Report to Shareholders Second Quarter 2021

National Bank reports its results for the Second Quarter of 2021

The financial information reported in this document is based on the unaudited interim condensed consolidated financial statements for the quarter and six-month period ended April 30, 2021 and is prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), unless otherwise indicated. IFRS represent Canadian generally accepted accounting principles (GAAP). All amounts are presented in Canadian dollars.

MONTREAL, May 28, 2021 – For the second quarter of 2021, National Bank is reporting net income of $801 million compared to $379 million in the second quarter of 2020. Second-quarter diluted earnings per share stood at $2.25 compared to $1.01 in the second quarter of 2020. This strong growth was driven by increases in total revenues across most business segments and by a substantial reduction in provisions for credit losses in the second quarter of 2021, whereas, in the second quarter of 2020, significant provisions had been recorded to reflect a deterioration in macroeconomic conditions caused by the COVID-19 pandemic. Income before provisions for credit losses and income taxes(1) totalled $1,039 million in the second quarter of 2021 compared to $915 million in the second quarter of 2020, a 14% increase arising from good performance in most of the business segments.

For the six month-period ended April 30, 2021, the Bank's net income totalled $1,562 million compared to $989 million in the same period of 2020. First-half diluted earnings per share stood at $4.40 compared to $2.68 in the same period of 2020. This significant increase was driven by net income increases across all the business segments, i.e., increases that were notably due to lower provisions for credit losses recorded in the first half of 2021 given an improved macroeconomic outlook compared to the same period of 2020. Income before provisions for credit losses and income taxes(1) totalled $2,083 million for the six-month period ended April 30, 2021, a 19% year-over-year increase driven by revenue growth across all business segments.

"For the second quarter 2021, the Bank delivered another strong performance. We continue to operate in an improving economic environment more conducive to business growth, with our Q1 momentum carrying over into Q2. Our solid results once again reflect the fact that we have made the right strategic choices and have built a strong, diversified and agile franchise," commented Louis Vachon, President and Chief Executive Officer of the National Bank of Canada. "With an industry-leading ROE, strong capital levels and prudent allowances for credit losses, we are well-positioned to selectively seize growth opportunities as we gradually exit the pandemic," added Mr. Vachon.

Highlights

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2021	2020	% Change	**2021**	2020	% Change
Net income	**801**	379	111	**1,562**	989	58
Diluted earnings per share *(dollars)*	**$ 2.25**	$ 1.01	123	**$ 4.40**	$ 2.68	64
Income before provisions for credit losses and income taxes(1)	**1,039**	915	14	**2,083**	1,747	19
Return on common shareholders' equity(1)	**22.0 %**	10.7 %		**21.6 %**	14.3 %	
Dividend payout ratio	**38.0 %**	45.9 %		**38.0 %**	45.9 %	

	As at April 30, 2021	As at October 31, 2020
CET1 capital ratio under Basel III	**12.2 %**	11.8 %
Leverage ratio under Basel III	**4.4 %**	4.4 %

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

Personal and Commercial

- Net income totalled $321 million in the second quarter of 2021 compared to $56 million in the second quarter of 2020, strong growth that was due essentially to higher provisions for credit losses on non-impaired loans recorded in the second quarter of 2020 to reflect a significant deterioration in the macroeconomic outlook caused by COVID-19.
- Income before provisions for credit losses and income taxes[(1)] totalled $423 million in the second quarter of 2021, up 12% from $377 million in the second quarter of 2020.
- At $902 million, the second-quarter total revenues were up $56 million or 7% year over year, due to an increase in net interest income driven by growth in loan and deposit volumes as well as to an increase in non-interest income.
- Compared to a year ago, personal lending grew 7% and commercial lending grew 5%.
- The net interest margin was 2.16% in the second quarter of 2021 compared to 2.22% in the second quarter of 2020.
- Second-quarter non-interest expenses stood at $479 million, up 2% from the second quarter of 2020.
- At 53.1%, the efficiency ratio[(1)] improved from 55.4% in the second quarter of 2020.

Wealth Management

- Net income totalled $165 million in the second quarter of 2021, a 17% increase from $141 million in the second quarter of 2020.
- Second-quarter total revenues amounted to $541 million compared to $475 million in second quarter 2020, a $66 million or 14% increase driven by growth in fee-based revenues as well as in transaction-based and other revenues.
- Second-quarter non-interest expenses stood at $315 million compared to $280 million in the second quarter of 2020, a 13% increase related to revenue growth.
- At 58.2%, the second-quarter efficiency ratio[(1)] improved from 58.9% in the second quarter of 2020.

Financial Markets

- Net income totalled $238 million in the second quarter of 2021, a 50% increase from $159 million in the second quarter of 2020.
- Income before provisions for credit losses and income taxes on a taxable equivalent basis[(1)] totalled $342 million in the second quarter of 2021, down 10% from $378 million in the second quarter of 2020.
- Total revenues on a taxable equivalent basis[(1)] amounted to $567 million, a $31 million or 5% decrease attributable to lower global markets revenues in the second quarter of 2021.
- Second-quarter non-interest expenses stood at $225 million compared to $220 million in the second quarter of 2020, an increase in part attributable to operations support charges.
- The segment recorded $18 million in provisions for credit losses in the second quarter of 2021 versus $162 million in the second quarter of 2020. This decrease is attributable to the significant deterioration in the macroeconomic outlook caused by COVID-19 during the second quarter of 2020.
- At 39.7%, the second-quarter efficiency ratio on a taxable equivalent basis[(1)] compares to 36.8% in the second quarter of 2020.

U.S. Specialty Finance and International

- Net income totalled $129 million in the second quarter of 2021, a 74% increase from $74 million in the second quarter of 2020.
- Second-quarter total revenues amounted to $237 million, a 30% year-over-year increase driven by revenue growth at both the Credigy and ABA Bank subsidiaries.
- Second-quarter non-interest expenses stood at $77 million, down 6%.
- At 32.5%, the second-quarter efficiency ratio[(1)] improved by 12.3 percentage points compared to the same quarter in 2020.
- $1 million in provisions for credit losses were recovered in the second quarter of 2021, reflective of improving macroeconomic conditions in the United States, whereas, in the second quarter of 2020, $32 million in provisions for credit losses had been recorded.

Other

- For the *Other* heading of segment results, there was a net loss of $52 million in the second quarter of 2021 compared to a net loss of $51 million in the second quarter of 2020. An increase in non-interest expenses associated with variable compensation and technology investments was partly offset by an increase in total revenues.

Capital Management

- As at April 30, 2021, the Common Equity Tier 1 (CET1) capital ratio under Basel III stood at 12.2%, up from 11.8% as at October 31, 2020.
- As at April 30, 2021, the Basel III leverage ratio was 4.4%, unchanged from October 31, 2020.

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

Management's Discussion and Analysis

May 27, 2021

The following Management's Discussion and Analysis (MD&A) presents the financial condition and operating results of National Bank of Canada (the Bank). This analysis was prepared in accordance with the requirements set out in *National Instrument 51-102, Continuous Disclosure Obligations,* released by the Canadian Securities Administrators (CSA). It is based on the unaudited interim condensed consolidated financial statements (the consolidated financial statements) for the quarter and six-month period ended April 30, 2021 and prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), unless otherwise indicated. IFRS represent Canadian generally accepted accounting principles (GAAP). This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes for the quarter and six-month period ended April 30, 2021 and with the *2020 Annual Report*. All amounts are presented in Canadian dollars. Additional information about the Bank, including the *Annual Information Form*, can be obtained from the Bank's website at nbc.ca and SEDAR's website at sedar.com.

Caution Regarding Forward-Looking Statements

From time to time, the Bank makes written forward-looking statements such as those contained in this document, in other filings with Canadian securities regulators, and in other communications. In addition, representatives of the Bank may make forward-looking statements orally to analysts, investors, the media and others. All such statements are made in accordance with applicable securities legislation in Canada and the United States. Forward-looking statements in this document may include, but are not limited to, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, the Bank's objectives, outlook and priorities for fiscal year 2021 and beyond, the strategies or actions that will be taken to achieve them, expectations for the Bank's financial condition, the regulatory environment in which it operates, the potential impacts of—and the Bank's response to—the COVID-19 pandemic, and certain risks it faces. These forward-looking statements are typically identified by verbs or words such as "outlook", "believe", "foresee", "forecast", "anticipate", "estimate", "project", "expect", "intend" and "plan", in their future or conditional forms, notably verbs such as "will", "may", "should", "could" or "would" as well as similar terms and expressions. Such forward-looking statements are made for the purpose of assisting the holders of the Bank's securities in understanding the Bank's financial position and results of operations as at and for the periods ended on the dates presented, as well as the Bank's vision, strategic objectives and its financial performance targets, and may not be appropriate for other purposes.

By their very nature, these forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2021, including in the context of the COVID-19 pandemic, and how that will affect the Bank's business are among the main factors considered in setting the Bank's strategic priorities and objectives, including allowances for credit losses. In determining its expectations for economic conditions, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the governments of Canada, the United States and certain other countries in which the Bank conducts business, as well as their agencies.

There is a strong possibility that the Bank's express or implied predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that its assumptions may not be confirmed and that its vision, strategic objectives and financial performance targets will not be achieved. The Bank recommends that readers not place undue reliance on forward-looking statements, as a number of factors, many of which are beyond the Bank's control, including the impacts of the COVID-19 pandemic, could cause actual results to differ significantly from the expectations, estimates or intentions expressed in these forward-looking statements. These factors include credit risk, market risk, liquidity and funding risk, operational risk, regulatory compliance risk, reputation risk, strategic risk and environmental and social risk, all of which are described in more detail in the Risk Management section beginning on page 68 of the Bank's *2020 Annual Report*, and more specifically, general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business; regulatory changes affecting the Bank's business; geopolitical and sociopolitical uncertainty; important changes in consumer behaviour; the housing and household indebtedness situation and real estate market in Canada; changes in the Bank's customers' and counterparties' performance and creditworthiness; changes in the accounting policies the Bank uses to report its financial condition, including uncertainties associated with assumptions and critical accounting estimates; tax laws in the countries in which the Bank operates, primarily Canada and the United States; changes to capital and liquidity guidelines as well as the manner in which they are to be presented and interpreted; changes to the credit ratings assigned to the Bank; potential disruption to key suppliers of goods and services to the Bank; potential disruptions to the Bank's information technology systems, including evolving cyberattack risk as well as identity theft and theft of personal information; and possible impacts of catastrophic events affecting local and global economies, including natural disasters and public health emergencies such as the COVID-19 pandemic. Statements about the expected impacts of the COVID-19 pandemic on the Bank and its results of operations, reputation, financial position and liquidity, as well as on the global economy may be inaccurate and differ, possibly materially, from what is currently expected as they depend on future developments that are highly uncertain and cannot be predicted. The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the COVID-19 Pandemic and Risk Management sections of the Bank's *2020 Annual Report* and in this Report to Shareholders for the Second Quarter of 2021, notably in the COVID-19 Pandemic section. Investors and others who rely on the Bank's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risks they entail. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

COVID-19 Pandemic

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

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

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

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

For additional information on the impact of the COVID-19 risk factor, on relief measures offered to the Bank's clients, and on the measures introduced by regulators, see the COVID-19 Pandemic section on pages 16 to 21 of the *2020 Annual Report* and the Regulatory Developments section of this MD&A applicable to capital management as well as to credit risk and, liquidity and funding risk.

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

Payment Deferrals

(millions of Canadian dollars)	**As at April 30, 2021**		As at January 31, 2021		As at October 31, 2020	
	Number of loans	**Gross carrying value of loans**	Number of loans	Gross carrying value of loans	Number of loans	Gross carrying value of loans
Residential mortgage	**–**	**–**	1,441	309	2,865	695
Business and government	**76**	**214**	89	349	780	1,182
	76	**214**	1,530	658	3,645	1,877

Economic Review and Outlook

Global Economy

More than a year has passed since the WHO declared a global pandemic, and SARS-CoV-2 continues to take its toll. The number of new cases worldwide reached an all-time high at the end of April 2021 and is still hovering at extremely high levels. The current surge in infections is focused in emerging economies, where vaccine deployment is much slower than in rich countries. The health situation is particularly alarming in India and Brazil, which are now dealing with more contagious variants of the virus. The rise in infections will definitely curb economic growth in the hardest hit regions. However, this slowdown should be more than offset by solid growth in the advanced economies. With the pandemic losing steam in the eurozone (partly due to the acceleration of vaccination campaigns), a number of countries on the Old Continent should soon be able to relax social distancing rules. The recovery is looking so strong in the second half of the year in rich countries that we believe some producers will struggle to meet demand, which could trigger more aggressive price hikes than we were used to seeing before the crisis. Global GDP is expected to rebound by 6.0%(1) this year following a record 3.3% contraction in 2020.

The recovery continued at a sustained pace in the United States in the first quarter, despite certain social distancing rules being maintained. Real GDP grew at an annualized rate of 6.7% in the three months to March 2021, leaving economic output just 0.9% shy of its pre-crisis level. We expect growth to continue accelerating in the second quarter to an annualized rate of around 10%.(1) Our optimism is based on the progress of the vaccination campaign in the United States. At the time of writing, 45% of Americans have received at least their first vaccine dose, with the country being outperformed only by the UK among major economies. Successful vaccination efforts are expected to result in a more comprehensive reopening of the economy, which will in turn allow consumers to put the savings they built up during the crisis to good use. Another key driver of strong U.S. economic performance stands to be Washington's aggressive fiscal response, which may be ramped up again with an infrastructure and family assistance plan. We anticipate a strong 6.9%(1) rebound in growth in 2021 following last year's 3.5% contraction.

Canadian Economy

Despite a population still under health measure constraints and the likelihood of an economic slump in the second quarter, there are several reasons to be optimistic about the months ahead. After a slow start, the vaccination process has gained momentum since the beginning of April 2021. Impressive growth is still anticipated with the reopening of physical proximity services in the coming months combined with fiscal and monetary policies remaining extremely stimulative. As a result, consumption is expected to strengthen, particularly since households have built up considerable excess savings (8% of GDP in 2020). Against this backdrop, our growth forecast stands at 6.0%(1) in 2021 following a 5.4% contraction in 2020. The rally in the first quarter was even more outstanding than previously thought. The federal stimulus plan unveiled in April 2021 was more generous than expected in the short term, which also explains our upward revisions. In nominal terms, we now forecast growth of 10.4%(1), a 40-year high, as a surge in commodity prices across the board has fuelled a dramatic recovery in trade over the past year.

Quebec Economy

Due to robust health measures, Quebec fared well in relative terms during the third wave of the pandemic in Canada. But this achievement did not come without a hitch. No progress was made in total employment from September 2020 to April 2021. However, it is reassuring to note that the stagnation is attributable solely to weakness in the sectors directly affected by the measures (trade, accommodation and food services, information/leisure and other services). Employment in other sectors was still up in April 2021 and touched a record new peak, meaning that contagion continues to be skirted. Significant restrictions were still in place in May 2021, but we expect a gradual easing in the coming weeks in step with progress in the vaccination campaign, which was most advanced nationwide at the time of writing. The resilience of full-time employment in high-paying sectors was behind a hot real estate market, which has remained very strong in recent months (as elsewhere in the country). In the Greater Montreal area, housing prices have risen by nearly 16% in the past year, a pace not seen in three decades. We remain optimistic that the economy will continue to recover given the high level of economic diversification, the Quebec government's fiscal flexibility, and the fact that households are in better financial condition in Quebec than elsewhere in Canada. Following a 5.3% contraction in 2020, the Quebec economy is poised to stage a 6.2%(1) rebound in 2021.

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

Financial Reporting Method

Non-GAAP Financial Measures

The Bank uses a number of financial measures when assessing its results and measuring overall performance. Some of these financial measures are not calculated in accordance with GAAP, which are based on IFRS. Presenting non-GAAP financial measures helps readers to better understand how management analyzes results, shows the impacts of specified items on the results of the reported periods, and allows readers to assess results without the specified items if they consider such items not to be reflective of the underlying performance of the Bank's operations. The Bank cautions readers that it uses non-GAAP financial measures that do not have standardized meanings under GAAP and therefore may not be comparable to similar measures used by other companies.

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

Fiscal 2020 was marked by the effects of the COVID-19 pandemic on macroeconomic factors, which resulted in a significant increase in the Bank's provisions for credit losses. Given the materiality of the provisions for credit losses recorded in accordance with IFRS, the Bank believes it is useful to show income before provisions for credit losses and income taxes, income before provisions for credit losses and income taxes on a taxable equivalent basis as well as income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items (as presented in the Consolidated Results table on page 8 and in the Results by Segment tables on pages 11 to 15 of this MD&A), thereby providing readers with additional information to help them better understand the main components of the financial results of the Bank and its business segments.

Financial Information

(millions of Canadian dollars, except per share amounts)	Quarter ended April 30			Six months ended April 30		
	2021	2020	% Change	**2021**	2020	% Change
Net income excluding specified items[1]						
Personal and Commercial	**321**	56	473	**583**	298	96
Wealth Management	**165**	141	17	**325**	274	19
Financial Markets	**238**	159	50	**488**	342	43
U.S. Specialty Finance and International	**129**	74	74	**265**	159	67
Other	**(52)**	(51)		**(99)**	(74)	
Net income excluding specified items	**801**	379	111	**1,562**	999	56
Charge related to Maple[2]	**–**	–		**–**	(10)	
Net income	**801**	379	111	**1,562**	989	58
Diluted earnings per share excluding specified items	**$ 2.25**	$ 1.01	123	**$ 4.40**	$ 2.71	62
Charge related to Maple[2]	**–**	–		**–**	(0.03)	
Diluted earnings per share	**$ 2.25**	$ 1.01	123	**$ 4.40**	$ 2.68	64
Return on common shareholders' equity						
Including specified items	**22.0 %**	10.7 %		**21.6 %**	14.3 %	
Excluding specified items	**22.0 %**	10.7 %		**21.6 %**	14.5 %	

(1) For the quarter and six-month period ended April 30, 2020, certain amounts have been reclassified.
(2) During the six-month period ended April 30, 2020, the Bank had recorded a charge of $13 million ($10 million net of income taxes) related to the company Maple Financial Group Inc. (Maple) following the event in December 2019, as described in the Contingent Liabilities section on page 111 of the *2020 Annual Report*.

Highlights

(millions of Canadian dollars, except per share amounts)	Quarter ended April 30			Six months ended April 30		
	2021	2020	% Change	2021	2020	% Change
Operating results						
Total revenues	2,238	2,036	10	4,462	3,959	13
Income before provisions for credit losses and income taxes(1)	1,039	915	14	2,083	1,747	19
Net income	801	379	111	1,562	989	58
Net income attributable to the Bank's shareholders and holders of other equity instruments	801	368	118	1,562	962	62
Return on common shareholders' equity(1)	22.0 %	10.7 %		21.6 %	14.3 %	
Earnings per share						
Basic	$ 2.28	$ 1.01	126	$ 4.44	$ 2.70	64
Diluted	2.25	1.01	123	4.40	2.68	64
Operating results on a taxable equivalent basis and excluding specified items(1)						
Total revenues on a taxable equivalent basis	2,282	2,112	8	4,563	4,122	11
Income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items	1,083	991	9	2,184	1,923	14
Net income excluding specified items	801	379	111	1,562	999	56
Return on common shareholders' equity excluding specified items	22.0 %	10.7 %		21.6 %	14.5 %	
Efficiency ratio on a taxable equivalent basis and excluding specified items	52.5 %	53.1 %		52.1 %	53.3 %	
Earnings per share excluding specified items(1)						
Basic	$ 2.28	$ 1.01	126	$ 4.44	$ 2.73	63
Diluted	2.25	1.01	123	4.40	2.71	62
Common share information						
Dividends declared	$ 0.71	$ 0.71		$ 1.42	$ 1.42	
Book value	43.59	38.74		43.59	38.74	
Share price						
High	89.42	74.79		89.42	74.79	
Low	72.30	38.73		65.54	38.73	
Close	89.36	56.14		89.36	56.14	
Number of common shares *(thousands)*	337,372	335,400		337,372	335,400	
Market capitalization	30,148	18,829		30,148	18,829	

(millions of Canadian dollars)	As at April 30, 2021	As at October 31, 2020	% Change
Balance sheet and off-balance-sheet			
Total assets	350,742	331,625	6
Loans and acceptances, net of allowances	171,632	164,740	4
Deposits	231,320	215,878	7
Equity attributable to common shareholders	14,706	13,430	10
Assets under administration and under management	702,167	596,656	18
Regulatory ratios under Basel III(2)			
Capital ratios			
Common Equity Tier 1 (CET1)	12.2 %	11.8 %	
Tier 1(3)	15.2 %	14.9 %	
Total(3)	16.4 %	16.0 %	
Leverage ratio	4.4 %	4.4 %	
Liquidity coverage ratio (LCR)	150 %	161 %	
Net stable funding ratio (NSFR)	125 %		
Regulatory ratios under Basel III (adjusted)(4)			
Capital ratios			
CET1	12.0 %	11.5 %	
Tier 1(3)	15.1 %	14.6 %	
Total(3)	16.4 %	16.0 %	
Leverage ratio	4.4 %	4.3 %	
Other information			
Number of employees – Worldwide	26,211	26,517	(1)
Number of branches in Canada	401	403	–
Number of banking machines in Canada	929	940	(1)

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.
(2) The ratios include the transitional measures granted by the Office of the Superintendent of Financial Institutions (Canada) (OSFI). For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*.
(3) Ratios as at April 30, 2021 include the redemption of the Series 34 preferred shares on May 15, 2021.
(4) The adjusted ratios do not include the transitional measure applicable to expected credit loss provisioning. For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*.

Financial Analysis

Consolidated Results

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2021	2020	% Change	2021	2020	% Change
Operating results						
Net interest income	1,156	1,105	5	2,363	2,035	16
Non-interest income	1,082	931	16	2,099	1,924	9
Total revenues	2,238	2,036	10	4,462	3,959	13
Non-interest expenses	1,199	1,121	7	2,379	2,212	8
Income before provisions for credit losses and income taxes(1)	1,039	915	14	2,083	1,747	19
Provisions for credit losses	5	504	(99)	86	593	(85)
Income before income taxes	1,034	411	152	1,997	1,154	73
Income taxes	233	32	628	435	165	164
Net income	801	379	111	1,562	989	58
Diluted earnings per share *(dollars)*	2.25	1.01	123	4.40	2.68	64
Taxable equivalent basis(1)						
Net interest income	42	56		96	113	
Non-interest income	2	20		5	50	
Income taxes	44	76		101	163	
Impact of taxable equivalent basis on net income	–	–		–	–	
Specified items(1)						
Charge related to Maple	–	–		–	(13)	
Specified items before income taxes	–	–		–	(13)	
Income taxes on specified items	–	–		–	(3)	
Specified items after income taxes	–	–		–	(10)	
Operating results on a taxable equivalent basis and excluding specified items(1)						
Net interest income on a taxable equivalent basis	1,198	1,161	3	2,459	2,148	14
Non-interest income on a taxable equivalent basis	1,084	951	14	2,104	1,974	7
Total revenues on a taxable equivalent basis	2,282	2,112	8	4,563	4,122	11
Non-interest expenses excluding specified items	1,199	1,121	7	2,379	2,199	8
Income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items	1,083	991	9	2,184	1,923	14
Provisions for credit losses	5	504	(99)	86	593	(85)
Income before income taxes on a taxable equivalent basis and excluding specified items	1,078	487	121	2,098	1,330	58
Income taxes on a taxable equivalent basis and excluding specified items	277	108	156	536	331	62
Net income excluding specified items	801	379	111	1,562	999	56
Diluted earnings per share excluding specified items *(dollars)*	2.25	1.01	123	4.40	2.71	62
Average assets	360,945	312,788	15	359,505	307,087	17
Average loans and acceptances	168,700	160,008	5	167,119	157,253	6
Average deposits	233,829	205,097	14	230,684	202,002	14
Efficiency ratio on a taxable equivalent basis and excluding specified items(1)	52.5 %	53.1 %		52.1 %	53.3 %	

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

Financial Results

For the second quarter of 2021, National Bank is reporting net income of $801 million compared to $379 million in the second quarter of 2020. Second-quarter diluted earnings per share stood at $2.25 compared to $1.01 in the second quarter of 2020. This strong growth was driven by increases in total revenues across most business segments and by a substantial reduction in provisions for credit losses in the second quarter of 2021, whereas, in the second quarter of 2020, significant provisions had been recorded to reflect a deterioration in macroeconomic conditions caused by COVID-19. Income before provisions for credit losses and income taxes[(1)] totalled $1,039 million in the second quarter of 2021 compared to $915 million in the second quarter of 2020, a 14% increase arising from good performance in most of the business segments.

For the six month-period ended April 30, 2021, the Bank's net income totalled $1,562 million compared to $989 million in the same period of 2020, and its first-half diluted earnings per share stood at $4.40 compared to $2.68 in the same period of 2020. This significant increase was driven by net income increases across all the business segments, i.e., increases that were notably due to lower provisions for credit losses recorded in the first half of 2021 given an improved macroeconomic outlook compared to the same period in 2020. Income before provisions for credit losses and income taxes on a taxable equivalent basis and excluding specified items[(1)] totalled $2,184 million for the six-month period ended April 30, 2021, a 14% year-over-year increase driven by revenue growth across all business segments. First-half diluted earnings per share excluding specified items[(1)] stood at $4.40 compared to $2.71 in the same first-half period of 2020. The first-half specified item for 2020, net of income taxes, had consisted of a $10 million charge related to Maple.

Return on common shareholders' equity excluding specified items[(1)] was 21.6% for the six months ended April 30, 2021 compared to 14.5% in the same first-half period of 2020.

Total Revenues

For the second quarter of 2021, the Bank's total revenues amounted to $2,238 million, rising $202 million or 10% year over year. In the Personal and Commercial segment, second-quarter total revenues rose 7% owing to growth in loan and deposit volumes (partly offset by a narrowing of the net interest margin as a result of lower interest rates) as well as to increases in insurance revenues, revenues from bankers' acceptances, and internal commission revenues related to the distribution of Wealth Management products. In the Wealth Management segment, second-quarter total revenues grew 14%, resulting mainly from an increase in fee-based revenues related to growth in average assets under administration and under management and an increase in transaction volume. In the Financial Markets segment, second-quarter total revenues on a taxable equivalent basis[(1)] decreased by 5% year over year due to a decrease in global markets revenues, partly offset by an increase in corporate and investment banking revenues. In the USSF&I segment, second-quarter total revenues rose 30% owing to sustained revenue growth at the ABA Bank subsidiary, given growth in loan and deposit volumes, and to revenue growth at the Credigy subsidiary, in particular due to downward remeasurements in the fair value of certain loan portfolios recorded in the second quarter of 2020 resulting from adverse market conditions. Total revenues on a taxable equivalent basis[(1)] amounted to $2,282 million in the second quarter of 2021, up 8% from $2,112 million in the second quarter of 2020.

For the six-month period ended April 30, 2021, total revenues amounted to $4,462 million, up $503 million or 13% from $3,959 million in the same six-month period of 2020. In the Personal and Commercial segment, first-half total revenues rose $79 million or 5% due to increases in net interest income arising from growth in loan and deposit volumes as well as to increases in insurance revenues, revenues from bankers' acceptances, credit fee revenues, and internal commission revenues related to the distribution of Wealth Management products. These increases were tempered by lower credit card revenues and lower revenues from deposit and payment service charges, as transaction volume was down in the context of the pandemic. In the Wealth Management segment, first-half total revenues were up 13% due to higher fee-based revenues and higher transaction-based and other revenues. In the Financial Markets segment, first-half total revenues on a taxable equivalent basis[(1)] was up $88 million given growth in corporate and investment banking revenues, tempered by a decrease in global markets revenues. Lastly, in the USSF&I segment, first-half total revenues were up 35%, with business growth at the ABA Bank subsidiary leading to an increase in loan and deposit volumes, while revenues at the Credigy subsidiary were also up compared to the same period of 2020, notably due to a gain realized in the first quarter of 2021 following a disposal of loan portfolios as well as to downward remeasurements in the fair value of certain loan portfolios recorded in the second quarter of 2020. First-half total revenues on a taxable equivalent basis[(1)] amounted to $4,563 million, up 11% from $4,122 million in the same period of 2020.

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

Non-Interest Expenses

For the second quarter of 2021, non-interest expenses stood at $1,199 million, a 7% year-over-year increase that was mainly due to an increase in compensation and employee benefits, in particular the variable compensation associated with revenue growth, as well as to an increase in the technology investments made by the Bank for its transformation plan and business development purposes. These increases were partly offset by a decrease in the expenses incurred by the Bank to implement health and safety measures for employees and clients in response to the exceptional circumstances created by COVID-19, which were higher in the second quarter of 2020.

For the six months ended April 30, 2021, non-interest expenses stood at $2,379 million, an 8% year-over-year increase that was due to higher compensation and employee benefits, attributable to an increase in the variable compensation associated with revenue growth. This increase in non-interest expenses was also due to a higher technology expense arising from significant investments made by the Bank for its transformation plan and business development purposes. These increases were partly offset by a decline in certain variable expenses, including lower travel and business development expenses given the social distancing and lockdown measures imposed by governments. In addition, in the first-half of 2020, the other expenses item had included a $13 million charge related to Maple. First-half non-interest expenses excluding specified items(1) stood at $2,379 million, up 8% from $2,199 million in the same first-half period of 2020.

Provisions for Credit Losses

For the second quarter of 2021, the Bank recorded $5 million in provisions for credit losses compared to $504 million in the same quarter of 2020. This decrease was partly due to a decrease in provisions for credit losses on non-impaired loans given an improvement in the macroeconomic outlook in the second quarter of 2021. Conversely, in the second quarter of 2020, the Bank had recorded considerable provisions for credit losses on non-impaired loans to reflect a significant deterioration in the macroeconomic outlook caused by COVID-19. In addition, provisions for credit losses on impaired Personal and Commercial loans as well as on impaired credit card receivables decreased in the second quarter of 2021. Lastly, the Financial Markets segment recorded higher provisions for credit losses on impaired loans compared to the same quarter in 2020.

For the six-month period ended April 30, 2021, the Bank recorded $86 million in provisions for credit losses compared to $593 million in the same period of 2020. This $507 million decrease was due to lower provisions for credit losses on non-impaired loans owing to improved macroeconomic conditions in the first half of 2021 compared to the significant deterioration in the macroeconomic outlook caused by COVID-19 in the second quarter of 2020. This decrease was also due to provisions for credit losses recorded on Personal Banking impaired loans (including credit card receivables) that were below pre-pandemic levels, in particular due to a decrease in insolvencies, a reduction in client spending in the context of the pandemic, and various assistance measures implemented by governments.

Income Taxes

For the second quarter of 2021, income taxes stood at $233 million compared to $32 million in the same quarter of 2020. The 2021 second-quarter effective tax rate was 23% compared to 8% in second quarter 2020. This change in the effective tax rate stems mainly from a higher level and proportion of tax-exempt dividend income in the second quarter of 2020 as well as from a decrease in the income tax rate applicable to the ABA Bank subsidiary in the second quarter of 2020 due to tax incentive measures granted by the Cambodian government.

For the six months ended April 30, 2021, the effective income tax rate stood at 22% compared to 14% in the same period of 2020. This change in effective tax rate was due to the same reasons as those provided above for the quarter.

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

Results by Segment

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

Personal and Commercial

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2021	2020[1]	% Change	2021	2020[1]	% Change
Operating results						
Net interest income	**628**	607	3	**1,266**	1,218	4
Non-interest income	**274**	239	15	**538**	507	6
Total revenues	**902**	846	7	**1,804**	1,725	5
Non-interest expenses	**479**	469	2	**969**	948	2
Income before provisions for credit losses and income taxes[2]	**423**	377	12	**835**	777	7
Provisions for credit losses	**(14)**	301	(105)	**42**	371	(89)
Income before income taxes	**437**	76	475	**793**	406	95
Income taxes	**116**	20	480	**210**	108	94
Net income	**321**	56	473	**583**	298	96
Net interest margin[3]	**2.16 %**	2.22 %		**2.17 %**	2.21 %	
Average interest-bearing assets	**119,367**	111,159	7	**117,825**	110,583	7
Average assets	**124,869**	117,050	7	**123,348**	116,492	6
Average loans and acceptances	**124,189**	116,534	7	**122,811**	115,983	6
Net impaired loans[4]	**269**	399	(33)	**269**	399	(33)
Net impaired loans[4] as a % of average loans and acceptances	**0.2 %**	0.3 %		**0.2 %**	0.3 %	
Average deposits	**75,221**	63,869	18	**74,718**	64,131	17
Efficiency ratio[2]	**53.1 %**	55.4 %		**53.7 %**	55.0 %	

(1) For the quarter and six-month period ended April 30, 2020, certain amounts have been reclassified.
(2) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.
(3) Net interest margin is calculated by dividing net interest income by average interest-bearing assets.
(4) Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn.

In the Personal and Commercial segment, net income totalled $321 million in the second quarter of 2021 compared to $56 million in the second quarter of 2020, a considerable increase owing in part to growth in total revenues as well as to the impacts of the COVID-19 pandemic in the second quarter of 2020, in particular the provisions for credit losses recorded to reflect a deterioration in the macroeconomic outlook and the expected impacts on the segment's clients. The segment's second-quarter income before provisions for credit losses[1] grew 12% year over year. Second-quarter net interest income grew 3%, notably due to the fact that growth in personal and commercial loan and deposit volumes more than offset the impact of lower interest rates on the net interest margin, which was 2.16% compared to 2.22% in the second quarter of 2020. Furthermore, second-quarter non-interest income was up $35 million or 15% year over year.

Personal Banking's second-quarter total revenues increased by $19 million year over year. This increase stems from growth in loan and deposit volumes (tempered by a lower net interest margin) and from increases in insurance revenues and internal commission revenues related to the distribution of Wealth Management products. Commercial Banking's second-quarter total revenues increased $37 million due to growth in loan and deposit volumes, credit fee revenues, and revenues from bankers' acceptances.

For the second quarter of 2021, the Personal and Commercial segment's non-interest expenses stood at $479 million, up 2% from the second quarter of 2020. Increases in operations support charges and in the amortization expense related to the segment's activities were tempered by a decrease in certain variable expenses, notably lower business development expenses given the social distancing and lockdown measures imposed by governments due to the pandemic. At 53.1%, the segment's second-quarter efficiency ratio[1] improved by 2.3 percentage points compared to the second quarter of 2020. The segment recovered $14 million in provisions for credit losses in the second quarter of 2021, a decrease of $315 million compared to the same quarter in 2020. This decrease stems from reversals of allowances for credit losses on non-impaired loans given a more favourable macroeconomic outlook in the second quarter of 2021, whereas, in the second quarter of 2020, significant provisions for credit losses had been recorded to reflect a deterioration in the macroeconomic outlook caused by COVID-19. In addition, the provisions for credit losses on Personal Banking impaired loans and on Commercial Banking impaired loans as well as impaired credit card receivables were below pre-pandemic levels, in particular due to fewer cases of insolvency, reduced spending by clients in the context of the pandemic, and various assistance measures implemented by governments.

For the six-month period ended April 30, 2021, the Personal and Commercial segment's net income totalled $583 million, an increase from $298 million in first-half 2020, essentially explained by growth of $79 million in the segment's total first-half revenues and by the impacts of the COVID-19 pandemic on the provisions for credit losses recorded during the second quarter of 2020. The segment's first-half income before provisions for credit losses and income taxes[1] rose $58 million or 7%.

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

The increase in Personal Banking total revenues came mainly from growth in loan and deposit volumes, tempered by the impact of lower interest rates on the net interest margin and by decreases in card revenues and in revenues from deposit and payment service charges, as the number of transactions fell due to the impacts of the pandemic. Commercial Banking's total revenues were up due to growth in loan and deposit volumes, credit fee revenues, and revenues from bankers' acceptances.

For the six-month period ended April 30, 2021, the segment's non-interest expenses stood at $969 million, a $21 million year-over-year increase due mainly to higher compensation and employee benefits as well as to increases in operations support charges and in the amortization expense related to the segment's activities. These increases were partly offset by a decrease in certain variable expenses, including lower business development expenses given the social distancing and lockdown measures imposed by governments. At 53.7%, the first-half efficiency ratio(1) improved by 1.3 percentage points from the same period in 2020. For the six months ended April 30, 2021, the segment recorded $42 million in provisions for credit losses, $329 million less than in first-half 2020 given a decrease in provisions for credit losses on both non-impaired and impaired loans and credit card receivables.

Wealth Management

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2021	2020(1)	% Change	2021	2020(1)	% Change
Operating results						
Net interest income	111	110	1	221	229	(3)
Fee-based revenues	318	267	19	620	540	15
Transaction-based and other revenues	112	98	14	219	172	27
Total revenues	541	475	14	1,060	941	13
Non-interest expenses	315	280	13	618	565	9
Income before provisions for credit losses and income taxes(2)	226	195	16	442	376	18
Provisions for credit losses	2	4	(50)	–	4	
Income before income taxes	224	191	17	442	372	19
Income taxes	59	50	18	117	98	19
Net income	165	141	17	325	274	19
Average assets	6,976	5,984	17	6,734	5,963	13
Average loans and acceptances	5,818	4,793	21	5,597	4,779	17
Net impaired loans(3)	7	3		7	3	
Average deposits	33,943	34,474	(2)	34,423	33,441	3
Assets under administration and under management	702,167	548,677	28	702,167	548,677	28
Efficiency ratio(2)	58.2 %	58.9 %		58.3 %	60.0 %	

(1) For the quarter and six-month period ended April 30, 2020, certain amounts have been reclassified.
(2) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.
(3) Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn.

In the Wealth Management segment, net income totalled $165 million in the second quarter of 2021, a 17% increase from $141 million in the second quarter of 2020. The segment's second-quarter total revenues amounted to $541 million, up $66 million or 14% from $475 million in the second quarter of 2020. This increase was mainly driven by a 19% increase in fee-based revenues given growth in average assets under administration and under management as a result of net inflows into the various solutions and stronger stock market performance in the second quarter of 2021 as well as by an increase in transaction-based and other revenues, which rose 14% given greater transaction volume in the second quarter of 2021. The segment's second-quarter net interest income was up slightly by 1%, as growth in deposit volumes more than offset lower interest rates.

For the second quarter of 2021, the segment's non-interest expenses stood at $315 million, up 13% from the second quarter of 2020. This increase came mainly from higher compensation and employee benefits, notably the variable compensation associated with the segment's higher revenues, as well as from higher operations support charges. At 58.2%, the segment's second-quarter efficiency ratio(1) improved by 0.7 percentage points compared to the second quarter of 2020. The segment recorded $2 million in provisions for credit losses in the second quarter of 2021 compared to $4 million in the same quarter of 2020, as higher provisions for credit losses on non-impaired loans had been recorded during the second quarter of 2020.

For the six months ended April 30, 2021, the Wealth Management segment's net income totalled $325 million, up 19% from $274 million in the same six-month period of 2020. The segment's first-half total revenues amounted to $1,060 million, up 13% from $941 million in the same period of 2020. An increase in fee-based revenues was driven by growth in average assets under administration and management as a result of stronger stock market performance and net inflows into various solutions during the six-month period ended April 30, 2021. First-half transaction-based and other revenues grew 27% year over year owing to an increase in trading volume resulting from stronger stock market activity during this period. First-half net interest income was down due to a smaller margin on deposits, partly offset by growth in deposit volumes. The segment's first-half non-interest expenses stood at $618 million compared to $565 million in the same period of 2020, an increase attributable to higher variable compensation associated with revenue growth, and to higher operations support charges related to the segment's initiatives. At 58.3%, the efficiency ratio(1) for the six-month period ended April 30, 2021 improved from 60.0% in the same period of 2020. The segment's provisions for credit losses were nil in the first half of 2021, whereas provisions for credit losses on non-impaired loans had been recorded during the second quarter of 2020.

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

Financial Markets

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

	Quarter ended April 30			Six months ended April 30		
	2021	2020[2]	% Change	2021	2020[2]	% Change
Operating results						
Global markets						
Equities	**138**	227	(39)	**339**	401	(15)
Fixed-income	**99**	105	(6)	**215**	190	13
Commodities and foreign exchange	**32**	64	(50)	**70**	94	(26)
	269	396	(32)	**624**	685	(9)
Corporate and investment banking	**298**	202	48	**520**	371	40
Total revenues on a taxable equivalent basis	**567**	598	(5)	**1,144**	1,056	8
Non-interest expenses	**225**	220	2	**453**	420	8
Income before provisions for credit losses and income taxes on a taxable equivalent basis[1]	**342**	378	(10)	**691**	636	9
Provisions for credit losses	**18**	162	(89)	**27**	171	(84)
Income before income taxes on a taxable equivalent basis	**324**	216	50	**664**	465	43
Income taxes on a taxable equivalent basis	**86**	57	51	**176**	123	43
Net income	**238**	159	50	**488**	342	43
Average assets	**146,987**	120,474	22	**149,127**	121,049	23
Average loans and acceptances (Corporate Banking only)	**18,377**	19,436	(5)	**18,451**	18,217	1
Net impaired loans[3]	**42**	56	(25)	**42**	56	(25)
Average deposits	**42,987**	37,039	16	**41,203**	35,587	16
Efficiency ratio on a taxable equivalent basis[1]	**39.7 %**	36.8 %		**39.6 %**	39.8 %	

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.
(2) For the quarter and six-month period ended April 30, 2020, certain amounts have been reclassified.
(3) Net impaired loans are presented net of allowances for credit losses on Stage 3 loan amounts drawn.

In the Financial Markets segment, net income totalled $238 million compared to $159 million in the same quarter of 2020, a 50% increase resulting from lower provisions for credit losses than those that had been recorded in the second quarter of 2020 to reflect a significant deterioration in the macroeconomic outlook caused by COVID-19 and the expected impacts on the segment's clients. Second-quarter income before provisions for credit losses and income taxes on a taxable equivalent basis[1] totalled $342 million, down 10% from the second quarter of 2020. Second-quarter total revenues on a taxable equivalent basis[1] amounted to $567 million, a $31 million or 5% decrease compared to the second quarter of 2020 when the segment had posted record performance. Second-quarter global markets revenues were down 32% given decreases across all revenue types. As for second-quarter corporate and investment banking revenues, they increased 48% year over year due to higher revenues generated by capital markets activities, revenues from merger and acquisition activities as well as banking services revenues.

In the second quarter of 2021, the segment's non-interest expenses stood at $225 million, up 2% from the second quarter of 2020. This increase was essentially due to an increase in operations support charges, tempered by a decrease in variable compensation resulting from lower segment revenues during the second quarter of 2021. At 39.7%, the segment's second-quarter efficiency ratio on a taxable equivalent basis[1] compares to 36.8% in the same quarter of 2020. The segment recorded $18 million in provisions for credit losses for the second quarter of 2021 compared to $162 million in the same quarter of 2020, a decrease stemming from recoveries of provisions for credit losses on non-impaired loans in the second quarter of 2021 as a result of an improved macroeconomic outlook, whereas, in the second quarter of 2020, the segment had recorded significant provisions for credit losses on non-impaired loans to reflect the economic conditions related to COVID-19. The second-quarter provisions for credit losses on impaired loans were up $13 million compared to the same quarter in 2020.

For the six months ended April 30, 2021, the Financial Markets segment's net income totalled $488 million, up 43% from the same six-month period in 2020. First-half income before provisions for credit losses and income taxes on a taxable equivalent basis[1] amounted to $691 million, up $55 million or 9% from first-half 2020. First-half total revenues on a taxable equivalent basis[1] amounted to $1,144 million, up $88 million from $1,056 million in the same period of 2020. First-half global markets revenues were down 9%, as revenues from equity securities and revenues from commodities and foreign exchange activities decreased 15% and 26%, respectively, whereas revenues from fixed-income securities rose 13%. As for first-half corporate and investment banking revenues, they were up 40% year over year, mainly due to revenue growth generated by capital markets activities, revenues related to merger and acquisition activities, and banking service revenues.

The segment's first-half non-interest expenses increased 8% year over year. This increase was attributable to higher variable compensation associated with revenue growth as well as to an increase in operations support charges. At 39.6%, the first-half efficiency ratio on a taxable equivalent basis[1] improved by 0.2 percentage points compared to 39.8% in the same period of 2020. The segment recorded $27 million in provisions for credit losses during the six-month period ended April 30, 2021 compared to $171 million during the same six-month period of 2020, a decrease attributable to improved macroeconomic conditions in the first half of 2021 compared to an unfavourable economic environment related to COVID-19 during the same six-month period of 2020.

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

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

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2021	2020	% Change	**2021**	2020	% Change
Total revenues						
Credigy	**115**	82	40	**270**	180	50
ABA Bank	**121**	99	22	**240**	194	24
International	**1**	2		**1**	4	
	237	183	30	**511**	378	35
Non-interest expenses						
Credigy	**34**	34	–	**73**	70	4
ABA Bank	**42**	47	(11)	**86**	88	(2)
International	**1**	1		**1**	2	
	77	82	(6)	**160**	160	–
Income before provisions for credit losses and income taxes(1)	**160**	101	58	**351**	218	61
Provisions for credit losses						
Credigy	**(12)**	24	(150)	**4**	31	(87)
ABA Bank	**11**	8	38	**13**	11	18
	(1)	32	(103)	**17**	42	(60)
Income before income taxes	**161**	69	133	**334**	176	90
Income taxes						
Credigy	**24**	5		**45**	17	
ABA Bank	**8**	(10)		**24**	–	
	32	(5)		**69**	17	
Net income						
Credigy	**69**	19	263	**148**	62	139
ABA Bank	**60**	54	11	**117**	95	23
International	**–**	1		**–**	2	
	129	74	74	**265**	159	67
Non-controlling interests	**–**	4		**–**	13	
Net income attributable to the Bank's shareholders and holders of other equity instruments	**129**	70	84	**265**	146	82
Average assets	**15,894**	14,715	8	**15,717**	13,592	16
Average loans and receivables	**12,258**	11,733	4	**12,099**	10,796	12
Net impaired loans – Stage 3(2)	**31**	21	48	**31**	21	48
Purchased or originated credit-impaired (POCI) loans	**598**	1,105	(46)	**598**	1,105	(46)
Average deposits	**6,492**	4,813	35	**6,331**	4,591	38
Efficiency ratio(1)	**32.5 %**	44.8 %		**31.3 %**	42.3 %	

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

In the USSF&I segment, net income totalled $129 million in the second quarter of 2021 compared to $74 million in the second quarter of 2020, a 74% increase owing to growth in total revenues and to lower provisions for credit losses. The segment's second-quarter total revenues amounted to $237 million, up $54 million or 30% from $183 million in the second quarter of 2020. This revenue growth came mainly from a $33 million increase in revenues from the Credigy subsidiary and a $22 million increase in revenues from the ABA Bank subsidiary. For the six months ended April 30, 2021, the USSF&I segment's net income totalled $265 million, a 67% increase from $159 million in the same six-month period of 2020.

Credigy

For the second quarter of 2021, the Credigy subsidiary's net income totalled $69 million, up $50 million year over year. Credigy's second-quarter total revenues amounted to $115 million, up from $82 million in the second quarter of 2020, mainly due to downward remeasurements in the fair value of certain loan portfolios to reflect unfavourable market conditions in the second quarter of 2020. Second-quarter non-interest expenses stood at $34 million, stable compared to the second quarter of 2020. The segment's second-quarter provisions for credit losses decreased $36 million compared to the second quarter of 2020, a decrease arising essentially from higher provisions for credit losses on non-impaired loans recorded in the second quarter of 2020 to reflect a significant deterioration in the macroeconomic outlook caused by COVID-19 and the anticipated consequences on the subsidiary's portfolios, whereas reversals of allowances for credit losses on non-impaired loans were recorded in the second quarter of 2021 to reflect an improved macroeconomic outlook. The second-quarter provisions for credit losses on POCI loans were up compared to the same quarter in 2020.

For the six-month period ended April 30, 2021, the Credigy subsidiary's net income totalled $148 million, up $86 million from the same period in 2020. Credigy's first-half total revenues amounted to $270 million compared to $180 million in the same period of 2020, an increase that was notably due to a $26 million gain realized during the first quarter of 2021 upon the disposal of loan portfolios as well as to a favourable impact from the fair value remeasurements of certain loan portfolios. First-half non-interest expenses were up $3 million as an increase in variable compensation was partly offset by a decrease in collection costs. The subsidiary recorded first-half provisions for credit losses of $4 million, $27 million less than in the same period of 2020. This decrease in provisions for credit losses is explained by the same reasons provided for the quarter and by a decrease in provisions for credit losses on impaired loans.

During the six months ended April 30, 2021, the Bank acquired the entire remaining non-controlling interest in the Credigy subsidiary. For additional information, see Note 19 to these consolidated financial statements.

ABA Bank

For the second quarter of 2021, the ABA Bank subsidiary's net income totalled $60 million, up $6 million or 11% from the same quarter in 2020. ABA Bank's second-quarter total revenues grew 22% owing to sustained growth in loan and deposit volumes, partly offset by lower interest rates and exchange rate movements. The subsidiary's second-quarter non-interest expenses stood at $42 million compared to $47 million in the second quarter of 2020, a decrease related to exchange rate movements. The subsidiary recorded $11 million in provisions for credit losses during the second quarter of 2021 compared to $8 million in the same quarter of 2020, for an increase that stems mostly from provisions for credit losses on non-impaired loans due to anticipated impacts on the subsidiary's clients as a result of higher COVID-19 cases in Cambodia during the second quarter of 2021.

For the six month-period ended April 30, 2021, ABA Bank's net income totalled $117 million, up 23% from the same period in 2020. Growth in the subsidiary's business activities, mainly an increase in loans and deposits, explains a 24% increase in first-half total revenues. First-half non-interest expenses were down 2% year over year. The subsidiary recorded first-half provisions for credit losses of $13 million, $2 million more than in the same period of 2020.

The subsidiary's effective tax rate increased in both the second quarter and six-month period ended April 30, 2021, mainly due to tax incentive measures granted by the Cambodian government and recorded during the second quarter of 2020.

Other

(taxable equivalent basis)[1] (millions of Canadian dollars)	Quarter ended April 30		Six months ended April 30	
	2021	2020[2]	**2021**	2020[2]
Operating results				
Net interest income on a taxable equivalent basis	**(47)**	(27)	**(80)**	(71)
Non-interest income on a taxable equivalent basis	**82**	37	**124**	93
Total revenues on a taxable equivalent basis	**35**	10	**44**	22
Non-interest expenses	**103**	70	**179**	119
Income before provisions for credit losses and income taxes on a taxable equivalent basis[1]	**(68)**	(60)	**(135)**	(97)
Provisions for credit losses	**–**	5	**–**	5
Income before income taxes on a taxable equivalent basis	**(68)**	(65)	**(135)**	(102)
Income taxes (recovery) on a taxable equivalent basis	**(16)**	(14)	**(36)**	(18)
Net loss	**(52)**	(51)	**(99)**	(84)
Non-controlling interests	**–**	7	**–**	14
Net loss attributable to the Bank's shareholders and holders of other equity instruments	**(52)**	(58)	**(99)**	(98)
Specified items after income taxes[1]	**–**	–	**–**	(10)
Net loss excluding specified items[1]	**(52)**	(51)	**(99)**	(74)
Average assets	**66,219**	54,565	**64,579**	49,991

(1) See the Financial Reporting Method section on page 6 for additional information on non-GAAP financial measures.
(2) For the quarter and six-month period ended April 30, 2020, certain amounts have been reclassified.

For the *Other* heading of segment results, there was a net loss of $52 million in the second quarter of 2021 compared to a net loss of $51 million in the second quarter of 2020. Total revenues on a taxable equivalent basis[1] were up, as gains on investments more than offset a lower contribution from Treasury activities compared to the second quarter of 2020. Non-interest expenses were also up, arising from variable compensation associated with revenue growth as well as from greater technology investments. These items were partly offset by a decrease in the expenses incurred by the Bank to implement health and safety measures for employees and clients in response to the exceptional circumstances created by COVID-19, which were higher in the second quarter of 2020. In addition, in the second quarter of 2020, the Bank had recorded $5 million in provisions for credit losses to reflect a deterioration in the macroeconomic outlook caused by COVID-19.

For the six-month period ended April 30, 2021, there was a net loss of $99 million compared to a net loss of $84 million in the same six-month period of 2020. This change in net loss stems mainly from an increase in non-interest expenses, in particular variable compensation associated with revenue growth, and from an increase in the technology investments made by the Bank for its transformation plan and business development purposes. These increases were partly offset by a decrease in the expenses incurred by the Bank to implement health and safety measures for employees and clients in response to the pandemic, which were higher in the first half of 2020, and by a decrease in certain variable expenses and other discretionary costs in the first half of 2021, as these types of expenses have been lower since the start of the pandemic. First-half total revenues increased year over year, explained by the same reasons as those provided for the quarter. For the first quarter of 2020, the specified item, net of income taxes, had consisted of a $10 million charge related to Maple. The net loss excluding specified items[1] was $99 million for the six months ended April 30, 2021 compared to a $74 million net loss in the same period of 2020.

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

Consolidated Balance Sheet

Consolidated Balance Sheet Summary

(millions of Canadian dollars)	As at April 30, 2021	As at October 31, 2020	% Change
Assets			
Cash and deposits with financial institutions	36,958	29,142	27
Securities	107,346	102,131	5
Securities purchased under reverse repurchase agreements and securities borrowed	11,356	14,512	(22)
Loans and acceptances, net of allowances	171,632	164,740	4
Other	23,450	21,100	11
	350,742	331,625	6
Liabilities and equity			
Deposits	231,320	215,878	7
Other	100,495	98,589	2
Subordinated debt	771	775	(1)
Equity attributable to the Bank's shareholders and holders of other equity	18,156	16,380	11
Non-controlling interests	–	3	
	350,742	331,625	6

Assets

As at April 30, 2021, the Bank had total assets of $350.7 billion, a $19.1 billion or 6% increase from $331.6 billion as at October 31, 2020. Cash and deposits with financial institutions, totalling $37.0 billion as at April 30, 2021, increased by $7.9 billion, mainly due to deposits with the Bank of Canada and the U.S. Federal Reserve.

Since October 31, 2020, securities rose $5.2 billion due to an $8.8 billion or 11% increase in securities at fair value through profit or loss, essentially equity securities, partly offset by a decrease of $3.6 billion in securities other than those measured at fair value through profit or loss. Securities purchased under reverse repurchase agreements and securities borrowed decreased by $3.1 billion, mainly related to activities of the Financial Markets segment and of Treasury.

Totalling $171.6 billion as at April 30, 2021, loans and acceptances, net of allowances, rose $6.9 billion or 4% since October 31, 2020. The following table provides a breakdown of the main loan and acceptance portfolios.

(millions of Canadian dollars)	As at April 30, 2021	As at October 31, 2020	As at April 30, 2020
Loans and acceptances			
Residential mortgage and home equity lines of credit	93,674	89,097	83,639
Personal	13,399	13,475	13,456
Credit card	1,985	2,038	1,901
Business and government	63,688	61,288	64,765
	172,746	165,898	163,761
Allowances for credit losses	(1,114)	(1,158)	(1,033)
	171,632	164,740	162,728

Residential mortgages (including home equity lines of credit) were up $4.6 billion or 5% compared to October 31, 2020 due to sustained demand for mortgage credit. Personal loans have been stable since October 31, 2020, with growth in Personal Banking and at the ABA Bank subsidiary being offset by a disposal of Credigy loan portfolios. Credit card receivables were down slightly since October 31, 2020. Loans and acceptances to business and government were up $2.4 billion or 4% since October 31, 2020 owing to growth in Commercial Banking activities and to growth at the Credigy subsidiary.

When compared to April 30, 2020, loans and acceptances, net of allowances, grew $8.9 billion or 5%, while residential mortgages (including home equity lines of credit) were up $10.1 billion or 12% due to sustained demand for mortgage credit, to the acquisition of portfolios of mortgage loans, and to business growth at the ABA Bank subsidiary. Personal loans remained relatively stable when compared to April 30, 2020. Credit card receivables were up $0.1 billion since April 30, 2020. Loans and acceptances to business and government decreased $1.1 billion or 2% from a year ago, essentially driven by the activities of corporate financial services.

Impaired loans include loans classified in Stage 3 of the expected credit loss model and the purchased or originated credit-impaired (POCI) loans of the Credigy subsidiary. As at April 30, 2021, gross impaired loans excluding POCI loans stood at $731 million compared to $817 million as at October 31, 2020. Net impaired loans excluding POCI loans stood at $349 million as at April 30, 2021 compared to $465 million as at October 31, 2020, a $116 million decrease related mainly to decreases in the net impaired loans in the Personal Banking and Commercial Banking portfolios, partly offset by an increase in the net impaired loans of the Financial Markets' portfolios. Gross POCI loans stood at $598 million as at April 30, 2021, whereas they had stood at $855 million as at October 31, 2020, as a result of repayments and maturities of certain loan portfolios.

Other assets totalled $23.5 billion as at April 30, 2021, a $2.4 billion increase since October 31, 2020 that was mainly due to an increase in derivative financial instruments.

Liabilities
As at April 30, 2021, the Bank had total liabilities of $332.6 billion compared to $315.2 billion as at October 31, 2020.

The Bank's total deposit liability stood at $231.3 billion as at April 30, 2021 compared to $215.9 billion as at October 31, 2020, rising $15.4 billion or 7% since October 31, 2020. At $68.5 billion as at April 30, 2021, personal deposits increased $1.0 billion since October 31, 2020. This increase stems from Personal Banking activities and business growth at the ABA Bank subsidiary.

Business and government deposits totalled $157.9 billion as at April 30, 2021, rising $14.1 billion from October 31, 2020. This increase came from the funding activities of the Financial Markets segment and of Treasury, including $1.3 billion in deposits subject to bank recapitalization (bail-in) conversion regulations, as well as from Commercial Banking activities.

At $4.9 billion as at April 30, 2021, deposits from deposit-taking institutions rose $0.3 billion since October 31, 2020.

Other liabilities totalling $100.5 billion as at April 30, 2021 increased $1.9 billion since October 31, 2020. An increase of $2.2 billion in obligations related to securities sold short and an increase of $3.8 billion in derivative financial instruments were partly offset by a $5.1 billion decrease in obligations related to securities sold under repurchase agreements and securities loaned.

Equity
As at April 30, 2021, equity attributable to the Bank's shareholders and holders of other equity instruments was $18.2 billion, rising $1.8 billion since October 31, 2020. This increase came from net income net of dividends, from the $500 million issuance of Series 2 limited recourse capital notes (LRCN), from issuances of common shares under the Stock Option Plan, and from remeasurements of pension plans and other post-employment benefit plans. These increases were partly offset by accumulated other comprehensive income, in particular unrealized foreign currency translation losses on investments in foreign operations, tempered by gains on cash flow hedges. Lastly, non-controlling interests were down $3 million, essentially due to the purchase of the remaining non-controlling interest in the Credigy subsidiary during the first quarter of 2021.

Acquisition

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

Event After the Consolidated Balance Sheet Date

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

Exposures to Certain Activities

The recommendations made by the Financial Stability Board's Enhanced Disclosure Task Force (EDTF) seek to enhance the transparency and measurement of certain exposures, in particular structured entities, subprime and Alt-A exposures, collateralized debt obligations, residential and commercial mortgage-backed securities, and leveraged financing structures. The Bank does not market any specific mortgage financing program to subprime or Alt-A clients. The Bank does not have any significant direct position in residential and commercial mortgage-backed securities that are not insured by the CMHC. Credit derivative positions are presented in the *Supplementary Regulatory Capital and Pillar 3 Disclosure* report, which is available on the Bank's website at nbc.ca.

Leveraged finance is commonly employed to achieve a specific objective, for example, to make an acquisition, complete a buy-out or repurchase shares. Leveraged finance risk exposure takes the form of both funded and unfunded commitments. As at April 30, 2021, total commitments for this type of loan stood at $4,366 million ($3,681 million as at October 31, 2020). Details about other exposures are provided in the table on structured entities in Note 27 to the audited annual consolidated financial statements for the year ended October 31, 2020.

Related Party Transactions

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

Securitization and Off-Balance-Sheet Arrangements

In the normal course of business, the Bank is party to various financial arrangements that, under IFRS, are not required to be recorded on the Consolidated Balance Sheet or are recorded under amounts other than their notional or contractual values. These arrangements include, among others, transactions with structured entities, derivative financial instruments, the issuances of guarantees, credit instruments, and financial assets received as collateral. A complete analysis of these types of arrangements, including their nature, business purpose and importance, is provided on pages 57 and 58 of the *2020 Annual Report*.

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

Contingent Liabilities

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

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

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

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

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

Capital Management

Capital management has a dual role of ensuring a competitive return to the Bank's shareholders while maintaining a solid capital foundation that covers risks inherent to the Bank's business, supports its business segments and protects its clients. The Bank's capital management policy defines guiding principles as well as the roles and responsibilities of its internal capital adequacy assessment process. This process aims to determine the capital that the Bank needs to pursue its business activities and accommodate unexpected losses arising from extremely adverse economic and operational conditions. For additional information on the capital management framework, see the Capital Management section on pages 59 to 67 of the Bank's *2020 Annual Report*.

Basel Accord

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

In addition to those measures, OSFI is requiring that regulatory capital instruments other than common equity have a non-viability contingent capital (NVCC) clause to ensure that investors bear losses before taxpayers should the government determine that it is in the public interest to rescue a non-viable financial institution. Instruments issued before January 1, 2013 that would be Basel III compliant if not for the absence of the NVCC clause are grandfathered and will be phased out over a period of ten years. As at April 30, 2021, the Bank has one remaining non-NVCC Tier 2 subordinated debt capital instrument which it expects to phase out without resorting to any regulatory event redemption clause.

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

Requirements – Regulatory Ratios Under Basel III

							As at April 30, 2021
	Minimum	Capital conservation buffer	Minimum set by BCBS	D-SIB surcharge	Minimum set by OSFI[1]	Domestic stability buffer[2]	Minimum set by OSFI[1], including the buffer
Capital ratios							
CET1	4.5 %	2.5 %	7.0 %	1.0 %	8.0 %	1.0 %	9.0 %
Tier 1	6.0 %	2.5 %	8.5 %	1.0 %	9.5 %	1.0 %	10.5 %
Total	8.0 %	2.5 %	10.5 %	1.0 %	11.5 %	1.0 %	12.5 %
Leverage ratio	3.0 %	n.a.	n.a.	n.a.	3.0 %	n.a.	3.0 %

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

The Bank ensures that its capital levels are always above the minimum regulatory requirements. By maintaining a strong capital structure, the Bank can cover the risks inherent to its business activities, support its business segments, and protect its clients.

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

Regulatory Developments

The Bank closely monitors regulatory developments and participates actively in various consultative processes. During the second quarter of 2020, in response to the impact of the COVID-19 pandemic, OSFI announced a series of regulatory adjustments to support the financial and operational resilience of banks. For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*. For additional information on the regulatory context on October 31, 2020, see pages 62 and 63 of the Capital Management section in the *2020 Annual Report.* In addition, since November 1, 2020, the below-described regulatory developments should also be considered.

On March 11, 2021, OSFI launched an industry consultation on regulatory changes that introduce the latest and final series of Basel III reforms into the capital, leverage, and disclosure guidelines applicable to Canadian banks. OSFI's proposals align with the international standards set by the BCBS while also reflecting the realities of the Canadian market. The Bank will participate actively in the consultations.

On March 16, 2021, OSFI announced the unwinding of the temporary reduction of stressed Value-at-Risk (VaR) multipliers under the market risk capital requirements for banks, returning the VaR multipliers back to the pre-pandemic level. The implementation date for this adjustment to the VaR multiplier is May 1, 2021. For the Bank, the impact on the CET1, Tier 1 and Total capital ratios will be approximately 15 basis points.

On March 31, 2021, the BCBS issued two final sets of principles addressing operational risk and operational resilience: *Principles for Operational Resilience* and *Revisions to the Principles for the Sound Management of Operational Risk*. These publications follow a consultation on both documents in August 2020. In the first document, the BCBS provides a series of principles on the topic of operational resilience. Although these principles aim to make banks better able to withstand, adapt to, and recover from severe adverse events, they are largely carried over from existing principles. In the second document, the BCBS updated its existing set of principles for the sound management of operational risk. The Bank does not expect this guidance to have a material impact on its activities at this time.

Management Activities

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

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

On May 17, 2021, i.e., the first business day after the May 15, 2021 redemption date, the Bank redeemed all the issued and outstanding Non-Cumulative 5-Year Rate-Reset Series 34 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.00 per share plus the periodic dividend declared and unpaid. The Bank redeemed 16,000,000 Series 34 First Preferred Shares for a total amount of $400 million. These instruments were excluded from the capital ratio calculations as at April 30, 2021.

Shares, Other Equity Instruments and Stock Options

	As at April 30, 2021	
	Number of shares or LRCN	$ million
First preferred shares		
Series 30	14,000,000	350
Series 32	12,000,000	300
Series 34	16,000,000	400
Series 36	16,000,000	400
Series 38	16,000,000	400
Series 40	12,000,000	300
Series 42	12,000,000	300
	98,000,000	2,450
Other equity instruments		
LRCN – Series 1	500,000	500
LRCN – Series 2	500,000	500
	99,000,000	3,450
Common shares	337,372,287	3,129
Stock options	11,943,625	

As at May 21, 2021, there were 337,439,722 common shares and 11,867,673 stock options outstanding. NVCC provisions require the conversion of capital instruments into a variable number of common shares should OSFI deem a bank to be non-viable or should the government publicly announce that a bank has accepted or agreed to accept an injection of capital. If an NVCC trigger event were to occur, all of the Bank's preferred shares, the Bank's LRCN and medium-term notes maturing on February 1, 2028, which are NVCC capital instruments, would be converted into common shares of the Bank according to an automatic conversion formula at a conversion price corresponding to the greater of the following amounts: (i) a $5.00 contractual floor price; or (ii) the market price of the Bank's common shares on the date of the trigger event (10-day weighted average price). Based on a $5.00 floor price and including an estimate for accrued dividends and interest, these NVCC capital instruments would be converted into a maximum of 925 million Bank common shares, which would have a 73.3% dilutive effect based on the number of Bank common shares outstanding as at April 30, 2021.

Dividends

On May 27, 2021, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 71 cents per common share, payable on August 1, 2021 to shareholders of record on June 28, 2021.

Movement in Regulatory Capital

(millions of Canadian dollars)	Six months ended April 30, 2021
Common Equity Tier 1 (CET1) capital	
Balance at beginning	11,167
Issuance of common shares (including Stock Option Plan)	64
Impact of shares purchased or sold for trading	(1)
Repurchase of common shares	–
Other contributed surplus	4
Dividends on preferred and common shares and distributions on other equity instruments	(548)
Net income attributable to the Bank's shareholders and holders of other equity instruments	1,562
Removal of own credit spread (net of income taxes)	58
Other	246
Movements in accumulated other comprehensive income	
Translation adjustments	(219)
Debt securities at fair value through other comprehensive income	(2)
Other	1
Change in goodwill and intangible assets (net of related tax liability)	(9)
Other, including regulatory adjustments and transitional arrangements	
Change in defined benefit pension plan asset (net of related tax liability)	(226)
Change in amount exceeding 15% threshold	
Deferred tax assets	–
Significant investment in common shares of financial institutions	–
Deferred tax assets, unless they result from temporary differences (net of related tax liability)	(1)
Other deductions or regulatory adjustments to CET1 implemented by OSFI[1]	(99)
Change in other regulatory adjustments[2]	–
Balance at end	11,997
Additional Tier 1 capital	
Balance at beginning	2,945
New Tier 1 eligible capital issuances	500
Redeemed capital[3]	(400)
Change in non-qualifying Additional Tier 1 subject to phase-out	–
Other, including regulatory adjustments and transitional arrangements	–
Balance at end	3,045
Total Tier 1 capital	15,042
Tier 2 capital	
Balance at beginning	1,055
New Tier 2 eligible capital issuances	–
Redeemed capital	–
Change in non-qualifying Tier 2 subject to phase-out	–
Tier 2 instruments issued by subsidiaries and held by third parties	–
Change in certain allowances for credit losses	80
Other, including regulatory adjustments and transitional arrangements	(24)
Balance at end	1,111
Total regulatory capital	16,153

(1) This item includes the transitional measure applicable to expected credit loss provisioning implemented during the second quarter of 2020. For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*.
(2) This item includes the change in investments in the Bank's CET1 capital.
(3) Figures as at April 30, 2021 include the redemption of the Series 34 preferred shares on May 15, 2021.

Risk-Weighted Assets by Key Risk Drivers

Risk-weighted assets (RWA) amounted to $98.7 billion as at April 30, 2021 compared to $94.8 billion as at October 31, 2020, a $3.9 billion increase resulting mainly from organic growth in RWA, partly offset by foreign exchange movements and improvement in the credit quality of the loan portfolio. The changes in the Bank's RWA by risk type are presented in the following table.

Risk-Weighted Assets Movements by Key Drivers

(millions of Canadian dollars)					Quarter ended
			April 30, 2021	January 31, 2021	October 31, 2020
	Non-counterparty credit risk	Counterparty credit risk	Total	Total	Total
Credit risk – Risk-weighted assets at beginning	**72,853**	**8,247**	**81,100**	78,985	77,944
Book size	**2,130**	**526**	**2,656**	3,323	812
Book quality	**(433)**	**107**	**(326)**	(64)	801
Model updates	**–**	**–**	**–**	(212)	(447)
Methodology and policy	**–**	**–**	**–**	–	–
Acquisitions and disposals	**–**	**–**	**–**	–	–
Foreign exchange movements	**(758)**	**(158)**	**(916)**	(932)	(125)
Credit risk – Risk-weighted assets at end	**73,792**	**8,722**	**82,514**	81,100	78,985
Market risk – Risk-weighted assets at beginning			**3,489**	3,497	4,724
Movement in risk levels(1)			**(182)**	(8)	(1,227)
Model updates			**–**	–	–
Methodology and policy			**–**	–	–
Acquisitions and disposals			**–**	–	–
Market risk – Risk-weighted assets at end			**3,307**	3,489	3,497
Operational risk – Risk-weighted assets at beginning			**12,594**	12,326	12,146
Movement in risk levels			**290**	268	180
Acquisitions and disposals			**–**	–	–
Operational risk – Risk-weighted assets at end			**12,884**	12,594	12,326
Risk-weighted assets at end			**98,705**	97,183	94,808

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

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

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

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

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

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

Regulatory Capital Ratios

As at April 30, 2021, the Bank's CET1, Tier 1, and Total capital ratios were, respectively, 12.2%, 15.2% and 16.4%, i.e., above the regulatory requirements, compared to ratios of, respectively, 11.8%, 14.9% and 16.0% as at October 31, 2020. The increase in the CET1 capital ratio since October 31, 2020 was essentially due to net income net of dividends, common share issuances under the Stock Option Plan and remeasurements of pension plans and other post-employment benefit plans. These factors were partly offset by the organic growth in RWA and by the impact of the transitional measures applicable to ECL provisioning, of which the scaling factor decreased to 50% from 70%. The increases in the Tier 1 capital ratio and in the Total capital ratio are explained essentially by the same factors described above as well as by the issuance of LRCN – Series 2, tempered by a redemption of the Series 34 First Preferred Shares. As at April 30, 2021, the leverage ratio was 4.4%, stable when compared to October 31, 2020. The growth in Tier 1 capital, explained by the same factors as described above, and significant growth in total exposure were partly offset by temporary measures announced by OSFI with respect to the exclusion of exposures from central bank reserves and sovereign-issued securities that qualify as HQLA securities under the *Liquidity Adequacy Requirements* guideline.

Regulatory Capital and Ratios Under Basel III

(millions of Canadian dollars)	As at April 30, 2021		As at October 31, 2020	
	Adjusted[1]		Adjusted[1]	
Capital				
CET1	**11,853**	**11,997**	10,924	11,167
Tier 1[2]	**14,898**	**15,042**	13,869	14,112
Total[2]	**16,153**	**16,153**	15,167	15,167
Risk-weighted assets	**98,705**	**98,705**	94,808	94,808
Total exposure	**339,738**	**339,738**	321,038	321,038
Capital ratios				
CET1	**12.0 %**	**12.2 %**	11.5 %	11.8 %
Tier 1[2]	**15.1 %**	**15.2 %**	14.6 %	14.9 %
Total[2]	**16.4 %**	**16.4 %**	16.0 %	16.0 %
Leverage ratio	**4.4 %**	**4.4 %**	4.3 %	4.4 %

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

(2) Figures as at April 30, 2021 include the redemption of the Series 34 First Preferred Shares on May 15, 2021.

Risk Management

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

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

Despite the exercise of stringent risk management and the mitigation measures in place, risk cannot be suppressed entirely, and residual risks may occasionally cause significant losses. Certain risks are discussed hereafter. For additional information, refer to the section entitled COVID-19 Pandemic – Impact of the COVID-19 Risk Factor on pages 16 and 17 of the *2020 Annual Report* and to the Risk Management section on pages 68 to 106 of the *2020 Annual Report.* Risk management information is also provided in Note 7 to these consolidated financial statements, which covers loans.

Credit Risk

Credit risk is the risk of incurring a financial loss if an obligor does not fully honour its contractual commitments to the Bank. Obligors may be debtors, issuers, counterparties or guarantors. Credit risk is the most significant risk facing the Bank in the normal course of business. Obligors have been affected by the difficult economic environment resulting from COVID-19 and its impact on the global and local economies. This exceptional situation has led to significant changes in the overall market environment, including business closures and temporary layoffs. However, certain government measures have been implemented to assist retail and business clients affected by COVID-19.

Regulatory Developments

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

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

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

Maximum Credit Risk Exposure Under the Basel Asset Categories

(millions of Canadian dollars)						As at April 30, 2021	As at October 31, 2020
	Drawn	Undrawn commitments	Repo-style transactions(1)	Derivative financial instruments	Other off-balance-sheet items(2)	Total	Total
Retail							
Residential mortgages	59,769	10,271	–	–	–	70,040	66,813
Qualifying revolving retail	2,333	6,436	–	–	–	8,769	8,774
Other retail	14,545	2,367	–	–	29	16,941	16,740
	76,647	19,074	–	–	29	95,750	92,327
Non-retail							
Corporate	66,141	26,367	25,514	–	5,243	123,265	115,402
Sovereign	62,867	6,157	57,654	211	121	127,010	119,167
Financial institutions	4,480	419	71,765	2,101	736	79,501	72,917
	133,488	32,943	154,933	2,312	6,100	329,776	307,486
Trading portfolio	–	–	–	13,709	–	13,709	14,011
Securitization	2,238	–	–	–	3,702	5,940	6,054
Total – Gross credit risk	212,373	52,017	154,933	16,021	9,831	445,175	419,878
Standardized Approach	21,217	165	22,369	2,142	416	46,309	37,939
AIRB Approach	191,156	51,852	132,564	13,879	9,415	398,866	381,939
Total – Gross credit risk	212,373	52,017	154,933	16,021	9,831	445,175	419,878

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

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

Market Risk

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

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

Reconciliation of Market Risk With Consolidated Balance Sheet Items

(millions of Canadian dollars)					As at April 30, 2021
		Market risk measures			
	Balance sheet	Trading[1]	Non-trading[2]	Not subject to market risk	Non-traded risk primary risk sensitivity
Assets					
Cash and deposits with financial institutions	36,958	413	17,018	19,527	Interest rate[3]
Securities					
At fair value through profit or loss	87,100	84,694	2,406	–	Interest rate[3] and equity
At fair value through other comprehensive income	9,337	–	9,337	–	Interest rate[3] and equity[4]
At amortized cost	10,909	–	10,909	–	Interest rate[3]
Securities purchased under reverse repurchase agreements and securities borrowed	11,356	–	11,356	–	Interest rate[3][5]
Loans and acceptances, net of allowances	171,632	7,542	164,090	–	Interest rate[3]
Derivative financial instruments	15,284	15,110	174	–	Interest rate and exchange rate
Defined benefit asset	448	–	448	–	Other
Other	7,718	–	–	7,718	
	350,742	107,759	215,738	27,245	
Liabilities					
Deposits	231,320	13,297	218,023	–	Interest rate[3]
Acceptances	6,871	–	6,871	–	Interest rate[3]
Obligations related to securities sold short	18,564	18,564	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	28,779	–	28,779	–	Interest rate[3][5]
Derivative financial instruments	16,749	16,319	430	–	Interest rate and exchange rate
Liabilities related to transferred receivables	24,178	7,596	16,582	–	Interest rate[3]
Defined benefit liability	139	–	139	–	Other
Other	5,215	–	65	5,150	Interest rate[3]
Subordinated debt	771	–	771	–	Interest rate[3]
	332,586	55,776	271,660	5,150	

(1) Trading positions whose risk measures are VaR and SVaR. For additional information, see the tables that show the VaR and SVaR distributions of the trading portfolios by risk category as well as their correlation effect, which are presented on the following pages and in the Market Risk section of the *2020 Annual Report*.
(2) Non-trading positions that use other risk measures.
(3) For additional information, see the tables that show the VaR and SVaR distributions of the trading portfolios by risk category and their correlation effect as well as the interest rate sensitivity tables, which are presented on the following pages and in the Market Risk section of the *2020 Annual Report*.
(4) The fair value of equity securities designated at fair value through other comprehensive income is presented in Notes 4 and 6 to the consolidated financial statements.
(5) These instruments are recorded at amortized cost and are subject to credit risk for capital management purposes. For trading-related transactions with maturities of more than one day, interest rate risk is included in the VaR and SVaR measures.

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

		Market risk measures			
	Balance sheet	Trading[1]	Non-trading[2]	Not subject to market risk	Non-traded risk primary risk sensitivity
Assets					
Cash and deposits with financial institutions	29,142	617	12,799	15,726	Interest rate[3]
Securities					
At fair value through profit or loss	78,326	75,279	3,047	–	Interest rate[3] and equity[4]
At fair value through other comprehensive income	12,726	–	12,726	–	Interest rate[3] and equity[5]
Amortized cost	11,079	–	11,079	–	Interest rate[3]
Securities purchased under reverse repurchase agreements and securities borrowed	14,512	–	14,512	–	Interest rate[3][6]
Loans and acceptances, net of allowances	164,740	7,545	157,195	–	Interest rate[3]
Derivative financial instruments	13,422	13,207	215	–	Interest rate[7] and exchange rate[7]
Defined benefit asset	126	–	126	–	Other[8]
Other	7,552	–	–	7,552	
	331,625	96,648	211,699	23,278	
Liabilities					
Deposits	215,878	9,998	205,880	–	Interest rate[3]
Acceptances	6,866	–	6,866	–	Interest rate[3]
Obligations related to securities sold short	16,368	16,368	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	33,859	–	33,859	–	Interest rate[3][6]
Derivative financial instruments	12,923	12,300	623	–	Interest rate[7] and exchange rate[7]
Liabilities related to transferred receivables	22,855	6,135	16,720	–	Interest rate[3]
Defined benefit liability	201	–	201	–	Other[8]
Other	5,517	–	64	5,453	Interest rate[3]
Subordinated debt	775	–	775	–	Interest rate[3]
	315,242	44,801	264,988	5,453	

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

Trading Activities

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

VaR of Trading Portfolios by Risk Category[1]

(millions of Canadian dollars)

							Quarter ended		Six months ended	
	April 30, 2021				January 31, 2021		April 30, 2020		**April 30, 2021**	April 30, 2020
	Low	**High**	**Average**	**Period end**	Average	Period end	Average	Period end	**Average**	Average
Interest rate	**(5.3)**	**(9.8)**	**(7.7)**	**(7.7)**	(7.3)	(7.9)	(8.9)	(9.1)	**(7.5)**	(6.9)
Exchange rate	**(0.4)**	**(1.8)**	**(0.9)**	**(0.4)**	(0.9)	(1.1)	(1.0)	(0.9)	**(0.9)**	(0.9)
Equity	**(4.5)**	**(8.7)**	**(5.7)**	**(6.0)**	(6.2)	(9.4)	(8.3)	(16.0)	**(5.9)**	(5.9)
Commodity	**(0.6)**	**(1.2)**	**(0.8)**	**(0.9)**	(0.8)	(0.7)	(1.1)	(0.9)	**(0.8)**	(1.1)
Correlation effect[2]	**n.m.**	**n.m.**	**7.7**	**6.2**	7.6	9.7	9.8	8.1	**7.6**	7.2
Total trading VaR	**(5.9)**	**(10.5)**	**(7.4)**	**(8.8)**	(7.6)	(9.4)	(9.5)	(18.8)	**(7.5)**	(7.6)

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

SVaR of Trading Portfolios by Risk Category(1)

(millions of Canadian dollars)								Quarter ended		Six months ended
				April 30, 2021	January 31, 2021		April 30, 2020		**April 30, 2021**	April 30, 2020
	Low	**High**	**Average**	**Period end**	Average	Period end	Average	Period end	**Average**	Average
Interest rate	**(12.2)**	**(19.7)**	**(16.1)**	**(19.3)**	(16.6)	(17.3)	(16.8)	(14.6)	**(16.4)**	(15.8)
Exchange rate	**(0.5)**	**(6.4)**	**(1.9)**	**(0.7)**	(1.4)	(1.2)	(2.0)	(1.6)	**(1.7)**	(1.7)
Equity	**(7.0)**	**(15.7)**	**(9.7)**	**(7.2)**	(9.5)	(18.6)	(17.4)	(20.9)	**(9.6)**	(13.1)
Commodity	**(0.9)**	**(1.8)**	**(1.4)**	**(1.2)**	(1.6)	(1.7)	(1.9)	(1.8)	**(1.5)**	(2.0)
Correlation effect(2)	**n.m.**	**n.m.**	**13.1**	**15.4**	13.4	17.5	19.5	14.8	**13.3**	15.1
Total trading SVaR	**(11.9)**	**(19.3)**	**(16.0)**	**(13.0)**	(15.7)	(21.3)	(18.6)	(24.1)	**(15.9)**	(17.5)

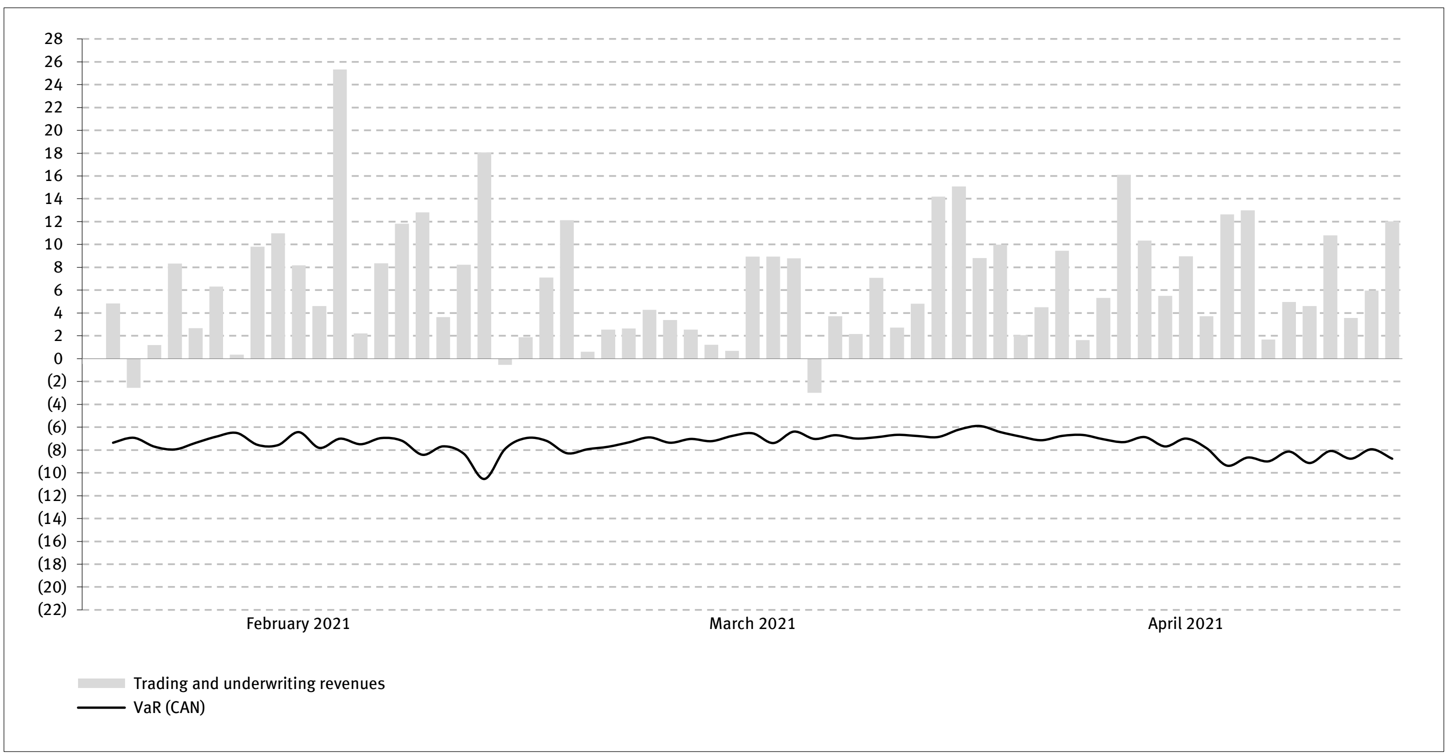
n.m. Computation of a correlation effect for the high and low is not meaningful, as highs and lows may occur on different days and be attributable to different types of risk.
(1) Amounts are presented on a pre-tax basis and represent one-day SVaR using a 99% confidence level.
(2) The total trading SVaR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

The average total trading VaR and SVaR have remained stable between the first and the second quarter of 2021, amounting to $7.4 million and $16.0 million, respectively, as at April 30, 2021.

Daily Trading and Underwriting Revenues

The following table shows daily trading and underwriting revenues as well as VaR. During the quarter ended April 30, 2021, daily trading and underwriting revenues were positive 95% of the days. Two trading days were marked by daily trading and underwriting net losses of more than $1 million. Neither of these losses exceeded the VaR.

Quarter Ended April 30, 2021
(millions of Canadian dollars)



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

The following tables present the potential before-tax impact of an immediate and sustained 100-basis-point increase or of an immediate and sustained 25-basis-point decrease in interest rates on the economic value of equity and on the net interest income of the Bank's non-trading portfolios for the next 12 months, assuming no further hedging is undertaken. In the current environment of very low interest rates, the Bank believes that a sensitivity analysis reflecting an immediate and sustained 25-basis-point decrease in interest rates provides more relevant information.

(millions of Canadian dollars)			As at April 30, 2021			As at October 31, 2020
	Canadian dollar	Other currencies	Total	Canadian dollar	Other currencies	Total
Impact on equity						
100-basis-point increase in the interest rate	(240)	76	(164)	(239)	15	(224)
25-basis-point decrease in the interest rate	55	(9)	46	49	(4)	45
Impact on net interest income						
100-basis-point increase in the interest rate	(19)	80	61	(31)	21	(10)
25-basis-point decrease in the interest rate	4	(10)	(6)	5	(5)	–

Liquidity and Funding Risk

Liquidity and funding risk are the risks that the Bank will be unable to honour daily cash and financial obligations without resorting to costly and untimely measures. Liquidity and funding risks arise when sources of funds become insufficient to meet scheduled payments under the Bank's commitments.

Liquidity risk stems from mismatched cash flows related to assets and liabilities as well as from the characteristics of certain products such as credit commitments and non-fixed-term deposits.

Funding risk is defined as the risk to the Bank's ongoing ability to raise sufficient funds to finance actual or proposed business activities on an unsecured or secured basis at an acceptable price. The funding management priority is to achieve an optimal balance between deposits, securitization, secured funding and unsecured funding. This brings optimal stability to the funding and reduces vulnerability to unpredictable events.

COVID-19 has affected overall economic and market conditions, but the Bank's sound management of liquidity and funding risk is helping it to maintain an optimal balance between its sources of cash and anticipated payments.

Regulatory Developments

The Bank continues to closely monitor regulatory developments and participates actively in various consultative processes. In response to the impact of COVID-19, OSFI took exceptional action in the second quarter of 2020 to address operational issues stemming from COVID-19. For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*. For additional information on the regulatory context as at October 31, 2020, see page 93 of the Risk Management section in the *2020 Annual Report.* In addition, since November 1, 2020, the following significant new regulatory developments should be considered.

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

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

Liquidity Management

Liquid Assets

To protect depositors and creditors from unexpected crisis situations, the Bank holds a portfolio of unencumbered liquid assets that can be readily liquidated to meet financial obligations. The majority of unencumbered liquid assets are held in Canadian or U.S. dollars. Moreover, all assets that can be quickly monetized are considered liquid assets. The Bank's liquidity reserves do not factor in the availability of the central bank emergency liquidity facilities. The following tables provide information on the Bank's encumbered and unencumbered assets.

Liquid Asset Portfolio

(millions of Canadian dollars)					As at April 30, 2021	As at October 31, 2020
	Bank-owned liquid assets[1]	Liquid assets received[2]	Total liquid assets	Encumbered liquid assets[3]	Unencumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	36,958	–	36,958	6,201	30,757	23,271
Securities						
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	24,503	22,392	46,895	28,619	18,276	21,103
Issued or guaranteed by Canadian provincial and municipal governments	13,613	4,306	17,919	12,494	5,425	7,371
Other debt securities	6,189	1,591	7,780	1,751	6,029	5,332
Equity securities	63,041	43,770	106,811	70,254	36,557	33,346
Loans						
Securities backed by insured residential mortgages	10,771	–	10,771	6,501	4,270	3,950
As at April 30, 2021	155,075	72,059	227,134	125,820	101,314	
As at October 31, 2020	140,783	60,560	201,343	106,970		94,373

(millions of Canadian dollars)	As at April 30, 2021	As at October 31, 2020
Unencumbered liquid assets by entity		
National Bank (parent)	57,581	47,135
Domestic subsidiaries	13,857	21,928
Foreign subsidiaries and branches	29,876	25,310
	101,314	94,373

(millions of Canadian dollars)	As at April 30, 2021	As at October 31, 2020
Unencumbered liquid assets by currency		
Canadian dollar	51,200	50,568
U.S. dollar	35,543	26,099
Other currencies	14,571	17,706
	101,314	94,373

Liquid Asset Portfolio – Average[4]

(millions of Canadian dollars)						Quarter ended
					April 30, 2021	October 31, 2020
	Bank-owned liquid assets[1]	Liquid assets received[2]	Total liquid assets	Encumbered liquid assets[3]	Unencumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	41,553	–	41,553	5,834	35,719	27,622
Securities						
Issued or guaranteed by the Canadian government, U.S. Treasury, other U.S. agencies and other foreign governments	26,882	22,924	49,806	34,269	15,537	18,026
Issued or guaranteed by Canadian provincial and municipal governments	13,570	5,223	18,793	13,170	5,623	6,889
Other debt securities	6,607	1,652	8,259	2,028	6,231	5,501
Equity securities	63,081	43,506	106,587	68,804	37,783	34,763
Loans						
Securities backed by insured residential mortgages	9,663	–	9,663	6,565	3,098	3,655
	161,356	73,305	234,661	130,670	103,991	96,456

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

Summary of Encumbered and Unencumbered Assets

(millions of Canadian dollars)						As at April 30, 2021
		Encumbered assets[1]		Unencumbered assets	Total	Encumbered assets as a % of total assets
	Pledged as collateral	Other[2]	Available as collateral	Other[3]		
Cash and deposits with financial institutions	308	5,893	30,757	–	36,958	1.8
Securities	41,059	–	66,287	–	107,346	11.7
Securities purchased under reverse repurchase agreements and securities borrowed	–	11,356	–	–	11,356	3.2
Loans and acceptances, net of allowances	36,524	–	4,270	130,838	171,632	10.4
Derivative financial instruments	–	–	–	15,284	15,284	–
Investments in associates and joint ventures	–	–	–	381	381	–
Premises and equipment	–	–	–	1,159	1,159	–
Goodwill	–	–	–	1,401	1,401	–
Intangible assets	–	–	–	1,468	1,468	–
Other assets	–	–	–	3,757	3,757	–
	77,891	17,249	101,314	154,288	350,742	27.1

(millions of Canadian dollars)						As at October 31, 2020
		Encumbered assets[1]		Unencumbered assets	Total	Encumbered assets as a % of total assets
	Pledged as collateral	Other[2]	Available as collateral	Other[3]		
Cash and deposits with financial institutions	344	5,527	23,271	–	29,142	1.8
Securities	34,979	–	67,152	–	102,131	10.5
Securities purchased under reverse repurchase agreements and securities borrowed	–	14,512	–	–	14,512	4.4
Loans and acceptances, net of allowances	37,556	–	3,950	123,234	164,740	11.3
Derivative financial instruments	–	–	–	13,422	13,422	–
Investments in associates and joint ventures	–	–	–	409	409	–
Premises and equipment	–	–	–	1,155	1,155	–
Goodwill	–	–	–	1,414	1,414	–
Intangible assets	–	–	–	1,434	1,434	–
Other assets	–	–	–	3,266	3,266	–
	72,879	20,039	94,373	144,334	331,625	28.0

(1) In the normal course of its funding activities, the Bank pledges assets as collateral in accordance with standard terms. Encumbered assets include assets used to cover short sales, obligations related to securities sold under repurchase agreements and securities loaned, guarantees related to security-backed loans and borrowings, collateral related to derivative financial instrument transactions, asset-backed securities, residential mortgage loans securitized and transferred under the Canada Mortgage Bond program, assets held in consolidated trusts supporting the Bank's funding activities and mortgage loans transferred under the covered bond program.
(2) Other encumbered assets include assets for which there are restrictions and that cannot therefore be used for collateral or funding purposes as well as assets used to cover short sales.
(3) Other unencumbered assets are assets that cannot be used for collateral or funding purposes in their current form. This category includes assets that are potentially eligible as funding program collateral (e.g., mortgages insured by the Canada Mortgage and Housing Corporation that can be securitized into mortgage-backed securities under the *National Housing Act* (Canada)).

Liquidity Coverage Ratio

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

The following table provides average LCR data calculated using the daily figures in the quarter. For the quarter ended April 30, 2021, the Bank's average LCR was 150%, well above the 100% regulatory requirement and demonstrating the Bank's solid liquidity in a short-term position.

LCR Disclosure Requirements[1]

(millions of Canadian dollars)			For the quarter ended
		April 30, 2021	January 31, 2021
	Total unweighted value[2] (average)	Total weighted value[3] (average)	Total weighted value[3] (average)
High-quality liquid assets (HQLA)			
Total HQLA	n.a.	67,379	67,366
Cash outflows			
Retail deposits and deposits from small business customers, of which:	58,318	4,825	4,767
Stable deposits	26,675	800	801
Less stable deposits	31,643	4,025	3,966
Unsecured wholesale funding, of which:	100,323	54,759	52,499
Operational deposits (all counterparties) and deposits in networks of cooperative banks	21,883	4,585	4,229
Non-operational deposits (all counterparties)	69,572	41,306	40,535
Unsecured debt	8,868	8,868	7,735
Secured wholesale funding	n.a.	21,511	23,989
Additional requirements, of which:	45,991	13,669	12,428
Outflows related to derivative exposures and other collateral requirements	13,308	7,057	6,324
Outflows related to loss of funding on secured debt securities	2,007	2,007	1,624
Backstop liquidity and credit enhancement facilities and commitments to extend credit	30,676	4,605	4,480
Other contractual commitments to extend credit	2,185	780	986
Other contingent commitments to extend credit	102,427	1,658	1,617
Total cash outflows	n.a.	97,202	96,286
Cash inflows			
Secured lending (e.g., reverse repos)	101,074	20,047	19,494
Inflows from fully performing exposures	10,138	7,006	7,003
Other cash inflows	25,062	25,062	25,711
Total cash inflows	136,274	52,115	52,208
		Total adjusted value[4]	Total adjusted value[4]
Total HQLA		67,379	67,366
Total net cash outflows		45,087	44,078
Liquidity coverage ratio (%)[5]		150 %	154 %

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

As at April 30, 2021, Level 1 liquid assets represented 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 April 30, 2021 and the preceding quarter was a result of normal business activities. The Bank's liquid asset buffer is well in excess of its total net cash outflows.

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

Net Stable Funding Ratio

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

The following table provides the available stable funding and the required stable funding in accordance with OSFI's *Liquidity Adequacy Requirements* guideline. As at April 30, 2021, the Bank's NSFR was 125%, well above the 100% regulatory requirement and demonstrating the Bank's solid liquidity in a long-term position.

NSFR Disclosure Requirements[1]

(millions of Canadian dollars)					As at April 30, 2021	As at January 31, 2021
	Unweighted value by residual maturity					
	No maturity	6 months or less	Over 6 months to 1 year	Over 1 year	Weighted value[2]	Weighted value[2]
Available Stable Funding (ASF) Items						
Capital:	18,156	–	–	771	18,927	17,693
Regulatory capital	18,156	–	–	771	18,927	17,693
Other capital instruments	–	–	–	–	–	–
Retail deposits and deposits from small business customers:	53,877	7,471	8,271	15,173	78,623	78,422
Stable deposits	25,337	2,976	4,439	5,030	36,144	36,085
Less stable deposits	28,540	4,495	3,832	10,143	42,479	42,337
Wholesale funding:	62,993	71,819	7,137	30,647	79,610	78,157
Operational deposits	22,104	–	–	–	11,052	10,266
Other wholesale funding	40,889	71,819	7,137	30,647	68,558	67,891
Liabilities with matching interdependent assets[3]	–	2,976	2,597	18,605	–	–
Other liabilities[4]:	21,033		13,408		773	1,048
NSFR derivative liabilities[4]	n.a.		9,713		n.a.	n.a.
All other liabilities and equity not included in the above categories	21,033	2,125	236	1,334	773	1,048
Total ASF	n.a.	n.a.	n.a.	n.a.	177,933	175,320
Required Stable Funding (RSF) Items						
Total NSFR high-quality liquid assets (HQLA)	n.a.	n.a.	n.a.	n.a.	6,556	6,332
Deposits held at other financial institutions for operational purposes	–	–	–	–	–	–
Performing loans and securities:	40,178	65,076	17,212	82,189	116,878	116,497
Performing loans to financial institutions secured by Level 1 HQLA	353	468	–	–	41	70
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	4,416	37,040	1,383	695	5,632	5,573
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	16,287	22,979	10,790	30,700	56,040	54,399
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	182	3,178	15	99	1,779	1,774
Performing residential mortgages, of which:	9,139	4,523	4,240	46,590	42,673	42,896
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	9,139	4,523	4,240	46,590	42,673	42,896
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	9,983	66	799	4,204	12,492	13,559
Assets with matching interdependent liabilities[3]	–	2,976	2,597	18,605	–	–
Other assets[4]:	2,760		37,903		15,221	15,692
Physical traded commodities, including gold	308	n.a.	n.a.	n.a.	308	362
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs[4]	n.a.		7,243		6,157	5,650
NSFR derivative assets[4]	n.a.		9,416		–	1,585
NSFR derivative liabilities before deduction of the variation margin posted[4]	n.a.		15,118		756	707
All other assets not included in the above categories	2,452	4,984	402	740	8,000	7,388
Off-balance-sheet items[4]	n.a.		91,682		3,511	3,360
Total RSF	n.a.	n.a.	n.a.	n.a.	142,166	141,881
Net Stable Funding Ratio (%)	n.a.	n.a.	n.a.	n.a.	125 %	124 %

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

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

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

Funding

The Bank continuously monitors and analyzes the possibilities for accessing less expensive and more flexible funding. The deposit strategy remains a priority for the Bank, which continues to prefer deposits to institutional funding. On April 30, 2021, DBRS Limited (DBRS) changed the trend on all ratings of the Bank and its related entities to "Positive" from "Stable" and confirmed all ratings, including a rating of AA(low) for long-term deposits as well as for long-term non-bail-inable senior debt and a rating of R-1(mid) for short-term senior debt. This change reflects DBRS's recognition of the Bank's solid performance in recent years, notably its expanded footprint into targeted markets and niches throughout Canada, in particular in the Wealth Management and Financial Markets segments.

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

Residual Contractual Maturities of Wholesale Funding[1]

(millions of Canadian dollars)								As at April 30, 2021
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Subtotal 1 year or less	Over 1 year to 2 years	Over 2 years	Total
Deposits from banks[2]	1,171	6	25	7	1,209	–	74	1,283
Certificates of deposit and commercial paper[3]	2,834	5,249	7,634	1,599	17,316	–	–	17,316
Senior unsecured medium-term notes[4][5]	–	766	867	860	2,493	3,380	5,807	11,680
Senior unsecured structured notes	–	–	–	–	–	296	2,560	2,856
Covered bonds and asset-backed securities								
Mortgage securitization	–	2,350	407	2,572	5,329	3,492	15,357	24,178
Covered bonds	–	–	669	1,478	2,147	1,227	5,165	8,539
Securitization of credit card receivables	–	–	–	36	36	–	28	64
Subordinated liabilities[6]	–	–	–	–	–	–	771	771
	4,005	8,371	9,602	6,552	28,530	8,395	29,762	66,687
Secured funding	–	2,350	1,076	4,086	7,512	4,719	20,550	32,781
Unsecured funding	4,005	6,021	8,526	2,466	21,018	3,676	9,212	33,906
	4,005	8,371	9,602	6,552	28,530	8,395	29,762	66,687
As at October 31, 2020	2,192	5,359	8,080	5,770	21,401	9,312	28,389	59,102

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

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

(millions of Canadian dollars)		As at April 30, 2021
	One-notch downgrade	Three-notch downgrade
Derivatives[1]	25	34

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

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

The following tables present balance sheet items and off-balance-sheet commitments by residual contractual maturity as at April 30, 2021 with comparative figures as at October 31, 2020. The information gathered from this maturity analysis is a component of liquidity and funding management. However, this maturity profile does not represent how the Bank manages its interest rate risk or its liquidity risk and funding needs. The Bank considers factors other than contractual maturity in the assessment of liquid assets or in determining expected future cash flows.

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

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

(millions of Canadian dollars)										As at April 30, 2021
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Assets										
Cash and deposits with financial institutions	10,036	250	535	318	216	–	–	–	25,603	36,958
Securities										
At fair value through profit or loss	766	2,072	1,923	1,233	763	2,154	6,358	9,458	62,373	87,100
At fair value through other comprehensive income	52	170	5	21	69	857	4,420	3,075	668	9,337
At amortized cost	35	141	301	800	249	3,264	5,278	841	–	10,909
	853	2,383	2,229	2,054	1,081	6,275	16,056	13,374	63,041	107,346
Securities purchased under reverse repurchase agreements and securities borrowed	3,696	1,753	–	369	–	615	–	–	4,923	11,356
Loans(1)										
Residential mortgage	854	1,419	2,272	2,025	1,702	8,323	45,006	6,163	586	68,350
Personal	157	346	726	761	575	3,163	15,054	3,798	14,143	38,723
Credit card									1,985	1,985
Business and government	11,074	3,585	4,288	3,217	3,560	4,897	12,614	3,481	10,101	56,817
Customers' liability under acceptances	5,430	1,410	31	–	–	–	–	–	–	6,871
Allowances for credit losses									(1,114)	(1,114)
	17,515	6,760	7,317	6,003	5,837	16,383	72,674	13,442	25,701	171,632
Other										
Derivative financial instruments	1,392	2,853	1,136	1,529	523	2,455	2,656	2,740	–	15,284
Investments in associates and joint ventures									381	381
Premises and equipment									1,159	1,159
Goodwill									1,401	1,401
Intangible assets									1,468	1,468
Other assets(1)	1,515	176	160	321	61	404	105	90	925	3,757
	2,907	3,029	1,296	1,850	584	2,859	2,761	2,830	5,334	23,450
	35,007	14,175	11,377	10,594	7,718	26,132	91,491	29,646	124,602	350,742

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

(millions of Canadian dollars)										As at April 30, 2021
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Liabilities and equity										
Deposits[(1)(2)]										
Personal	1,077	1,457	2,050	4,267	4,690	3,944	6,873	4,656	39,493	68,507
Business and government	28,398	9,468	10,772	3,898	2,411	6,001	9,844	4,924	82,221	157,937
Deposit-taking institutions	1,750	139	57	23	8	–	–	37	2,862	4,876
	31,225	11,064	12,879	8,188	7,109	9,945	16,717	9,617	124,576	231,320
Other										
Acceptances	5,430	1,410	31	–	–	–	–	–	–	6,871
Obligations related to securities sold short[(3)]	65	63	77	200	93	1,366	2,933	5,428	8,339	18,564
Obligations related to securities sold under repurchase agreements and securities loaned	16,392	3,540	2,151	396	1,477	–	–	–	4,823	28,779
Derivative financial instruments	2,239	2,568	1,298	941	605	2,109	5,477	1,512	–	16,749
Liabilities related to transferred receivables[(4)]	–	2,350	407	1,138	1,434	3,492	11,527	3,830	–	24,178
Securitization – Credit card[(5)]	–	–	–	36	–	–	28	–	–	64
Lease liabilities[(5)]	7	15	21	22	22	85	216	201	–	589
Other liabilities – Other items[(1)(5)]	601	304	96	105	158	45	37	67	3,288	4,701
	24,734	10,250	4,081	2,838	3,789	7,097	20,218	11,038	16,450	100,495
Subordinated debt	–	–	–	–	–	–	–	771	–	771
Equity									18,156	18,156
	55,959	21,314	16,960	11,026	10,898	17,042	36,935	21,426	159,182	350,742
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	92	590	1,490	2,200	610	1,087	108	–	–	6,177
Credit card receivables[(6)]									8,232	8,232
Backstop liquidity and credit enhancement facilities[(7)]	15	–	–	15	4,502	–	–	–	3,033	7,565
Commitments to extend credit[(8)]	1,870	8,275	6,856	5,918	4,352	4,088	4,960	454	37,879	74,652
Obligations related to:										
Lease commitments[(9)]	1	1	2	2	1	3	4	6	–	20
Other contracts[(10)]	14	29	42	41	40	147	48	–	109	470

(1) Amounts payable upon demand or notice are considered to have no specified maturity.
(2) The *Deposits* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(3) Amounts are disclosed according to the remaining contractual maturity of the underlying security.
(4) These amounts mainly include liabilities related to the securitization of mortgage loans.
(5) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(6) These amounts are unconditionally revocable at the Bank's discretion at any time.
(7) In the event of payment on one of the backstop liquidity facilities, the Bank will receive as collateral government bonds in an amount up to $4.5 billion.
(8) These amounts include $40.6 billion that is unconditionally revocable at the Bank's discretion at any time.
(9) These amounts include leases for which the underlying asset is of low value and leases other than for real estate of less than one year.
(10) These amounts include $0.3 billion in contractual commitments related to the head office building under construction.

(millions of Canadian dollars)										As at October 31, 2020
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Assets										
Cash and deposits with financial institutions	6,126	345	372	264	488	–	–	–	21,547	29,142
Securities										
At fair value through profit or loss	4,084	2,352	2,778	603	1,832	2,383	6,080	9,413	48,801	78,326
At fair value through other comprehensive income	1	–	858	1,060	400	984	5,322	3,482	619	12,726
At amortized cost	20	256	306	367	1,678	2,218	5,450	784	–	11,079
	4,105	2,608	3,942	2,030	3,910	5,585	16,852	13,679	49,420	102,131
Securities purchased under reverse repurchase agreements and securities borrowed	7,984	1,658	133	–	–	666	–	–	4,071	14,512
Loans[1]										
Residential mortgage	1,352	1,230	2,043	3,170	3,152	9,320	38,719	5,343	630	64,959
Personal	278	447	660	796	890	3,221	13,435	3,475	14,411	37,613
Credit card									2,038	2,038
Business and government	8,815	2,548	3,608	3,971	4,208	5,679	13,563	3,622	8,408	54,422
Customers' liability under acceptances	6,049	765	52	–	–	–	–	–	–	6,866
Allowances for credit losses									(1,158)	(1,158)
	16,494	4,990	6,363	7,937	8,250	18,220	65,717	12,440	24,329	164,740
Other										
Derivative financial instruments	1,816	2,586	1,139	706	318	968	2,298	3,591	–	13,422
Investments in associates and joint ventures									409	409
Premises and equipment									1,155	1,155
Goodwill									1,414	1,414
Intangible assets									1,434	1,434
Other assets[1]	1,193	351	147	149	134	344	64	12	872	3,266
	3,009	2,937	1,286	855	452	1,312	2,362	3,603	5,284	21,100
	37,718	12,538	12,096	11,086	13,100	25,783	84,931	29,722	104,651	331,625

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

(millions of Canadian dollars)										As at October 31, 2020
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Liabilities and equity										
Deposits(1)(2)										
Personal	1,845	2,728	3,462	1,647	2,084	6,909	6,958	2,962	38,904	67,499
Business and government	21,801	7,168	9,916	2,185	2,462	6,860	10,341	3,602	79,452	143,787
Deposit-taking institutions	1,435	111	14	80	17	5	1	42	2,887	4,592
	25,081	10,007	13,392	3,912	4,563	13,774	17,300	6,606	121,243	215,878
Other										
Acceptances	6,049	765	52	–	–	–	–	–	–	6,866
Obligations related to securities sold short(3)	618	620	952	69	92	1,516	2,361	4,321	5,819	16,368
Obligations related to securities sold under repurchase agreements and securities loaned	14,084	3,335	8,803	136	–	1,487	–	–	6,014	33,859
Derivative financial instruments	1,738	2,070	877	603	266	875	3,116	3,378	–	12,923
Liabilities related to transferred receivables(4)	–	2,138	311	1,850	397	3,430	11,059	3,670	–	22,855
Securitization – Credit card(5)	–	–	–	–	–	36	28	–	–	64
Lease liabilities(5)	8	14	21	22	21	85	224	233	–	628
Other liabilities – Other items(1)(5)	1,087	192	200	87	76	85	37	281	2,981	5,026
	23,584	9,134	11,216	2,767	852	7,514	16,825	11,883	14,814	98,589
Subordinated debt	–	–	–	–	–	–	–	775	–	775
Equity									16,383	16,383
	48,665	19,141	24,608	6,679	5,415	21,288	34,125	19,264	152,440	331,625
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	200	1,579	603	948	1,187	1,322	134	–	–	5,973
Credit card receivables(6)									7,999	7,999
Backstop liquidity and credit enhancement facilities(7)	–	15	4,502	15	–	–	–	–	3,126	7,658
Commitments to extend credit(8)	2,846	4,143	4,504	6,429	5,688	5,651	10,690	1,165	29,213	70,329
Obligations related to:										
Lease commitments(9)	1	1	2	2	1	4	2	1	–	14
Other contracts(10)	15	28	41	41	39	145	114	–	278	701

(1) Amounts payable upon demand or notice are considered to have no specified maturity.
(2) The *Deposits* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(3) Amounts are disclosed according to the remaining contractual maturity of the underlying security.
(4) These amounts mainly include liabilities related to the securitization of mortgage loans.
(5) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(6) These amounts are unconditionally revocable at the Bank's discretion at any time.
(7) In the event of payment on one of the backstop liquidity facilities, the Bank will receive as collateral government bonds in an amount up to $4.5 billion.
(8) These amounts include $39.4 billion that is unconditionally revocable at the Bank's discretion at any time.
(9) These amounts include leases for which the underlying asset is of low value and leases other than for real estate of less than one year.
(10) These amounts include $0.3 billion in contractual commitments related to the head office building under construction.

Risk Disclosures

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

				Pages
		2020 Annual Report	Report to Shareholders(1)	Supplementary Regulatory Capital and Pillar 3 Disclosure(1)
General				
1	Location of risk disclosures	13	39	
	Management's Discussion and Analysis	59 to 106, 119, 121 and 122	19 to 38	
	Consolidated Financial Statements	Notes 1, 7, 16, 23 and 29	Notes 7 and 14	
	Supplementary Financial Information			19 to 29(2)
	Supplementary Regulatory Capital and Pillar 3 Disclosure			5 to 48
2	Risk terminology and risk measures	68 to 106		
3	Top and emerging risks	16 to 21, 28 and 73 to 77	4 and 5	
4	New key regulatory ratios	60 to 63, 93 and 98	19, 20, 29 and 31 to 34	
Risk governance and risk management				
5	Risk management organization, processes and key functions	68 to 87, 93 to 95 and 99		
6	Risk management culture	68 and 69		
7	Key risks by business segment, risk management and risk appetite	67 to 69 and 73		
8	Stress testing	59, 69, 81, 91, 92 and 95		
Capital adequacy and risk-weighted assets (RWA)				
9	Minimum Pillar 1 capital requirements	60 to 63	19 and 20	
10	Reconciliation of the accounting balance sheet to the regulatory balance sheet			7 to 13, 16 and 17
11	Movements in regulatory capital	65	22	
12	Capital planning	59 to 67		
13	RWA by business segment and by risk type	67		6
14	Capital requirements by risk and the RWA calculation method	77 to 81		6
15	Banking book credit risk			6
16	Movements in RWA by risk type	66	23	6
17	Assessment of credit risk model performance	72, 78 to 81 and 86		31
Liquidity				
18	Liquidity management and components of the liquidity buffer	93 to 99	29 to 34	
Funding				
19	Summary of encumbered and unencumbered assets	96 and 97	31	
20	Residual contractual maturities of balance sheet items and off-balance-sheet commitments	217 to 221	35 to 38	
21	Funding strategy and funding sources	99 to 101	34	
Market risk				
22	Linkage of market risk measures to balance sheet	88 and 89	26 and 27	
23	Market risk factors	86 to 92, 205 and 206	26 to 29	
24	VaR: Assumptions, limitations and validation procedures	89 and 90		
25	Stress tests, stressed VaR and backtesting	86 to 92		
Credit risk				
26	Credit risk exposures	85 and 167 to 178	25 and 61 to 72	18 to 40 and 19 to 27(2)
27	Policies for identifying impaired loans	82, 141 and 142		
28	Movements in impaired loans and allowances for credit losses	119, 121, 122 and 167 to 178	61 to 72	24 to 26(2)
29	Counterparty credit risk relating to derivatives transactions	82 to 84 and 185 to 188		33 to 40 and 28(2) and 29(2)
30	Credit risk mitigation	80 to 83 and 164		20, 24 and 38 to 48
Other risks				
31	Other risks: Governance, measurement and management	76, 77 and 102 to 106		
32	Publicly known risk events	16 to 21, 28 and 102	4 and 5	

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

Accounting Policies and Financial Disclosure

Accounting Policies and Critical Accounting Estimates

The Bank's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The financial statements also comply with section 308(4) of the *Bank Act* (Canada), which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions (Canada) (OSFI), the consolidated financial statements are to be prepared in accordance with IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). None of the OSFI accounting requirements are exceptions to IFRS. The unaudited interim condensed consolidated financial statements for the quarter and six-month period ended April 30, 2021 were prepared in accordance with IAS 34 – *Interim Financial Reporting* and using the same accounting policies described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2020, except for the changes described in Note 2 to the unaudited interim condensed consolidated financial statements, which have been applied since November 1, 2020.

In preparing consolidated financial statements in accordance with IFRS, management must exercise judgment and make estimates and assumptions that affect the reporting date carrying amounts of assets and liabilities, net income and related information. Some accounting policies are considered critical given their importance to the presentation of the Bank's financial position and operating results and require difficult, subjective and complex judgments and estimates on matters that are inherently uncertain. Any change in these judgments and estimates could have a significant impact on the Bank's consolidated financial statements. The critical accounting estimates are the same as those described on pages 107 to 112 of the *2020 Annual Report*.

COVID-19 Pandemic Considerations

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

Accounting Policy Changes

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

Interest Rate Benchmark Reform

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

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

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

The reform of benchmark interest rates is a global initiative that is being coordinated and led by central banks and governments around the world, including Canada. The objective is to improve benchmarks by ensuring that they meet robust international standards. The initiative introduces other benchmarks as recommended rates (risk-free rates, such as Secured Overnight Financing Rate (SOFR), Canadian Overnight Repo Rate Average (CORRA) and Euro Short-Term Rate (ESTR)) to replace the Interbank Offered Rate (IBOR), which are the benchmark rates used by the world's major banks for short-term lending in the interbank market. These rates, in particular LIBOR (London Interbank Offered Rates), are widely used around the world as benchmarks for derivative financial instruments, bonds and other variable-rate instruments. To ensure an orderly transition to the risk-free rates for derivatives, the industry has proposed a solution through ISDA (International Swaps and Derivatives Association) via a protocol (2020 IBOR Fallbacks Protocol) as well as a supplement to the 2006 definitions, which came into force on January 25, 2021. The Bank adopted the 2020 IBOR Fallbacks Protocol on October 16, 2020 and is monitoring the adherence by its derivatives counterparties to plan the transition of its legacy derivatives contracts accordingly. For certain other types of contracts, contractual amendments are expected by the end of 2021, at which time certain LIBOR rates are expected to be withdrawn. On March 5, 2021, the Financial Conduct Authority (FCA) in the United Kingdom announced the cessation or loss of representativeness of all LIBOR rates in two phases: pound sterling (GBP), euro (EUR), Japanese yen (JPY), Swiss franc (CHF) rates as of December 31, 2021 and U.S. dollar (USD) rates as of June 30, 2023 (except for 1-week and 2-month USD LIBOR, which ceases as of December 31, 2021). This official announcement had the effect of fixing spread adjustments between the LIBOR rates and the corresponding risk-free rates set out in the rate-replacement methodology proposed by ISDA. At the same time, the FCA announced that in the months ahead it is launching consultations to assess the appropriateness of publishing certain synthetic LIBOR rates for a given period; they would be calculated using the rate-replacement methodology and based on the corresponding risk-free rates with spread adjustments. This measure would be adopted from a consumer protection and market integrity viewpoint to mitigate the difficulty of amending certain types of contracts when replacing the applicable rate.

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

The project team regularly reports on the project's progress to the project steering committee and the Financial Markets Risk Committee, committees made up of members of management and experts from all departments involved. As at April 30, 2021, the project is progressing according to schedule. Finally, a training plan for staff, management and board members has been created.

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

The following table discloses the non-derivative financial assets, non-derivative financial liabilities and derivative financial instruments subject to the interest rate benchmark reform as at April 30, 2021 that have yet to transition to alternative benchmark rates and that will mature after December 31, 2021.

(millions of Canadian dollars)					As at April 30, 2021
	USD LIBOR[1]	EUR LIBOR[2]	GBP LIBOR	JPY LIBOR	CHF LIBOR
Non-derivative financial assets[3]	5,044	–	110	–	–
Non-derivative financial liabilities[4]	2,728	–	–	–	–
Derivative financial instruments[5]	131,943	1,679	7,720	472	35

(1) Includes non-derivative financial assets, non-derivative liabilities and derivative financial instruments indexed at USD LIBOR that will mature after June 30, 2023.
(2) Includes exposures indexed at EONIA (Euro Overnight Index Average).
(3) Non-derivative financial assets include the carrying value of securities and securities purchased under reverse repurchase agreements or securities borrowed as well as the outstanding balances on loans.
(4) Non-derivative financial liabilities include the notional amounts of deposits and subordinated debt as well as the carrying value of obligations related to securities sold short and obligations related to securities sold under repurchase agreements or securities loaned.
(5) Derivative financial instruments include the notional amounts of interest rate contracts and foreign exchange contracts.

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

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

Future Accounting Policy Changes

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

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

Financial Disclosure

During the second quarter of 2021, no changes were made to the policies, procedures and other processes that comprise the Bank's internal control over financial reporting that had or could reasonably have a significant impact on the internal control over financial reporting.

Quarterly Financial Information

(millions of Canadian dollars, except per share amounts)	2021 Q2	2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2020 Total	2019 Total
Total revenues	**2,238**	2,224	2,000	1,968	2,036	1,923	1,915	1,948	7,927	7,432
Net income	**801**	761	492	602	379	610	604	608	2,083	2,322
Earnings per share ($)										
Basic	**2.28**	2.16	1.37	1.67	1.01	1.69	1.68	1.68	5.73	6.39
Diluted	**2.25**	2.15	1.36	1.66	1.01	1.67	1.67	1.66	5.70	6.34
Dividends per common share ($)	**0.71**	0.71	0.71	0.71	0.71	0.71	0.68	0.68	2.84	2.66
Return on common shareholders' equity (%)	**22.0**	21.2	13.7	17.0	10.7	18.0	18.2	18.7	14.9	18.0
Total assets	**350,742**	343,637	331,625	322,453	316,950	289,191	281,458	276,312		
Net impaired loans[1]	**349**	400	465	453	479	436	450	420		
Per common share ($)										
Book value	**43.59**	41.48	39.97	38.91	38.74	37.58	36.89	36.12		
Share price										
High	**89.42**	73.81	72.85	65.54	74.79	74.22	68.02	64.16		
Low	**72.30**	65.54	62.99	51.38	38.73	68.25	60.38	60.71		

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

Interim Condensed Consolidated Financial Statements

(unaudited)

Consolidated Balance Sheets

(unaudited) (millions of Canadian dollars)

	As at April 30, 2021	As at October 31, 2020
Assets		
Cash and deposits with financial institutions	36,958	29,142
Securities (Notes 4, 5 and 6)		
At fair value through profit or loss	87,100	78,326
At fair value through other comprehensive income	9,337	12,726
At amortized cost	10,909	11,079
	107,346	102,131
Securities purchased under reverse repurchase agreements and securities borrowed	11,356	14,512
Loans (Note 7)		
Residential mortgage	68,350	64,959
Personal	38,723	37,613
Credit card	1,985	2,038
Business and government	56,817	54,422
	165,875	159,032
Customers' liability under acceptances	6,871	6,866
Allowances for credit losses	(1,114)	(1,158)
	171,632	164,740
Other		
Derivative financial instruments	15,284	13,422
Investments in associates and joint ventures	381	409
Premises and equipment	1,159	1,155
Goodwill	1,401	1,414
Intangible assets	1,468	1,434
Other assets (Note 9)	3,757	3,266
	23,450	21,100
	350,742	331,625
Liabilities and equity		
Deposits (Notes 5 and 10)	231,320	215,878
Other		
Acceptances	6,871	6,866
Obligations related to securities sold short	18,564	16,368
Obligations related to securities sold under repurchase agreements and securities loaned (Note 8)	28,779	33,859
Derivative financial instruments	16,749	12,923
Liabilities related to transferred receivables (Notes 5 and 8)	24,178	22,855
Other liabilities (Note 11)	5,354	5,718
	100,495	98,589
Subordinated debt	771	775
Equity		
Equity attributable to the Bank's shareholders and holders of other equity instruments (Notes 12 and 15)		
Preferred shares and other equity instruments	3,450	2,950
Common shares	3,129	3,057
Contributed surplus	42	47
Retained earnings	11,704	10,444
Accumulated other comprehensive income	(169)	(118)
	18,156	16,380
Non-controlling interests (Note 19)	–	3
	18,156	16,383
	350,742	331,625

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

Consolidated Statements of Income

(unaudited) (millions of Canadian dollars)

	Quarter ended April 30		Six months ended April 30	
	2021	2020	**2021**	2020
Interest income				
Loans	**1,325**	1,530	**2,701**	3,178
Securities at fair value through profit or loss	**250**	356	**547**	636
Securities at fair value through other comprehensive income	**54**	55	**96**	110
Securities at amortized cost	**45**	61	**90**	120
Deposits with financial institutions	**20**	22	**38**	54
	1,694	2,024	**3,472**	4,098
Interest expense				
Deposits	**397**	711	**823**	1,601
Liabilities related to transferred receivables	**92**	105	**178**	211
Subordinated debt	**4**	5	**8**	11
Other	**45**	98	**100**	240
	538	919	**1,109**	2,063
Net interest income(1)	**1,156**	1,105	**2,363**	2,035
Non-interest income				
Underwriting and advisory fees	**169**	114	**276**	200
Securities brokerage commissions	**60**	58	**119**	106
Mutual fund revenues	**138**	112	**270**	232
Trust service revenues	**200**	166	**387**	332
Credit fees	**127**	107	**258**	217
Card revenues	**36**	33	**69**	72
Deposit and payment service charges	**67**	63	**132**	131
Trading revenues (losses)	**91**	214	**217**	439
Gains (losses) on non-trading securities, net	**50**	(1)	**86**	29
Insurance revenues, net	**35**	28	**63**	64
Foreign exchange revenues, other than trading	**36**	31	**70**	55
Share in the net income of associates and joint ventures	**5**	6	**11**	16
Other	**68**	–	**141**	31
	1,082	931	**2,099**	1,924
Total revenues	**2,238**	2,036	**4,462**	3,959
Non-interest expenses				
Compensation and employee benefits	**769**	693	**1,500**	1,353
Occupancy	**72**	77	**151**	143
Technology	**192**	176	**392**	345
Communications	**15**	13	**28**	29
Professional fees	**55**	58	**111**	117
Other	**96**	104	**197**	225
	1,199	1,121	**2,379**	2,212
Income before provisions for credit losses and income taxes	**1,039**	915	**2,083**	1,747
Provisions for credit losses (Note 7)	**5**	504	**86**	593
Income before income taxes	**1,034**	411	**1,997**	1,154
Income taxes	**233**	32	**435**	165
Net income	**801**	379	**1,562**	989
Net income attributable to				
Preferred shareholders and holders of other equity instruments	**33**	29	**66**	58
Common shareholders	**768**	339	**1,496**	904
Bank shareholders and holders of other equity instruments	**801**	368	**1,562**	962
Non-controlling interests	**–**	11	**–**	27
	801	379	**1,562**	989
Earnings per share *(dollars)* (Note 13)				
Basic	**2.28**	1.01	**4.44**	2.70
Diluted	**2.25**	1.01	**4.40**	2.68
Dividends per common share *(dollars)* (Note 12)	**0.71**	0.71	**1.42**	1.42

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

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

Consolidated Statements of Comprehensive Income

(unaudited) (millions of Canadian dollars)

	Quarter ended April 30		Six months ended April 30	
	2021	2020	**2021**	2020
Net income	**801**	379	**1,562**	989
Other comprehensive income, net of income taxes				
Items that may be subsequently reclassified to net income				
Net foreign currency translation adjustments				
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	**(159)**	179	**(335)**	192
Impact of hedging net foreign currency translation gains (losses)	**49**	(67)	**103**	(73)
	(110)	112	**(232)**	119
Net change in debt securities at fair value through other comprehensive income				
Net unrealized gains (losses) on debt securities at fair value through other comprehensive income	**(11)**	83	**26**	106
Net (gains) losses on debt securities at fair value through other comprehensive income reclassified to net income	**(17)**	(57)	**(27)**	(68)
Change in allowances for credit losses on debt securities at fair value through other comprehensive income reclassified to net income	**–**	2	**(1)**	2
	(28)	28	**(2)**	40
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**129**	(262)	**161**	(300)
Net (gains) losses on designated derivative financial instruments reclassified to net income	**6**	(4)	**8**	(7)
	135	(266)	**169**	(307)
Share in the other comprehensive income of associates and joint ventures	**1**	3	**1**	3
Items that will not be subsequently reclassified to net income				
Remeasurements of pension plans and other post-employment benefit plans	**142**	319	**274**	256
Net gains (losses) on equity securities designated at fair value through other comprehensive income	**22**	(35)	**49**	(24)
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	**18**	142	**(66)**	111
	182	426	**257**	343
Total other comprehensive income, net of income taxes	**180**	303	**193**	198
Comprehensive income	**981**	682	**1,755**	1,187
Comprehensive income attributable to				
Bank shareholders and holders of other equity instruments	**981**	664	**1,768**	1,152
Non-controlling interests	**–**	18	**(13)**	35
	981	682	**1,755**	1,187

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

Consolidated Statements of Comprehensive Income (cont.)

(unaudited) (millions of Canadian dollars)

Income Taxes – Other Comprehensive Income

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

	Quarter ended April 30		Six months ended April 30	
	2021	2020	**2021**	2020
Items that may be subsequently reclassified to net income				
Net foreign currency translation adjustments				
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	**6**	(7)	**10**	(7)
Impact of hedging net foreign currency translation gains (losses)	**12**	(18)	**27**	(20)
	18	(25)	**37**	(27)
Net change in debt securities at fair value through other comprehensive income				
Net unrealized gains (losses) on debt securities at fair value through other comprehensive income	**(4)**	30	**9**	38
Net (gains) losses on debt securities at fair value through other comprehensive income reclassified to net income	**(6)**	(21)	**(10)**	(25)
Change in allowances for credit losses on debt securities at fair value through other comprehensive income reclassified to net income	**–**	1	**–**	1
	(10)	10	**(1)**	14
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**47**	(94)	**58**	(108)
Net (gains) losses on designated derivative financial instruments reclassified to net income	**2**	(1)	**3**	(2)
	49	(95)	**61**	(110)
Share in the other comprehensive income of associates and joint ventures	**–**	1	**–**	1
Items that will not be subsequently reclassified to net income				
Remeasurements of pension plans and other post-employment benefit plans	**51**	114	**98**	92
Net gains (losses) on equity securities designated at fair value through other comprehensive income	**7**	(14)	**17**	(9)
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	**6**	52	**(24)**	40
	64	152	**91**	123
	121	43	**188**	1

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

Consolidated Statements of Changes in Equity

(unaudited) (millions of Canadian dollars)

	Six months ended April 30	
	2021	2020
Preferred shares and other equity instruments at beginning (Note 12)	2,950	2,450
Issuances of preferred shares and other equity instruments	500	–
Preferred shares and other equity instruments at end	3,450	2,450
Common shares at beginning (Note 12)	3,057	2,949
Issuances of common shares pursuant to the Stock Option Plan	73	84
Repurchases of common shares for cancellation	–	(5)
Impact of shares purchased or sold for trading	(1)	–
Common shares at end	3,129	3,028
Contributed surplus at beginning	47	51
Stock option expense (Note 15)	5	5
Stock options exercised	(9)	(10)
Other	(1)	–
Contributed surplus at end	42	46
Retained earnings at beginning	10,444	9,312
Net income attributable to the Bank's shareholders and holders of other equity instruments	1,562	962
Dividends on preferred shares and distributions on other equity instruments (Note 12)	(69)	(58)
Dividends on common shares (Note 12)	(479)	(476)
Premium paid on common shares repurchased for cancellation	–	(25)
Issuance expenses for shares and other equity instruments, net of income taxes	(4)	–
Remeasurements of pension plans and other post-employment benefit plans	274	256
Net gains (losses) on equity securities designated at fair value through other comprehensive income	49	(24)
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	(66)	111
Other	(7)	–
Retained earnings at end	11,704	10,058
Accumulated other comprehensive income at beginning	(118)	16
Net foreign currency translation adjustments	(219)	111
Net change in unrealized gains (losses) on debt securities at fair value through other comprehensive income	(2)	40
Net change in gains (losses) on cash flow hedges	169	(307)
Share in the other comprehensive income of associates and joint ventures	1	3
Accumulated other comprehensive income at end	(169)	(137)
Equity attributable to the Bank's shareholders and holders of other equity instruments	18,156	15,445
Non-controlling interests at beginning	3	358
Purchase of the non-controlling interest of the Credigy Ltd. subsidiary (Note 19)	10	–
Net income attributable to non-controlling interests	–	27
Other comprehensive income attributable to non-controlling interests	(13)	8
Distributions to non-controlling interests	–	(24)
Non-controlling interests at end	–	369
Equity	18,156	15,814

Accumulated Other Comprehensive Income

	As at April 30, 2021	As at April 30, 2020
Accumulated other comprehensive income		
Net foreign currency translation adjustments	(158)	119
Net unrealized gains (losses) on debt securities at fair value through other comprehensive income	99	54
Net gains (losses) on instruments designated as cash flow hedges	(114)	(313)
Share in the other comprehensive income of associates and joint ventures	4	3
	(169)	(137)

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

Consolidated Statements of Cash Flows

(unaudited) (millions of Canadian dollars)

	Six months ended April 30	
	2021	2020
Cash flows from operating activities		
Net income	1,562	989
Adjustments for		
Provisions for credit losses	86	593
Amortization of premises and equipment including right-of-use assets	104	96
Amortization of intangible assets	143	125
Deferred taxes	12	(67)
Losses (gains) on sales of non-trading securities, net	(86)	(29)
Share in the net income of associates and joint ventures	(11)	(16)
Stock option expense	5	5
Change in operating assets and liabilities		
Securities at fair value through profit or loss	(8,774)	(1,157)
Securities purchased under reverse repurchase agreements and securities borrowed	3,156	13
Loans and acceptances, net of securitization	(5,648)	(10,039)
Deposits	15,442	11,879
Obligations related to securities sold short	2,196	2,572
Obligations related to securities sold under repurchase agreements and securities loaned	(5,080)	12,445
Derivative financial instruments, net	1,964	730
Securitization – Credit cards	–	(874)
Interest and dividends receivable and interest payable	(150)	(146)
Current tax assets and liabilities	132	(305)
Other items	1,345	(1,551)
	6,398	15,263
Cash flows from financing activities		
Issuances of preferred shares and other equity instruments (Note 12)	500	–
Issuances of common shares (including the impact of shares purchased for trading)	63	74
Repurchases of common shares for cancellation	–	(30)
Purchase of the non-controlling interest of the Credigy Ltd. subsidiary (Note 19)	(300)	–
Issuance expenses for shares and other equity instruments	(4)	–
Repayments of lease liabilities	(47)	(44)
Dividends paid on shares and distributions on other equity instruments	(548)	(762)
Distributions to non-controlling interests	–	(24)
	(336)	(786)
Cash flows from investing activities		
Net change in investments in associates and joint ventures	54	–
Purchases of non-trading securities	(2,363)	(7,838)
Maturities of non-trading securities	1,120	880
Sales of non-trading securities	4,321	6,294
Net change in premises and equipment, excluding right-of-use assets	(101)	(103)
Net change in intangible assets	(177)	(163)
	2,854	(930)
Impact of currency rate movements on cash and cash equivalents	(1,100)	555
Increase (decrease) in cash and cash equivalents	7,816	14,102
Cash and cash equivalents at beginning	29,142	13,698
Cash and cash equivalents at end(1)	36,958	27,800
Supplementary information about cash flows from operating activities		
Interest paid	1,196	2,233
Interest and dividends received	3,413	4,122
Income taxes paid	391	194

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

(1) This item is the equivalent of Consolidated Balance Sheet item *Cash and deposits with financial institutions*. It includes an amount of $6.2 billion as at April 30, 2021 ($5.9 billion as at October 31, 2020) for which there are restrictions.

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited) (millions of Canadian dollars)

Note 1 – Basis of Presentation

On May 27, 2021, the Board of Directors authorized the publication of the Bank's unaudited interim condensed consolidated financial statements (the consolidated financial statements) for the quarter and six-month period ended April 30, 2021.

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

These consolidated financial statements were prepared in accordance with IAS 34 – *Interim Financial Reporting* and using the same accounting policies as those described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2020, except for the changes described in Note 2 to these consolidated financial statements, which have been applied since November 1, 2020.

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

COVID-19 Pandemic Considerations

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

Note 2 – Accounting Policy Changes

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

Interest Rate Benchmark Reform

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

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

Note 2 – Accounting Policy Changes (cont.)

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

The reform of benchmark interest rates is a global initiative that is being coordinated and led by central banks and governments around the world, including Canada. The objective is to improve benchmarks by ensuring that they meet robust international standards. The initiative introduces other benchmarks as recommended rates (risk-free rates, such as Secured Overnight Financing Rate (SOFR), Canadian Overnight Repo Rate Average (CORRA) and Euro Short-Term Rate (ESTR)) to replace the Interbank Offered Rate (IBOR), which are the benchmark rates used by the world's major banks for short-term lending in the interbank market. These rates, in particular LIBOR (London Interbank Offered Rates), are widely used around the world as benchmarks for derivative financial instruments, bonds and other variable-rate instruments. To ensure an orderly transition to the risk-free rates for derivatives, the industry has proposed a solution through ISDA (International Swaps and Derivatives Association) via a protocol (2020 IBOR Fallbacks Protocol) as well as a supplement to the 2006 definitions, which came into force on January 25, 2021. The Bank adopted the 2020 IBOR Fallbacks Protocol on October 16, 2020 and is monitoring the adherence by its derivatives counterparties to plan the transition of its legacy derivatives contracts accordingly. For certain other types of contracts, contractual amendments are expected by the end of 2021, at which time certain LIBOR rates are expected to be withdrawn. On March 5, 2021, the Financial Conduct Authority (FCA) in the United Kingdom announced the cessation or loss of representativeness of all LIBOR rates in two phases: pound sterling (GBP), euro (EUR), Japanese yen (JPY), Swiss franc (CHF) rates as of December 31, 2021 and U.S. dollar (USD) rates as of June 30, 2023 (except for 1-week and 2-month USD LIBOR, which ceases as of December 31, 2021). This official announcement had the effect of fixing spread adjustments between the LIBOR rates and the corresponding risk-free rates set out in the rate-replacement methodology proposed by ISDA. At the same time, the FCA announced that in the months ahead it is launching consultations to assess the appropriateness of publishing certain synthetic LIBOR rates for a given period; they would be calculated using the rate-replacement methodology and based on the corresponding risk-free rates with spread adjustments. This measure would be adopted from a consumer protection and market integrity viewpoint to mitigate the difficulty of amending certain types of contracts when replacing the applicable rate.

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

The project team regularly reports on the project's progress to the project steering committee and the Financial Markets Risk Committee, committees made up of members of management and experts from all departments involved. As at April 30, 2021, the project is progressing according to schedule. Finally, a training plan for staff, management and board members has been created.

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

(unaudited) (millions of Canadian dollars)

The following table discloses the non-derivative financial assets, non-derivative financial liabilities and derivative financial instruments subject to the interest rate benchmark reform as at April 30, 2021 that have yet to transition to alternative benchmark rates and that will mature after December 31, 2021.

					As at April 30, 2021
	USD LIBOR(1)	EUR LIBOR(2)	GBP LIBOR	JPY LIBOR	CHF LIBOR
Non-derivative financial assets(3)	5,044	–	110	–	–
Non-derivative financial liabilities(4)	2,728	–	–	–	–
Derivative financial instruments(5)	131,943	1,679	7,720	472	35

(1) Includes non-derivative financial assets, non-derivative liabilities and derivative financial instruments indexed at USD LIBOR that will mature after June 30, 2023.
(2) Includes exposures indexed at EONIA (Euro Overnight Index Average).
(3) Non-derivative financial assets include the carrying value of securities and securities purchased under reverse repurchase agreements or securities borrowed as well as the outstanding balances on loans.
(4) Non-derivative financial liabilities include the notional amounts of deposits and subordinated debt as well as the carrying value of obligations related to securities sold short and obligations related to securities sold under repurchase agreements or securities loaned.
(5) Derivative financial instruments include the notional amounts of interest rate contracts and foreign exchange contracts.

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

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

Note 3 – Future Accounting Policy Changes

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

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

(unaudited) (millions of Canadian dollars)

Note 4 – Fair Value of Financial Instruments

Fair Value and Carrying Value of Financial Instruments by Category

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

								As at April 30, 2021
	Carrying value and fair value				Carrying value	Fair value		
	Financial instruments classified as at fair value through profit or loss	Financial instruments designated at fair value through profit or loss	Debt securities classified as at fair value through other comprehensive income	Equity securities designated at fair value through other comprehensive income	Financial instruments at amortized cost, net	Financial instruments at amortized cost, net	Total carrying value	Total fair value
Financial assets								
Cash and deposits with financial institutions	–	–	–	–	36,958	36,958	36,958	36,958
Securities	85,117	1,983	8,669	668	10,909	11,005	107,346	107,442
Securities purchased under reverse repurchase agreements and securities borrowed	–	–	–	–	11,356	11,356	11,356	11,356
Loans and acceptances, net of allowances	8,028	–	–	–	163,604	164,821	171,632	172,849
Other								
Derivative financial instruments	15,284	–	–	–	–	–	15,284	15,284
Other assets	–	–	–	–	1,204	1,204	1,204	1,204
Financial liabilities								
Deposits	–	13,140			218,180 (1)	218,683	231,320	231,823
Other								
Acceptances	–	–			6,871	6,871	6,871	6,871
Obligations related to securities sold short	18,564	–			–	–	18,564	18,564
Obligations related to securities sold under repurchase agreements and securities loaned	–	–			28,779	28,779	28,779	28,779
Derivative financial instruments	16,749	–			–	–	16,749	16,749
Liabilities related to transferred receivables	–	9,975			14,203	14,348	24,178	24,323
Other liabilities	–	–			1,438	1,440	1,438	1,440
Subordinated debt	–	–			771	784	771	784

(1) Includes embedded derivative financial instruments.

(unaudited) (millions of Canadian dollars)

As at October 31, 2020

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

(1) Includes embedded derivative financial instruments.

Establishing Fair Value

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

Unadjusted quoted prices in active markets provide the best evidence of fair value. When there is no quoted price in an active market, the Bank applies other valuation techniques that maximize the use of relevant observable inputs and that minimize the use of unobservable inputs. Such valuation techniques include the following: using information available from recent market transactions, referring to the current fair value of a comparable financial instrument, applying discounted cash flow analysis, applying option pricing models, or relying on any other valuation technique that is commonly used by market participants and has proven to yield reliable estimates. Judgment is required when applying many of the valuation techniques. The Bank's valuation was based on its assessment of the conditions prevailing as at April 30, 2021 and may change in the future. Furthermore, there may be valuation uncertainty resulting from the choice of valuation model used.

Fair value is established in accordance with a rigorous control framework. The Bank has policies and procedures that govern the process for determining fair value. The Bank's valuation governance structure has remained largely unchanged from that described in Note 3 to the audited annual consolidated financial statements for the year ended October 31, 2020. The valuation techniques used to determine the fair value of financial assets and financial liabilities are also described in this note, and no significant changes have been made to the valuation techniques.

(unaudited) (millions of Canadian dollars)

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

Financial Instruments Recorded at Fair Value on the Consolidated Balance Sheet

Hierarchy of Fair Value Measurements

IFRS establishes a fair value measurement hierarchy that classifies the inputs used in financial instrument fair value measurement techniques according to three levels. This fair value hierarchy requires observable market inputs to be used whenever such inputs exist. According to the hierarchy, the highest level of inputs are unadjusted quoted prices in active markets for identical instruments and the lowest level of inputs are unobservable inputs. If inputs from different levels of the hierarchy are used, the financial instrument is classified in the same level as the lowest level input that is significant to the fair value measurement. For additional information, see Note 3 to the audited annual consolidated financial statements for the year ended October 31, 2020.

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

During the quarters ended April 30, 2021 and 2020, there were no significant transfers from Level 2 to Level 1 resulting from changing market conditions. Also, during the quarter ended April 30, 2021, $1 million in securities classified as at fair value through profit or loss were transferred from Level 1 to Level 2 resulting from changing market conditions (no significant transfers during the quarter ended April 30, 2020). During the six-month periods ended April 30, 2021 and 2020, financial instruments were transferred to (or from) Level 3 due to changes in the availability of observable market inputs resulting from changing market conditions.

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

				As at April 30, 2021
	Level 1	Level 2	Level 3	Total financial assets/liabilities at fair value
Financial assets				
Securities				
At fair value through profit or loss				
Securities issued or guaranteed by				
Canadian government	3,435	6,654	–	10,089
Canadian provincial and municipal governments	–	7,764	–	7,764
U.S. Treasury, other U.S. agencies and other foreign governments	2,211	2,462	–	4,673
Other debt securities	–	2,155	46	2,201
Equity securities	61,553	335	485	62,373
	67,199	19,370	531	87,100
At fair value through other comprehensive income				
Securities issued or guaranteed by				
Canadian government	64	3,354	–	3,418
Canadian provincial and municipal governments	–	3,567	–	3,567
U.S. Treasury, other U.S. agencies and other foreign governments	690	180	–	870
Other debt securities	–	814	–	814
Equity securities	–	301	367	668
	754	8,216	367	9,337
Loans	–	7,720	308	8,028
Other				
Derivative financial instruments	99	15,180	5	15,284
	68,052	50,486	1,211	119,749
Financial liabilities				
Deposits	–	13,291	–	13,291
Other				
Obligations related to securities sold short	13,624	4,940	–	18,564
Derivative financial instruments	323	16,421	5	16,749
Liabilities related to transferred receivables	–	9,975	–	9,975
	13,947	44,627	5	58,579

(unaudited) (millions of Canadian dollars)

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

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

Financial Instruments Classified in Level 3

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

For a description of the valuation techniques and significant unobservable inputs used in determining the fair value of financial instruments classified in Level 3, see Note 3 to the audited annual consolidated financial statements for the year ended October 31, 2020. For the quarter and six-month period ended April 30, 2021, no significant change was made to the valuation techniques and significant unobservable inputs used in determining fair value.

Sensitivity Analysis of Financial Instruments Classified in Level 3

The Bank performs sensitivity analyses for the fair value measurements of financial instruments classified in Level 3, substituting unobservable inputs with one or more reasonably possible alternative assumptions. For additional information on how a change in an unobservable input might affect the fair value measurements of Level 3 financial instruments, see Note 3 to the audited annual consolidated financial statements for the year ended October 31, 2020. For the six-month period ended April 30, 2021, there were no significant changes in the sensitivity analyses of Level 3 financial instruments.

(unaudited) (millions of Canadian dollars)

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

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

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

					Six months ended April 30, 2021
	Securities at fair value through profit or loss	Securities at fair value through other comprehensive income	Loans	Derivative financial instruments[1]	Deposits[2]
Fair value as at October 31, 2020	457	373	372	29	2
Total realized and unrealized gains (losses) included in *Net income*[3]	69	–	19	(27)	–
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	(6)	–	–	–
Purchases	14	–	–	–	–
Sales	(9)	–	–	–	–
Issuances	–	–	5	–	–
Settlements and other	–	–	(88)	(1)	–
Financial instruments transferred into Level 3	–	–	–	–	–
Financial instruments transferred out of Level 3	–	–	–	(1)	(2)
Fair value as at April 30, 2021	531	367	308	–	–
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at April 30, 2021[4]	66	–	19	(27)	–

					Six months ended April 30, 2020
	Securities at fair value through profit or loss	Securities at fair value through other comprehensive income	Loans	Derivative financial instruments[1]	Deposits[2]
Fair value as at October 31, 2019	458	362	360	4	–
Total realized and unrealized gains (losses) included in *Net income*[5]	(18)	–	(26)	14	5
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	5	–	–	–
Purchases	16	–	–	–	–
Sales	(7)	–	–	–	–
Issuances	–	–	10	–	–
Settlements and other	–	–	11	1	–
Financial instruments transferred into Level 3	–	–	30	(2)	(9)
Financial instruments transferred out of Level 3	–	–	–	(3)	4
Fair value as at April 30, 2020	449	367	385	14	–
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at April 30, 2020[6]	(10)	–	(26)	14	5

(1) The derivative financial instruments include assets and liabilities presented on a net basis.
(2) The amounts represent the fair value of embedded derivative financial instruments related to deposits.
(3) Total gains (losses) included in *Non-interest income* was a gain of $61 million.
(4) Total unrealized gains (losses) included in *Non-interest income* was an unrealized gain of $58 million.
(5) Total gains (losses) included in *Non-interest income* was a loss of $25 million.
(6) Total unrealized gains (losses) included in *Non-interest income* was an unrealized loss of $17 million.

(unaudited) (millions of Canadian dollars)

Note 5 – Financial Instruments Designated at Fair Value Through Profit or Loss

The Bank chose to designate certain financial instruments at fair value through profit or loss according to the criteria presented in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2020. Consistent with its risk management strategy and in accordance with the fair value option, which permits the designation if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets and financial liabilities or recognizing the gains and losses thereon on different bases, the Bank designated at fair value through profit or loss certain securities, certain securities purchased under reverse repurchase agreements, and certain liabilities related to transferred receivables. The fair value of liabilities related to transferred receivables does not include credit risk, as the holders of these liabilities are not exposed to the Bank's credit risk. The Bank also designated certain deposits that include embedded derivative financial instruments at fair value through profit or loss.

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

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

	Carrying value as at April 30, 2021	**Unrealized gains (losses) for the quarter ended April 30, 2021**	**Unrealized gains (losses) for the six months ended April 30, 2021**	**Unrealized gains (losses) since the initial recognition of the instrument**
Financial assets designated at fair value through profit or loss				
Securities	**1,983**	**(29)**	**(34)**	**57**
Financial liabilities designated at fair value through profit or loss				
Deposits[(1)(2)]	**13,140**	**(354)**	**(858)**	**(362)**
Liabilities related to transferred receivables	**9,975**	**91**	**91**	**(134)**
	23,115	**(263)**	**(767)**	**(496)**

	Carrying value as at April 30, 2020	Unrealized gains (losses) for the quarter ended April 30, 2020	Unrealized gains (losses) for the six months ended April 30, 2020	Unrealized gains (losses) since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss				
Securities	3,239	63	76	102
Financial liabilities designated at fair value through profit or loss				
Deposits[(1)(2)]	10,963	1,230	1,086	973
Liabilities related to transferred receivables	8,078	(151)	(169)	(240)
	19,041	1,079	917	733

(1) For the quarter ended April 30, 2021, the change in the fair value of deposits designated at fair value through profit or loss attributable to credit risk, and recorded in *Other comprehensive income,* resulted in a gain of $24 million ($194 million gain for the quarter ended April 30, 2020). For the six-month period ended April 30, 2021, the corresponding change in this item resulted in a loss of $90 million ($151 million gain for the six-month period ended April 30, 2020).

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

(unaudited) (millions of Canadian dollars)

Note 6 – Securities

Credit Quality

As at April 30, 2021 and as at October 31, 2020, securities at fair value through other comprehensive income and securities at amortized cost are classified in Stage 1, with their credit quality falling mostly in the "Excellent" category according to the Bank's internal risk-rating categories. For additional information on the reconciliation of allowances for credit losses, see Note 7 to these consolidated financial statements.

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

				As at April 30, 2021
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Carrying value(1)**
Securities issued or guaranteed by				
Canadian government	**3,345**	**77**	**(4)**	**3,418**
Canadian provincial and municipal governments	**3,558**	**53**	**(44)**	**3,567**
U.S. Treasury, other U.S. agencies and other foreign governments	**874**	**1**	**(5)**	**870**
Other debt securities	**804**	**16**	**(6)**	**814**
Equity securities	**621**	**55**	**(8)**	**668**
	9,202	**202**	**(67)**	**9,337**

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

(1) The allowances for credit losses on securities at fair value through other comprehensive income, representing an amount of $1 million as at April 30, 2021 ($3 million as at October 31, 2020), are reported in *Other comprehensive income*. For additional information, see Note 7 to these consolidated financial statements.

Equity Securities Designated at Fair Value Through Other Comprehensive Income

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

During the six-month period ended April 30, 2021, an amount of $23 million in dividend income was recognized for these investments ($11 million for the six-month period ended April 30, 2020), including a negligible amount for investments that were sold during the six-month period ended April 30, 2021 ($2 million for investments that were sold during the six-month period ended April 30, 2020).

			Six months ended April 30, 2021			Six months ended April 30, 2020
	Equity securities of private companies	**Equity securities of public companies**	**Total**	Equity securities of private companies	Equity securities of public companies	Total
Fair value at beginning	**373**	**246**	**619**	362	260	622
Change in fair value	**(6)**	**72**	**66**	5	(38)	(33)
Designated at fair value through other comprehensive income	**–**	**14**	**14**	–	60	60
Sales(1)	**–**	**(31)**	**(31)**	–	(79)	(79)
Fair value at end	**367**	**301**	**668**	367	203	570

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

(unaudited) (millions of Canadian dollars)

Securities at Amortized Cost

	As at April 30, 2021	As at October 31, 2020
Securities issued or guaranteed by		
Canadian government	5,452	6,163
Canadian provincial and municipal governments	2,282	2,353
U.S. Treasury, other U.S. agencies and other foreign governments	1	21
Other debt securities	3,175	2,543
Gross carrying value	10,910	11,080
Allowances for credit losses	1	1
Carrying value	10,909	11,079

Gains (Losses) on Disposals of Securities at Amortized Cost

During the six-month periods ended April 30, 2021 and 2020, the Bank sold certain debt securities measured at amortized cost. The carrying value of these securities upon disposal was $143 million for the six-month period ended April 30, 2021 ($101 million for the six-month period ended April 30, 2020), and the Bank had recognized negligible gains for the six months ended April 30, 2021 (gain of $5 million for the six months ended April 30, 2020) in *Non-interest income – Gains (losses) on non-trading securities, net* in the Consolidated Statement of Income.

Note 7 – Loans and Allowances for Credit Losses

Determining and Measuring Expected Credit Losses (ECL)

Determining Expected Credit Losses

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

Stage 1

Financial assets that have experienced no significant increase in credit risk between initial recognition and the reporting date and for which 12-month expected credit losses are recorded at the reporting date are classified in Stage 1.

Stage 2

Financial assets that have experienced a significant increase in credit risk between initial recognition and the reporting date, and for which lifetime expected credit losses are recorded at the reporting date, are classified in Stage 2.

Stage 3

Financial assets for which there is objective evidence of impairment, for which one or more events have had a detrimental impact on the estimated future cash flows of these financial assets at the reporting date, and for which lifetime expected credit losses are recorded, are classified in Stage 3.

POCI

Financial assets that are credit-impaired when purchased or originated (POCI) are classified in the POCI category.

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

Credit Quality of Loans

The following tables present the gross carrying amounts of loans as at April 30, 2021 and as at October 31, 2020, according to credit quality and ECL impairment stage of each loan category at amortized cost, and according to credit quality for loans at fair value through profit or loss. For additional information on credit quality according to the Advanced Internal Rating-Based (AIRB) categories, see the Internal Default Risk Ratings table on page 80 in the Credit Risk section of the *2020 Annual Report*.

(unaudited) (millions of Canadian dollars)

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

						As at April 30, 2021
	Non-impaired loans[1]		Impaired loans		Loans at fair value through profit or loss[2]	
	Stage 1	Stage 2	Stage 3	POCI		Total
Residential mortgage						
Excellent	27,126	3	–	–	–	27,129
Good	16,146	38	–	–	–	16,184
Satisfactory	9,694	1,148	–	–	–	10,842
Special mention	477	281	–	–	–	758
Substandard	133	142	–	–	–	275
Default	–	–	93	–	–	93
AIRB approach	53,576	1,612	93	–	–	55,281
Standardized approach	5,032	25	46	407	7,559	13,069
Gross carrying amount	58,608	1,637	139	407	7,559	68,350
Allowances for credit losses[3]	66	28	30	(45)	–	79
Carrying amount	58,542	1,609	109	452	7,559	68,271
Personal						
Excellent	15,508	60	–	–	–	15,568
Good	10,737	881	–	–	–	11,618
Satisfactory	4,546	1,665	–	–	–	6,211
Special mention	335	544	–	–	–	879
Substandard	92	141	–	–	–	233
Default	–	–	103	–	–	103
AIRB approach	31,218	3,291	103	–	–	34,612
Standardized approach	3,877	27	16	191	–	4,111
Gross carrying amount	35,095	3,318	119	191	–	38,723
Allowances for credit losses[3]	70	118	63	(5)	–	246
Carrying amount	35,025	3,200	56	196	–	38,477
Credit card						
Excellent	429	–	–	–	–	429
Good	301	–	–	–	–	301
Satisfactory	629	24	–	–	–	653
Special mention	310	179	–	–	–	489
Substandard	25	59	–	–	–	84
Default	–	–	–	–	–	–
AIRB approach	1,694	262	–	–	–	1,956
Standardized approach	29	–	–	–	–	29
Gross carrying amount	1,723	262	–	–	–	1,985
Allowances for credit losses[3]	42	113	–	–	–	155
Carrying amount	1,681	149	–	–	–	1,830
Business and government[4]						
Excellent	4,652	–	–	–	259	4,911
Good	21,336	14	–	–	163	21,513
Satisfactory	22,739	6,375	–	–	31	29,145
Special mention	217	1,462	–	–	–	1,679
Substandard	47	240	–	–	–	287
Default	–	–	362	–	–	362
AIRB approach	48,991	8,091	362	–	453	57,897
Standardized approach	5,567	97	111	–	16	5,791
Gross carrying amount	54,558	8,188	473	–	469	63,688
Allowances for credit losses[3]	116	229	289	–	–	634
Carrying amount	54,442	7,959	184	–	469	63,054
Total loans						
Gross carrying amount	149,984	13,405	731	598	8,028	172,746
Allowances for credit losses[3]	294	488	382	(50)	–	1,114
Carrying amount	149,690	12,917	349	648	8,028	171,632

(1) In response to the COVID-19 pandemic, the Bank has approved certain payment deferrals for all types of loans. As at April 30, 2021, the gross carrying value of loans for which deferrals have been approved totalled $214 million for business and government loans. These loans are presented in the stage in which they were positioned immediately prior to application of the payment deferral.
(2) Not subject to expected credit losses.
(3) The allowances for credit losses do not include the amounts related to undrawn commitments reported in the *Other liabilities* item of the Consolidated Balance Sheet.
(4) Includes customers' liability under acceptances.

(unaudited) (millions of Canadian dollars)

As at October 31, 2020

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

(1) In response to the COVID-19 pandemic, the Bank has approved certain payment deferrals for all types of loans. As at October 31, 2020, the gross carrying value of loans for which deferrals have been approved had totalled $695 million for residential mortgages and $1,182 million for business and government loans. These loans are presented in the stage in which they had been positioned immediately prior to application of the payment deferral.
(2) Not subject to expected credit losses.
(3) The allowances for credit losses do not include the amounts related to undrawn commitments reported in the *Other liabilities* item of the Consolidated Balance Sheet.
(4) Includes customers' liability under acceptances.

(unaudited) (millions of Canadian dollars)

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

The following table presents the credit risk exposures of off-balance-sheet commitments as at April 30, 2021 and as at October 31, 2020 according to credit quality and ECL impairment stage.

	As at April 30, 2021				As at October 31, 2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Off-balance-sheet commitments(1)								
Retail								
Excellent	15,976	62	–	16,038	15,255	43	–	15,298
Good	4,172	302	–	4,474	3,967	309	–	4,276
Satisfactory	1,335	233	–	1,568	1,273	255	–	1,528
Special mention	85	64	–	149	84	69	–	153
Substandard	4	12	–	16	4	12	–	16
Default	–	–	2	2	–	–	3	3
Non-retail								
Excellent	13,387	–	–	13,387	10,616	–	–	10,616
Good	16,582	–	–	16,582	17,442	343	–	17,785
Satisfactory	6,787	3,314	–	10,101	5,013	3,450	–	8,463
Special mention	40	250	–	290	28	324	–	352
Substandard	6	68	–	74	2	84	–	86
Default	–	–	10	10	–	–	6	6
AIRB approach	58,374	4,305	12	62,691	53,684	4,889	9	58,582
Standardized approach	10,452	–	–	10,452	10,335	5	1	10,341
Total exposure	68,826	4,305	12	73,143	64,019	4,894	10	68,923
Allowances for credit losses	107	81	–	188	115	61	–	176
Total exposure, net of allowances	68,719	4,224	12	72,955	63,904	4,833	10	68,747

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

Loans Past Due But Not Impaired(1)

	As at April 30, 2021(2)				As at October 31, 2020(2)			
	Residential mortgage	Personal	Credit card	Business and government(3)	Residential mortgage	Personal	Credit card	Business and government(3)
Past due but not impaired								
31 to 60 days	30	43	16	13	58	74	20	22
61 to 90 days	23	18	8	22	24	27	9	10
Over 90 days(4)	–	–	23	–	–	–	24	–
	53	61	47	35	82	101	53	32

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

Impaired Loans

	As at April 30, 2021			As at October 31, 2020		
	Gross	Allowances for credit losses	Net	Gross	Allowances for credit losses	Net
Loans – Stage 3						
Residential mortgage	139	30	109	193	35	158
Personal	119	63	56	162	76	86
Credit card(1)	–	–	–	–	–	–
Business and government(2)	473	289	184	462	241	221
	731	382	349	817	352	465
POCI loans	598	(50)	648	855	(66)	921
	1,329	332	997	1,672	286	1,386

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

(unaudited) (millions of Canadian dollars)

Allowances for Credit Losses

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

						Quarter ended April 30, 2021
	Allowances for credit losses as at January 31, 2021	Provisions for credit losses	Write-offs(1)	Disposals	Recoveries and other	Allowances for credit losses as at April 30, 2021
Balance sheet						
Cash and deposits with financial institutions(2)(3)	6	(1)	–	–	–	5
Securities(3)						
At fair value through other comprehensive income(4)	2	(1)	–	–	–	1
At amortized cost(2)	1	–	–	–	–	1
Securities purchased under reverse repurchase agreements and securities borrowed(2)(3)	–	–	–	–	–	–
Loans(5)						
Residential mortgage	71	10	(2)	–	–	79
Personal	276	(5)	(20)	(7)	2	246
Credit card	171	(4)	(16)	–	4	155
Business and government	542	12	(10)	–	(1)	543
Customers' liability under acceptances	89	2	–	–	–	91
	1,149	15	(48)	(7)	5	1,114
Other assets(2)(3)	–	–	–	–	–	–
Off-balance-sheet commitments(6)						
Letters of guarantee and documentary letters of credit	15	(4)	–	–	–	11
Undrawn commitments	177	(4)	–	–	–	173
Backstop liquidity and credit enhancement facilities	4	–	–	–	–	4
	196	(8)	–	–	–	188
	1,354	5	(48)	(7)	5	1,309

						Quarter ended April 30, 2020
	Allowances for credit losses as at January 31, 2020	Provisions for credit losses	Write-offs(1)	Disposals	Recoveries and other	Allowances for credit losses as at April 30, 2020
Balance sheet						
Cash and deposits with financial institutions(2)(3)	2	9	–	–	–	11
Securities(3)						
At fair value through other comprehensive income(4)	–	3	–	–	–	3
At amortized cost(2)	1	1	–	–	–	2
Securities purchased under reverse repurchase agreements and securities borrowed(2)(3)	–	–	–	–	–	–
Loans(5)						
Residential mortgage	26	20	(1)	–	1	46
Personal	229	88	(33)	–	8	292
Credit card	130	51	(27)	–	4	158
Business and government	275	202	(13)	–	(1)	463
Customers' liability under acceptances	33	41	–	–	–	74
	693	402	(74)	–	12	1,033
Other assets(2)(3)	–	–	–	–	–	–
Off-balance-sheet commitments(6)						
Letters of guarantee and documentary letters of credit	6	12	–	–	–	18
Undrawn commitments	65	76	–	–	–	141
Backstop liquidity and credit enhancement facilities	2	1	–	–	–	3
	73	89	–	–	–	162
	769	504	(74)	–	12	1,211

(1) The contractual amount outstanding on financial assets that were written off during the quarter ended April 30, 2021 and that are still subject to enforcement activity was $29 million ($45 million for the quarter ended April 30, 2020).
(2) These financial assets are presented net of the allowances for credit losses on the Consolidated Balance Sheet.
(3) As at April 30, 2021 and 2020, these financial assets were mainly classified in Stage 1 and their credit quality fell mostly within the *Excellent* category.
(4) The allowances for credit losses are reported in the *Accumulated other comprehensive income* item of the Consolidated Balance Sheet.
(5) The allowances for credit losses are reported in the *Allowances for credit losses* item of the Consolidated Balance Sheet.
(6) The allowances for credit losses are reported in the *Other liabilities* item of the Consolidated Balance Sheet.

(unaudited) (millions of Canadian dollars)

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

						Six months ended April 30, 2021
	Allowances for credit losses as at October 31, 2020	**Provisions for credit losses**	**Write-offs(1)**	**Disposals**	**Recoveries and other**	**Allowances for credit losses as at April 30, 2021**
Balance sheet						
Cash and deposits with financial institutions(2)(3)	5	–	–	–	–	5
Securities(3)						
At fair value through other comprehensive income(4)	3	(2)	–	–	–	1
At amortized cost(2)	1	–	–	–	–	1
Securities purchased under reverse repurchase agreements and securities borrowed(2)(3)	–	–	–	–	–	–
Loans(5)						
Residential mortgage	65	18	(3)	–	(1)	79
Personal	298	2	(44)	(14)	4	246
Credit card	169	8	(31)	–	9	155
Business and government	533	50	(37)	–	(3)	543
Customers' liability under acceptances	93	(2)	–	–	–	91
	1,158	76	(115)	(14)	9	1,114
Other assets(2)(3)	–	–	–	–	–	–
Off-balance-sheet commitments(6)						
Letters of guarantee and documentary letters of credit	15	(4)	–	–	–	11
Undrawn commitments	157	16	–	–	–	173
Backstop liquidity and credit enhancement facilities	4	–	–	–	–	4
	176	12	–	–	–	188
	1,343	86	(115)	(14)	9	1,309

						Six months ended April 30, 2020
	Allowances for credit losses as at October 31, 2019	Provisions for credit losses	Write-offs(1)	Disposals	Recoveries and other	Allowances for credit losses as at April 30, 2020
Balance sheet						
Cash and deposits with financial institutions(2)(3)	2	9	–	–	–	11
Securities(3)						
At fair value through other comprehensive income(4)	–	3	–	–	–	3
At amortized cost(2)	1	1	–	–	–	2
Securities purchased under reverse repurchase agreements and securities borrowed(2)(3)	–	–	–	–	–	–
Loans(5)						
Residential mortgage	21	27	(3)	–	1	46
Personal	232	114	(68)	–	14	292
Credit card	128	77	(54)	–	7	158
Business and government	268	229	(34)	–	–	463
Customers' liability under acceptances	29	45	–	–	–	74
	678	492	(159)	–	22	1,033
Other assets(2)(3)	–	–	–	–	–	–
Off-balance-sheet commitments(6)						
Letters of guarantee and documentary letters of credit	6	12	–	–	–	18
Undrawn commitments	66	75	–	–	–	141
Backstop liquidity and credit enhancement facilities	2	1	–	–	–	3
	74	88	–	–	–	162
	755	593	(159)	–	22	1,211

(1) The contractual amount outstanding on financial assets that were written off during the six-month period ended April 30, 2021 and that are still subject to enforcement activity was $58 million ($88 million for the six-month period ended April 30, 2020).
(2) These financial assets are presented net of the allowances for credit losses on the Consolidated Balance Sheet.
(3) As at April 30, 2021 and 2020, these financial assets were mainly classified in Stage 1 and their credit quality fell mostly within the *Excellent* category.
(4) The allowances for credit losses are reported in the *Accumulated other comprehensive income* item of the Consolidated Balance Sheet.
(5) The allowances for credit losses are reported in the *Allowances for credit losses* item of the Consolidated Balance Sheet.
(6) The allowances for credit losses are reported in the *Other liabilities* item of the Consolidated Balance Sheet.

(unaudited) (millions of Canadian dollars)

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

	Quarter ended April 30, 2021					Quarter ended April 30, 2020				
	Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans			Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans		
	Stage 1	Stage 2	Stage 3	POCI[1]	Total	Stage 1	Stage 2	Stage 3	POCI[1]	Total
Residential mortgage										
Balance at beginning	60	28	31	(48)	71	41	12	25	(52)	26
Originations or purchases	3	–	–	–	3	2	–	–	–	2
Transfers[2]:										
to Stage 1	4	(3)	(1)	–	–	3	(2)	(1)	–	–
to Stage 2	(1)	1	–	–	–	(1)	1	–	–	–
to Stage 3	–	(1)	1	–	–	–	(1)	1	–	–
Net remeasurement of loss allowances[3]	3	3	1	1	8	11	12	2	(7)	18
Derecognitions[4]	(1)	–	–	–	(1)	–	–	–	–	–
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	8	–	1	1	10	15	10	2	(7)	20
Write-offs	–	–	(2)	–	(2)	–	–	(1)	–	(1)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	1	–	1	–	–	–	–	–
Foreign exchange movements and other	(2)	–	(1)	2	(1)	1	–	3	(3)	1
Balance at end	66	28	30	(45)	79	57	22	29	(62)	46
Includes:										
Amounts drawn	66	28	30	(45)	79	57	22	29	(62)	46
Undrawn commitments[5]	–	–	–	–	–	–	–	–	–	–
Personal										
Balance at beginning	80	138	69	(6)	281	60	104	73	(6)	231
Originations or purchases	8	–	–	–	8	10	–	–	–	10
Transfers[2]:										
to Stage 1	15	(13)	(2)	–	–	12	(11)	(1)	–	–
to Stage 2	(3)	3	–	–	–	(6)	7	(1)	–	–
to Stage 3	–	(8)	8	–	–	(1)	(15)	16	–	–
Net remeasurement of loss allowances[3]	(21)	10	4	1	(6)	(1)	68	18	–	85
Derecognitions[4]	(3)	(3)	(1)	–	(7)	(2)	(2)	(1)	–	(5)
Changes to models	–	–	–	–	–	1	–	–	–	1
Provisions for credit losses	(4)	(11)	9	1	(5)	13	47	31	–	91
Write-offs	–	–	(20)	–	(20)	–	–	(33)	–	(33)
Disposals	(2)	(5)	–	–	(7)	–	–	–	–	–
Recoveries	–	–	5	–	5	–	–	6	–	6
Foreign exchange movements and other	(2)	(1)	–	–	(3)	1	2	–	(1)	2
Balance at end	72	121	63	(5)	251	74	153	77	(7)	297
Includes:										
Amounts drawn	70	118	63	(5)	246	72	150	77	(7)	292
Undrawn commitments[5]	2	3	–	–	5	2	3	–	–	5

(1) No POCI loans were acquired during the quarter ended April 30, 2021 (the total amount of undiscounted initially expected credit losses on the POCI loans acquired during the quarter ended April 30, 2020 was $46 million, and the expected credit losses reflected in the purchase price were discounted).
(2) Represent stage transfers deemed to have taken place at the beginning of the quarter in which the transfer occurred.
(3) Includes the net remeasurement of loss allowances (after transfers) attributable mainly to changes in volumes and in the credit quality of existing loans as well as to changes in risk parameters.
(4) Represent reversals to loss allowances arising from full loan repayments (excluding write-offs and disposals).
(5) The allowances for credit losses on undrawn commitments are reported in the *Other liabilities* item of the Consolidated Balance Sheet.

(unaudited) (millions of Canadian dollars)

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

	Quarter ended April 30, 2021					Quarter ended April 30, 2020				
	Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans			Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans		
	Stage 1	Stage 2	Stage 3	POCI[1]	Total	Stage 1	Stage 2	Stage 3	POCI[1]	Total
Credit card										
Balance at beginning	72	134	–	–	206	46	115	–	–	161
Originations or purchases	2	–	–	–	2	2	–	–	–	2
Transfers[2]:										
to Stage 1	21	(21)	–	–	–	21	(21)	–	–	–
to Stage 2	(4)	4	–	–	–	(5)	5	–	–	–
to Stage 3	–	(8)	8	–	–	–	(11)	11	–	–
Net remeasurement of loss allowances[3]	(22)	17	4	–	(1)	3	48	12	–	63
Derecognitions[4]	–	(1)	–	–	(1)	–	(1)	–	–	(1)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	(3)	(9)	12	–	–	21	20	23	–	64
Write-offs	–	–	(16)	–	(16)	–	–	(27)	–	(27)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	4	–	4	–	–	4	–	4
Foreign exchange movements and other	–	–	–	–	–	–	–	–	–	–
Balance at end	69	125	–	–	194	67	135	–	–	202
Includes:										
Amounts drawn	42	113	–	–	155	37	121	–	–	158
Undrawn commitments[5]	27	12	–	–	39	30	14	–	–	44
Business and government[6]										
Balance at beginning	209	302	257	–	768	88	109	143	–	340
Originations or purchases	25	–	–	–	25	25	–	–	–	25
Transfers[2]:										
to Stage 1	15	(15)	–	–	–	2	(1)	(1)	–	–
to Stage 2	(6)	7	(1)	–	–	(15)	16	(1)	–	–
to Stage 3	–	(11)	11	–	–	–	(12)	12	–	–
Net remeasurement of loss allowances[3]	(50)	14	34	–	(2)	125	104	54	–	283
Derecognitions[4]	(8)	(8)	(1)	–	(17)	(3)	(2)	–	–	(5)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	(24)	(13)	43	–	6	134	105	64	–	303
Write-offs	–	–	(10)	–	(10)	–	–	(13)	–	(13)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	1	–	1	–	–	–	–	–
Foreign exchange movements and other	–	–	(2)	–	(2)	(2)	(1)	2	–	(1)
Balance at end	185	289	289	–	763	220	213	196	–	629
Includes:										
Amounts drawn	116	229	289	–	634	153	189	195	–	537
Undrawn commitments[5]	69	60	–	–	129	67	24	1	–	92
Total allowances for credit losses at end[7]	392	563	382	(50)	1,287	418	523	302	(69)	1,174
Includes:										
Amounts drawn	294	488	382	(50)	1,114	319	482	301	(69)	1,033
Undrawn commitments[5]	98	75	–	–	173	99	41	1	–	141

(1) No POCI loans were acquired during the quarter ended April 30, 2021 (the total amount of undiscounted initially expected credit losses on the POCI loans acquired during the quarter ended April 30, 2020 was $46 million, and the expected credit losses reflected in the purchase price were discounted).
(2) Represent stage transfers deemed to have taken place at the beginning of the quarter in which the transfer occurred.
(3) Includes the net remeasurement of loss allowances (after transfers) attributable mainly to changes in volumes and in the credit quality of existing loans as well as to changes in risk parameters.
(4) Represent reversals to loss allowances arising from full loan repayments (excluding write-offs and disposals).
(5) The allowances for credit losses on undrawn commitments are reported in the *Other liabilities* item of the Consolidated Balance Sheet.
(6) Includes customers' liability under acceptances.
(7) Excludes allowances for credit losses on other financial assets at amortized cost and on off-balance-sheet commitments other than undrawn commitments.

(unaudited) (millions of Canadian dollars)

	Six months ended April 30, 2021					Six months ended April 30, 2020				
	Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans			Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans		
	Stage 1	Stage 2	Stage 3	POCI[1]	Total	Stage 1	Stage 2	Stage 3	POCI[1]	Total
Residential mortgage										
Balance at beginning	63	23	35	(56)	65	37	12	25	(53)	21
Originations or purchases	5	–	–	–	5	4	–	–	–	4
Transfers[2]:										
to Stage 1	12	(7)	(5)	–	–	7	(5)	(2)	–	–
to Stage 2	(2)	2	–	–	–	(2)	2	–	–	–
to Stage 3	–	(1)	1	–	–	–	(2)	2	–	–
Net remeasurement of loss allowances[3]	(7)	12	3	7	15	9	16	5	(6)	24
Derecognitions[4]	(1)	(1)	–	–	(2)	–	(1)	–	–	(1)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	7	5	(1)	7	18	18	10	5	(6)	27
Write-offs	–	–	(3)	–	(3)	–	–	(3)	–	(3)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	2	–	2	–	–	–	–	–
Foreign exchange movements and other	(4)	–	(3)	4	(3)	2	–	2	(3)	1
Balance at end	66	28	30	(45)	79	57	22	29	(62)	46
Includes:										
Amounts drawn	66	28	30	(45)	79	57	22	29	(62)	46
Undrawn commitments[5]	–	–	–	–	–	–	–	–	–	–
Personal										
Balance at beginning	89	148	76	(10)	303	65	104	69	(4)	234
Originations or purchases	16	–	–	–	16	21	–	–	–	21
Transfers[2]:										
to Stage 1	41	(36)	(5)	–	–	35	(32)	(3)	–	–
to Stage 2	(6)	7	(1)	–	–	(11)	13	(2)	–	–
to Stage 3	–	(16)	16	–	–	(3)	(32)	35	–	–
Net remeasurement of loss allowances[3]	(51)	33	13	5	–	(31)	103	36	(2)	106
Derecognitions[4]	(6)	(7)	(1)	–	(14)	(4)	(5)	(2)	–	(11)
Changes to models	–	–	–	–	–	1	–	–	–	1
Provisions for credit losses	(6)	(19)	22	5	2	8	47	64	(2)	117
Write-offs	–	–	(44)	–	(44)	–	–	(68)	–	(68)
Disposals	(8)	(6)	–	–	(14)	–	–	–	–	–
Recoveries	–	–	10	–	10	–	–	13	–	13
Foreign exchange movements and other	(3)	(2)	(1)	–	(6)	1	2	(1)	(1)	1
Balance at end	72	121	63	(5)	251	74	153	77	(7)	297
Includes:										
Amounts drawn	70	118	63	(5)	246	72	150	77	(7)	292
Undrawn commitments[5]	2	3	–	–	5	2	3	–	–	5

(1) No POCI loans were acquired during the six-month period ended April 30, 2021 (the total amount of undiscounted initially expected credit losses on the POCI loans acquired during the six months ended April 30, 2020 was $46 million, and the expected credit losses reflected in the purchase price were discounted).
(2) Represent stage transfers deemed to have taken place at the beginning of the quarter in which the transfer occurred.
(3) Includes the net remeasurement of loss allowances (after transfers) attributable mainly to changes in volumes and in the credit quality of existing loans as well as to changes in risk parameters.
(4) Represent reversals to loss allowances arising from full loan repayments (excluding write-offs and disposals).
(5) The allowances for credit losses on undrawn commitments are reported in the *Other liabilities* item of the Consolidated Balance Sheet.

(unaudited) (millions of Canadian dollars)

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

	Six months ended April 30, 2021					Six months ended April 30, 2020				
	Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans			Allowances for credit losses on non-impaired loans		Allowances for credit losses on impaired loans		
	Stage 1	Stage 2	Stage 3	POCI[1]	Total	Stage 1	Stage 2	Stage 3	POCI[1]	Total
Credit card										
Balance at beginning	68	137	–	–	205	47	113	–	–	160
Originations or purchases	4	–	–	–	4	4	–	–	–	4
Transfers[2]:										
to Stage 1	50	(50)	–	–	–	46	(46)	–	–	–
to Stage 2	(7)	7	–	–	–	(9)	9	–	–	–
to Stage 3	–	(15)	15	–	–	–	(21)	21	–	–
Net remeasurement of loss allowances[3]	(45)	47	7	–	9	(20)	81	26	–	87
Derecognitions[4]	(1)	(1)	–	–	(2)	(1)	(1)	–	–	(2)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	1	(12)	22	–	11	20	22	47	–	89
Write-offs	–	–	(31)	–	(31)	–	–	(54)	–	(54)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	9	–	9	–	–	7	–	7
Foreign exchange movements and other	–	–	–	–	–	–	–	–	–	–
Balance at end	69	125	–	–	194	67	135	–	–	202
Includes:										
Amounts drawn	42	113	–	–	155	37	121	–	–	158
Undrawn commitments[5]	27	12	–	–	39	30	14	–	–	44
Business and government[6]										
Balance at beginning	214	287	241	–	742	83	105	141	–	329
Originations or purchases	54	–	–	–	54	32	–	–	–	32
Transfers[2]:										
to Stage 1	21	(20)	(1)	–	–	6	(3)	(3)	–	–
to Stage 2	(30)	32	(2)	–	–	(16)	19	(3)	–	–
to Stage 3	–	(16)	16	–	–	–	(21)	21	–	–
Net remeasurement of loss allowances[3]	(60)	20	78	–	38	123	118	74	–	315
Derecognitions[4]	(14)	(13)	(4)	–	(31)	(6)	(4)	(3)	–	(13)
Changes to models	–	–	–	–	–	–	–	–	–	–
Provisions for credit losses	(29)	3	87	–	61	139	109	86	–	334
Write-offs	–	–	(37)	–	(37)	–	–	(34)	–	(34)
Disposals	–	–	–	–	–	–	–	–	–	–
Recoveries	–	–	2	–	2	–	–	1	–	1
Foreign exchange movements and other	–	(1)	(4)	–	(5)	(2)	(1)	2	–	(1)
Balance at end	185	289	289	–	763	220	213	196	–	629
Includes:										
Amounts drawn	116	229	289	–	634	153	189	195	–	537
Undrawn commitments[5]	69	60	–	–	129	67	24	1	–	92
Total allowances for credit losses at end[7]	392	563	382	(50)	1,287	418	523	302	(69)	1,174
Includes:										
Amounts drawn	294	488	382	(50)	1,114	319	482	301	(69)	1,033
Undrawn commitments[5]	98	75	–	–	173	99	41	1	–	141

(1) No POCI loans were acquired during the six-month period ended April 30, 2021 (the total amount of undiscounted initially expected credit losses on the POCI loans acquired during the six months ended April 30, 2020 was $46 million, and the expected credit losses reflected in the purchase price were discounted).
(2) Represent stage transfers deemed to have taken place at the beginning of the quarter in which the transfer occurred.
(3) Includes the net remeasurement of loss allowances (after transfers) attributable mainly to changes in volumes and in the credit quality of existing loans as well as to changes in risk parameters.
(4) Represent reversals to loss allowances arising from full loan repayments (excluding write-offs and disposals).
(5) The allowances for credit losses on undrawn commitments are reported in the *Other liabilities* item of the Consolidated Balance Sheet.
(6) Includes customers' liability under acceptances.
(7) Excludes allowances for credit losses on other financial assets at amortized cost and on off-balance-sheet commitments other than undrawn commitments.

(unaudited) (millions of Canadian dollars)

Main Macroeconomic Factors

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

						As at April 30, 2021
		Base scenario		Upside scenario		Downside scenario
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Macroeconomic factors(1)						
GDP growth(2)	4.6 %	2.1 %	6.5 %	2.4 %	(5.9) %	4.2 %
Unemployment rate	7.8 %	6.6 %	7.5 %	6.0 %	11.2 %	9.2 %
Housing price index growth(2)	3.2 %	1.0 %	5.2 %	2.7 %	(11.5) %	1.2 %
BBB spread(3)	1.6 %	1.8 %	1.5 %	1.6 %	3.0 %	2.1 %
S&P/TSX growth(2)(4)	7.6 %	2.2 %	9.5 %	3.2 %	(17.0) %	5.5 %
WTI oil price(5) *(US$ per barrel)*	64	60	68	70	34	34

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

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

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

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

During the six-month period ended April 30, 2021, the macroeconomic outlook generally improved.

According to the base scenario, the Canadian economy will continue to recover as vaccines allow for a gradual easing of health measures. The labour market will continue to bounce back, and the unemployment rate will stand at 7.2% after 12 months but remain above its pre-recession level (5.7%). The increase in housing prices will slow to 3.2% year over year. The S&P/TSX will stand at 19,500 points after one year, with oil at US$65.

According to the upside scenario, the economy will rebound more strongly as a result of rapid and effective vaccination campaigns, particularly against variants. Highly accommodative fiscal and monetary stimulus measures will limit the damage arising from destroyed production capacity. The unemployment rate one year after the scenario will be more favourable than the base scenario (5 tenths lower). Housing prices will climb 5.2% and the S&P/TSX will stand at 19,900 points after one year, with the price of oil at US$70.

According to the downside scenario, vaccines will prove to be ineffective against certain variants and the winding down of fiscal stimulus will adversely affect the economy sparking increased stress in the financial markets. This will cause the economy to tumble again and slip back into recession. The unemployment rate will therefore trend upward to 12% after 12 months. Housing prices will decrease considerably. The S&P/TSX will stand at 15,100 points after one year, with the price of oil at US$24.

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

(unaudited) (millions of Canadian dollars)

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

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

Scenarios
The following table shows a comparison of the Bank's allowances for credit losses on non-impaired loans (Stages 1 and 2) as at April 30, 2021 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

	Allowances for credit losses on non-impaired loans
Balance as at April 30, 2021	**955**
Simulations	
100% upside scenario	**744**
100% base scenario	**857**
100% downside scenario	**1,180**

Note 8 – Financial Assets Transferred But Not Derecognized

In the normal course of its business, the Bank enters into transactions in which it transfers financial assets such as securities or loans directly to third parties, in particular structured entities. According to the terms of some of those transactions, the Bank retains substantially all of the risks and rewards related to those financial assets. The risks include credit risk, interest rate risk, foreign exchange risk, prepayment risk and other price risks, whereas the rewards include income streams associated with the financial assets. As such, those financial assets are not derecognized and the transactions are treated as collateralized or secured borrowings. For additional information on the nature of those transactions, see Note 8 to the audited annual consolidated financial statements for the year ended October 31, 2020.

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

	As at April 30, 2021	As at October 31, 2020
Carrying value of financial assets transferred but not derecognized		
Securities[1]	**69,425**	61,599
Residential mortgages	**21,836**	20,731
	91,261	82,330
Carrying value of associated liabilities[2]	**48,282**	45,781
Fair value of financial assets transferred but not derecognized		
Securities[1]	**69,425**	61,599
Residential mortgages	**22,081**	21,252
	91,506	82,851
Fair value of associated liabilities[2]	**48,427**	46,120

(1) The amount related to the securities loaned is the maximum amount of Bank securities that can be lent. For the obligations related to securities sold under repurchase agreements, the amount includes the Bank's own financial assets as well as those of third parties and excludes bearer deposit notes issued by the Bank and covered bonds issued by the Bank.
(2) Associated liabilities include liabilities related to transferred receivables and obligations related to securities sold under repurchase agreements before the offsetting impact of $1,953 million as at April 30, 2021 ($959 million as at October 31, 2020) excluding repurchase agreements guaranteed by bearer deposit notes issued by the Bank and covered bonds issued by the Bank. Liabilities related to securities loaned are not included, as the Bank can lend its own financial assets and those of third parties. The carrying value and fair value of liabilities related to securities loaned were $9,509 million before the offsetting impact of $4,281 million as at April 30, 2021 ($6,327 million before a negligible offsetting impact as at October 31, 2020).

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

	As at April 30, 2021	As at October 31, 2020
Carrying value of financial assets transferred but not derecognized		
Securities backed by insured residential mortgage loans and other securities sold to Canada Housing Trust	**23,613**	21,211
Securities sold under repurchase agreements	**25,949**	25,442
Securities loaned	**41,699**	35,677
	91,261	82,330

(unaudited) (millions of Canadian dollars)

Note 9 – Other Assets

	As at April 30, 2021	As at October 31, 2020
Receivables, prepaid expenses and other items	1,123	946
Interest and dividends receivable	626	567
Due from clients, dealers and brokers	578	586
Defined benefit asset	448	126
Deferred tax assets	559	643
Current tax assets	369	360
Reinsurance assets	30	30
Insurance assets	24	8
	3,757	3,266

Note 10 – Deposits

	As at April 30, 2021				As at October 31, 2020
	On demand(1)	After notice(2)	Fixed term(3)	Total	Total
Personal	5,509	33,984	29,014	68,507	67,499
Business and government	53,016	29,205	75,716	157,937	143,787
Deposit-taking institutions	2,300	562	2,014	4,876	4,592
	60,825	63,751	106,744	231,320	215,878

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

The *Deposits – Business and government* item includes, among other items, covered bonds, the balance of which was $8.5 billion as at April 30, 2021 ($10.1 billion as at October 31, 2020). During the six months ended April 30, 2021, amounts of US$270 million and 1.0 billion euros of covered bonds came to maturity, and the Bank issued 500 million euros in covered bonds (US$200 million in covered bonds issued during the six-month period ended April 30, 2020). For additional information on covered bonds, see Note 27 to the audited annual consolidated financial statements for the year ended October 31, 2020.

In addition, as at April 30, 2021, the *Deposits – Business and government* item also includes deposits of $9.7 billion ($8.4 billion as at October 31, 2020) that are subject to the bank bail-in conversion regulations issued by the Government of Canada. These regulations provide certain powers to the Canada Deposit Insurance Corporation (CDIC), notably the power to convert certain eligible Bank shares and liabilities into common shares should the Bank become non-viable.

Note 11 – Other Liabilities

	As at April 30, 2021	As at October 31, 2020
Accounts payable and accrued expenses	1,821	1,993
Subsidiaries' debts to third parties	460	386
Interest and dividends payable	534	621
Lease liabilities	589	628
Due to clients, dealers and brokers	608	652
Defined benefit liability	139	201
Allowances for credit losses – off-balance-sheet commitments (Note 7)	188	176
Deferred tax liabilities	19	–
Current tax liabilities	262	121
Insurance liabilities	6	–
Other items(1)(2)(3)	728	940
	5,354	5,718

(1) As at April 30, 2021, *Other* items included an $8 million litigation provision ($7 million as at October 31, 2020).
(2) As at April 30, 2021, *Other* items included $33 million in provisions for onerous contracts ($33 million as at October 31, 2020).
(3) As at October 31, 2020, *Other* items had included the financial liability resulting from put options written to non-controlling interests of Credigy Ltd. who exercised their options on December 15, 2020. For more information, see Note 19 to these consolidated financial statements.

(unaudited) (millions of Canadian dollars)

Note 12 – Share Capital and Other Equity Instruments

Issuances of Other Equity Instruments

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

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

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

Shares and Other Equity Instruments Outstanding

	As at April 30, 2021		As at October 31, 2020	
	Number of shares or LRCN	Shares or LRCN $	Number of shares or LRCN	Shares or LRCN $
First Preferred Shares				
Series 30	14,000,000	350	14,000,000	350
Series 32	12,000,000	300	12,000,000	300
Series 34	16,000,000	400	16,000,000	400
Series 36	16,000,000	400	16,000,000	400
Series 38	16,000,000	400	16,000,000	400
Series 40	12,000,000	300	12,000,000	300
Series 42	12,000,000	300	12,000,000	300
	98,000,000	2,450	98,000,000	2,450
Other equity instruments				
LRCN – Series 1	500,000	500	500,000	500
LRCN – Series 2	500,000	500	–	–
Preferred shares and other equity instruments	99,000,000	3,450	98,500,000	2,950
Common shares at beginning of fiscal year	335,997,660	3,057	334,172,411	2,949
Issued pursuant to the Stock Option Plan	1,393,587	73	2,318,926	111
Repurchases of common shares for cancellation	–	–	(525,000)	(5)
Impact of shares purchased or sold for trading(1)	(18,960)	(1)	31,323	2
Common shares at end of period	337,372,287	3,129	335,997,660	3,057

(1) As at April 30, 2021, a total of 8,517 shares were sold short for trading, representing an amount of $1 million (27,477 shares were sold short for trading representing $2 million as at October 31, 2020).

Dividends Declared and Distributions on Other Equity Instruments

	Six months ended April 30			
		2021		2020
	Dividends or interest $	Dividends per share	Dividends $	Dividends per share
First Preferred Shares				
Series 30	7	0.5031	7	0.5031
Series 32	6	0.4799	6	0.4837
Series 34	11	0.7000	11	0.7000
Series 36	11	0.6750	11	0.6750
Series 38	9	0.5563	9	0.5563
Series 40	7	0.5750	7	0.5750
Series 42	7	0.6188	7	0.6188
	58		58	
Other equity instruments				
LRCN – Series 1[(1)]	10			
LRCN – Series 2[(2)]	1			
	69		58	
Common shares	479	1.4200	476	1.4200
	548		534	

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

Reserved Common Shares

As at April 30, 2021, there were 15,507,568 common shares reserved under the Dividend Reinvestment and Share Purchase Plan (15,507,568 as at October 31, 2020). As at April 30, 2021, there were 23,472,118 common shares (17,365,705 as at October 31, 2020) reserved under the Stock Option Plan.

Common Shares Held in Escrow

As part of the acquisition of Wellington West Holdings Inc. in 2011, the Bank had issued common shares held in escrow. As at April 30, 2021, the number of common shares held in escrow was 21,510 (21,510 as at October 31, 2020). The Bank expects that the remaining shares in escrow will be settled by the end of calendar year 2021.

Note 13 – Earnings Per Share

Diluted earnings per share is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding after taking into account the dilution effect of stock options using the treasury stock method and any gain (loss) on the redemption of preferred shares.

	Quarter ended April 30		Six months ended April 30	
	2021	2020	2021	2020
Basic earnings per share				
Net income attributable to the Bank's shareholders and holders of other equity instruments	801	368	1,562	962
Dividends on preferred shares and distributions on LRCNs	33	29	66	58
Net income attributable to common shareholders	768	339	1,496	904
Weighted average basic number of common shares outstanding *(thousands)*	337,142	335,603	336,769	335,309
Basic earnings per share *(dollars)*	2.28	1.01	4.44	2.70
Diluted earnings per share				
Net income attributable to common shareholders	768	339	1,496	904
Weighted average basic number of common shares outstanding *(thousands)*	337,142	335,603	336,769	335,309
Adjustment to average number of common shares *(thousands)*				
Stock options[(1)]	3,472	1,714	2,869	2,378
Weighted average diluted number of common shares outstanding *(thousands)*	340,614	337,317	339,638	337,687
Diluted earnings per share *(dollars)*	2.25	1.01	4.40	2.68

(1) For the quarter and six-month period ended April 30, 2021, as the exercise price of the options was lower than the average price of the Bank's common shares, no options were excluded from the earnings per share calculation. For the quarter ended April 30, 2020, the calculation of diluted earnings per share had excluded an average number of 3,387,777 options outstanding with a weighted average exercise price of $68.17, as the exercise price of these options was greater than the average price of the Bank's common shares. For the six months ended April 30, 2020, the calculation of diluted earnings per share had excluded an average number of 1,403,880 options outstanding with a weighted average exercise price of $71.86.

(unaudited) (millions of Canadian dollars)

Note 14 – Capital Disclosure

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

During the quarter and six-month period ended April 30, 2021, the Bank was in compliance with all of OSFI's regulatory capital requirements.

Regulatory Capital and Ratios Under Basel III

	As at April 30, 2021		As at October 31, 2020	
	Adjusted[1]		Adjusted[1]	
Capital				
CET1	**11,853**	**11,997**	10,924	11,167
Tier 1[2]	**14,898**	**15,042**	13,869	14,112
Total[2]	**16,153**	**16,153**	15,167	15,167
Risk-weighted assets	**98,705**	**98,705**	94,808	94,808
Total exposure	**339,738**	**339,738**	321,038	321,038
Capital ratios				
CET1	**12.0 %**	**12.2 %**	11.5 %	11.8 %
Tier 1[2]	**15.1 %**	**15.2 %**	14.6 %	14.9 %
Total[2]	**16.4 %**	**16.4 %**	16.0 %	16.0 %
Leverage ratio	**4.4 %**	**4.4 %**	4.3 %	4.4 %

(1) The adjusted Basel III regulatory capital and ratios do not include the transitional measure applicable to expected credit loss provisioning. For additional information, see the section entitled COVID-19 Pandemic – Key Measures Introduced by the Regulatory Authorities on pages 20 and 21 of the *2020 Annual Report*.
(2) Figures as at April 30, 2021 include the redemption of the Series 34 First Preferred Shares on May 15, 2021. For additional information on this redemption, see Note 20 to these consolidated financial statements.

Note 15 – Share-Based Payments

Stock Option Plan
During the quarters ended April 30, 2021 and 2020, the Bank did not award any stock options. During the six months ended April 30, 2021, the Bank awarded 2,043,196 stock options (1,789,280 stock options during the six months ended April 30, 2020) with an average fair value of $8.24 per option ($5.11 in 2020).

As at April 30, 2021, there were 11,943,625 stock options outstanding (11,425,403 stock options as at October 31, 2020).

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

	Six months ended April 30	
	2021	2020
Risk-free interest rate	**1.02%**	1.94%
Expected life of options	**7 years**	7 years
Expected volatility	**22.59%**	14.97%
Expected dividend yield	**4.24%**	4.29%

During the quarter ended April 30, 2021, a $2 million compensation expense was recorded for this plan ($3 million for the quarter ended April 30, 2020). During the six-month period ended April 30, 2021, a $5 million compensation expense was recorded for this plan ($5 million for the six-month period ended April 30, 2020).

(unaudited) (millions of Canadian dollars)

Note 16 – Employee Benefits – Pension Plans and Other Post-Employment Benefits

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

Cost for Pension Plans and Other Post-Employment Benefit Plans

				Quarter ended April 30
		Pension plans		Other post-employment benefit plans
	2021	2020	**2021**	2020
Current service cost	**37**	31	**–**	1
Interest expense (income), net	**–**	2	**1**	1
Administrative expenses	**1**	1		
Expense recognized in *Net income*	**38**	34	**1**	2
Remeasurements(1)				
Actuarial (gains) losses on defined benefit obligation	**(442)**	(332)	**(13)**	(9)
Return on plan assets(2)	**262**	(92)		
Remeasurements recognized in *Other comprehensive income*	**(180)**	(424)	**(13)**	(9)
	(142)	(390)	**(12)**	(7)

				Six months ended April 30
		Pension plans		Other post-employment benefit plans
	2021	2020	**2021**	2020
Current service cost	**73**	63	**–**	1
Interest expense (income), net	**–**	4	**2**	2
Administrative expenses	**2**	2		
Expense recognized in *Net income*	**75**	69	**2**	3
Remeasurements(1)				
Actuarial (gains) losses on defined benefit obligation	**(482)**	(42)	**(14)**	(1)
Return on plan assets(2)	**124**	(305)		
Remeasurements recognized in *Other comprehensive income*	**(358)**	(347)	**(14)**	(1)
	(283)	(278)	**(12)**	2

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

Note 17 – Contingent Liabilities

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

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

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

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

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

Note 18 – Segment Disclosures

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

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

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

Financial Markets
The Financial Markets segment encompasses corporate banking and investment banking and financial solutions for large and mid-size corporations, public sector organizations, and institutional investors.

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

Other
This heading encompasses treasury activities, liquidity management, Bank funding, asset/liability management activities, certain specified items and the unallocated portion of corporate units.

(unaudited) (millions of Canadian dollars)

Quarter ended April 30[1]

	Personal and Commercial		Wealth Management		Financial Markets		USSF&I		Other		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Net interest income[2]	**628**	607	**111**	110	**291**	265	**215**	206	**(89)**	(83)	**1,156**	1,105
Non-interest income[2]	**274**	239	**430**	365	**276**	333	**22**	(23)	**80**	17	**1,082**	931
Total revenues	**902**	846	**541**	475	**567**	598	**237**	183	**(9)**	(66)	**2,238**	2,036
Non-interest expenses	**479**	469	**315**	280	**225**	220	**77**	82	**103**	70	**1,199**	1,121
Income before provisions for credit losses and income taxes	**423**	377	**226**	195	**342**	378	**160**	101	**(112)**	(136)	**1,039**	915
Provisions for credit losses	**(14)**	301	**2**	4	**18**	162	**(1)**	32	**–**	5	**5**	504
Income before income taxes (recovery)	**437**	76	**224**	191	**324**	216	**161**	69	**(112)**	(141)	**1,034**	411
Income taxes (recovery)[2]	**116**	20	**59**	50	**86**	57	**32**	(5)	**(60)**	(90)	**233**	32
Net income	**321**	56	**165**	141	**238**	159	**129**	74	**(52)**	(51)	**801**	379
Non-controlling interests	**–**	–	**–**	–	**–**	–	**–**	4	**–**	7	**–**	11
Net income attributable to the Bank's shareholders and holders of other equity instruments	**321**	56	**165**	141	**238**	159	**129**	70	**(52)**	(58)	**801**	368
Average assets	**124,869**	117,050	**6,976**	5,984	**146,987**	120,474	**15,894**	14,715	**66,219**	54,565	**360,945**	312,788

Six months ended April 30[1]

	Personal and Commercial		Wealth Management		Financial Markets		USSF&I		Other		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Net interest income[3]	**1,266**	1,218	**221**	229	**618**	385	**434**	387	**(176)**	(184)	**2,363**	2,035
Non-interest income[3]	**538**	507	**839**	712	**526**	671	**77**	(9)	**119**	43	**2,099**	1,924
Total revenues	**1,804**	1,725	**1,060**	941	**1,144**	1,056	**511**	378	**(57)**	(141)	**4,462**	3,959
Non-interest expenses[4]	**969**	948	**618**	565	**453**	420	**160**	160	**179**	119	**2,379**	2,212
Income before provisions for credit losses and income taxes	**835**	777	**442**	376	**691**	636	**351**	218	**(236)**	(260)	**2,083**	1,747
Provisions for credit losses	**42**	371	**–**	4	**27**	171	**17**	42	**–**	5	**86**	593
Income before income taxes (recovery)	**793**	406	**442**	372	**664**	465	**334**	176	**(236)**	(265)	**1,997**	1,154
Income taxes (recovery)[3]	**210**	108	**117**	98	**176**	123	**69**	17	**(137)**	(181)	**435**	165
Net income	**583**	298	**325**	274	**488**	342	**265**	159	**(99)**	(84)	**1,562**	989
Non-controlling interests	**–**	–	**–**	–	**–**	–	**–**	13	**–**	14	**–**	27
Net income attributable to the Bank's shareholders and holders of other equity instruments	**583**	298	**325**	274	**488**	342	**265**	146	**(99)**	(98)	**1,562**	962
Average assets	**123,348**	116,492	**6,734**	5,963	**149,127**	121,049	**15,717**	13,592	**64,579**	49,991	**359,505**	307,087

(1) For the quarter and six-month period ended April 30, 2020, certain amounts have been reclassified.
(2) The *Net interest income, Non-interest income and Income taxes (recovery)* items of the business segments are presented on a taxable equivalent basis. Taxable equivalent basis is a calculation method that consists of grossing up certain tax-exempt income by the amount of income tax that would have been otherwise payable. For the business segments as a whole, *Net interest income* was grossed up by $42 million ($56 million in 2020), *Non-interest income* was grossed up by $2 million ($20 million in 2020), and an equivalent amount was recognized in *Income taxes (recovery)*. The effect of these adjustments has been reversed under the *Other* heading.
(3) For the six-month period ended April 30, 2021, *Net interest income* was grossed up by $96 million ($113 million in 2020), *Non-interest income* was grossed up by $5 million ($50 million in 2020), and an equivalent amount was recognized in *Income taxes (recovery)*. The effect of these adjustments has been reversed under the *Other* heading.
(4) For the six months ended April 30, 2020, for the *Other* heading of segment results, the *Non-interest expenses* item included a $13 million charge related to Maple.

Note 19 – Acquisition

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

Note 20 – Event After the Consolidated Balance Sheet Date

Redemption of Preferred Shares

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

Information for Shareholders and Investors

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

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

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

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

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

Disclosure of Second Quarter 2021 Results

Conference Call
- A conference call for analysts and institutional investors will be held on Friday, May 28, 2021 at 11:00 a.m. EDT.
- Access by telephone in listen-only mode: 1-800-898-3989 or 416-406-0743. The access code is 1995846#.
- A recording of the conference call can be heard until June 25, 2021 by dialing 1-800-408-3053 or 905-694-9451. The access code is 1381684#.

Webcast
- The conference call will be webcast live at nbc.ca/investorrelations.
- A recording of the webcast will also be available on National Bank's website after the call.

Financial Documents
- The *Report to Shareholders* (which includes the quarterly consolidated financial statements) is available at all times on National Bank's website at nbc.ca/investorrelations.
- The *Report to Shareholders*, the *Supplementary Financial Information*, the *Supplementary Regulatory Capital and Pillar 3 Disclosure*, and a slide presentation will be available on the Investor Relations page of National Bank's website on the morning of the day of the conference call.

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

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

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

Direct Deposit Service for Dividends
Shareholders may elect to have their dividend payments deposited directly via electronic funds transfer to their bank account at any financial institution that is a member of the Canadian Payments Association. To do so, they must send a written request to the transfer agent, Computershare Trust Company of Canada.

Dividend Reinvestment and Share Purchase Plan
National Bank has a Dividend Reinvestment and Share Purchase Plan for Canadian holders of its common and preferred shares under which they can acquire common shares of the Bank without paying commissions or administration fees. Canadian participants acquire common shares through the reinvestment of cash dividends paid on the shares they hold or through optional cash payments of at least $1 per payment, up to a maximum of $5,000 per quarter.

For additional information, shareholders may contact National Bank's registrar and transfer agent, Computershare Trust Company of Canada, at 1-888-838-1407. To participate in the plan, National Bank's beneficial or non-registered common shareholders must contact their financial institution or broker.

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

NATIONAL BANK