a.		14,678		734	756
All other assets not included in the above categories	2,294	5,396	383	802	7,882	8,000
Off-balance-sheet items[4]	n.a.		93,347		3,579	3,511
Total RSF	n.a.	n.a.	n.a.	n.a.	147,858	142,166
Net Stable Funding Ratio (%)	n.a.	n.a.	n.a.	n.a.	123 %	125 %

n.a. Not applicable
(1) OSFI prescribed a table format in order to standardize disclosure throughout the banking industry.
(2) Weighted values are calculated after application of the weightings set out in OSFI's *Liquidity Adequacy Requirements* guideline.
(3) As per OSFI's specifications, liabilities arising from transactions involving the Canada Mortgage Bond program and their corresponding encumbered mortgages are given ASF and RSF of 0%, respectively.
(4) 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. On April 30, 2021, DBRS Limited (DBRS) changed the trend on all ratings of the Bank and its related entities to "Positive" from "Stable" and confirmed all ratings, including a rating of AA(low) for long-term deposits as well as for long-term non-bail-inable senior debt and a rating of R-1(mid) for short-term senior debt. This change reflects DBRS's recognition of the Bank's solid performance in recent years, notably its expanded footprint into targeted markets and niches throughout Canada, in particular in the Wealth Management and Financial Markets segments.

The table below presents the residual contractual maturities of the Bank's wholesale funding. The information has been presented in accordance with the categories recommended by the EDTF for comparison purposes with other banks.

Residual Contractual Maturities of Wholesale Funding[1]

(millions of Canadian dollars)								As at July 31, 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]	567	31	7	–	605	–	–	605
Certificates of deposit and commercial paper[3]	3,573	5,316	5,743	2,718	17,350	–	–	17,350
Senior unsecured medium-term notes[4][5]	–	880	173	2,169	3,222	2,686	6,280	12,188
Senior unsecured structured notes	–	–	3	–	3	363	2,559	2,925
Covered bonds and asset-backed securities								
Mortgage securitization	–	405	1,410	2,440	4,255	3,694	15,689	23,638
Covered bonds	–	683	1,480	1,247	3,410	1,108	4,067	8,585
Securitization of credit card receivables	–	–	36	–	36	28	–	64
Subordinated liabilities[6]	–	–	–	–	–	–	769	769
	4,140	7,315	8,852	8,574	28,881	7,879	29,364	66,124
Secured funding	–	1,088	2,926	3,687	7,701	4,830	19,756	32,287
Unsecured funding	4,140	6,227	5,926	4,887	21,180	3,049	9,608	33,837
	4,140	7,315	8,852	8,574	28,881	7,879	29,364	66,124
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 July 31, 2021
	One-notch downgrade	Three-notch downgrade
Derivatives[1]	25	33

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

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

The following tables present balance sheet items and off-balance-sheet commitments by residual contractual maturity as at July 31, 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 July 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	11,006	397	380	216	145	–	–	–	24,942	37,086
Securities										
At fair value through profit or loss	1,106	3,003	3,015	860	716	2,811	6,884	8,592	57,607	84,594
At fair value through other comprehensive income	–	3	21	70	631	246	4,617	3,458	564	9,610
At amortized cost	13	171	564	241	431	3,723	5,095	836	–	11,074
	1,119	3,177	3,600	1,171	1,778	6,780	16,596	12,886	58,171	105,278
Securities purchased under reverse repurchase agreements and securities borrowed	2,250	1,214	159	–	374	624	–	–	4,170	8,791
Loans(1)										
Residential mortgage	630	1,302	1,978	1,669	2,714	8,536	47,044	6,646	592	71,111
Personal	161	367	679	554	892	3,379	15,666	4,046	14,101	39,845
Credit card									2,035	2,035
Business and government	14,198	4,346	3,526	3,198	3,522	6,011	11,172	3,202	11,103	60,278
Customers' liability under acceptances	5,836	895	–	–	–	–	–	–	–	6,731
Allowances for credit losses									(1,054)	(1,054)
	20,825	6,910	6,183	5,421	7,128	17,926	73,882	13,894	26,777	178,946
Other										
Derivative financial instruments	1,483	1,755	2,692	513	1,313	1,785	2,658	3,057	–	15,256
Investments in associates and joint ventures									338	338
Premises and equipment									1,181	1,181
Goodwill									1,404	1,404
Intangible assets									1,488	1,488
Other assets(1)	1,689	177	340	124	54	434	86	21	1,347	4,272
	3,172	1,932	3,032	637	1,367	2,219	2,744	3,078	5,758	23,939
	38,372	13,630	13,354	7,445	10,792	27,549	93,222	29,858	119,818	354,040

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

(millions of Canadian dollars)										As at July 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	951	1,629	4,343	4,524	2,311	3,748	6,539	5,030	40,312	69,387
Business and government	25,409	10,764	11,143	3,760	4,933	4,989	9,119	5,302	87,455	162,874
Deposit-taking institutions	1,944	160	23	34	55	1	–	37	2,029	4,283
	28,304	12,553	15,509	8,318	7,299	8,738	15,658	10,369	129,796	236,544
Other										
Acceptances	5,836	895	–	–	–	–	–	–	–	6,731
Obligations related to securities sold short(3)	36	42	238	88	331	2,375	4,155	4,225	7,164	18,654
Obligations related to securities sold under repurchase agreements and securities loaned	14,078	2,025	2,184	1,993	–	–	–	–	6,362	26,642
Derivative financial instruments	1,942	1,911	1,663	789	1,341	1,349	5,938	1,660	–	16,593
Liabilities related to transferred receivables(4)	–	405	1,410	1,471	969	3,694	11,889	3,800	–	23,638
Securitization – Credit card(5)	–	–	36	–	–	28	–	–	–	64
Lease liabilities(5)	7	15	21	23	21	86	214	192	–	579
Other liabilities – Other items(1)(5)	548	406	158	121	122	73	35	49	3,735	5,247
	22,447	5,699	5,710	4,485	2,784	7,605	22,231	9,926	17,261	98,148
Subordinated debt	–	–	–	–	–	–	–	769	–	769
Equity									18,579	18,579
	50,751	18,252	21,219	12,803	10,083	16,343	37,889	21,064	165,636	354,040
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	127	506	2,497	790	1,391	1,013	78	–	–	6,402
Credit card receivables(6)									8,495	8,495
Backstop liquidity and credit enhancement facilities(7)	–	–	15	4,502	15	–	–	–	2,922	7,454
Commitments to extend credit(8)	3,367	7,445	6,991	5,450	3,854	4,207	4,826	196	39,528	75,864
Obligations related to:										
Lease commitments(9)	1	1	2	2	1	2	3	6	–	18
Other contracts(10)	27	80	44	43	41	152	26	–	121	534

(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 $40.6 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 – Third 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	41	
	Management's Discussion and Analysis	59 to 106, 119, 121 and 122	20 to 40	
	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	20, 21, 31 and 33 to 36	
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	20 and 21	
10	Reconciliation of the accounting balance sheet to the regulatory balance sheet			7 to 13, 16 and 17
11	Movements in regulatory capital	65	23	
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	24	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	31 to 36	
Funding				
19	Summary of encumbered and unencumbered assets	96 and 97	33	
20	Residual contractual maturities of balance sheet items and off-balance-sheet commitments	217 to 221	37 to 40	
21	Funding strategy and funding sources	99 to 101	36	
Market risk				
22	Linkage of market risk measures to balance sheet	88 and 89	28 and 29	
23	Market risk factors	86 to 92, 205 and 206	28 to 31	
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	27 and 63 to 74	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	63 to 74	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) Third quarter 2021.
(2) These pages are included in the document entitled *Supplementary Financial Information – Third 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 and nine-month period ended July 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 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) and IAS 39 – *Financial Instruments: Recognition and Measurement* (IAS 39) as well as to the related standards IFRS 7 – *Financial Instruments: Disclosures* (IFRS 7), IFRS 4 – *Insurance Contracts* (IFRS 4), and IFRS 16 – *Leases* (IFRS 16). The amendments complement those issued in 2019 and focus on how financial statements will be affected 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 of 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 rate 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 interest rate benchmarks 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 adopted 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 March 5, 2021, the Financial Conduct Authority (FCA) in the United Kingdom announced the cessation or loss of representativeness of all LIBOR rates in two phases: pound sterling (GBP), euro (EUR), Japanese yen (JPY), Swiss franc (CHF) rates as of December 31, 2021 and U.S. dollar (USD) rates as of June 30, 2023 (except for 1-week and 2-month USD LIBOR, which cease as of December 31, 2021). This official announcement had the effect of fixing spread adjustments between the LIBOR rates and the corresponding risk-free rates set out in the rate-replacement methodology proposed by ISDA. At the same time, the FCA announced that in the months ahead it is launching consultations to assess the appropriateness of publishing certain synthetic LIBOR rates for a given period; they would be calculated using the rate-replacement methodology and based on the corresponding risk-free rates with spread adjustments. This measure would be adopted from a consumer protection and market integrity viewpoint to mitigate the difficulty of amending certain types of contracts when replacing the applicable rate. On May 20, 2021 and June 24, 2021, the FCA issued two consultations on this topic. The results of these consultations should be made public and a final decision should be made by the FCA during the fourth quarter of 2021. In addition, on May 21, 2021, the group working on alternative reference rates in the United States, named the Alternative Reference Rates Committee (ARRC), announced that CME Group had been selected as the administrator for a secured overnight financing rate (SOFR) term rates and that the ARRC will be able to officially recommend these SOFR term rates once certain conditions are met; these rates are to be used in certain sectors of the market, in particular the commercial loans market. On July 29, 2021, the ARRC announced that it was formally recommending the SOFR term rate administered by CME Group.

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 interest rate benchmark 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, which are committees made up of members of management and experts from all departments involved. As at July 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 July 31, 2021 that have yet to transition to alternative benchmark rates and that will mature after December 31, 2021.

(millions of Canadian dollars)					As at July 31, 2021
	USD LIBOR(1)	EUR LIBOR(2)	GBP LIBOR	JPY LIBOR	CHF LIBOR
Non-derivative financial assets(3)	6,923	46	125	–	–
Non-derivative financial liabilities(4)	12	4	–	–	–
Derivative financial instruments(5)	145,931	1,682	9,024	478	36

(1) Includes non-derivative financial assets, non-derivative financial liabilities and derivative financial instruments indexed at USD LIBOR that will mature after June 30, 2023.
(2) Includes exposures indexed at EONIA (Euro Overnight Index Average).
(3) 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.
(4) 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.
(5) 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 to be applied 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 third 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Total	Total
Total revenues	**2,254**	2,238	2,224	2,000	1,968	2,036	1,923	1,915	7,927	7,432
Net income	**839**	801	761	492	602	379	610	604	2,083	2,322
Earnings per share ($)										
Basic	**2.39**	2.28	2.16	1.37	1.67	1.01	1.69	1.68	5.73	6.39
Diluted	**2.36**	2.25	2.15	1.36	1.66	1.01	1.67	1.67	5.70	6.34
Dividends per common share ($)	**0.71**	0.71	0.71	0.71	0.71	0.71	0.71	0.68	2.84	2.66
Return on common shareholders' equity (%)[1]	**21.3**	22.0	21.2	13.7	17.0	10.7	18.0	18.2	14.9	18.0
Total assets	**354,040**	350,742	343,637	331,625	322,453	316,950	289,191	281,458		
Net impaired loans[2]	**312**	349	400	465	453	479	436	450		
Per common share ($)										
Book value	**46.00**	43.59	41.48	39.97	38.91	38.74	37.58	36.89		
Share price										
High	**96.97**	89.42	73.81	72.85	65.54	74.79	74.22	68.02		
Low	**89.47**	72.30	65.54	62.99	51.38	38.73	68.25	60.38		

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.
(2) 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 July 31, 2021	As at October 31, 2020
Assets		
Cash and deposits with financial institutions	37,086	29,142
Securities (Notes 4, 5 and 6)		
At fair value through profit or loss	84,594	78,326
At fair value through other comprehensive income	9,610	12,726
At amortized cost	11,074	11,079
	105,278	102,131
Securities purchased under reverse repurchase agreements and securities borrowed	8,791	14,512
Loans (Note 7)		
Residential mortgage	71,111	64,959
Personal	39,845	37,613
Credit card	2,035	2,038
Business and government	60,278	54,422
	173,269	159,032
Customers' liability under acceptances	6,731	6,866
Allowances for credit losses	(1,054)	(1,158)
	178,946	164,740
Other		
Derivative financial instruments	15,256	13,422
Investments in associates and joint ventures	338	409
Premises and equipment	1,181	1,155
Goodwill	1,404	1,414
Intangible assets	1,488	1,434
Other assets (Note 9)	4,272	3,266
	23,939	21,100
	354,040	331,625
Liabilities and equity		
Deposits (Notes 5 and 10)	236,544	215,878
Other		
Acceptances	6,731	6,866
Obligations related to securities sold short	18,654	16,368
Obligations related to securities sold under repurchase agreements and securities loaned (Note 8)	26,642	33,859
Derivative financial instruments	16,593	12,923
Liabilities related to transferred receivables (Notes 5 and 8)	23,638	22,855
Other liabilities (Note 11)	5,890	5,718
	98,148	98,589
Subordinated debt	769	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	3,050	2,950
Common shares	3,141	3,057
Contributed surplus	47	47
Retained earnings	12,492	10,444
Accumulated other comprehensive income	(151)	(118)
	18,579	16,380
Non-controlling interests (Note 20)	–	3
	18,579	16,383
	354,040	331,625

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

Consolidated Statements of Income

(unaudited) (millions of Canadian dollars)

	Quarter ended July 31		Nine months ended July 31	
	2021	2020	**2021**	2020
Interest income				
Loans	**1,390**	1,362	**4,091**	4,540
Securities at fair value through profit or loss	**282**	265	**829**	901
Securities at fair value through other comprehensive income	**41**	48	**137**	158
Securities at amortized cost	**45**	49	**135**	169
Deposits with financial institutions	**19**	16	**57**	70
	1,777	1,740	**5,249**	5,838
Interest expense				
Deposits	**407**	491	**1,230**	2,092
Liabilities related to transferred receivables	**92**	89	**270**	300
Subordinated debt	**5**	4	**13**	15
Other	**43**	60	**143**	300
	547	644	**1,656**	2,707
Net interest income(1)	**1,230**	1,096	**3,593**	3,131
Non-interest income				
Underwriting and advisory fees	**126**	93	**402**	293
Securities brokerage commissions	**60**	46	**179**	152
Mutual fund revenues	**144**	121	**414**	353
Trust service revenues	**214**	163	**601**	495
Credit fees	**122**	122	**380**	339
Card revenues	**37**	32	**106**	104
Deposit and payment service charges	**72**	63	**204**	194
Trading revenues (losses)	**50**	72	**267**	511
Gains (losses) on non-trading securities, net	**45**	36	**131**	65
Insurance revenues, net	**35**	34	**98**	98
Foreign exchange revenues, other than trading	**33**	25	**103**	80
Share in the net income of associates and joint ventures	**6**	7	**17**	23
Other	**80**	58	**221**	89
	1,024	872	**3,123**	2,796
Total revenues	**2,254**	1,968	**6,716**	5,927
Non-interest expenses				
Compensation and employee benefits	**773**	639	**2,273**	1,992
Occupancy	**73**	74	**224**	217
Technology	**202**	187	**594**	532
Communications	**14**	15	**42**	44
Professional fees	**60**	59	**171**	176
Other	**94**	100	**291**	325
	1,216	1,074	**3,595**	3,286
Income before provisions for credit losses and income taxes	**1,038**	894	**3,121**	2,641
Provisions for credit losses (Note 7)	**(43)**	143	**43**	736
Income before income taxes	**1,081**	751	**3,078**	1,905
Income taxes	**242**	149	**677**	314
Net income	**839**	602	**2,401**	1,591
Net income attributable to				
Preferred shareholders and holders of other equity instruments	**31**	29	**97**	87
Common shareholders	**808**	560	**2,304**	1,464
Bank shareholders and holders of other equity instruments	**839**	589	**2,401**	1,551
Non-controlling interests	**–**	13	**–**	40
	839	602	**2,401**	1,591
Earnings per share *(dollars)* (Note 17)				
Basic	**2.39**	1.67	**6.84**	4.37
Diluted	**2.36**	1.66	**6.77**	4.34
Dividends per common share *(dollars)* (Note 12)	**0.71**	0.71	**2.13**	2.13

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 July 31		Nine months ended July 31	
	2021	2020	**2021**	2020
Net income	**839**	602	**2,401**	1,591
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	**58**	(140)	**(277)**	52
Impact of hedging net foreign currency translation gains (losses)	**(17)**	52	**86**	(21)
	41	(88)	**(191)**	31
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	**(7)**	107	**19**	213
Net (gains) losses on debt securities at fair value through other comprehensive income reclassified to net income	**(14)**	(65)	**(41)**	(133)
Change in allowances for credit losses on debt securities at fair value through other comprehensive income reclassified to net income	**–**	(1)	**(1)**	1
	(21)	41	**(23)**	81
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(10)**	3	**151**	(297)
Net (gains) losses on designated derivative financial instruments reclassified to net income	**9**	(1)	**17**	(8)
	(1)	2	**168**	(305)
Share in the other comprehensive income of associates and joint ventures	**(1)**	(1)	**–**	2
Items that will not be subsequently reclassified to net income				
Remeasurements of pension plans and other post-employment benefit plans	**173**	(121)	**447**	135
Net gains (losses) on equity securities designated at fair value through other comprehensive income	**10**	19	**59**	(5)
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	**37**	(127)	**(29)**	(16)
	220	(229)	**477**	114
Total other comprehensive income, net of income taxes	**238**	(275)	**431**	(77)
Comprehensive income	**1,077**	327	**2,832**	1,514
Comprehensive income attributable to				
Bank shareholders and holders of other equity instruments	**1,077**	320	**2,845**	1,472
Non-controlling interests	**–**	7	**(13)**	42
	1,077	327	**2,832**	1,514

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 July 31		Nine months ended July 31	
	2021	2020	**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	**(1)**	4	**9**	(3)
Impact of hedging net foreign currency translation gains (losses)	**(5)**	14	**22**	(6)
	(6)	18	**31**	(9)
Net change in debt securities at fair value through other comprehensive income				
Net unrealized gains (losses) on debt securities at fair value through other comprehensive income	**(2)**	38	**7**	76
Net (gains) losses on debt securities at fair value through other comprehensive income reclassified to net income	**(4)**	(23)	**(14)**	(48)
Change in allowances for credit losses on debt securities at fair value through other comprehensive income reclassified to net income	**–**	–	**–**	1
	(6)	15	**(7)**	29
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(5)**	1	**53**	(107)
Net (gains) losses on designated derivative financial instruments reclassified to net income	**3**	(1)	**6**	(3)
	(2)	–	**59**	(110)
Share in the other comprehensive income of associates and joint ventures	**–**	–	**–**	1
Items that will not be subsequently reclassified to net income				
Remeasurements of pension plans and other post-employment benefit plans	**62**	(44)	**160**	48
Net gains (losses) on equity securities designated at fair value through other comprehensive income	**4**	8	**21**	(1)
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	**13**	(46)	**(11)**	(6)
	79	(82)	**170**	41
	65	(49)	**253**	(48)

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

Consolidated Statements of Changes in Equity

(unaudited) (millions of Canadian dollars)

	Nine months ended July 31	
	2021	2020
Preferred shares and other equity instruments at beginning (Note 12)	2,950	2,450
Issuances of preferred shares and other equity instruments	500	–
Redemption of preferred shares and other equity instruments for cancellation	(400)	–
Preferred shares and other equity instruments at end	3,050	2,450
Common shares at beginning (Note 12)	3,057	2,949
Issuances of common shares pursuant to the Stock Option Plan	87	96
Repurchases of common shares for cancellation	–	(5)
Impact of shares purchased or sold for trading	(3)	–
Common shares at end	3,141	3,040
Contributed surplus at beginning	47	51
Stock option expense (Note 14)	8	7
Stock options exercised	(9)	(11)
Other	1	–
Contributed surplus at end	47	47
Retained earnings at beginning	10,444	9,312
Net income attributable to the Bank's shareholders and holders of other equity instruments	2,401	1,551
Dividends on preferred shares and distributions on other equity instruments (Note 12)	(103)	(87)
Dividends on common shares (Note 12)	(718)	(715)
Premium paid on common shares repurchased for cancellation	–	(25)
Issuance expenses for shares and other equity instruments, net of income taxes	(4)	–
Remeasurements of pension plans and other post-employment benefit plans	447	135
Net gains (losses) on equity securities designated at fair value through other comprehensive income	59	(5)
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	(29)	(16)
Other	(5)	–
Retained earnings at end	12,492	10,150
Accumulated other comprehensive income at beginning	(118)	16
Net foreign currency translation adjustments	(178)	29
Net change in unrealized gains (losses) on debt securities at fair value through other comprehensive income	(23)	81
Net change in gains (losses) on cash flow hedges	168	(305)
Share in the other comprehensive income of associates and joint ventures	–	2
Accumulated other comprehensive income at end	(151)	(177)
Equity attributable to the Bank's shareholders and holders of other equity instruments	18,579	15,510
Non-controlling interests at beginning	3	358
Purchase of the non-controlling interest of the Credigy Ltd. subsidiary (Note 20)	10	–
Redemption of trust units issued by NBC Asset Trust	–	(350)
Net income attributable to non-controlling interests	–	40
Other comprehensive income attributable to non-controlling interests	(13)	2
Distributions to non-controlling interests	–	(59)
Non-controlling interests at end	–	(9)
Equity	18,579	15,501

Accumulated Other Comprehensive Income

	As at July 31, 2021	As at July 31, 2020
Accumulated other comprehensive income		
Net foreign currency translation adjustments	(117)	37
Net unrealized gains (losses) on debt securities at fair value through other comprehensive income	78	95
Net gains (losses) on instruments designated as cash flow hedges	(115)	(311)
Share in the other comprehensive income of associates and joint ventures	3	2
	(151)	(177)

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

Consolidated Statements of Cash Flows

(unaudited) (millions of Canadian dollars)

	Nine months ended July 31	
	2021	2020
Cash flows from operating activities		
Net income	2,401	1,591
Adjustments for		
Provisions for credit losses	43	736
Amortization of premises and equipment including right-of-use assets	152	146
Amortization of intangible assets	214	189
Deferred taxes	–	(77)
Losses (gains) on sales of non-trading securities, net	(131)	(65)
Share in the net income of associates and joint ventures	(17)	(23)
Stock option expense	8	7
Change in operating assets and liabilities		
Securities at fair value through profit or loss	(6,268)	(10,997)
Securities purchased under reverse repurchase agreements and securities borrowed	5,721	5,012
Loans and acceptances, net of securitization	(13,587)	(9,102)
Deposits	20,666	15,912
Obligations related to securities sold short	2,286	3,759
Obligations related to securities sold under repurchase agreements and securities loaned	(7,217)	13,979
Derivative financial instruments, net	1,836	1,956
Securitization – Credit cards	–	(846)
Interest and dividends receivable and interest payable	(235)	(188)
Current tax assets and liabilities	257	(295)
Other items	1,192	(786)
	7,321	20,908
Cash flows from financing activities		
Issuances of preferred shares and other equity instruments (Note 12)	500	–
Redemption of preferred shares and other equity instruments for cancellation (Note 12)	(400)	–
Issuances of common shares (including the impact of shares purchased for trading)	75	85
Repurchases of common shares for cancellation	–	(30)
Purchase of the non-controlling interest of the Credigy Ltd. subsidiary (Note 20)	(300)	–
Redemption of trust units issued by NBC Asset Trust	–	(350)
Issuance expenses for shares and other equity instruments	(4)	–
Repayments of lease liabilities	(71)	(68)
Dividends paid on shares and distributions on other equity instruments	(827)	(1,029)
Distributions to non-controlling interests	–	(59)
	(1,027)	(1,451)
Cash flows from investing activities		
Net change in investments in associates and joint ventures	141	(12)
Purchases of non-trading securities	(4,934)	(14,617)
Maturities of non-trading securities	1,940	1,428
Sales of non-trading securities	5,789	9,421
Net change in premises and equipment, excluding right-of-use assets	(157)	(138)
Net change in intangible assets	(268)	(246)
	2,511	(4,164)
Impact of currency rate movements on cash and cash equivalents	(861)	87
Increase (decrease) in cash and cash equivalents	7,944	15,380
Cash and cash equivalents at beginning	29,142	13,698
Cash and cash equivalents at end(1)	37,086	29,078
Supplementary information about cash flows from operating activities		
Interest paid	1,792	2,978
Interest and dividends received	5,149	5,921
Income taxes paid	492	497

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 $6.3 billion as at July 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 August 24, 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 and nine-month period ended July 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 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) and IAS 39 – *Financial Instruments: Recognition and Measurement* (IAS 39) as well as to the related standards IFRS 7 – *Financial Instruments: Disclosures* (IFRS 7), IFRS 4 – *Insurance Contracts* (IFRS 4), and IFRS 16 – *Leases* (IFRS 16). The amendments complement those issued in 2019 and focus on how financial statements will be affected 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 of 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.

Note 2 – Accounting Policy Changes (cont.)

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 rate 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 interest rate benchmarks 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 adopted 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 March 5, 2021, the Financial Conduct Authority (FCA) in the United Kingdom announced the cessation or loss of representativeness of all LIBOR rates in two phases: pound sterling (GBP), euro (EUR), Japanese yen (JPY), Swiss franc (CHF) rates as of December 31, 2021 and U.S. dollar (USD) rates as of June 30, 2023 (except for 1-week and 2-month USD LIBOR, which cease as of December 31, 2021). This official announcement had the effect of fixing spread adjustments between the LIBOR rates and the corresponding risk-free rates set out in the rate-replacement methodology proposed by ISDA. At the same time, the FCA announced that in the months ahead it is launching consultations to assess the appropriateness of publishing certain synthetic LIBOR rates for a given period; they would be calculated using the rate-replacement methodology and based on the corresponding risk-free rates with spread adjustments. This measure would be adopted from a consumer protection and market integrity viewpoint to mitigate the difficulty of amending certain types of contracts when replacing the applicable rate. On May 20, 2021 and June 24, 2021, the FCA issued two consultations on this topic. The results of these consultations should be made public and a final decision should be made by the FCA during the fourth quarter of 2021. In addition, on May 21, 2021, the group working on alternative reference rates in the United States, named the Alternative Reference Rates Committee (ARRC), announced that CME Group had been selected as the administrator for a secured overnight financing rate (SOFR) term rates and that the ARRC will be able to officially recommend these SOFR term rates once certain conditions are met; these rates are to be used in certain sectors of the market, in particular the commercial loans market. On July 29, 2021, the ARRC announced that it was formally recommending the SOFR term rate administered by CME Group.

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 interest rate benchmark 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, which are committees made up of members of management and experts from all departments involved. As at July 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)

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 July 31, 2021 that have yet to transition to alternative benchmark rates and that will mature after December 31, 2021.

					As at July 31, 2021
	USD LIBOR(1)	EUR LIBOR(2)	GBP LIBOR	JPY LIBOR	CHF LIBOR
Non-derivative financial assets(3)	6,923	46	125	–	–
Non-derivative financial liabilities(4)	12	4	–	–	–
Derivative financial instruments(5)	145,931	1,682	9,024	478	36

(1) Includes non-derivative financial assets, non-derivative financial liabilities and derivative financial instruments indexed at USD LIBOR that will mature after June 30, 2023.
(2) Includes exposures indexed at EONIA (Euro Overnight Index Average).
(3) 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.
(4) 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.
(5) 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 to be applied 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 July 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	–	–	–	–	37,086	37,086	37,086	37,086
Securities	83,076	1,518	9,046	564	11,074	11,209	105,278	105,413
Securities purchased under reverse repurchase agreements and securities borrowed	–	–	–	–	8,791	8,791	8,791	8,791
Loans and acceptances, net of allowances	8,218	–	–	–	170,728	171,695	178,946	179,913
Other								
Derivative financial instruments	15,256	–	–	–	–	–	15,256	15,256
Other assets	–	–	–	–	1,660	1,660	1,660	1,660
Financial liabilities								
Deposits(1)	–	13,611			222,933	223,327	236,544	236,938
Other								
Acceptances	–	–			6,731	6,731	6,731	6,731
Obligations related to securities sold short	18,654	–			–	–	18,654	18,654
Obligations related to securities sold under repurchase agreements and securities loaned	–	–			26,642	26,642	26,642	26,642
Derivative financial instruments	16,593	–			–	–	16,593	16,593
Liabilities related to transferred receivables	–	10,344			13,294	13,483	23,638	23,827
Other liabilities	–	–			1,450	1,451	1,450	1,451
Subordinated debt	–	–			769	780	769	780

(1) Includes embedded derivative financial instruments.

(unaudited) (millions of Canadian dollars)

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(1)	–	11,418			204,460	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 July 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)

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

Financial Instruments Recorded at Fair Value on the Consolidated Balance Sheet

Hierarchy of Fair Value Measurements

IFRS establishes a fair value 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 July 31, 2021, $23 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 ($3 million in securities classified as at fair value through profit or loss during the quarter ended July 31, 2020). Also, during the quarter ended July 31, 2021, $5 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 July 31, 2020). During the nine-month periods ended July 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 July 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	3,634	7,043	–	10,677
Canadian provincial and municipal governments	–	7,700	–	7,700
U.S. Treasury, other U.S. agencies and other foreign governments	4,085	2,430	–	6,515
Other debt securities	–	2,042	53	2,095
Equity securities	56,834	314	459	57,607
	64,553	19,529	512	84,594
At fair value through other comprehensive income				
Securities issued or guaranteed by				
Canadian government	17	4,032	–	4,049
Canadian provincial and municipal governments	–	2,682	–	2,682
U.S. Treasury, other U.S. agencies and other foreign governments	1,280	270	–	1,550
Other debt securities	–	765	–	765
Equity securities	–	309	255	564
	1,297	8,058	255	9,610
Loans	–	7,907	311	8,218
Other				
Derivative financial instruments	122	15,128	6	15,256
	65,972	50,622	1,084	117,678
Financial liabilities				
Deposits	–	13,766	–	13,766
Other				
Obligations related to securities sold short	13,892	4,762	–	18,654
Derivative financial instruments	479	16,114	–	16,593
Liabilities related to transferred receivables	–	10,344	–	10,344
	14,371	44,986	–	59,357

(unaudited) (millions of Canadian dollars)

				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 in 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 and nine-month period ended July 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 nine-month period ended July 31, 2021, there were no significant changes in the sensitivity analyses of Level 3 financial instruments.

(unaudited) (millions of Canadian dollars)

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

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

The Bank may hedge the fair value of financial instruments classified in the various levels through offsetting hedge positions. Gains and losses on 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.

					Nine months ended July 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]	53	–	25	(25)	–
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	(6)	–	–	–
Purchases	38	–	–	–	–
Sales	(36)	(112)	–	–	–
Issuances	–	–	10	–	–
Settlements and other	–	–	(96)	(1)	–
Financial instruments transferred into Level 3	–	–	–	–	–
Financial instruments transferred out of Level 3	–	–	–	3	(2)
Fair value as at July 31, 2021	512	255	311	6	–
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at July 31, 2021[4]	49	–	25	(25)	–

					Nine months ended July 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]	(12)	–	(20)	(7)	4
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	9	–	–	–
Purchases	21	–	–	–	–
Sales	(15)	–	–	–	–
Issuances	–	–	12	–	(18)
Settlements and other	–	–	(94)	4	–
Financial instruments transferred into Level 3	–	–	177	29	(9)
Financial instruments transferred out of Level 3	–	–	–	1	4
Fair value as at July 31, 2020	452	371	435	31	(19)
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at July 31, 2020[6]	1	–	(20)	(7)	4

(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 in deposits.
(3) Total gains (losses) included in *Non-interest income* was a gain of $53 million.
(4) Total unrealized gains (losses) included in *Non-interest income* was an unrealized gain of $49 million.
(5) Total gains (losses) included in *Non-interest income* was a loss of $35 million.
(6) Total unrealized gains (losses) included in *Non-interest income* was an unrealized loss of $22 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 July 31, 2021	Unrealized gains (losses) for the quarter ended July 31, 2021	Unrealized gains (losses) for the nine months ended July 31, 2021	Unrealized gains (losses) since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss				
Securities	1,518	1	(30)	55
Financial liabilities designated at fair value through profit or loss				
Deposits(1)(2)	13,611	(211)	(798)	(440)
Liabilities related to transferred receivables	10,344	(10)	77	(148)
	23,955	(221)	(721)	(588)

	Carrying value as at July 31, 2020	Unrealized gains (losses) for the quarter ended July 31, 2020	Unrealized gains (losses) for the nine months ended July 31, 2020	Unrealized gains (losses) since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss				
Securities	3,142	6	81	106
Financial liabilities designated at fair value through profit or loss				
Deposits(1)(2)	11,040	(444)	573	528
Liabilities related to transferred receivables	7,734	(9)	(175)	(248)
	18,774	(453)	398	280

(1) For the quarter ended July 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 gain of $50 million ($173 million loss for the quarter ended July 31, 2020). For the nine-month period ended July 31, 2021, the corresponding change in this item resulted in a loss of $40 million ($22 million loss for the nine-month period ended July 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 July 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 July 31, 2021
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value(1)
Securities issued or guaranteed by				
Canadian government	3,985	68	(4)	4,049
Canadian provincial and municipal governments	2,643	50	(11)	2,682
U.S. Treasury, other U.S. agencies and other foreign governments	1,540	13	(3)	1,550
Other debt securities	744	23	(2)	765
Equity securities	511	59	(6)	564
	9,423	213	(26)	9,610

				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 July 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 nine-month period ended July 31, 2021, a dividend income amount of $27 million was recognized for these investments ($14 million for the nine-month period ended July 31, 2020), including an amount of $15 million in dividend income for investments that were sold during the nine-month period ended July 31, 2021 ($2 million for investments that were sold during the nine-month period ended July 31, 2020).

	Nine months ended July 31, 2021			Nine months ended July 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	(6)	86	80	9	(15)	(6)
Designated at fair value through other comprehensive income	–	36	36	–	81	81
Sales(1)	(112)	(59)	(171)	–	(90)	(90)
Fair value at end	255	309	564	371	236	607

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

(unaudited) (millions of Canadian dollars)

Securities at Amortized Cost

	As at July 31, 2021	As at October 31, 2020
Securities issued or guaranteed by		
Canadian government	**5,217**	6,163
Canadian provincial and municipal governments	**2,282**	2,353
U.S. Treasury, other U.S. agencies and other foreign governments	**–**	21
Other debt securities	**3,576**	2,543
Gross carrying value	**11,075**	11,080
Allowances for credit losses	**1**	1
Carrying value	**11,074**	11,079

Gains (Losses) on Disposals of Securities at Amortized Cost

During the nine-month periods ended July 31, 2021 and 2020, the Bank sold certain debt securities measured at amortized cost. The carrying value of these securities upon disposal was $144 million for the nine-month period ended July 31, 2021 ($101 million for the nine-month period ended July 31, 2020), and the Bank had recognized negligible gains for the nine months ended July 31, 2021 (gains of $5 million for the nine months ended July 31, 2020) in *Non-interest income – Gains (losses) on non-trading securities, net* in the Consolidated Statement of Income.

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 July 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)

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

						As at July 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	28,674	1	–	–	–	28,675
Good	16,684	32	–	–	–	16,716
Satisfactory	9,698	1,399	–	–	–	11,097
Special mention	398	254	–	–	–	652
Substandard	112	109	–	–	–	221
Default	–	–	80	–	–	80
AIRB approach	55,566	1,795	80	–	–	57,441
Standardized approach	5,382	128	50	370	7,740	13,670
Gross carrying amount	60,948	1,923	130	370	7,740	71,111
Allowances for credit losses[3]	50	46	28	(48)	–	76
Carrying amount	60,898	1,877	102	418	7,740	71,035
Personal						
Excellent	15,966	48	–	–	–	16,014
Good	11,195	845	–	–	–	12,040
Satisfactory	4,680	1,473	–	–	–	6,153
Special mention	331	495	–	–	–	826
Substandard	125	126	–	–	–	251
Default	–	–	98	–	–	98
AIRB approach	32,297	2,987	98	–	–	35,382
Standardized approach	4,220	62	17	164	–	4,463
Gross carrying amount	36,517	3,049	115	164	–	39,845
Allowances for credit losses[3]	70	109	63	(39)	–	203
Carrying amount	36,447	2,940	52	203	–	39,642
Credit card						
Excellent	447	–	–	–	–	447
Good	327	–	–	–	–	327
Satisfactory	658	25	–	–	–	683
Special mention	301	172	–	–	–	473
Substandard	25	51	–	–	–	76
Default	–	–	–	–	–	–
AIRB approach	1,758	248	–	–	–	2,006
Standardized approach	29	–	–	–	–	29
Gross carrying amount	1,787	248	–	–	–	2,035
Allowances for credit losses[3]	37	98	–	–	–	135
Carrying amount	1,750	150	–	–	–	1,900
Business and government[4]						
Excellent	5,048	–	–	–	270	5,318
Good	23,004	61	–	–	162	23,227
Satisfactory	23,492	6,451	–	–	31	29,974
Special mention	194	1,559	–	–	–	1,753
Substandard	11	228	–	–	–	239
Default	–	–	368	–	–	368
AIRB approach	51,749	8,299	368	–	463	60,879
Standardized approach	5,937	92	86	–	15	6,130
Gross carrying amount	57,686	8,391	454	–	478	67,009
Allowances for credit losses[3]	119	225	296	–	–	640
Carrying amount	57,567	8,166	158	–	478	66,369
Total loans						
Gross carrying amount	156,938	13,611	699	534	8,218	180,000
Allowances for credit losses[3]	276	478	387	(87)	–	1,054
Carrying amount	156,662	13,133	312	621	8,218	178,946

(1) In response to the COVID-19 pandemic, the Bank has approved certain payment deferrals for all types of loans. As at July 31, 2021, the gross carrying value of loans for which deferrals have been approved totalled $140 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)

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 approved certain payment deferrals for all types of loans. As at October 31, 2020, the gross carrying value of loans for which deferrals were 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)

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

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

	As at July 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	16,289	56	–	16,345	15,255	43	–	15,298
Good	4,223	283	–	4,506	3,967	309	–	4,276
Satisfactory	1,408	212	–	1,620	1,273	255	–	1,528
Special mention	79	58	–	137	84	69	–	153
Substandard	4	9	–	13	4	12	–	16
Default	–	–	3	3	–	–	3	3
Non-retail								
Excellent	13,454	–	–	13,454	10,616	–	–	10,616
Good	18,147	–	–	18,147	17,442	343	–	17,785
Satisfactory	6,277	2,860	–	9,137	5,013	3,450	–	8,463
Special mention	19	381	–	400	28	324	–	352
Substandard	3	37	–	40	2	84	–	86
Default	–	–	11	11	–	–	6	6
AIRB approach	59,903	3,896	14	63,813	53,684	4,889	9	58,582
Standardized approach	10,576	–	1	10,577	10,335	5	1	10,341
Total exposure	70,479	3,896	15	74,390	64,019	4,894	10	68,923
Allowances for credit losses	119	57	1	177	115	61	–	176
Total exposure, net of allowances	70,360	3,839	14	74,213	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 July 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	45	60	16	28	58	74	20	22
61 to 90 days	16	19	8	15	24	27	9	10
Over 90 days[4]	–	–	21	–	–	–	24	–
	61	79	45	43	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 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 July 31, 2021			As at October 31, 2020		
	Gross	Allowances for credit losses	Net	Gross	Allowances for credit losses	Net
Loans – Stage 3						
Residential mortgage	130	28	102	193	35	158
Personal	115	63	52	162	76	86
Credit card[1]	–	–	–	–	–	–
Business and government[2]	454	296	158	462	241	221
	699	387	312	817	352	465
POCI loans	534	(87)	621	855	(66)	921
	1,233	300	933	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)

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 July 31, 2021
	Allowances for credit losses as at April 30, 2021	**Provisions for credit losses**	**Write-offs(1)**	**Disposals**	**Recoveries and other**	**Allowances for credit losses as at July 31, 2021**
Balance sheet						
Cash and deposits with financial institutions(2)(3)	5	–	–	–	–	5
Securities(3)						
At fair value through other comprehensive income(4)	1	1	–	–	–	2
At amortized cost(2)	1	–	–	–	–	1
Securities purchased under reverse repurchase agreements and securities borrowed(2)(3)	–	–	–	–	–	–
Loans(5)						
Residential mortgage	79	(2)	(1)	–	–	76
Personal	246	(36)	(14)	–	7	203
Credit card	155	(10)	(14)	–	4	135
Business and government	543	27	(10)	–	1	561
Customers' liability under acceptances	91	(12)	–	–	–	79
	1,114	(33)	(39)	–	12	1,054
Other assets(2)(3)	–	–	–	–	–	–
Off-balance-sheet commitments(6)						
Letters of guarantee and documentary letters of credit	11	2	–	–	–	13
Undrawn commitments	173	(14)	–	–	–	159
Backstop liquidity and credit enhancement facilities	4	1	–	–	–	5
	188	(11)	–	–	–	177
	1,309	(43)	(39)	–	12	1,239

						Quarter ended July 31, 2020
	Allowances for credit losses as at April 30, 2020	Provisions for credit losses	Write-offs(1)	Disposals	Recoveries and other	Allowances for credit losses as at July 31, 2020
Balance sheet						
Cash and deposits with financial institutions(2)(3)	11	(1)	–	–	–	10
Securities(3)						
At fair value through other comprehensive income(4)	3	(1)	–	–	–	2
At amortized cost(2)	2	(1)	–	–	–	1
Securities purchased under reverse repurchase agreements and securities borrowed(2)(3)	–	–	–	–	–	–
Loans(5)						
Residential mortgage	46	10	(2)	–	1	55
Personal	292	34	(27)	–	2	301
Credit card	158	27	(18)	–	4	171
Business and government	463	42	(8)	–	(1)	496
Customers' liability under acceptances	74	11	–	–	–	85
	1,033	124	(55)	–	6	1,108
Other assets(2)(3)	–	–	–	–	–	–
Off-balance-sheet commitments(6)						
Letters of guarantee and documentary letters of credit	18	3	–	–	–	21
Undrawn commitments	141	19	–	–	–	160
Backstop liquidity and credit enhancement facilities	3	–	–	–	–	3
	162	22	–	–	–	184
	1,211	143	(55)	–	6	1,305

(1) The contractual amount outstanding on financial assets that were written off during the quarter ended July 31, 2021 and that are still subject to enforcement activity was $24 million ($34 million for the quarter ended July 31, 2020).
(2) These financial assets are presented net of the allowances for credit losses on the Consolidated Balance Sheet.
(3) As at July 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)

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

						Nine months ended July 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 July 31, 2021
Balance sheet						
Cash and deposits with financial institutions(2)(3)	5	–	–	–	–	5
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	16	(4)	–	(1)	76
Personal	298	(34)	(58)	(14)	11	203
Credit card	169	(2)	(45)	–	13	135
Business and government	533	77	(47)	–	(2)	561
Customers' liability under acceptances	93	(14)	–	–	–	79
	1,158	43	(154)	(14)	21	1,054
Other assets(2)(3)	–	–	–	–	–	–
Off-balance-sheet commitments(6)						
Letters of guarantee and documentary letters of credit	15	(2)	–	–	–	13
Undrawn commitments	157	2	–	–	–	159
Backstop liquidity and credit enhancement facilities	4	1	–	–	–	5
	176	1	–	–	–	177
	1,343	43	(154)	(14)	21	1,239

						Nine months ended July 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 July 31, 2020
Balance sheet						
Cash and deposits with financial institutions(2)(3)	2	8	–	–	–	10
Securities(3)						
At fair value through other comprehensive income(4)	–	2	–	–	–	2
At amortized cost(2)	1	–	–	–	–	1
Securities purchased under reverse repurchase agreements and securities borrowed(2)(3)	–	–	–	–	–	–
Loans(5)						
Residential mortgage	21	37	(5)	–	2	55
Personal	232	148	(95)	–	16	301
Credit card	128	104	(72)	–	11	171
Business and government	268	271	(42)	–	(1)	496
Customers' liability under acceptances	29	56	–	–	–	85
	678	616	(214)	–	28	1,108
Other assets(2)(3)	–	–	–	–	–	–
Off-balance-sheet commitments(6)						
Letters of guarantee and documentary letters of credit	6	15	–	–	–	21
Undrawn commitments	66	94	–	–	–	160
Backstop liquidity and credit enhancement facilities	2	1	–	–	–	3
	74	110	–	–	–	184
	755	736	(214)	–	28	1,305

(1) The contractual amount outstanding on financial assets that were written off during the nine-month period ended July 31, 2021 and that are still subject to enforcement activity was $82 million ($122 million for the nine-month period ended July 31, 2020).
(2) These financial assets are presented net of the allowances for credit losses on the Consolidated Balance Sheet.
(3) As at July 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 a reconciliation of allowances for credit losses for each loan category at amortized cost according to ECL impairment stage.

	Quarter ended July 31, 2021					Quarter ended July 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	66	28	30	(45)	79	57	22	29	(62)	46
Originations or purchases	3	–	–	–	3	5	–	–	–	5
Transfers[2]:										
to Stage 1	3	(3)	–	–	–	9	(8)	(1)	–	–
to Stage 2	–	–	–	–	–	(1)	1	–	–	–
to Stage 3	–	–	–	–	–	–	(1)	1	–	–
Net remeasurement of loss allowances[3]	(22)	21	(1)	(2)	(4)	(7)	11	8	(6)	6
Derecognitions[4]	(1)	–	–	–	(1)	(1)	–	–	–	(1)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	(17)	18	(1)	(2)	(2)	5	3	8	(6)	10
Write-offs	–	–	(1)	–	(1)	–	–	(2)	–	(2)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	–	–	–	–	–	1	–	1
Foreign exchange movements and other	1	–	–	(1)	–	(2)	–	(1)	3	–
Balance at end	50	46	28	(48)	76	60	25	35	(65)	55
Includes:										
Amounts drawn	50	46	28	(48)	76	60	25	35	(65)	55
Undrawn commitments[5]	–	–	–	–	–	–	–	–	–	–
Personal										
Balance at beginning	72	121	63	(5)	251	74	153	77	(7)	297
Originations or purchases	12	–	–	–	12	8	–	–	–	8
Transfers[2]:										
to Stage 1	18	(17)	(1)	–	–	27	(24)	(3)	–	–
to Stage 2	(3)	3	–	–	–	(4)	5	(1)	–	–
to Stage 3	–	(5)	5	–	–	(1)	(12)	13	–	–
Net remeasurement of loss allowances[3]	(24)	13	5	(34)	(40)	(17)	40	10	(1)	32
Derecognitions[4]	(3)	(4)	(1)	–	(8)	(3)	(3)	–	–	(6)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	–	(10)	8	(34)	(36)	10	6	19	(1)	34
Write-offs	–	–	(14)	–	(14)	–	–	(27)	–	(27)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	6	–	6	–	–	6	–	6
Foreign exchange movements and other	–	1	–	–	1	(1)	(1)	(2)	–	(4)
Balance at end	72	112	63	(39)	208	83	158	73	(8)	306
Includes:										
Amounts drawn	70	109	63	(39)	203	81	155	73	(8)	301
Undrawn commitments[5]	2	3	–	–	5	2	3	–	–	5

(1) The total amount of undiscounted initially expected credit losses on the POCI loans acquired during the quarter ended July 31, 2021 was $11 million (no POCI loans were acquired during the quarter ended July 31, 2020). The expected credit losses reflected in the purchase price have been discounted.
(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 July 31, 2021					Quarter ended July 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	69	125	–	–	194	67	135	–	–	202
Originations or purchases	3	–	–	–	3	4	–	–	–	4
Transfers(2):										
to Stage 1	26	(26)	–	–	–	41	(41)	–	–	–
to Stage 2	(4)	4	–	–	–	(4)	4	–	–	–
to Stage 3	–	(8)	8	–	–	–	(10)	10	–	–
Net remeasurement of loss allowances(3)	(28)	14	2	–	(12)	(35)	54	4	–	23
Derecognitions(4)	(1)	–	–	–	(1)	(1)	(1)	–	–	(2)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	(4)	(16)	10	–	(10)	5	6	14	–	25
Write-offs	–	–	(14)	–	(14)	–	–	(18)	–	(18)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	4	–	4	–	–	4	–	4
Foreign exchange movements and other	–	–	–	–	–	–	–	–	–	–
Balance at end	65	109	–	–	174	72	141	–	–	213
Includes:										
Amounts drawn	37	98	–	–	135	41	130	–	–	171
Undrawn commitments(5)	28	11	–	–	39	31	11	–	–	42
Business and government(6)										
Balance at beginning	185	289	289	–	763	220	213	196	–	629
Originations or purchases	37	–	–	–	37	31	–	–	–	31
Transfers(2):										
to Stage 1	27	(27)	–	–	–	11	(9)	(2)	–	–
to Stage 2	(5)	6	(1)	–	–	(10)	11	(1)	–	–
to Stage 3	–	(4)	4	–	–	–	(4)	4	–	–
Net remeasurement of loss allowances(3)	(35)	21	15	–	1	(6)	11	46	–	51
Derecognitions(4)	(12)	(24)	(1)	–	(37)	(5)	(3)	–	–	(8)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	12	(28)	17	–	1	21	6	47	–	74
Write-offs	–	–	(10)	–	(10)	–	–	(8)	–	(8)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	1	–	1	–	–	1	–	1
Foreign exchange movements and other	–	–	–	–	–	–	–	(2)	–	(2)
Balance at end	197	261	297	–	755	241	219	234	–	694
Includes:										
Amounts drawn	119	225	296	–	640	157	191	233	–	581
Undrawn commitments(5)	78	36	1	–	115	84	28	1	–	113
Total allowances for credit losses at end(7)	384	528	388	(87)	1,213	456	543	342	(73)	1,268
Includes:										
Amounts drawn	276	478	387	(87)	1,054	339	501	341	(73)	1,108
Undrawn commitments(5)	108	50	1	–	159	117	42	1	–	160

(1) The total amount of undiscounted initially expected credit losses on the POCI loans acquired during the quarter ended July 31, 2021 was $11 million (no POCI loans were acquired during the quarter ended July 31, 2020). The expected credit losses reflected in the purchase price have been discounted.
(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)

	Nine months ended July 31, 2021					Nine months ended July 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	8	–	–	–	8	9	–	–	–	9
Transfers[2]:										
to Stage 1	15	(10)	(5)	–	–	16	(13)	(3)	–	–
to Stage 2	(2)	2	–	–	–	(3)	3	–	–	–
to Stage 3	–	(1)	1	–	–	–	(3)	3	–	–
Net remeasurement of loss allowances[3]	(29)	33	2	5	11	2	27	13	(12)	30
Derecognitions[4]	(2)	(1)	–	–	(3)	(1)	(1)	–	–	(2)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	(10)	23	(2)	5	16	23	13	13	(12)	37
Write-offs	–	–	(4)	–	(4)	–	–	(5)	–	(5)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	2	–	2	–	–	1	–	1
Foreign exchange movements and other	(3)	–	(3)	3	(3)	–	–	1	–	1
Balance at end	50	46	28	(48)	76	60	25	35	(65)	55
Includes:										
Amounts drawn	50	46	28	(48)	76	60	25	35	(65)	55
Undrawn commitments[5]	–	–	–	–	–	–	–	–	–	–
Personal										
Balance at beginning	89	148	76	(10)	303	65	104	69	(4)	234
Originations or purchases	28	–	–	–	28	29	–	–	–	29
Transfers[2]:										
to Stage 1	59	(53)	(6)	–	–	62	(56)	(6)	–	–
to Stage 2	(9)	10	(1)	–	–	(15)	18	(3)	–	–
to Stage 3	–	(21)	21	–	–	(4)	(44)	48	–	–
Net remeasurement of loss allowances[3]	(75)	46	18	(29)	(40)	(48)	143	46	(3)	138
Derecognitions[4]	(9)	(11)	(2)	–	(22)	(7)	(8)	(2)	–	(17)
Changes to models	–	–	–	–	–	1	–	–	–	1
Provisions for credit losses	(6)	(29)	30	(29)	(34)	18	53	83	(3)	151
Write-offs	–	–	(58)	–	(58)	–	–	(95)	–	(95)
Disposals	(8)	(6)	–	–	(14)	–	–	–	–	–
Recoveries	–	–	16	–	16	–	–	19	–	19
Foreign exchange movements and other	(3)	(1)	(1)	–	(5)	–	1	(3)	(1)	(3)
Balance at end	72	112	63	(39)	208	83	158	73	(8)	306
Includes:										
Amounts drawn	70	109	63	(39)	203	81	155	73	(8)	301
Undrawn commitments[5]	2	3	–	–	5	2	3	–	–	5

(1) The total amount of undiscounted initially expected credit losses on the POCI loans acquired during the nine months ended July 31, 2021 was $11 million ($46 million during the nine months ended July 31, 2020). The expected credit losses reflected in the purchase price have been discounted.
(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.)

	Nine months ended July 31, 2021					Nine months ended July 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	7	–	–	–	7	8	–	–	–	8
Transfers[2]:										
to Stage 1	76	(76)	–	–	–	87	(87)	–	–	–
to Stage 2	(11)	11	–	–	–	(13)	13	–	–	–
to Stage 3	–	(23)	23	–	–	–	(31)	31	–	–
Net remeasurement of loss allowances[3]	(73)	61	9	–	(3)	(55)	135	30	–	110
Derecognitions[4]	(2)	(1)	–	–	(3)	(2)	(2)	–	–	(4)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	(3)	(28)	32	–	1	25	28	61	–	114
Write-offs	–	–	(45)	–	(45)	–	–	(72)	–	(72)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	13	–	13	–	–	11	–	11
Foreign exchange movements and other	–	–	–	–	–	–	–	–	–	–
Balance at end	65	109	–	–	174	72	141	–	–	213
Includes:										
Amounts drawn	37	98	–	–	135	41	130	–	–	171
Undrawn commitments[5]	28	11	–	–	39	31	11	–	–	42
Business and government[6]										
Balance at beginning	214	287	241	–	742	83	105	141	–	329
Originations or purchases	91	–	–	–	91	63	–	–	–	63
Transfers[2]:										
to Stage 1	48	(47)	(1)	–	–	17	(12)	(5)	–	–
to Stage 2	(35)	38	(3)	–	–	(26)	30	(4)	–	–
to Stage 3	–	(20)	20	–	–	–	(25)	25	–	–
Net remeasurement of loss allowances[3]	(95)	41	93	–	39	117	129	120	–	366
Derecognitions[4]	(26)	(37)	(5)	–	(68)	(11)	(7)	(3)	–	(21)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	(17)	(25)	104	–	62	160	115	133	–	408
Write-offs	–	–	(47)	–	(47)	–	–	(42)	–	(42)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	3	–	3	–	–	2	–	2
Foreign exchange movements and other	–	(1)	(4)	–	(5)	(2)	(1)	–	–	(3)
Balance at end	197	261	297	–	755	241	219	234	–	694
Includes:										
Amounts drawn	119	225	296	–	640	157	191	233	–	581
Undrawn commitments[5]	78	36	1	–	115	84	28	1	–	113
Total allowances for credit losses at end[7]	384	528	388	(87)	1,213	456	543	342	(73)	1,268
Includes:										
Amounts drawn	276	478	387	(87)	1,054	339	501	341	(73)	1,108
Undrawn commitments[5]	108	50	1	–	159	117	42	1	–	160

(1) The total amount of undiscounted initially expected credit losses on the POCI loans acquired during the nine months ended July 31, 2021 was $11 million ($46 million during the nine months ended July 31, 2020). The expected credit losses reflected in the purchase price have been discounted.
(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 July 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]	5.0 %	1.7 %	6.4 %	1.9 %	(5.6) %	4.2 %
Unemployment rate	6.7 %	6.1 %	6.6 %	5.6 %	10.4 %	8.3 %
Housing price index growth[2]	2.0 %	0.2 %	4.0 %	1.9 %	(11.5) %	1.2 %
BBB spread[3]	1.6 %	1.8 %	1.5 %	1.6 %	3.0 %	2.1 %
S&P/TSX growth[2][4]	6.8 %	2.1 %	8.6 %	3.1 %	(25.6) %	5.5 %
WTI oil price[5] *(US$ per barrel)*	71	65	77	77	35	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.

During the nine-month period ended July 31, 2021 the macroeconomic outlook generally improved.

According to the base scenario, the Canadian economy will continue to recover as vaccines allow for a gradual easing of health measures. The labour market will continue to bounce back, and the unemployment rate will stand at 6.4% after 12 months but remain slightly above its pre-recession level (5.7%). The increase in housing prices will slow to 2.0% year over year. The S&P/TSX will stand at 20,800 points after one year, with the price of oil at US$69.

According to the upside scenario, the economy will rebound more robustly as a result of effective vaccination campaigns, particularly against variants. Significant fiscal stimulus in the United States will favour an even stronger recovery. Consumer spending will trend upward given the excess savings accumulated since the start of the pandemic. The unemployment rate after one year will be more favourable than the base scenario (3 tenths lower). Housing prices will climb 4.0%, and the S&P/TSX will stand at 21,175 points after one year, with the price of oil at US$80.

According to the downside scenario, vaccines will prove to be ineffective against certain variants, and the economy will be adversely affected by new lockdown measures. Governments will continue to support households and businesses, but, due to budgetary constraints, will not be able to match the generosity of the programs adopted at the start of the pandemic. This will cause the economy to tumble and slip back into recession. The unemployment rate will therefore trend upward to 11% after 12 months. Housing prices will decrease considerably. The S&P/TSX will stand at 14,500 points after one year, with 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.

(unaudited) (millions of Canadian dollars)

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

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 July 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 July 31, 2021	912
Simulations	
100% upside scenario	717
100% base scenario	824
100% downside scenario	1,122

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 July 31, 2021	As at October 31, 2020
Carrying value of financial assets transferred but not derecognized		
Securities(1)	72,419	61,599
Residential mortgages	20,960	20,731
	93,379	82,330
Carrying value of associated liabilities(2)	44,855	45,781
Fair value of financial assets transferred but not derecognized		
Securities(1)	72,419	61,599
Residential mortgages	21,118	21,252
	93,537	82,851
Fair value of associated liabilities(2)	45,045	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 $2,854 million as at July 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 $11,249 million before the offsetting impact of $4,368 million as at July 31, 2021 ($6,327 million before a negligible offsetting impact as at October 31, 2020).

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

	As at July 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	22,608	21,211
Securities sold under repurchase agreements	24,615	25,442
Securities loaned	46,156	35,677
	93,379	82,330

(unaudited) (millions of Canadian dollars)

Note 9 – Other Assets

	As at July 31, 2021	As at October 31, 2020
Receivables, prepaid expenses and other items	1,025	946
Interest and dividends receivable	667	567
Due from clients, dealers and brokers	993	586
Defined benefit asset	673	126
Deferred tax assets	494	643
Current tax assets	359	360
Reinsurance assets	30	30
Insurance assets	31	8
	4,272	3,266

Note 10 – Deposits

				As at July 31, 2021	As at October 31, 2020
	On demand(1)	After notice(2)	Fixed term(3)	Total	Total
Personal	5,583	34,729	29,075	69,387	67,499
Business and government	56,469	30,986	75,419	162,874	143,787
Deposit-taking institutions	1,643	386	2,254	4,283	4,592
	63,695	66,101	106,748	236,544	215,878

(1) Demand deposits are deposits for which the Bank does not have the right to require a notice of withdrawal and consist essentially of deposits in chequing accounts.
(2) Notice deposits are deposits for which the Bank may legally require a 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 $8.6 billion as at July 31, 2021 ($10.1 billion as at October 31, 2020). During the nine months ended July 31, 2021, amounts of US$270 million and 1.0 billion euros of covered bonds came to maturity, and the Bank issued 500 million euros in covered bonds (US$200 million in covered bonds issued during the nine-month period ended July 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 July 31, 2021, the *Deposits – Business and government* item also includes deposits of $10.8 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 July 31, 2021	As at October 31, 2020
Accounts payable and accrued expenses	2,160	1,993
Subsidiaries' debts to third parties	485	386
Interest and dividends payable	479	621
Lease liabilities	579	628
Due to clients, dealers and brokers	678	652
Defined benefit liability	145	201
Allowances for credit losses – off-balance-sheet commitments (Note 7)	177	176
Deferred tax liabilities	21	–
Current tax liabilities	377	121
Insurance liabilities	7	–
Other items(1)(2)(3)	782	940
	5,890	5,718

(1) As at July 31, 2021, *Other* items included a $12 million litigation provision ($7 million as at October 31, 2020).
(2) As at July 31, 2021, *Other* items included $33 million in provisions for onerous contracts ($33 million as at October 31, 2020).
(3) As at October 31, 2020, *Other* items had 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 additional information, see Note 20 to these consolidated financial statements.

(unaudited) (millions of Canadian dollars)

Note 12 – Share Capital and Other Equity Instruments

Issuances of Other Equity Instruments

On April 21, 2021, the Bank issued $500 million of Series 2 Limited Recourse Capital Notes (LRCN – Series 2) for which noteholder recourse is limited to the assets held by an independent trustee in a consolidated limited recourse trust. The trust's assets consist of $500 million of Series 45 First Preferred Shares issued by the Bank in conjunction with the LRCN – Series 2. The LRCN – Series 2 sell for $1,000 each and bear interest at a fixed rate of 4.05% per annum until August 15, 2026 exclusively and, thereafter, at an annual rate equal to the five-year Government of Canada bond yield plus 3.045% until August 15, 2076.

In the event of (i) non-payment of interest on any of the interest payment dates, (ii) non-payment of the redemption amount upon redemption of the LRCN – Series 2, (iii) non-payment of the principal amount upon maturity of the LRCN – Series 2, or (iv) an event of default in respect of the notes, the noteholders will have recourse only to the assets of the trust, and each noteholder will be entitled to its pro rata share of the assets of the trust. In such circumstances, delivery of the assets of the trust will eliminate all of the Bank's obligations with respect to the LRCN – Series 2. The LRCN – Series 2 are redeemable at maturity or earlier to the extent that the Bank redeems the Series 45 preferred shares on certain redemption dates specified in the terms and conditions of the Series 45 preferred shares, and subject to OSFI's consent and approval.

Given that the LRCN – Series 2 satisfy the non-viability contingent capital requirements, they qualify for the purposes of calculating regulatory capital under Basel III.

Redemption of Preferred Shares

On May 17, 2021, i.e., the first business day after the May 15, 2021 redemption date, the Bank redeemed all the issued and outstanding Non-Cumulative 5-Year Rate-Reset Series 34 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.00 per share plus the periodic dividend declared and unpaid. The Bank redeemed 16,000,000 Series 34 preferred shares for a total amount of $400 million, which reduced *Preferred share* capital.

Shares and Other Equity Instruments Outstanding

	As at July 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
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
	82,000,000	2,050	98,000,000	2,450
Other equity instruments				
LRCN – Series 1	500,000	500	500,000	500
LRCN – Series 2	500,000	500	–	–
Preferred shares and other equity instruments	83,000,000	3,050	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	1,626,194	87	2,318,926	111
Repurchases of common shares for cancellation	–	–	(525,000)	(5)
Impact of shares purchased or sold for trading(1)	(35,390)	(3)	31,323	2
Other	(978)	–	–	–
Common shares at end of period	337,587,486	3,141	335,997,660	3,057

(1) As at July 31, 2021, a total of 7,913 shares were held for trading, representing an amount of $1 million (27,477 shares were sold short for trading representing $2 million as at October 31, 2020).

(unaudited) (millions of Canadian dollars)

Dividends Declared and Distributions on Other Equity Instruments

				Nine months ended July 31
		2021		2020
	Dividends or interest $	**Dividends per share**	Dividends $	Dividends per share
First Preferred Shares				
Series 30	**10**	**0.7547**	10	0.7547
Series 32	**9**	**0.7198**	9	0.7236
Series 34	**11**	**0.7000**	17	1.0500
Series 36	**16**	**1.0125**	16	1.0125
Series 38	**13**	**0.8344**	13	0.8344
Series 40	**11**	**0.8625**	11	0.8625
Series 42	**11**	**0.9281**	11	0.9281
	81		87	
Other equity instruments				
LRCN – Series 1(1)	**16**			
LRCN – Series 2(2)	**6**			
	103		87	
Common shares	**718**	**2.1300**	715	2.1300
	821		802	

(1) The LRCN – Series 1 bear interest at a fixed rate of 4.3% per annum.
(2) The LRCN – Series 2 bear interest at a fixed rate of 4.05% per annum.

Reserved Common Shares

As at July 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 July 31, 2021, there were 23,239,511 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. During the third quarter of 2021, 978 shares were cancelled. As at July 31, 2021, the number of common shares held in escrow was 20,532 (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%. For additional information on the ratio calculations, see page 60 of the *2020 Annual Report*. 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. As at July 31, 2021, this buffer was 1.0%, but on June 17, 2021, OSFI raised the buffer level such that it will be 2.5% starting October 31, 2021. 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. Lastly, OSFI is requiring Canadian banks to meet a Basel III leverage ratio of at least 3.0%.

During the quarter and nine-month period ended July 31, 2021, the Bank was in compliance with all of OSFI's regulatory capital requirements.

Regulatory Capital and Ratios Under Basel III[1]

	As at July 31, 2021		As at October 31, 2020	
	Adjusted[2]		Adjusted[2]	
Capital				
CET1	**12,445**	**12,574**	10,924	11,167
Tier 1[3]	**15,092**	**15,221**	13,869	14,112
Total[3]	**16,303**	**16,303**	15,167	15,167
Risk-weighted assets	**103,139**	**103,139**	94,808	94,808
Total exposure	**344,930**	**344,930**	321,038	321,038
Capital ratios				
CET1	**12.1 %**	**12.2 %**	11.5 %	11.8 %
Tier 1[3]	**14.6 %**	**14.8 %**	14.6 %	14.9 %
Total[3]	**15.8 %**	**15.8 %**	16.0 %	16.0 %
Leverage ratio	**4.4 %**	**4.4 %**	4.3 %	4.4 %

(1) Capital and regulatory ratios are calculated in accordance with the Basel III rules, as described on page 60 of the *2020 Annual Report*.
(2) Capital and adjusted regulatory ratios are calculated in accordance with the Basel III rules, as described on page 60 of the *2020 Annual Report*, and not taking into account the transitional measure for provisioning expected credit losses. 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) Figures as at July 31, 2021 include the redemption of the Series 36 First Preferred Shares on August 15, 2021. For additional information on this redemption, see Note 21 to these consolidated financial statements.

Note 14 – Share-Based Payments

Stock Option Plan
During the quarters ended July 31, 2021 and 2020, the Bank did not award any stock options. During the nine months ended July 31, 2021, the Bank awarded 2,043,196 stock options (1,789,280 stock options during the nine months ended July 31, 2020) with an average fair value of $8.24 per option ($5.11 in 2020).

As at July 31, 2021, there were 11,683,708 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.

	Nine months ended July 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 July 31, 2021, a $3 million compensation expense was recorded for this plan ($2 million for the quarter ended July 31, 2020). During the nine-month period ended July 31, 2021, an $8 million compensation expense was recorded for this plan ($7 million for the nine-month period ended July 31, 2020).

(unaudited) (millions of Canadian dollars)

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 July 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	**194**	472	**6**	11
Return on plan assets(2)	**(435)**	(318)		
Remeasurements recognized in *Other comprehensive income*	**(241)**	154	**6**	11
	(204)	189	**7**	12

				Nine months ended July 31
		Pension plans		Other post-employment benefit plans
	2021	2020	**2021**	2020
Current service cost	**109**	95	**–**	1
Interest expense (income), net	**–**	6	**3**	3
Administrative expenses	**3**	3		
Expense recognized in *Net income*	**112**	104	**3**	4
Remeasurements(1)				
Actuarial (gains) losses on defined benefit obligation	**(288)**	430	**(8)**	10
Return on plan assets(2)	**(311)**	(623)		
Remeasurements recognized in *Other comprehensive income*	**(599)**	(193)	**(8)**	10
	(487)	(89)	**(5)**	14

(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 – Income Taxes

In June 2021, the Bank was reassessed by the Canada Revenue Agency (CRA) for additional income tax and interest of approximately $115 million (including estimated provincial tax and interest) in respect of certain Canadian dividends received by the Bank during 2016.

In prior fiscal years, the Bank had been reassessed for additional income tax and interest of approximately $610 million (including provincial tax and interest) in respect of certain Canadian dividends received by the Bank during the 2015, 2014, 2013 and 2012 taxation years.

In the reassessments, the CRA alleges that the dividends were received as part of a "dividend rental arrangement".

The CRA may issue reassessments to the Bank for taxation years subsequent to 2016 in regard to activities similar to those that were the subject of the above-mentioned reassessments. The Bank remains confident that its tax position was appropriate and intends to vigorously defend its position. As a result, no amount has been recognized in the consolidated financial statements as at July 31, 2021.

Note 17 – 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 July 31		Nine months ended July 31	
	2021	2020	**2021**	2020
Basic earnings per share				
Net income attributable to the Bank's shareholders and holders of other equity instruments	**839**	589	**2,401**	1,551
Dividends on preferred shares and distributions on LRCNs	**31**	29	**97**	87
Net income attributable to common shareholders	**808**	560	**2,304**	1,464
Weighted average basic number of common shares outstanding *(thousands)*	**337,517**	335,552	**337,021**	335,390
Basic earnings per share *(dollars)*	**2.39**	1.67	**6.84**	4.37
Diluted earnings per share				
Net income attributable to common shareholders	**808**	560	**2,304**	1,464
Weighted average basic number of common shares outstanding *(thousands)*	**337,517**	335,552	**337,021**	335,390
Adjustment to average number of common shares *(thousands)*				
Stock options(1)	**4,301**	1,679	**3,345**	2,074
Weighted average diluted number of common shares outstanding *(thousands)*	**341,818**	337,231	**340,366**	337,464
Diluted earnings per share *(dollars)*	**2.36**	1.66	**6.77**	4.34

(1) For the quarter and nine-month period ended July 31, 2021, as the exercise price of the options was lower than the average price of the Bank's common shares, no options were excluded from the diluted earnings per share calculation. For the quarter ended July 31, 2020, the calculation of diluted earnings per share had excluded an average number of 3,381,741 options outstanding with a weighted average exercise price of $68.17, as the exercise price of these options was greater than the average price of the Bank's common shares. For the nine months ended July 31, 2020, the calculation of diluted earnings per share had excluded an average number of 3,162,455 options outstanding with a weighted average exercise price of $68.17.

Note 18 – Contingent Liabilities

Litigation

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

More specifically, the Bank is involved as a defendant in class actions instituted by consumers contesting, *inter alia*, certain transaction fees or who wish to avail themselves of certain legislative provisions relating to consumer protection. The recent developments in the main legal proceedings involving the Bank are as follows:

Watson

In 2011, a class action was filed in the Supreme Court of British Columbia against Visa Corporation Canada (Visa) and MasterCard International Incorporated (MasterCard) (the Networks) as well as National Bank and a number of other Canadian financial institutions. A similar action was also initiated in Quebec, Ontario, Alberta and Saskatchewan. In each of the actions, the Networks and financial institutions are alleged to have been involved in a price-fixing system to maintain and increase the fees paid by merchants on transactions executed using the credit cards of the Networks. In so doing, they would notably be in breach of the *Competition Act*. An unspecified amount of compensatory and punitive damages is being claimed. In 2017, a settlement was reached with the plaintiffs; in 2018 it was approved by the trial courts in each of the five jurisdictions where the action was initiated. The rulings approving the settlement were the subject of appeal proceedings in all jurisdictions. These appeal proceedings were all rejected, thereby confirming approval of the settlement reached in 2017 and ending the Bank's involvement in the class action.

Defrance

On January 21, 2019, the Quebec Superior Court authorized a class action against the National Bank and several other Canadian financial institutions. The originating application was served to the Bank on April 23, 2019. The class action was initiated on behalf of consumers residing in Quebec. The plaintiffs allege that non-sufficient funds charges, billed by all of the defendants when a payment order is refused due to non-sufficient funds, are illegal and prohibited by the *Consumer Protection Act*. The plaintiffs are claiming, in the form of damages, the repayment of these charges as well as punitive damages.

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

Note 19 – Segment Disclosures

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

Personal and Commercial
The Personal and Commercial segment encompasses the banking, financing and investing services offered to individuals, 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.

(unaudited) (millions of Canadian dollars)

Note 19 – Segment Disclosures (cont.)

Quarter ended July 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]	656	600	112	106	327	292	232	198	(97)	(100)	1,230	1,096
Non-interest income[2]	281	251	435	345	193	211	16	12	99	53	1,024	872
Total revenues	937	851	547	451	520	503	248	210	2	(47)	2,254	1,968
Non-interest expenses	486	468	322	276	221	207	79	79	108	44	1,216	1,074
Income before provisions for credit losses and income taxes	451	383	225	175	299	296	169	131	(106)	(91)	1,038	894
Provisions for credit losses	2	79	–	2	(10)	41	(35)	21	–	–	(43)	143
Income before income taxes (recovery)	449	304	225	173	309	255	204	110	(106)	(91)	1,081	751
Income taxes (recovery)[2]	119	81	60	46	82	67	43	23	(62)	(68)	242	149
Net income	330	223	165	127	227	188	161	87	(44)	(23)	839	602
Non-controlling interests	–	–	–	–	–	–	–	10	–	3	–	13
Net income attributable to the Bank's shareholders and holders of other equity instruments	330	223	165	127	227	188	161	77	(44)	(26)	839	589
Average assets	129,689	116,846	7,367	5,718	151,253	121,544	16,011	14,872	59,426	60,988	363,746	319,968

Nine months ended July 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[3]	1,922	1,818	333	335	945	677	666	585	(273)	(284)	3,593	3,131
Non-interest income[3]	819	758	1,274	1,057	719	882	93	3	218	96	3,123	2,796
Total revenues	2,741	2,576	1,607	1,392	1,664	1,559	759	588	(55)	(188)	6,716	5,927
Non-interest expenses[4]	1,455	1,416	940	841	674	627	239	239	287	163	3,595	3,286
Income before provisions for credit losses and income taxes	1,286	1,160	667	551	990	932	520	349	(342)	(351)	3,121	2,641
Provisions for credit losses	44	450	–	6	17	212	(18)	63	–	5	43	736
Income before income taxes (recovery)	1,242	710	667	545	973	720	538	286	(342)	(356)	3,078	1,905
Income taxes (recovery)[3]	329	189	177	144	258	190	112	40	(199)	(249)	677	314
Net income	913	521	490	401	715	530	426	246	(143)	(107)	2,401	1,591
Non-controlling interests	–	–	–	–	–	–	–	23	–	17	–	40
Net income attributable to the Bank's shareholders and holders of other equity instruments	913	521	490	401	715	530	426	223	(143)	(124)	2,401	1,551
Average assets	125,485	116,611	6,960	5,881	149,844	121,215	15,816	14,022	62,829	53,683	360,934	311,412

(1) For the quarter and nine-month period ended July 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 $46 million ($49 million in 2020), *Non-interest income* was grossed up by $1 million ($4 million in 2020), and an equivalent amount was recognized in *Income taxes (recovery)*. The effect of these adjustments has been reversed under the *Other* heading.

(3) For the nine-month period ended July 31, 2021, *Net interest income* was grossed up by $142 million ($162 million in 2020), *Non-interest income* was grossed up by $6 million ($54 million in 2020), and an equivalent amount was recognized in *Income taxes (recovery)*. The effect of these adjustments has been reversed under the *Other* heading.

(4) For the nine-month period ended July 31, 2020, for the *Other* heading of segment results, the *Non-interest expenses* item had included a $13 million charge related to Maple.

Note 20 – 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.

Note 21 – Events After the Consolidated Balance Sheet Date

Acquisition

On July 9, 2021, the Bank entered into an agreement in anticipation of an acquisition of Flinks Technology Inc. (Flinks), an entity in which the Bank was holding a 28% equity interest (taking into account stock options) as at July 31, 2021. At the time of acquisition, for a $73 million purchase price, the Bank's preferred share equity interest in Flinks will amount to 76%. Immediately after the acquisition, the Bank will invest an additional $30 million to bring its total equity interest in Flinks to 80%. The previously held equity interest recognized as an associate will be remeasured at fair value, which will result in an estimated non-taxable gain upon remeasurement of $32 million. The effective closing date of the transaction, expected in September 2021, remains subject to customary closing conditions.

Redemption of Preferred Shares

On August 16, 2021, i.e., the first business day after the August 15, 2021 redemption date, the Bank redeemed all the issued and outstanding Non-Cumulative 5-Year Rate-Reset Series 36 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.00 per share plus the periodic dividend declared and unpaid. The Bank redeemed 16,000,000 Series 36 preferred shares for a total amount of $400 million, which will reduce *Preferred share* capital.

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 Third Quarter 2021 Results

Conference Call
- A conference call for analysts and institutional investors will be held on Wednesday, August 25, 2021 at 1:00 p.m. EDT.
- Access by telephone in listen-only mode: 1-800-898-3989 or 416-406-0743. The access code is 1995846#.
- A recording of the conference call can be heard until September 22, 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