

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2017

The following Management's Discussion and Analysis (MD&A) presents the financial condition and operating results of National Bank of Canada (the Bank). This analysis was prepared in accordance with the requirements set out in *National Instrument 51-102 Continuous Disclosure Obligations* released by the Canadian Securities Administrators (CSA). It is based on the unaudited interim condensed consolidated financial statements (the consolidated financial statements) for the quarter ended January 31, 2017 prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes for the quarter ended January 31, 2017 and with the *2016 Annual Report*. All amounts are presented in Canadian dollars. Additional information about the Bank, including the *Annual Information Form*, can be obtained from the Bank's website at [nbc.ca](http://nbc.ca) and SEDAR's website at [sedar.com](http://sedar.com).

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## Caution Regarding Forward-Looking Statements

From time to time, the Bank makes written and oral forward-looking statements, such as those contained in the Outlook for National Bank and the Major Economic Trends sections of the *2016 Annual Report*, in other filings with Canadian securities regulators, and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2017 and the objectives it hopes to achieve for that period. These forward-looking statements are made in accordance with current securities legislation in Canada and the United States. They include, among others, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, observations regarding the Bank's objectives and its strategies for achieving them, Bank-projected financial returns and certain risks faced by the Bank. These forward-looking statements are typically identified by future or conditional verbs or words such as “outlook,” “believe,” “anticipate,” “estimate,” “project,” “expect,” “intend,” “plan,” and similar terms and expressions.

By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2017 and how that will affect the Bank's business are among the main factors considered in setting the Bank's strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies.

There is a strong possibility that express or implied projections contained in these forward-looking statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank's control, could cause actual future results, conditions, actions or events to differ significantly from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include credit risk, market risk, liquidity and funding risk, operational risk, regulatory compliance risk, reputation risk, strategic risk and environmental risk, all of which are described in more detail in the Risk Management section beginning on page 48 of the *2016 Annual Report*, general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business, including regulatory changes affecting the Bank's business, capital and liquidity; changes in the accounting policies the Bank uses to report its financial condition, including uncertainties associated with assumptions and critical accounting estimates; tax laws in the countries in which the Bank operates, primarily Canada and the United States (including the U.S. *Foreign Account Tax Compliance Act* (FATCA)); changes to capital and liquidity guidelines and to the manner in which they are to be presented and interpreted; changes to the credit ratings assigned to the Bank; and potential disruptions to the Bank's information technology systems, including evolving cyber attack risk.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the Risk Management section of the *2016 Annual Report*. Investors and others who rely on the Bank's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

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

## FINANCIAL REPORTING METHOD

The Bank's unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB. The Bank also uses non-IFRS financial measures when assessing its results and measuring Bank-wide performance. Presenting such information 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 financial performance of its operations. Securities regulators require companies to caution readers that net income and other measures adjusted using non-IFRS criteria are not standard under IFRS and cannot be easily compared with similar measures used by other companies.

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

### Financial Information

(millions of Canadian dollars, except per share amounts)

	Quarter ended January 31		
	2017	2016	% Change
<b>Net income excluding specified items</b>			
Personal and Commercial	213	180	18
Wealth Management	106	84	26
Financial Markets	183	149	23
U.S. Specialty Finance and International	38	40	(5)
Other	(38)	(26)	
<b>Net income excluding specified items</b>	<b>502</b>	<b>427</b>	<b>18</b>
Items related to holding restructured notes <sup>(1)</sup>	–	(1)	
Acquisition-related items <sup>(2)</sup>	(5)	(20)	
Write-off of an equity interest in an associate <sup>(3)</sup>	–	(145)	
<b>Net income</b>	<b>497</b>	<b>261</b>	<b>90</b>
<b>Diluted earnings per share excluding specified items</b>	<b>\$ 1.35</b>	<b>\$ 1.17</b>	<b>15</b>
Acquisition-related items <sup>(2)</sup>	(0.01)	(0.06)	
Write-off of an equity interest in an associate <sup>(3)</sup>	–	(0.43)	
Premium paid on preferred shares redeemed for cancellation <sup>(4)</sup>	–	(0.01)	
<b>Diluted earnings per share</b>	<b>\$ 1.34</b>	<b>\$ 0.67</b>	<b>100</b>
<b>Return on common shareholders' equity</b>			
Including specified items	18.4 %	9.5 %	
Excluding specified items	18.6 %	16.6 %	

- (1) During the quarter ended January 31, 2016, the Bank recorded \$2 million in financing costs (\$1 million net of income taxes) related to holding restructured notes.
- (2) During the quarter ended January 31, 2017, the Bank recorded \$6 million in acquisition-related charges (\$5 million net of income taxes) (2016: \$27 million, \$20 million net of income taxes). These charges consisted mostly of retention bonuses and also included the Bank's share in the integration costs incurred by Fiera Capital Corporation (Fiera Capital) as well as the Bank's share in the charges related to its equity interest in TMX Group Limited (TMX), particularly goodwill and intangible asset impairment losses of \$18 million (\$13 million net of income taxes) recorded during the quarter ended January 31, 2016.
- (3) During the quarter ended January 31, 2016, the Bank had written off its equity interest in associate Maple Financial Group Inc. (Maple) in an amount of \$164 million (\$145 million net of income taxes) following the February 6, 2016 event described in the Analysis of the Consolidated Balance Sheet section on page 35 of the *2016 Annual Report*.
- (4) During the quarter ended January 31, 2016, a \$3 million premium was paid on the Series 20 First Preferred Shares redeemed for cancellation.

# HIGHLIGHTS

(millions of Canadian dollars, except per share amounts)	Quarter ended January 31		
	2017	2016	% Change
<b>Operating results</b>			
Total revenues	1,633	1,289	27
Net income	497	261	90
Net income attributable to the Bank's shareholders	478	239	100
Return on common shareholders' equity	18.4 %	9.5 %	
<b>Earnings per share</b>			
Basic	\$ 1.35	\$ 0.68	99
Diluted	1.34	0.67	100
<b>Operating results on a taxable equivalent basis<sup>(1)</sup> and excluding specified items<sup>(2)</sup></b>			
Total revenues on a taxable equivalent basis and excluding specified items	1,707	1,530	12
Net income excluding specified items	502	427	18
Return on common shareholders' equity excluding specified items	18.6 %	16.6 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	56.5 %	58.6 %	
<b>Earnings per share excluding specified items<sup>(2)</sup></b>			
Basic	\$ 1.37	\$ 1.18	16
Diluted	1.35	1.17	15
<b>Common share information</b>			
Dividends declared	\$ 0.56	\$ 0.54	
Book value	29.51	27.77	
Share price			
High	56.60	44.11	
Low	46.83	35.83	
Close	56.17	39.97	
Number of common shares ( <i>thousands</i> )	340,810	337,535	
Market capitalization	19,143	13,491	
<b>Balance sheet and off-balance-sheet</b>			
Total assets	234,119	232,206	1
Loans and acceptances	126,881	126,178	1
Impaired loans, net of total allowances	(344)	(289)	
As a % of average loans and acceptances	(0.3) %	(0.2) %	
Deposits <sup>(3)</sup>	144,729	142,066	2
Equity attributable to common shareholders	10,058	9,642	4
Assets under administration and under management	411,236	397,342	3
Earnings coverage	9.30	7.84	
Asset coverage	10.50	10.04	
<b>Regulatory ratios under Basel III</b>			
Capital ratios <sup>(4)</sup>			
Common Equity Tier 1 (CET1)			
Tier 1	10.6 %	10.1 %	
Total	14.1 %	13.5 %	
Leverage ratio <sup>(4)</sup>	15.9 %	15.3 %	
Liquidity coverage ratio (LCR)	3.8 %	3.7 %	
	139 %	134 %	
<b>Other information</b>			
Number of employees	21,298	21,770	(2)
Number of branches in Canada	448	450	-
Number of banking machines in Canada	941	938	-

(1) See the Consolidated Results section on page 6.

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

(3) An amount of \$2.2 billion classified in *Due to clients, dealers and brokers* on the Consolidated Balance Sheet as at October 31, 2016 is now reported in *Deposits*.

(4) The ratios are calculated using the "all-in" methodology.

## FINANCIAL ANALYSIS

### Consolidated Results

On November 1, 2016, the Bank reclassified certain amounts in the Consolidated Statement of Income to better reflect the nature of revenues reported in the Personal and Commercial segment. Accordingly, for the quarter ended January 31, 2016, an amount of \$10 million reported in the *Non-interest income – Credit fees* item was reclassified to *Net interest income*. This reclassification had no impact on *Net income*.

(millions of Canadian dollars)	Quarter ended January 31		
	2017	2016	% Change
<b>Operating results</b>			
Net interest income	798	716	11
Non-interest income	835	573	46
Total revenues	1,633	1,289	27
Non-interest expenses	969	903	7
Contribution	664	386	72
Provisions for credit losses	60	63	(5)
Income before income taxes	604	323	87
Income taxes	107	62	73
Net income	497	261	90
Diluted earnings per share ( <i>dollars</i> )	1.34	0.67	100
<b>Taxable equivalent basis<sup>(1)</sup></b>			
Net interest income	68	55	
Non-interest income	4	–	
Income taxes	72	55	
Impact of taxable equivalent basis on net income	–	–	
<b>Specified items<sup>(2)</sup></b>			
Items related to holding restructured notes	–	(2)	
Acquisition-related items	(6)	(27)	
Write-off of an equity interest in an associate	–	(164)	
Specified items before income taxes	(6)	(193)	
Income taxes on specified items	(1)	(27)	
Specified items after income taxes	(5)	(166)	
<b>Operating results on a taxable equivalent basis<sup>(1)</sup> and excluding specified items<sup>(2)</sup></b>			
Net interest income on a taxable equivalent basis and excluding specified items	866	773	12
Non-interest income on a taxable equivalent basis and excluding specified items	841	757	11
Total revenues on a taxable equivalent basis and excluding specified items	1,707	1,530	12
Non-interest expenses excluding specified items	965	896	8
Contribution on a taxable equivalent basis and excluding specified items	742	634	17
Provisions for credit losses	60	63	(5)
Income before income taxes on a taxable equivalent basis and excluding specified items	682	571	19
Income taxes on a taxable equivalent basis and excluding specified items	180	144	25
Net income excluding specified items	502	427	18
Diluted earnings per share excluding specified items ( <i>dollars</i> ) <sup>(3)</sup>	1.35	1.17	15
Average assets	246,060	232,213	6
Average loans and acceptances	126,191	117,325	8
Impaired loans, net of total allowances	(344)	(132)	
Average deposits	150,336	142,178	6
Efficiency ratio excluding specified items <sup>(2)</sup>	56.5 %	58.6 %	

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

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

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

### Financial Results

For the first quarter of 2017, the Bank reported net income of \$497 million compared to \$261 million in the same quarter of 2016, a \$236 million increase that is explained by the Bank's write-off of its equity interest in associate Maple Financial Group Inc. (Maple) during the first quarter of 2016 and by net income growth generated by its main business segments. Diluted earnings per share stood at \$1.34 in the first quarter of 2017 compared to \$0.67 in the same quarter of 2016.

The 2017 first-quarter net income excluding specified items totalled \$502 million, up 18% from \$427 million in the first quarter of 2016, and diluted earnings per share excluding specified items stood at \$1.35, up 15% from \$1.17 in the same quarter of 2016. For the first quarter of 2017, the specified items, net of income taxes, consisted of \$5 million in acquisition-related items (2016: \$20 million, including an amount of \$13 million representing the Bank's share in the goodwill and intangible asset impairment losses arising from its interest in TMX). For the first quarter of 2016, the specified items, net of income taxes, had also included a \$145 million write-off of the Bank's equity interest in associate Maple and \$1 million in items related to holding restructured notes.

Return on common shareholders' equity excluding specified items was 18.6% for the quarter ended January 31, 2017 compared to 16.6% in the first quarter of 2016.

### Total Revenues

For the first quarter of 2017, the Bank's total revenues amounted to \$1,633 million, rising \$344 million or 27% year over year. First-quarter net interest income was up, mainly because of growth in personal and commercial loans and deposits, net interest income growth in the Wealth Management segment that was partly driven by deposit growth, net interest income growth at Credigy Ltd., and the revenues generated by the ABA Bank subsidiary. First-quarter non-interest income was also up, posting year-over-year growth of 46% notably due to increases in trading revenues, gains on available-for-sale securities, underwriting and advisory fees, and mutual fund revenues. In addition, primarily because of the Bank's first-quarter 2016 write-off of its equity interest in associate Maple, the *Other* item of non-interest income increased \$143 million year over year, partly offset by a smaller portion of Credigy Ltd. revenues being reported in non-interest income. The Bank's share in the net income of associates and joint ventures also increased, as the Bank had recorded an \$18 million share in the goodwill and intangible asset impairment losses arising from its interest in TMX during the first quarter of 2016. All of these increases were tempered somewhat by a decrease in other-than-trading foreign exchange revenues. First-quarter total revenues on a taxable equivalent basis and excluding specified items amounted to \$1,707 million, a 12% increase from \$1,530 million in the first quarter of 2016.

### Provisions for Credit Losses

For the first quarter of 2017, the Bank recorded \$60 million in provisions for credit losses, \$3 million less than in the same quarter of last year given lower provisions for credit losses on Personal and Commercial Banking loans. These decreases were partly offset by higher loan losses, mainly attributable to the Credigy Ltd. subsidiary, in the U.S. Specialty Finance and International segment.

As at January 31, 2017, gross impaired loans stood at \$442 million, declining \$50 million since October 31, 2016. This decrease came mainly from the commercial loan portfolios. Impaired loans represented 5.3% of the tangible capital adjusted for allowances as at January 31, 2017, down one percentage point from 6.3% as at October 31, 2016. As at January 31, 2017, allowances for credit losses exceeded gross impaired loans by \$344 million compared to \$289 million as at October 31, 2016.

### Non-Interest Expenses

For the first quarter of 2017, non-interest expenses stood at \$969 million, a 7% year-over-year increase attributable to an increase in compensation and employee benefits, particularly the variable compensation associated with revenue growth, as well as to higher professional fees. Some of the overall growth in non-interest expense also came from the ABA Bank subsidiary, whose results have been consolidated into the Bank's results since the third quarter of 2016. The 2017 first-quarter non-interest expenses excluding specified items stood at \$965 million compared to \$896 million in the first quarter of 2016.

### Income Taxes

Income taxes for the first quarter of 2017 stood at \$107 million compared to \$62 million in the same quarter of 2016. The 2017 first-quarter effective income tax rate was 18% versus 19% in the same quarter of 2016. This change in the effective income tax rate was mainly due to higher tax-exempt dividend income compared to the same quarter of 2016 and to the Bank's write-off of its equity interest in associate Maple during the first quarter of 2016.

## Results by Segment

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

### Personal and Commercial

(millions of Canadian dollars)	Quarter ended January 31		
	2017	2016 <sup>(1)</sup>	% Change
<b>Operating results</b>			
Net interest income	510	485	5
Non-interest income	245	239	3
Total revenues	755	724	4
Non-interest expenses	412	416	(1)
Contribution	343	308	11
Provisions for credit losses	52	62	(16)
Income before income taxes	291	246	18
Income taxes	78	66	18
<b>Net income</b>	<b>213</b>	<b>180</b>	<b>18</b>
Net interest margin <sup>(2)</sup>	2.24 %	2.25 %	
Average interest-bearing assets	90,162	85,779	5
Average assets	94,840	91,147	4
Average loans and acceptances	94,482	90,770	4
Net impaired loans	220	227	(3)
Net impaired loans as a % of average loans and acceptances	0.2 %	0.3 %	
Average deposits	51,745	46,421	11
Efficiency ratio	54.6 %	57.5 %	

(1) For the quarter ended January 31, 2016, certain amounts have been revised from those previously reported, including a reclassification between *Non-interest income* and *Net interest income* to better reflect the nature of the revenues.

(2) Net interest margin is calculated by dividing net interest income by average interest-bearing assets.

In the Personal and Commercial segment, net income totalled \$213 million in the first quarter of 2017, up 18% from \$180 million in the first quarter of 2016. The segment's first-quarter total revenues increased by \$31 million year over year owing to growth in net interest income, which rose \$25 million, and to a \$6 million increase in non-interest income. The higher net interest income came mainly from growth in personal and commercial loan and deposit volumes that was tempered, however, by a slight narrowing of the net interest margin, which was 2.24% in the first quarter of 2017 versus 2.25% in the first quarter of 2016, with the decline coming mainly from loan margins.

Personal Banking's first-quarter total revenues rose \$29 million year over year. The increase came mainly from growth in loan and deposit volumes, tempered by a narrowing of the net interest margin, as well as from growth in the credit card balance outstanding. Growth in non-interest income came mainly from credit card revenues, insurance revenues and a gain realized upon a change to the distribution model for property and casualty insurance. Commercial Banking's total revenues were up \$2 million, mainly because net interest income increased owing to growth in loan and deposit volumes and to a higher net interest margin. This increase was partly offset by decreases in revenues from bankers' acceptances and in revenues from foreign exchange and derivative financial instrument activities.

The Personal and Commercial segment's 2017 first-quarter non-interest expenses were down \$4 million or 1% year over year, mainly because of lower compensation and employee benefits and lower operations support charges, partly offset by higher credit-card-related expenses. At 54.6%, the efficiency ratio for the first quarter of 2017 improved by 2.9 percentage points compared to the same quarter of 2016. The segment's provisions for credit losses stood at \$52 million, a \$10 million year-over-year decrease attributable to provisions for credit losses recorded for both Personal Banking and Commercial Banking loans.

## Wealth Management

(millions of Canadian dollars)	Quarter ended January 31		
	2017	2016 <sup>(1)</sup>	% Change
<b>Operating results</b>			
Net interest income	104	89	17
Fee-based revenues	219	196	12
Transaction-based and other revenues	74	71	4
Total revenues	397	356	12
Non-interest expenses	259	251	3
Contribution	138	105	31
Provisions for credit losses	1	1	–
Income before income taxes	137	104	32
Income taxes	36	27	33
<b>Net income</b>	<b>101</b>	<b>77</b>	<b>31</b>
Specified items after income taxes <sup>(2)</sup>	5	7	
<b>Net income excluding specified items<sup>(2)</sup></b>	<b>106</b>	<b>84</b>	<b>26</b>
Average assets	11,271	10,944	3
Average loans and acceptances	9,557	9,266	3
Net impaired loans	4	7	
Average deposits	31,734	26,671	19
Assets under administration and under management	411,236	352,293	17
Efficiency ratio excluding specified items <sup>(2)</sup>	63.9 %	68.2 %	

(1) For the quarter ended January 31, 2016, certain amounts have been revised from those previously reported.

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

In the Wealth Management segment, net income totalled \$101 million for the first quarter of 2017, a 31% increase from \$77 million in the same quarter of 2016. At \$106 million in the first quarter of 2017, the segment's net income excluding specified items (with the specified items including the acquisition-related items of recent years) rose 26% from \$84 million in the same quarter of 2016. The segment's first-quarter total revenues amounted to \$397 million compared to \$356 million in the first quarter of 2016, a 12% increase that was driven mainly by net interest income growth, which was largely attributable to deposit growth, and by fee-based revenues given a steady rise in stock market performance during the first quarter of 2017. Transaction-based and other revenues also grew, rising \$3 million year over year due to a greater number of transactions.

Non-interest expenses stood at \$259 million in the first quarter of 2017, a 3% year-over-year increase driven mainly by the higher variable compensation and external management fees associated with growth in the segment's business volume that generated higher revenues. The efficiency ratio excluding specified items for the first quarter of 2017 was 63.9%, an improvement of 4.3 percentage points from the same quarter of 2016.

Assets under administration and under management increased by \$58.9 billion or 17%, essentially due to net inflows in various solutions and to a steady rise in stock market performance.

## Financial Markets

(taxable equivalent basis)<sup>(1)</sup>

(millions of Canadian dollars)

	Quarter ended January 31		
	2017	2016 <sup>(2)</sup>	% Change
<b>Operating results</b>			
Trading activity revenues			
Equities	132	107	23
Fixed-income	81	65	25
Commodities and foreign exchange	41	44	(7)
	254	216	18
Financial market fees	72	50	44
Gains (losses) on available-for-sale securities, net	9	(1)	
Banking services	81	72	13
Other	3	(153)	
Total revenues on a taxable equivalent basis	419	184	128
<b>Non-interest expenses</b>	170	144	18
Contribution on a taxable equivalent basis	249	40	
Provisions for credit losses	–	–	
Income before income taxes on a taxable equivalent basis	249	40	
Income taxes on a taxable equivalent basis	66	36	83
<b>Net income</b>	183	4	
Specified items after income taxes <sup>(3)</sup>	–	145	
<b>Net income excluding specified items<sup>(3)</sup></b>	183	149	23
Average assets	96,803	85,596	13
Average loans and acceptances (Corporate Banking only)	12,739	11,732	9
Average deposits	20,843	15,617	33
Efficiency ratio excluding specified items <sup>(3)</sup>	40.6 %	41.4 %	

(1) See Note 21 to the consolidated financial statements.

(2) For the quarter ended January 31, 2016, certain amounts have been revised from those previously reported, notably amounts related to the Credigy Ltd. subsidiary, which are now reported in the USSF&I segment.

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

In the Financial Markets segment, net income totalled \$183 million in the first quarter of 2017 compared to \$4 million in the same quarter of 2016, and total revenues on a taxable equivalent basis amounted to \$419 million compared to \$184 million in the first quarter of 2016. Both increases are partly explained by the Bank's write-off of its equity interest in associate Maple during the first quarter of 2016. Furthermore, the segment's first-quarter trading activity revenues increased 18%, mainly due to higher revenues from equity securities and fixed-income securities, which rose 23% and 25%, respectively. Revenues from financial market fees were also up, rising 44% compared to the first quarter of 2016, and banking service revenues rose 13% year over year. Gains on available-for-sale securities were recorded during the first quarter of 2017, whereas losses had been recorded in the same quarter of 2016.

The segment's 2017 first-quarter non-interest expenses stood at \$170 million, a \$26 million year-over-year increase resulting mainly from the higher variable compensation associated with revenue growth and from higher operations support charges. At 40.6%, the efficiency ratio improved by 0.8 percentage points compared to the same quarter of 2016. Provisions for credit losses were nil in both the first quarters of 2017 and 2016.

Excluding the write-off of the equity interest in associate Maple recorded in the first quarter of 2016, net income excluding specified items increased by 23%.

## U.S. Specialty Finance and International

(millions of Canadian dollars)	Quarter ended January 31		
	2017	2016 <sup>(1)</sup>	% Change
<b>Operating results</b>			
Net interest income	42	7	
Non-interest income	76	101	(25)
<b>Total revenues</b>	<b>118</b>	<b>108</b>	<b>9</b>
Credigy	90	103	(13)
International <sup>(2)</sup>	28	5	
Non-interest expenses	56	48	17
Credigy	43	47	(9)
International <sup>(2)</sup>	13	1	
Contribution	62	60	3
Provisions for credit losses	7	–	
Income before income taxes	55	60	(8)
Income taxes	17	20	(15)
<b>Net income</b>	<b>38</b>	<b>40</b>	<b>(5)</b>
Non-controlling interests	6	8	(25)
<b>Net income attributable to the Bank's shareholders</b>	<b>32</b>	<b>32</b>	<b>–</b>
Average assets	6,655	4,360	53
Average loans and acceptances	4,733	2,522	88
Average revenue-bearing other assets	801	1,424	(44)
Average deposits	1,122		
Efficiency ratio	47.5 %	44.4 %	

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

In the U.S. Specialty Finance and International segment, net income totalled \$38 million in the first quarter of 2017 compared to \$40 million in the same quarter of 2016. The segment's first-quarter total revenues amounted to \$118 million compared to \$108 million in the first quarter of 2016, an increase that is mainly attributable to the revenues of the ABA Bank subsidiary, whose results have been consolidated into the Bank's results since the third quarter of 2016. Growth in the net interest income of Credigy Ltd. was partly offset by a decrease in non-interest income, as collection revenues had been higher in the first quarter of 2016.

The segment's first-quarter non-interest expenses stood at \$56 million, an \$8 million year-over-year increase that was notably attributable to the inclusion of the ABA Bank subsidiary, whereas a decrease in Credigy Ltd.'s first-quarter variable compensation came from a year-over-year decline in revenues. The segment's first-quarter provisions for credit losses were \$7 million, mainly due to the provisions for credit losses recorded for the Credigy Ltd. subsidiary.

**Other**

(taxable equivalent basis)<sup>(1)</sup>

(millions of Canadian dollars)

	Quarter ended January 31	
	2017	2016 <sup>(2)</sup>
<b>Operating results</b>		
Net interest income	(22)	(38)
Non-interest income	38	10
Total revenues on a taxable equivalent basis	16	(28)
Non-interest expenses	72	44
Income before income taxes on a taxable equivalent basis	(56)	(72)
Income taxes (recovery) on a taxable equivalent basis	(18)	(32)
<b>Net loss</b>	<b>(38)</b>	<b>(40)</b>
Non-controlling interests	13	14
Net loss attributable to the Bank's shareholders	(51)	(54)
Specified items after income taxes <sup>(3)</sup>	–	14
<b>Net loss excluding specified items<sup>(3)</sup></b>	<b>(38)</b>	<b>(26)</b>
Average assets	36,491	40,166

(1) See Note 21 to the consolidated financial statements.

(2) For the quarter ended January 31, 2016, certain amounts have been revised from those previously reported, notably amounts related to the ABA Bank subsidiary and the other international investments that are now reported in the USSF&I segment.

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

For the *Other* heading of segment results, there was a net loss of \$38 million in the first quarter of 2017 compared to a net loss of \$40 million in the same quarter of 2016. A higher contribution from treasury activities was partly offset by compensation and employee benefit expenses as well as business development expenses recorded during the first quarter of 2017. In the first quarter of 2016, the net loss had included the Bank's share in the charges related to its interest in TMX, particularly an amount of \$13 million, net of income taxes, in goodwill and intangible asset impairment losses. There was a \$38 million net loss excluding specified items in the first quarter of 2017 compared to a net loss excluding specified items of \$26 million in the same quarter of 2016.

## Consolidated Balance Sheet

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

### Consolidated Balance Sheet Summary

(millions of Canadian dollars)	As at January 31, 2017	As at October 31, 2016 <sup>(1)</sup>	% Change
<b>Assets</b>			
Cash and deposits with financial institutions	8,616	8,183	5
Securities	65,667	64,541	2
Securities purchased under reverse repurchase agreements and securities borrowed	14,779	13,948	6
Loans and acceptances (net of allowances for credit losses)	126,881	126,178	1
Other	18,176	19,356	(6)
	<b>234,119</b>	<b>232,206</b>	<b>1</b>
<b>Liabilities and equity</b>			
Deposits	144,729	142,066	2
Other	75,874	77,026	(1)
Subordinated debt	1,009	1,012	-
Equity attributable to the Bank's shareholders	11,708	11,292	4
Non-controlling interests	799	810	(1)
	<b>234,119</b>	<b>232,206</b>	<b>1</b>

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

### Assets

As at January 31, 2017, the Bank had total assets of \$234.1 billion, up \$1.9 billion or 1% from \$232.2 billion as at October 31, 2016. At \$8.6 billion as at January 31, 2017, cash and deposits with financial institutions increased by \$0.4 billion. Securities rose \$1.2 billion since October 31, 2016, particularly because of an increase in securities issued or guaranteed by the Canadian government. Securities purchased under reverse repurchase agreements and securities borrowed also increased, rising \$0.9 billion since October 31, 2016.

As at January 31, 2017, loans and acceptances, net of allowances for credit losses, increased by \$0.7 billion since October 31, 2016 owing to growth in mortgage lending and personal lending, whereas loans to businesses and government were down. The following table provides a breakdown of the main loan and acceptance portfolios.

(millions of Canadian dollars)	As at January 31, 2017	As at October 31, 2016	As at January 31, 2016
<b>Loans and acceptances</b>			
Consumer	32,385	31,787	30,286
Residential mortgage	49,520	48,868	44,409
Credit card receivables	2,120	2,177	2,028
Business and government	43,642	44,127	42,353
	<b>127,667</b>	<b>126,959</b>	<b>119,076</b>

Consumer loans increased by 2% since October 31, 2016, mainly due to growth at the Credigy Ltd. subsidiary. Rising 1% since October 31, 2016, residential mortgages were also up, with the growth coming from the activities of the Personal and Commercial segment and the ABA Bank subsidiary. Loans and acceptances to businesses were down \$0.5 billion since October 31, 2016. When compared to a year ago, loans and acceptances increased by \$8.6 billion or 7%. Also compared to a year ago, consumer loans, residential mortgages and credit card receivables increased by 7%, 12% and 5%, respectively. Loans and acceptances to businesses rose 3% from a year ago mainly because of corporate loan financing.

As at January 31, 2017, derivative financial instruments amounted to \$9.4 billion, a decrease of \$1.0 billion since October 31, 2016. This change should be analyzed along with the derivative financial instruments presented in liabilities, which, at \$6.6 billion, were down \$1.1 billion, resulting in a net increase of \$0.1 billion since October 31, 2016.

## Liabilities

As at January 31, 2017, the Bank had total liabilities of \$221.6 billion compared to \$220.1 billion as at October 31, 2016.

As at January 31, 2017, the Bank's total deposit liability was \$144.7 billion versus \$142.1 billion as at October 31, 2016, an increase of \$2.6 billion or 2%. The following table provides a breakdown of total personal savings.

(millions of Canadian dollars)	As at January 31, 2017	As at October 31, 2016 <sup>(1)</sup>	As at January 31, 2016 <sup>(1)</sup>
<b>Balance sheet</b>			
Deposits	53,667	52,521	49,566
<b>Off-balance-sheet</b>			
Brokerage	118,549	117,157	103,435
Mutual funds	29,431	28,706	25,515
Other	420	463	900
	148,400	146,326	129,850
<b>Total personal savings</b>	<b>202,067</b>	<b>198,847</b>	<b>179,416</b>

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

At \$53.7 billion as at January 31, 2017, personal deposits increased by \$1.2 billion or 2% since October 31, 2016. Since the beginning of the fiscal year, personal savings included in assets under administration and under management have increased \$2.1 billion or 1%. From a year ago, personal deposits rose \$4.1 billion or 8% owing to the Bank's initiatives to grow this type of deposit. Personal savings included in assets under administration and under management were also up, rising \$18.5 billion or 14% owing to net inflows in various solutions and to a steady rise in stock market performance.

At \$85.4 billion, business and government deposits rose \$1.5 billion since October 31, 2016. Deposits from deposit-taking institutions stood at \$5.7 billion, remaining stable when compared to October 31, 2016. Other funding activities were down \$1.1 billion since October 31, 2016, essentially due to decreases in liabilities related to transferred receivables and other liabilities, partly offset by an increase in obligations related to securities sold under repurchase agreements and securities loaned.

## Equity

As at January 31, 2017, the Bank's equity amounted to \$12.5 billion, up \$0.4 billion from October 31, 2016. This increase was essentially driven by an increase in retained earnings attributable to net income, net of dividends, by remeasurements of pension plans and other post-employment benefit plans, and by common share issuances under the stock option plan.

As at February 24, 2017, there were 340,798,838 common shares and 16,036,690 stock options outstanding. For additional information on share capital, see Note 19 to the audited annual consolidated financial statements for the year ended October 31, 2016 and Note 12 to the consolidated financial statements of this quarter.

## Event After the Consolidated Balance Sheet Date

### Redemption of Subordinated Debt

On February 15, 2017, the Bank announced its intention to redeem, on April 11, 2017, the \$1.0 billion in notes maturing on April 11, 2022.

## Related Party Transactions

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

## Securitization and Off-Balance-Sheet Arrangements

In the normal course of business, the Bank is party to various financial arrangements that, under IFRS, are not required to be recorded on the Consolidated Balance Sheet or are recorded at amounts other than their notional or contractual values. These arrangements include, among others, transactions with structured entities, derivative financial instruments, issuances of guarantees, credit instruments, and financial assets received as collateral. A complete analysis of these types of arrangements, including their nature, business purpose and importance, is provided on pages 36 and 37 of the *2016 Annual Report*. During the quarter ended January 31, 2017, given the repayment of the restructured notes, the Bank ceased its commitment to contribute to the margin funding facility of the master asset vehicle (MAV) conduits. For additional information on guarantees and commitments, see Note 27 to the audited annual consolidated financial statements for the year ended October 31, 2016.

For additional information about financial assets transferred but not derecognized and structured entities, see Notes 7 and 20, respectively, to the consolidated financial statements.

## Contingent Liabilities

### Litigation

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

#### Watson

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

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

## ACCOUNTING POLICIES AND FINANCIAL DISCLOSURE

### Accounting Policies and Critical Accounting Estimates

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

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

On November 1, 2016, the Bank reclassified certain Personal and Commercial segment revenues in the Consolidated Statement of Income to better reflect the nature of the revenues reported. As a result, for the quarter ended January 31, 2016, an amount of \$10 million reported in *Non-interest income – Credit fees* was reclassified to *Interest income – Loans*.

Also on November 1, 2016, the Bank changed the presentation of certain items on the Consolidated Balance Sheet, and certain amounts were revised from those previously reported. The *Due from clients, dealers and brokers* item as at October 31, 2016 is now presented in *Other assets* on the Consolidated Balance Sheet. All deposits have been grouped into a single *Deposits* item. To better reflect the nature of certain liabilities on the Consolidated Balance Sheet, an amount of \$2.2 billion reported in the *Due to clients, dealers and brokers* item was reclassified to the *Deposits* item as at October 31, 2016. The *Due to clients, dealers and brokers* item is now presented in *Other liabilities* on the Consolidated Balance Sheet.

In preparing consolidated financial statements in accordance with IFRS, management must exercise judgment and make estimates and assumptions that affect the reporting date carrying amounts of assets and liabilities, net income and related information. Certain accounting policies are considered critical given their importance to the presentation of the Bank's financial position and operating results and require difficult, subjective and complex judgments and estimates because they relate to matters that are inherently uncertain. Any change in these judgments and estimates could have a significant impact on the Bank's consolidated financial statements. The critical accounting estimates remain substantially unchanged from those described on pages 83 to 86 of the *2016 Annual Report*.

### Future Accounting Policy Changes

The Bank closely monitors both new accounting standards and amendments to existing accounting standards issued by the IASB. The Bank is currently assessing how adoption of new and amended IASB accounting standards will impact the consolidated financial statements. For additional information on future accounting policy changes, see Note 2 to the 2016 audited annual consolidated financial statements as well as the Future Accounting Policy Changes section on pages 87 to 89 of the *2016 Annual Report*.

### Financial Disclosure

During the first quarter of 2017, no changes were made to the policies, procedures and other processes that comprise the Bank's internal control over financial reporting that had or could reasonably have a significant impact on the Bank's internal control over financial reporting.

## ADDITIONAL FINANCIAL DISCLOSURE

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

The Bank does not market any specific mortgage financing program to subprime or Alt-A clients. Subprime loans are generally defined as loans granted to borrowers with a higher credit risk profile than prime borrowers, and the Bank does not grant this type of loan. Alt-A loans are granted to borrowers who cannot provide standard proof of income. The Bank's Alt-A loan volume was \$463 million as at January 31, 2017 (\$483 million as at October 31, 2016).

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

Leveraged financing structures are defined by the Bank as loans granted to large corporate and financial sponsor-backed companies that are typically non-investment grade with much higher levels of debt relative to other companies in the same industry. Leveraged finance is commonly employed to achieve a specific objective, for example, to make an acquisition, complete a buy-out or repurchase shares. Leveraged finance risk exposure takes the form of both funded and unfunded commitments. As at January 31, 2017, total commitments for this type of loan stood at \$2,711 million (\$2,694 million as at October 31, 2016). Details about other exposures are provided in the table on structured entities in Note 20 to the consolidated financial statements.

The FSB created the Enhanced Disclosure Task Force (EDTF), a working group that, on October 29, 2012, published a report entitled *Enhancing the Risk Disclosures of Banks*, which contains 32 recommendations. The Bank ensures overall compliance with those recommendations and is continuing to enhance its risk disclosures to meet the best practices on an ongoing basis. The risk disclosures required by the EDTF are provided in the *2016 Annual Report*, in this *Report to Shareholders*, and in the documents entitled *Supplementary Regulatory Capital Disclosure for the First Quarter Ended January 31, 2017*, and *Supplementary Financial Information for the First Quarter Ended January 31, 2017*, which are available on the Bank's website at [nbc.ca](http://nbc.ca). In addition, on the following page is a table of contents that users can use to locate information relative to the 32 recommendations.

## Risk Disclosures

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

				Pages
		2016	Report to Shareholders <sup>(1)</sup>	Supplementary Regulatory Capital Disclosure <sup>(1)</sup>
		Annual Report		
<b>General</b>				
1	Location of risk disclosures	7	18	
	Management's Discussion and Analysis	39 to 82, 94 and 98	19 to 37	
	Consolidated Financial Statements	Notes 1, 7, 17, 24 and 30	Notes 6 and 14	
	Supplementary Regulatory Capital Disclosure			4 to 29
2	Risk terminology and risk measures	48 to 82		
3	Top and emerging risks	48 and 49		
4	New key regulatory ratios	40 to 42, 71 and 76	19 and 20, 29, 32 and 61	
<b>Risk governance and risk management</b>				
5	Risk management organization, processes and key functions	51 to 65		
6	Risk management culture	51 and 52		
7	Key risks by business segment, risk management and risk appetite	47, 51 and 52		
8	Stress testing	39, 52, 60 and 69 to 73		
<b>Capital adequacy and risk-weighted assets (RWA)</b>				
9	Minimum Pillar 1 capital requirements	40 to 42	19 and 20	
10	Reconciliation of the accounting balance sheet to the regulatory balance sheet			4 to 7
11	Movements in regulatory capital	44	21	
12	Capital planning	39 to 47		
13	RWA by business segment and by risk type	45 and 47	22	8
14	Capital requirements by risk and RWA calculation method	45 and 56 to 60	22	8
15	Banking book credit risk	45	22	8 and 11 to 16
16	Movements in RWA by risk type	46	23	9
17	Assessment of credit risk model performance	55, 58 and 67		11 to 17
<b>Liquidity</b>				
18	Liquidity management and components of the liquidity buffer	71 to 77	29 to 33	
<b>Funding</b>				
19	Summary of encumbered and unencumbered assets	74 and 75	31	
20	Residual contractual maturities of balance sheet items and off-balance-sheet commitments	183 to 187	34 to 37	
21	Funding strategy and funding sources	77 to 79	33	
<b>Market risk</b>				
22	Linkage of market risk measures to balance sheet	65 and 66	26 and 27	
23	Market risk factors	64, 67 to 70, 170 to 172	27 to 29	
24	VaR: Assumptions, limitations and validation procedures	67 to 69		
25	Stress tests, stressed VaR and backtesting	67 to 70		
<b>Credit risk</b>				
26	Credit risk exposures	59, 63 and 141 to 144	25 and 55 to 57	10 to 24 and 19 to 25 <sup>(2)</sup>
27	Policies for identifying impaired loans	61, 114 and 115		
28	Movements in impaired loans and allowances for credit losses	94, 98 and 141 to 144	55 to 57	20
29	Counterparty credit risk relating to derivatives transactions	61, 62 and 154 to 156		25 and 26
30	Credit risk mitigation	60 to 62		22 and 24
<b>Other risks</b>				
31	Other risks: Governance, measurement and management	50 and 80 to 82		
32	Publicly known risk events	80	No risk event	

(1) For the first quarter ended January 31, 2017.

(2) These pages are included in the document entitled *Supplementary Financial Information for the First Quarter Ended January 31, 2017*.

## CAPITAL MANAGEMENT

Capital management has a dual role of ensuring a competitive return to the Bank's shareholders while maintaining a solid capital foundation that covers risks inherent to the Bank's business, supports its business segments and protects its clients. The Bank's capital management policy defines guiding principles as well as the roles and responsibilities of its internal capital adequacy assessment process. This process aims to determine the capital that the Bank needs to pursue its business operations and to accommodate unexpected losses arising from extremely adverse economic and operational conditions. For additional information on the capital management framework, see the Capital Management section on pages 39 to 47 of the Bank's *2016 Annual Report*.

### Basel Accord

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

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

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

To ensure an implementation similar to that in other countries, OSFI has decided to phase in the Credit Valuation Adjustment (CVA) charge over a five-year period beginning in 2014. For fiscal 2017, 72%, 77% and 81% of total CVA will be applied to the calculation of the CET1, Tier 1 and Total capital ratios, respectively, and these percentages will continue to increase each year thereafter until they reach 100% by 2019.

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

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

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

### Regulatory Developments

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

The Bank continues to closely monitor regulatory changes and is actively involved in the consultation processes. For additional information on the regulatory context as at October 31, 2016, which is still the current context, see pages 42 and 43 of the Capital Management section in the *2016 Annual Report*.

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

	As at January 31, 2017	Regulatory ratios	Minimum regulatory ratios to be maintained	
		As at October 31, 2016	BCBS 2017 <sup>(1)</sup>	OSFI 2017 <sup>(1)(2)</sup>
<b>Capital ratios</b>				
CET1	10.6 %	10.1 %	5.75 %	8.0 %
Tier 1	14.1 %	13.5 %	7.25 %	9.5 %
Total	15.9 %	15.3 %	9.25 %	11.5 %
<b>Leverage ratio</b>	3.8 %	3.7 %	n.a.	3.0 %

n.a. Not applicable

(1) For the capital ratios, includes the 1.25% conservation buffer set by the BCBS and the 2.5% conservation buffer set by OSFI.

(2) For the capital ratios, includes a 1% surcharge applicable to D-SIBs since January 1, 2016.

### Management Activities

On February 15, 2017, the Bank announced its intention to redeem, on April 11, 2017, the \$1.0 billion in notes maturing on April 11, 2022.

**Movement in Regulatory Capital<sup>(1)</sup>**

(millions of Canadian dollars)	Quarter ended January 31, 2017
<b>Common Equity Tier 1 (CET1) capital</b>	
Balance at beginning	6,865
Issuance of common shares (including Stock Option Plan)	119
Repurchase of common shares	–
Contributed surplus	(16)
Dividends on preferred and common shares	(210)
Net income attributable to the Bank's shareholders	478
Removal of own credit spread net of income taxes	3
Other	91
Movements in accumulated other comprehensive income	
Translation adjustments	(33)
Available-for-sale securities	(8)
Other	–
Change in goodwill and intangible assets (net of related tax liability)	(5)
Other, including regulatory adjustments and transitional arrangements	
Change in defined benefit pension plan asset (net of related tax liability)	(11)
Change in amount exceeding 15% threshold	
Deferred tax assets	–
Significant investment in common shares of financial institutions	–
Change in other regulatory adjustments <sup>(2)</sup>	(5)
<b>Balance at end</b>	<b>7,268</b>
<b>Additional Tier 1 capital</b>	
Balance at beginning	2,400
New Tier 1 eligible capital issuances	–
Redeemed capital	–
Change in non-qualifying Additional Tier 1 subject to phase-out	–
Other, including regulatory adjustments and transitional arrangements	–
<b>Balance at end</b>	<b>2,400</b>
<b>Total Tier 1 capital</b>	<b>9,668</b>
<b>Tier 2 capital</b>	
Balance at beginning	1,241
New Tier 2 eligible capital issuances	–
Redeemed capital	–
Change in non-qualifying Tier 2 subject to phase-out	–
Tier 2 instruments issued by subsidiaries and held by third parties	–
Change in certain loan loss allowances	4
Other, including regulatory adjustments and transitional arrangements	–
<b>Balance at end</b>	<b>1,245</b>
<b>Total regulatory capital</b>	<b>10,913</b>

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

(2) Represents the change in investments in the Bank's own CET1.

### Risk-Weighted Assets by Key Risk Drivers

CET1 risk-weighted assets (RWA) amounted to \$68.6 billion as at January 31, 2017, rising \$0.4 billion from \$68.2 billion as at October 31, 2016. This organic growth in RWA was partly offset by the repayment of the restructured notes of the master asset vehicle (MAV) conduits and by foreign exchange movements.

### Capital Adequacy Under Basel III<sup>(1)</sup>

(millions of Canadian dollars)	Exposure at default	As at January 31, 2017				As at October 31, 2016	
		Standardized Approach	AIRB Approach	Other Approach	Risk-weighted assets Total	Capital requirement <sup>(2)</sup>	Risk-weighted assets Total
<b>Credit risk</b>							
<b>Retail</b>							
Residential mortgages	44,820	739	4,653	–	5,392	431	5,455
Qualifying revolving retail	5,633	–	1,155	–	1,155	92	1,178
Other retail	16,007	2,323	4,957	–	7,280	582	6,823
<b>Non-retail</b>							
Corporate	59,441	1,810	25,416	–	27,226	2,178	27,393
Sovereign	27,477	224	633	–	857	69	875
Financial institutions	5,100	207	1,266	–	1,473	118	1,574
Banking book equities <sup>(3)</sup>	886	–	886	–	886	71	875
Securitization	3,732	–	304	–	304	24	831
Other assets	25,950	–	–	3,137	3,137	251	3,176
<b>Counterparty credit risk</b>							
Corporate	14,328	67	142	–	209	17	347
Sovereign	35,718	–	33	–	33	3	34
Financial institutions	44,420	–	436	–	436	35	402
Trading portfolio	9,174	101	2,089	–	2,190	175	2,345
Credit valuation adjustment charge <sup>(4)</sup>		2,030	–	–	2,030	162	2,055
Regulatory scaling factor		–	2,540	–	2,540	203	2,540
<b>Total – Credit risk</b>	<b>292,686</b>	<b>7,501</b>	<b>44,510</b>	<b>3,137</b>	<b>55,148</b>	<b>4,411</b>	<b>55,903</b>
<b>Market risk</b>							
VaR		–	1,340	–	1,340	107	1,014
Stressed VaR		–	1,632	–	1,632	131	1,067
Interest-rate-specific risk		843	–	–	843	67	726
<b>Total – Market risk</b>		<b>843</b>	<b>2,972</b>	<b>–</b>	<b>3,815</b>	<b>305</b>	<b>2,807</b>
<b>Operational risk</b>		<b>9,611</b>	<b>–</b>	<b>–</b>	<b>9,611</b>	<b>769</b>	<b>9,495</b>
<b>Total</b>	<b>292,686</b>	<b>17,955</b>	<b>47,482</b>	<b>3,137</b>	<b>68,574</b>	<b>5,485</b>	<b>68,205</b>

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

(2) The capital requirement is equal to 8% of risk-weighted assets.

(3) Calculated using the simple risk-weighted method.

(4) Calculated based on CET1 RWA.

### Risk-Weighted Assets Movement by Key Drivers<sup>(1)</sup>

(millions of Canadian dollars)

Quarter ended

	January 31, 2017		
	Non-counterparty credit risk	Counterparty credit risk <sup>(2)</sup>	Total
<b>Credit risk – Risk-weighted assets at beginning</b>	50,720	5,183	55,903
Book size	596	(141)	455
Book quality	(738)	(94)	(832)
Model updates	–	–	–
Methodology and policy	–	–	–
Acquisitions and disposals	–	–	–
Foreign exchange movements	(328)	(50)	(378)
<b>Credit risk – Risk-weighted assets at end</b>	<b>50,250</b>	<b>4,898</b>	<b>55,148</b>
<b>Market risk – Risk-weighted assets at beginning</b>			2,807
Movement in risk levels <sup>(3)</sup>			1,008
Model updates			–
Methodology and policy			–
Acquisitions and disposals			–
<b>Market risk – Risk-weighted assets at end</b>			<b>3,815</b>
<b>Operational risk – Risk-weighted assets at beginning</b>			9,495
Movement in risk levels			116
Acquisitions and disposals			–
<b>Operational risk – Risk-weighted assets at end</b>			<b>9,611</b>
<b>Risk-weighted assets at end</b>			<b>68,574</b>

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

(2) Calculated based on CET1 risk-weighted assets.

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

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

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

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

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

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

### Regulatory Capital Ratios

As at January 31, 2017, the Bank's CET1, Tier 1 and Total capital ratios were, respectively, 10.6%, 14.1% and 15.9%, i.e., above the regulatory requirements, compared to ratios of, respectively, 10.1%, 13.5% and 15.3% as at October 31, 2016. The increase in the capital ratios stems essentially from net income, net of dividends, from common share issuances under the stock option plan, from remeasurements of the pension plans and other post-employment benefit plans, and from the repayment of the restructured notes of the MAV conduits. As at January 31, 2017, the leverage ratio stood at 3.8% compared to 3.7% as at October 31, 2016.

### Regulatory Capital and Ratios Under Basel III<sup>(1)</sup>

(millions of Canadian dollars)	As at January 31, 2017	As at October 31, 2016
<b>Capital</b>		
CET1	7,268	6,865
Tier 1	9,668	9,265
Total	10,913	10,506
<b>Risk-weighted assets</b>		
CET1 capital	68,574	68,205
Tier 1 capital	68,715	68,430
Total capital	68,828	68,623
<b>Total exposure</b>	256,330	253,097
<b>Capital ratios</b>		
CET1	10.6 %	10.1 %
Tier 1	14.1 %	13.5 %
Total	15.9 %	15.3 %
<b>Leverage ratio</b>	3.8 %	3.7 %

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

### Dividends

On February 28, 2017, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 56 cents per common share payable on May 1, 2017 to shareholders of record on March 27, 2017.

## RISK MANAGEMENT

The Bank aims to maintain its financial performance by continuing to ensure prudent management and a sound balance between return and the risks assumed. The Bank views risk as an integral part of its development and the diversification of its activities and advocates a risk management approach consistent with its business expansion strategy. The Bank's governance structure for risk management has remained largely unchanged from that described in the *2016 Annual Report*.

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

Certain risks are discussed below. For additional information, see the Risk Management section on pages 48 to 82 of the *2016 Annual Report*. Risk management information is also provided in Note 6 to the consolidated financial statements, which covers loans.

### Credit Risk

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

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

### Maximum Credit Risk Exposure Under the Basel Asset Categories

(millions of Canadian dollars)						As at January 31, 2017	As at October 31, 2016
	Drawn	Undrawn commitments	Repo-style transactions <sup>(1)</sup>	OTC derivatives	Other off-balance- sheet items <sup>(2)</sup>	Total	Total
<b>Retail</b>							
Residential mortgages	38,696	6,124	–	–	–	44,820	46,578
Qualifying revolving retail	2,719	2,914	–	–	–	5,633	5,716
Other retail	14,585	1,334	–	–	88	16,007	15,374
	<b>56,000</b>	<b>10,372</b>	<b>–</b>	<b>–</b>	<b>88</b>	<b>66,460</b>	<b>67,668</b>
<b>Non-retail</b>							
Corporate	41,001	15,607	14,313	15	2,833	73,769	72,707
Sovereign	23,401	3,945	35,413	305	131	63,195	57,713
Financial institutions	4,214	199	43,963	456	688	49,520	42,094
	<b>68,616</b>	<b>19,751</b>	<b>93,689</b>	<b>776</b>	<b>3,652</b>	<b>186,484</b>	<b>172,514</b>
<b>Trading portfolio</b>	–	–	–	9,174	–	9,174	9,623
<b>Securitization</b>	–	–	–	–	3,732	3,732	4,068
<b>Total – Gross Credit Risk</b>	<b>124,616</b>	<b>30,123</b>	<b>93,689</b>	<b>9,950</b>	<b>7,472</b>	<b>265,850</b>	<b>253,873</b>
<b>Standardized Approach</b>	10,799	71	2,378	126	476	13,850	13,802
<b>AIRB Approach</b>	113,817	30,052	91,311	9,824	6,996	252,000	240,071
<b>Total – Gross Credit Risk</b>	<b>124,616</b>	<b>30,123</b>	<b>93,689</b>	<b>9,950</b>	<b>7,472</b>	<b>265,850</b>	<b>253,873</b>

(1) Securities purchased under reverse repurchase agreements and sold under repurchase agreements as well as securities loaned and borrowed.

(2) Letters of guarantee, documentary letters of credit and securitized assets that represent the Bank's commitment to make payments in the event that a client cannot meet its financial obligations to third parties.

In order to meet OSFI's mortgage loan disclosure requirements, additional information has been provided in *Supplementary Financial Information for the First Quarter Ended January 31, 2017* and in *Supplementary Regulatory Capital Disclosure for the First Quarter Ended January 31, 2017*, which are available on the Bank's website at [nbc.ca](http://nbc.ca).

### Market Risk

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

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

### Reconciliation of Market Risk with Consolidated Balance Sheet Items

(millions of Canadian dollars)		As at January 31, 2017			
	Balance sheet	Market risk measures		Not subject to market risk	Non-traded risk primary risk sensitivity
		Trading <sup>(1)</sup>	Non-Trading <sup>(2)</sup>		
<b>Assets</b>					
Cash and deposits with financial institutions	8,616	186	8,010	420	Interest rate <sup>(3)</sup>
Securities					
At fair value through profit or loss	47,940	47,230	710	–	Interest rate <sup>(3)</sup>
Available-for-sale	12,254	–	12,254	–	Interest rate <sup>(3)</sup> and equity <sup>(4)</sup>
Held-to-maturity	5,473	–	5,473	–	Interest rate <sup>(3)</sup>
Securities purchased under reverse repurchase agreements and securities borrowed	14,779	–	14,779	–	Interest rate <sup>(3)(5)</sup>
Loans, net of allowances	120,388	6,440	113,948	–	Interest rate <sup>(3)</sup>
Customers' liability under acceptances	6,493	–	6,493	–	Interest rate <sup>(3)</sup>
Derivative financial instruments	9,408	8,521	887	–	Interest rate and exchange rate
Purchased receivables	1,727	–	1,727	–	Interest rate
Defined benefit asset	74	–	74	–	Other
Other	6,967	–	–	6,967	
	<b>234,119</b>	<b>62,377</b>	<b>164,355</b>	<b>7,387</b>	
<b>Liabilities</b>					
Deposits	144,729	4,848	139,881	–	Interest rate <sup>(3)</sup>
Acceptances	6,493	–	6,493	–	Interest rate <sup>(3)</sup>
Obligations related to securities sold short	14,544	14,544	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	23,933	–	23,933	–	Interest rate <sup>(3)(5)</sup>
Derivative financial instruments	6,551	5,664	887	–	Interest rate and exchange rate
Liabilities related to transferred receivables	19,516	4,151	15,365	–	Interest rate <sup>(3)</sup>
Defined benefit liability	190	–	190	–	Other
Other	4,647	40	1,346	3,261	Interest rate <sup>(3)</sup>
Subordinated debt	1,009	–	1,009	–	Interest rate <sup>(3)</sup>
	<b>221,612</b>	<b>29,247</b>	<b>189,104</b>	<b>3,261</b>	

- (1) Trading positions whose risk measures are VaR and SVaR. See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category as well as their correlation effect, which are presented on the following pages and in the Market Risk Management section of the *2016 Annual Report*.
- (2) Non-trading positions that use other risk measures.
- (3) See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category and their correlation effect as well as the interest rate sensitivity tables, which are presented on the following pages and in the Market Risk Management section of the *2016 Annual Report*.
- (4) The fair value of equity securities classified as available-for-sale is presented in Notes 3 and 5 to the consolidated financial statements.
- (5) These instruments are recorded at amortized cost and are subject to credit risk for capital management purposes. For transactions with maturities of more than one day, interest rate risk is included in the VaR and SVaR measures when they relate to trading activities.

(millions of Canadian dollars) As at October 31, 2016

	Balance sheet	Market risk measures		Not subject to market risk	Non-traded risk primary risk sensitivity
		Trading <sup>(1)</sup>	Non-Trading <sup>(2)</sup>		
<b>Assets</b>					
Cash and deposits with financial institutions	8,183	181	7,580	422	Interest rate <sup>(3)</sup>
Securities					
At fair value through profit or loss	45,964	44,545	1,419	–	Interest rate <sup>(3)</sup> and other <sup>(4)</sup>
Available-for-sale	14,608	–	14,608	–	Interest rate <sup>(3)</sup> and equity <sup>(5)</sup>
Held-to-maturity	3,969	–	3,969	–	Interest rate <sup>(3)</sup>
Securities purchased under reverse repurchase agreements and securities borrowed	13,948	–	13,948	–	Interest rate <sup>(3)(6)</sup>
Loans, net of allowances	119,747	6,454	113,293	–	Interest rate <sup>(3)</sup>
Customers' liability under acceptances, net of allowances	6,431	–	6,431	–	Interest rate <sup>(3)</sup>
Derivative financial instruments	10,416	9,195	1,221	–	Interest rate <sup>(7)</sup> and exchange rate
Purchased receivables	1,858	–	1,858	–	Interest rate
Defined benefit asset	48	–	48	–	Other <sup>(8)</sup>
Other	7,034	–	–	7,034	
	232,206	60,375	164,375	7,456	
<b>Liabilities</b>					
Deposits <sup>(9)</sup>	142,066	4,826	137,240	–	Interest rate <sup>(3)</sup>
Acceptances	6,441	–	6,441	–	Interest rate <sup>(3)</sup>
Obligations related to securities sold short	14,207	14,207	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	22,636	–	22,636	–	Interest rate <sup>(3)(6)</sup>
Derivative financial instruments	7,725	6,818	907	–	Interest rate <sup>(7)</sup> and exchange rate
Liabilities related to transferred receivables	20,131	4,378	15,753	–	Interest rate <sup>(3)</sup>
Defined benefit liability	314	–	314	–	Other <sup>(8)</sup>
Other <sup>(9)</sup>	5,572	43	1,346	4,183	Interest rate <sup>(3)</sup>
Subordinated debt	1,012	–	1,012	–	Interest rate <sup>(3)</sup>
	220,104	30,272	185,649	4,183	

- (1) Trading positions whose risk measures are VaR and SVaR. See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category as well as their correlation effect, which are presented on the following pages and in the Market Risk Management section of the *2016 Annual Report*.
- (2) Non-trading positions that use other risk measures.
- (3) See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category and their correlation effect as well as the interest rate sensitivity tables, which are presented on the following pages and in the Market Risk Management section of the *2016 Annual Report*.
- (4) See the Master Asset Vehicles section in Note 6 to the audited annual consolidated financial statements as at October 31, 2016.
- (5) The fair value of equity securities classified as available-for-sale is presented in Notes 3 and 5 to the consolidated financial statements.
- (6) These instruments are recorded at amortized cost and are subject to credit risk for capital management purposes. For trading-related transactions with maturities of more than one day, interest rate risk is included in the VaR and SVaR measures.
- (7) See Notes 17 and 18 to the audited annual consolidated financial statements as at October 31, 2016.
- (8) See Note 24 to the audited annual consolidated financial statements as at October 31, 2016.
- (9) An amount of \$2.2 billion classified in *Liabilities – Other* as at October 31, 2016 is now reported in *Deposits*.

#### Trading Activities

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

#### VaR of Trading Portfolios by Risk Category<sup>(1)</sup>

(millions of Canadian dollars) Quarter ended

	January 31, 2017				October 31, 2016		January 31, 2016	
	Low	High	Average	Period end	Average	Period end	Average	Period end
Interest rate	(3.1)	(7.8)	(5.7)	(6.4)	(3.1)	(3.6)	(5.1)	(5.3)
Exchange rate	(1.6)	(3.7)	(2.7)	(1.9)	(2.5)	(2.8)	(2.8)	(3.0)
Equity	(2.8)	(4.9)	(3.3)	(2.8)	(3.0)	(3.0)	(4.1)	(4.2)
Commodity	(0.6)	(1.2)	(1.0)	(1.1)	(1.0)	(0.9)	(1.7)	(0.7)
Correlation effect <sup>(2)</sup>	n.m.	n.m.	6.0	5.9	4.4	5.3	7.3	5.4
<b>Total trading VaR</b>	<b>(4.9)</b>	<b>(9.2)</b>	<b>(6.7)</b>	<b>(6.3)</b>	<b>(5.2)</b>	<b>(5.0)</b>	<b>(6.4)</b>	<b>(7.8)</b>

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<sup>(1)</sup>**

	(millions of Canadian dollars)								Quarter ended	
	January 31, 2017				October 31, 2016		January 31, 2016			
	Low	High	Average	Period end	Average	Period end	Average	Period end		
Interest rate	(5.2)	(10.1)	(7.7)	(8.5)	(5.0)	(6.0)	(9.4)	(9.0)		
Exchange rate	(1.5)	(8.6)	(3.4)	(1.5)	(2.9)	(3.7)	(3.8)	(8.0)		
Equity	(2.9)	(12.7)	(5.1)	(5.0)	(3.4)	(3.3)	(5.3)	(6.1)		
Commodity	(0.8)	(2.1)	(1.4)	(1.3)	(1.1)	(1.0)	(2.4)	(0.9)		
Correlation effect <sup>(2)</sup>	n.m.	n.m.	9.4	8.9	7.0	8.2	12.3	13.9		
<b>Total trading SVaR</b>	<b>(5.8)</b>	<b>(13.6)</b>	<b>(8.2)</b>	<b>(7.4)</b>	<b>(5.4)</b>	<b>(5.8)</b>	<b>(8.6)</b>	<b>(10.1)</b>		

n.m. Computation of a correlation effect for the high and low is not meaningful, as highs and lows may occur on different days and be attributable to different types of risk.

(1) Amounts are presented on a pre-tax basis and represent one-day SVaR using a 99% confidence level.

(2) The total trading SVaR is less than the sum of the individual risk factor SVaR results due to the correlation effect.

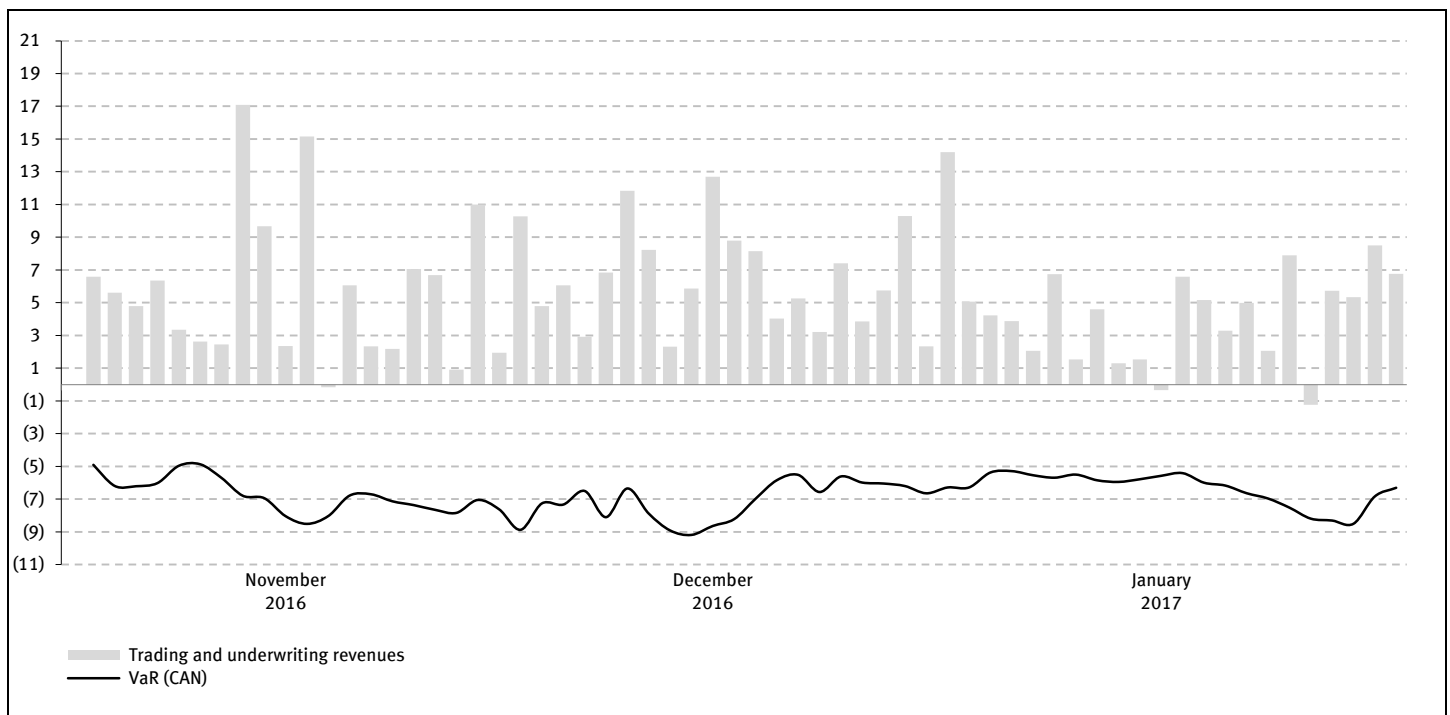
Total trading VaR was \$6.3 million for the quarter ended January 31, 2017 compared to \$5.0 million for the quarter ended October 31, 2016. This increase came mainly from interest rate VaR, which nearly doubled during the period, rising from \$3.6 million for the quarter ended October 31, 2016 to \$6.4 million for the quarter ended January 31, 2017. Total trading SVaR was \$7.4 million for the quarter ended January 31, 2017 compared to \$5.8 million for the quarter ended October 31, 2016. This increase came mainly from higher equity SVaR and interest rate SVaR, which were up \$1.7 million and \$2.5 million, respectively.

**Daily Trading and Underwriting Revenues**

The following table shows daily trading and underwriting revenues as well as VaR. Daily trading and underwriting revenues were positive more than 95% of the days for the quarter ended January 31, 2017. One trading day was marked by net losses in excess of \$1 million. None of these losses exceeded the VaR limit.

**Quarter ended January 31, 2017**

(millions of Canadian dollars)



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

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

(millions of Canadian dollars)	As at January 31, 2017					
	Impact on equity			Impact on net interest income		
	Canadian dollar	Other currencies	Total	Canadian dollar	Other currencies	Total
100-basis-point increase in the interest rate	(204)	23	(181)	(11)	49	38
100-basis-point decrease in the interest rate	197	(7)	190	29	(34)	(5)

(millions of Canadian dollars)	As at October 31, 2016					
	Impact on equity			Impact on net interest income		
	Canadian dollar	Other currencies	Total	Canadian dollar	Other currencies	Total
100-basis-point increase in the interest rate	(210)	26	(184)	(10)	33	23
100-basis-point decrease in the interest rate	169	(33)	136	18	(37)	(19)

### Liquidity Risk

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

### Regulatory Developments

The Bank continues to closely monitor regulatory changes and is actively involved in the consultation processes. For additional information on the regulatory context as at October 31, 2016, which is still the current context, see page 71 of the Risk Management section in the *2016 Annual Report*.

### Liquid Assets

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

## Liquid Asset Portfolio

(millions of Canadian dollars)	As at January 31, 2017					As at October 31, 2016
	Bank-owned liquid assets <sup>(1)</sup>	Liquid assets received <sup>(2)</sup>	Total liquid assets	Encumbered liquid assets <sup>(3)</sup>	Unencumbered liquid assets	Unencumbered liquid assets
<b>Cash and deposits with financial institutions</b>	8,616	–	8,616	1,658	6,958	6,201
<b>Securities</b>						
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	21,377	17,807	39,184	22,543	16,641	15,356
Issued or guaranteed by Canadian provincial and municipal governments	16,475	13,879	30,354	23,186	7,168	7,553
Other debt securities	4,404	1,282	5,686	2,418	3,268	3,488
Equity securities	23,411	47,890	71,301	60,952	10,349	9,349
<b>Loans</b>						
Securities backed by insured residential mortgages	10,728	–	10,728	4,161	6,567	4,236
<b>As at January 31, 2017</b>	<b>85,011</b>	<b>80,858</b>	<b>165,869</b>	<b>114,918</b>	<b>50,951</b>	
As at October 31, 2016	80,541	71,292	151,833	105,650		46,183

(millions of Canadian dollars)	As at January 31, 2017	As at October 31, 2016
<b>Unencumbered liquid assets by entity</b>		
National Bank (parent)	29,291	25,951
Domestic subsidiaries	9,618	8,185
Foreign subsidiaries and branches	12,042	12,047
	<b>50,951</b>	<b>46,183</b>

(millions of Canadian dollars)	As at January 31, 2017	As at October 31, 2016
<b>Unencumbered liquid assets by currency</b>		
Canadian dollar	34,108	28,629
U.S. dollar	11,668	13,829
Other currencies	5,175	3,725
	<b>50,951</b>	<b>46,183</b>

## Liquid Asset Portfolio – Average<sup>(4)</sup>

(millions of Canadian dollars)	Quarter ended January 31, 2017				
	Bank-owned liquid assets <sup>(1)</sup>	Liquid assets received <sup>(2)</sup>	Total liquid assets	Encumbered liquid assets <sup>(3)</sup>	Unencumbered liquid assets
<b>Cash and deposits with financial institutions</b>	9,415	–	9,415	1,534	7,881
<b>Securities</b>					
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	21,822	18,431	40,253	23,688	16,565
Issued or guaranteed by Canadian provincial and municipal governments	16,623	13,607	30,230	23,785	6,445
Other debt securities	4,253	1,251	5,504	2,214	3,290
Equity securities	24,876	47,321	72,197	59,724	12,473
<b>Loans</b>					
Securities backed by insured residential mortgages	10,291	–	10,291	3,990	6,301
	<b>87,280</b>	<b>80,610</b>	<b>167,890</b>	<b>114,935</b>	<b>52,955</b>

(1) Bank-owned liquid assets include assets for which there are no legal or geographic restrictions.

(2) Securities received as collateral with respect to securities financing and derivative transactions and securities purchased under reverse repurchase agreements and securities borrowed.

(3) In the normal course of its funding activities, the Bank pledges assets as collateral in accordance with standard terms. Encumbered liquid assets include assets used to cover short sales, obligations related to securities sold under repurchase agreements and securities loaned, guarantees related to security-backed loans and borrowings, collateral related to derivative financial instrument transactions, asset-backed securities and liquid assets legally restricted from transfers.

(4) The average is based on the sum of the end-of-period balances of the three months of the quarter divided by three.

### Summary of Encumbered and Unencumbered Assets

(millions of Canadian dollars)	As at January 31, 2017					
	Encumbered assets <sup>(1)</sup>		Unencumbered assets		Encumbered assets as a % of total assets	
	Pledged as collateral	Other <sup>(2)</sup>	Available as collateral	Other <sup>(3)</sup>	Total	
Cash and deposits with financial institutions	80	1,578	6,958	–	8,616	0.7
Securities	28,476	–	37,191	–	65,667	12.2
Securities purchased under reverse repurchase agreements and securities borrowed	–	14,544	235	–	14,779	6.2
Loans, net of allowances	36,151	–	6,567	77,670	120,388	15.4
Customers' liability under acceptances	–	–	–	6,493	6,493	–
Derivative financial instruments	–	–	–	9,408	9,408	–
Purchased receivables	–	–	–	1,727	1,727	–
Investments in associates and joint ventures	–	–	–	630	630	–
Premises and equipment	–	–	–	1,170	1,170	–
Goodwill	–	–	–	1,410	1,410	–
Intangible assets	–	–	–	1,151	1,151	–
Other assets	–	–	–	2,680	2,680	–
	<b>64,707</b>	<b>16,122</b>	<b>50,951</b>	<b>102,339</b>	<b>234,119</b>	<b>34.5</b>

(millions of Canadian dollars)	As at October 31, 2016					
	Encumbered assets <sup>(1)</sup>		Unencumbered assets		Encumbered assets as a % of total assets	
	Pledged as collateral	Other <sup>(2)</sup>	Available as collateral	Other <sup>(3)</sup>	Total	
Cash and deposits with financial institutions	94	1,888	6,201	–	8,183	0.9
Securities	28,176	–	35,746	619	64,541	12.1
Securities purchased under reverse repurchase agreements and securities borrowed	–	13,948	–	–	13,948	6.0
Loans, net of allowances	36,151	–	4,236	79,360	119,747	15.6
Customers' liability under acceptances, net of allowances	–	–	–	6,431	6,431	–
Derivative financial instruments	–	–	–	10,416	10,416	–
Purchased receivables	–	–	–	1,858	1,858	–
Investments in associates and joint ventures	–	–	–	645	645	–
Premises and equipment	–	–	–	1,338	1,338	–
Goodwill	–	–	–	1,412	1,412	–
Intangible assets	–	–	–	1,140	1,140	–
Other assets <sup>(4)</sup>	–	–	–	2,547	2,547	–
	<b>64,421</b>	<b>15,836</b>	<b>46,183</b>	<b>105,766</b>	<b>232,206</b>	<b>34.6</b>

(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 therefore cannot be used for collateral or funding purposes as well as assets used to cover short sales.

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

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

### Liquidity Coverage Ratio (LCR)

The LCR was introduced to ensure banks maintain sufficient liquidity to withstand periods of severe short-term stress. OSFI has been requiring Canadian banks to maintain a minimum LCR of 100% since January 1, 2015. An LCR above 100% ensures that banks are holding sufficient high-quality liquid assets (HQLA) to cover net cash outflows given a severe, 30-day liquidity crisis. The assumptions underlying the LCR scenario were established by the BCBS and OSFI.

The following table provides average LCR data calculated using the daily figures in the quarter. For the quarter ended January 31, 2017, the Bank's average LCR was 139%, well above the 100% regulatory requirement and demonstrating the Bank's solid liquidity position.

### LCR Disclosure Requirements<sup>(1)</sup>

(millions of Canadian dollars)	For the quarter ended		
	Total unweighted value <sup>(2)</sup> (average)	January 31, 2017 Total weighted value <sup>(3)</sup> (average)	October 31, 2016 Total weighted value <sup>(3)</sup> (average)
<b>High-quality liquid assets (HQLA)</b>			
1 Total HQLA	n.a.	44,232	36,702
<b>Cash outflows</b>			
2 Retail deposits and deposits from small business customers, of which:	38,109	2,553	2,425
3 Stable deposits	17,973	539	519
4 Less stable deposits	20,136	2,014	1,906
5 Unsecured wholesale funding, of which:	56,397	30,839	26,163
6 Operational deposits (all counterparties)	10,628	2,541	2,791
7 Non-operational deposits (all counterparties)	38,258	20,787	15,342
8 Unsecured debt	7,511	7,511	8,030
9 Secured wholesale funding	n.a.	8,060	6,352
10 Additional requirements, of which:	37,456	9,537	10,465
11 Outflows related to derivative exposures and other collateral requirements	9,277	5,111	5,059
12 Outflows related to loss of funding on secured debt securities	969	969	1,987
13 Backstop liquidity and credit enhancement facilities and commitments to extend credit	27,210	3,457	3,419
14 Other contractual commitments to extend credit	947	321	134
15 Other contingent commitments to extend credit	71,958	809	793
16 Total cash outflows	n.a.	52,119	46,332
<b>Cash inflows</b>			
17 Secured lending (e.g., reverse repos)	57,787	9,494	8,949
18 Inflows from fully performing exposures	7,135	4,049	4,322
19 Other cash inflows	6,825	6,825	5,630
20 Total cash inflows	71,747	20,368	18,901
		<b>Total adjusted value<sup>(4)</sup></b>	<b>Total adjusted value<sup>(4)</sup></b>
21 Total HQLA	n.a.	44,232	36,702
22 Total net cash outflows	n.a.	31,751	27,431
23 Liquidity coverage ratio (%) <sup>(5)</sup>	n.a.	139 %	134 %

n.a. Not applicable

(1) OSFI prescribed a table format in order to standardize disclosure throughout the banking industry.

(2) Unweighted values are calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).

(3) Weighted values are calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates.

(4) Total adjusted values are calculated after the application of both haircuts and inflow and outflow rates and any applicable caps.

(5) The data in this table has been calculated using averages of the 62 daily figures in the quarter.

Level 1 liquid assets represent 88% of the Bank's HQLA, which includes cash, central bank deposits, and bonds issued or guaranteed by the Canadian government and Canadian provincial governments.

Cash outflows arise from the application of OSFI-prescribed assumptions on deposits, debt, secured funding, commitments and additional collateral requirements. The cash outflows are partly offset by cash inflows, which come mainly from secured loans and performing loans. The Bank expects some quarter-over-quarter variation between reported LCRs, and such variation may not be indicative of a trend. The variation between the quarter ended January 31, 2017 and the previous quarter was a result of normal business activities. The Bank's liquid asset buffer is well in excess of its total net cash outflows.

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

### Funding Risk

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

Funding and liquidity levels remained sound and robust over the period, and the Bank does not foresee any event, commitment or demand that might have a significant impact on its funding and liquidity risk position.

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

### Residual Contractual Maturities of Wholesale Funding<sup>(1)</sup>

(millions of Canadian dollars)	As at January 31, 2017							
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Subtotal 1 year or less	Over 1 year to 2 years	Over 2 years	Total
Deposits from banks <sup>(2)</sup>	2,089	61	4	–	2,154	–	–	2,154
Certificates of deposit and commercial paper <sup>(3)</sup>	1,019	1,380	1,019	203	3,621	442	–	4,063
Asset-backed commercial paper	–	–	–	–	–	–	–	–
Senior unsecured medium-term notes <sup>(4)</sup>	–	2,401	590	4,491	7,482	3,403	4,310	15,195
Senior unsecured structured notes	–	–	–	–	–	20	4,742	4,762
Covered bonds and asset-backed securities								
Mortgage securitization	–	352	1,305	1,657	3,314	3,352	12,850	19,516
Covered bonds	–	–	–	–	–	2,371	4,126	6,497
Securitization of credit card receivables	–	–	–	–	–	36	872	908
Subordinated liabilities <sup>(5)</sup>	–	1,000	–	–	1,000	–	9	1,009
Other <sup>(6)</sup>	3,947	–	1	–	3,948	–	–	3,948
	7,055	5,194	2,919	6,351	21,519	9,624	26,909	58,052
Secured funding	–	352	1,305	1,657	3,314	5,759	17,848	26,921
Unsecured funding	7,055	4,842	1,614	4,694	18,205	3,865	9,061	31,131
	7,055	5,194	2,919	6,351	21,519	9,624	26,909	58,052
As at October 31, 2016	6,207	3,880	4,854	5,850	20,791	7,250	29,549	57,590

- (1) Bankers' acceptances are not included in this table.
- (2) Deposits from banks include all non-negotiable term deposits from banks.
- (3) Includes bearer deposit notes.
- (4) Certificates of deposit denominated in euros are included in senior unsecured medium-term notes.
- (5) Subordinated debt is presented in this table but the Bank does not consider it as part of its wholesale funding.
- (6) The *Other* item includes non-negotiable term deposits from non-bank financial institutions such as broker-dealers, pension funds and trust companies.

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

(millions of Canadian dollars)	As at January 31, 2017		
	One-notch downgrade	Two-notch downgrade	Three-notch downgrade
Derivatives <sup>(1)</sup>	21	37	71

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

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

The following tables present balance sheet items and off-balance-sheet commitments by residual contractual maturity as at January 31, 2017 with comparative figures as at October 31, 2016. The information gathered from this maturity analysis is a component of liquidity and funding management. However, this maturity profile does not represent how the Bank manages its interest rate risk nor its liquidity risk and funding needs. The Bank considers factors other than contractual maturity in the assessment of liquid assets or in determining expected future cash flows.

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

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

(millions of Canadian dollars)	As at January 31, 2017									
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
<b>Assets</b>										
<b>Cash and deposits with financial institutions</b>	6,520	401	24	7	11	4	–	–	1,649	8,616
<b>Securities</b>										
At fair value through profit or loss	1,535	1,143	1,181	1,228	913	6,866	7,210	5,129	22,735	47,940
Available-for-sale	6	257	2	64	54	491	6,205	4,623	552	12,254
Held-to-maturity	–	–	–	483	25	47	4,336	582	–	5,473
	1,541	1,400	1,183	1,775	992	7,404	17,751	10,334	23,287	65,667
<b>Securities purchased under reverse repurchase agreements and securities borrowed</b>	5,517	2,403	3,852	80	202	1,561	–	–	1,164	14,779
<b>Loans and acceptances<sup>(1)</sup></b>										
Residential mortgage	658	1,076	2,620	1,672	1,493	7,904	32,925	1,157	15	49,520
Personal and credit card	861	435	762	602	573	2,512	9,206	2,082	17,472	34,505
Business and government	7,224	2,697	4,372	2,643	3,387	3,188	8,883	2,325	2,430	37,149
Customers' liability under acceptances	5,285	1,071	137	–	–	–	–	–	–	6,493
Allowances for credit losses									(786)	(786)
	14,028	5,279	7,891	4,917	5,453	13,604	51,014	5,564	19,131	126,881
<b>Other</b>										
Derivative financial instruments	553	683	382	468	397	893	2,315	3,717	–	9,408
Purchased receivables									1,727	1,727
Investments in associates and joint ventures									630	630
Premises and equipment									1,170	1,170
Goodwill									1,410	1,410
Intangible assets									1,151	1,151
Other assets <sup>(1)</sup>	374	98	104	107	78	113	24	84	1,698	2,680
	927	781	486	575	475	1,006	2,339	3,801	7,786	18,176
	28,533	10,264	13,436	7,354	7,133	23,579	71,104	19,699	53,017	234,119

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

(millions of Canadian dollars)	As at January 31, 2017									
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
<b>Liabilities and equity</b>										
<b>Deposits<sup>(1)(2)</sup></b>										
Personal	1,274	2,083	1,855	1,463	1,901	5,094	8,885	1,964	29,148	53,667
Business and government	9,145	5,113	2,313	3,017	3,165	7,243	8,238	5,342	41,790	85,366
Deposit-taking institutions	3,347	346	30	7	–	–	–	56	1,910	5,696
	13,766	7,542	4,198	4,487	5,066	12,337	17,123	7,362	72,848	144,729
<b>Other</b>										
Acceptances	5,285	1,071	137	–	–	–	–	–	–	6,493
Obligations related to securities sold short <sup>(3)</sup>	496	494	569	184	271	794	3,683	5,282	2,771	14,544
Obligations related to securities sold under repurchase agreements and securities loaned	11,503	1,405	5,389	2,630	–	–	–	–	3,006	23,933
Derivative financial instruments	507	591	285	285	360	743	1,538	2,242	–	6,551
Liabilities related to transferred receivables <sup>(4)</sup>	–	352	1,305	551	1,106	3,352	8,496	4,354	–	19,516
Securitization – Credit card <sup>(5)</sup>	–	–	–	–	–	36	872	–	–	908
Other liabilities – Other items <sup>(1)(5)</sup>	457	67	16	17	201	28	90	92	2,961	3,929
	18,248	3,980	7,701	3,667	1,938	4,953	14,679	11,970	8,738	75,874
<b>Subordinated debt</b>	–	1,000	–	–	–	–	–	9	–	1,009
<b>Equity</b>									12,507	12,507
	32,014	12,522	11,899	8,154	7,004	17,290	31,802	19,341	94,093	234,119
<b>Off-balance-sheet commitments</b>										
Letters of guarantee and documentary letters of credit	222	80	252	211	979	834	457	215	–	3,250
Credit card receivables <sup>(6)</sup>	–	–	–	–	–	–	–	–	7,336	7,336
Backstop liquidity and credit enhancement facilities <sup>(7)</sup>	–	–	15	2,753	15	2,298	–	–	–	5,081
Commitments to extend credit <sup>(8)</sup>	1,160	959	1,611	1,582	2,212	8,081	10,921	467	22,492	49,485
Lease commitments and other contracts	87	169	243	235	222	719	1,526	500	–	3,701

(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 \$2.3 billion.

(8) These amounts include \$21.4 billion that is unconditionally revocable at the Bank's discretion at any time.

(millions of Canadian dollars) As at October 31, 2016

	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
<b>Assets</b>										
<b>Cash and deposits with financial institutions</b>	5,487	199	21	22	7	–	–	–	2,447	8,183
<b>Securities</b>										
At fair value through profit or loss	1,066	1,207	2,646	702	935	4,800	7,864	5,641	21,103	45,964
Available-for-sale	108	177	134	76	63	365	7,553	5,580	552	14,608
Held-to-maturity	–	–	–	–	472	30	3,263	204	–	3,969
	1,174	1,384	2,780	778	1,470	5,195	18,680	11,425	21,655	64,541
<b>Securities purchased under reverse repurchase agreements and securities borrowed</b>	4,842	2,320	2,846	1,532	10	456	–	–	1,942	13,948
<b>Loans and acceptances<sup>(1)</sup></b>										
Residential mortgage	874	1,155	1,607	2,389	1,839	7,764	32,034	1,193	13	48,868
Personal and credit card	873	413	592	724	570	2,235	8,797	2,041	17,719	33,964
Business and government	6,266	2,116	1,937	2,321	1,731	4,684	8,578	2,275	7,778	37,686
Customers' liability under acceptances	5,633	718	90	–	–	–	–	–	–	6,441
Allowances for credit losses	–	–	–	–	–	–	–	–	(781)	(781)
	13,646	4,402	4,226	5,434	4,140	14,683	49,409	5,509	24,729	126,178
<b>Other</b>										
Derivative financial instruments	569	730	457	293	219	838	2,628	4,682	–	10,416
Purchased receivables	–	–	–	–	–	–	–	–	1,858	1,858
Investments in associates and joint ventures	–	–	–	–	–	–	–	–	645	645
Premises and equipment	–	–	–	–	–	–	–	–	1,338	1,338
Goodwill	–	–	–	–	–	–	–	–	1,412	1,412
Intangible assets	–	–	–	–	–	–	–	–	1,140	1,140
Other assets <sup>(1)(2)</sup>	294	122	71	77	92	123	90	125	1,553	2,547
	863	852	528	370	311	961	2,718	4,807	7,946	19,356
	26,012	9,157	10,401	8,136	5,938	21,295	70,807	21,741	58,719	232,206

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

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

(millions of Canadian dollars) As at October 31, 2016

	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
<b>Liabilities and equity</b>										
<b>Deposits<sup>(1)(2)</sup></b>										
Personal <sup>(3)</sup>	978	1,905	2,827	1,824	1,499	4,448	9,208	1,776	28,056	52,521
Business and government <sup>(3)(4)</sup>	9,493	4,210	4,591	1,981	3,419	5,880	9,012	6,343	38,976	83,905
Deposit-taking institutions <sup>(3)</sup>	3,466	222	310	31	7	–	–	61	1,543	5,640
	13,937	6,337	7,728	3,836	4,925	10,328	18,220	8,180	68,575	142,066
<b>Other</b>										
Acceptances	5,631	719	91	–	–	–	–	–	–	6,441
Obligations related to securities sold short <sup>(5)</sup>	84	201	50	41	53	586	4,652	5,629	2,911	14,207
Obligations related to securities sold under repurchase agreements and securities loaned	11,992	1,505	3,555	4,260	–	–	–	–	1,324	22,636
Derivative financial instruments	661	693	486	303	182	740	1,608	3,052	–	7,725
Liabilities related to transferred receivables <sup>(6)</sup>	–	1,341	324	1,107	548	2,465	9,795	4,551	–	20,131
Securitization – Credit card <sup>(7)</sup>	424	–	–	–	–	–	873	–	–	1,297
Other liabilities – Other items <sup>(1)(4)(7)</sup>	470	296	127	19	77	43	88	197	3,272	4,589
	19,262	4,755	4,633	5,730	860	3,834	17,016	13,429	7,507	77,026
<b>Subordinated debt</b>	–	–	1,003	–	–	–	–	9	–	1,012
<b>Equity</b>									12,102	12,102
	33,199	11,092	13,364	9,566	5,785	14,162	35,236	21,618	88,184	232,206
<b>Off-balance-sheet commitments</b>										
Letters of guarantee and documentary letters of credit	145	614	288	286	282	693	741	212	–	3,261
Credit card receivables <sup>(8)</sup>	–	–	–	–	–	–	–	–	7,187	7,187
Backstop liquidity and credit enhancement facilities <sup>(9)</sup>	–	2,056	3,898	15	–	–	–	–	–	5,969
Commitments to extend credit <sup>(10)</sup>	1,149	1,293	1,012	1,927	1,685	8,525	10,565	550	21,109	47,815
Lease commitments and other contracts	87	169	243	236	221	718	1,526	520	–	3,720

(1) Amounts payable upon demand or notice are considered to have no specified maturity.

(2) The *Deposits* item is presented in greater detail than it is on the Consolidated Balance Sheet.

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

(4) An amount of \$2,699 million reported in *Due to clients, dealers and brokers* on the Consolidated Balance Sheet as at October 31, 2016 is now reported in *Deposits – Business and government* (\$2,159 million) and in *Other liabilities – Other items* (\$540 million).

(5) Amounts are disclosed according to the remaining contractual maturity of the underlying security.

(6) These amounts mainly include liabilities related to the securitization of mortgage loans.

(7) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.

(8) These amounts are unconditionally revocable at the Bank's discretion at any time.

(9) In the event of payment on one of the backstop liquidity facilities, the Bank will receive as collateral government bonds in an amount up to \$2.3 billion.

(10) These amounts include \$21.1 billion that is unconditionally revocable at the Bank's discretion at any time.

## QUARTERLY FINANCIAL INFORMATION

(millions of Canadian dollars,  
except per share amounts)

	2017				2016			2015	2016	2015
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Total	Total
<b>Total revenues</b>	<b>1,633</b>	1,569	1,557	1,425	1,289	1,405	1,510	1,421	5,840	5,746
<b>Net income</b>	<b>497</b>	307	478	210	261	347	453	404	1,256	1,619
<b>Earnings per share (\$)</b>										
Basic	<b>1.35</b>	0.79	1.32	0.52	0.68	0.96	1.29	1.14	3.31	4.56
Diluted	<b>1.34</b>	0.78	1.31	0.52	0.67	0.95	1.28	1.13	3.29	4.51
<b>Dividends per common share (\$)</b>	<b>0.56</b>	0.55	0.55	0.54	0.54	0.52	0.52	0.50	2.18	2.04
<b>Return on common shareholders' equity (%)</b>	<b>18.4</b>	11.0	18.7	7.7	9.5	13.6	18.8	17.6	11.7	16.9
<b>Total assets</b>	<b>234,119</b>	232,206	229,896	220,734	219,301	216,090	215,560	207,123		
<b>Impaired loans, net</b>	<b>226</b>	281	251	300	234	254	254	249		
<b>Per common share (\$)</b>										
Book value	<b>29.51</b>	28.52	28.39	27.75	27.77	28.26	27.60	27.01		
Share price										
High	<b>56.60</b>	47.88	46.65	45.56	44.11	46.33	50.01	49.15		
Low	<b>46.83</b>	44.14	40.98	35.95	35.83	40.75	43.78	45.02		