

## REPORT TO SHAREHOLDERS

National Bank releases its results for the third quarter of 2011

### Highlights:

- Net income of \$312 million in the third quarter of 2011, up 15% from \$271 million in net income for the same quarter of 2010;
- Diluted earnings per share of \$1.84 for the third quarter of 2011, up 18% from \$1.56 for the same quarter of 2010;
- Finalization of the acquisition of Wellington West Holdings Inc. on July 15, 2011;
- Return on equity of 18.7%;
- Pro forma Core Tier 1 capital ratio under Basel III of 8.0% as at July 31, 2011.

(1) The financial reporting method is explained in detail on page 3.

**MONTREAL, August 25, 2011** – National Bank reports net income of \$312 million in the third quarter of fiscal 2011, up 15% from \$271 million in the third quarter of 2010. Diluted earnings per share for the quarter ended July 31, 2011 stood at \$1.84, up \$0.28 or 18% from \$1.56 in the same quarter of 2010. Excluding the specified items described on page 3, third quarter net income was \$293 million, up 7% from \$273 million in the same quarter of 2010, and third quarter diluted earnings per share stood at \$1.72, up 10% from \$1.57 in the same quarter of 2010.

The Bank's net income for the first nine months of fiscal 2011 totalled \$919 million, up 23% from \$747 million in the same period of 2010. Diluted earnings per share stood at \$5.12 for the first nine months of 2011, up \$0.84 or 20% from \$4.28 in the same period of 2010. Excluding specified items, nine-month net income was \$900 million, up 12% from \$802 million in the same period of 2010, and nine-month diluted earnings per share stood at \$5.21, up 13% from \$4.62 in the same period in 2010.

### Highlights excluding specified items<sup>(1)</sup>:

- Net income of \$293 million in the third quarter of 2011, up 7% from net income of \$273 million in the same period of 2010;
- Diluted earnings per share of \$1.72 for the third quarter of 2011, up 10% from \$1.57 in the same quarter of 2010;
- Return on equity of 17.5%.

“For its third quarter results, National Bank’s Personal and Commercial Banking, Financial Markets and Wealth Management segments delivered earnings growth. In this period of global economic uncertainties, the Bank should benefit from its strong capital position and sound credit portfolio. Therefore, the Bank intends to pursue the growth objectives of the *One client, one bank* plan,” said President and Chief Executive Officer, Louis Vachon.

### Financial Indicators

Financial Indicators	Results	Results	Results	Results
	Q3 2011	excluding specified items <sup>(1)</sup>	Nine months 2011	excluding specified items <sup>(1)</sup>
Growth in diluted earnings per share	18 %	10 %	20 %	13 %
Return on common shareholders' equity	18.7 %	17.5 %	17.9 %	18.2 %
Tier 1 capital ratio under Basel II	13.9 %	13.9 %	13.9 %	13.9 %
Pro forma Core Tier 1 capital ratio under Basel III	8.0 %	8.0 %	8.0 %	8.0 %
Dividend payout ratio	39 %	38 %	39 %	38 %

(1) See "Financial Reporting Method" on page 3.

## Personal and Commercial

- Third quarter net income was \$168 million, up 6% from \$159 million in the third quarter of 2010.
- At \$645 million in the third quarter of 2011, total revenues experienced steady growth, rising \$19 million or 3% year-over-year.
- Personal and commercial loan volumes experienced sustained growth, rising 11% and 10%, respectively, with the strongest increases coming from consumer loans and mortgage loans.
- The net interest margin was 2.34% in the third quarter of 2011 versus 2.46% in the same quarter of 2010. Quarter-over-quarter, net interest margin was down 4 basis points.
- The quality of the loan portfolio was maintained, as the segment's provisions for credit losses, at \$44 million for the quarter, were down \$1 million from the third quarter of 2010.

## Wealth Management

- Third quarter net income was \$37 million, up 28% from \$29 million in the third quarter of 2010.
- Total revenues amounted to \$208 million in the third quarter versus \$188 million in the same quarter of 2010, an 11% increase owing mainly to net interest income, robust brokerage activities and mutual fund revenues.
- The acquisition of Wellington West Holdings Inc., which has assets under administration of over \$10 billion, was finalized.

## Financial Markets

- Third quarter net income was \$101 million, up 7% from \$94 million in the same quarter of 2010.
- Revenues grew by \$18 million or 6%, mainly due to trading activity revenues related to equity securities, which were up 43%, and to banking service revenues, which were up 8%.
- Excluding the specified items that were recognized for the acquisition of Wellington West Holdings Inc., operating expenses rose \$7 million, amounting to \$179 million for the third quarter of 2011, mainly due to greater business activity at the Credigy Ltd. subsidiary.
- There were no credit losses in the third quarter of 2011 compared to \$4 million in recoveries in the same period of 2010.

## Other

- Third quarter net income was \$6 million versus a net loss of \$11 million in the same quarter of 2010.
- Revenues from securitization activities grew in the third quarter of 2011; this growth was tempered by gains on the disposal of equity securities that had been recorded in the same quarter of 2010.
- Operating expenses remained stable.
- \$11 million, net of income taxes, in allowances for credit losses taken for loans and credit facilities secured by restructured notes of the MAV conduits was reversed.
- Income taxes were reduced by \$21 million given a reversal of provisions for income tax contingencies.

## Capital Management

- The issuance of common shares related to the acquisition of Wellington West Holdings Inc. was more than offset by the repurchase of common shares for cancellation.
- The Tier 1 capital ratio and the total capital ratio were 13.9% and 17.2%, respectively, as at July 31, 2011 versus 14.0% and 17.5%, respectively, as at October 31, 2010.
- The pro forma Core Tier 1 capital ratio under Basel III was 8.0%.

# FINANCIAL REPORTING METHOD

The Bank uses certain measurements that are not in accordance with generally accepted accounting principles (GAAP) to assess results. Securities regulators require companies to caution readers that net income and other measurements adjusted using non-GAAP criteria are not standard under GAAP and cannot be easily compared with similar measurements used by other companies.

## Financial Information

(unaudited) (millions of dollars)

	Quarter ended			Nine months ended		
	July 31, 2011	July 31, 2010	% Change	July 31, 2011	July 31, 2010	% Change
<b>Excluding specified items</b>						
Personal and Commercial	168	159	6	474	431	10
Wealth Management	37	29	28	124	81	53
Financial Markets	106	94	13	389	358	9
Other	(18)	(9)		(87)	(68)	
<b>Net income excluding specified items</b>	<b>293</b>	<b>273</b>	<b>7</b>	<b>900</b>	<b>802</b>	<b>12</b>
Less: Severance pay <sup>(1)</sup>	(5)	-		(5)	-	
Less: Litigation provisions <sup>(2)</sup>	(8)	-		(8)	-	
Less: Holding charges for restructured notes of the MAV conduits <sup>(3)</sup>	-	(2)		-	(5)	
Less: Administrative penalty <sup>(4)</sup>	-	-		-	(75)	
Plus: Reversal of allowances for credit losses <sup>(5)</sup>	11	-		11	-	
Plus: Reversal of provisions for income tax contingencies <sup>(6)</sup>	21	-		21	25	
<b>Net income</b>	<b>312</b>	<b>271</b>	<b>15</b>	<b>919</b>	<b>747</b>	<b>23</b>
<b>Diluted earnings per common share excluding specified items</b>	<b>\$ 1.72</b>	<b>\$ 1.57</b>	<b>10</b>	<b>\$ 5.21</b>	<b>\$ 4.62</b>	<b>13</b>
Less: Severance pay <sup>(1)</sup>	(0.03)	-		(0.03)	-	
Less: Litigation provisions <sup>(2)</sup>	(0.05)	-		(0.05)	-	
Less: Premium paid on preferred shares repurchased for cancellation <sup>(7)</sup>	-	-		(0.21)	-	
Less: Holding charges for restructured notes of the MAV conduits <sup>(3)</sup>	-	(0.01)		-	(0.03)	
Less: Administrative penalty <sup>(4)</sup>	-	-		-	(0.46)	
Plus: Reversal of allowances for credit losses <sup>(5)</sup>	0.07	-		0.07	-	
Plus: Reversal of provisions for income tax contingencies <sup>(6)</sup>	0.13	-		0.13	0.15	
<b>Diluted earnings per common share</b>	<b>\$ 1.84</b>	<b>\$ 1.56</b>	<b>18</b>	<b>\$ 5.12</b>	<b>\$ 4.28</b>	<b>20</b>
<b>Return on common shareholders' equity</b>						
<b>Including specified items</b>	<b>18.7 %</b>	<b>17.7 %</b>		<b>17.9 %</b>	<b>16.6 %</b>	
<b>Excluding specified items</b>	<b>17.5 %</b>	<b>17.7 %</b>		<b>18.2 %</b>	<b>17.8 %</b>	

(1) During the quarter ended July 31, 2011, \$5 million in severance pay, net of income taxes, was recorded following the acquisition of Wellington West Holdings Inc.

(2) During the quarter ended July 31, 2011, \$8 million in litigation provisions, net of income taxes, was recorded.

(3) During the quarter ended July 31, 2011, the holding charges for restructured notes of the master asset vehicle (MAV) conduits were negligible (\$2 million in 2010), net of income taxes. During the nine months ended July 31, 2011, the holding charges for restructured notes of the MAV conduits were negligible (\$5 million in 2010), net of income taxes.

(4) During the nine months ended July 31, 2010, a \$75 million administrative penalty had been recognized as part of a settlement of an agreement affecting the entire asset-backed commercial paper industry.

(5) During the quarter ended July 31, 2011, there was a reversal of \$11 million, net of income taxes, in allowances for credit losses taken for loans and credit facilities secured by restructured notes of the MAV conduits.

(6) During the quarter ended July 31, 2011, \$21 million in income tax provisions was reversed following a revaluation of contingent income tax liabilities. During the nine months ended July 31, 2010, a \$25 million reversal had been recorded.

(7) During the nine months ended July 31, 2011, a \$34 million premium was paid on the Series 21, 24 and 26 First Preferred Shares repurchased for cancellation.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, National Bank of Canada (the Bank) makes written and oral forward-looking statements, such as those contained in the “Major Economic Trends” section and under the “Medium-Term Objectives” heading in the “Outlook for National Bank” section of the 2010 Annual Report, in other filings with Canadian securities regulators and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2011 and the objectives it has set for itself for that period. These forward-looking statements are made pursuant to the “safe harbour” provisions of Canadian and U.S. securities legislation. They include, among others, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, observations regarding the Bank’s objectives and its strategies for achieving them, Bank projected financial returns and certain risks faced by the Bank. These forward-looking statements are typically identified by future or conditional verbs or words such as “outlook,” “believe,” “anticipate,” “estimate,” “project,” “expect,” “intend,” “plan,” and terms and expressions of similar import.

By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2011 and how that will affect the Bank’s business are among the main factors considered in setting the Bank’s strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies. Tax laws in the countries in which the Bank operates, primarily Canada and the United States, are major factors it considers when establishing its effective tax rate. There is a strong possibility that express or implied projections contained in such statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank’s control, could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include the management of credit, market and liquidity risks; the strength of the Canadian and U.S. economies and the economies of other countries in which the Bank conducts business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in monetary policy, including changes in interest rate policies of the Bank of Canada and the U.S. Federal Reserve; the effects of competition in the markets in which the Bank operates; the impact of changes in the laws and regulations regulating financial services and enforcement thereof (including banking, insurance and securities); judicial proceedings, regulatory proceedings or claims, class actions or other recourses of various nature; the situation with respect to the restructured notes of the master asset vehicles, in particular the realizable value of the underlying assets; the Bank’s ability to obtain accurate and complete information from or on behalf of its clients or counterparties; the Bank’s ability to successfully realign its organization, resources and processes; its ability to complete strategic acquisitions and integrate them successfully; changes in the accounting policies and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; the Bank’s ability to recruit and retain key officers; operational risks, including risks related to the Bank’s reliance on third parties to ensure access to the infrastructure essential to the Bank’s business as well as other factors that may affect future results, including changes in trade policies; timely development of new products and services; changes in estimates relating to reserves; changes in tax laws; technological changes; unexpected changes in consumer spending and saving habits; natural disasters; the possible impact on the business from public health emergencies, conflicts, other international events and developments, including those relating to the war on terrorism; and the Bank’s success in anticipating and managing the foregoing risks. A substantial amount of the Bank’s business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank’s financial results, businesses, financial condition, or liquidity.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found under “Risk Management” and “Factors That Could Affect Future Results” in the 2010 Annual Report. Investors and others who base themselves on the Bank’s forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Bank also cautions readers not to place undue reliance on these forward-looking statements. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

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

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# HIGHLIGHTS

(unaudited) (millions of dollars)

	Quarter ended			Nine months ended		
	July 31, 2011	July 31, 2010	% Change	July 31, 2011	July 31, 2010	% Change
<b>Operating results</b>						
Total revenues	\$ 1,103	\$ 1,057	4	\$ 3,402	\$ 3,191	7
Total revenues adjusted for non-controlling interests <sup>(1)</sup>	1,109	1,063	4	3,403	3,197	6
Net income	312	271	15	919	747	23
Return on common shareholders' equity	18.7 %	17.7 %		17.9 %	16.6 %	
<b>Per common share (dollars)</b>						
Earnings – Basic	\$ 1.86	\$ 1.57	18	\$ 5.18	\$ 4.32	20
Earnings – Diluted	1.84	1.56	18	5.12	4.28	20
<b>EXCLUDING SPECIFIED ITEMS<sup>(2)</sup></b>						
<b>Operating results</b>						
Total revenues	\$ 1,103	\$ 1,060	4	\$ 3,402	\$ 3,199	6
Total revenues adjusted for non-controlling interests <sup>(1)</sup>	1,109	1,066	4	3,403	3,205	6
Net income	293	273	7	900	802	12
Return on common shareholders' equity	17.5 %	17.7 %		18.2 %	17.8 %	
<b>Per common share (dollars)</b>						
Earnings – Basic	\$ 1.74	\$ 1.58	10	\$ 5.27	\$ 4.66	13
Earnings – Diluted	1.72	1.57	10	5.21	4.62	13
<b>Per common share (dollars)</b>						
Dividends declared	\$ 0.71	\$ 0.62		\$ 2.03	\$ 1.86	
Book value				40.23	36.01	
Stock trading range						
High	81.44	62.69		81.44	64.62	
Low	74.05	54.45		64.86	54.45	
Close	74.05	58.99		74.05	58.99	

	As at July 31, 2011	As at October 31, 2010	% Change
<b>Financial position</b>			
Total assets	\$ 153,314	\$ 145,302	6
Loans and acceptances <sup>(3)</sup>	68,056	63,134	8
Deposits	85,616	81,785	5
Subordinated debentures and shareholders' equity	9,280	9,241	-
Pro forma Core Tier 1 capital ratio under Basel III	8.0 %	7.6 %	
Capital ratios – BIS under Basel II			
Tier 1	13.9 %	14.0 %	
Total	17.2 %	17.5 %	
Capital ratios – BIS under Basel I			
Tier 1	11.5 %	12.1 %	
Total	14.6 %	15.6 %	
Impaired loans, net of specific and general allowances	(178)	(267)	
As a % of loans and acceptances	(0.3) %	(0.4) %	
Assets under administration/management	244,099	235,541	
Total personal savings	136,075	118,098	
Interest coverage	10.20	9.03	
Asset coverage	4.32	4.48	
<b>Other information</b>			
Number of employees	19,217	18,322	5
Number of branches in Canada	442	442	-
Number of banking machines	872	869	-

(1) Adjusted for gains or losses mainly attributable to third parties.

(2) See "Financial Reporting Method" on page 3.

(3) Net of securitized assets.

## FINANCIAL CONDITION AND OPERATING RESULTS

August 24, 2011 - The following text presents Management's Discussion and Analysis of the Bank's financial condition and operating results. This analysis was prepared in accordance with the requirements set out in National Instrument 51-102, *Continuous Disclosure Obligations*, of the Canadian Securities Administrators and is based on the interim unaudited consolidated financial statements prepared for the third quarter and first nine months of July 31, 2011. Additional information about National Bank of Canada, including the Annual Information Form, can be obtained from the SEDAR website ([www.sedar.com](http://www.sedar.com)) and the Bank's website ([www.nbc.ca](http://www.nbc.ca)).

### Analysis of Results

#### Consolidated Results

National Bank reported net income of \$312 million in the third quarter of fiscal 2011, up 15% from \$271 million in the third quarter of 2010. Diluted earnings per share for the quarter ended July 31, 2011 stood at \$1.84, up \$0.28 or 18% from \$1.56 in the same quarter of 2010. Excluding specified items, third quarter net income was \$293 million, up 7% from \$273 million in the third quarter of 2010, and third quarter diluted earnings per share stood at \$1.72, up 10% from \$1.57 in the same quarter of 2010. The specified items recorded in the third quarter of 2011, net of income taxes, include a \$5 million severance pay charge related to the acquisition of Wellington West Holdings Inc., \$8 million in litigation provisions, and an \$11 million reversal of allowances for credit losses taken for loans and credit facilities secured by restructured notes of the master asset vehicle (MAV) conduits. In addition, a \$21 million reversal of provisions for income tax contingencies was recorded in the third quarter of 2011. The specified items of \$2 million, net of income taxes, for the third quarter of 2010 were related to the holding of restructured notes of the MAV conduits.

The Bank's net income for the first nine months of fiscal 2011 totalled \$919 million, up 23% from \$747 million in the same period of 2010. Diluted earnings per share stood at \$5.12 for the first nine months of 2011, up \$0.84 or 20% from \$4.28 in the same period of 2010. Excluding specified items, nine-month net income was \$900 million, up 12% from \$802 million in the same period of 2010, and nine-month diluted earnings per share was \$5.21, up 13% from \$4.62 in the same period of 2010. The specified items recorded during the first nine months of 2011 include the above-described specified items for the third quarter of 2011 and a \$34 million premium paid on the repurchase of preferred shares during the second quarter of 2011. The specified items recorded in the first nine months of 2010 had included a \$75 million administrative penalty related to asset-backed commercial paper, \$5 million in holding charges for restructured notes, net of income taxes, and a \$25 million reversal of a provision for income tax contingencies.

Return on common shareholders' equity was 18.7% in the third quarter of 2011 compared to 17.7% in the same quarter of 2010. For the first nine months of fiscal 2011, it stood at 17.9% compared to 16.6% in the same period of 2010.

#### Total Revenues

The Bank's total revenues for the third quarter of 2011 amounted to \$1,103 million compared to \$1,057 million in the same quarter of 2010. Including non-controlling interests, third quarter total revenues were \$1,109 million compared to \$1,063 million for the same quarter of 2010, an increase of \$46 million or 4%. Net interest income in the Personal and Commercial segment totalled \$401 million in the third quarter of 2011, a \$20 million increase owing mainly to growth in personal and commercial loan volumes, offsetting the decline in net interest margins. Third quarter trading activity revenues, including both net interest income and other income, totalled \$65 million compared to \$39 million in the third quarter of 2010 for an increase that owes mainly to higher revenues from equity securities.

Underwriting and advisory fees increased by \$4 million due to growth in transaction volume. Revenues from acceptances, letters of credit and letters of guarantee totalled \$43 million, up \$6 million, mainly due to growth in volumes. At \$74 million, third quarter securitization revenues grew by \$6 million, mainly due to a higher volume of securitizations of credit card receivables. At \$107 million, revenues from trust services and mutual fund fees rose \$15 million as the volume of assets under management and administration increased. Aside from these revenue increases, net gains on available-for-sale securities were down by \$5 million. Card service revenues totalled \$10 million, down \$6 million due to higher securitization volume. Foreign exchange revenues decreased in the third quarter of 2011, going from \$27 million to \$24 million. The \$9 million decline in the other item of Other income was mainly attributable to a lower contribution from Maple Financial Group Inc., a company subject to significant influence.

For the first nine months of 2011, total revenues amounted to \$3,402 million, up 7% from \$3,191 million for the same period in 2010. In the Personal and Commercial segment, nine-month net interest income totalled \$1,182 million, up \$62 million due to growth in loan and deposit volumes that more than offset narrowing net interest margins. Trading activity revenues, including both net interest income and other income, totalled \$249 million in the first nine months of 2011, down from \$272 million in the same period of 2010. Most of the components of Other income were higher in the first nine months of 2011 compared to the same period of 2010 due to a sustained level of activity during the period. Underwriting and advisory fees and securities brokerage commissions rose 17% and 5%, respectively. Securitization revenues increased \$24 million, and revenues from trust services and mutual fund fees increased by \$39 million to total \$314 million. Net gains on available-for-sale securities stood at \$75 million versus \$105 million in the first nine months of 2010. Nine-month card service revenues were also down, declining by \$8 million when compared to the same period of 2010, and lending fees, which totalled \$123 million, were down \$5 million as there was a higher amount of fees collected on loan prepayments in 2010.

### Operating Expenses

In the third quarter of 2011, operating expenses totalled \$718 million, up \$34 million or 5% when compared to the same quarter of 2010. This increase was mainly due to the salaries and staff benefits expense, including variable compensation, which rose as a result of revenue growth, and to a severance pay charge recorded following the acquisition of Wellington West Holdings Inc. Professional fees were also up, mainly as a result of increased business at the Credigy Ltd. subsidiary. Other expenses increased, in particular due to litigation provisions.

For the first nine months of 2011, operating expenses totalled \$2,146 million, up \$43 million or 2% when compared to the same period of 2010. Salaries and staff benefits increased while technology expenses decreased when compared to the first nine months of 2010. Other expenses decreased mainly because an administrative penalty had been recorded during the same nine-month period of 2010.

### Provisions for Credit Losses

For the third quarter of 2011, the Bank recorded \$11 million in provisions for credit losses, \$17 million less than in the same quarter of 2010, mainly due to a \$15 million reversal of allowances for credit losses taken for loans and credit facilities secured by restructured notes of the MAV conduits.

For the first nine months of fiscal 2011, the Bank recorded \$83 million in provisions for credit losses, \$24 million less than in the same period of 2010, as \$5 million in corporate loan losses was recovered and allowances for credit losses were reversed in the third quarter of 2011. The lower provisions for losses on personal credit and credit cards offset the higher provisions for losses on commercial credit.

As at July 31, 2011, gross impaired loans stood at \$382 million, a \$13 million increase since October 31, 2010 that came mostly from commercial loans. Impaired loans accounted for 7% of adjusted tangible capital and allowances, unchanged from October 31, 2010. As at July 31, 2011, the allowances for credit losses exceeded gross impaired loans by \$178 million versus \$267 million as at October 31, 2010.

### Income Taxes

Third quarter income taxes stood at \$53 million compared to \$64 million in the same quarter of 2010 and \$85 million in the previous quarter, and the third quarter tax rate was 14% compared to 19% year-over-year and 22% quarter-over-quarter. This lower effective rate for the third quarter of 2011 stems from the reversal of the provision for income tax contingencies. Excluding this specified item, the tax rate would have been 20%. Income taxes for the first nine months of 2011 and 2010 were \$210 million and \$193 million, respectively, for an effective tax rate of 18% and 20%, respectively.

## Results by Segment

### Personal and Commercial

In the Personal and Commercial segment, net income rose 6% to total \$168 million for the quarter. Total revenues amounted to \$645 million, a \$19 million increase that owes mainly to higher net interest income, which, at \$401 million, rose \$20 million as a result of growth in personal and commercial loan volumes. This growth was tempered by a narrowing of the net interest margin, which was 2.34% in the third quarter of 2011 compared to 2.46% in the same quarter of 2010, mainly due to a decline in spreads on personal loans.

Personal Banking's total revenues amounted to \$429 million, a \$12 million increase that was mainly due to higher loan volumes, especially consumer and mortgage loans, partly offset by a narrowing of net interest margins. At \$160 million, other income grew \$2 million from the same period of 2010. Commercial Banking's total revenues amounted to \$216 million, a \$7 million increase owing mainly to growth in loan and deposit volumes.

Operating expenses for the Personal and Commercial segment stood at \$367 million in the third quarter of 2011, up \$11 million from the same quarter of 2010. Despite this increase, the efficiency ratio held steady at 57% during the third quarter of 2011. At \$44 million, the segment's provisions for credit losses were \$1 million lower, as the lower provisions for personal and credit card loan losses offset the higher provisions for losses on commercial credit.

For the first nine months of fiscal 2011, the Personal and Commercial segment posted net income of \$474 million, up \$43 million from \$431 million in the same period of 2010. Total revenues for the segment rose 4% to total \$1,896 million. Personal Banking's total revenues were up \$44 million or 4%, mainly due to higher consumer and mortgage loan volumes mitigated by a decline in the spread on deposits, and Commercial Banking's total revenues rose \$35 million or 6%. At \$154 million, the segment's provisions for credit losses were stable. The efficiency ratio for the first nine months of 2011 improved to 57% from 58% in the same period of 2010.

### Wealth Management

In the Wealth Management segment, net income totalled \$37 million in the third quarter of 2011, up \$8 million or 28% from \$29 million in the same quarter of 2010. Third quarter total revenues amounted to \$208 million compared to \$188 million in the third quarter of 2010, an increase that owes mainly to other income, which was up \$17 million or 11%. This increase stems from a greater volume of assets under management and administration, which generated revenue growth from trust services and mutual funds. In addition, commission revenues increased on the strength of greater brokerage activity. Third quarter operating expenses increased \$9 million year-over-year to stand at \$155 million. The increase in salaries and variable compensation is explained by the growth in brokerage activity revenues. Despite the higher operating expense, the efficiency ratio improved to 75% this quarter from 78% in the same quarter of 2010.

For the first nine months of fiscal 2011, the Wealth Management segment posted net income of \$124 million compared to \$81 million in the same period of 2010. Nine-month total revenues amounted to \$648 million versus \$577 million for the same period of 2010. Other income grew by \$54 million or 11% due to higher revenues from trust services, mutual funds, and securities brokerage commissions. Nine-month operating expenses stood at \$472 million compared to \$454 million in the same period of 2010. This 4% increase in expenses, combined with the 12% growth in revenues, improved the efficiency ratio to 73% for this nine-month period of 2011 from 79% in the same nine-month period of 2010.

#### Financial Markets

In the Financial Markets segment, net income totalled \$101 million in the third quarter of 2011, up \$7 million from \$94 million in the same quarter of 2010. Third quarter total revenues amounted to \$321 million compared to \$303 million in the third quarter of 2010. On a taxable-equivalent basis and including non-controlling interests related to trading activities, the third quarter revenues were \$327 million compared to \$309 million in the same quarter of 2010. Trading activity revenues on a taxable equivalent basis were \$102 million for the quarter, up \$14 million from the same year-earlier quarter, mainly due to higher revenues from equity securities. Revenues from most other activities were up compared to the same quarter of 2010. The 2% growth in financial market fees came from greater capital issuance activity, and banking service revenues increased by 8%.

Operating expenses for the quarter stood at \$186 million, up \$14 million from the third quarter of 2010. This increase was due in part to a higher salaries and staff benefits expense that stems mostly from increased business at the Credigy Ltd. subsidiary and from a severance pay charge recorded following the acquisition of Wellington West Holdings Inc. No provision for credit losses was recorded for the third quarter of 2011, whereas \$4 million had been recovered in the same quarter of 2010.

For the first nine months of fiscal 2011, net income for the segment totalled \$384 million, up \$26 million or 7% from the same period in 2010. Nine-month total revenues amounted to \$1,081 million compared to \$995 million for the first nine months of 2010. On a taxable equivalent basis and including non-controlling interests related to trading activities, nine-month revenues totalled \$1,082 million, up \$81 million or 8% from the same nine-month period in 2010. All revenue types other than trading were up, except net gains on available-for-sale securities. The segment's nine-month operating expenses were \$546 million, a \$65 million increase from the same period in 2010. For the first nine months of 2011, the segment had a \$5 million recovery of credit losses, while no provision for credit losses had been recorded for the same period in 2010.

#### Financial Market Revenues

(taxable equivalent basis)<sup>(1)</sup>  
(millions of dollars)

	Q3		Nine months	
	2011	2010	2011	2010
Trading activity revenues				
Equity	53	37	190	170
Fixed income	36	40	118	153
Commodity and foreign exchange	13	11	61	63
	102	88	369	386
Financial market fees	66	65	204	184
Gains on available-for-sale securities, net	22	18	71	82
Banking services	65	60	193	179
Other	72	78	245	170
<b>Total<sup>(2)</sup></b>	<b>327</b>	<b>309</b>	<b>1,082</b>	<b>1,001</b>

(1) Refer to Note 18 for additional information.

(2) Including non-controlling interests.

#### Other

The *Other* heading of segment results posted third quarter net income of \$6 million versus a net loss of \$11 million in the same quarter of 2010. The specified items recorded in the third quarter of 2011, net of income taxes, include \$8 million in litigation provisions and an \$11 million reversal of allowances for credit losses taken for loans and credit facilities secured by restructured notes of the MAV conduits. In addition, a \$21 million reversal of the provision for income tax contingencies was recorded in the third quarter of 2011. The specified items of \$2 million, net of income taxes, for the third quarter of 2010 are related to the holding of restructured notes of the MAV conduits. Excluding specified items, total revenues were down by \$14 million from the third quarter of 2010 due to gains on the sale of equity securities recorded in the third quarter of 2010, mitigated by higher securitization revenues in the third quarter of 2011. Year-over-year, third quarter operating expenses were unchanged.

For the first nine months of fiscal 2011, the net loss was \$63 million compared to a \$123 million net loss for the same period of fiscal 2010. This difference was due to specified items recorded in the third quarter of 2011, offset by the recording of specified items in the first quarter of 2010.

## Acquisition

On July 15, 2011, the Bank finalized the acquisition of all the shares it did not own (82%) in Wellington West Holdings Inc., the parent company of several companies active in the Wealth Management and Financial Markets segments. The purchase price was \$276 million, subject to a post-transaction adjustment based on adjusted working capital. The purchase price consisted of \$105 million in cash (including \$22 million in escrow), including direct acquisition costs of \$4 million, and 2,149,108 Bank common shares issued and placed in escrow valued at \$171 million. These shares will be released contingent on certain criteria being met. The Bank expects the conditions to be met and that the shares in escrow will be released over the next four fiscal years.

Net assets acquired include intangible assets in the form of client lists totalling approximately \$15 million. The total amount by which the purchase price exceeded the fair value of net assets acquired, approximately \$221 million, was recorded in the Consolidated Balance Sheet under goodwill. At the date of these consolidated financial statements, the purchase price allocation process had not yet been finalized.

## Cash Flows

Due to the very nature of the Bank's business, most of its revenues and expenses are cash items. Moreover, certain activities, such as trading activities, generate significant cash flow movements that can impact several asset and liability items such as held-for-trading securities, securities sold short, or securities sold under repurchase agreements.

For the third quarter of 2011, cash and cash equivalents decreased by \$0.2 billion compared to a \$1.3 billion decrease in the same quarter of 2010. As at July 31, 2011, cash and cash equivalents totalled \$2.2 billion versus \$2.5 billion a year earlier.

In the third quarter of 2011, operating activities generated cash inflows of \$3.4 billion, mainly due to a \$3.0 billion decrease in held-for-trading securities that was partly attributable to a decrease in government bonds. In the third quarter of last year, operating activities had generated \$9.6 billion in cash, mainly due to an \$8.2 billion decrease in held-for-trading securities that was mostly attributable to a decrease in the same type of securities as in the third quarter of 2011.

In the third quarter of 2011, financing activities required \$2.9 billion in cash due to a \$1.8 billion decrease in deposits and a \$2.3 billion decrease in securities sold under repurchase agreements offset by a \$1.3 billion increase in obligations related to securities sold short. In the third quarter of last year, financing activities had required \$5.6 billion in cash due to a \$2.0 billion decrease in deposits and a \$4.9 billion decrease in securities sold under repurchase agreements offset by a \$1.2 billion increase in obligations related to securities sold short.

Lastly, investing activities required \$0.7 billion in cash during the third quarter of 2011 due to a \$3.1 billion increase in loans offset by a \$1.6 billion decrease in available-for-sale securities and by \$1.2 billion in proceeds from new asset securitizations and other transfers of receivables. In the third quarter of last year, investing activities had required \$5.3 billion in cash due to a \$2.1 billion increase in loans and an \$8.6 billion increase in securities purchased under reverse repurchase agreements offset by a \$3.8 billion decrease in available-for-sale securities and by \$1.5 billion in proceeds from new asset securitizations and other transfers of receivables.

## Balance Sheet

As at July 31, 2011, the Bank had total assets of \$153.3 billion compared to \$145.3 billion as at October 31, 2010. Loan and acceptance balances were up \$4.9 billion, and cash, deposits with financial institutions, securities, and securities purchased under reverse repurchase agreements increased by \$2.4 billion since October 31, 2010, mainly due to an increase in securities. Lastly, goodwill as at July 31, 2011 increased by \$255 million since October 31, 2010 due to the acquisition of the remaining 82% interest in Wellington West Holdings Inc. for an amount of \$221 million, and by \$34 million related to the existing 18% investment already owned by the Bank.

At \$85.6 billion, deposits rose \$3.8 billion since October 31, 2010, in particular due to the \$1.0 billion in covered bonds issued in the first quarter of 2011. Growth in other financing activities came essentially from obligations related to securities sold short, which stood at \$19.4 billion as at July 31, 2011, rising \$1.1 billion since October 31, 2010.

As at July 31, 2011, the Bank's shareholders' equity was \$7.3 billion compared to \$7.2 billion as at October 31, 2010. This increase is explained by the increase in net income less dividends, partly offset by the \$361 million repurchase for cancellation of preferred shares. The issuance of common shares related to the \$171 million acquisition of Wellington West Holdings Inc. and the \$97 million in stock options exercised under the stock option plan was more than offset by the repurchase of common shares for cancellation in the amount of \$340 million. In addition, accumulated other comprehensive income amounted to \$137 million as at July 31, 2011 compared to \$168 million as at October 31, 2010. This change was mainly due to net losses on derivative financial instruments designated as cash flow hedges, offset by unrealized gains on available-for-sale securities, net of fair value hedge transactions.

### Shares and Stock Options as at July 31, 2011

	Number of shares	\$ million
First Preferred Shares		
Series 15	8,000,000	200
Series 16	8,000,000	200
Series 20	6,900,000	173
Series 21	3,410,861	85
Series 24	2,425,880	61
Series 26	1,724,835	43
	<b>30,461,576</b>	<b>762</b>
Common shares	162,298,373 <sup>(1)</sup>	2,036
Stock options	7,984,266 <sup>(1)</sup>	

(1) As at August 19, 2011, there were 161,735,929 common shares and 7,954,016 stock options outstanding.

The table below presents the main portfolios:

#### Average Monthly Volumes

(millions of dollars)	July 2011	October 2010	July 2010
<b>Loans and acceptances<sup>(1)</sup></b>			
Consumer loans	21,083	19,582	19,018
Residential mortgages	27,608	25,413	24,889
Credit card receivables	1,917	1,907	1,909
SME loans	19,070	17,617	17,268
Corporate loans	6,544	5,838	5,780
	<b>76,222</b>	<b>70,357</b>	<b>68,864</b>
<b>Personal savings (balance)</b>			
Deposits	35,347	34,112	34,072
Full-service brokerage	81,893	65,762	61,408
Mutual funds	13,777	13,193	12,492
Other	5,058	5,031	4,896
	<b>100,728</b>	<b>83,986</b>	<b>78,796</b>
<b>Business deposits</b>	<b>16,824</b>	<b>14,872</b>	<b>15,044</b>

(1) Including securitized assets.

As at July 31, 2011, loan and acceptance volumes totalled \$76.2 billion, up \$5.9 billion or 8% since October 31, 2010. Consumer loans were up 8%, totalling \$21.1 billion as at July 31, 2011, due primarily to home equity lines of credit. Traditional residential mortgages were also up by 9%, totalling \$27.6 billion as at July 31, 2011. SME loans advanced 8% since October 31, 2010 to stand at \$19.1 billion as at July 31, 2011. Corporate loans increased 12%, totalling \$6.5 billion as at July 31, 2011.

Loan and acceptance volumes increased \$7.4 billion or 11% from a year ago. Consumer loans, mainly home equity lines of credit, and traditional mortgage loans, rose 11% as the residential market remained strong. SME loans also contributed to this increase, rising \$1.8 billion or 10% from a year ago. Corporate loans also increased \$0.8 billion from a year ago to stand at \$6.5 billion as at July 31, 2011.

At \$35.3 billion as at July 31, 2011, personal deposits were up \$1.2 billion or 4% since October 31, 2010, owing essentially to transactional deposits and to the CashPerformer account. Off-balance-sheet personal savings administered by the Bank rose 20% since the beginning of the fiscal year to total \$100.7 billion as at July 31, 2011. An amount of \$10.9 billion of this increase stems from the acquisition of Wellington West Holdings Inc., the other factors being growth in both the volume and value of administered assets. Business deposits were up 13% or \$2.0 billion since October 31, 2010, amounting to \$16.8 billion as at July 31, 2011.

Since July 31, 2010, personal deposits grew \$1.3 billion or 4%, while off-balance sheet personal savings administered by the Bank grew \$21.9 billion or 28%. This growth was attributable to the acquisition of Wellington West Holdings Inc., to an increase in the fair value of assets under management and administration and to a rebound in the sales of this type of savings product. Business deposits, especially corporate deposits, were up, rising \$1.8 billion or 12% from a year ago.

#### Master Asset Vehicles

As at July 31, 2011, the face value of the restructured notes of the master asset vehicle (MAV) conduits held by the Bank was \$1,994 million (\$1,926 million as at October 31, 2010), of which \$1,686 million was designated as *Held-for-trading securities* under the fair value option, and an amount of \$308 million was classified in *Available-for-sale securities* (\$1,664 million designated as *Held-for-trading securities* and \$262 million classified in *Available-for-sale securities* as at October 31, 2010). The increase in the face value of the restructured notes of the MAV conduits during the first nine months of fiscal 2011 was mainly due to restructured notes taken back from clients who had credit facilities backed by these notes, mitigated by capital repayments and certain write-offs.

The table below provides a breakdown of the face value of the restructured notes of the MAV conduits held by the Bank:

(millions of dollars)	As at July 31, 2011	As at October 31, 2010
<b>MAV I</b>		
Class A-1	599	601
Class A-2	553	553
Class B	94	94
Class C	39	39
IA tracking notes for ineligible assets	33	44
<b>Total MAV I</b>	<b>1,318</b>	<b>1,331</b>
<b>MAV II</b>		
Class A-1	114	106
Class A-2	96	87
Class B	20	18
Class C	8	7
IA tracking notes for ineligible assets	26	12
<b>Total MAV II</b>	<b>264</b>	<b>230</b>
<b>MAV III</b>		
TA tracking notes for traditional assets	42	53
IA tracking notes for ineligible assets	218	171
<b>Total MAV III</b>	<b>260</b>	<b>224</b>
ABCP not included in the Pan-Canadian restructuring plan	152	141
<b>Total</b>	<b>1,994</b>	<b>1,926</b>

The Bank has committed to contribute \$911 million to a margin funding facility related to the MAV conduits in order to finance potential collateral calls. As at July 31, 2011, no amount had been advanced by the Bank.

#### Establishing Fair Value

The carrying value of the restructured notes of the MAV conduits held by the Bank in an investment portfolio as at July 31, 2011, designated as *Held-for-trading securities*, was \$1,161 million, and \$84 million was classified in *Available-for-sale securities* (\$1,147 million designated as *Held-for-trading securities* and \$53 million classified in *Available-for-sale securities* as at October 31, 2010). The notes held in an investment portfolio with one or more embedded derivatives were designated as *Held-for-trading securities* under the fair value option, and the other notes were classified as *Available-for-sale securities*. The Bank took back restructured notes of the MAV conduits related to the credit facilities at a fair value of \$6 million during the third quarter of 2011.

The table below provides a breakdown of the carrying value of the restructured notes of the MAV conduits held by the Bank:

(millions of dollars)	As at July 31, 2011	As at October 31, 2010
MAV I and MAV II	1,127	1,118
MAV III	76	44
ABCP not included in the Pan-Canadian restructuring plan	42	38
Carrying value of the notes	1,245	1,200
Margin funding facilities	(49)	(55)
<b>Total</b>	<b>1,196</b>	<b>1,145</b>

In establishing the fair value of restructured notes of the MAV conduits, the Bank applied the same methodology used as at October 31, 2010, adjusted to take into account the effects of broker quotes and market conditions on the MAV II Class A-1, A-2, B and C notes. For more detailed information, refer to Note 9 to the audited consolidated financial statements of the 2010 Annual Report. Since the carrying value of the restructured notes of the MAV conduits designated as *Held-for-trading securities* was within the range of the estimated fair value, no change was made to the carrying value as at July 31, 2011. The credit ratings of the MAV I and MAV II Class A-1 notes were maintained at "A (high) (sf)" and the credit ratings of the MAV I and MAV II Class A-2 notes remained unchanged at "A (sf)" and "BBB (low) (sf)." On June 1, 2011, the credit ratings of the MAV I Class A-1 notes and the MAV II Class A-1 and A-2 notes were listed as "under review with positive implications."

The Bank's valuation was based on its assessment of the conditions prevailing as at July 31, 2011, which may change in subsequent periods. The most significant assumptions used to determine the fair value of the restructured notes are observable discount rates, the credit ratings of the notes, and the broker quotes on the MAV II Class A-1, A-2, B and C notes. Furthermore, there may be valuation uncertainty resulting from the choice of the valuation model used. The sensitivities of these assumptions on fair value as at July 31, 2011 are as follows:

- a 10-basis-point change in the discount rate would result in a \$7 million decrease or increase in the fair value;
- a decrease in the credit rating by one letter grade would result in a decrease in the fair value between a range of \$30 million to \$60 million;
- an increase in the credit rating by one letter grade would result in an increase in the fair value between a range of \$25 million to \$40 million;
- a 1% change in the liquidity spread would result in a \$1 million decrease or increase in the fair value;
- a 10% change in the weighting used to determine the established discount rate would result in a \$15 million decrease or increase in the fair value;
- a 10% change in the weighting attributed to the established discount rate and the broker quotes on the MAV II Class A-1, A-2, B and C notes would result in an \$18 million decrease or increase in the fair value; and
- a 1% change in the broker quotes on the MAV II Class A-1, A-2, B and C notes would result in a \$2 million decrease or increase in the fair value.

Determining the fair value of restructured notes of the MAV conduits is complex and involves an extensive process that uses quantitative modelling and relevant assumptions. Factors that could have a significant impact on the future value include (1) changes in the value of the underlying assets, (2) changes regarding the liquidity of restructured notes of the MAV conduits that are not currently traded on an active market, (3) the impacts of a marked and prolonged economic slowdown in North America, and (4) changes in legislation.

Credit facilities to clients holding restructured notes of the MAV conduits

As at July 31, 2011, credit facilities outstanding provided to clients holding restructured notes of the MAV conduits stood at \$51 million (\$85 million as at April 30, 2011 and \$143 million as at October 31, 2010) and the allowances for credit losses totalled \$32 million (\$77 million as at April 30, 2011 and \$121 million as at October 31, 2010). The \$45 million decrease recognized during the third quarter of 2011 results from the reversal of the allowances for credit losses taken for loans and credit facilities secured by restructured notes of the MAV conduits for an amount of \$15 million and from write-offs of allowances for credit losses on restructured notes of the MAV conduits relating to credit facilities taken back by the Bank. In total, the collateral related to the credit facilities offered to clients is estimated as follows:

(millions of dollars)	As at July 31, 2011		
	Face value of the notes	Credit facilities backed by IA tracking notes <sup>(1)</sup>	Credit facilities backed by restructured notes of the MAV conduits <sup>(2)</sup>
<b>Collateral</b>			
<b>MAV II</b>			
Class A-1	188	-	159
Class A-2	206	-	171
Class B	24	-	18
Class C	9	-	6
IA tracking notes for ineligible assets	22	16	-
<b>Total MAV II</b>	<b>449</b>	<b>16</b>	<b>354</b>
<b>MAV III</b>			
TA tracking notes for traditional assets	13	-	10
IA tracking notes for ineligible assets	38	27	-
<b>Total MAV III</b>	<b>51</b>	<b>27</b>	<b>10</b>
<b>Total</b>	<b>500</b>	<b>43</b>	<b>364</b>

(millions of dollars)	As at October 31, 2010		
	Face value of the notes	Credit facilities backed by IA tracking notes <sup>(1)</sup>	Credit facilities backed by restructured notes of the MAV conduits <sup>(2)</sup>
<b>Collateral</b>			
<b>MAV II</b>			
Class A-1	302	-	244
Class A-2	277	-	225
Class B	50	-	41
Class C	19	-	15
IA tracking notes for ineligible assets	107	70	-
<b>Total MAV II</b>	<b>755</b>	<b>70</b>	<b>525</b>
<b>MAV III</b>			
TA tracking notes for traditional assets	15	-	13
IA tracking notes for ineligible assets	110	79	-
<b>Total MAV III</b>	<b>125</b>	<b>79</b>	<b>13</b>
<b>Total</b>	<b>880</b>	<b>149</b>	<b>538</b>

- (1) These credit facilities represent 75% of the face value of the notes and are guaranteed by the notes, less repayment of their capital.
- (2) These credit facilities represent 75% of the face value of the notes, of which 30% are full recourse to the borrower and 45% guaranteed by the notes, less repayment of their capital.

## Off-Balance Sheet Arrangements

In the normal course of business, the Bank is party to various financial arrangements that, under Canadian generally accepted accounting principles (GAAP), are not required to be recorded on the Consolidated Balance Sheet or are recorded at amounts other than their notional or contractual values. These arrangements include, among others, assets under administration and assets under management, arrangements with variable interest entities (VIEs), derivative financial instruments, issuances of guarantees, and credit agreements. A complete analysis of these types of arrangements, including their nature, business purpose and importance, is provided on pages 48 to 52 of the 2010 Annual Report. In addition, information on the VIEs in which the Bank holds a significant variable interest but is not the primary beneficiary as defined in Accounting Guideline No. 15, *Consolidation of Variable Interest Entities* (AcG-15) is provided in Note 13 to the 2010 audited consolidated financial statements. For more detailed information on the guarantees and a description of obligations under certain indemnification agreements, refer to Note 28 to the 2010 audited consolidated financial statements and, for securitization activities, refer to Note 11 to the 2010 audited consolidated financial statements.

During the third quarter of 2011, aside from the new securitization activities described in Note 8 to the interim unaudited consolidated financial statements, the Bank did not enter into any new significant arrangements with VIEs that are not consolidated by the Bank. A new VIE was created during the quarter ended January 31, 2011, and the Bank is consolidating this VIE because it is the primary beneficiary of the entity. For additional information, refer to Note 9 to the interim unaudited consolidated financial statements.

## Additional Disclosure – Financial Stability Board

The Superintendent of Financial Institutions has asked Canadian banks to apply certain recommendations published in April 2008 in the report of the Financial Stability Board. The recommendations were issued to enhance transparency and valuation with respect to certain exposures considered to be of higher risk, in particular special purpose entities, subprime and Alt-A exposures, synthetic collateralized debt obligations, residential and commercial mortgage-backed securities, and leveraged financing structures.

The Bank does not market any specific mortgage financing program to subprime or Alt-A clients. Subprime loans are generally defined as loans granted to borrowers with a higher credit risk profile than prime borrowers, and the Bank does not grant this type of loan. Alt-A loans are granted to borrowers who cannot provide standard proof of income. The Bank's Alt-A loan volume was \$474 million as at July 31, 2011 (\$360 million as at October 31, 2010).

The Bank does not have any significant direct position in residential and commercial mortgage-backed securities that are not insured by the Canadian Mortgage and Housing Corporation (CMHC). Credit derivative positions in collateralized debt obligations are provided in the following table.

### Credit Derivative Positions (notional amounts)

(millions of dollars)	As at July 31, 2011			
	Credit portfolio <sup>(1)</sup>		Trading	
	Protection purchased	Protection sold	Protection purchased	Protection sold
Credit default swaps				
Indices, single names and others	64	33	4,456	4,138
Tranches on indices	-	-	826	864
Collateralized debt obligations	-	-	19	19
Total return swaps	330	-	1,938	2,478

(millions of dollars)	As at October 31, 2010			
	Credit portfolio <sup>(1)</sup>		Trading	
	Protection purchased	Protection sold	Protection purchased	Protection sold
Credit default swaps				
Indices, single names and others	115	45	8,551	7,959
Tranches on indices	-	-	990	1,000
Collateralized debt obligations	-	-	30	30
Total return swaps	450	-	550	808

(1) Protection sold is solely for the purpose of reducing protection purchased.

Leveraged finance loans are defined by the Bank as loans granted to large corporate and financial sponsor-backed companies that are typically non-investment grade with much higher levels of debt relative to the industry in which they operate. Leveraged finance is commonly employed to achieve a specific objective, for example, to make an acquisition, complete a buy-out or repurchase shares. Leveraged finance risk exposure takes the form of both funded and unfunded commitments. As at July 31, 2011, total commitments for this type of loan stood at \$907 million (\$642 million as at October 31, 2010).

Details about other exposures are provided in the special purpose entities table provided on the next page.

### Special Purpose Entities

Special purpose entities are not operating entities; generally they do not have any employees and may include variable interest entities (VIEs) as defined in Accounting Guideline No. 15, *Consolidation of Variable Interest Entities* (AcG-15). AcG-15 requires the consolidation of a VIE by its primary beneficiary, defined as the party that absorbs the majority of the entity's expected losses, receives the majority of the entity's expected residual returns, or both. The Bank has concluded interest rate swaps with some of these entities.

(millions of dollars)	As at July 31, 2011			As at October 31, 2010		
	Bank's exposure		Total special purpose entity assets	Bank's exposure		Total special purpose entity assets
	Investments and other assets	Undrawn liquidity, margin funding facilities and other		Investments and other assets	Undrawn liquidity, margin funding facilities and other	
<b>NON-CONSOLIDATED SPECIAL PURPOSE ENTITIES</b>						
VIEs in which the Bank owns a significant variable interest						
Securitization entity for the Bank's credit card receivables (qualifying special purpose entity) <sup>(1)</sup>	103	N/A	1,580	102	N/A	1,615
Multi-seller asset-backed commercial paper conduit administered by the Bank <sup>(2)</sup>	16	1,292	1,313	5	1,143	1,152
Restructured notes of the MAV conduits <sup>(3)</sup>	1,245	911	-	1,200	911	-
NBC Capital Trust <sup>(4)</sup>	2	N/A	242	2	N/A	224
Private capital funds and investments <sup>(5)</sup>	144	N/A	1,538	136	N/A	1,531
	<b>1,510</b>		<b>4,673</b>	<b>1,445</b>		<b>4,522</b>
<b>CONSOLIDATED SPECIAL PURPOSE ENTITIES<sup>(6)</sup></b>						
VIEs						
National Bank hedge fund managed accounts (Innocap platform) <sup>(7)</sup>	775	N/A	916	836	N/A	1,061
Covered bonds <sup>(8)</sup>	1,667	N/A	1,667	-	-	-
Mutual funds <sup>(9)</sup>	258	N/A	289	445	N/A	647
Building <sup>(10)</sup>	86	N/A	86	86	N/A	86
Private investments <sup>(11)</sup>	21	N/A	22	3	N/A	24
Other						
NBC Asset Trust <sup>(12)</sup>	600	N/A	1,367	300	N/A	1,067
	<b>3,407</b>		<b>4,347</b>	<b>1,670</b>		<b>2,885</b>
<b>Total</b>	<b>4,917</b>		<b>9,020</b>	<b>3,115</b>		<b>7,407</b>

N/A Not applicable

- (1) The Bank's exposure represents the retained rights relating to future excess interest as well as certain securities issued by the entity and acquired by the Bank.
- (2) The main underlying assets are residential and commercial mortgages, car leases, car loans and other receivables. The assets are located in Canada. As at July 31, 2011, the notional committed amount of the global-style liquidity facility totalled \$1,308 million (\$1,148 million as at October 31, 2010), representing the total amount of commercial paper outstanding. The Bank also provides a series-wide credit enhancement facility that is limited to certain asset classes for a notional committed amount of \$30 million (\$30 million as at October 31, 2010). The maximum exposure to loss cannot exceed the amount of commercial paper outstanding. As at July 31, 2011, the Bank held \$16 million (\$5 million as at October 31, 2010) in commercial paper and, consequently, the maximum amount of future payments as at July 31, 2011 is limited to \$1,292 million (\$1,143 million as at October 31, 2010).
- (3) Refer to the "Master Asset Vehicles" section on pages 10 and 11 of Management's Discussion and Analysis. The total amount outstanding of restructured notes of the MAV conduits was \$28 billion as at July 31, 2011 (\$29 billion as at October 31, 2010).
- (4) Refer to Note 17 to the 2010 audited consolidated financial statements.
- (5) The underlying assets are private investments. The disclosed amount of total special purpose entity assets is that of the most recent available period.
- (6) For the consolidated special purpose entities, the Bank's exposure is net of non-controlling interests.
- (7) The underlying assets are various financial instruments (trading portfolio). The total assets of the Innocap platform are presented on a net asset basis.
- (8) The underlying assets are insured residential mortgage loans. The average maturity of the underlying assets is four years. Refer to Note 9 to the interim unaudited consolidated financial statements.
- (9) The underlying assets are various financial instruments and are presented on a net asset basis. Certain mutual funds are in a trading portfolio.
- (10) The underlying asset is a building located in Canada.
- (11) The investments are presented on an equity basis, to which amounts receivable are added.
- (12) Refer to Note 21 to the 2010 audited consolidated financial statements. The average maturity of the underlying assets is three years.

## Risk Management

The Bank aims to maintain its financial performance by continuing to ensure prudent management and a sound balance between return and the risks assumed. The Bank views risk as an integral part of its development and the diversification of its activities and advocates a risk management approach consistent with its business expansion strategy.

In October 2008, the Bank of Canada announced that it was temporarily authorizing participants in the Large Value Transfer System (LVTS) to substitute their Canadian-dollar non-mortgage loan portfolios for current LVTS collateral. During fiscal 2009, the Bank had substituted its portfolio of Canadian-dollar non-mortgage loans granted to Canadian residents for LVTS collateral. During the first nine months of 2011, the Bank significantly reduced the amount of this type of asset pledged as collateral, which amounted to \$15.0 billion as at July 31, 2011 (\$31.6 billion as at October 31, 2010).

The Bank controls its exposure to counterparty risk with certain entities by taking an overall prudent approach when extending credit facilities. Additional information is provided in the "Risk Management" section on pages 61 to 71 of the 2010 Annual Report as well as in Note 5 to the audited consolidated financial statements, which covers financial instrument risk management, on pages 112 to 126 of the 2010 Annual Report.

Risk management information is also provided in the following table and in Note 7 to the interim unaudited consolidated financial statements, which covers loans.

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

(millions of dollars)						As at July 31, 2011	As at October 31, 2010
	Drawn <sup>(1)</sup>	Undrawn commitments <sup>(2)</sup>	Repo-style transactions <sup>(3)</sup>	OTC derivatives <sup>(4)</sup>	Other off-balance sheet items <sup>(5)</sup>	Total	Total
<b>Retail</b>							
Residential mortgages	26,320	5,436	-	-	-	31,756	28,245
Qualifying revolving retail	2,529	2,687	-	-	-	5,216	5,217
Other retail	10,537	1,294	-	-	17	11,848	11,600
<b>Total retail</b>	<b>39,386</b>	<b>9,417</b>	<b>-</b>	<b>-</b>	<b>17</b>	<b>48,820</b>	<b>45,062</b>
<b>Non-retail</b>							
Corporate	24,142	9,024	1,968	5	2,234	37,373	34,748
Sovereign	13,732	2,771	9,973	96	53	26,625	21,954
Bank	3,516	50	33,985	592	344	38,487	42,579
<b>Total non-retail</b>	<b>41,390</b>	<b>11,845</b>	<b>45,926</b>	<b>693</b>	<b>2,631</b>	<b>102,485</b>	<b>99,281</b>
<b>Trading portfolio</b>	-	-	-	7,561	-	7,561	7,141
<b>Securitization</b>	1,252	-	-	-	2,202	3,454	3,293
<b>Total credit risk</b>	<b>82,028</b>	<b>21,262</b>	<b>45,926</b>	<b>8,254</b>	<b>4,850</b>	<b>162,320</b>	<b>154,777</b>
<b>Standardized Approach</b>	5,920	312	1,666	2,218	914	11,030	9,628
<b>AIRB Approach</b>	76,108	20,950	44,260	6,036	3,936	151,290	145,149
<b>Total credit risk</b>	<b>82,028</b>	<b>21,262</b>	<b>45,926</b>	<b>8,254</b>	<b>4,850</b>	<b>162,320</b>	<b>154,777</b>

(1) The amounts drawn represent certain deposits with financial institutions, available-for-sale debt securities, gross loans, customers' liability under acceptances and certain other assets.

(2) Undrawn commitments represent unused portions of authorized credit facilities in the form of loans, acceptances, letters of guarantee and documentary letters of credit, excluding investment banking activities.

(3) Represents securities purchased under reverse repurchase agreements and sold under repurchase agreements.

(4) Represents forwards, futures, swaps and options.

(5) Represents 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.

Market risk is intrinsically interlinked with participation in financial market activities, in particular trading and investing activities and managing assets and liabilities. The table below shows the VaR distribution of trading portfolios by risk category as well as the correlation effect. The second table shows the potential pre-tax impact of an immediate and sustained 100-basis-point increase or decrease on net interest income and on the economic value of shareholders' equity of non-trading portfolios, assuming no further hedging is undertaken, and excludes the prepayment option inherent in fixed-rate mortgage loans.

#### Global VaR by Risk Category<sup>(1)</sup>

Quarter ended	July 31, 2011				April 30, 2011
	Low	High	Average	Period end	Period end
Interest rate	(4.2)	(7.7)	(6.0)	(4.3)	(5.9)
Foreign exchange	(0.1)	(1.0)	(0.6)	(0.1)	(0.5)
Equity	(2.2)	(4.1)	(2.6)	(2.2)	(2.8)
Commodity	(0.9)	(1.7)	(1.1)	(0.9)	(1.7)
Correlation effect <sup>(2)</sup>	n.m.	n.m.	3.9	2.6	4.1
<b>Global VaR</b>	<b>(4.4)</b>	<b>(7.7)</b>	<b>(6.4)</b>	<b>(4.9)</b>	<b>(6.8)</b>

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

- (1) Amounts are presented on a pre-tax basis and represent one-day VaR.  
(2) The correlation effect is the result of the diversification of types of risks.

#### Interest Rate Sensitivity - Non-Trading Activities

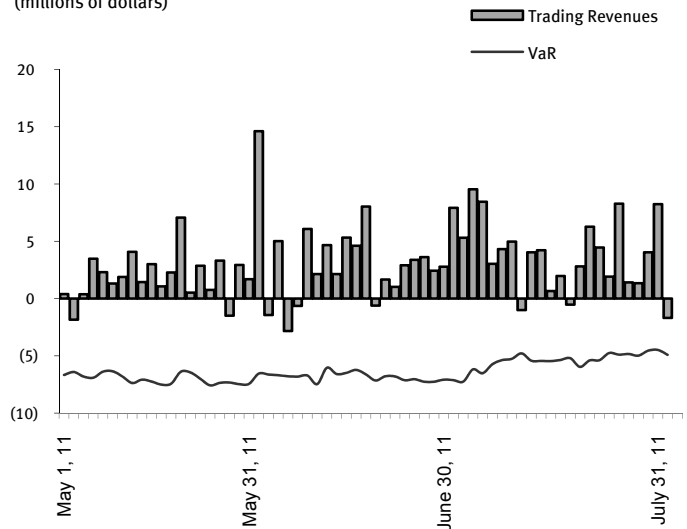
(before tax) (millions of dollars)

As at July 31	2011	2010
100-basis-point increase in the interest rate		
Impact on net interest income (for the next 12 months)	33	24
Impact on shareholders' equity	(81)	(114)
100-basis-point decrease in the interest rate		
Impact on net interest income (for the next 12 months)	(40)	(33)
Impact on shareholders' equity	56	110

#### Daily Trading Revenues

Daily trading revenues were positive on more than 86% of the days during the quarter ended July 31, 2011. Net daily trading losses in excess of \$1 million were recorded on six days. None of these losses exceeded the VaR limit.

Quarter ended July 31, 2011  
(millions of dollars)



#### Accounting Policies and Estimates

The interim unaudited consolidated financial statements have been prepared in accordance with Canadian GAAP. For additional information on the significant accounting policies used to prepare the consolidated financial statements, refer to Note 1 of the 2010 annual audited consolidated financial statements. Some of these accounting policies are considered critical given their importance to the presentation of the Bank's financial position and operating results and require difficult, subjective and complex judgments and estimates because they relate to matters that are inherently uncertain. The key assumptions and bases for estimates made by management in accordance with GAAP are described in the 2010 Annual Report.

During the first nine months of 2011, there were no changes to the significant accounting policies applied by the Bank in fiscal 2010. Information about future changes to accounting standards is provided in the section "Future Adoption of International Financial Reporting Standards (IFRS)."

## Future Adoption of International Financial Reporting Standards (IFRS)

The Bank will apply IFRS commencing November 1, 2011. It will present its consolidated financial statements for the quarter ending January 31, 2012 in accordance with IFRS and will present IFRS comparative figures for fiscal 2011, including an opening consolidated balance sheet as at November 1, 2010.

To prepare for the IFRS conversion, the Bank has established an enterprise-wide project, formed a dedicated project team, and put in place a formal governance structure. It has developed a detailed project plan, assessed the resource requirements for its implementation, and continued training staff, senior management, and Board members. To date, the project is proceeding according to plan, and operationalization of the future adoption of IFRS is largely complete.

### Project Status

#### Governance and creation of teams

Several committees have been created to ensure project success and optimize decision-making regarding the choices to be made for the future adoption of IFRS. The project team consists of qualified resources, and additional professional accountants have joined the existing Accounting Policies team to absorb the workload created by this major change in accounting framework. Agreements have also been signed with external consultants and suppliers.

#### Execution framework and monitoring

The project team provides regular status reports to the Executive Committee and to the Steering Committee, which are made up of senior levels of management from all relevant departments. Reports are also submitted to the Audit and Risk Management Committee and the Bank's Board of Directors. The team also regularly presents status reports to the Office of the Superintendent of Financial Institutions (Canada) (OSFI) and to the Bank's external auditors.

#### Technical knowledge of IFRS

The main differences between current IFRS standards and Canadian GAAP have been identified. A detailed analysis of the IFRS standards likely to impact the Bank's consolidated financial statements has been completed. Efforts have been made to identify situations that are specific to the Bank and the IFRS impacts. Training sessions with staff from the Financial Accounting and Finance groups are held on an ongoing basis. Other training sessions are being offered to Credit and Risk Management personnel and to account managers to help them better understand how the adoption of IFRS would affect the Bank's assessment models and credit approval processes. Various information and education sessions have also been presented to management, the Board of Directors and the Audit and Risk Management Committee.

#### Communication

The creation of several committees for project governance purposes has ensured that information is constantly communicated to all management levels of the groups affected by the IFRS adoption project. The workshops held to examine IFRS impacts have served as a means of disseminating information to the parties affected by the conversion, while the creation of an IFRS intranet enabled the business-wide dissemination of information. Lastly, communication with investors has begun.

#### Technological developments

The technological developments needed for the adoption of IFRS have been identified, and no significant change is necessary. Certain adjustments have been made such that financial information for the 2011 fiscal year can be produced in accordance with Canadian GAAP for reporting purposes while also producing the information under IFRS standards for comparison purposes upon publication of the fiscal 2012 results. The main technological developments required for this period have been completed and are operational.

#### Accounting implementation

A preliminary version of model IFRS consolidated financial statements and the notes thereto was submitted to the project Steering Committee during the fourth quarter of 2010. These model consolidated statements are being constantly updated. The processes and tools needed to prepare the Bank's opening consolidated balance sheet on an IFRS basis have been developed and approved by the governance team overseeing the implementation project. The work required as at November 1, 2010 to ensure successful adoption of IFRS has been completed and audit work on the consolidated opening balance sheet is underway. The processes for the dual-accounting period are in place and operational.

The Bank's Financial Governance and Internal Audit departments will assist the project team through the above-described activities. The Bank's internal controls over financial reporting are reviewed on an ongoing basis.

#### Business activities

Some of the Bank's clients have adopted or will be adopting IFRS, which could have an impact on the restrictive covenants in loan agreements. The legal clause applicable to the financial statements provided by clients has been revised to take the impacts of IFRS into account, and it has now been incorporated into the credit agreements of all new clients, new loans, refinancings, and loan renewals.

As for other potential consequences, the Bank is listing the impacts of the IFRS adoption; they are taken into consideration in managing regulatory capital and factored into forecasting processes.

### First-Time Adoption of IFRS

Adoption of IFRS will require the Bank to follow the requirements of IFRS 1, *First-Time Adoption of International Financial Reporting Standards* (IFRS 1). IFRS 1 generally prescribes that entities must retrospectively apply all IFRS standards upon transition, which, for the Bank, was November 1, 2010. When a standard is applied retrospectively, the opening consolidated balance sheet will be presented as though IFRS had always been applied, and the differences between Canadian GAAP and IFRS will be reflected in the IFRS opening retained earnings. However, IFRS 1 also provides mandatory exceptions to the retrospective application of certain IFRS standards and permits optional exemptions to this requirement for other IFRS standards. For the Bank, the main optional exemptions relate to (i) employee benefits, (ii) financial instrument designation, (iii) translation differences and (iv) business combinations. Applying certain exemptions will also affect the opening retained earnings under IFRS and could impact the results of post-IFRS-transition periods. A summary of the main optional exemptions is presented below.

#### Employee benefits

With respect to the actuarial gains and losses related to employee benefits, the Bank will have two options upon IFRS adoption: either to recognize all unamortized gains and losses as at November 1, 2010 in retained earnings, or to calculate the charge from the time the Bank's plans were implemented as if the charge had always been calculated under the IFRS requirements on employee benefits. The Bank is planning to apply the first option, the impact of which would be a reduction to retained earnings. For more detailed information, refer to Note 23 to the consolidated financial statements of the 2010 Annual Report.

#### Financial instrument designation

IFRS 1 offers an option whereby entities may, at the transition date, irrevocably designate any financial instrument as held-for-trading provided that certain criteria are met on that date. The Bank has availed itself of this option.

#### Translation differences

Under IFRS 1, cumulative currency translation differences can be reclassified to retained earnings. The Bank is planning to apply this optional exemption, the impact of which would be to reclassify to retained earnings the unrealized foreign currency translation losses, net of hedging activities, presented in *Accumulated other comprehensive income* as at October 31, 2010. For more detailed information, refer to page 91 of the 2010 Annual Report.

#### Business combinations

IFRS 1 permits prospective application of the standard on business combinations. The Bank is planning to apply this optional exemption so as to not restate business acquisitions completed before the transition date.

In March 2010, OSFI issued an advisory entitled *Conversion to International Financial Reporting Standards (IFRSs) by Federally Regulated Entities (FREs)*. OSFI is providing banks with the possibility to phase in, over five quarters, most of the negative impacts that conversion to IFRS will have on retained earnings for the purposes of calculating regulatory capital.

### Main Differences Between Canadian GAAP and IFRS

The Bank has already identified the major differences between current Canadian GAAP and IFRS that will require adjustments to the opening balance sheet and retained earnings upon transition. The current standards likely to have a significant impact on the Bank's consolidated financial statements include the standards on (i) financial instrument derecognition, (ii) consolidation, (iii) employee benefits, (iv) impairment of available-for-sale securities, and (v) business combinations. A summary of the main differences is presented below.

#### Financial instrument derecognition

The current criteria for financial asset derecognition under IFRS differ significantly from those under Canadian GAAP. Currently, and under Canadian GAAP, the Bank derecognizes financial assets using a model based on control and the legal form. Under IFRS, derecognition is subject to more restrictive criteria, which are largely based on the notion of the transfer of substantially all of the risks and rewards related to ownership of the transferred assets. In February 2011, OSFI issued an advisory requiring the derecognition requirements to be retrospectively applied to transactions made on or after January 1, 2004. The Bank will therefore apply the derecognition requirements for all transactions occurring on or after January 1, 2004, i.e., to all of the Bank's outstanding transactions on the transition date. The Bank expects that several financial asset transfers that had been eligible for derecognition under Canadian GAAP will no longer qualify under IFRS. For instance, the Bank does not expect insured mortgage loans securitized under the Canada Mortgage Bond (CMB) Program to qualify for derecognition under IFRS. These mortgage loans will therefore be presented in the opening IFRS consolidated balance sheet as at November 1, 2010, thereby increasing total assets and liabilities. Also, because these are financing transactions, the Bank will no longer realize a securitization gain on the sale of mortgage loans under the CMB Program. On the transition date, November 1, 2010, the opening balance of retained earnings under IFRS will reflect the impact of recognizing past transactions as financing transactions instead of sale transactions. Also, in its notice published in March 2010, OSFI stated that insured mortgage loans securitized before March 31, 2010 under the CMB Program will have no impact on the financial leverage ratio.

#### Consolidation

Canadian GAAP requires the consolidation of a variable interest entity (VIE) by its primary beneficiary, namely, the party that absorbs the majority of the entity's expected losses, receives the majority of the entity's expected residual returns, or both. Furthermore, Canadian GAAP provides an exemption for the consolidation of qualifying special purpose entities, eligible under certain conditions, that does not exist in IFRS. Under IFRS, the consolidation of special purpose entities is required, based on the application of the principle of control. The Bank may need to consolidate new special purpose entities that were not consolidated prior to the Bank's IFRS transition date. Consolidation of these new entities could increase the assets and liabilities as well as non-controlling interests on the Bank's Consolidated Balance Sheet.

#### Employee benefits

The Bank offers defined benefit pension plans that cover substantially all salaried employees. Under Canadian GAAP, past service cost is amortized over the average remaining service life of employees, whereas under IFRS standards, the vested past service cost is recognized immediately in the Statement of Income. Following the transition, the Bank will need to choose either to recognize the actuarial gains and losses immediately in the Consolidated Statement of Income or the Consolidated Statement of Comprehensive Income or to continue to amortize actuarial gains and losses using the corridor approach (the method currently used under Canadian GAAP). However, last June, the International Accounting Standards Board (IASB) issued amendments to IAS 19 *Employee Benefits*. One of the important changes was the elimination of the corridor approach. The amendments are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

#### Impairment – Available-for-sale securities

Under IFRS, a decline in value is recognized in the Statement of Income when there is objective evidence of impairment. Under Canadian GAAP, an entity must also determine whether there is objective evidence of impairment, but unlike IFRS, impairment is recognized only if it is considered other than temporary. Impairment will be recognized more quickly under IFRS.

#### Business combinations

There are several differences between IFRS and Canadian GAAP related to the accounting for business combinations. The main items impacted include acquisition costs and restructuring costs, non-controlling interests, contingent consideration, and valuation of consideration paid in shares. Under Canadian GAAP, acquisition costs and certain restructuring costs are capitalized in goodwill, whereas under IFRS, they are expensed as incurred. For business combinations under Canadian GAAP, non-controlling interests are calculated based on the carrying value of the acquired company, and any contingent consideration is recognized only under certain circumstances, whereas under IFRS, these two items are measured at fair value at the time of the business combination. Under Canadian GAAP, shares issued as consideration are measured at their market price over a reasonable period of time (i.e., a few days) before and after the acquisition is announced, whereas under IFRS, the issued shares are measured at their market price on the acquisition date. These differences will have an impact on the purchase price allocation and on the amount of goodwill recognized in the Consolidated Balance Sheet.

#### **Latest IFRS and Regulatory Developments**

The IASB continues to propose changes to IFRS. During the 2010 and 2011 fiscal years, the IASB published many important standards, including IFRS 9 on the classification and measurement of financial assets and liabilities, IFRS 10 on consolidation and an amended version of several existing standards, including IAS 19 relating to employee benefits. These changes will not have to be adopted until after the transition date. In addition, other key standards are being reviewed, in particular the impairment of financial assets, hedge accounting, and the offsetting of financial assets and financial liabilities. The Bank will probably not be required to apply these changes until after the transition date. The Bank is closely monitoring the changes made to these standards and the OSFI regulations and makes any required adjustments to its plan.

The standards in effect at the transition date, the economic environment at that time, the consolidated balance sheet amounts at that time, and the various accounting policy choices yet to be selected are some of the factors that will influence the impact of IFRS on the Bank. In the periods preceding the first fiscal year in which IFRS will be adopted, the impacts of adopting IFRS on the Bank's consolidated financial statements will be disclosed as they become known.

#### **Disclosure of Internal Controls Over Financial Reporting**

During the third quarter of 2011, no changes were made to the policies, procedures and other processes that comprise the Bank's internal controls over financial reporting that had or could reasonably have a significant impact on the Bank's internal controls over financial reporting.

## Capital

The Bank uses the Advanced Internal Rating-Based Approach for credit risk. For operational risk, the Bank uses the Standardized Approach and, for market risk, it continues to use the models and the Standardized Approach in accordance with the Basel II Accord. Detailed information is provided in the "Capital Management" section on pages 58 to 60 of the 2010 Annual Report. The new Basel III capital standards will gradually come into force from January 1, 2013 to January 1, 2019. The Bank expects that it will be able to achieve compliance with these new standards without resorting to the regulatory event redemption clause included in the capital instruments in question. As at July 31, 2011, the pro forma Core Tier 1 capital ratio under Basel III stood at 8.0%.

According to the rules of the Bank for International Settlements (BIS) – Basel II, the Tier 1 capital ratio and the total capital ratio stood at 13.9% and 17.2%, respectively, as at July 31, 2011; as at October 31, 2010, these same ratios were 14.0% and 17.5%, respectively. The capital ratios remained relatively stable. Net income growth net of dividends and the common shares issued for the acquisition of Wellington West Holdings Inc. were offset by the added goodwill resulting from this acquisition and by the repurchase of preferred shares and common shares for cancellation.

The risk-weighted assets calculated under the rules of Basel II decreased and amounted to \$48.9 billion as at July 31, 2011 compared to \$49.8 billion as at October 31, 2010.

### Capital Adequacy Under Basel II

(millions of dollars)	As at July 31, 2011				As at October 31, 2010
	Exposure at default <sup>(1)</sup>	Standardized Approach <sup>(2)</sup>	AIRB Approach	Other	Risk-weighted assets
					Risk-weighted assets
					Total
<b>Credit risk</b>					
<b>Loans - Retail</b>					
Residential mortgages	31,756	135	2,548		2,256
Qualifying revolving retail	5,216	-	1,176		1,123
Other retail	11,848	896	4,789		5,297
<b>Loans - Non-retail</b>					
Corporate	37,373	3,473	16,024		20,608
Sovereign	26,625	-	503		366
Bank	38,487	115	1,595		1,889
<b>Banking book equities<sup>(3)</sup></b>	903	-	903		1,389
<b>Trading portfolio</b>	7,561	90	1,458		1,994
<b>Securitization</b>	3,454	-	546		526
	163,223	4,709	29,542		35,448
<b>Regulatory scaling factor</b>			1,773		1,870
<b>Other assets</b>				2,816	2,493
<b>Total - Credit risk</b>	<b>163,223</b>	<b>4,709</b>	<b>31,315</b>	<b>2,816</b>	<b>39,811</b>
<b>Market risk</b>		<b>1,753</b>	<b>822</b>		<b>3,226</b>
<b>Operational risk</b>		<b>7,528</b>			<b>6,794</b>
<b>Total risk-adjusted assets</b>	<b>163,223</b>	<b>13,990</b>	<b>32,137</b>	<b>2,816</b>	<b>49,831</b>
<b>Tier 1 capital ratio</b>				<b>13.9 %</b>	14.0 %
<b>Total capital ratio</b>				<b>17.2 %</b>	17.5 %

(1) Exposure at default is the expected gross exposure upon the default of an obligor. This amount is before any specific allowance or partial write-offs and does not reflect the impact of credit risk mitigation and collateral held.

(2) Risk-weighted assets under the Standardized Approach reflect the impact of credit risk mitigation and collateral held.

(3) All the equities held in the banking book as at October 31, 2009 are grandfathered under Basel II and thus subject to a 100% risk-weighting until the end of 2017.

## Dividends

The Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 71 cents per common share, payable on November 1, 2011 to shareholders of record on September 22, 2011.

## ADDITIONAL FINANCIAL INFORMATION

### Quarterly Information

(unaudited) (millions of dollars, except per share amounts)

	2011			2010				2009	2010	2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Total	Total
<b>Total revenues</b>	<b>1,103</b>	1,146	1,153	1,098	1,057	1,055	1,079	1,092	4,289	4,131
<b>Net income</b>	<b>312</b>	295	312	287	271	261	215	241	1,034	854
<b>Earnings per common share (\$)</b>										
Basic	<b>1.86</b>	1.50	1.82	1.67	1.57	1.51	1.23	1.40	5.99	4.96
Diluted	<b>1.84</b>	1.48	1.80	1.66	1.56	1.50	1.22	1.39	5.94	4.94
<b>Dividends per common share (\$)</b>	<b>0.71</b>	0.66	0.66	0.62	0.62	0.62	0.62	0.62	2.48	2.48
<b>Return on common shareholders' equity (%)</b>	<b>18.7</b>	15.9	19.0	18.0	17.7	18.0	14.3	16.7	17.0	15.6
<b>Total assets</b>	<b>153,314</b>	154,944	152,509	145,302	146,333	150,705	134,321	132,138		
<b>Impaired loans, net</b>	<b>162</b>	173	194	162	176	246	259	223		
<b>Per common share (\$)</b>										
Book value	<b>40.23</b>	38.85	38.50	37.59	36.01	34.48	34.63	33.43		
Stock trading range										
High	<b>81.44</b>	80.56	71.49	67.87	62.69	64.01	64.62	62.08		
Low	<b>74.05</b>	69.99	64.86	55.53	54.45	56.62	56.51	56.00		

# CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Consolidated Balance Sheets	22
Consolidated Statements of Income	23
Consolidated Statements of Comprehensive Income	24
Consolidated Statements of Changes in Shareholders' Equity	25
Consolidated Statements of Cash Flows	26
Notes to the Consolidated Financial Statements	27

CONSOLIDATED FINANCIAL STATEMENTS  
**CONSOLIDATED BALANCE SHEETS**

(unaudited) (millions of dollars)

	As at July 31, 2011	As at April 30, 2011	As at October 31, 2010	As at July 31, 2010
<b>ASSETS</b>				
<b>Cash</b>	<b>288</b>	275	261	272
<b>Deposits with financial institutions</b>	<b>2,239</b>	2,520	2,013	2,586
<b>Securities (Notes 2 and 6)</b>				
Available-for-sale	14,890	16,552	10,997	10,149
Held-for-trading	41,593	44,560	43,271	41,892
	<b>56,483</b>	61,112	54,268	52,041
<b>Securities purchased under reverse repurchase agreements</b>	<b>10,857</b>	10,374	10,878	15,192
<b>Loans (Notes 6, 7, 8 and 9)</b>				
Residential mortgage	17,207	16,395	15,806	15,784
Personal and credit card	22,154	21,328	20,549	20,039
Business and government	23,130	22,995	21,469	21,275
	<b>62,491</b>	60,718	57,824	57,098
Allowances for credit losses	(560)	(605)	(636)	(655)
	<b>61,931</b>	60,113	57,188	56,443
<b>Other assets</b>				
Customers' liability under acceptances	6,125	6,192	5,946	5,984
Fair value of derivative financial instruments	7,900	7,729	8,120	6,981
Premises and equipment	369	368	381	379
Goodwill	999	744	744	744
Intangible assets	523	514	480	459
Due from clients, dealers and brokers	2,828	2,767	2,909	3,082
Other	2,772	2,236	2,114	2,170
	<b>21,516</b>	20,550	20,694	19,799
	<b>153,314</b>	154,944	145,302	146,333
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Deposits</b>				
Personal	35,347	35,111	34,112	34,072
Business and government (Note 9)	45,616	44,418	41,985	38,760
Deposit-taking institutions	4,428	7,628	5,463	8,569
Deposit from NBC Capital Trust	225	225	225	225
	<b>85,616</b>	87,382	81,785	81,626
<b>Other liabilities</b>				
Acceptances	6,125	6,192	5,946	5,984
Obligations related to securities sold short	19,423	18,156	18,292	19,265
Securities sold under repurchase agreements	13,182	15,492	12,513	13,876
Fair value of derivative financial instruments	6,615	6,823	6,631	6,182
Due to clients, dealers and brokers	2,362	2,745	3,131	3,393
Other	9,766	8,164	6,564	6,087
	<b>57,473</b>	57,572	53,077	54,787
<b>Subordinated debentures (Note 11)</b>	<b>1,989</b>	1,974	2,033	2,019
<b>Non-controlling interests (Note 12)</b>	<b>945</b>	932	1,199	966
<b>Shareholders' equity (Notes 13 and 15)</b>				
Preferred shares (Note 13)	762	762	1,089	1,089
Common shares (Note 13)	2,036	1,881	1,804	1,784
Contributed surplus	52	49	66	59
Retained earnings	4,304	4,311	4,081	3,912
Accumulated other comprehensive income	137	81	168	91
	<b>7,291</b>	7,084	7,208	6,935
	<b>153,314</b>	154,944	145,302	146,333

CONSOLIDATED FINANCIAL STATEMENTS  
**CONSOLIDATED STATEMENTS OF INCOME**  
(unaudited) (millions of dollars)

	Quarter ended			Nine months ended	
	July 31, 2011	April 30, 2011	July 31, 2010	July 31, 2011	July 31, 2010
<b>Interest income</b>					
Loans	580	557	488	1,709	1,382
Available-for-sale securities	78	71	55	213	175
Held-for-trading securities	175	190	186	587	523
Deposits with financial institutions	4	7	1	11	3
	<b>837</b>	<b>825</b>	<b>730</b>	<b>2,520</b>	<b>2,083</b>
<b>Interest expense</b>					
Deposits	205	206	134	602	412
Subordinated debentures	23	23	26	69	74
Other	137	126	68	387	171
	<b>365</b>	<b>355</b>	<b>228</b>	<b>1,058</b>	<b>657</b>
<b>Net interest income</b>	<b>472</b>	<b>470</b>	<b>502</b>	<b>1,462</b>	<b>1,426</b>
<b>Other income</b>					
Underwriting and advisory fees	76	89	72	237	203
Securities brokerage commissions	71	85	70	238	226
Deposit and payment service charges	57	57	58	170	170
Trading (losses) revenues (Note 5)	(15)	28	(84)	17	(66)
Gains on available-for-sale securities, net	26	22	31	75	105
Card service revenues	10	10	16	28	36
Lending fees	48	37	48	123	128
Insurance revenues	31	33	32	96	91
Revenues from acceptances, letters of credit and guarantee	43	39	37	121	108
Securitization revenues (Note 8)	74	69	68	220	196
Foreign exchange revenues	24	31	27	78	76
Trust services and mutual funds	107	104	92	314	275
Other	79	72	88	223	217
	<b>631</b>	<b>676</b>	<b>555</b>	<b>1,940</b>	<b>1,765</b>
<b>Total revenues</b>	<b>1,103</b>	<b>1,146</b>	<b>1,057</b>	<b>3,402</b>	<b>3,191</b>
<b>Provisions for credit losses</b>	<b>11</b>	<b>33</b>	<b>28</b>	<b>83</b>	<b>107</b>
	<b>1,092</b>	<b>1,113</b>	<b>1,029</b>	<b>3,319</b>	<b>3,084</b>
<b>Operating expenses</b>					
Salaries and staff benefits	428	430	404	1,289	1,196
Occupancy	45	48	46	137	136
Technology	87	94	88	274	280
Communications	19	19	18	57	53
Professional fees	55	51	48	153	151
Other	84	80	80	236	287
	<b>718</b>	<b>722</b>	<b>684</b>	<b>2,146</b>	<b>2,103</b>
<b>Income before income taxes and non-controlling interests</b>	<b>374</b>	<b>391</b>	<b>345</b>	<b>1,173</b>	<b>981</b>
Income taxes	53	85	64	210	193
	<b>321</b>	<b>306</b>	<b>281</b>	<b>963</b>	<b>788</b>
Non-controlling interests	9	11	10	44	41
<b>Net income</b>	<b>312</b>	<b>295</b>	<b>271</b>	<b>919</b>	<b>747</b>
Dividends on preferred shares	10	16	16	42	48
Premium paid on preferred shares repurchased for cancellation (Note 13)	-	34	-	34	-
<b>Net income available to common shareholders</b>	<b>302</b>	<b>245</b>	<b>255</b>	<b>843</b>	<b>699</b>
<b>Number of common shares outstanding (thousands)</b>					
Average - Basic	162,164	163,414	162,133	162,868	161,947
Average - Diluted	164,242	165,394	163,259	164,755	163,197
<b>Earnings per common share (dollars) (Note 17)</b>					
Basic	1.86	1.50	1.57	5.18	4.32
Diluted	1.84	1.48	1.56	5.12	4.28
<b>Dividends per common share (dollars)</b>	<b>0.71</b>	<b>0.66</b>	<b>0.62</b>	<b>2.03</b>	<b>1.86</b>

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (millions of dollars)

	Quarter ended			Nine months ended	
	July 31, 2011	April 30, 2011	July 31, 2010	July 31, 2011	July 31, 2010
<b>Net income</b>	<b>312</b>	295	271	<b>919</b>	747
<b>Other comprehensive income, net of income taxes</b>					
Net unrealized foreign currency gains (losses) on translating financial statements of self-sustaining foreign operations	13	(92)	(1)	(89)	(125)
Reclassification to net income of foreign currency (gains) losses on translating financial statements of self-sustaining foreign operations	-	-	-	-	1
Impact of hedging net foreign currency translation gains (losses)	(12)	71	(10)	82	94
Reclassification to net income of the impact of hedging foreign currency translation (gains) losses	-	-	-	-	(2)
<b>Net change in unrealized foreign currency translation gains (losses), net of hedging activities</b>	<b>1</b>	(21)	(11)	<b>(7)</b>	(32)
Net unrealized gains (losses) on available-for-sale securities	28	22	31	119	107
Reclassification to net income of (gains) losses on available-for-sale securities	(20)	(14)	(43)	(86)	(102)
<b>Net change in unrealized gains (losses) on available-for-sale securities, net of fair value hedge transactions</b>	<b>8</b>	8	(12)	<b>33</b>	5
Net gains (losses) on derivative financial instruments designated as cash flow hedges	53	(17)	106	(36)	21
Reclassification to net income of (gains) losses on derivative financial instruments designated as cash flow hedges	(6)	(8)	6	(21)	1
<b>Net change in gains (losses) on derivative financial instruments designated as cash flow hedges</b>	<b>47</b>	(25)	112	<b>(57)</b>	22
<b>Total other comprehensive income, net of income taxes</b>	<b>56</b>	(38)	89	<b>(31)</b>	(5)
<b>Total comprehensive income</b>	<b>368</b>	257	360	<b>888</b>	742

INCOME TAXES – OTHER COMPREHENSIVE INCOME

(unaudited) (millions of dollars)

The income tax charge or recovery for each component of other comprehensive income is presented in the following table:

	Quarter ended			Nine months ended	
	July 31, 2011	April 30, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Net unrealized foreign currency gains (losses) on translating financial statements of self-sustaining foreign operations	4	(19)	2	(14)	(4)
Impact of hedging net foreign currency translation gains (losses)	(4)	22	(5)	26	27
Net unrealized gains (losses) on available-for-sale securities	12	9	13	48	46
Reclassification to net income of (gains) losses on available-for-sale securities	(8)	(6)	(19)	(34)	(44)
Net gains (losses) on derivative financial instruments designated as cash flow hedges	20	(7)	45	(16)	8
Reclassification to net income of (gains) losses on derivative financial instruments designated as cash flow hedges	(3)	(2)	2	(8)	1
<b>Total income taxes (recovery)</b>	<b>21</b>	(3)	38	<b>2</b>	34

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited) (millions of dollars)

Nine months ended July 31	2011	2010
<b>Preferred shares at beginning</b>	<b>1,089</b>	1,089
Repurchase of Series 21, 24 and 26 preferred shares for cancellation (Note 13)	<b>(327)</b>	-
<b>Preferred shares at end</b>	<b>762</b>	1,089
<b>Common shares at beginning</b>	<b>1,804</b>	1,729
Issuances of common shares		
Dividend Reinvestment and Share Purchase Plan	-	29
Stock Option Plan	114	24
Acquisition of Wellington West Holdings Inc. (Note 19)	171	-
Other	(2)	2
Repurchase of common shares for cancellation (Note 13)	<b>(51)</b>	-
<b>Common shares at end</b>	<b>2,036</b>	1,784
<b>Contributed surplus at beginning</b>	<b>66</b>	48
Stock option expense (Note 15)	11	9
Stock options exercised	<b>(17)</b>	(4)
Other	<b>(8)</b>	6
<b>Contributed surplus at end</b>	<b>52</b>	59
<b>Retained earnings at beginning</b>	<b>4,081</b>	3,515
Net income	<b>919</b>	747
Dividends (Note 13)		
Preferred shares	<b>(42)</b>	(48)
Common shares	<b>(331)</b>	(302)
Premium paid on common shares repurchased for cancellation (Note 13)	<b>(289)</b>	-
Premium paid on preferred shares repurchased for cancellation (Note 13)	<b>(34)</b>	-
<b>Retained earnings at end</b>	<b>4,304</b>	3,912
<b>Accumulated other comprehensive income at beginning, net of income taxes</b>	<b>168</b>	96
Net change in unrealized foreign currency translation gains (losses), net of hedging activities	<b>(7)</b>	(32)
Net change in unrealized gains (losses) on available-for-sale securities, net of fair value hedge transactions	<b>33</b>	5
Net change in gains (losses) on derivative financial instruments designated as cash flow hedges	<b>(57)</b>	22
<b>Accumulated other comprehensive income at end, net of income taxes</b>	<b>137</b>	91
<b>Shareholders' equity</b>	<b>7,291</b>	6,935

RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF INCOME TAXES

(unaudited) (millions of dollars)

As at July 31	2011	2010
<b>Retained earnings</b>	<b>4,304</b>	3,912
<b>Accumulated other comprehensive income, net of income taxes</b>		
Unrealized foreign currency translation gains (losses), net of hedging activities	<b>(140)</b>	(132)
Unrealized gains (losses) on available-for-sale securities, net of fair value hedge transactions	<b>126</b>	37
Gains (losses) on derivative financial instruments designated as cash flow hedges	<b>151</b>	186
	<b>137</b>	91
<b>Total</b>	<b>4,441</b>	4,003

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (millions of dollars)

	Quarter ended		Nine months ended	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
<b>Cash flows from operating activities</b>				
Net income	312	271	919	747
Adjustments for:				
Provisions for credit losses	11	28	83	107
Amortization of premises and equipment and intangible assets	32	30	95	91
Future income taxes	(1)	10	(13)	(36)
Translation adjustment on foreign currency subordinated debentures	-	1	(2)	(2)
Gains on sales of available-for-sale securities, net	(29)	(34)	(99)	(110)
Other-than-temporary impairment charges	3	3	24	5
Gains on asset securitizations and other transfers of receivables, net	(60)	(55)	(178)	(160)
Stock option expense	4	3	11	9
Change in interest payable	(74)	(163)	13	(164)
Change in interest and dividends receivable	43	119	(8)	45
Change in income taxes payable	(13)	60	(20)	(78)
Change in fair value of derivative financial instruments, net	(443)	533	285	739
Change in held-for-trading securities	2,967	8,179	1,678	(4,940)
Change in amounts due from clients, dealers and brokers	(61)	654	81	(504)
Change in amounts due to clients, dealers and brokers	(383)	(266)	(769)	376
Change in other items	1,044	186	2,687	(237)
	<b>3,352</b>	<b>9,559</b>	<b>4,787</b>	<b>(4,112)</b>
<b>Cash flows from financing activities</b>				
Change in deposits	(1,766)	(2,020)	3,831	6,456
Issuances of common shares	17	1	95	51
Repurchase of common shares	(228)	-	(340)	-
Repurchase of preferred shares	-	-	(361)	-
Repurchase of subordinated debentures	-	-	(10)	-
Dividends paid on common shares	(1)	(101)	(317)	(330)
Dividends paid on preferred shares	(16)	(16)	(48)	(48)
Change in obligations related to securities sold short	1,267	1,226	1,131	6,044
Change in securities sold under repurchase agreements	(2,310)	(4,853)	669	1,140
Change in other items	175	201	(206)	(45)
	<b>(2,862)</b>	<b>(5,562)</b>	<b>4,444</b>	<b>13,268</b>
<b>Cash flows from investing activities</b>				
Acquisition of Wellington West Holdings Inc. (Note 19)	(105)	-	(105)	-
Change in deposits with financial institutions pledged as collateral	63	(26)	(67)	(259)
Change in loans (excluding securitization)	(3,051)	(2,059)	(7,916)	(7,057)
Proceeds from new asset securitizations and other transfers of receivables	1,222	1,505	3,090	3,594
Maturity of securitized assets	-	-	-	(450)
Purchases of available-for-sale securities	(1,530)	(3,429)	(16,259)	(15,911)
Sales of available-for-sale securities	3,178	7,268	12,274	18,995
Change in securities purchased under reverse repurchase agreements	(483)	(8,551)	21	(7,555)
Net change in premises and equipment and intangible assets	(24)	(54)	(107)	(170)
	<b>(730)</b>	<b>(5,346)</b>	<b>(9,069)</b>	<b>(8,813)</b>
<b>Impact of currency rate movements on cash and cash equivalents</b>	<b>13</b>	<b>3</b>	<b>2</b>	<b>28</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(227)</b>	<b>(1,346)</b>	<b>164</b>	<b>371</b>
Cash and cash equivalents at beginning	2,422	3,887	2,031	2,170
Cash and cash equivalents at end	2,195	2,541	2,195	2,541
<b>Cash and cash equivalents</b>				
Cash	288	272	288	272
Deposits with financial institutions	2,239	2,586	2,239	2,586
Less: Amount pledged as collateral	(310)	(317)	(310)	(317)
Less: Amount in escrow (Note 19)	(22)	-	(22)	-
	<b>2,195</b>	<b>2,541</b>	<b>2,195</b>	<b>2,541</b>
<b>Supplementary information</b>				
Interest paid	439	391	1,045	821
Income taxes paid	87	32	244	342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2010. Certain comparative figures have been reclassified to conform with the presentation adopted in fiscal 2011.

**NOTE 1**

**SIGNIFICANT ACCOUNTING POLICIES**

These interim unaudited consolidated financial statements of the Bank have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and the accounting policies described in the Bank's most recent Annual Report for the year ended October 31, 2010. Under Canadian GAAP, additional disclosures are required in annual financial statements, and therefore these interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the year ended October 31, 2010, which are presented on pages 85 to 168 of the 2010 Annual Report.

**NOTE 2**

**AVAILABLE-FOR-SALE SECURITIES**

	As at July 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities issued or guaranteed by:				
Canada	9,826	222	(109)	9,939
Provinces	2,393	287	(141)	2,539
Municipalities or school boards	256	40	(20)	276
U.S. Treasury and other U.S. agencies	340	-	-	340
Other debt securities	838	76	(14)	900
Equity securities	892	61	(57)	896
<b>Total available-for-sale securities</b>	<b>14,545</b>	<b>686</b>	<b>(341)</b>	<b>14,890</b>

	As at October 31, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities issued or guaranteed by:				
Canada	5,782	100	-	5,882
Provinces	2,420	138	(1)	2,557
Municipalities or school boards	316	22	-	338
U.S. Treasury and other U.S. agencies	381	-	-	381
Other debt securities	825	24	(4)	845
Equity securities	975	66	(47)	994
<b>Total available-for-sale securities</b>	<b>10,699</b>	<b>350</b>	<b>(52)</b>	<b>10,997</b>

**Gross Unrealized Losses**

Available-for-sale securities are periodically measured to determine whether there is objective evidence of impairment. Gross unrealized losses on equity securities are mainly caused by market price fluctuations or foreign exchange movements. The Bank has the ability and intent to hold these securities for a period of time sufficient to allow for any anticipated recovery of fair value. As at July 31, 2011, the Bank concluded that the gross unrealized losses, recognized in *Other comprehensive income*, were temporary.

**Impairment Charges**

During the quarter ended July 31, 2011, a \$3 million impairment charge (\$3 million for the quarter ended July 31, 2010) on available-for-sale securities, which the Bank considered as other than temporary, was recognized in *Gains on available-for-sale securities* in the Consolidated Statement of Income.

**Available-for-Sale Securities Presented at Cost**

The Bank holds equity securities such as mutual fund units and other securities that are classified as available-for-sale but that must be presented at cost because they are not traded in an active market. As at July 31, 2011, these available-for-sale securities presented at cost in the Consolidated Balance Sheet totalled \$294 million (\$379 million as at October 31, 2010). Some of these securities have a fair value that can be estimated. The difference between the estimated fair value and cost represented an unrealized gain of \$34 million as at July 31, 2011 (\$13 million as at October 31, 2010).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

**NOTE 3**

**CARRYING VALUES OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY**

Financial assets and liabilities are recognized in the Consolidated Balance Sheet at fair value or amortized cost according to the categories determined by the accounting framework for financial instruments. The carrying values for each category of financial asset and liability are presented in the table below:

	As at July 31, 2011						
	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale	Loans and receivables	Financial liabilities at amortized cost	Derivative financial instruments designated as cash flow hedges	Derivative financial instruments designated as fair value hedges
<b>Financial assets</b>							
Cash	288	-	-	-	-	-	-
Deposits with financial institutions	-	-	-	2,239	-	-	-
<b>Securities</b>							
Available-for-sale	-	-	14,890	-	-	-	-
Held-for-trading	40,429	1,164	-	-	-	-	-
Securities purchased under reverse repurchase agreements	-	-	-	10,857	-	-	-
Loans	-	7	-	61,924 <sup>(1)</sup>	-	-	-
<b>Other assets</b>							
Customers' liability under acceptances	-	-	-	6,125	-	-	-
Fair value of derivative financial instruments	7,223	-	-	-	-	360	317
Due from clients, dealers and brokers	-	-	-	2,828	-	-	-
Other	-	-	-	360	-	-	-
<b>Total financial assets</b>	<b>47,940</b>	<b>1,171</b>	<b>14,890</b>	<b>84,333</b>	<b>-</b>	<b>360</b>	<b>317</b>
<b>Financial liabilities</b>							
<b>Deposits</b>							
Personal	-	-	-	-	35,347	-	-
Business and government	-	594	-	-	45,022 <sup>(1)</sup>	-	-
Deposit-taking institutions	-	-	-	-	4,428	-	-
Deposit from NBC Capital Trust	-	-	-	-	225	-	-
<b>Other liabilities</b>							
Acceptances	-	-	-	-	6,125	-	-
Obligations related to securities sold short	19,423	-	-	-	-	-	-
Securities sold under repurchase agreements	-	-	-	-	13,182	-	-
Fair value of derivative financial instruments	6,409	-	-	-	-	23	183
Due to clients, dealers and brokers	-	-	-	-	2,362	-	-
Other	-	-	-	-	7,864	-	-
Subordinated debentures	-	-	-	-	1,989	-	-
<b>Total financial liabilities</b>	<b>25,832</b>	<b>594</b>	<b>-</b>	<b>-</b>	<b>116,544</b>	<b>23</b>	<b>183</b>

(1) Including embedded derivative financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

NOTE 3 CARRYING VALUES OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY (CONT.)

	As at October 31, 2010						
	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale	Loans and receivables	Financial liabilities at amortized cost	Derivative financial instruments designated as cash flow hedges	Derivative financial instruments designated as fair value hedges
<b>Financial assets</b>							
<b>Cash</b>	261	-	-	-	-	-	-
<b>Deposits with financial institutions</b>	-	-	-	2,013	-	-	-
<b>Securities</b>							
Available-for-sale	-	-	10,997	-	-	-	-
Held-for-trading	42,124	1,147	-	-	-	-	-
<b>Securities purchased under reverse repurchase agreements</b>	-	84	-	10,794	-	-	-
<b>Loans</b>	-	-	-	57,188 <sup>(1)</sup>	-	-	-
<b>Other assets</b>							
Customers' liability under acceptances	-	-	-	5,946	-	-	-
Fair value of derivative financial instruments	7,309	-	-	-	-	472	339
Due from clients, dealers and brokers	-	-	-	2,909	-	-	-
Other	-	-	-	352	-	-	-
<b>Total financial assets</b>	<b>49,694</b>	<b>1,231</b>	<b>10,997</b>	<b>79,202</b>	<b>-</b>	<b>472</b>	<b>339</b>
<b>Financial liabilities</b>							
<b>Deposits</b>							
Personal	-	-	-	-	34,112	-	-
Business and government	-	627	-	-	41,358 <sup>(1)</sup>	-	-
Deposit-taking institutions	-	-	-	-	5,463	-	-
Deposit from NBC Capital Trust	-	-	-	-	225	-	-
<b>Other liabilities</b>							
Acceptances	-	-	-	-	5,946	-	-
Obligations related to securities sold short	18,292	-	-	-	-	-	-
Securities sold under repurchase agreements	-	-	-	-	12,513	-	-
Fair value of derivative financial instruments	6,418	-	-	-	-	19	194
Due to clients, dealers and brokers	-	-	-	-	3,131	-	-
Other	-	-	-	-	4,992	-	-
<b>Subordinated debentures</b>	-	-	-	-	2,033	-	-
<b>Total financial liabilities</b>	<b>24,710</b>	<b>627</b>	<b>-</b>	<b>-</b>	<b>109,773</b>	<b>19</b>	<b>194</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

**NOTE 4**

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following tables present the financial instruments recognized at fair value in the Consolidated Balance Sheet, classified using the fair value hierarchy described in Note 4 to the consolidated financial statements of the 2010 Annual Report. For the third quarter of 2011 and the first nine months of fiscal 2011, there were no significant transfers of financial instruments between levels.

				As at July 31, 2011
	Level 1	Level 2	Level 3	Total financial assets/liabilities at fair value
<b>Financial assets</b>				
<b>Cash</b>	288	-	-	288
<b>Securities</b>				
Available-for-sale	2,568	11,904	124	14,596
Held-for-trading	23,011	17,329	1,253	41,593
<b>Loans</b>	-	-	(21)	(21)
<b>Other assets</b>				
Fair value of derivative financial instruments	259	7,598	43	7,900
<b>Total financial assets</b>	<b>26,126</b>	<b>36,831</b>	<b>1,399</b>	<b>64,356</b>
<b>Financial liabilities</b>				
<b>Deposits</b>				
Business and government	-	703	6	709
<b>Other liabilities</b>				
Obligations related to securities sold short	11,622	7,801	-	19,423
Fair value of derivative financial instruments	268	6,326	21	6,615
<b>Total financial liabilities</b>	<b>11,890</b>	<b>14,830</b>	<b>27</b>	<b>26,747</b>

				As at October 31, 2010
	Level 1	Level 2	Level 3	Total financial assets/liabilities at fair value
<b>Financial assets</b>				
<b>Cash</b>	261	-	-	261
<b>Securities</b>				
Available-for-sale	1,363	9,162	93	10,618
Held-for-trading	28,618	13,368	1,285	43,271
<b>Securities purchased under reverse repurchase agreements</b>	-	84	-	84
<b>Loans</b>	-	-	(110)	(110)
<b>Other assets</b>				
Fair value of derivative financial instruments	243	7,829	48	8,120
<b>Total financial assets</b>	<b>30,485</b>	<b>30,443</b>	<b>1,316</b>	<b>62,244</b>
<b>Financial liabilities</b>				
<b>Deposits</b>				
Business and government	-	771	38	809
<b>Other liabilities</b>				
Obligations related to securities sold short	12,675	5,617	-	18,292
Fair value of derivative financial instruments	302	6,315	14	6,631
<b>Total financial liabilities</b>	<b>12,977</b>	<b>12,703</b>	<b>52</b>	<b>25,732</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

**NOTE 5**

**TRADING ACTIVITY REVENUES**

Trading activity revenues comprise net interest income from trading activities, trading revenues recognized in *Other income* and the impact of non-controlling interests. Net interest income comprises interest and dividends related to financial assets and liabilities associated with trading activities, net of the interest expense and income associated with the financing of these financial assets and liabilities. Other income comprises the realized and unrealized gains and losses on held-for-trading securities, income from derivative financial instruments held for trading purposes, and the change in fair value of financial instruments designated as held-for-trading. The impact of non-controlling interests takes into account trading revenues and losses attributable to third parties.

	Quarter ended			Nine months ended	
	July 31, 2011	April 30, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Net interest income	74	64	117	231	332
Other income	(15)	28	(84)	17	(66)
Non-controlling interests	6	4	6	1	6
<b>Total</b>	<b>65</b>	<b>96</b>	<b>39</b>	<b>249</b>	<b>272</b>

**NOTE 6**

**MASTER ASSET VEHICLES**

As at July 31, 2011, the face value of the restructured notes of the master asset vehicle (MAV) conduits held by the Bank was \$1,994 million (\$1,926 million as at October 31, 2010), of which \$1,686 million was designated as *Held-for-trading securities* under the fair value option, and an amount of \$308 million was classified in *Available-for-sale securities* (\$1,664 million designated as *Held-for-trading securities* and \$262 million classified in *Available-for-sale securities* as at October 31, 2010). The increase in the face value of the restructured notes of the MAV conduits during the first nine months of fiscal 2011 was mainly due to restructured notes taken back from clients who had credit facilities backed by these notes, mitigated by capital repayments and certain write-offs.

The table below provides a breakdown of the face value of the restructured notes of the MAV conduits held by the Bank:

	As at July 31, 2011	As at October 31, 2010
<b>MAV I</b>		
Class A-1	599	601
Class A-2	553	553
Class B	94	94
Class C	39	39
IA tracking notes for ineligible assets	33	44
<b>Total MAV I</b>	<b>1,318</b>	<b>1,331</b>
<b>MAV II</b>		
Class A-1	114	106
Class A-2	96	87
Class B	20	18
Class C	8	7
IA tracking notes for ineligible assets	26	12
<b>Total MAV II</b>	<b>264</b>	<b>230</b>
<b>MAV III</b>		
TA tracking notes for traditional assets	42	53
IA tracking notes for ineligible assets	218	171
<b>Total MAV III</b>	<b>260</b>	<b>224</b>
ABCP not included in the Pan-Canadian restructuring plan	152	141
<b>Total</b>	<b>1,994</b>	<b>1,926</b>

The Bank has committed to contribute \$911 million to a margin funding facility related to the MAV conduits in order to finance potential collateral calls. As at July 31, 2011, no amount had been advanced by the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

NOTE 6 MASTER ASSET VEHICLES (CONT.)

**Establishing Fair Value**

The carrying value of the restructured notes of the MAV conduits held by the Bank in an investment portfolio as at July 31, 2011, designated as *Held-for-trading securities*, was \$1,161 million, and \$84 million was classified in *Available-for-sale securities* (\$1,147 million designated as *Held-for-trading securities* and \$53 million classified in *Available-for-sale securities* as at October 31, 2010). The notes held in an investment portfolio with one or more embedded derivatives were designated as *Held-for-trading securities* under the fair value option, and the other notes were classified in *Available-for-sale securities*. The Bank took back restructured notes of the MAV conduits related to the credit facilities at a fair value of \$6 million during the third quarter of 2011.

The table below provides a breakdown of the carrying value of the restructured notes of the MAV conduits held by the Bank:

	As at July 31, 2011	As at October 31, 2010
MAV I and MAV II	1,127	1,118
MAV III	76	44
ABCP not included in the Pan-Canadian restructuring plan	42	38
Carrying value of the notes	1,245	1,200
Margin funding facilities	(49)	(55)
<b>Total</b>	<b>1,196</b>	<b>1,145</b>

In establishing the fair value of restructured notes of the MAV conduits, the Bank applied the same methodology used as at October 31, 2010, adjusted to take into account the effects of broker quotes and market conditions on the MAV II Class A-1, A-2, B and C notes. For more detailed information, refer to Note 9 to the audited consolidated financial statements of the 2010 Annual Report. Since the carrying value of the restructured notes of the MAV conduits designated as *Held-for-trading securities* was within the range of the estimated fair value, no change was made to the carrying value as at July 31, 2011. The credit ratings of the MAV I and MAV II Class A-1 notes were maintained at "A (high) (sf)" and the credit ratings of the MAV I and MAV II Class A-2 notes remained unchanged at "A (sf)" and "BBB (low) (sf)." On June 1, 2011, the credit ratings of the MAV I Class A-1 notes and the MAV II Class A-1 and A-2 notes were listed as "under review with positive implications."

The Bank's valuation was based on its assessment of the conditions prevailing as at July 31, 2011, which may change in subsequent periods. The most significant assumptions used to determine the fair value of the restructured notes are observable discount rates, the credit ratings of the notes, and the broker quotes on the MAV II Class A-1, A-2, B and C notes. Furthermore, there may be valuation uncertainty resulting from the choice of the valuation model used. The sensitivities of these assumptions on fair value as at July 31, 2011 are as follows:

- a 10-basis-point change in the discount rate would result in a \$7 million decrease or increase in the fair value;
- a decrease in the credit rating by one letter grade would result in a decrease in the fair value between a range of \$30 million to \$60 million;
- an increase in the credit rating by one letter grade would result in an increase in the fair value between a range of \$25 million to \$40 million;
- a 1% change in the liquidity spread would result in a \$1 million decrease or increase in the fair value;
- a 10% change in the weighting used to determine the established discount rate would result in a \$15 million decrease or increase in the fair value;
- a 10% change in the weighting attributed to the established discount rate and the broker quotes on the MAV II Class A-1, A-2, B and C notes would result in an \$18 million decrease or increase in the fair value; and
- a 1% change in the broker quotes on the MAV II Class A-1, A-2, B and C notes would result in a \$2 million decrease or increase in the fair value.

Determining the fair value of restructured notes of the MAV conduits is complex and involves an extensive process that uses quantitative modelling and relevant assumptions. Factors that could have a significant impact on the future value include (1) changes in the value of the underlying assets, (2) changes regarding the liquidity of restructured notes of the MAV conduits that are not currently traded on an active market, (3) the impacts of a marked and prolonged economic slowdown in North America, and (4) changes in legislation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

NOTE 6 MASTER ASSET VEHICLES (CONT.)

**Credit Facilities to Clients Holding Restructured Notes of the MAV Conduits**

As at July 31, 2011, credit facilities outstanding provided to clients holding restructured notes of the MAV conduits stood at \$51 million (\$85 million as at April 30, 2011 and \$143 million as at October 31, 2010) and the allowances for credit losses totalled \$32 million (\$77 million as at April 30, 2011 and \$121 million as at October 31, 2010). The \$45 million decrease recognized during the third quarter of 2011 results from the reversal of the allowances for credit losses taken for loans and credit facilities secured by restructured notes of the MAV conduits for an amount of \$15 million and from write-offs of allowances for credit losses on restructured notes of the MAV conduits relating to credit facilities taken back by the Bank. In total, the collateral related to the credit facilities offered to clients is estimated as follows:

	As at July 31, 2011		
	Face value of the notes	Credit facilities backed by IA tracking notes <sup>(1)</sup>	Credit facilities backed by restructured notes of the MAV conduits <sup>(2)</sup>
<b>Collateral</b>			
<b>MAV II</b>			
Class A-1	188	-	159
Class A-2	206	-	171
Class B	24	-	18
Class C	9	-	6
IA tracking notes for ineligible assets	22	16	-
<b>Total MAV II</b>	<b>449</b>	<b>16</b>	<b>354</b>
<b>MAV III</b>			
TA tracking notes for traditional assets	13	-	10
IA tracking notes for ineligible assets	38	27	-
<b>Total MAV III</b>	<b>51</b>	<b>27</b>	<b>10</b>
<b>Total</b>	<b>500</b>	<b>43</b>	<b>364</b>

	As at October 31, 2010		
	Face value of the notes	Credit facilities backed by IA tracking notes <sup>(1)</sup>	Credit facilities backed by restructured notes of the MAV conduits <sup>(2)</sup>
<b>Collateral</b>			
<b>MAV II</b>			
Class A-1	302	-	244
Class A-2	277	-	225
Class B	50	-	41
Class C	19	-	15
IA tracking notes for ineligible assets	107	70	-
<b>Total MAV II</b>	<b>755</b>	<b>70</b>	<b>525</b>
<b>MAV III</b>			
TA tracking notes for traditional assets	15	-	13
IA tracking notes for ineligible assets	110	79	-
<b>Total MAV III</b>	<b>125</b>	<b>79</b>	<b>13</b>
<b>Total</b>	<b>880</b>	<b>149</b>	<b>538</b>

(1) These credit facilities represent 75% of the face value of the notes and are guaranteed by the notes, less repayment of their capital.

(2) These credit facilities represent 75% of the face value of the notes, of which 30% are full recourse to the borrower and 45% guaranteed by the notes, less repayment of their capital.

CONSOLIDATED FINANCIAL STATEMENTS  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(unaudited) (millions of dollars)

## NOTE 7

### LOANS

#### CREDIT QUALITY OF LOANS

	As at July 31, 2011			
	Residential mortgage	Personal and credit card	Business and government <sup>(1)</sup>	Total
Neither past due nor impaired <sup>(2)</sup>	16,987	21,877	22,614	61,478
Past due but not impaired <sup>(2)</sup>	185	231	215	631
Impaired	35	46	301	382
	17,207	22,154	23,130	62,491
Less: Specific allowances	4	22	194	220
<b>Subtotal</b>	<b>17,203</b>	<b>22,132</b>	<b>22,936</b>	<b>62,271</b>
Less: General allowance <sup>(3)</sup>				340
<b>Total</b>				<b>61,931</b>

	As at October 31, 2010			
	Residential mortgage	Personal and credit card	Business and government <sup>(1)</sup>	Total
Neither past due nor impaired <sup>(2)</sup>	15,613	20,243	20,955	56,811
Past due but not impaired <sup>(2)</sup>	164	258	222	644
Impaired	29	48	292	369
	15,806	20,549	21,469	57,824
Less: Specific allowances	4	25	178	207
<b>Subtotal</b>	<b>15,802</b>	<b>20,524</b>	<b>21,291</b>	<b>57,617</b>
Less: General allowance <sup>(3)</sup>				429
<b>Total</b>				<b>57,188</b>

- (1) Business credit portfolios are closely monitored and a monthly watchlist of problem commitments is produced. This watchlist is analyzed by the loan portfolio managers concerned, who must then submit a report to Credit Risk Management.
- (2) A loan is considered to be past due when the counterparty has not made a payment the day of the contractual expiry date.
- (3) The general allowance for credit risk was established taking into account the Bank's overall credit portfolio, except for an amount for loans and credit facilities secured by restructured notes of the MAV conduits.

#### LOANS PAST DUE BUT NOT IMPAIRED

	As at July 31, 2011			As at October 31, 2010		
	Residential mortgage	Personal and credit card	Business and government	Residential mortgage	Personal and credit card	Business and government
Past due but not impaired						
1 month late	88	82	81	72	94	96
2 months late	27	32	61	26	36	53
3 months late and more <sup>(1)</sup>	70	117	73	66	128	73
<b>Total</b>	<b>185</b>	<b>231</b>	<b>215</b>	<b>164</b>	<b>258</b>	<b>222</b>

- (1) Includes fully secured loans for which, in the opinion of management, there is no reasonable doubt as to the ultimate collectibility of the principal or interest. Credit card receivables are included in this category because they are written off only when payment is 180 days in arrears.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

NOTE 7 LOANS (CONT.)

IMPAIRED LOANS

	As at July 31, 2011			As at October 31, 2010		
	Gross	Specific allowances	Net	Gross	Specific allowances	Net
Loans						
Residential mortgage	35	4	31	29	4	25
Personal and credit card	46	22	24	48	25	23
Business and government	301	194	107	292	178	114
<b>Total</b>	<b>382</b>	<b>220</b>	<b>162</b>	<b>369</b>	<b>207</b>	<b>162</b>

ALLOWANCES FOR CREDIT LOSSES

	Nine months ended July 31, 2011			
	Residential mortgage	Personal and credit card	Business and government	Total
Specific allowances at beginning	4	25	178	207
Provisions for credit losses	(3)	57	44	98
Write-offs	(1)	(44)	(33)	(78)
Write-offs on credit cards	-	(70)	-	(70)
Recoveries	4	54	5	63
Specific allowances at end	4	22	194	220
General allowance at beginning <sup>(1)</sup>				429
Write-offs				(74)
Reversal <sup>(2)</sup>				(15)
General allowance at end <sup>(3)</sup>				340
<b>Allowances at end</b>				<b>560</b>

	Nine months ended July 31, 2010			
	Residential mortgage	Personal and credit card	Business and government	Total
Specific allowances at beginning	3	23	158	184
Provisions for credit losses	(5)	75	37	107
Write-offs	(1)	(44)	(28)	(73)
Write-offs on credit cards	-	(79)	-	(79)
Recoveries	5	50	9	64
Specific allowances at end	2	25	176	203
General allowance at beginning <sup>(4)</sup>				456
Recoveries (write-offs), net				(4)
General allowance at end <sup>(5)</sup>				452
<b>Allowances at end</b>				<b>655</b>

- (1) The general allowance for credit risk was established taking into account the Bank's overall credit portfolio, except for an amount of \$121 million for loans and credit facilities secured by restructured notes of the MAV conduits.
- (2) During the quarter ended July 31, 2011, there was a \$15 million reversal of allowances for credit losses taken for loans and credit facilities secured by restructured notes of the MAV conduits.
- (3) The general allowance for credit risk was established taking into account the Bank's overall credit portfolio, except for an amount of \$32 million for loans and credit facilities secured by restructured notes of the MAV conduits.
- (4) The general allowance for credit risk was established taking into account the Bank's overall credit portfolio, except for an amount of \$148 million for loans and credit facilities secured by restructured notes of the MAV conduits.
- (5) The general allowance for credit risk was established taking into account the Bank's overall credit portfolio, except for an amount of \$144 million for loans and credit facilities secured by restructured notes of the MAV conduits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

**NOTE 8**

**TRANSFERS OF RECEIVABLES**

**New Securitization Activities**

Insured mortgage loans and credit card receivables

The Bank securitizes insured residential mortgage loans by creating mortgage-backed securities. Under a 1998 agreement, it also sells credit card receivables to a trust on a revolving basis. The pre-tax gain or loss from securitization transactions, net of transaction fees, is recognized in the Consolidated Statement of Income under *Securitization revenues*.

Securitization activities for the quarter ended	July 31, 2011	April 30, 2011	July 31, 2010	
	Insured mortgage loans	Insured mortgage loans	Insured mortgage loans	Credit card receivables
Net cash proceeds	1,222	935	958	547 <sup>(1)</sup>
Asset-backed securities purchased <sup>(2)</sup>	-	-	-	37
Retained rights to future excess interest	58	42	40	17
Retained servicing liability	(8)	(5)	(5)	(3)
	<b>1,272</b>	<b>972</b>	<b>993</b>	<b>598</b>
Receivables securitized and sold	<b>1,244</b>	<b>947</b>	<b>968</b>	<b>587</b>
Gain before income taxes, net of transaction fees	<b>28</b>	<b>25</b>	<b>25</b>	<b>11</b>
Mortgage-backed securities created and retained included in <i>Available-for-sale securities</i>	<b>8</b>	<b>94</b>	<b>488</b>	<b>-</b>

Securitization activities for the nine months ended	July 31, 2011	July 31, 2010	
	Insured mortgage loans	Insured mortgage loans	Credit card receivables
Net cash proceeds	3,090	2,970	547 <sup>(1)</sup>
Asset-backed securities purchased <sup>(2)</sup>	-	-	37
Retained rights to future excess interest	158	143	17
Retained servicing liability	(19)	(17)	(3)
	<b>3,229</b>	<b>3,096</b>	<b>598</b>
Receivables securitized and sold	<b>3,142</b>	<b>3,002</b>	<b>587</b>
Gain before income taxes, net of transaction fees	<b>87</b>	<b>94</b>	<b>11</b>
Mortgage-backed securities created and retained included in <i>Available-for-sale securities</i>	<b>288</b>	<b>488</b>	<b>-</b>

(1) The net cash proceeds received is equal to the gross proceeds of \$587 million, less the \$37 million used to purchase the securities issued by the Trust and the transaction fees.

(2) These securities are presented under *Available-for-sale securities* in the Consolidated Balance Sheet.

CONSOLIDATED FINANCIAL STATEMENTS  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(unaudited) (millions of dollars)

**NOTE 8 TRANSFERS OF RECEIVABLES (CONT.)**

**Impact of Securitization Activities on Certain Items in the Consolidated Statement of Income**

Securitization revenues for the quarter ended July 31	2011		2010		2011		2010	
	Gains on sale of assets		Servicing revenues		Other		Total	
Insured mortgage loans	28	25	6	5	-	-	34	30
Credit card receivables <sup>(1)</sup>	32	30	7	4	1	4	40	38
<b>Total</b>	<b>60</b>	<b>55</b>	<b>13</b>	<b>9</b>	<b>1</b>	<b>4</b>	<b>74</b>	<b>68</b>

Securitization revenues for the nine months ended July 31	2011		2010		2011		2010	
	Gains on sale of assets		Servicing revenues		Other		Total	
Insured mortgage loans	87	94	18	15	-	-	105	109
Credit card receivables <sup>(1)</sup>	91	66	19	16	5	5	115	87
<b>Total</b>	<b>178</b>	<b>160</b>	<b>37</b>	<b>31</b>	<b>5</b>	<b>5</b>	<b>220</b>	<b>196</b>

(1) Revolving securitization transactions.

**Key Assumptions**

The key assumptions used to measure the fair value of retained rights to future excess interest as at the securitization date for transactions carried out during the quarter ended July 31, 2011 were as follows:

	Insured mortgage loans		Credit card receivables
	Variable rate	Fixed rate	
Weighted average term (months)	33.1	31.0	-
Payment rate (per month)	-	-	31.3 %
Prepayment rate	19.0 %	18.0 %	-
Excess spread, net of credit losses	1.0 %	2.2 %	12.4 %
Expected credit losses	-	-	5.3 %
Discount rate	1.5 %	1.9 %	17.0 %

**Other Transfers**

The Bank sells insured and uninsured mortgage loans to a mutual fund administered by the Bank. The pre-tax gain or loss is recorded in *Other income – Other* in the Consolidated Statement of Income.

	Quarter ended			Nine months ended	
	July 31, 2011	April 30, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Net cash proceeds	-	-	-	-	77
Uninsured mortgage loans sold	-	-	-	-	76
<b>Gain before income taxes</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

**NOTE 9****VARIABLE INTEREST ENTITY**

During the nine months ended July 31, 2011, the Bank issued US\$1.0 billion in covered bonds. A variable interest entity (VIE) was created to guarantee the payments of principal and interest due to the bondholders. During the first nine months of fiscal 2011, the Bank sold insured residential mortgages to this VIE and granted it a loan to facilitate the acquisition of these assets. The Bank must consolidate this VIE according to the rules of Accounting Guideline No. 15, *Consolidation of Variable Interest Entities* (AcG-15), because it is the primary beneficiary of the entity. The Bank has limited access to the assets owned by this VIE according to the terms of the agreements that apply to this transaction. The assets owned by this entity, totalling \$1.7 billion as at July 31, 2011, of which \$1.6 billion is presented under *Residential mortgage loans* on the Consolidated Balance Sheet. The covered bonds, totalling \$1.0 billion as at July 31, 2011, are presented in *Deposits – Business and government* on the Consolidated Balance Sheet. The assets pledged as collateral for this transaction amounted to \$1.1 billion.

**NOTE 10****FINANCIAL INSTRUMENTS DESIGNATED AS HELD-FOR-TRADING****Securities**

The fair value of restructured notes of the MAV conduits with one or more embedded derivatives, designated as *Held-for-trading securities* under the fair value option, was \$1.2 billion as at July 31, 2011 (\$1.1 billion as at October 31, 2010). Refer to Note 6 for additional information on the change in fair value. No change in fair value was recorded in the Consolidated Statement of Income.

**Loans containing embedded derivatives**

During the quarter ended July 31, 2011, the Bank designated certain loans with one or more embedded derivatives as held-for-trading with an initial cost of \$7 million. These loans are included under assets in *Loans* in the Consolidated Balance Sheet. There is no exposure to credit risk because these loans are fully collateralized. As at July 31, 2011, the total fair value of these loans was \$7 million. The change in fair value was negligible for the quarter ended July 31, 2011 and was recorded as a gain in *Trading revenues (losses)* in the Consolidated Statement of Income.

**Deposits**

Certain deposits with one or more embedded derivatives are designated as held-for-trading under the fair value option. These deposits are included in the *Deposits* liability item on the Consolidated Balance Sheet. The fair value of these deposits was \$594 million as at July 31, 2011 (\$627 million as at October 31, 2010). The \$14 million change in fair value for the quarter ended July 31, 2011 was recognized as a gain and that of \$1 million for the nine months ended July 31, 2011 was recognized as a loss in *Trading revenues (losses)* in the Consolidated Statement of Income (\$15 million loss for the quarter ended July 31, 2010 and \$44 million loss for the nine months ended July 31, 2010). The change in fair value attributable to credit risk represents a negligible unrealized gain for the quarter ended July 31, 2011 (\$1 million unrealized gain for the quarter ended July 31, 2010) and an unrealized loss of \$2 million for the nine months ended July 31, 2011 (\$5 million unrealized gain for the nine months ended July 31, 2010).

The amount at maturity, which the Bank is contractually required to pay to the holders of these deposits, is variable and will be different from the fair value as at July 31, 2011.

**NOTE 11****SUBORDINATED DEBENTURES**

On January 25, 2011, the Bank repurchased for cancellation a total of US\$10 million in subordinated debentures maturing in February 2087 and a \$4 million gain was recognized in the Consolidated Statement of Income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

**NOTE 12**

**NON-CONTROLLING INTERESTS**

	As at July 31, 2011	As at October 31, 2010
Trust units issued by NBC Asset Trust (NBC CapS II)		
Series 1	400	400
Series 2	350	350
Mutual funds consolidated in accordance with AcG-15	28	199
Other entities consolidated in accordance with AcG-15	141	225
Other	26	25
<b>Total</b>	<b>945</b>	<b>1,199</b>

**NOTE 13**

**CAPITAL STOCK**

	As at July 31, 2011		Nine months ended July 31, 2011	
	Number of shares	Shares \$	Dividends \$	Dividends per share
First Preferred Shares				
Series 15	8,000,000	200	9	1.0969
Series 16	8,000,000	200	7	0.9094
Series 20	6,900,000	173	8	1.1250
Series 21	3,410,861	85	6	1.0078
Series 24	2,425,880	61	7	1.2375
Series 26	1,724,835	43	5	1.2375
	<b>30,461,576</b>	<b>762</b>	<b>42</b>	
Common shares	<b>162,298,373</b>	<b>2,036</b>	<b>331</b>	<b>2.0300</b>
			<b>373</b>	

**Issuance of Common Shares**

As part of the Wellington West Holdings Inc. acquisition concluded on July 15, 2011, the Bank issued 2,149,108 common shares for a total of \$171 million. All of these common shares were placed in escrow in the name of the vendors and will be paid contingent on certain criteria being met. The Bank expects that the conditions will be met and that the shares placed in escrow will be released over the next four fiscal years.

**Repurchase of Preferred Shares**

On February 24, 2011, the Bank announced an offer to repurchase for cancellation all of the issued and outstanding non-cumulative 5-year rate reset Series 21, 24, and 26 First Preferred Shares. Under the offer, the shares were to be purchased at premium over the pre-announcement closing prices plus the periodic dividend declared and unpaid. The offer expired on April 26, 2011. During the quarter ended April 30, 2011 the Bank had completed the repurchase of 4,639,139 Series 21 preferred shares, 4,374,120 Series 24 preferred shares and 4,075,165 Series 26 preferred shares for a total amount of \$361 million, which reduced *Preferred capital stock* by \$327 million and *Retained earnings* by \$34 million.

**Repurchase of Common Shares**

On July 28, 2011, the Bank received approval from the Toronto Stock Exchange and the Office of the Superintendent of Financial Institutions (Canada) to amend the terms of its current normal course issuer bid. The amendment increases the maximum number of issued and outstanding common shares of the Bank that can be repurchased to 7,127,132 common shares. Pursuant to the initial normal course issuer bid announced on January 27, 2011, the Bank was authorized to repurchase up to 4,903,162 common shares over the 12-month period that began on February 1, 2011 and will end by January 31, 2012. On February 1, 2010, the Bank had filed a normal course issuer bid to repurchase for cancellation up to 3,222,932 common shares over the 12-month period that ended January 31, 2011. The shares were repurchased on the free market at market prices through the Toronto Stock Exchange. Premiums paid above the average book value of the common shares were recorded to *Retained earnings*. During the nine months ended July 31, 2011 the Bank completed the repurchase of 4,383,100 common shares for an amount of \$340 million, which reduced *Common capital stock* by \$51 million and *Retained earnings* by \$289 million. During the nine months ended July 31, 2010, the Bank had not repurchased any common shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

**NOTE 14**

**PENSION BENEFITS AND OTHER EMPLOYEE FUTURE BENEFITS**

	Quarter ended			Nine months ended	
	July 31, 2011	April 30, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Pension benefit expense	8	8	8	25	24
Other employee future benefit expense	2	2	2	5	6

**NOTE 15**

**STOCK-BASED COMPENSATION**

**Stock Option Plan**

During the nine months ended July 31, 2011, the Bank awarded 1,623,808 stock options (1,863,160 stock options during the nine months ended July 31, 2010) with a fair value of \$12.14 per option (\$10.96 in 2010). As at July 31, 2011, a total of 7,984,266 stock options were outstanding (8,894,308 stock options as at July 31, 2010).

The fair value of options awarded was estimated on the award date using the discrete dividend Black-Scholes model. The following assumptions were used:

Nine months ended July 31	2011	2010
Risk-free interest rate	2.82 %	2.85 %
Expected life of the options	6 years	6 years
Expected volatility	25.5 %	29.5 %
Expected dividend yield	3.8 %	4.1 %

	Quarter ended			Nine months ended	
	July 31, 2011	April 30, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Compensation expense recorded for stock options	4	4	3	11	9

**NOTE 16**

**RESTRUCTURING CHARGES**

During the fourth quarter of 2010, National Bank Financial, a subsidiary of the Bank, began restructuring certain operations, the objective being to improve and concentrate certain activities in market sectors identified as key sectors. The reorganization will be finalized in fiscal 2011. The amounts presented for the first nine months of 2010 are related to the restructuring charges recorded during fiscal 2008.

Changes in the provision for restructuring charges are presented in the following table:

Nine months ended July 31	2011			2010
	Severance pay	Other charges	Total	Total
Balance at beginning	21	1	22	10
Charges during the first nine months of 2011	2	-	2	-
Payments made during the first nine months of 2011	(11)	(1)	(12)	(8)
<b>Balance at end</b>	<b>12</b>	<b>-</b>	<b>12</b>	<b>2</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of dollars)

**NOTE 17**

**EARNINGS PER SHARE**

Diluted earnings per share is calculated by dividing net income available 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 repurchases of preferred shares.

	Quarter ended			Nine months ended	
	July 31, 2011	April 30, 2011	July 31, 2010	July 31, 2011	July 31, 2010
<b>Basic earnings per common share</b>					
Net income	312	295	271	919	747
Dividends on preferred shares	10	16	16	42	48
Premium paid on preferred shares repurchased for cancellation	-	34	-	34	-
Net income available to common shareholders	302	245	255	843	699
Weighted average basic number of common shares outstanding (thousands)	162,164	163,414	162,133	162,868	161,947
<b>Basic earnings per common share (dollars)</b>	<b>1.86</b>	<b>1.50</b>	<b>1.57</b>	<b>5.18</b>	<b>4.32</b>
<b>Diluted earnings per common share</b>					
Net income available to common shareholders	302	245	255	843	699
Weighted average basic number of common shares outstanding (thousands)	162,164	163,414	162,133	162,868	161,947
Adjustment to average number of common shares (thousands)					
Stock options <sup>(1)</sup>	2,078	1,980	1,126	1,887	1,250
Weighted average diluted number of common shares outstanding (thousands)	164,242	165,394	163,259	164,755	163,197
<b>Diluted earnings per common share (dollars)</b>	<b>1.84</b>	<b>1.48</b>	<b>1.56</b>	<b>5.12</b>	<b>4.28</b>

- (1) For the quarter ended July 31, 2011, 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 calculation of the diluted earnings per share (none for the quarter ended April 30, 2011 and 3,683,791 average options outstanding with a weighted average exercise price of \$61.38 for the quarter ended July 31, 2010 were excluded). For the nine months ended July 31, 2011, the calculation of the diluted earnings per share excluded 547,217 average options outstanding with a weighted average exercise price of \$68.67 (2,516,603 average options outstanding with a weighted average exercise price of \$62.81 for the nine months ended July 31, 2010) as the exercise price of these options was greater than the average price of the Bank's common shares.

CONSOLIDATED FINANCIAL STATEMENTS  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(unaudited) (millions of dollars)

## NOTE 18

### SEGMENT DISCLOSURES

Quarter ended July 31	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
Net interest income <sup>(1)</sup>	401	381	32	29	164	222	(125)	(130)	472	502
Other income	244	245	176	159	157	81	54	70	631	555
Total revenues	645	626	208	188	321	303	(71)	(60)	1,103	1,057
Operating expenses	367	356	155	146	186	172	10	10	718	684
Contribution	278	270	53	42	135	131	(81)	(70)	385	373
Provisions for credit losses	44	45	-	-	-	(4)	(33)	(13)	11	28
Income (loss) before income taxes (recovery) and non-controlling interests	234	225	53	42	135	135	(48)	(57)	374	345
Income taxes (recovery) <sup>(1)</sup>	66	66	15	13	41	45	(69)	(60)	53	64
Non-controlling interests	-	-	1	-	(7)	(4)	15	14	9	10
Net income (loss)	168	159	37	29	101	94	6	(11)	312	271
Average assets	67,937	61,556	1,019	959	104,747	95,787	(15,494)	(13,389)	158,209	144,913

Nine months ended July 31	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
Net interest income <sup>(2)</sup>	1,182	1,120	95	78	566	610	(381)	(382)	1,462	1,426
Other income	714	697	553	499	515	385	158	184	1,940	1,765
Total revenues	1,896	1,817	648	577	1,081	995	(223)	(198)	3,402	3,191
Operating expenses	1,079	1,046	472	454	546	481	49	122	2,146	2,103
Contribution	817	771	176	123	535	514	(272)	(320)	1,256	1,088
Provisions for credit losses	154	154	-	-	(5)	-	(66)	(47)	83	107
Income (loss) before income taxes (recovery) and non-controlling interests	663	617	176	123	540	514	(206)	(273)	1,173	981
Income taxes (recovery) <sup>(2)</sup>	189	186	49	40	157	159	(185)	(192)	210	193
Non-controlling interests	-	-	3	2	(1)	(3)	42	42	44	41
Net income (loss)	474	431	124	81	384	358	(63)	(123)	919	747
Average assets	66,138	60,327	1,022	930	102,931	92,378	(15,650)	(14,084)	154,441	139,551

#### Personal and Commercial

The Personal and Commercial segment comprises the branch network, intermediary services, credit cards, insurance, business banking services, and real estate.

#### Wealth Management

The Wealth Management segment comprises full-service retail brokerage, direct brokerage, mutual funds, trust services, and portfolio management.

#### Financial Markets

The Financial Markets segment encompasses corporate financing and lending, trading activities, treasury operations, including asset and liability management for the Bank, and corporate brokerage.

#### Other

This heading comprises securitization transactions, certain non-recurring items, and the unallocated portion of corporate services.

#### Taxable Equivalent

- (1) The accounting policies are the same as those presented in Note 1, with the exception of the net interest income and income taxes (recovery) of the operating segments, which are presented on a taxable equivalent basis. Taxable equivalent basis is a calculation method that consists in grossing up certain tax-exempt income by the amount of income tax that would have been otherwise payable. For all of the operating segments, net interest income was grossed up by \$39 million (\$55 million in 2010). An equivalent amount was added to income taxes (recovery). The impact of these adjustments is reversed under the *Other* heading.
- (2) For the nine months ended July 31, 2011, net interest income was grossed up by \$138 million (\$148 million in 2010). An equivalent amount was added to income taxes (recovery). The impact of these adjustments is reversed under the *Other* heading.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited) (millions of dollars)

**NOTE 19**

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**ACQUISITION**

On July 15, 2011, the Bank finalized the acquisition of all the shares it did not own (82%) in Wellington West Holdings Inc., the parent company of several companies active in the Wealth Management and Financial Markets segments. The purchase price was \$276 million, subject to a post-transaction adjustment based on adjusted working capital. The purchase price consisted of \$105 million in cash (including \$22 million in escrow), including direct acquisition costs of \$4 million, and 2,149,108 Bank common shares issued and placed in escrow valued at \$171 million. These shares will be released contingent on certain criteria being met. The Bank expects the conditions to be met and that the shares in escrow will be released over the next four fiscal years.

Net assets acquired include intangible assets in the form of client lists totalling approximately \$15 million. The total amount by which the purchase price exceeded the fair value of net assets acquired, approximately \$221 million, was recorded in the Consolidated Balance Sheet under goodwill. At the date of these consolidated financial statements, the purchase price allocation process had not yet been finalized.

# 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, 7<sup>th</sup> Floor

Montreal, Quebec H3B 4L2

Toll-free: 1-866-517-5455

Fax: 514-394-6196

E-mail: [investorrelations@nbc.ca](mailto:investorrelations@nbc.ca)

Website: [www.nbc.ca/investorrelations](http://www.nbc.ca/investorrelations)

## Public Relations

600 De La Gauchetière Street West, 10<sup>th</sup> Floor

Montreal, Quebec H3B 4L2

Telephone: 514-394-8644

Fax: 514-394-6258

Website: [www.nbc.ca](http://www.nbc.ca)

General inquiries: [telnat@nbc.ca](mailto:telnat@nbc.ca)

## Quarterly Report Publication Dates for Fiscal 2011

(subject to approval by the Board of Directors of the Bank)

First quarter: February 24

Second quarter: May 26

Third quarter: August 25

Fourth quarter: December 8

## Disclosure of Third Quarter 2011 Results

### Conference Call

- A conference call for analysts and institutional investors will be held on August 25, 2011 at 1:30 p.m. EDT.
- Access by telephone in listen-only mode:  
1-866-226-1792 or 416-340-2216.
- A recording of the conference call can be heard until September 3, 2011 by dialing 1-800-408-3053 or 905-694-9451. The access code is 4304681#.

### Webcast

- The conference call will be webcast live at [www.nbc.ca/investorrelations](http://www.nbc.ca/investorrelations).
- A recording of the webcast will also be available on the Internet after the call.

### Financial Documents

- The quarterly financial statements are available at all times on National Bank's website at [www.nbc.ca/investorrelations](http://www.nbc.ca/investorrelations).
- The Report to Shareholders, Supplementary Financial Information and a slide presentation will be available on the Investor Relations page of National Bank's website shortly before the start of the conference call.

## Transfer Agent and Registrar

For information about stock transfers, address changes, dividends, lost certificates, tax forms, and estate transfers, shareholders are asked to contact the transfer agent, Computershare Trust Company of Canada, at the address or telephone number below.

### Computershare Trust Company of Canada

Share Ownership Management

1500 University Street, 7<sup>th</sup> Floor

Montreal, Quebec H3A 3S8

Telephone: 1-888-838-1407

Fax: 1-888-453-0330

E-mail: [service@computershare.com](mailto:service@computershare.com)

Website: [www.computershare.com](http://www.computershare.com)

### Direct Deposit Service for Dividends

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

### Dividend Reinvestment and Share Purchase Plan

The Bank has a Dividend Reinvestment and Share Purchase Plan for Canadian holders of its common and preferred shares under which they can acquire common shares of the Bank without paying commissions or administration fees. Participants acquire shares through the reinvestment of cash dividends paid on the shares they hold or through optional cash payments of at least \$500 per payment, up to a maximum of \$5,000 per quarter.

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

### Dividends

The dividends declared by the Bank constitute eligible dividends pursuant to the *Income Tax Act* (Canada).



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BANK**

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