EVERYTHING STARTS WITH AN IDEA

2015

ANNUAL REPORT

NATIONAL BANK

Powering your ideas

AT A GLANCE

National Bank of Canada is an integrated provider of financial services to retail, commercial, corporate and institutional clients. It operates in three business segments—Personal and Commercial, Wealth Management and Financial Markets—with total assets in excess of $216 billion as at October 31, 2015.

Through its nearly 20,000 employees, National Bank offers a complete range of services that include banking and investment solutions for individuals and businesses as well as securities brokerage, insurance and wealth management services.

National Bank is the leading bank in Quebec and the partner of choice for small and medium-sized enterprises. It is also the sixth largest bank in Canada with branches in almost every province. Clients in the United States, Europe and other parts of the world are served through a network of representative offices, subsidiaries and partnerships.

Its head office is located in Montreal and its securities are listed on the Toronto Stock Exchange.

National Bank by the numbers

19,764
EMPLOYEES

452
BRANCHES

930
BANKING MACHINES

2.4
MILLION
CLIENTS

358
BILLION $
ASSETS UNDER MANAGEMENT AND ADMINISTRATION

216
BILLION $
TOTAL ASSETS

5,746
MILLION $
TOTAL REVENUES

1,619
MILLION $
NET INCOME

14.6
BILLION $
MARKET CAPITALIZATION

FINANCIAL OVERVIEW

As at October 31 or for the year ended October 31 (millions of Canadian dollars, except per share amounts)	**2015**	2014	**% Change**
Operating results			
Total revenues	**5,746**	5,464	**5**
Net income	**1,619**	1,538	**5**
Diluted earnings per share	**$ 4.51**	$ 4.32	**4**
Return on common shareholders' equity	**16.9 %**	17.9 %	
Excluding specified i ems[(1)] **Operating results** (taxable equivalent basis)[(1)]			
Total revenues	**5,982**	5,638	**6**
Net income	**1,682**	1,593	**6**
Diluted earnings per share	**$ 4.70**	$ 4.48	**5**
Return on common shareholders' equity	**17.6 %**	18.5 %	
Efficiency ratio	**58.6 %**	58.6 %	
Dividends declared	**$ 2.04**	$ 1.88	
Total assets	**216,090**	205,429	**5**
Regulatory ratios			
Common Equity Tier 1 (CET1) capital ratio	**9.9 %**	9.2 %	
Leverage ratio	**3.7 %**		
Liquidity coverage ratio (LCR)	**131 %**		

(1) See the Financial Reporting Method section on page 12.

This year, National Bank employees and retirees logged over 100,000 hours of volunteer work.

HELPING OUR CLIENTS POWER THEIR IDEAS

- Tens of billions in debt financing made available to companies in Canada
- Leading-edge digital and mobile banking services
- New branch concepts where advice and technology converge

SUPPORTING THE COMMUNITY

- More than $25 million distributed to benefit communities
- Hundreds of organizations supported Canada-wide
- Committed to enhancing the impact of our social investments
- Active promotion of all forms of entrepreneurship

FUELLING ECONOMIC DEVELOPMENT

- $117 million invested in our facilities
- $1 billion spent on goods and services
- $2 billion paid in salaries and employee benefits

PROMOTING DIVERSITY

- Ongoing support of women, cultural communities, the LGBT community and persons with limitations
- Industry-leading representation of women among senior management and directors

HELPING PROTECT THE ENVIRONMENT

- Carbon neutral since 2011
- Widely recognized energy efficiency program
- Awarded several LEED® certifications

To learn more:
nbc.ca

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

National Bank achieved steady growth and good financial results across its three business segments in 2015 while strengthening its competitive position and implementing initiatives to ensure long-term success.

In 2015, having generated close to $6 billion in revenues, over $1.6 billion in net income, and return on equity of 17%, National Bank maintained its position among the major banks in North America and around the world.

Three Growing Segments

Personal and Commercial Banking achieved good loan and revenue growth, with net income and revenue increasing 6% and 5%, respectively. Mortgage activity remained strong and we experienced significant growth in mobile users and transactions while the addition of small business and commercial account managers contributed to increased volumes in these market segments.

Wealth Management's net income and revenues were up 5%, resulting mainly from higher fee-based revenues and net interest income. This segment continued to build momentum, notably by leveraging its open architecture platform in investment product manufacturing, as well as the launch of new offerings through the National Bank Financial investment advisor network across Canada.

Financial Markets experienced business growth, driving increases of 18% and 13% in net income and revenues, respectively. This segment again led the industry in government debt underwriting and infrastructure financing in Canada, and was notably lead arranger for the three largest Canadian public-private partnership projects currently underway in Regina, Toronto and Montreal.

In the fourth quarter, we announced a restructuring charge related to operational efficiency improvements across the Bank, which are expected to yield approximately $35 million in recurring pre-tax cost savings. We also issued equity to strengthen our capital ratio and provide additional flexibility to fund growth, positioning the Bank to sustain its financial performance entering 2016.

Navigating Change

For the past several years, we have been proactively transforming our organization in response to three drivers of change—digital technology, demographics and climate issues. All three have been driving change in our industry and in the economy, and the pace is accelerating at a time of stubbornly low growth at home and globally. The challenges and opportunities are many and we are ramping up our efforts to win.

> For the past several years, we have been proactively transforming our organization in response to three drivers of change—digital technology, demographics and climate issues.

The rapid adoption of digital technologies and mobile communications is driving a massive migration of transactional activities to virtual platforms, and new non-traditional competitors are entering the Canadian banking market. We are taking full advantage of emerging technologies to improve customer satisfaction by bringing advanced capabilities to our customers and our employees. We are also capturing significant operating efficiencies and redefining the role of our physical branch network, which continues to play a pivotal role in delivering our client promise.

Demographic change has been on our radar for years and we are well prepared. The Bank is capitalizing on rewarding business transfer opportunities with the retirement of a generation of entrepreneurs now underway—with hundreds of successful transactions under our belts in the past few years. Our digital distribution strategy is addressing the emerging generation of tech-savvy millennials and we are targeting recent arrivals to Canada with offers tailored to their particular needs. Internally, while we are managing through a wave of retirements across the organization, we can rely on our longstanding reputation as a top employer, in addition to adapted training and compensation programs, to attract and retain personnel with the right skills.

The challenge of climate change has risen to the top of the global agenda and we are contributing through the responsible management of our own operations, including the achievement of carbon neutrality, energy efficiency, and *LEED® Canada Existing Buildings: Operations & Maintenance Gold Certification* of our head office. We are also listed in two categories of the *Bloomberg New Energy Finance (BNEF) Clean Energy & Energy Smart Technology League Tables*. These are comprehensive benchmarks for identifying active clean energy investors, project financiers, investment banks and law firms.

Delivering on our Client Promise

As we reshape our organization in response to the rapidly evolving external environment, we remain focused on growth as a super-regional bank. We see more opportunities in Quebec and across Canada, despite the competitive nature of our markets, and for higher revenues from carefully selected international activities. Four priorities will drive our growth.

> As we reshape our organization in response to the rapidly evolving external environment, we remain focused on growth as a super-regional bank.

The first priority is to deliver on our client promise of accessibility, proactivity and simplicity. We are doing this by investing in new technologies and employee training, streamlining our processes and aligning our entire organization to be fully client-centric. Many initiatives have been rolled out in the past two years to bring us closer to the ultimate destination of our *One client, one bank* journey—having the ability to offer our clients the right products and services, at the right time, through the channel or channels of their choice, in a personalized and relevant way, every single time.

Growing in Quebec and Nationally

Our second priority is to grow in Quebec and across Canada.

In Quebec, growth will be generated through better execution across all three business segments, optimized use of our new capabilities and tools, and deeper client engagement. Outside Quebec, we are implementing several targeted initiatives that leverage our strengths, including further commercial lending penetration in specialty vertical markets where we have recognized expertise.

Our Private Banking 1859 wealth management unit is establishing a national footprint by opening a limited number of carefully selected storefront locations to cater to high-net-worth individuals in Western Canada. The first branches will open in Calgary and Vancouver in 2016 with more to follow in other cities.

We are also planning to locate retail banking resources in close proximity to NBF Wealth Management offices in additional Canadian markets, following the successful launch of this strategy in British Columbia.

Growing Internationally

The measured and disciplined expansion of our international activities is our third priority.

Our Credigy Ltd. subsidiary has increased revenues at a compound annual growth rate of 13% over the last five years. As larger banks seek to divest assets to shore up their capital, we will consider other attractive opportunities to leverage Credigy's business model and specialized skills.

We have invested $200 million in banks in Cambodia and Mauritius as well as in a banking and insurance group active mainly in West Africa. These investments in rapidly growing and underbanked developing markets will allow us to assess the prospects for replicating our super-regional model with respected partners who bring deep local knowledge and expertise to the relationship.

Our Financial Markets segment is also expanding its international reach. We will offer products and services such as Canadian issuer products as well as our structured notes and risk management solutions to international clients.

Growing with our Partners and Allies

Our fourth priority is to continue to engage partners and allies in innovative and mutually beneficial partnerships to broaden our distribution reach.

Over the past two decades, we have built a profitable business by providing banking products on a white-label basis to clients of other financial institutions, mainly outside Quebec. As a next step, we are looking to locate physical banking centres closer to the distribution channels of our partners, thereby deepening our relationships with them and establishing a National Bank presence in additional markets. We are also actively exploring partnerships with national retailers as an efficient way to increase our market penetration outside Quebec.

Our NBCN subsidiary, which provides clearing and back-office services to third parties, is a partner of choice for independent full-service brokers across the country and an important contributor to the performance of our Wealth Management segment. Our objective in the coming years is to grow NBCN revenues by forging partnerships with more independent investment counsellors and portfolio managers in Canada as they weigh the costs of self-clearing and regulatory compliance against our competitive and efficient services.

By executing against these four priorities, increasing operating efficiency, and exercising sound risk management, National Bank will be well-positioned to continue driving growth and sustaining its financial performance.

Supporting our Communities

For the Bank, our presence in our communities has always been about more than just business. We recognize our role and responsibility in building healthy and vibrant communities—and we are recognized for doing our part.

Over the years, we have supported many different causes in the areas of health, education, arts and culture and community well-being through donations and sponsorships. We will continue this legacy in a more focused way in the future by emphasizing youth, education and entrepreneurship.

> **Our presence in our communities has always been about more than just business. We recognize our role and responsibility in building healthy and vibrant communities—and we are recognized for doing our part.**

This year, we would like to highlight National Bank's support for the economic and social development of Aboriginal people across Canada. We acted as lead manager for the first two debenture issues by the First Nations Finance Authority, which raised $140 million to finance infrastructure and economic development projects in First Nations communities across Canada. This groundbreaking initiative has enabled First Nations to use own-source revenues to access long-term funding at rates similar to those obtained by major Canadian municipalities.

The Bank's investment in our communities is complemented by the generosity of our employees. Through generations, they have supported local organizations through volunteering and donations, and this spirit remains as strong as ever today.

Recognizing our Employees

Engaged employees are key to our future, and our selection among the *Best Employers in Canada* in 2015 for an 11th time attests to their commitment and confidence in our organization. We thank them for their confidence and for their dedication to our common vision.

Our leaders and employees are prepared to deliver on our 2016 priorities and sustain National Bank's ranking among the world's best-performing banks.

Louis Vachon
President and Chief Executive Officer

MESSAGE FROM THE CHAIRMAN OF THE BOARD

National Bank achieved solid financial results again in 2015, despite another year of low economic growth in Quebec and Canada. This performance reflects the strength of the Bank's super-regional model and its proven ability to seize opportunities while effectively managing risk. It also speaks to our experienced leadership and dedicated employees, key drivers of our continued success.

A Focused Bank

As part of its oversight role, the Board of Directors works closely with management in reviewing objectives, strategy and operating plans to ensure the Bank is always positioned to grow and generate excellent returns for shareholders. The Board provides advice and counsel, ensures that risks and opportunities are adequately weighed, and satisfies itself that both short-term imperatives and longer-term initiatives are properly assessed, supported and executed.

Among the matters requiring the Board's attention this past year were new initiatives to generate increased revenues outside Canada, through current and new structures. The Board was thorough in its due diligence before endorsing management's strategy, satisfied that the Bank's existing international activities have matured sufficiently to expand their scope. In addition, new investments made during the last 18 months in developing regions offer compelling opportunities to assess prospects in these growing, underbanked markets.

The Board has also been closely monitoring the opportunities and risks presented by the rapid consumer adoption of digital banking technologies and new competitive challenges in the financial services industry. In this context, National Bank completed a restructuring in the final months of fiscal 2015 to improve efficiency and processes that will generate substantial ongoing cost savings beginning in 2016. Unfortunately, job losses were involved, making it a difficult decision for management and the Board. In addition, the Bank completed a share offering in October 2015, a prudent and timely move to increase its capital ratio given the need to accelerate technology investments in an environment of continued low economic growth.

The year 2016 promises to be as challenging as 2015, if not more so. With the right leaders and a robust senior management succession plan in place, sound strategies and a focus on execution, the Bank will continue to build a successful long-term future.

A Focused Board

Strong governance supports National Bank's ambition to consistently deliver best-in-class returns. At all levels, in all processes and for all initiatives, sound governance practices help deliver the best results—whether in risk assessment, implementing a new technology platform or negotiating partnerships.

Our responsibility is to uphold and improve governance processes across the organization and the way we perform our responsibilities as directors. The Board that I have the privilege to chair has a clear objective—to be the best we can be in our oversight and support of management to achieve the best returns for shareholders.

Our Board can draw on a rich diversity of expertise and a large majority of independent directors. While relying on management for regular business updates and industry presentations, we also frequently hear from external experts on subjects of strategic interest to inform our internal deliberations and discussions with management. With continuous improvement and the future always in mind, the Board maintains an updated list of qualified director candidates and conducts a rigorous board succession planning exercise on an annual basis.

> **National Bank has one of the most diverse and inclusive boards among large Canadian public companies, with 44% female representation.**

Today, National Bank has one of the most diverse and inclusive boards among large Canadian public companies, with 44% female representation. The female ratio is similar for National Bank's senior management. Following the retirements of two longstanding directors next year, our Board will be comprised of six women and eight men. Moreover, the Chair of the Conduct Review and Corporate Governance Committee, one of four Board committees, is a woman. National Bank is ahead of the curve in gender diversity and our governance is stronger for it.

Acknowledgements

Lawrence S. Bloomberg, a director since 1999, and Roseann Runte, who joined the Board in 2001, will not stand for re-election at the 2016 Annual Meeting of Shareholders. Over the years, Lawrence S. Bloomberg has contributed to the Board's work through his vast financial markets expertise. And Roseann Runte benefitted the Board through her deep knowledge in the field of education and her governance expertise. We thank them both for their many years of dedicated and loyal service. During the year, we welcomed Andrée Savoie, who was elected as a director for the first time in the past year, bringing expertise in entrepreneurship to the Board.

As we end fiscal 2015 and embark on a new year, we wish to extend our sincere appreciation to all National Bank employees. The Bank is committed to being a top-ranked employer by creating diverse and inclusive workplaces where people can achieve their potential. Our efforts are reflected in the Bank's ranking among the *50 Best Employers in Canada*, the *Best Employers in Quebec*, the *Top Employers in Montreal* and *Best Diversity Employers in Canada*. The quality of our people is a competitive advantage, and we sincerely thank our employees for their hard work and diligence.

Jean Houde
Chairman of the Board of Directors

BOARD OF DIRECTORS AND OFFICE OF THE PRESIDENT

Board of Directors

Jean Houde
Montreal, Quebec, Canada
Corporate Director
Chairman of the Board of Directors,
National Bank of Canada
Director since March 2011

Raymond Bachand
Montreal, Quebec, Canada
Statregic Advisor and Corporate Director
Director since October 2014

Maryse Bertrand
Montreal, Quebec, Canada
Corporate Director
Director since April 2012

Lawrence S. Bloomberg
Toronto, Ontario, Canada
Advisor, National Bank Financial
Director since August 1999

Pierre Boivin
Montreal, Quebec, Canada
President and Chief Executive Officer,
Claridge Inc.
Director since April 2013

André Caillé
Lac-Brome, Quebec, Canada
Corporate Director
Director since October 2005

Gillian H. Denham
Toronto, Ontario, Canada
Corporate Director
Director since October 2010

Richard Fortin
Boucherville, Quebec, Canada
Corporate Director
Director since August 2013

Karen Kinsley
Ottawa, Ontario, Canada
Corporate Director
Director since December 2014

Louise Laflamme
Rosemère, Quebec, Canada
Corporate Director
Director since November 2008

Julie Payette
Montreal, Quebec, Canada
Director, Montreal Science Centre and
Vice-President MSC, Canada Lands Company
Director since April 2014

Roseann Runte
Ottawa, Ontario, Canada
President and Vice-Chancellor,
Carleton University
Director since April 2001

Lino A. Saputo jr
Montreal, Quebec, Canada
Chief Executive Officer and
Vice-Chairman of the Board of Directors,
Saputo Inc.
Director since April 2012

Andrée Savoie
Dieppe, New Brunswick, Canada
President and Managing Director,
Acadian Construction (1991) Ltd.
Director since April 2015

Pierre Thabet
St-Georges, Quebec, Canada
President, Boa-Franc inc.
Director since March 2011

Louis Vachon
Beaconsfield, Quebec, Canada
President and Chief Executive Officer,
National Bank of Canada
Director since August 2006

Office of the President

Louis Vachon
President and Chief Executive Officer

William Bonnell
Executive Vice-President,
Risk Management

Dominique Fagnoule
Executive Vice-President,
Information Technology and
Strategic Initiatives Office

Diane Giard
Executive Vice-President,
Personal and Commercial Banking

Brigitte Hébert
Executive Vice-President,
Operations

Lynn Jeanniot
Executive Vice-President,
Human Resources and Corporate Affairs

Karen Leggett
Chief Marketing Officer and
Executive Vice-President,
Corporate Development

Luc Paiement
Executive Vice-President,
Wealth Management;
Chair of the Board, President and Chief Executive Officer,
National Bank Financial Ltd.;
Co-President of the Board,
Co-President and Co-Chief Executive Officer,
National Bank Financial Inc.

Ghislain Parent
Chief Financial Officer and
Executive Vice-President,
Finance and Treasury

Ricardo Pascoe
Executive Vice-President,
Financial Markets

GOVERNANCE ARCHITECTURE

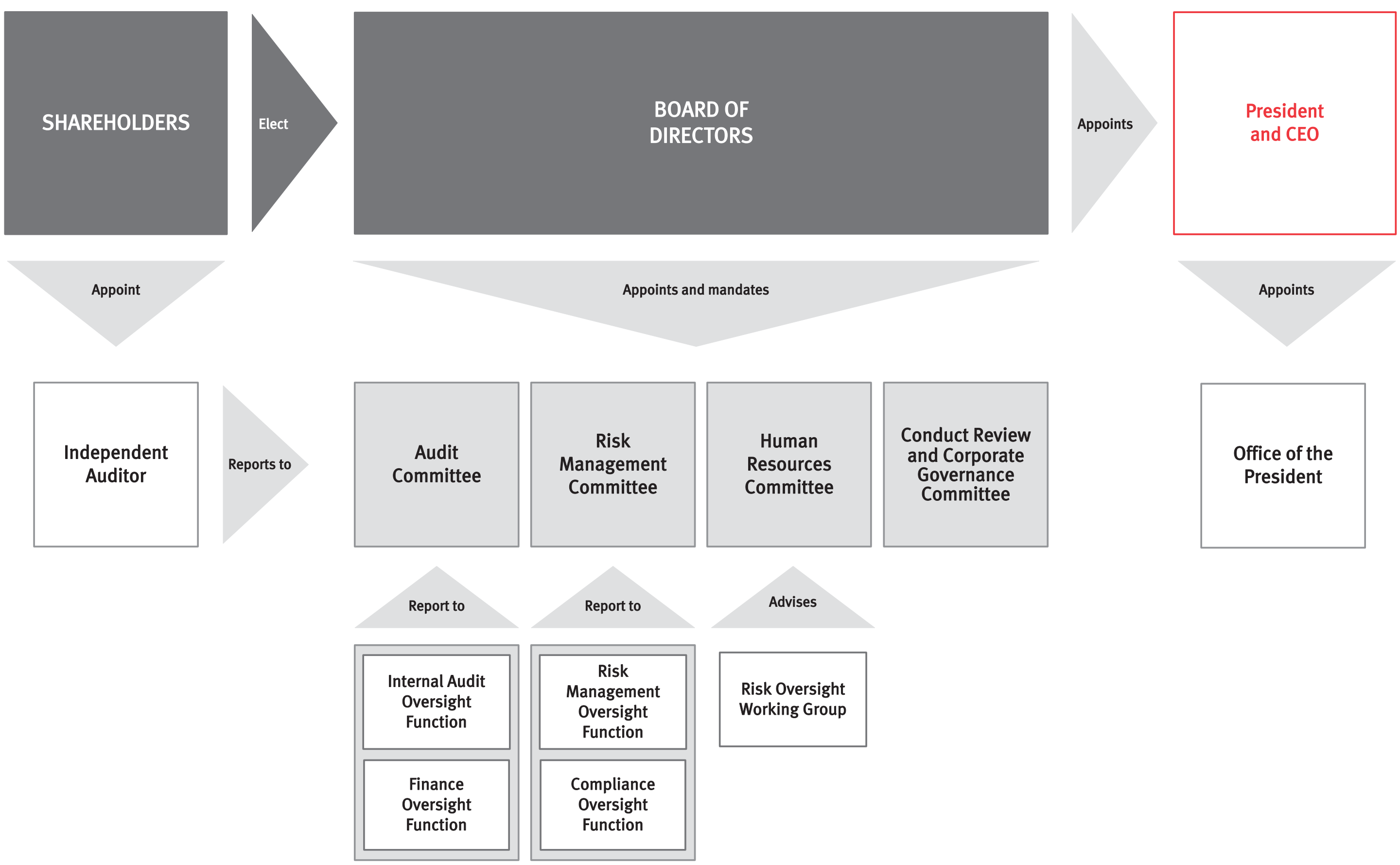
The main duties of the Bank's Board of Directors (the Board) consist of setting directions for the Bank, overseeing its management and operations, safeguarding its assets and ensuring its viability, profitability and development. As part of its responsibilities, the Board reviews and approves the objectives, strategy and business plans for the Bank's main operations by considering the business environment in which the Bank operates and the risks it faces. The Board promotes a culture of ethical business practices and integrity throughout the Bank, reviews the processes that ensure the Bank remains compliant with applicable legislation and regulations, and reviews and approves the Bank's governance practices. It also examines and approves the Bank's overall risk philosophy and risk appetite framework. It recognizes and understands the main risks to which the Bank is exposed and ensures that appropriate systems are in place to effectively manage and control those risks. Furthermore, the Board reviews and approves the Bank's consolidated financial statements and the related independent auditor's report and management's discussion and analysis and makes sure that policies for communicating and disclosing information to shareholders, investors and the general public are developed and applied. The Board also evaluates management's performance and approves the Bank's total compensation programs and policies, including those of senior management. Finally, it oversees the succession planning process for management positions.

To carry out its duties, the Board is supported by four permanent committees: the Audit Committee, the Risk Management Committee, the Human Resources Committee and the Conduct Review and Corporate Governance Committee. Each of these committees is made up entirely of independent members.

The Board also benefits from the recommendations of four oversight functions (Internal Audit, Risk Management, Compliance, and Finance). These oversight functions support the Board by verifying whether controls within the business units are effective and if operations, results and risk exposures are reliably reported.

Finally, the Board carries out this role through a governance architecture that includes a strict set of structures, policies and processes that meet all of the legislative and regulatory requirements governing the Bank. The majority of Board members, including the Chairman, are independent under Canadian Securities Administrators criteria.

This Annual Report reflects the governance architecture in effect as at October 31, 2015. Additional information on the Bank's governance architecture can be found in the *Management Proxy Circular for the 2016 Annual Meeting of Holders of Common Shares*, which will soon be available on the Bank's website at nbc.ca and on SEDAR's website at sedar.com. The mandates of the Board and its committees are available in their entirety at nbc.ca.



KEY RESPONSIBILITIES OF COMMITTEES

Audit Committee

Pierre Boivin *(Chair)*, André Caillé, Richard Fortin, Louise Laflamme, Julie Payette, Andrée Savoie

- Examines the Bank's financial statements, reports and other significant financial communications and recommends the approval thereof to the Board.
- Ensures that suitable procedures are in place to oversee financial reporting to the public.
- Reviews, evaluates and approves appropriate internal control mechanisms.
- Recommends the appointment and compensation of the independent auditor in addition to monitoring its work, ensuring its independence, and periodically assessing its performance and effectiveness. Additional information on this matter is provided in the Bank's management proxy circular.
- Oversees the work of the Finance Oversight Function and the Internal Audit Oversight Function and ensures their independence and effectiveness.
- Ensures the implementation of a policy and procedures for reporting accounting irregularities.

Risk Management Committee

Richard Fortin *(Chair)*, Raymond Bachand, Maryse Bertrand, Karen Kinsley, Lino A. Saputo jr, Pierre Thabet

- Reviews the Bank's risk appetite framework and recommends its approval to the Board; oversees the control methods used to manage the main risks to which the Bank is exposed, in particular credit risk, market risk, liquidity and funding risk, operational risk, regulatory compliance risk, reputation risk strategic risk and environmental risk.
- Monitors capital, liquidity and funding management, stress testing and capital adequacy assessment.
- Approves credit applications of clients that are outside the scope of management's powers.
- Oversees the work of the Risk Management Oversight Function and the Compliance Oversight Function and ensures their independence and effectiveness.
- Oversees procedures to fight money laundering and terrorist financing.

Human Resources Committee

André Caillé *(Chair)*, Pierre Boivin, Gillian H. Denham, Karen Kinsley, Louise Laflamme

- Examines and approves the Bank's total compensation policies and programs, taking into consideration the risk management framework applicable at the time of development, review and implementation, and recommends their approval to the Board.
- Sets annual objectives and key performance indicators for the President and Chief Executive Officer, recommends their approval to the Board, and evaluates said performance and the corresponding achievements.
- Recommends to the Board approval of the compensation of the President and Chief Executive Officer, of the members of the Office of the President, and of the heads of the oversight functions.
- Periodically reviews and examines the management succession plan.

Conduct Review and Corporate Governance Committee

Maryse Bertrand *(Chair)*, Raymond Bachand, André Caillé, Jean Houde, Roseann Runte

- Makes sure that governance rules, procedures and policies are implemented and followed.
- Periodically reviews the size and composition of the Board and its committees, develops the candidate criteria for selecting directors to the Board, and plans the succession of directors.
- Develops and reviews the mandates of the Board, the Board committees, the Chair of the Board and the committee chairs.
- Oversees the processes for managing and monitoring related party transactions.
- Ensures that the Bank's directors, officers and employees are compliant with the standards of business conduct and ethical behaviour.
- Evaluates the performance and effectiveness of the Board and its members.

RISK DISCLOSURES

In May 2012, the Financial Stability Board (FSB) formed a working group, the Enhanced Disclosure Task Force (EDTF), that was mandated to develop principles for enhancing the risk disclosures of major banks, to recommend improvements to current risk disclosures, and to identify risk disclosure best practices used by major financial institutions. On October 29, 2012, the EDTF published a report entitled *Enhancing the Risk Disclosures of Banks*, which contains 32 recommendations. The Bank continues to make every effort to ensure overall compliance with those recommendations and is continuing to enhance its risk disclosures to meet the best practices on an ongoing basis. The risk disclosures required by the EDTF are provided in this Annual Report and in the document entitled *Supplementary Regulatory Capital Disclosure* available on the Bank's website at nbc.ca.

		Pages	
		Annual Report	Supplementary Regulatory Capital Disclosure(1)
General			
1	Location of risk disclosures	10	
	Management's Discussion and Analysis	46 to 89, 100 and 104	
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2	Risk terminology and risk measures	55 to 89	
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13	RWA by business segment and by risk type	52 and 54	8
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16	Movements in RWA by risk type	53	9
17	Assessment of credit risk model performance	61, 65 and 73	11 to 17
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18	Liquidity management and components of the liquidity buffer	77 to 83	
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19	Summary of encumbered and unencumbered assets	80 and 81	
20	Residual contractual maturities of balance sheet items and off-balance-sheet commitments	191 to 194	
21	Funding strategy and funding sources	83 to 85	
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22	Linkage of market risk measures to balance sheet	71 and 72	
23	Market risk factors	70, 73 to 76, 177 to 179	
24	VaR: assumptions, limitations and validation procedures	73 to 75	
25	Stress tests, stressed VaR and backtesting	73 to 76	
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26	Credit risk exposures	63, 66 and 147 to 150	10 to 24 and 18 to 23(2)
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28	Movements in impaired loans and allowances for credit losses	100, 104 and 147 to 150	20
29	Counterparty credit risk relating to derivatives transactions	68, 69 and 161 to 163	25
30	Credit risk mitigation	67 to 69	22 and 24
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31	Other risks: governance, measurement and management	56, 57 and 86 to 89	
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(1) For the fourth quarter ended October 31, 2015.
(2) These pages are included in the document entitled *Supplementary Financial Information for the Fourth Quarter Ended October 31, 2015.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 1, 2015

The following Management's Discussion and Analysis (MD&A) presents the financial condition and operating results of National Bank of Canada (the Bank). This analysis was prepared in accordance with the requirements set out in *National Instrument 51-102*, *Continuous Disclosure Obligations*, released by the Canadian Securities Administrators (CSA). It is based on the audited consolidated financial statements for the year ended October 31, 2015 (the consolidated financial statements) and prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes for the year ended October 31, 2015. All amounts are presented in Canadian dollars. Additional information about the Bank, including the *Annual Information Form*, can be obtained from the Bank's website at nbc.ca and SEDAR's website at sedar.com.

Caution Regarding Forward-Looking Statements

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

By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2016 and how that will affect the Bank's business are among the main factors considered in setting the Bank's strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies.

There is a strong possibility that express or implied projections contained in these forward-looking statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank's control, could cause actual future results, conditions, actions or events to differ significantly from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include credit risk, market risk, liquidity and funding risk, operational risk, regulatory compliance risk, reputation risk, strategic risk and environmental risk, all of which are described in more detail in the Risk Management section beginning on page 55 of this Annual Report, general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business, including regulatory changes affecting the Bank's business, capital and liquidity; changes in the accounting policies the Bank uses to report its financial condition, including uncertainties associated with assumptions and critical accounting estimates; tax laws in the countries in which the Bank operates, primarily Canada and the United States (including the U.S. *Foreign Account Tax Compliance Act* (FATCA)); changes to capital and liquidity guidelines and to the manner in which they are to be presented and interpreted; changes to the credit ratings assigned to the Bank; and potential disruptions to the Bank's information technology systems, including evolving cyber attack risk.

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

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

FINANCIAL REPORTING METHOD

The Bank uses certain measurements that do not comply with IFRS to assess results. Moreover, the Bank has adjusted certain specified items to make the data from fiscal 2015 and 2014 comparable. These adjustments are presented in the table below.

Reconciliation of Measures Not Compliant With IFRS

The table below provides a reconciliation of published results with results presented in the Management's Discussion and Analysis.

Year ended October 31 (millions of Canadian dollars)					2015	2014
	Personal and Commercial	Wealth Management	Financial Markets	Other		
Net interest income	1,786	323	687	(153)	2,643	2,544
Taxable equivalent(1)	–	–	309	2	311	219
Financing cost relating to holding restructured notes(2)	–	–	–	20	20	18
Net interest income on a taxable equivalent basis and excluding specified items	1,786	323	996	(131)	2,974	2,781
Non-interest income	1,030	1,095	706	272	3,103	2,920
Revenues related to holding restructured notes(2)	–	–	–	(90)	(90)	(92)
Acquisition-related revenues(3)	–	7	–	4	11	16
Gain on disposal of Fiera Capital shares(4)	–	(34)	–	–	(34)	–
Share of current tax asset write-down of an associate(5)	–	–	18	–	18	–
Funding valuation adjustment(6)	–	–	–	–	–	13
Non-interest income excluding specified items	1,030	1,068	724	186	3,008	2,857
Total revenues on a taxable equivalent basis and excluding specified items	2,816	1,391	1,720	55	5,982	5,638
Non-interest expenses	1,647	978	746	294	3,665	3,423
Restructuring charge(7)	(48)	(3)	(7)	(28)	(86)	–
Charges related to acquisitions(8)	–	(23)	–	–	(23)	(44)
Underwriting fees on disposal of Fiera Capital shares(4)	–	(5)	–	–	(5)	–
Impairment losses on intangible assets(9)	–	–	–	(46)	(46)	(62)
Litigation provisions(10)	–	–	–	–	–	(14)
Non-interest expenses excluding specified items	1,599	947	739	220	3,505	3,303
Contribution on a taxable equivalent basis and excluding specified items	1,217	444	981	(165)	2,477	2,335
Provisions for credit losses	225	3	–	–	228	208
Income before income taxes on a taxable equivalent basis and excluding specified items	992	441	981	(165)	2,249	2,127
Income taxes	254	111	(50)	(81)	234	295
Taxable equivalent(1)	–	–	309	2	311	219
Income taxes on revenues related to holding restructured notes(2)	–	–	–	(20)	(20)	(20)
Income taxes on acquisition-related items(3)(8)	–	6	–	1	7	15
Income taxes on disposal of Fiera Capital shares(4)	–	(4)	–	–	(4)	–
Income taxes on current tax asset write-down of an associate(5)	–	–	2	–	2	–
Income taxes on the funding valuation adjustment(6)	–	–	–	–	–	4
Income taxes on restructuring charge(7)	13	1	2	8	24	–
Income taxes on intangible asset impairment losses(9)	–	–	–	13	13	17
Income taxes on litigation provisions(10)	–	–	–	–	–	4
Income taxes on a taxable equivalent basis and excluding specified items	267	114	263	(77)	567	534
Net income excluding specified items	725	327	718	(88)	1,682	1,593
Specified items after income taxes	(35)	(1)	(21)	(6)	(63)	(55)
Net income	690	326	697	(94)	1,619	1,538
Non-controlling interests	–	–	13	57	70	69
Net income attributable to the Bank's shareholders	690	326	684	(151)	1,549	1,469

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

(2) During the year ended October 31, 2015, the Bank recorded $20 million in financing costs ($16 million net of income taxes) related to holding restructured notes, $53 million in revenues ($39 million net of income taxes) to reflect capital repayments and a rise in the fair value of these notes, and a gain of $37 million ($27 million net of income taxes) upon the disposal of the restructured notes of the MAV III conduits. During the year ended October 31, 2014, the Bank had recorded $18 million in financing costs ($13 million net of income taxes) related to holding restructured notes as well as $92 million in revenues ($67 million net of income taxes) to reflect a rise in the fair value of the notes.

(3) During the year ended October 31, 2015, the Bank recorded an amount of $7 million ($6 million net of income taxes) for its share in the integration costs incurred by Fiera Capital Corporation (Fiera Capital) and an amount of $4 million ($3 million net of income taxes) for its share in the integration costs, impairment losses and intangible asset amortization of its interest in TMX Group Limited (TMX). For the fiscal year ended October 31, 2014, the total amount of these costs was $16 million ($13 million net of income taxes).

(4) During the year ended October 31, 2015, a gain, net of underwriting fees, of $29 million ($25 million net of income taxes) was recorded upon a disposal of shares held in Fiera Capital through one of the Bank's subsidiaries. On the transaction date, the Bank's ownership percentage in Fiera Capital was reduced to 22%.

(5) During the year ended October 31, 2015, a loss of $18 million ($16 million net of income taxes) was recorded following a write-down of an associate's current tax asset.

(6) During the year ended October 31, 2014, the Bank had recorded $13 million in charges ($9 million net of income taxes) to reflect the Funding Valuation Adjustment (FVA).

(7) During the year ended October 31, 2015, the Bank recorded a restructuring charge of $86 million ($62 million net of income taxes). This charge consisted of severance pay, professional fees, onerous contracts, and write-offs of premises and equipment (2014: nil).

(8) During the year ended October 31, 2015, the Bank recorded $23 million in charges ($18 million net of income taxes) related to the Wealth Management acquisitions (2014: $44 million, $32 million net of income taxes). During fiscal 2015, these charges consisted mostly of retention bonuses, and for fiscal 2014, they had consisted mostly of integration charges for TD Waterhouse Institutional Services (TDWIS); as well as retention bonuses and charges related to the acquisitions of Wellington West Holdings Inc. and the full-service investment advisory business of HSBC Securities (Canada) Inc.

(9) During the year ended October 31, 2015, the Bank recorded $46 million ($33 million net of income taxes) in intangible asset impairment losses on internal technology developments (2014: $62 million, $45 million net of income taxes).

(10) During the year ended October 31, 2014, the Bank had recorded $14 million in litigation provisions ($10 million net of income taxes).

Securities regulators require companies to caution readers that net income and any other measurements adjusted using non-IFRS criteria have no standard meaning under IFRS and cannot be easily compared with similar measurements used by other companies.

The Bank's consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB. The Bank also uses non-IFRS financial measures when assessing its results and measuring Bank-wide performance. Presenting such information helps readers to better understand how management analyzes results, shows the impacts of specified items on the results of the reported periods, and allows readers to assess results without the specified items if they consider such items to not be reflective of ordinary operations.

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

FINANCIAL DISCLOSURE

Disclosure Controls and Procedures

The Bank's financial information is prepared with the support of a set of disclosure controls and procedures (DC&P) that are implemented by the President and Chief Executive Officer (CEO) and by the Chief Financial Officer (CFO) and Executive Vice-President of Finance and Treasury. During the year ended October 31, 2015, in accordance with *Regulation 52-109 Respecting Certification of Disclosure in Issuers' Annual and Interim Filings* (Regulation 52-109), released by the CSA, the design and operation of these controls and procedures were evaluated to determine their effectiveness.

As at October 31, 2015, the CEO and the CFO confirmed the effectiveness of the DC&P. These controls are designed to provide reasonable assurance that the information disclosed in annual and interim filings and in other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified by that legislation. These controls and procedures are also designed to ensure that such information is accumulated and communicated to the Bank's management, including its signing officers, as appropriate, to allow for timely decisions regarding disclosure.

This Annual Report was reviewed by the Disclosure Committee, the Audit Committee, and the Bank's Board of Directors (the Board), which approved it prior to publication.

Internal Controls Over Financial Reporting

The internal controls over financial reporting (ICFR) are designed to provide reasonable assurance that the financial information presented is reliable and that the consolidated financial statements were prepared in accordance with IFRS, as issued by the IASB. Due to inherent limitations, ICFR may not prevent or detect all misstatements in a timely manner.

The CEO and the CFO oversaw the evaluation work performed on the design and operation of the Bank's ICFR in accordance with Regulation 52-109. These controls were evaluated in accordance with the control framework of the *Committee of Sponsoring Organizations of the Treadway Commission* (COSO — 2013) for financial controls and in accordance with the control framework of the *Control Objectives for Information and Related Technologies* (COBIT) for general Information Technology controls.

Based on the evaluation results, the CEO and CFO concluded, as at October 31, 2015, that there are no material weaknesses, that the ICFR are effective and provide reasonable assurance that the financial reporting is reliable, and that the Bank's consolidated financial statements were prepared in accordance with IFRS.

Changes to Internal Controls Over Financial Reporting

The CEO and CFO also undertook work under which they were able to conclude that, during the year ended October 31, 2015, no changes were made to the ICFR that have materially affected, or are reasonably likely to materially affect, the design or operation of the ICFR.

Disclosure Committee

The Disclosure Committee assists the CEO and CFO by ensuring that disclosure controls and procedures and internal control procedures for financial reporting are implemented and operational. In so doing, the Committee ensures that the Bank is meeting its disclosure obligations under current regulations and that the CEO and CFO are producing the requisite certifications.

OVERVIEW

Highlights

As at October 31 or for the year ended October 31
(millions of Canadian dollars, except per share amounts)

	2015	2014	2013[1]	2015-14 % change
Operating Results				
Total revenues	5,746	5,464	5,151	5
Net income	1,619	1,538	1,512	5
Net income attributable to the Bank's shareholders	1,549	1,469	1,449	5
Return on common shareholders' equity	16.9 %	17.9 %	20.1 %	
Dividend payout ratio[2]	45 %	43 %	39 %	
Earnings per share				
Basic	$ 4.56	$ 4.36	$ 4.34	5
Diluted	4.51	4.32	4.31	4
Excluding Specified Items[3]				
Operating Results				
(taxable equivalent basis)[3]				
Total revenues	5,982	5,638	5,230	6
Net income	1,682	1,593	1,423	6
Net income attributable to the Bank's shareholders	1,612	1,524	1,360	6
Return on common shareholders' equity	17.6 %	18.5 %	18.9 %	
Dividend payout ratio[2]	43 %	42 %	42 %	
Efficiency ratio	58.6 %	58.6 %	60.2 %	
Earnings per share				
Basic	$ 4.75	$ 4.53	$ 4.07	5
Diluted	4.70	4.48	4.04	5
Common share information				
Dividends declared	$ 2.04	$ 1.88	$ 1.70	
Book value	28.26	25.76	22.97	
Share price				
High	55.06	53.88	45.24	
Low	40.75	41.60	36.18	
Close	43.31	52.68	45.24	
Number of common shares *(thousands)*	337,236	329,297	325,983	
Market capitalization	14,606	17,347	14,747	
Balance sheet and off-balance-sheet				
Total assets	216,090	205,429	188,219	5
Loans and acceptances	115,238	106,169	97,338	9
Impaired loans, net of total allowances	(112)	(118)	(183)	
As a % of loans and acceptances	(0.1) %	(0.1) %	(0.2) %	
Deposits	128,830	119,883	102,111	7
Equity attributable to common shareholders	9,531	8,484	7,487	12
Assets under administration and under management	358,139	345,332	263,868	4
Earnings coverage	10.49	8.98	8.72	
Asset coverage	6.78	5.24	3.76	
Regulatory ratios under Basel III				
Capital ratios[4]				
Common Equity Tier 1 (CET1)	9.9 %	9.2 %	8.7 %	
Tier 1[5]	12.5 %	12.3 %	11.4 %	
Total[5][6]	14.0 %	15.1 %	15.0 %	
Leverage ratio[4]	3.7 %	n.a.	n.a.	
Liquidity coverage ratio (LCR)	131 %	n.a.	n.a.	
Other Information				
Number of employees	19,764	19,955	19,691	(1)
Number of branches in Canada	452	452	453	–
Number of banking machines	930	935	937	(1)

n.a. Not applicable
(1) Certain amounts have been adjusted to reflect accounting standard changes in 2014 and to include the stock dividend paid in 2014.
(2) Last four quarters.
(3) See the Financial Reporting Method section on page 12.
(4) The ratios are calculated using the "all-in" methodology.
(5) Ratios as at October 31, 2015 include the redemption of the Series 20 preferred shares on November 15, 2015, and the ratios as at October 31, 2014 include the redemption of the Series 16 preferred shares on November 15, 2014.
(6) The ratio as at October 31, 2015 includes the $500 million redemption of medium-term notes on November 2, 2015.

About National Bank

The Bank is an integrated group that provides comprehensive financial services to consumers, small- and medium-sized enterprises (SME) and large corporations in its domestic market while also offering specialized services internationally. It offers a full array of banking services, including all the services of an investment bank for large corporations. It operates in international capital markets and, through its subsidiaries, in securities brokerage, insurance, and wealth management markets.

The Bank is the leading bank in Quebec and the partner of choice for SMEs. It is also the sixth largest bank in Canada with branches in almost every province. Clients in the United States, Europe and other parts of the world are served through a network of representative offices, subsidiaries and partnerships. Its securities are listed on the Toronto Stock Exchange and its head office is located in Montreal.

2015 Objectives and Results

In 2015, the Bank recorded $1,619 million in net income compared to $1,538 million in 2014. Diluted earnings per share for 2015 stood at $4.51 versus $4.32 in 2014, and return on common shareholder's equity (ROE) was 16.9% in 2015 versus 17.9% in 2014. Excluding the 2015 and 2014 specified items[(1)], the Bank's net income totalled $1,682 million, up 6% year over year, and the 2015 diluted earnings per share was $4.70, up 5% from $4.48 in 2014. In addition, ROE was 17.6% in 2015 versus 18.5% in 2014.

2015 Medium-Term Objectives and Results

	Medium-term objectives	Results
Growth in diluted earnings per share[(1)]	5-10 %	5 %
Return on common shareholders' equity[(1)]	15-20 %	17.6 %
Dividend payout ratio[(1)]	40-50 %	43 %
CET1 capital ratio	› 9.5 %	9.9 %
Leverage ratio	› 3.5 %	3.7 %

(1) Excluding specified items. See the Financial Reporting Method section on page 12.

When the Bank sets its medium-term objectives, it does not take specified items into consideration, as they are inherently unpredictable and non-recurring. Management examines the Bank's performance in relation to its objectives excluding the specified items. In 2015, the Bank's results met its medium-term objectives for net income growth and diluted earnings per share growth. It also achieved the target dividend payout ratio and return on common shareholders' equity. In addition, the Bank met its objectives for the Basel III Common Equity Tier 1 (CET1) ratio and leverage ratio.

(1) See the Financial Reporting Method section on page 12.

Dividends

For fiscal 2015, the Bank declared $672 million in dividends to common shareholders, representing 43% of net income attributable to common shareholders, excluding specified items.

Annual Dividend[(1)]

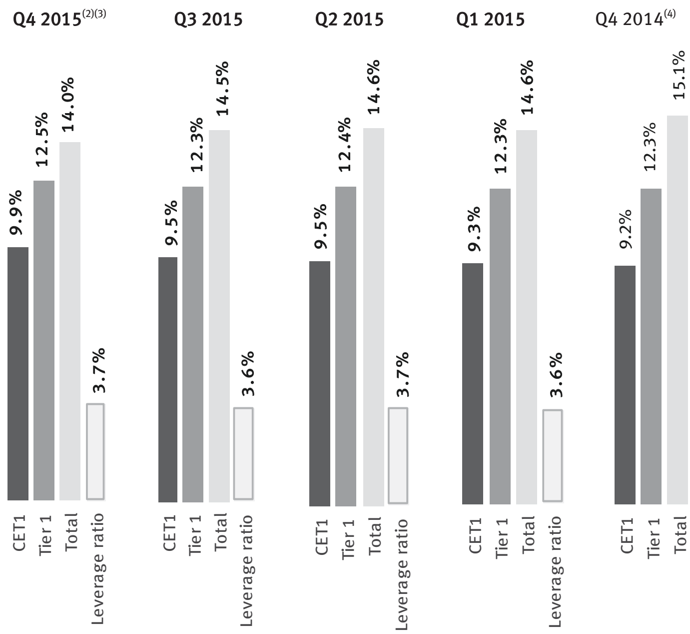
(1) The figures have been adjusted to reflect the stock dividend paid in 2014.

Regulatory Ratios

As at October 31, 2015, the Bank's CET1, Tier 1 and Total capital ratios were, respectively, 9.9%, 12.5% and 14.0%, i.e., above the regulatory requirements, compared to ratios of, respectively, 9.2%, 12.3% and 15.1% a year earlier. The increase in the CET1 capital ratio stems essentially from net income, net of dividends, and from a common share issuance for gross proceeds of $300 million, partly offset by an increase in risk-weighted assets. The increase in the Tier 1 capital ratio stems essentially from the above-mentioned factors and from the redemption of the Series 20 preferred shares on November 15, 2015. In addition, the decrease in the Total capital ratio stems mainly from the redemptions of medium-term notes for a total amount of $850 million. Lastly, as at October 31, 2015, the leverage ratio stood at 3.7%. This ratio was not in effect as at October 31, 2014.

The Bank ensures that its capital levels are always above the minimum regulatory capital requirements of the "all-in" ratios of the Office of the Superintendent of Financial Institutions (Canada) (OSFI). By maintaining a strong capital structure, the Bank can cover the risks inherent to its business, support its business segments and protect its clients.

Evolution of Regulatory Ratios Under Basel III[1]



(1) The ratios are calculated using the "all-in" methodology.
(2) The Tier 1 capital ratio and the Total capital ratio include the redemption of the Series 20 preferred shares on November 15, 2015.
(3) The Total capital ratio includes the $500 million redemption of medium-term notes on November 2, 2015.
(4) The Tier 1 capital ratio and the Total capital ratio include the redemption of the Series 16 preferred shares on November 15, 2014.

High Quality Loans Portfolio

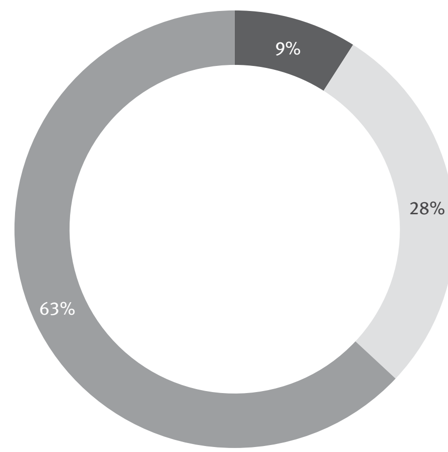
The 2015 provisions for credit losses were $20 million higher than those of 2014. This change was mainly due to a $13 million increase in provisions for commercial credit losses, which stood at $63 million for 2015. Provisions for personal loan credit losses also increased, rising $7 million, mainly due to consumer loans. Overall, the Bank maintained sound credit quality; the 2015 provisions for credit losses represented 0.21% of average loans and acceptances, unchanged from 2014 and remaining relatively low. In addition, impaired loans, net of total allowances, were up $6 million from last year due to an increase in the number of impaired loans related to the personal loan portfolios and to loans in the Wealth Management segment.

Risk Profile

(millions of Canadian dollars)	2015	2014
Provisions for credit losses	228	208
Provisions for credit losses as a % of average loans and acceptances	0.21 %	0.21 %
Net impaired loans	254	248
Gross impaired loans as a % of tangible equity	5.9 %	7.1 %
Individual and collective allowances as a % of impaired loans	44.4 %	49.0 %
Collective allowance on non-impaired loans	366	366
Impaired loans, net of total allowances	(112)	(118)

Breakdown of the Loan and Acceptance Portfolio[1]

As at October 31, 2015

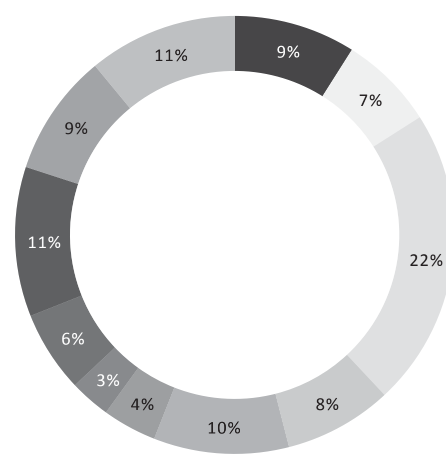


- Corporate (2014: 8%)
- Commercial (2014: 28%)
- Personal and Wealth Management (2014: 64%)

(1) Excluding loans and acceptances in the *Other* heading.

Business Loans and Acceptances by Borrower Category

As at October 31, 2015



- Agriculture (2014: 9%)
- Mining, oil and gas (2014: 9%)
- Construction and real estate (2014: 21%)
- Manufacturing (2014: 8%)
- Wholesale and retail (2014: 12%)
- Transportation (2014: 3%)
- Telecommunications, media and technology (2014: 4%)
- Financial institutions (2014: 3%)
- Services (2014: 12%)
- Governments and other related services (2014: 9%)
- Other (2014: 10%)

Outlook for National Bank

Strategic Priorities

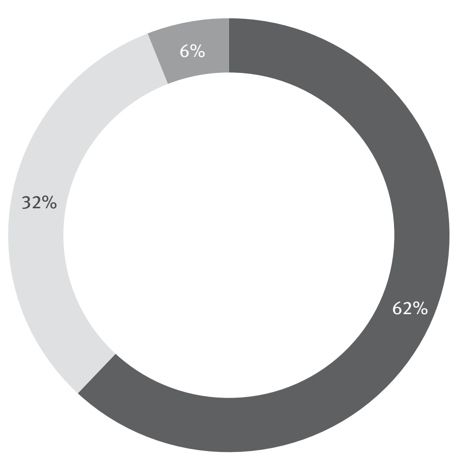
The Bank's objective is to deliver stable returns to its shareholders that exceed those of its Canadian peers. To achieve this objective, the Bank aims for 5% to 10% annual net income growth, excluding specified items. For additional information on specified items, see the Financial Reporting Method section on page 12. Successful execution of revenue growth initiatives, active capital management, sound risk management practices and sustained improvement to productivity are some of the levers the Bank uses to achieve financial performance growth. The Bank prides itself as an institution with a strong financial foundation, providing its clients with value-added products and services and adapting quickly to frequent changes in the economy and competitive environment.

To support its long-term growth objectives, the Bank continues to execute its strategic transformation program, which is designed to increase market share, enhance client satisfaction and optimize operations. The primary objective of this program, which involves significant investments, is to ensure that the Bank remains a modern, dynamic institution supported by a skilled workforce and diverse revenue sources while continuously improving productivity.

The Bank's strong presence in Quebec remains a source of sustained revenue growth. In addition to its current business activities, geographic diversification is an important lever for the Bank's long-term growth in that it will be able to benefit from the potential of targeted new niches across Canada. The Bank thus plans to raise the revenue and earnings contributions generated by the Personal and Commercial and Wealth Management segments.

As a super-regional institution with a solid balance sheet, the Bank is also well-positioned to complement organic growth with acquisitions and strategic partnerships. These revenue growth opportunities are supported by all of the Bank's employees and are subject to a very stringent planning, review and implementation process intended to quickly maximize earnings.

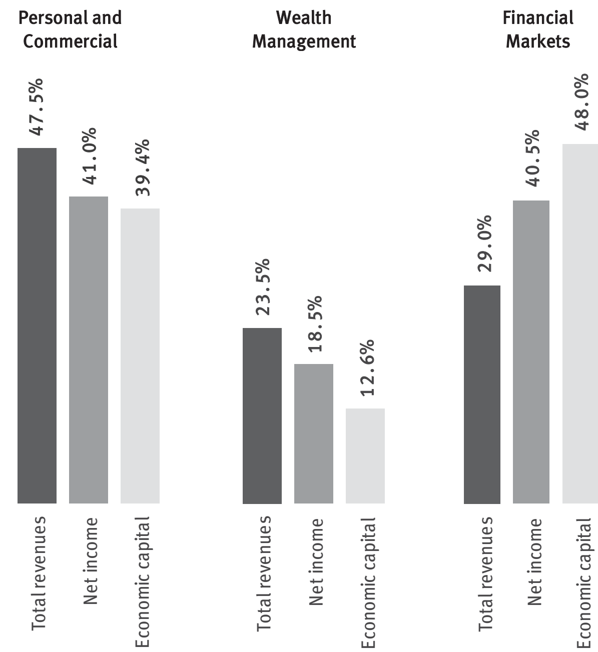
Geographic Distribution of Total Revenues[1]
Year ended October 31, 2015
(taxable equivalent basis)[2]



- Quebec (2014: 61%)
- Other provinces (2014: 34%)
- International and unallocated (2014: 5%)

(1) Excluding specified items and the *Other* heading.
(2) See the Financial Reporting Method section on page 12.

Business Mix[1]
Year ended October 31, 2015
(taxable equivalent basis)[2]



(1) Excluding specified items and the *Other* heading.
(2) See the Financial Reporting Method section on page 12.

Strategic Transformation Program

Over the past several years, the Bank has been deploying its strategic transformation program, which is based on the *One client, one bank* vision. The program is at the heart of the Bank's business strategy. The ultimate goal is to make the Bank the leader in client experience, with the ability to always provide best-in-class financial advice, solutions, and service to clients, regardless of their point of entry into the Bank. All of the Bank's teams are actively involved in the various transformation initiatives, whether at the identification, design or implementation stages.

Year after year, over the past few years, the Bank's progress on several performance indicators relating to clients, productivity and financial results has validated the strategic transformation program. The Bank has made significant progress in implementing a true client-centric culture and deploying high-quality tools and services while bolstering its financial performance. The Bank is playing its full part in the economies of Quebec and Canada at the individual, business and government levels.

Substantial changes to the banking environment in Canada, including evolving regulations, new technologies, changing client needs and the current economic environment, require innovative development methods and the ongoing strategic transformation of the Bank. With the expertise of its employees, capacity for innovation and financial strength, the Bank has the assets needed to confidently address these challenges.

Priorities for 2016

For 2016, the Bank has set the following three priorities.

- Pursue its initiatives to deliver red carpet treatment.
- Optimize the returns from its super-regional business model.
- Continue to leverage promising business partnerships.

Pursue its Initiatives to Deliver Red Carpet Treatment

Many initiatives aimed at providing all of the Bank's clients with red carpet treatment have been implemented in recent years. This approach will continue to guide the Bank's efforts to provide its clients with simpler, more accessible and proactive services, regardless of the channel used.

A key trend in the global banking industry is the growing demand for "digital" banking services. It's a trend also seen in Canada and among the Bank's clients, who are increasingly using products and services offered over the Internet and on mobile devices. The Bank is closely examining the new trends, seeing them as inspiration for innovation while also remembering the needs of clients with more traditional profiles.

The Bank has also strengthened and differentiated its brand image in recent years, particularly through targeted advertising campaigns aimed at personal and commercial clients.

Optimize the Returns From its Super-Regional Business Model

In the coming years, the Bank intends on pursuing its multi-pronged expansion across all of its markets. Various initiatives are underway to continue winning market share in regions where the Bank has a strong presence. In addition, ongoing efforts will be made within various Canadian markets to further develop its distinctive strengths, particularly the activities underpinning the Bank's success in personal and commercial banking, financial markets and wealth management. Accordingly, the Bank remains alert to acquisition opportunities that might arise.

The Bank will continue to build targeted niches internationally, in particular by consolidating its presence in major financial centres such as London, Hong Kong, New York and Paris, in order to support its clients' foreign business development efforts.

Moreover, as part of its plan to seize long-term growth opportunities, the Bank plans on strengthening its international presence in target markets, including Asia and Africa.

Continue to Leverage Promising Business Partnerships

To maintain its performance and the quality of its service offering, the Bank can rely on promising business partnerships entered into with organizations from various sectors. These partnerships have helped to enhance the development and efficiency of the Bank's operations.

The Bank intends to pursue this course over the next few quarters, in particular by striking new agreements that, when appropriate, will benefit its shareholders, clients and employees.

Major Economic Trends

Global Economy

Global growth was the weakest in six years in 2015 due to deteriorating conditions in emerging economies and uncertainty in the eurozone. The 2016 outlook is more constructive, but the improvement will be modest. China remains in the midst of significant structural change to shift its economy from manufacturing towards services. Meanwhile, the eurozone is still in the early stages of recovery via credit growth. Globally, liquidity is expected to remain abundant in 2016. China, Japan, and the eurozone should provide stimulus (monetary and/or fiscal) that should largely offset the impact of a modest tightening of monetary policy in the United States.

Global GDP should grow by 3.3% in 2016 (3.1% in 2015), with limited upside for commodity prices.

United States

After its best performance in five years in 2015, the U.S. economy is again set to expand by nearly 2.5% in 2016. At decade-high levels, domestic demand will remain supported by full-time job creation which is empowering household formation and consumer spending. An unemployment rate of only 5% should foster wage increases and credit expansion.

Despite an imminent increase in the federal funds rate—the first since 2005—U.S. monetary policy should nonetheless remain very accommodative through 2016 because of low inflation.

Canada

Canada was hit hard by the global oil-supply shock in 2015 but weakness was mostly regional and sectorial. Ontario, Quebec and British Columbia still managed to post record levels for both GDP and employment. The outlook for 2016 is for another year of soft (but positive) growth. A resurging U.S. coupled with a weak Canadian dollar should boost exports and spur more business investment in Ontario, Quebec and British Columbia, offsetting expected slowdowns in residential real estate and consumer spending. The proposed policies of the newly elected federal government should provide a boost to the beleaguered non-residential construction sector and help support consumption for the middle class through tax cuts. Canada should record a GDP growth rate of 1.6% in 2016.

In Quebec, continued export momentum should enable the economy to grow by 1.6% in 2016, compared to 1.2% in 2015.

FINANCIAL ANALYSIS

Consolidated Results

Year ended October 31 (millions of Canadian dollars)	2015	2014	2013[1]	2015-14 % change
Operating results				
Net interest income	2,643	2,544	2,437	4
Non-interest income	3,103	2,920	2,714	6
Total revenues	5,746	5,464	5,151	5
Non-interest expenses	3,665	3,423	3,206	7
Contribution	2,081	2,041	1,945	2
Provisions for credit losses	228	208	181	10
Income before income taxes	1,853	1,833	1,764	1
Income taxes	234	295	252	(21)
Net income	1,619	1,538	1,512	5
Taxable equivalent[2]				
Net interest income	311	219	209	
Income taxes	311	219	209	
Net income	–	–	–	
Specified items[2]				
Items related to holding restructured notes	70	74	142	
Acquisition-related items	(34)	(60)	(39)	
Gain on disposal of Fiera Capital shares	29	–	–	
Share of current tax asset write-down of an associate	(18)	–	–	
Impairment losses on intangible assets	(46)	(62)	(39)	
Restructuring charge	(86)	–	–	
Funding valuation adjustment	–	(13)	–	
Litigation provisions	–	(14)	–	
Severance pay	–	–	(12)	
Vacant premises	–	–	(16)	
Item related to employee benefits	–	–	35	
Specified items before income taxes	(85)	(75)	71	
Income taxes on specified items[3]	(22)	(20)	(18)	
Specified items after income taxes	(63)	(55)	89	
Operating results on a taxable equivalent basis excluding specified items[2]				
Net interest income	2,974	2,781	2,655	7
Non-interest income	3,008	2,857	2,575	5
Total revenues	5,982	5,638	5,230	6
Non-interest expenses	3,505	3,303	3,147	6
Contribution	2,477	2,335	2,083	6
Provisions for credit losses	228	208	181	10
Income before income taxes	2,249	2,127	1,902	6
Income taxes	567	534	479	6
Net income	1,682	1,593	1,423	6
Average assets	222,929	206,680	193,509	8
Average loans and acceptances	108,740	99,548	92,398	9
Impaired loans, net of total allowances	(112)	(118)	(183)	
Average deposits	128,016	115,605	102,029	11
Efficiency ratio excluding specified items[2]	58.6 %	58.6 %	60.2 %	

(1) Certain amounts have been adjusted to reflect accounting standard changes in 2014.
(2) See the Financial Reporting Method section on page 12.
(3) For the year ended October 31, 2013, the amount includes a $37 million reversal of provisions for income tax contingencies.

Analysis of Consolidated Results

Financial Results

For fiscal 2015, the Bank's net income totalled $1,619 million, up 5% from $1,538 million in fiscal 2014. Excluding specified items, the 2015 net income totalled $1,682 million versus $1,593 million in fiscal 2014, for an increase of 6%. The 2015 specified items, which amounted to $63 million compared to $55 million in 2014 (both net of income taxes), had an unfavourable impact on net income.

Total Revenues

On a taxable equivalent basis, the Bank's fiscal 2015 total revenues amounted to $6,057 million, up $374 million from fiscal 2014 (Table 2, page 98). Excluding the specified items recorded for 2015 and 2014, total revenues on a taxable equivalent basis increased by $344 million or 6% year over year. The specified items for 2015 and 2014 included items related to holding restructured notes, acquisition-related items, a gain on the disposal of Fiera Capital shares, and the Bank's share of a current tax asset write-down of an associate. In addition, the 2014 specified items had included the Funding Valuation Adjustment (FVA).

<u>Net Interest Income</u>

In 2015, net interest income on a taxable equivalent basis totalled $2,954 million, rising $191 million from $2,763 million in 2014 (Table 3, page 98). In the Personal and Commercial segment, net interest income rose $87 million or 5% year over year to total $1,786 million in 2015. Average loan and deposit volumes experienced sound growth compared to 2014, rising 7% and 4%, respectively, driven essentially by residential mortgages and home equity lines of credit. This growth, however, was tempered by a net interest margin that narrowed to 2.19% in 2015 from 2.24% in 2014, mainly due to lower deposit margins. In the Wealth Management segment, the 2015 net interest income totalled $323 million, rising $11 million year over year due to higher volumes and improved margins in banking activity among high-net-worth individuals. As for the Financial Markets segment, the 2015 net interest income increased $172 million year over year, mainly due to trading activities, particularly dividend income, and should be examined together with the other items of trading activity revenues. Lastly, with respect to the *Other* heading, net interest income decreased year over year, particularly because Treasury activities had generated higher revenues in 2014.

<u>Non-Interest Income</u>

Non-interest income for fiscal 2015 totalled $3,103 million versus $2,920 million in fiscal 2014 (Table 4, page 99). The trading revenues recorded in non-interest income amounted to $209 million versus $106 million in 2014. Including the portion recorded in net interest income, trading activity revenues amounted to $985 million in 2015, a $242 million year-over-year increase (Table 5, page 99) that was driven by all revenue categories, particularly the revenues from the equities and commodities and foreign exchange categories.

As shown in Table 4 on page 99, underwriting and advisory fees remained essentially unchanged from 2014, whereas securities brokerage commissions decreased 18% as clients shifted towards fee-based services. Combined, mutual fund revenues and trust service revenues totalled $766 million, rising $127 million and owing primarily to fee-based revenues and to growth in assets under administration.

Given growth in lending transactions, credit fees rose $17 million year over year and revenues from acceptances, letters of credit and guarantee rose $6 million year over year. Net gains on available-for-sale securities were down $21 million, mainly because the Financial Markets segment recorded higher impairment losses in 2015.

Insurance revenues remained stable compared to 2014. Conversely, the Bank's share in the net income of associates and joint ventures decreased following an $18 million loss resulting from a write-down of an associate's current tax asset in fiscal 2015. Other non-interest income totalled $390 million, a $34 million year-over-year increase that was particularly due to gains on investments and to a gain on the disposal of Fiera Capital shares.

Provisions for Credit Losses

For fiscal 2015, the Bank recorded $228 million in provisions for credit losses, $20 million more than in fiscal 2014 (Table 6, page 100), as provisions for credit losses on commercial loans, at $63 million, rose $13 million and provisions for credit losses on personal loans (including credit card receivables) rose $7 million due mainly to consumer loans. Overall, the 2015 provisions for credit losses represented 0.21% of average loans and acceptances, remaining relatively low and unchanged from last year.

Non-Interest Expenses

Non-interest expenses stood at $3,665 million in 2015, a $242 million year-over-year increase (Table 7, page 101) that was partly attributable to a fiscal 2015 restructuring charge of $86 million that consisted of severance pay, professional fees, onerous contracts, and write-offs of premises and equipment. Excluding the specified items for 2015 and 2014, non-interest expenses increased by $202 million or 6% year over year.

At $2,160 million in 2015, compensation and employee benefits increased 5% year over year. This increase came mainly from higher salaries, given a greater number of employees in fiscal 2015, from higher variable compensation, given growth in business segment activity, and from higher employee benefit costs.

The technology expense, including amortization, was also up, as there was a greater level of technology investment in 2015 than in 2014. The 2015 professional fees stood at $233 million, rising $6 million due to business development expenses and to fees related to greater business activity at the Credigy Ltd. subsidiary. Security and theft expense decreased year over year, as $14 million in litigation provisions had been recorded in 2014. Lastly, capital and payroll taxes increased, mainly because of the compensatory tax on salaries that came into effect in December 2014.

Income Taxes

Detailed information about the Bank's income taxes is provided in Note 25 to the consolidated financial statements. For 2015, income taxes stood at $234 million, for an effective tax rate of 13%, compared to $295 million and an effective tax rate of 16% in 2014. This decrease in the effective tax rate came from higher tax-exempt dividend income and from the gain on the disposal of Fiera Capital shares in 2015.

BUSINESS SEGMENT ANALYSIS

PERSONAL AND COMMERCIAL

OVERVIEW

The Personal and Commercial segment meets the financial needs of some 2.3 million retail banking clients and approximately 135,000 business clients throughout Canada. These clients entrust the Bank to manage, invest and safeguard their assets and finance their projects. Personal Banking offers everyday transaction solutions, mortgage loans and home equity lines of credit, consumer loans, payment solutions, savings options and tailored investment solutions as well as a diverse range of insurance products through specialized subsidiaries. Commercial Banking offers a full line of services, including credit, deposit and investment solutions, international trade, foreign exchange transactions, payroll, cash management, insurance, electronic transactions and complementary services.

To obtain advice and service, clients turn to our experienced advisors who take time to understand their specific realities and help them reach their financial goals. And thanks to the Bank's remote distribution network, 452 branches and 930 banking machines across Canada, clients can do their daily banking whenever and wherever they wish.

Segment Results – Personal and Commercial

Year ended October 31 (millions of Canadian dollars)	2015	2014	2013(1)	2015-14 % change
Excluding specified items(2)				
Net interest income	1,786	1,699	1,615	5
Non-interest income	1,030	990	977	4
Total revenues	2,816	2,689	2,592	5
Non-interest expenses	1,599	1,548	1,497	3
Contribution	1,217	1,141	1,095	7
Provisions for credit losses	225	205	192	10
Income before income taxes	992	936	903	6
Income taxes	267	253	242	6
Net income excluding specified items	725	683	661	6
Specified items after taxes(2)	(35)	–	–	
Net income	690	683	661	1
Net interest margin(3)	2.19 %	2.24 %	2.28 %	
Average interest-bearing assets	81,399	75,963	70,718	7
Average assets	86,945	81,516	76,696	7
Average loans and acceptances	86,552	81,129	76,344	7
Net impaired loans	249	246	181	1
Net impaired loans as a % of average loans and acceptances	0.3 %	0.3 %	0.2 %	
Average deposits	44,597	43,022	40,294	4
Efficiency ratio excluding specified items(2)	56.8 %	57.6 %	57.8 %	

(1) Certain amounts have been adjusted to reflect accounting standard changes in 2014.
(2) See the Financial Reporting Method section on page 12.
(3) Net interest margin is calculated by dividing net interest income by average interest-bearing assets.

Financial Results

In the Personal and Commercial segment, net income totalled $690 million in 2015, up 1% from $683 million in 2014. Excluding the restructuring charge specified item, the segment's net income totalled $725 million, up 6% year over year. The segment's total revenues increased by $127 million, or 5%, mostly from growth in net interest income, which grew $87 million, with non-interest income rising by $40 million. The higher net interest income was driven mainly by growth in personal and commercial loan and deposit volumes—tempered however by a smaller net interest margin, which narrowed to 2.19% in 2015 from 2.24% in 2014 and 2.28% in 2013, mainly due to lower deposit margins.

In 2015, the segment's non-interest expenses stood at $1,647 million, a 6% year-over-year increase that was mainly attributable to the 2015 restructuring charge as well as to employee compensation and operations support charges. Excluding the restructuring charge, which consisted mainly of severance pay and professional fees, the 2015 non-interest expenses stood at $1,599 million, up 3% year over year. The segment's contribution increased 7% year over year. In addition, at 56.8%, the 2015 efficiency ratio improved from 57.6% in 2014 and from 57.8% in 2013.

At $225 million, the segment's provisions for credit losses were $20 million higher than the $205 million recorded in 2014, as the Personal Banking provision was up $7 million and the Commercial Banking provision was up $13 million.

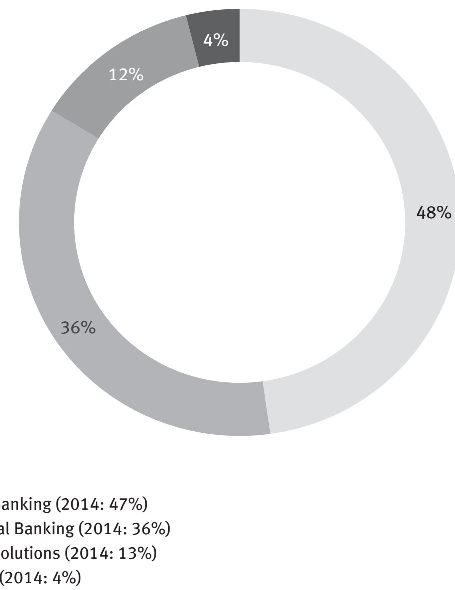
Personal Banking

For 2015, Personal Banking's revenues amounted to $1,792 million compared to $1,708 million in 2014, a 5% increase driven mainly by a 6% increase in loan volumes, particularly mortgages and home equity lines of credit, tempered somewhat by a decline in deposit margins. Growth in non-interest income came essentially from loan transaction revenues and internal commission revenues generated by the distribution of Wealth Management products. Revenues from the insurance business were up, whereas credit card revenues were down year over year. Non-interest expenses increased by $82 million in 2015, mainly because a $48 million restructuring charge was recorded during the year and because of increases in employee compensation and operations support charges.

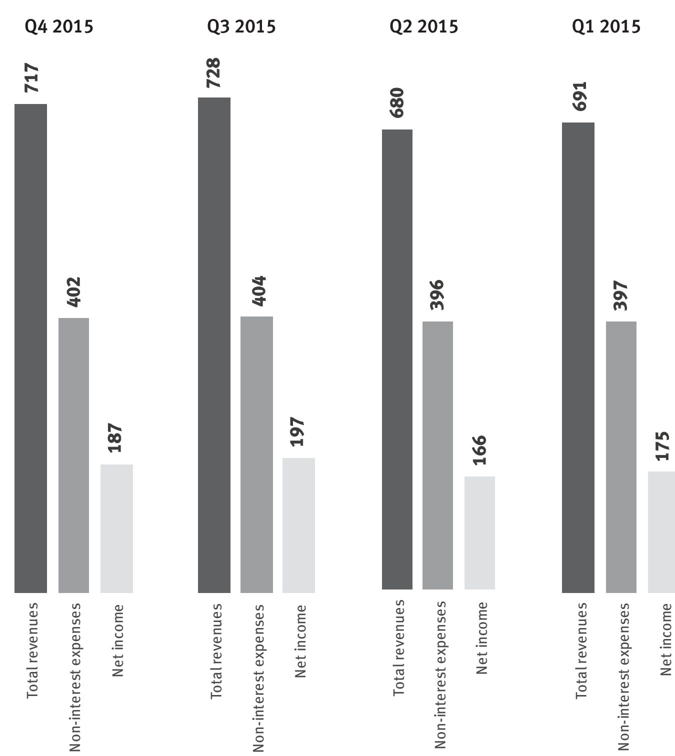
Commercial Banking

For 2015, Commercial Banking's revenues amounted to $1,024 million rising 4% from $981 million in 2014. Net interest income was up, essentially due to growth in loan and deposit volumes of 9% and 7%, respectively. Non-interest income increased by $22 million due to increases in loan transaction revenues, revenues from acceptances, and revenues from foreign exchange transactions. As for non-interest expenses, they increased $17 million, mainly due to employee compensation and operations support charges.

Total Revenues by Category
Year ended October 31, 2015

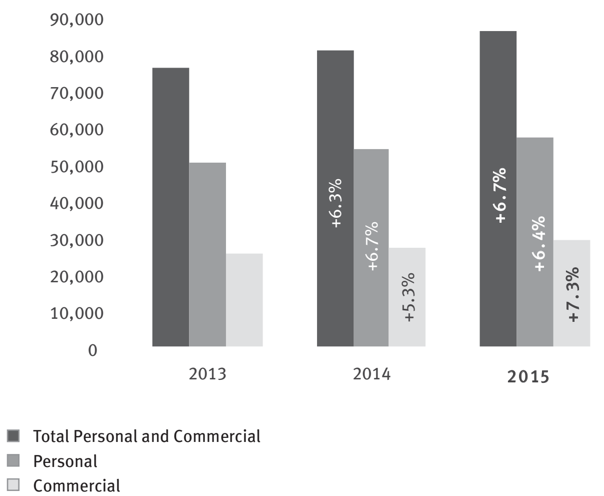


Quarterly Results(1)
(millions of Canadian dollars)

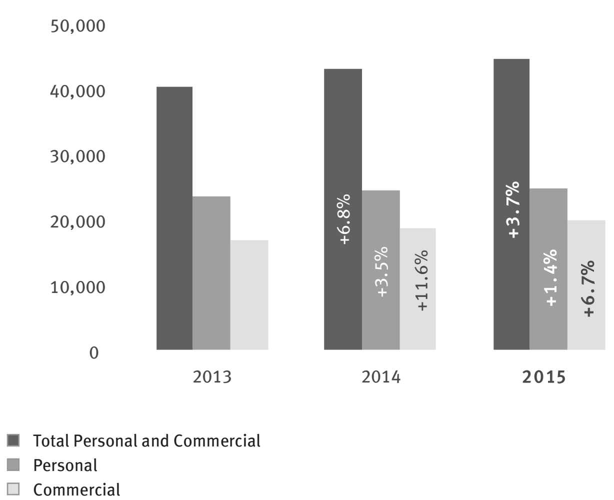


(1) Excluding specified items. See the Financial Reporting Method section on page 12.

Loan and Acceptance Volumes
(millions of Canadian dollars)
(% of year-over-year growth)



Deposit Volumes
(millions of Canadian dollars)
(% of year-over-year growth)



Strategies

In 2015, the Personal and Commercial segment continued to build on the solid foundations developed since 2008 through the *One client, one bank* vision. By pursuing this vision, the Bank has differentiated itself through the quality of its client experience, which now, more than ever, leverages personalized client management and value-added advice through a multi-channel distribution network.

To optimize this leverage, the Personal and Commercial segment has focused on the following transformative strategic initiatives:

- Implementing a distinctive business model;
- Expanding the multi-channel service offering;
- Building sales and service culture excellence;
- Driving efficiency and productivity gains;
- Further strengthening trusted partnerships with commercial clients.

Achievements

Targeted Marketing Campaigns Using a Distinctive Business Model
To support the growth of the Personal and Commercial segment, the Bank implemented a marketing business model that sets it apart in the Canadian market, allowing it to deploy segmented mass marketing campaigns, including personalized offerings that are increasingly integrated into its various distribution channels.

This integrated, client behaviour model is supported by data analytics teams, technology and tools to generate leading-edge knowledge and help the sales force better understand its clients in order to provide them with tailored services at the right time and through the right channel.

Multi-Channel Service Offering
The Bank is constantly refining and integrating its distribution channels. This year, its service offering has been enhanced, with more frequent and personalized contacts generated by the marketing business model.

To better respond to the growing use of e-channels, the Bank launched an application for iPad and Android tablets as well as a new version of its application for smartphones. Its iPad application was ranked number 1 by users in the financial services category.

And clients are taking notice: the Bank's mobile transactions are up 53% year over year. What's more, the greater number of online transactions is facilitating business development in the Canadian market. In March 2015, the user rate of our English website nbc.ca had increased 55% compared to the same period in 2014.

This year, the Bank also launched two digital applications—*MyIdea* and *My Business Model*—for its Personal and Commercial clients. *MyIdea* allows clients to build a personalized savings plan while *My Business Model* provides the Bank's business clients with a tool for strategic planning, idea searches and decision-making.

In the remote distribution channels, this year the Bank deployed resources to increase the number of proactive contacts with clients and to provide enhanced service quality. The personal bankers of the virtual branch network provide Personal Banking clients with added remote services and advice. For Commercial Banking clients, accessing remote services is now easier than ever: the four service centres are combined under the Business Central banner and a single number is used to access all services.

In conjunction with these many developments, the Bank is rethinking the in-branch experience of its clients. It is currently testing new reduced floor space designs for its points of service, focusing on advisory services and technology.

Sales and Service Culture Excellence

The Bank's vision for its distribution channels is to provide clients with value-added advisory services that meet increasingly sophisticated expectations. This vision has underpinned the initiatives pursued by the Bank this year to further enhance the sales force excellence.

The Bank's advisory model has already evolved in 35 branches in Quebec since November 2014, with clients assigned to the advisors best suited to exceed their expectations and provide them with value-added advice. As part of the model, new roles were created, including multi-functional advisors to welcome clients, respond to their simple requests and refer them to more specialized advisors as needed. Financial planners, in greater numbers, meet clients' savings needs. This improved client referral process increases the ability to maximize business opportunities with clients. The Bank plans on deploying this model throughout its network by 2018.

To support this vision, in 2015 the Bank deployed a national certification program to further enhance the skillsets and knowledge of its employees. A skills assessment specific to each employee measures their proficiency in certain areas and recommends development activities for achieving certification. Ultimately, the 3,500 employees who have an advisory role with Personal and Commercial clients will be certified and be required to maintain their certification by way of continuous development activities. Advisors in Quebec branches have begun the certification process this year, while advisors in branches outside Quebec, managers serving Commercial clients, and mobile and remote sales force members will begin the process in 2016.

In addition to being better informed, the sales force will also be better equipped to provide clients with personalized financial solutions. The marketing model is one of the elements implemented to give the sales force relevant information about the Bank's clients and their needs. For example, a customer relationship management (CRM) software solution will help the sales force make even more relevant offers. The Bank will first deploy this solution in its remote channels and then in its branch network.

Efficiency and Productivity

For the Bank, a high-level sales and service culture goes hand in hand with operational excellence. Operational quality is one of the pillars of a banker's job and a key element in providing services that exceed expectations.

This year, following an assessment of client behaviours and employee work processes, the Bank identified potential improvements and led a series of efficiency and productivity initiatives.

In order to provide clients with efficient in-branch service, employee work schedules were adjusted according to peak periods. The Bank also centralized non-client-facing activities outside of branches and improved client reception and management from the moment they enter a branch in order to direct them toward the channels that best suit their needs.

In 2015, the Bank completed the deployment of a mortgage financing solution and process throughout its Canadian distribution channel and partner networks. The credit-granting process is accelerated and systematically integrates offers for loan insurance and credit card needs.

Always mindful of serving clients more effectively and achieving efficiency gains, the Bank deployed new workstations throughout the distribution network. Moreover, the transactional platform was migrated towards a more modern application to facilitate user navigation.

A Trusted Business Partner

The Bank has a well-established presence with Canadian businesses and is a leader in the Quebec market. It sees this sector as having strong growth potential, both in Quebec and Canada. With a view to consolidate relationships with business clients, the Bank has increased the number of account managers in certain market segments. The results can already be seen in the Canadian market, with 7.3% growth in loan and acceptance volumes from last year. The sales force in the commercial segment will continue to expand over the next two years.

The Bank's growth with Canadian businesses is also based on the expertise of its sales force. Account managers specializing in agriculture, film and television, health, high technology, real estate financing and business transfers are key business partners with its clients. In addition, a team specialized in international trade facilitates the business development of its clients abroad.

In 2015, the Bank implemented various initiatives to foster the development of its business model with small businesses and SMEs. For example, it created a new function dedicated exclusively to small businesses in targeted branches. Small Business managers now meet all of the needs of clients in this sector. The role of SME managers is also being reviewed to keep on simplifying and accelerating client management.

Priorities and Outlook for 2016

In 2016, the Bank will continue to further upgrade the skillsets and knowledge of its employees. Its certification program will be deployed with advisors in branches outside Quebec and managers serving Commercial clients as well as with its mobile and remote sales forces.

It will also continue to conduct initiatives in its branch network to enhance efficiency and productivity, particularly regarding its main work processes.

The Bank also plans on upgrading its deposit and cash management product and service offering to better respond to the comprehensive needs of its Commercial clients. This initiative will generate new revenues and new business development opportunities, both with current clients and external clients.

New managers assigned to small businesses will be working in targeted branches, and SME client management will be optimized.

At the same time, the credit-granting process to businesses will be standardized for all market segments and will be supported by a more efficient credit-granting platform, enabling faster access to financing solutions.

Lastly, in 2016, the Bank will pursue the development of optimized technology tools and processes that facilitate a multi-channel access to its products and services while implementing a CRM platform to foster the proactivity of its sales force with its clients.

BUSINESS SEGMENT ANALYSIS

WEALTH MANAGEMENT

OVERVIEW

The Wealth Management segment believes that the strength of client relationships is what is—and will continue to be—the key critical success factor going forward. Therefore, the segment continues to focus on hiring advisors and support staff with a passion for delivering a memorable client experience and to equip them with category-leading products and services.

By leveraging its internal and third-party distribution channels as well as its product manufacturers, the Wealth Management segment has achieved a leadership position in Quebec and will continue to grow its market share in the rest of Canada. The segment distinguishes its brand by offering its unique business model characterized by a high degree of professionalism that is at the very heart of its culture.

Segment Results – Wealth Management

Year ended October 31 (millions of Canadian dollars)	2015	2014	2013[1]	2015-14 % change
Excluding specified items[2]				
Net interest income	323	312	272	4
Fee-based revenues	760	664	559	14
Transaction and other revenues	308	354	319	(13)
Total revenues	1,391	1,330	1,150	5
Non-interest expenses	947	909	841	4
Contribution	444	421	309	5
Provisions for credit losses	3	3	3	–
Income before income taxes	441	418	306	6
Income taxes	114	108	81	6
Net income excluding specified items	327	310	225	5
Specified items after income taxes[2]	(1)	(38)	(24)	
Net income	326	272	201	20
Average assets	10,329	10,400	9,080	(1)
Average loans and acceptances	8,717	8,287	7,862	5
Net impaired loans	5	2	2	
Average deposits	24,490	24,250	21,477	1
Efficiency ratio excluding specified items[2]	68.1 %	68.3 %	73.1 %	

(1) Certain amounts have been adjusted to reflect accounting standard changes in 2014.
(2) See the Financial Reporting Method section on page 12.

Assets Under Administration or Under Management – Wealth Management

As at October 31 (millions of Canadian dollars)	2015	2014	2013	2015-14 % change
Assets under administration	308,396	301,808	227,664	2
Assets under management				
Individual	23,960	24,586	19,571	(3)
Mutual funds	25,783	18,938	16,633	36
	49,743	43,524	36,204	14
Assets under administration and under management	358,139	345,332	263,868	4

Financial Results

In the Wealth Management segment, net income totalled $326 million in fiscal 2015, up 20% from $272 million in fiscal 2014. This growth came essentially from an increase in total revenues, as fee-based revenues were up due to growth in assets under administration and assets under management and because a $25 million gain, net of income taxes, was realized in 2015 following a disposal of Fiera Capital shares.

Excluding specified items, which include—all net of income taxes—a $25 million gain on the disposal of Fiera Capital shares, the $2 million restructuring charge, and $24 million in charges related to the acquisitions of recent years (2014: $38 million), the Wealth Management segment's net income totalled $327 million, up $17 million or 5% from $310 million in 2014. Excluding the gain on the disposal of Fiera Capital shares realized in 2015, the segment's total revenues amounted to $1,391 million versus $1,330 million in 2014, a 5% increase owing mainly to higher revenues from fee-based services, which increased 14% year over year, and to net interest income growth that was partly driven by higher volumes and improved margins in banking activity among high-net-worth individuals. Conversely, there were year-over-year decreases in brokerage commission revenues on share and bond transactions and in revenues from new issuances.

Excluding specified items, non-interest expenses stood at $947 million in 2015, up 4% from $909 million in 2014. This increase came mainly from the higher variable compensation and external management fees associated with growth in the segment's business volume as well as from higher salaries, employee benefits and operations support charges within the segment. At 68.1%, the segment's efficiency ratio improved from 68.3% in 2014 and from 73.1% in 2013.

The 2015 provisions for credit losses stood at $3 million, which is stable when compared to 2014.

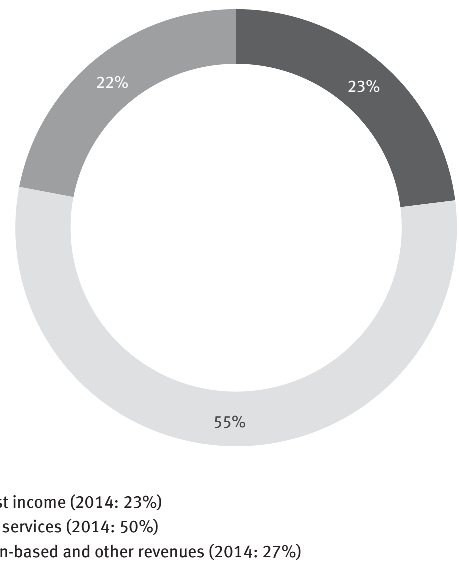
Assets Under Administration and Under Management

As at October 31, 2015, total assets under administration and under management amounted to $358.1 billion, up $12.8 billion or 4% from October 31, 2014 and up 36% from October 31, 2013.

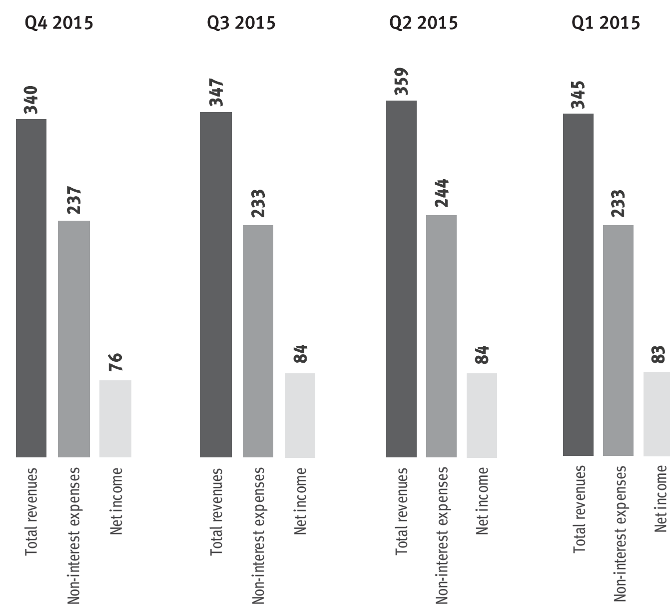
As at October 31, 2015, assets under administration amounted to $308.4 billion, a $6.6 billion or 2% increase from October 31, 2014 that came essentially from net inflows from various solutions. In the individuals category, assets under management amounted to $24.0 billion as at October 31, 2015 compared to $24.6 billion as at October 31, 2014.

Mutual funds totalled $25.8 billion as at October 31, 2015, rising 36% from October 31, 2014 given excellent net inflows in the various distribution networks and a conversion of the Private Wealth Management solution into mutual funds.

Total Revenues by Category[1]
Year ended October 31, 2015



Quarterly Results[1]
(millions of Canadian dollars)



(1) Excluding specified items. See the Financial Reporting Method section on page 12.

Subsidiaries, Associates, Specialized Business Units, Internal and Third-Party Partners

Full-Service Brokerage — National Bank Financial (NBF Wealth Management), offers comprehensive, holistic financial advice, a broad and deep suite of financial products and services, transaction execution and securities custody to affluent and high-net-worth Canadian investors.

Self-Directed Brokerage — National Bank Direct Brokerage Inc. (NBDB) provides self-directed investors with an innovative technological platform that features an intuitive client interface, research from a number of widely respected sources, interactive modelling tools, and high-quality securities transaction execution and custody services.

Services for High- and Ultra-High-Net-Worth Individuals — Private Wealth 1859 offers a comprehensive planning-based suite of wealth management services specifically designed to meet the needs of affluent individuals, families and small businesses.

Investment Product Manufacturing — National Bank Investments Inc. (NBI) manufactures a full suite of mutual fund solutions and other managed products that are distributed within the Bank's branch network by its full-service brokerage, direct brokerage and high net worth subsidiaries as well as by many other financial institutions across the country. NBI's team of wholesalers support these distribution channels in their sales of managed products and of the Bank guaranteed investment certificates, term deposits and structured products.

Trust Services — National Bank Trust Inc. (NBT) provides a comprehensive menu of trust services to individual clients of the Bank and of its wealth management distribution channels as well as to institutional clients. Moreover, NBT has a team of tax, financial and estate planning consultants to serve both trust service clients as well as high- and ultra-high-net-worth clients of Private Wealth 1859 and NBF Wealth Management clients.

Intermediary Business Solutions — The Bank's Intermediary Business Solutions division provides branded and white-labelled transactional banking and credit products to a number of Canada's large financial institutions for redistribution to their clients. This business unit is also the largest supplier of securities transaction, settlement and custodial services to financial institutions across Canada.

Main Issues and Challenges

The Wealth Management segment has identified the following challenges for the years ahead:

- Markets have been beset by uncertainty for most of the fiscal year ranging from worries about the impact of low oil prices on the Canadian economy to the potential disruption resulting from a possible Greek exit from the European Economic Union and slowing Chinese growth with the collapse in stock prices that accompanied it.
- The Client Relationship Model 2 (CRM 2) is a sizeable collection of amendments to *Regulation 31-103 Respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* introduced by the CSA, which also involves the harmonization of a number of rules of the Investment Industry Regulatory Organization of Canada and of the Mutual Fund Dealers Association of Canada. While these changes are phased in over a multi-year period, those entering into effect in 2016 will have the biggest impact in terms of the cost of implementation and the potential disruption to existing business models. The Bank is well prepared, but some of the smaller firms may have difficulty making the investments required to be in compliance with the new regulation.
- With the front-end of the baby-boomer generation into its retirement years, the wealth management industry is entering into a mature phase. While there will continue to be consolidation, attractive acquisition targets are few and far between. Organic growth will continue to be the name of the game, and asset growth will increasingly come from focusing on the elusive affluent and high-net-worth (HNW) markets, which requires taking share away from competitors.

Strategies

All of Wealth Management's strategic priorities are guided by a commitment to growing sales and revolve around a series of focal points.

Put the Relationship First
While technology plays a very important role in delivering wealth management services and its importance will only continue to grow going forward, we believe that the ultimate element of differentiation that turns individuals into clients for life is a strong relationship with a professional advisor. The Bank offers a broad continuum of wealth management services that can accommodate investors who are completely autonomous all the way to those who wish to give a full discretionary mandate to a portfolio manager. However, it is our conviction that as wealth grows and the issues associated with managing it become more complex, relationships based on trust are increasingly valued, and this is an area where we intend to stand out from our competitors.

Take a Global Perspective

Advice on how to structure a portfolio and timely recommendations for what securities to buy or sell, and when, are obviously very important. But the Bank believes that this is only part of the picture. Guidance on financial and estate planning, tax optimization and risk protection are equally important, and they play a critical role in increasing the chances that individuals actually reach their financial goals. While the Bank recognizes that not everyone is looking for guidance on the "big picture," the Bank takes care that this guidance is readily available for those who appreciate its value.

Leverage Partnerships to Extend Our Reach

While the Bank's Wealth Management segment has been aggressively growing its presence in markets all across Canada and now has a significant presence in all major markets, the business model is unique in the emphasis it puts on strategic partnerships as a way to extend our reach beyond what can be achieved through organic growth and selective acquisitions. Relationships with key partners bring tremendous scale to our credit underwriting business as well as our securities execution, clearing and custody operations. Going forward, we will continue to seek out business-to-business opportunities that will be beneficial to both revenues and the cost structure.

Achievements

Synergies

On the organizational front, a relatively small restructuring that has yielded significant results consisted of moving the managed product sales staff out of our Intermediary Business Solutions group and integrating them directly into NBI, the product manufacturing subsidiary. This has resulted in improved communication and coordination between sales and manufacturing and has led to a new product pipeline better suited to prevailing market conditions and a significant increase in sales of these products.

During the course of the year, NBI launched a number of innovative new products managed by some of the world's most prestigious asset managers such as The Goldman Sachs Group Inc. and Rothschild Asset Management Inc., which have been very well received by our distribution channels. Finally, the Bank received the green light from the *Commissariat aux Assurances* of Luxembourg to sell our managed products in that country—an important development that will further our strategic alliance with a major private bank located in that jurisdiction.

The customer migration towards fee-based services at NBF Wealth Management continues at a very rapid pace, and the recently-launched fee-based platform—*my* WEALTH—has attracted over $10 billion in assets in very short order. More than 55% of NBF Wealth Management's assets are now under a fee-based pricing arrangement.

Deliver the Client Promise

Much work went into a number of projects and initiatives designed to improve our overall client experience. These include:

- A new series of managed products designed to meet the needs of high-net-worth investors;
- A completely re-engineered Private Investment Management program centred around converting the underlying investment vehicles from private pools to mutual funds, which will cut down on the paperwork and streamline the processes for clients who invest in this program;
- The launch of the integrated *National Bank All-in-One* line of credit distributed by our Partnership Banking division's corporate clients, which has enjoyed huge success;
- Continued development of the discretionary portfolio management program, which allows clients to completely free themselves from the burden of having to participate in managing their portfolios. NBF Wealth Management now has 268 licensed investment advisors as portfolio managers.

Undoubtedly, the biggest project of fiscal 2015 has been all the preparatory work for the major emphasis the Bank will be placing on growing its private banking business in 2016, described in greater detail on the following page. Much effort has gone into feasibility studies, analyzing micro-markets, hiring key personnel, defining the characteristics and pricing of the new offering, and, finally, preparing all of the head office infrastructure to support this initiative.

Priorities and Outlook for 2016

For 2016, Wealth Management's priorities will address four main business priorities.

Grow Private Banking Business
In keeping with its mission of providing wraparound financial services, the Wealth Management segment's key priority for 2016 is to embark on a major build-out of its private banking capabilities, with an immediate emphasis on Western Canada. This initiative takes several forms:

- **Investor Banking**: Based on the results of a pilot project in White Rock, British Columbia, the Bank has found that impressive synergies can be realized by locating banking resources in close proximity to NBF Wealth Management branches. The bond that quickly develops between banking and brokerage teams results in more NBF Wealth Management clients being referred for credit and transactional banking products, which translates into deeper relationships with these clients. Our target is to have this close proximity approach up and running in nine locations by the end of 2016.
- **Private Banking 1859**: The Wealth Management segment is launching a new range of bespoke banking services that will cater to the needs of high-net-worth individuals from a limited number of carefully selected storefront locations. It will take the notion of a single point of client contact, around which NBF Wealth Management and Private Wealth 1859 are built, and extend it to traditional banking with the objective of delivering peerless service to a niche market that often has complex credit, transactional banking and foreign exchange needs. The Bank will begin by opening branches in Calgary and Vancouver and will gradually extend the footprint.
- **Partnership Banking:** The Bank has been a leader in the area of providing banking products and services to strategic partners for more than a decade. While this has been done on a purely business-to-business basis to date, at the request of some of our partners, we will be implementing an "Investor Banking" approach, as described above, and situating physical banking centres in locations chosen for their close proximity to the partners' distribution channels. Both the Bank and its partners believe that this will yield the same benefits described above.

Capitalize on NBCN's Positioning
The Bank intends to use the positioning of NBCN Inc. (NBCN) as the acknowledged market leader in the area of third-party clearing services to aggressively expand this business. The Investment Counsellor/Portfolio Manager (ICPM) space is currently experiencing strong growth, and the strength of NBCN's offering makes it a logical destination of choice for ICPMs looking for turnkey back office solutions. When faced with the substantial investments required over the coming years to fully comply with CRM 2, the Bank thinks that a number of smaller investment dealers will begin to question the benefits of self-clearing and look for lower cost integrated alternatives—and the Bank believes that NBCN will be one of the first doors they knock on when exploring potential solutions.

Leverage Unique "Open-Architecture" Approach
One of the goals for 2016 is to build on the momentum achieved by NBI in 2015, continue to launch new and innovative managed products in partnership with some of the world's leading asset managers, and grow our sales in the three distribution channels through which we market these products (i.e., NBF Wealth Management, the Bank branch network and third parties). We strongly believe our "open-architecture" approach is unique and a strong differentiator that is becoming better known, understood and appreciated by the advisors who recommend our products and the clients who purchase them. With its sales and manufacturing teams now in complete alignment and the new additions to its innovative product suites, the Bank expects 2016 to be a banner year for NBI.

Refine Some Operational Procedures
Since its creation in 2009, NBF Wealth Management has acquired and successfully integrated many businesses into its fold. These acquisitions have had an impact on the division's overall architecture, and the time has now come to explore how some operational processes can be redesigned in light of this change to its architecture, with a long-term view to increase efficiency, improve advisor productivity and deliver better service to its end-clients. With all of the efforts to integrate acquisitions completed, the Bank can afford to devote time and resources to looking forward and refining processes and procedures in light of its vision for the future.

BUSINESS SEGMENT ANALYSIS

FINANCIAL MARKETS

OVERVIEW

The Financial Markets segment offers clients a full suite of financial solutions from debt and equity securities to bank credit and risk management products. The segment also delivers comprehensive advisory services in the areas of mergers and acquisitions and financing. Access to the Canadian capital markets is provided through its fixed income, equities and derivatives business lines. The segment's clients include large and mid-sized corporations, the public sector and institutions. The Financial Markets segment is Canada-focused and employs a client-centric approach to ensure that all clients benefit from the full breadth of its capabilities.

Financial Markets is an investment banking leader in Quebec with a strong presence across Canada. In fixed income and equities, the Bank is a major Canadian player, providing origination, underwriting, distribution, and liquidity through secondary market activities as well as macroeconomic and issuer-focused research. The Financial Markets segment provides corporate lending and risk management services to large and mid-sized Canadian corporate clients.

Through offices in New York, London (UK) and Hong Kong, the Financial Markets segment markets Canadian debt and equity securities to institutional investors in the United States and internationally. Through its Dublin subsidiary, the segment has commenced trading activities with large European-based institutions in local equity and equity-linked securities. The Financial Markets segment has strong expertise in investing and managing performing and non-performing debt portfolios through its specialty finance subsidiary Credigy Ltd., which operates exclusively outside of Canada.

Segment Results – Financial Markets

Year ended October 31 (taxable equivalent basis)[1] (millions of Canadian dollars)	2015	2014	2013[2]	2015-14 % change
Excluding specified items[1]				
Trading activity revenues				
Equities	450	333	288	35
Fixed-income	237	218	237	9
Commodities and foreign exchange	147	83	88	77
	834	634	613	32
Financial market fees	286	301	257	(5)
Gains on available-for-sale securities, net	1	27	26	
Banking services	286	250	234	14
Other	313	315	248	(1)
Total revenues	1,720	1,527	1,378	13
Non-interest expenses	739	690	664	7
Contribution	981	837	714	17
Provisions for (recoveries of) credit losses	–	–	(14)	
Income before income taxes	981	837	728	17
Income taxes	263	226	195	16
Net income excluding specified items	718	611	533	18
Specified items after income taxes[1]	(21)	(9)	–	
Net income	697	602	533	16
Non-controlling interests	13	14	8	
Net income attributable to the Bank's shareholders	684	588	525	16
Average assets	88,616	86,198	87,063	3
Average loans and acceptances (Corporate Banking only)	10,057	8,070	7,081	25
Average deposits	12,494	11,109	6,541	12
Efficiency ratio excluding specified items[1]	43.0 %	45.2 %	48.2 %	

(1) See the Financial Reporting Method section on page 12.
(2) Certain amounts have been adjusted to reflect accounting standard changes in 2014.

Financial Results

In the Financial Markets segment, net income totalled $697 million in 2015, a $95 million or 16% year-over-year increase that came mainly from higher trading activity revenues.

Excluding specified items, the segment's net income totalled $718 million, rising $107 million or 18% from $611 million in 2014. On a taxable equivalent basis, total revenues amounted to $1,720 million, a $193 million year-over-year increase that was mainly due to higher trading activity revenues.

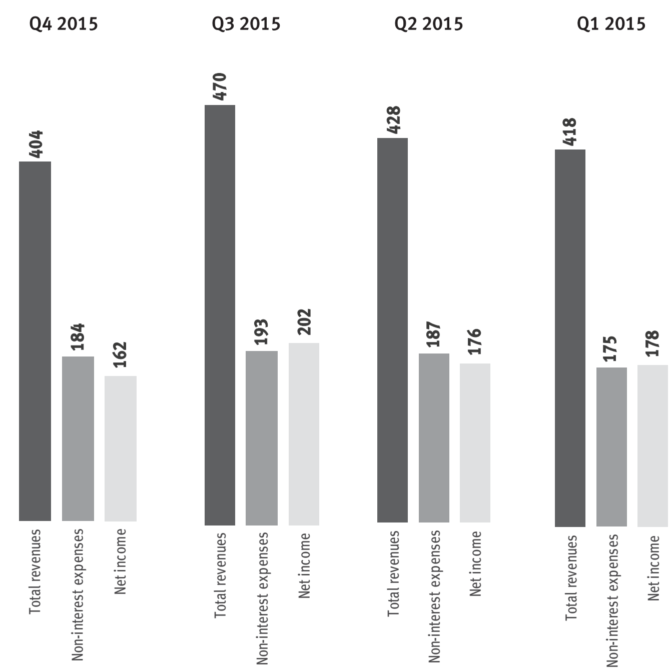
The 2015 trading activity revenues rose $200 million or 32% year over year, mainly due to sound business in equities and in commodities and foreign exchange contracts, which grew 35% and 77%, respectively. In addition, banking service revenues grew by 14%, primarily as a result of more robust credit activity. Conversely, financial market fees were down, declining $15 million or 5% on lower revenues from new issuances, which were particularly strong in 2014. Gains on available-for-sale securities also decreased year over year, as higher impairment losses were recorded in 2015. Lastly, the segment's other revenues remained relatively stable year over year. The net gains on investments realized in fiscal 2015, which were higher than those of 2014, were partly offset by lower revenues from the Credigy Ltd. subsidiary. Despite sustained business growth at Credigy Ltd., its revenues were down as gains on a disposal of portfolios had been realized in fiscal 2014.

During fiscal 2015, the segment recognized, as a specified item, a restructuring charge that consisted mainly of $7 million in severance pay ($5 million net of income taxes) and an amount of $18 million ($16 million net of income taxes) for its share of a current tax asset write-down of an associate. During fiscal 2014, the Bank had recognized a $13 million charge ($9 million net of income taxes) to reflect the funding valuation adjustment (FVA).

The segment's non-interest expenses stood at $739 million, a $49 million year-over-year increase resulting mainly from the higher variable compensation associated with revenue growth and from higher expenses at the Credigy Ltd. subsidiary. Nevertheless, at 43.0%, the efficiency ratio improved from 45.2% in 2014 and from 48.2% in 2013.

For fiscal years 2015 and 2014, the segment did not record any provisions for credit losses, while $14 million in recoveries of credit losses had been recorded in fiscal 2013.

Quarterly Results(1) (2)
(taxable equivalent basis)(2)
(millions of Canadian dollars)



(1) Excluding specified items.
(2) See the Financial Reporting Method section on page 12.

Strategies and Achievements

One Client, One Bank

The *One client, one bank* strategy has remained central to the Financial Markets segment's approach to delivering the Bank's full capabilities to all its clients. It achieves this by employing a collaborative, partnership approach among the Bank's business lines, the Wealth Management and Personal and Commercial segments, and corporate units. Throughout the year, Financial Markets has successfully leveraged its strengths to build and grow a leadership position in its chosen areas of focus.

The following transactions are examples of the segment's ability to deliver a diverse and integrated set of solutions to its clients.

- The Financial Markets segment was mandated by Superior Plus Corp. to advise on the $932 million acquisition of Canexus Corporation. It also co-underwrote a $650 million bridge facility and co-led a $144 million equity capital markets financing for the company in relation to the acquisition.
- The Financial Markets segment acted as co-bookrunner on $2.2 billion in equity capital markets transactions and as co-lead on a $575 million convertible debenture offering for Element Financial Corporation to finance the acquisition of General Electric Capital Corporation's North American, Australian and New Zealand fleet management businesses. In addition, the segment also served as sole hedge provider to immunize more than US$4.1 billion of interest rate and currency risks involved, and acted as joint bookrunner and co-lead arranger for US$8.5 billion in credit facilities related to the acquisition.
- The Financial Markets segment acted as co-lead underwriter and joint-bookrunner on a $299 million equity financing for Yamana Gold Inc. The Financial Markets segment is also a financial advisor to the company with respect to the monetization of its wholly owned subsidiary, Brio Gold Inc., and a participant in the company's US$1 billion revolving credit facility.
- During the year, the Financial Markets segment advised on 54 M&A transactions and led or co-led 65 equity offerings on behalf of corporate issuers.

Maintaining Focus on Mid-Market Companies

The Financial Markets segment continues its focus on mid-market corporate clients across all industry groups, providing them with a comprehensive range of advisory services, financing alternatives and risk management products.

Leveraging Market Leadership in Quebec

As a market leader in Quebec, the Financial Markets segment continued to deepen its presence throughout the province. It participated in 66 syndicated loans involving Quebec borrowers and led or co-led 49 of these transactions, with a market share of 34%.

The segment ranked first in leading the public equity offerings of Quebec issuers. Over 2015, the segment led nine offerings, raising $2.3 billion. This represents a market share of 34%. During the year, it was involved in a total of 15 offerings, more than any other dealers. Financial Markets also advised on 13 M&A transactions, aggregating close to $1.6 billion in value.

Achievements on behalf of Quebec-based issuers included:

- Financial advisor on two initial public offerings, acting as co-lead underwriter on GDI Integrated Facility Services Inc.'s (GDI) $162 million initial public offering of subordinate voting shares and on Stingray Digital Group Inc.'s (Stingray) $161 million initial public offering of subordinate voting shares and concurrent $18 million private placement. The Financial Markets segment also acted as sole bookrunner and administrative agent for credit facilities for both GDI and Stingray.
- Lead underwriter and joint bookrunner on Bombardier Inc.'s $1.1 billion offering of subscription receipts.
- Financial advisor on TransForce Inc.'s $580 million acquisition of Contrans Group Inc. Administrative agent, co-lead arranger and joint bookrunner on the $550 million credit facilities relating to the acquisition.
- Financial advisor on Boralex Inc.'s $400 million acquisition of Enel Green Power France SAS. Administrative agent, sole arranger and bookrunner on the $275 million corporate credit facilities relating to the acquisition. Lead underwriter and sole bookrunner on Boralex Inc.'s $124 million bought deal in connection with the acquisition.

Maintaining Leadership in Fixed Income

The Financial Markets segment's Fixed Income group maintained its status as a top-tier dealer in government finance, ranking first overall in Canadian government debt underwriting by *Bloomberg* in 2015 year-to-date, reaching a market share of 23%. The Financial Markets segment's government finance team acted as lead or co-lead on 85 underwritten and medium-term note issues of government securities totalling $57.7 billion.

Apart from several lead mandates for CMHC, Province of Ontario and Province of Quebec, some of the other key successes in the government finance group include a joint lead on a US$1.25 billion 5-year deal for the Province of Alberta, inaugural lead for the Regional Municipality of York and a lead for the First Nations Finance Authority's bond issues in the debt capital markets.

Building on existing and growing lending relationships, the Fixed Income team is a top-tier corporate debt underwriter, leading or co-leading 28 corporate transactions for a total of $13.2 billion.

Moreover, the team acted as lead or co-lead manager in numerous landmark transactions for Canadian issuers during the year:

- **Mergers, Acquisitions and Reorganizations:** Co-lead manager on a nearly $1.1 billion multi-tranche offering for Enbridge Income Fund Holdings Inc. following the acquisition of natural gas and diluents pipeline interests from Enbridge Inc.;
- **High Yield:** Joint bookrunner on Videotron Ltd.'s $375 million 10-year offering; the largest issue in the Canadian high yield market in 2015 (calendar year);
- **Maple Issuance:** Joint lead and joint bookrunner on Citigroup Inc.'s new $600 million 10-year Maple Bullet subordinated notes transaction;
- **U.S. Private Placements:** Sole agent on Gaz Métro inc.'s US$100 million 10-year U.S. private placement;
- **Inaugural Bond Offering:** Joint bookrunner on Saputo Inc.'s inaugural $300 million 5-year medium-term notes offering.

As a whole, the Fixed Income group continues to focus on the distribution of Canadian products in international markets. The group leveraged its existing distribution platform, with offices in New York, London and Hong Kong, to enhance its primary market capabilities by increasing its participation in cross-border financings throughout the year.

Demonstrating Strength in Infrastructure and Project Financing

The Financial Markets segment's Fixed Income group is also a leader in the financial advisory and underwriting of Canadian public-private partnership infrastructure transactions, capturing the top spot in the market over the past three years in terms of debt underwritten and deals closed, with total capital commitments of over $13 billion and 20 transactions closed.

Examples of significant Financial Markets advisory and debt mandates included:

- **New Bridge for the St. Lawrence Project – Montreal, Quebec (June 2015)**
  The project is a Government of Canada procured public-private partnership (P3) project to deliver a new 3.4 km bridge across the St. Lawrence River in Montreal—one of the largest infrastructure projects in North America. Private capital consisted of A3-rated long-term broadly marketed bullet and amortizing senior secured bonds, a construction bank facility offered by eight Canadian and international lenders and equity capital. This was complemented by milestone and completion payments from the Government of Canada. The Bank acted as co-financial advisor, joint-lead underwriter, mandated lead arranger on the bank facility, account bank, and administrative agent.

- **Eglinton Crosstown LRT – Toronto, Ontario (July 2015)**
  The Eglinton Crosstown LRT is a 19 km light rail transit project in Toronto that will be integrated with the Toronto Transit Commission, Go Transit and the Union Pearson Express. The project was financed by a combination of private funding (Baa2-rated long-term broadly marketed bullet and amortizing senior secured bonds, construction bank financing from five Canadian and international lenders and equity capital) and public funding (milestone and substantial completion payments). The Bank acted as co-financial advisor and co-lead underwriter.

- **Regina Bypass Project – Regina, Saskatchewan (July 2015)**
  The Regina Bypass project involves the design, financing, construction, operation, maintenance, and rehabilitation of the 61 km Regina Bypass, the first transportation infrastructure P3 project to be completed by the Province of Saskatchewan. The project features four distinct tranches of debt financing: a senior revolving construction bank facility, a senior rehabilitation works bridge facility, a tranche of long-term amortizing bonds, and a tranche of long-term bullet bonds. Bank debt was provided by three international project finance banks and two Canadian financial institutions. The bonds carried an A3 rating from Moody's Investors Services (Moody's) and were underwritten by two Canadian investment dealers. Public funding during construction consists of two large completion payments. The Bank acted as financial advisor, co-lead underwriter, mandated lead arranger, account bank, and administrative agent.

In 2015, the Financial Markets segment continued to demonstrate its commitment to the renewable power project financing space, playing key roles across Canada.

The Financial Markets segment financed 16 power projects including 15 renewable wind projects:

- Underwrote and is acting as administrative agent for a $326 million long-term fixed-rate construction and term loan financing for the Grand Bend Wind Farm project in Ontario developed by Northland Power Inc.;
- Co-underwrote and is acting as administrative agent for $312 million in floating and fixed-rate construction and term loan credit facilities for the Mesgi'g Ugju's'n wind farm project in Quebec developed by Innergex Renewable Energy Inc.;
- Acted as sole lead arranger and administrative agent for $77 million in bank financing and interest rate hedging for BluEarth Renewables Inc.'s Bull Creek project;
- Acted as sole lead arranger and administrative agent for $71 million in bank financing and interest rate hedging for Connor, Clark & Lunn's BrightRoof Solar rooftop project.

Continued Leadership in Deploying Risk Management Products to the Bank's Clients

The Financial Markets segment continued to leverage its derivatives trading and structuring skills to develop innovative risk management solutions to assist clients in managing their risks across all asset classes. The group has noted 50% growth in the number of active clients for all asset classes over the past five years. Over the same period, the number of clients using more than one risk management product increased by 106%. This has translated into strong revenue growth.

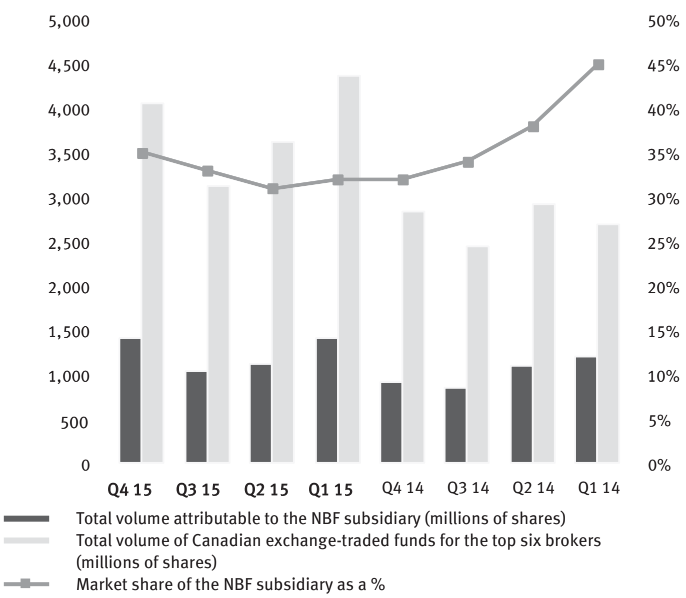
Top-Tier Provider of Equity and Structured Products

The group continues to provide over-the-counter derivatives and structuring services on all asset classes for exchange-traded fund (ETF), structured note and managed retail product issuers. The group also provides liquidity to investors and offers research on all investment products.

Highlights – Exchange-Traded Funds (ETF) and Structured Notes

- The group is the largest market maker of ETFs in Canada (by volume) (Bloomberg).
- The group provided liquidity to all ETFs and was designated market maker for 180 of all listed ETFs in Canada.
- Sales volumes of structured notes rose by 163% over the past three years.

Total ETF Volume in Canadian Market and Market Share



Delivering Industry-Leading Capabilities to Clients

Further confirmation of the Financial Markets segment's commitment to providing clients with top-tier services is demonstrated by the following achievements:

- The research team was ranked third among all dealers in Canada by corporate issuers, based on which analysts best understood their company in Brendan Wood International's *Worldwide Equity Capital Markets Performance – Canadian Equity 2015 Report*.
- Stéfane Marion and Krishen Rangasamy were ranked third in the world by *Bloomberg* for the accuracy of their currency forecasts over a one-year period ended September 30, 2015.

Strength in Specialty Finance Through Credigy Ltd.

Credigy Ltd. is the Financial Markets segment's specialty finance subsidiary, of which it acquired majority control in 2006, and subsequently increased its ownership to its present position of 80%. Credigy Ltd. purchases performing and non-performing consumer-related asset portfolios and optimizes collections through its data analytics and modelling expertise to achieve targeted returns. It is also a lender to other large buyers of similar assets.

Credigy Ltd. is internationally focused, purchasing portfolios in the Americas and Europe. The group is also diversified by asset class.

Priorities and Outlook for 2016

In 2016, the Financial Markets segment will continue to focus on its *One client, one bank* strategy, developing innovative, integrated solutions to meet the needs of its clients and respond to market opportunities.

Strategic priorities include continuing to build market share in corporate debt, infrastructure and power finance, with a strengthened focus on larger corporate clients, continuing to expand specialty finance capabilities through the Credigy Ltd. subsidiary and continuing to strengthen the group's capacity to distribute Canadian investment products to investors globally.

BUSINESS SEGMENT ANALYSIS

OTHER

OVERVIEW

The *Other* heading reports on Treasury operations, including the Bank's asset and liability management, liquidity management and funding operations; certain non-recurring items; and the unallocated portion of corporate units. Corporate units include Information Technology, Risk Management, Operations, Marketing and Corporate Development, Human Resources and Corporate Affairs, and Finance and Treasury.

Segment Results – Other

Year ended October 31
(taxable equivalent basis)(1)
(millions of Canadian dollars)

	2015	2014	2013(2)
Excluding specified items(1)			
Net interest income	**(131)**	(54)	(16)
Non-interest income	**186**	146	126
Total revenues	**55**	92	110
Non-interest expenses	**220**	156	145
Income before income taxes	**(165)**	(64)	(35)
Income taxes	**(77)**	(53)	(39)
Net income excluding specified items	**(88)**	(11)	4
Specified items after income taxes(1)	**(6)**	(8)	113
Net income	**(94)**	(19)	117
Non-controlling interests	**57**	55	55
Net income attributable to the Bank's shareholders	**(151)**	(74)	62
Average assets	**37,039**	28,566	20,670

(1) See the Financial Reporting Method section on page 12.
(2) Certain amounts have been adjusted to reflect accounting standard changes in 2014.

Financial Results

For the *Other* heading of segment results, there was a net loss of $94 million in fiscal 2015 versus a net loss of $19 million in fiscal 2014 and net income of $117 million in fiscal 2013. The greater net loss was partly due to an increase in non-interest expenses. Excluding specified items, the *Other* heading posted a net loss of $88 million in 2015 versus a net loss of $11 million in 2014 and net income of $4 million in 2013. The greater net loss came mainly from a higher net contribution from treasury activities in 2014 than in 2015, from higher compensation and employee benefit expenses, from the compensatory tax on salaries, and from business development expenses.

The fiscal 2015 specified items, net of income taxes, consisted of revenues related to holding restructured notes, net of the financing cost related to holding these notes and including a $50 million gain on the disposal of the restructured notes of the MAV III conduits (2014: $54 million), $33 million in impairment losses on intangible assets (2014: $45 million), a $20 million restructuring charge (2014: nil) and $3 million in charges related to the Bank's interest in TMX Group Ltd. (2014: $7 million). In addition, in fiscal 2014, the specified items net of income taxes had included $10 million in litigation provisions.

Treasury and Corporate Units

The *Other* heading encompasses Treasury operations and the Bank's corporate units, which include the following: Information Technology, Risk Management, Operations, Marketing and Corporate Development, Human Resources and Corporate Affairs, and Finance and Treasury. These units provide advice and guidance throughout the Bank and to its business segments in addition to expertise and support in their respective fields.

Information Technology

The Information Technology unit is responsible, on one hand, for maintaining the Bank's technological assets to ensure reliable computer service for clients and employees and, on the other hand, for ensuring that those services evolve smoothly in support of the Bank's business objectives and in compliance with changes in regulatory requirements. The Information Technology unit also leads the Strategic Initiatives Office, the main role of which is to advise the Office of the President on its strategic investment decisions. Managing technology risk, whether it involves data security, obsolescence prevention, or the recovery plan, is also part of this unit's responsibilities.

Risk Management

The Risk Management unit is responsible for identifying, measuring, and monitoring—independently and within an integrated framework—the risks to which the Bank is exposed and for promoting a sound risk management culture. The Risk Management team helps the Board and management understand and monitor the main risks (see the Risk Management section for additional information). The unit also develops, maintains and communicates the risk appetite framework while overseeing the integrity and reliability of risk measures.

Operations

The Operations unit ensures delivery of financial products and services to all of the Bank's clients. First and foremost, it focuses on providing reliable, accessible services such that it can meet its commitments. As a strategic, proactive partner, the Operations unit also ensures that its processes are as simple and efficient as possible to deliver a distinctive client experience. Together with the Personal and Commercial business segment, the Operations unit provides Bank-wide leadership in efficiency and continuous business process improvement in order to streamline the Bank and generate tangible gains for clients, employees and shareholders.

Marketing and Corporate Development

The Marketing and Corporate Development unit is responsible for deploying the Bank's distinctive strategy, brand image and client experience by offering customized financial products and payment solutions adapted to the needs of personal and commercial clients, relying on a proven analytical approach and tying technological and digital developments in with business priorities. The unit is also responsible for community engagement, public affairs, institutional relationships and identifying strategic development opportunities for the Bank.

Human Resources and Corporate Affairs

The Human Resources and Corporate Affairs unit provides its expertise to all of the Bank's units and contributes to the Bank's performance, growth and continued status as an employer of choice by deploying strategies meant to attract, develop and retain the best talent. The unit implements practices that promote employee mobilization and cultivates a work environment where everyone can develop to their full potential. As for Corporate Affairs (Corporate Secretary's Office and Legal Affairs), it oversees the institution's governance, continuous disclosure as well as compliance with the regulatory requirements applicable to the Bank and its subsidiaries. In addition to assisting the business units in identifying and proactively managing their legal risks, Corporate Affairs provides them with transactional advice and supervises the Bank's litigation strategy.

Finance and Treasury

The Finance and Treasury unit is responsible for optimizing management of financial resources (capital, liquidity, financing and sourcing), actively ensuring asset/liability management, and ensuring sound governance of accounting and financial information. It also participates in strategic and operational decision-making and supervises the activities of the pension plan fund for Bank employees. It helps the business segments and support functions in their financial performance, ensures compliance with regulatory requirements, and carries out the Bank's reporting to shareholders and the external reporting of the various units, entities and subsidiaries of the Bank. The management of certain administrative aspects of Internal Audit may be delegated to Finance and Treasury by the President and Chief Executive Officer.

QUARTERLY FINANCIAL INFORMATION

Several trends and factors have an impact on the Bank's quarterly net income, revenues, non-interest expenses and provisions for credit losses. The following table presents a summary of results for the past eight quarters. Results for the past 12 quarters have been summarized and provided in Table 1 on pages 96 and 97.

Quarterly Results Summary

(millions of Canadian dollars)				2015				2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Statement of income data								
Net interest income	686	661	640	656	641	640	649	614
Non-interest income	719	849	781	754	723	820	627	750
Total revenues	1,405	1,510	1,421	1,410	1,364	1,460	1,276	1,364
Provisions for credit losses	61	56	57	54	57	49	51	51
Non-interest expenses	960	906	936	863	929	879	799	816
Income taxes	37	95	24	78	48	91	64	92
Net income	347	453	404	415	330	441	362	405

An analysis of the past eight quarters helps to identify the favourable and unfavourable factors that have affected results.

- For each quarter of 2015 and 2014, net income increased on a year-over-year basis, except for the net income recorded in the second quarter of 2014, which decreased year over year due to the fact that, in the second quarter of 2013, revenues had been recognized to reflect a rise in the fair value of restructured notes.
- In the fourth quarter of 2015, a restructuring charge of $62 million (net of income taxes) was recorded, whereas in the fourth quarter of 2014, charges for intangible asset impairment losses, litigation provisions and the funding valuation adjustment had been recognized.
- In the second quarter of 2015, net income included revenues related to holding restructured notes and a gain on the disposal of Fiera Capital shares. These revenues were offset by a loss recorded following a write-down of an associate's current tax asset and by intangible asset impairment losses.
- In the first and third quarters of 2015, net income included a lower amount of revenues recorded to reflect a rise in the fair value of restructured notes than those recorded in the same quarters of 2014.

Overall, net income has been positive over the past eight quarters, reflecting sustained performance across all business segments.

Net interest income increased year over year during each of the quarters of 2015 and 2014, except for the net interest income recorded for the second quarter of 2015. Growth in personal and commercial loan and deposit volumes, higher volumes and margins in banking activity among high-net-worth individuals, and higher net interest income from the Financial Markets segment contributed to these increases.

For three of the four quarters of 2015, non-interest income was higher year over year. The 2015 fourth quarter non-interest income was slightly lower than that of the fourth quarter of 2014, particularly because gains on available-for-sale securities had been realized in the fourth quarter of 2014. In addition, non-interest income for three of the quarters of 2014 were up versus the same quarters of 2013 due to sustained growth across the business segments.

Provisions for credit losses increased for most of the past eight quarters, mainly due to growth in personal and commercial loans.

Non-interest expenses were up year over year for most of the past eight quarters, mainly as a result of salary increases, including variable compensation associated with growth in the segments' revenues, technology investments, business development expenses, and the compensatory tax on salaries that came into effect in December 2014. The increase in non-interest expenses was notably greater in the second quarter of 2015 compared with the same quarter last year, due to impairment losses on intangible assets in 2015. Lastly, the restructuring charge recorded in the fourth quarter of 2015 was not the primary cause of the year-over-year increase in non-interest expenses, as intangible asset impairment losses and litigation provisions had been recognized in the fourth quarter of 2014.

Effective tax rates decreased during the second and fourth quarters of 2015 and during the fourth quarter of 2014. The lower effective tax rate in the second quarter of 2015 came from higher tax-exempt dividend income and from the gain on the disposal of Fiera Capital shares recorded during that quarter, while the decrease in the fourth quarter of 2015 was due to adjustments to income tax provisions.

For additional information about the fourth quarter of 2015, visit the Bank's website at nbc.ca or the SEDAR website at sedar.com to consult the Bank's *Financial Results Press Release for the Fourth Quarter of 2015*, published on December 2, 2015.

ANALYSIS OF THE CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet Summary

As at October 31 (millions of Canadian dollars)	2015	2014	% change
Assets			
Cash and deposits with financial institutions	**7,567**	8,086	(6)
Securities	**56,040**	52,953	6
Securities purchased under reverse repurchase agreements and securities borrowed	**17,702**	24,525	(28)
Loans and acceptances (net of allowances for credit losses)	**115,238**	106,169	9
Other	**19,543**	13,696	43
	216,090	205,429	5
Liabilities and equity			
Deposits	**128,830**	119,883	7
Other	**74,383**	73,163	2
Subordinated debt	**1,522**	1,881	(19)
Equity attributable to the Bank's shareholders	**10,554**	9,707	9
Non-controlling interests	**801**	795	1
	216,090	205,429	5

As at October 31, 2015, the Bank had total assets of $216.1 billion compared to $205.4 billion at year-end 2014, a 5% increase driven mainly by loan and acceptance growth of $9.0 billion.

Cash and Deposits With Financial Institutions

As at October 31, 2015, cash and deposits with financial institutions amounted to $7.6 billion, down $0.5 billion from the same date last year, as the New York branch maintained lower liquidity levels. The Bank's liquidity and funding risk management practices are described on pages 77 to 85 of this MD&A.

Securities

As at October 31, 2015, securities totalled $56.0 billion (26% of total assets), up $3.0 billion from $53.0 billion as at October 31, 2014. Securities issued or guaranteed by Canada's federal and provincial governments were up $6.1 billion, while other debt securities and equity securities were down $1.1 billion and $2.1 billion, respectively. Securities purchased under reverse repurchase agreements and securities borrowed totalled $17.7 billion as at October 31, 2015, a $6.8 billion decrease since year-end 2014 that is related to activities in the Financial Markets segment. The Bank's market risk management policies are described on pages 70 to 76 of this MD&A.

Master Asset Vehicles (MAV)

As at October 31, 2015, the face value of the restructured notes of the MAV conduits and of the other restructured notes held by the Bank was $703 million ($1,479 million as at October 31, 2014), of which $662 million was designated as *Securities at fair value through profit or loss* under the fair value option, and an amount of $41 million was classified in *Available-for-sale securities* ($1,253 million designated as *Securities at fair value through profit or loss* and $226 million classified in *Available-for-sale securities* as at October 31, 2014). The change in the face value of the restructured notes of the MAV conduits during the year ended October 31, 2015 was mainly due to capital repayments and disposals.

The Bank has committed to contribute $821 million ($831 million as at October 31, 2014) to a margin funding facility related to the MAV conduits in order to finance potential collateral calls. As at October 31, 2015 and 2014, no amount had been advanced by the Bank.

The carrying value of the restructured notes of the MAV conduits and of the other restructured notes held by the Bank in an investment portfolio as at October 31, 2015, designated as *Securities at fair value through profit or loss,* was $642 million, and $13 million was classified in *Available-for-sale securities* ($1,166 million designated as *Securities at fair value through profit or loss* and $75 million classified in *Available-for-sale securities* as at October 31, 2014). The notes held in an investment portfolio with one or more embedded derivatives were designated as *Securities at fair value through profit or loss* under the fair value option, and the other notes were classified in *Available-for-sale securities.*

During the year ended October 31, 2015, revenues amounting to $63 million were recorded to reflect capital repayments and a rise in the fair value of restructured notes ($92 million during the year ended October 31, 2014). These amounts were recorded in *Trading revenues* in the Consolidated Statement of Income. In addition, during the year ended October 31, 2015, a gain of $37 million was recorded upon the disposal of restructured notes of the MAV III conduits. This gain was recognized in *Gains (losses) on available-for-sale securities, net* in the Consolidated Statement of Income. The carrying value of the restructured notes, designated as *Securities at fair value through profit or loss,* was within the range of the estimated fair value as at October 31, 2015. The credit rating of the MAV I Class A-2 notes was upgraded from "A (sf)" to "AA low (sf)" and the credit rating of the MAV II Class A-2 notes was upgraded from "A (low) (sf)" to "A (sf)." The credit rating of the MAV I Class B notes was upgraded from "BBB (low) (sf)" to "A (sf)." The credit rating of the MAV II Class A-1 notes remained unchanged at "AA (low) (sf)."

The table on the following page presents the carrying values of the MAV-related financial assets and liabilities and their residual contractual maturities, which are not representative of expected maturities.

Residual Contractual Maturities of Financial Assets and Liabilities Related to MAV

As at October 31
(millions of Canadian dollars)

					Carrying value	
					2015	2014
	1 year or less	Over 1 year to 5 years	Over 5 years	No specified maturity	Total	Total
MAV I and MAV II	–	–	548	–	548	1,072
MAV III	–	–	–	–	–	63
Commercial paper not included in the Pan-Canadian restructuring plan	20	81	–	–	101	101
Liquidation trust units	–	–	–	6	6	5
	20	81	548	6	655	1,241
Margin funding facility	–	(11)	–	–	(11)	(21)
	20	70	548	6	644	1,220

Loans and Acceptances

As at October 31, 2015, loans and acceptances, net of allowances for credit losses, totalled $115.2 billion, up $9.0 billion or 9%, and accounted for 53% of total assets.

Residential mortgage loans outstanding totalled $43.5 billion as at October 31, 2015, rising $4.2 billion or 11% since year-end 2014 due to sustained demand for mortgage credit.

Personal loans and credit card receivables totalled $31.9 billion at year-end 2015 compared to $30.0 billion at year-end 2014, a $1.9 billion or 6% increase driven essentially by home equity lines of credit. At $2.1 billion, credit card receivables remained stable compared to year-end 2014.

At $40.4 billion as at October 31, 2015, loans and acceptances to businesses and government increased 8% since year-end 2014. Customers' liability under acceptances increased by $0.5 billion or 6% since last year.

Table 9 (page 103) shows gross loans and acceptances by borrower category as at October 31, 2015. At $54.0 billion, residential mortgages (including home equity lines of credit) have posted strong growth since 2011 and account for 46.6% of total loans and acceptances. This growth was primarily driven by strong demand for mortgage credit in recent years. As at October 31, 2015, retail loans amounted to $13.6 billion and, with respect to commercial loans, there was growth in the agriculture category, the financial institutions category, the construction and real estate category, and the transportation category from year-end 2014.

Impaired Loans

Gross impaired loans totalled $457 million as at October 31, 2015 versus $486 million as at October 31, 2014 (Table 10, page 104). This decrease came from the commercial loan portfolio as a result of several write-offs in early fiscal 2015. Impaired loans were 5.9% of the tangible capital adjusted for allowances compared to 7.1% as at October 31, 2014. Impaired loans, net of individual and collective allowances, increased $6 million from a year ago, mainly attributable to the addition of a few loans in the Personal and Commercial segment.

A detailed description of the Bank's credit risk management practices is provided on pages 62 to 69 of this MD&A as well as in Note 7 to the consolidated financial statements.

Other Assets

As at October 31, 2015, other assets totalled $19.5 billion, up $5.8 billion from year-end 2014. Other asset items consist of derivative financial instruments, amounts due from clients, dealers and brokers, purchased receivables, investments in associates and joint ventures, premises and equipment, goodwill, intangible assets, and other items. This increase was essentially due to a $3.7 billion rise in the fair value of derivative financial instruments and a $1.4 billion increase in premises and equipment following the acquisition of assets leased under operating leases.

Deposit Liability

At $128.8 billion as at October 31, 2015, deposits increased by $8.9 billion or 7% since year-end 2014. Personal deposits, as presented in Table 11 (page 105), stood at $46.0 billion (accounting for 35.7% of all deposits), rising $1.0 billion since October 31, 2014 due to Bank initiatives to grow this type of deposit and that favoured traditional savings accounts and the CashPerformer account. A summary of total personal savings is provided on the next page.

As shown in Table 11, business and government deposits totalled $37.8 billion as at October 31, 2015, down $3.2 billion from the same date last year, as businesses reduced their liquidity levels. Funding needs were met through the issuance of unsecured senior debt, which rose $3.3 billion since October 31, 2014. Deposits from deposit-taking institutions rose $4.9 billion from the same date last year, and the Bank also issued $2.8 billion in covered bonds since October 31, 2014.

As at October 31, 2015, total personal savings amounted to $177.8 billion, up 3% from $172.4 billion as at October 31, 2014. The assets of NBF Wealth Management's clients accounted for 59% of these savings, while 26% were made up of bank deposits. Overall, off-balance-sheet personal savings stood at $131.8 billion, a $4.3 billion or 3% increase since year-end 2014 driven by excellent net inflows in the various distribution networks.

Total Personal Savings

As at October 31 (millions of Canadian dollars)	2015	2014	% change
Balance sheet			
Deposits	45,981	44,963	2
Off-balance-sheet			
Full-service brokerage	105,395	104,525	1
Mutual funds	25,783	18,938	36
Other	636	3,988	(84)
	131,814	127,451	3
Total	177,795	172,414	3

Other Liabilities

Other liabilities stood at $74.4 billion as at October 31, 2015 and consisted of the following items: acceptances, obligations related to securities sold short, obligations related to securities sold under repurchase agreements and securities loaned, derivative financial instruments, amounts due to clients, dealers and brokers, liabilities related to transferred receivables, and other items. Other liabilities were relatively stable compared to last year, as a decrease in securities sold under repurchase agreements and securities loaned was offset by an increase in liabilities related to transferred receivables.

Subordinated Debt and Other Contractual Obligations

Subordinated debt decreased $359 million since October 31, 2014, mainly due to the fiscal 2015 redemptions of notes with a nominal value of $350 million maturing in December 2019.

Contractual obligations are presented in detail in Note 30 to the consolidated financial statements.

Equity

As at October 31, 2015, equity attributable to the Bank's shareholders was $10.6 billion, up $0.9 billion from $9.7 billion as at October 31, 2014. The increase in equity came mainly from net income attributable to the Bank's shareholders, net of dividends, and from a common share issuance partly offset by a redemption of preferred shares. The Consolidated Statements of Changes in Equity on page 113 of this Annual Report presents the items of equity.

As at October 31, 2015, the Bank had 337.2 million common shares issued and outstanding compared to 329.3 million a year earlier, for an increase that stems mainly from an issuance of 7.2 million shares on October 9, 2015. The Bank also redeemed 8.0 million Series 16 preferred shares on November 15, 2014. See Note 18 to the consolidated financial statements. An analysis of the Bank's regulatory capital is presented in the Capital Management section of this MD&A.

Shares and Stock Options

	As at October 31, 2015	
	Number of shares	$ million
First preferred shares		
Series 20[1]	6,900,000	173
Series 28	8,000,000	200
Series 30	14,000,000	350
Series 32	12,000,000	300
	40,900,000	1,023
Common shares[2]	337,236,322	2,614
Stock options[2]	16,652,313	

(1) On November 16, 2015, which was the first business day after the November 15, 2015 redemption date, the Bank completed the redemption of all the issued and outstanding Non-Cumulative Fixed-Rate Series 20 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.50 per share plus the periodic dividend declared and unpaid. The Bank redeemed 6,900,000 Series 20 preferred shares for a total amount of $176 million.

(2) As at November 27, 2015, there were 336,895,011 common shares and 16,577,737 stock options outstanding.

Related Party Transactions

In the normal course of business, the Bank provides various banking services and enters into contractual agreements and other transactions with associates, joint ventures, directors, key officers and other related parties. These agreements and transactions are entered into under conditions similar to those offered to non-related third parties.

Loans to eligible key officers are granted under the same conditions as those granted to any other employee of the Bank. The main conditions are as follows:

- the employee must meet the same credit requirements as a client;
- mortgage loans, to a maximum of $200,000, are granted for a three-year term at the posted rate less 2% and, for a five-year term, at the posted rate less 2.5% limited to half of the posted rate. Any amount over the $200,000 maximum is financed at the preferential employee rate;
- home equity lines of credit bear interest at Canadian prime less 2%, but never lower than Canadian prime divided by two;
- personal loans bear interest at a risk-based regular client rate;
- credit card advances bear interest at a prescribed fixed rate in accordance with Bank policy;
- personal lines of credit bear interest at Canadian prime less 3%, but never lower than Canadian prime divided by two.

For personal lines of credit, employees may not borrow more than 50% of their annual gross base salary at the reduced rate. The Canadian prime rate is applied to the remainder.

In accordance with the *Bank Act* (Canada), the aggregate of loans granted to key officers of the Bank, excluding mortgage loans granted on their principal residence, cannot exceed twice the officer's base salary.

Furthermore, the Bank offers a deferred stock unit plan to directors who are not Bank employees. For additional information, see Note 22 to the consolidated financial statements. Additional information on related parties is presented in Notes 9, 28 and 29 to the consolidated financial statements.

Disposal

On March 12, 2015, through one of its subsidiaries, the Bank disposed of 9,083,000 Class A subordinate voting shares of Fiera Capital at a per-share price of $12.60 for gross proceeds of $114 million. On the transaction date, the Bank's ownership percentage in Fiera Capital was reduced to 22% from 35% before the transaction. A gain of $34 million ($29 million net of income taxes) as well as $5 million in direct charges ($4 million net of income taxes) on this disposal of Fiera Capital shares were recognized in the *Non-interest income – Other* and *Non-interest expenses – Other* items, respectively, of the Consolidated Statement of Income for the year ended October 31, 2015 and were presented in the Wealth Management segment.

Maple Financial Group Inc.

The Bank holds a 24.9% equity interest in Maple Financial Group Inc., a privately owned Canadian company that operates in Canada, Germany, the United Kingdom and the United States. The company is active in equity, fixed income and associated derivative financial instrument markets in these locations to provide structured financial solutions for the needs of its customers and market-neutral trading for its own account.

Maple Bank GmbH, an indirectly wholly owned subsidiary of the company, is subject to an investigation by German prosecutors regarding alleged tax irregularities for taxation years 2006 to 2010. Given the seriousness of the reported allegations and the actions that may be taken by German regulatory authorities, the Bank recognizes that there is uncertainty as to the valuation of its investment.

At this time, the Bank does not have sufficient information to be used in valuing its investment. As at October 31, 2015, the carrying value of the investment was $160 million ($138 million net of income taxes). Should this investment be fully written off, diluted earnings per share would be reduced by $0.41 and Common Equity Tier 1 regulatory capital under Basel III would be reduced by 13 basis points.

Events After the Consolidated Balance Sheet Date

Redemption of Subordinated Debt

On November 2, 2015, the Bank completed a $500 million redemption of notes maturing in November 2020 at a price equal to their nominal value plus accrued interest.

Redemption of Preferred Shares

On November 16, 2015, which was the first business day after the November 15, 2015 redemption date, the Bank completed the redemption of all the issued and outstanding Non-Cumulative Fixed-Rate Series 20 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.50 per share plus the periodic dividend declared and unpaid. The Bank redeemed 6,900,000 Series 20 preferred shares for a total amount of $176 million, which will reduce *Preferred share capital* by $173 million and *Retained earnings* by $3 million.

SECURITIZATION AND OFF-BALANCE-SHEET ARRANGEMENTS

In the normal course of business, the Bank is party to various financial arrangements that, under IFRS, are not required to be recorded on the Consolidated Balance Sheet or are recorded under amounts other than their notional or contractual values. These arrangements include, among others, transactions with structured entities, derivative financial instruments, the issuance of guarantees, the margin funding facility of the MAV conduits, credit instruments, and financial assets received as collateral.

Structured Entities

The Bank uses structured entities, among other means, to diversify its funding sources and to offer services to clients, in particular to help them securitize their financial assets or provide them with investment opportunities. Under IFRS, a structured entity must be consolidated if the Bank controls the entity. Note 1 to the consolidated financial statements describes the accounting policy and criteria used for consolidating structured entities. Additional information on consolidated and non-consolidated structured entities is provided in Note 28 to the consolidated financial statements.

Securitization of the Bank's Financial Assets

Mortgage Loans

The Bank participates in two Canada Mortgage and Housing Corporation (CMHC) securitization programs: the Mortgage-Backed Securities Program under the *National Housing Act* (Canada) (NHA) and the Canada Mortgage Bond (CMB) Program. Under the first program, the Bank issues NHA securities backed by insured residential mortgage loans and, under the second, the Bank sells NHA securities to Canada Housing Trust (CHT), which finances the purchase through the issuance of mortgage bonds insured by CMHC. Moreover, these mortgage bonds feature an interest rate swap agreement under which a CMHC-certified counterparty pays CHT the interest due to investors and receives the interest on the NHA securities. As at October 31, 2015, the outstanding amount of NHA securities issued by the Bank and sold to CHT was $17.4 billion. The mortgage loans sold consist of fixed- or variable-rate residential loans that are insured against potential losses by a loan insurer. In accordance with the NHA-MBS Program, the Bank advances the funds required to cover late payments and, if necessary, obtains reimbursement from the insurer that insured the loan. The NHA-MBS and CMB programs do not use liquidity guarantee arrangements. The Bank uses these securitization programs mainly to diversify its funding sources. In accordance with IFRS, because the Bank retains substantially all of the risks and rewards of ownership of the mortgage loans transferred to CHT, the derecognition criteria are not met. Therefore, the insured mortgage loans securitized under the CMB program continue to be recognized in *Loans* on the Bank's Consolidated Balance Sheet and the liabilities for the considerations received from the transfer are recognized in *Liabilities related to transferred receivables* on the Consolidated Balance Sheet. For additional information, see Note 8 to the consolidated financial statements.

Credit Card Receivables

In 1998, the Bank set up the Canadian Credit Card Trust (CCCT), a securitization program for its own credit card receivables. The Bank uses this entity for capital management and funding purposes. The Bank acts as the servicer of the receivables sold, maintaining its relationships with clients. Furthermore, it administers the securitization program and ensures that all related procedures are stringently followed and that investors are paid according to the provisions of the program.

On April 2, 2015, Canadian Credit Card Trust II (CCCT II) was established under the laws of the Province of Ontario. Pursuant to an assignment and assumption agreement concluded on April 10, 2015 between CCCT and CCCT II, CCCT II acquired all of the rights, titles and interests in CCCT's assets. In consideration for such assets and rights, CCCT II agreed to assume all of the duties and obligations of CCCT. As a result, CCCT II, as primary obligor, is responsible for the payment obligations of each series of investor notes issued by CCCT that were outstanding on April 10, 2015, along with payment obligations to the seller pursuant to the Bank Certificate. CCCT was subsequently dissolved as of November 23, 2015. As at October 31, 2015, the credit card receivables portfolio held by CCCT II (net of the Bank Certificate held by the Bank) represented an amount outstanding of $1.4 billion. CCCT II issued investors' certificates, $1.3 billion of which is held by third parties and $0.1 billion is held by the Bank. New receivables are periodically sold to the structure on a revolving basis to replace the receivables reimbursed by clients.

The different series of certificates are rated by Fitch Ratings Inc. (Fitch) and DBRS Limited (DBRS). From this portfolio of sold receivables, the Bank retains the excess spread, i.e., the residual net interest income after all the expenses related to this structure have been paid, and thus provides first-loss protection. Furthermore, second-loss protection for issued series is provided by certificates subordinated to the senior notes (Series 2015-1 and 2015-2), representing 6.4% of the total amount of the series issued. The Bank controls CCCT II and thus consolidates it.

Securitization of Third-Party Financial Assets

The Bank administers multi-seller conduits that purchase financial assets from clients and finance those purchases by issuing commercial paper backed by the acquired assets. Clients use these multi-seller conduits to diversify their funding sources and reduce borrowing costs while continuing to service the financial assets and providing some amount of first-loss protection. Notes issued by the conduits and held by third parties provide additional credit loss protection. The Bank acts as a financial agent and provides administrative and transaction structuring services to these conduits. The Bank provides backstop liquidity and credit enhancement facilities under the commercial paper program. These facilities are presented and described in Notes 27 and 28 to the consolidated financial statements. The Bank has concluded derivative contracts with these conduits, the fair value of which is presented on the Bank's Consolidated Balance Sheet. The Bank is not required to consolidate these conduits, as it does not control them.

Derivative Financial Instruments

The Bank uses various types of derivative financial instruments to meet its clients' needs, generate trading activity revenues and manage its exposure to foreign exchange, interest, and credit rate risk as well as other market risks. All derivative financial instruments are accounted for at fair value on the Consolidated Balance Sheet. Transactions in derivative financial instruments are expressed as notional amounts. These amounts are not presented as assets or liabilities on the Consolidated Balance Sheet. They represent the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notes 1 and 16 to the consolidated financial statements provide additional information on the types of derivatives used by the Bank and their accounting basis.

Guarantees

In the normal course of business, the Bank enters into various guarantee contracts. The principal types of guarantees are letters of guarantee, backstop liquidity and credit enhancement facilities, certain securities lending activities, and certain indemnification agreements. Note 27 to the consolidated financial statements provides detailed information on these guarantees.

Margin Funding Facility of the MAV Conduits

The Bank has committed to contribute $821 million to a margin funding facility related to the MAV conduits in order to finance potential collateral calls. As at October 31, 2015 and 2014, no amount had been advanced by the Bank. Note 6 to the consolidated financial statements provides additional information.

Credit Instruments

In the normal course of business, the Bank enters into various off-balance-sheet credit commitments. The credit instruments used to meet the financing needs of its clients represent the maximum amount of additional credit that the Bank could be required to extend if the commitments were fully drawn. For additional information on these off-balance-sheet credit instruments and other items, see Note 27 to the consolidated financial statements.

Financial Assets Received as Collateral

In the normal course of business, the Bank receives financial assets as collateral as a result of transactions involving securities purchased under reverse repurchase agreements, securities borrowing and lending agreements, and derivative financial instrument transactions. For additional information regarding financial assets received as collateral, see Note 27 to the consolidated financial statements.

ADDITIONAL FINANCIAL DISCLOSURE

The Financial Stability Board (FSB) is an international financial group established at the London G20 Summit in April 2009 as a successor to the Financial Stability Forum (FSF) founded in 1999 at the initiative of the G7. It brings together several national financial authorities (central banks, finance ministries, etc.) as well as several international organizations and groups working to develop financial stability standards. Its objective is to promote cooperation in the oversight and monitoring of financial institutions.

In April 2008, the FSF published a report at the request of the G7 Finance Ministers and Central Bank Governors. OSFI then asked Canadian banks to apply certain recommendations set out in the report.

The recommendations seek to enhance the transparency and measurement of certain exposures, in particular structured entities, subprime and Alt-A exposures, collateralized debt obligations, residential and commercial mortgage-backed securities, and leveraged financing structures. The Bank does not market any specific mortgage financing program to subprime or Alt-A clients. Subprime loans are generally defined as loans granted to borrowers with a higher credit risk profile than prime borrowers, and the Bank does not grant this type of loan. Alt-A loans are granted to borrowers who cannot provide standard proof of income. The Bank's Alt-A loan volume was $568 million as at October 31, 2015 ($626 million as at October 31, 2014). In addition, during the year ended October 31, 2015, the Bank acquired portfolios of commercial loans and credit card receivables with a slightly higher credit risk profile for a total amount of $96 million ($351 million of residential mortgage loans in 2014).

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

Leveraged financing structures are defined by the Bank as loans granted to large corporate and financial sponsor-backed companies that are typically non-investment grade with much higher levels of debt relative to other companies in the same industry. Leveraged finance is commonly employed to achieve a specific objective, for example, to make an acquisition, complete a buy-out or repurchase shares. Leveraged finance risk exposure takes the form of both funded and unfunded commitments. As at October 31, 2015, total commitments for this type of loan stood at $1,859 million ($1,207 million as at October 31, 2014). Details about other exposures are provided in the table concerning structured entities in Note 28 to the consolidated financial statements.

In May 2012, the FSB formed a working group, the Enhanced Disclosure Task Force (EDTF), that was mandated to develop principles for enhancing the risk disclosures of major banks, to recommend improvements to current risk disclosures, and to identify risk disclosure best practices used by major financial institutions. On October 29, 2012, the EDTF published a report entitled *Enhancing the Risk Disclosures of Banks*, which contains 32 recommendations. The Bank continues to make every effort to ensure overall compliance with those recommendations and is continuing to enhance its risk disclosures to meet the best practices on an ongoing basis. The risk disclosures required by the EDTF are provided in this Annual Report and in the documents entitled *Supplementary Regulatory Capital Disclosure* and *Supplementary Financial Information*, which are available on the Bank's website at nbc.ca. In addition, on page 10 of this Annual Report is a table of contents that readers can use to locate information relative to the 32 recommendations.

CAPITAL MANAGEMENT

Capital management has a dual role of ensuring a competitive return to the Bank's shareholders while maintaining a solid capital foundation that covers risks inherent to the Bank's business, supports its business segments and protects its clients.

Capital Management Framework

The Bank's capital management policy defines guiding principles as well as the roles and responsibilities of its internal capital adequacy assessment process. This process aims to determine the capital that the Bank needs to pursue and accommodate unexpected losses arising from extremely adverse economic and operational conditions. The Bank has implemented a rigorous internal capital adequacy assessment process that comprises the following procedures:

- Conducting an overall risk assessment.
- Measuring significant risks and the capital requirements on the Bank's financial budget for the next fiscal year and current and prospective risk profiles.
- Integrating stress tests across the organization and executing sensitivity analyses to determine the capital buffer above minimum regulatory levels (for additional information on enterprise-wide stress testing, refer to the Risk Management section of this MD&A).
- Aggregating capital and monitoring the reasonableness of internal capital compared with regulatory capital.
- Comparing projected internal capital with regulatory capital levels, internal operating targets, and competing banks.
- Attesting to the adequacy of the levels of capital at the Bank.

Assessing capital adequacy is an integral part of capital planning and strategy. The Bank sets internal capital ratio targets that include a discretionary cushion in excess of the regulatory requirements, which provides a solid financial structure and sufficient capital to meet management's business needs in accordance with its risk tolerance, along with competitive returns to shareholders, under both normal market conditions and a range of severe but plausible stress testing scenarios. The internal capital adequacy assessment process is a key tool in establishing the Bank's capital strategy and is subject to quarterly reviews and periodic amendments.

Risk-adjusted return on capital (RAROC) and shareholder value added (SVA), which are obtained from an assessment of required economic capital, are calculated quarterly for each of the Bank's business segments. The results are then used to guide management in allocating capital among the different business segments.

Structure and Governance

Along with its partners from Risk Management and from Treasury and Finance, the Capital Management team is responsible for maintaining integrated control methods and processes so that an overall assessment of capital adequacy may be performed.

The Board oversees the structure and development of the Bank's capital management policy and ensures that the Bank maintains sufficient capital in accordance with regulatory requirements and in consideration of market conditions. The Board delegates certain responsibilities to the Risk Management Committee (RMC), which in turn recommends capital management policies and oversees their application. However, the Board, on the recommendation of the RMC, assumes the following responsibilities.

- Reviewing and approving the capital management policy.
- Reviewing and approving the Bank's risk tolerance, including the main capital and risk targets and the corresponding limits.
- Reviewing and approving the capital plan and strategy on an annual basis, including the Bank's internal capital adequacy assessment process.
- Reviewing and approving the implementation of significant measures respecting capital, including contingency measures.
- Reviewing significant capital disclosures, including Basel capital adequacy ratios.
- Ensuring the appropriateness of the regulatory capital adequacy assessment.

The Office of the President is responsible for defining the Bank's strategy and plays a key role in guiding measures and decisions regarding capital. The Asset/Liability Management Committee oversees capital management, which consists of reviewing the capital plan and strategy and implementing significant measures respecting capital, including contingency measures, and making recommendations with respect to these measures.

Basel Accord and Regulatory Environment

Basel Accord

The Basel Accord proposes a range of approaches of varying complexity, the choice of which determines the sensitivity of capital to risks. A less complex approach, such as the Standardized Approach, uses regulatory weightings, while a more complex approach uses the Bank's internal estimates of risk components to establish risk-weighted assets and calculate regulatory capital.

As required under Basel, risk-weighted assets (RWA) are calculated for each credit risk, market risk, and operational risk. The Bank uses the Advanced Internal Rating-Based (AIRB) Approach for credit risk to determine minimum regulatory capital requirements for a majority of its portfolios. The credit risk of certain portfolios considered to be less significant are weighted according to the Basel Standardized Approach. The simple risk-weighted method is used to calculate the expense related to available-for-sale securities in the form of equity securities. This method requires proactive management of the capital allocated to portfolios with equity securities since, beyond a certain investment threshold, the cost of regulatory capital becomes prohibitive. As for operational risk, the Bank uses the Standardized Approach. Market risk-weighted assets are primarily determined using the Internal Model-Based approach, but the Standardized Approach is used to assess interest-rate specific risk. Lastly, for externally rated securitization exposures, the Bank uses the Rating-Based Approach (RBA). This approach assigns risk weights to exposures using external ratings. The Bank uses the ratings assigned by Moody's, Standard & Poor's (S&P), Fitch, DBRS or a combination of these ratings.

Capital ratios are calculated by dividing capital by risk-weighted assets. Credit, market and operational risks are factored into the risk-weighted assets calculation for regulatory purposes. Basel rules apply at the consolidated level of the Bank. Assets of non-consolidated entities for regulatory purposes are therefore excluded from the risk-weighted assets calculation.

The definition adopted by the Basel Committee on Banking Supervision (BCBS) distinguishes between three types of capital. Common Equity Tier 1 (CET1) capital consists of common shareholders' equity less goodwill, intangible assets and other capital deductions. The Additional Tier 1 instruments comprise eligible non-cumulative preferred shares and the eligible amount of innovative instruments. The sum of CET1 and Additional Tier 1 capital forms what is known as Tier 1 capital. Tier 2 capital consists of the eligible portion of subordinated debt and the eligible collective allowance for credit risk on non-impaired loans. Total regulatory capital is the sum of Tier 1 and Tier 2 capital.

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

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

Consequently, since the first quarter of 2013, the Bank has had to maintain a CET1 capital ratio of at least 7.0% and, since the first quarter of 2014, a Tier 1 capital ratio of 8.5% and Total capital ratio of 10.5%, including the 2.5% capital conservation buffer for all ratios. In March 2013, OSFI designated Canada's six largest banks, a group that includes National Bank, as Domestic Systemically Important Banks (D-SIBs). For these banks, a 1.0% surcharge will apply to their capital ratios as of January 1, 2016. Consequently, as of that date, the Bank and all other major Canadian banks will have to maintain a CET1 capital ratio of at least 8.0%, a Tier 1 capital ratio of at least 9.5% and a Total capital ratio of at least 11.5%, all determined using the "all-in" methodology.

The table below provides a comparison of the transitional ratios established by the BCBS and those required by OSFI's "all-in" methodology. All ratios include the capital conservation buffer and the D-SIB surcharge, when applicable.

To ensure an implementation similar to that in other countries, OSFI has decided to phase in the Credit Valuation Adjustment (CVA) charge over a period of five years beginning in 2014. For fiscal 2015, only 64%, 71% and 77% of total CVA were applied to the calculation of the CET1, Tier 1 and Total capital ratios, respectively, and these percentages will be applied in 2016 and gradually increase each year thereafter until they reach 100% by 2019.

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

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

Other disclosure requirements pursuant to Pillar 3 of the Basel Accord and a set of recommendations defined by the EDTF are presented in the *Supplementary Regulatory Capital Disclosure* report published quarterly and available on the Bank's website at nbc.ca. Furthermore, a complete list of capital instruments and their main features is also available on the Bank's website under Investor Relations › Capital and Debt Information › Main Features of Regulatory Capital Instruments.

Requirements – Regulatory Ratios

	2015	2016	2017	2018	2019	2020	2021	2022
BCBS transitional ratios								
Capital conservation buffer		0.625 %	1.25 %	1.875 %	2.5 %	2.5 %	2.5 %	2.5 %
CET1 capital ratio	**4.5 %**	5.125 %	5.75 %	6.375 %	7.0 %	7.0 %	7.0 %	7.0 %
Tier 1 capital ratio	**6.0 %**	6.625 %	7.25 %	7.875 %	8.5 %	8.5 %	8.5 %	8.5 %
Total capital ratio	**8.0 %**	8.625 %	9.25 %	9.875 %	10.5 %	10.5 %	10.5 %	10.5 %
Phase-in of regulatory capital adjustments	**40 %**	60 %	80 %	100 %	100 %	100 %	100 %	100 %
Phase-out of non-qualifying capital instruments	**70 %**	60 %	50 %	40 %	30 %	20 %	10 %	– %
OSFI's "all-in" ratios								
Capital conservation buffer	**2.5 %**	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %
D-SIB surcharge		1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %
CET1 capital ratio	**7.0 %**	8.0 %	8.0 %	8.0 %	8.0 %	8.0 %	8.0 %	8.0 %
Tier 1 capital ratio	**8.5 %**	9.5 %	9.5 %	9.5 %	9.5 %	9.5 %	9.5 %	9.5 %
Total capital ratio	**10.5 %**	11.5 %	11.5 %	11.5 %	11.5 %	11.5 %	11.5 %	11.5 %
Phase-out of non-qualifying capital instruments	**70 %**	60 %	50 %	40 %	30 %	20 %	10 %	– %
Leverage ratio	**3.0 %**	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %

Regulatory Environment

In December 2014, the BCBS issued the final securitization framework rules in *Revisions to the Securitisation Framework.* The rules will be implemented as of January 2018. Then, in November 2015, the BCBS issued a consultative paper, *Capital Treatment for Simple, Transparent and Comparable Securitisations,* which proposes to amend the rules in the previous paper to allow a more favourable capital treatment for transactions meeting the requirements of simplicity, transparency and comparability as specified in *Criteria for Identifying Simple, Transparent and Comparable Securitisations* issued by the BCBS in July 2015. In December 2014, the BCBS also published two consultative papers, *Revisions to the Standardised Approach for Credit Risk* and *Capital Floors: The Design of a Framework Based on Standardised Approaches*. The capital floor is meant to mitigate risk related to internal credit risk calculation models and enhance the comparability of risk across banks. The new floor will replace the current one, which is still based on Basel I. The new Standardized Approach for credit risk aims to reduce reliance on credit rating agencies and improve risk sensitivity.

On January 28, 2015, the BCBS published the final disclosure rules under Pillar 3: *Revised Pillar 3 Disclosure Requirements*. The new requirements are intended to improve transparency, consistency and comparability of results across banks and must be applied as of the end of 2016. However, OSFI must define the application rules for Canada and indicate an implementation date.

In the federal budget tabled on April 21, 2015, the Government of Canada confirmed that it would be implementing the rules set out in the *Taxpayer Protection and Bank Recapitalization Regime Consultation Paper*, which outlines a proposed bail-in regime applicable to D-SIBs that is in line with key international standards such as the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions*. Under the proposed regime, the Government of Canada would be granted two significant conversion powers with respect to the outstanding capital and debt of D-SIBs: (i) first, the Government of Canada would be granted the power to permanently convert eligible liabilities of a D-SIB ("eligible liabilities" consisting solely of long-term senior debt, i.e., senior unsecured debt that is tradable and transferable with an original term of over 400 days such as senior debt securities) into common equity, and (ii) the Government of Canada would be granted the power to permanently cancel the D-SIB's outstanding shares. Each of those powers would be exercisable only if the following two preconditions were met: i) OSFI would need to have determined that the D-SIB has ceased or is about to cease being viable and ii) the full conversion of the D-SIB's securities following the occurrence of a trigger event under NVCC provisions would need to have occurred. The proposed conversion power would apply only to eligible liabilities issued after the implementation of the regime with no retroactive application to existing debt. The implementation date of the regime has not yet been determined.

In June 2015, the BCBS issued a consultative paper, *Interest Rate Risk in the Banking Book*, which addresses risk management, capital treatment and supervision of interest rate risk in the banking book. These rules are intended to ensure that banks have appropriate capital to cover potential losses in the banking book from changes in interest rates and to limit capital arbitrage between the trading book and the banking book. In July 2015, the BCBS issued a consultative paper, *Review of the Credit Valuation Adjustment Risk Framework*, with the aim of ensuring that all important drivers of CVA are considered in calculating capital, aligning the various accounting frameworks and ensuring consistency with the market risk framework. No date has been set for the implementation of these new rules, which will increase the level of capital the Bank is required to maintain.

On November 9, 2015, the FSB issued a standard entitled *Total Loss-Absorbing Capacity (TLAC) Standard for Global Systemically Important Banks (G-SIBs)*, which aims to implement a resolution strategy to determine whether global systemically important banks (G-SIBs) have sufficient loss-absorbing capacity to minimize impacts on financial stability and maintain the continuity of critical economic functions. There is currently no guidance on how the proposed standard will be incorporated into Canada's above-described bail-in regime, which has yet to be finalized. Also on November 9, 2015, the BCBS published a consultative paper, *TLAC Holdings,* which sets out the proposed regulatory capital treatment for loss-absorbing instruments held by internationally active banks. This proposed prudential treatment is intended to reduce contagion in the financial system should a G-SIB go into resolution.

Capital Management in 2015

Management Activities

On November 15, 2014, the Bank redeemed all of the 8,000,000 issued and outstanding Non-Cumulative Series 16 First Preferred Shares at a per-share price of $25.00 plus the periodic declared and unpaid dividend. These instruments had already been excluded from the capital ratio calculations as at October 31, 2014.

On December 22, 2014, the Bank redeemed $350 million of the medium-term notes maturing on December 22, 2019 at a price equal to their nominal value plus accrued interest.

On May 11, 2015, the Bank began a normal course issuer bid to repurchase for cancellation up to 6,000,000 common shares over the 12-month period ending no later than May 10, 2016. During the year ended October 31, 2015, the Bank did not repurchase any shares.

On October 9, 2015, the Bank completed the issuance of 7,160,000 common shares at a per-share price of $41.90 for gross proceeds of $300 million.

On November 2, 2015, after the close of the fiscal year, the Bank redeemed in advance medium-term notes totalling $500 million maturing in November 2020. These instruments were excluded from the capital ratio calculations as at October 31, 2015.

On November 15, 2015, after the close of the fiscal year, the Bank redeemed all of the 6,900,000 issued and outstanding Non-Cumulative Fixed Rate Series 20 First Preferred Shares at a per-share price of $25.50 plus the periodic declared and unpaid dividend. These instruments were excluded from the capital ratio calculations as at October 31, 2015.

Regulatory Capital Ratios

As at October 31, 2015, the Bank's CET1, Tier 1 and Total capital ratios were, respectively, 9.9%, 12.5% and 14.0%, i.e., above the regulatory requirements, compared to ratios of, respectively, 9.2%, 12.3% and 15.1% a year earlier. The increase in the CET1 capital ratio stems essentially from net income, net of dividends, and from a common share issuance for gross proceeds of $300 million, partly offset by an increase in risk-weighted assets. The increase in the Tier 1 capital ratio stems essentially from the above-mentioned factors and from the redemption of the Series 20 preferred shares on November 15, 2015. In addition, the decrease in the Total capital ratio stems mainly from the redemptions of medium-term notes for a total amount of $850 million. Lastly, as at October 31, 2015, the leverage ratio stood at 3.7%. This ratio was not in effect as at October 31, 2014.

Regulatory Capital and Ratios Under Basel III[1]

As at October 31 (millions of Canadian dollars)	2015	2014
Capital		
CET1	6,801	5,985
Tier 1[2]	8,626	7,983
Total[2][3]	9,678	9,868
Risk-weighted assets		
CET1 capital	68,835	64,818
Tier 1 capital	69,094	65,074
Total capital	69,316	65,459
Total exposure	234,957	n.a.
Capital ratios		
CET1	9.9 %	9.2 %
Tier 1[2]	12.5 %	12.3 %
Total[2][3]	14.0 %	15.1 %
Leverage ratio	3.7 %	n.a.

n.a. Not applicable
(1) Figures are presented on an "all-in" basis.
(2) Figures as at October 31, 2015 include the redemption of the Series 20 preferred shares on November 15, 2015, and figures as at October 31, 2014 include the redemption of Series 16 preferred shares on November 15, 2014.
(3) Figures as at October 31, 2015 include the $500 million redemption of notes on November 2, 2015.

For additional information on capital instruments, see Notes 15, 18 and 19 to the consolidated financial statements.

Dividends

The Bank's strategy for common share dividends is to aim for a dividend payout ratio of between 40% and 50% of net income, taking into account such factors as financial position, cash needs, regulatory requirements and any other factor deemed relevant by the Board.

For fiscal 2015, the Bank declared $672 million in dividends to common shareholders, which represents 43% of net income attributable to common shareholders excluding specified items (2014: 42%). The declared dividends are within the target payout range. Given the current economic conditions, the Bank has taken a prudent approach to managing regulatory capital. Nevertheless, it remains confident in its ability to increase earnings going forward.

Movement in Regulatory Capital[1]

Year ended October 31 (millions of Canadian dollars)	2015	2014
Common Equity Tier 1 (CET1) capital		
Balance at beginning	5,985	5,350
Issuance of common shares (including Stock Option Plan)	321	133
Repurchase of common shares	–	–
Contributed surplus	15	(6)
Dividends on preferred and common shares	(717)	(656)
Net income attributable to the Bank's shareholders	1,549	1,469
Removal of own credit spread net of income taxes	4	12
Removal of reserves arising from property revaluation	–	26
Other	23	(73)
Movements in accumulated other comprehensive income		
Translation adjustments	7	3
Available-for-sale securities	(155)	72
Other	4	–
Change in goodwill and intangible assets (net of related tax liability)	(170)	(394)
Other, including regulatory adjustments and transitional arrangements		
Change in defined benefit pension plan asset (net of related tax liability)	(61)	(53)
Change in amount exceeding 15% threshold		
Deferred tax assets	–	37
Significant investment in common shares of financial institutions	–	47
Change in other regulatory adjustments[2]	(4)	18
Balance at end	6,801	5,985
Additional Tier 1 capital		
Balance at beginning	1,998	1,652
New Tier 1 eligible capital issuances	–	650
Redeemed capital[3]	(173)	(304)
Change in non-qualifying Additional Tier 1 subject to phase-out	–	–
Other, including regulatory adjustments and transitional arrangements	–	–
Balance at end	1,825	1,998
Total Tier 1 capital	8,626	7,983
Tier 2 capital		
Balance at beginning	1,885	2,184
New Tier 2 eligible capital issuances	–	–
Redeemed capital[4]	(850)	(531)
Change in non-qualifying Tier 2 subject to phase-out	–	245
Change in eligible collective allowances	17	(13)
Other, including regulatory adjustments and transitional arrangements	–	–
Balance at end	1,052	1,885
Total regulatory capital	9,678	9,868

(1) Figures are presented on an "all-in" basis.
(2) Represents the change in investments in the Bank's own CET1 and shortfall of total provisions to expected losses.
(3) Figures for the year ended October 31, 2015 include the redemption of the Series 20 preferred shares on November 15, 2015, and figures for the year ended October 31, 2014 include the redemption of the Series 16 preferred shares on November 15, 2014.
(4) Figures for the year ended October 31, 2015 include the $500 million redemption of notes on November 2, 2015.

RWA by Key Risk Drivers

CET1 RWA increased by $4.0 billion to total $68.8 billion as at October 31, 2015 compared to $64.8 billion as at October 31, 2014. This increase was mainly due to organic growth and foreign exchange movements. The Bank's CET1 risk-weighted assets are presented in the following table.

Capital Adequacy Under Basel III[1]

As at October 31 (millions of Canadian dollars)						2015	2014
	Exposure at default				Risk-weighted assets	Capital requirement[2]	Risk-weighted assets
		Standardized Approach	AIRB Approach	Other	Total		Total
Credit risk							
Retail							
Residential mortgages	44,431	307	4,668	–	4,975	398	4,619
Qualifying revolving retail	5,198	–	1,036	–	1,036	83	1,022
Other retail	15,052	1,963	4,688	–	6,651	532	5,042
Non-retail							
Corporate	54,819	2,064	24,598	–	26,662	2,133	23,434
Sovereign	25,135	–	629	–	629	50	529
Financial institutions	3,109	107	867	–	974	78	1,030
Banking book equities[3]	593	–	593	–	593	47	478
Securitization	2,982	–	798	–	798	64	2,173
Other assets	26,420	–	–	4,252	4,252	340	5,047
Counterparty credit risk							
Corporate	3,610	15	81	–	96	8	112
Sovereign	10,449	–	22	–	22	2	9
Financial institutions	59,924	–	1,402	–	1,402	112	1,827
Trading portfolio	10,318	237	2,537	–	2,774	222	3,275
Credit valuation adjustment charge[4]		2,367	–	–	2,367	189	1,828
Regulatory scaling factor		–	2,512	–	2,512	201	2,357
Total – Credit risk	262,040	7,060	44,431	4,252	55,743	4,459	52,782
Market risk							
VaR		–	1,262	–	1,262	101	860
Stressed VaR		–	1,875	–	1,875	150	1,218
Interest-rate-specific risk		828	–	–	828	66	1,239
Total – Market risk		828	3,137	–	3,965	317	3,317
Operational risk		9,127	–	–	9,127	730	8,719
Total	262,040	17,015	47,568	4,252	68,835	5,506	64,818

(1) Figures are presented on an "all-in" basis.
(2) The capital requirement is equal to 8% of risk-weighted assets.
(3) Calculated using the simple risk-weighted method.
(4) For CET1 capital ratio calculation purposes.

Risk-Weighted Assets Movement by Key Drivers[1]

Quarter ended (millions of Canadian dollars)	October 31, 2015	July 31, 2015	April 30, 2015	January 31, 2015	October 31, 2014
	Total	Total	Total	Total	Total
Credit risk – Risk-weighted assets at beginning	56,398	55,594	54,533	52,782	52,586
Book size	1,038	146	844	757	975
Book quality	(365)	80	563	500	(529)
Model updates	(1,324)	(168)	–	(229)	(433)
Methodology and policy	–	–	–	–	–
Acquisitions and disposals	–	–	–	–	–
Foreign exchange movements	(4)	746	(346)	723	183
Credit risk – Risk-weighted assets at end	55,743	56,398	55,594	54,533	52,782
Market risk – Risk-weighted assets at beginning	3,121	2,548	2,878	3,317	3,441
Movement in risk levels[2]	217	23	(330)	(439)	(124)
Model updates	627	550	–	–	–
Methodology and policy	–	–	–	–	–
Acquisitions and disposals	–	–	–	–	–
Market risk – Risk-weighted assets at end	3,965	3,121	2,548	2,878	3,317
Operational risk – Risk-weighted assets at beginning	9,098	8,929	8,853	8,719	8,676
Movement in risk levels	29	169	76	134	43
Acquisitions and disposals	–	–	–	–	–
Operational risk – Risk-weighted assets at end	9,127	9,098	8,929	8,853	8,719
Risk-weighted assets at end	68,835	68,617	67,071	66,264	64,818

(1) Figures are presented on an "all-in" basis and have been calculated based on CET1 risk-weighted assets.
(2) Also includes foreign exchange movement that is not considered material.

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

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

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

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

The "Methodology and policy" item presents the impact of changes in calculation methods resulting from changes in regulatory policies.

Allocation of Economic Capital and Regulatory RWA

Economic capital is an internal measure that the Bank uses to determine the capital it needs to remain solvent and to pursue its business operations. Economic capital takes into consideration the credit, market, operational, business and other risks to which the Bank is exposed as well as the risk diversification effect among them and among the business segments. Economic capital thus helps the Bank to determine the capital required to protect itself against such risks and ensure its long-term viability. The by-segment allocation of economic capital and regulatory RWA was done on a stand-alone basis before attribution of goodwill and intangible assets. The method used to assess economic capital is reviewed regularly in order to accurately quantify these risks.

The Risk Management section of this MD&A provides comprehensive information about the main types of risk. The "Other risks" presented below include risks such as business risk and structural interest rate risk in addition to the benefit of diversification among types of risk.

Allocation of Risks by Business Segment

As at October 31, 2015
(millions of Canadian dollars)

NATIONAL BANK OF CANADA

Business segments	Personal and Commercial	Wealth Management	Financial Markets	Other
Major activities	Banking services Credit services Financing Investment solutions Insurance	Investment solutions Trust services Banking services Credit services Wealth management solutions	Banking services Investment banking services Financing solutions to institutional clients Trading and investment solutions	Treasury operations Liquidity management Bank funding Asset and liability management Corporate units

Economic capital by type of risk	Personal and Commercial	Wealth Management	Financial Markets	Other
Credit	1,669	167	1,950	46
Market	–	–	226	19
Operational	339	183	228	9
Other risks	163	346	238	237
Total	**2,171**	**696**	**2,642**	**311**

Risk-weighted assets	Personal and Commercial	Wealth Management	Financial Markets	Other
Credit	28,356	2,579	21,597	3,211
Market	–	–	3,856	109
Operational	4,044	2,209	2,762	112
Total	**32,400**	**4,788**	**28,215**	**3,432**

RISK MANAGEMENT

In this section of the MD&A, grey-shaded text and tables marked with an asterisk (*) are integral parts of the consolidated financial statements. They represent the Bank's objectives, the risk management policies and procedures, and the methods applied to measure credit risk, market risk as well as liquidity and funding risk, as required by IFRS 7 – *Financial Instruments: Disclosures.*

The Bank views risk as an integral part of its development and the diversification of its activities and advocates a risk management approach consistent with its business expansion strategy. The purpose of sound risk management is to provide reasonable assurance that incurred risks do not exceed acceptable thresholds and that risk-taking contributes to the creation of shareholder value. For the Bank, this means striking a healthy balance between return and risk.

The Bank is exposed to risk in two ways. First, it voluntarily exposes itself to certain risk categories, particularly credit and market risk, in order to generate revenue. Second, it assumes risks that are inherent to its activities—to which it does not choose to expose itself—and that do not generate revenue, i.e., mainly operational risk. These risks may result in losses that could adversely affect expected earnings.

Top and Emerging Risks

Top and emerging risks are risks that could have a material adverse effect on the Bank's financial results, reputation or long-term business model and strategy. The Bank's processes are designed to detect and assess these risks as early as possible so that appropriate mitigating strategies can be applied. The Bank's top and emerging risks are as follows.

Regulatory Reforms

The banking industry is facing an increasing number of regulatory changes, the scope and intensity of which are unprecedented. These changes include, among others, changes that are likely to arise from the federal government's review of certain components of Canada's payment system, including governance, mobile payment, debit and credit cards and the regulatory framework. In addition, commercial practices and the revenues of Canadian financial institutions, including the Bank, may be adversely affected by court decisions, particularly the Supreme Court of Canada's 2014 decision that certain provincial legislation, including the *Quebec Consumer Protection Act,* may apply to the practices of financial institutions. Achieving compliance with some of these reforms may require significant effort and could affect the way the Bank operates in its primary market and abroad. The Bank monitors regulatory developments and achieves compliance in a proactive fashion while seeking to mitigate any adverse effects on its activities and profitability.

Changes in regulatory and legal frameworks are a significant potential risk factor for the Bank. Various laws, regulations and other guidelines have been introduced by governments and regulatory bodies to protect the interests of the general public as well as the Bank's clients, employees and shareholders. Changes to these laws, regulations and other guidelines, including changes in their interpretation and application, could have a significant impact on the Bank. In particular, such changes could limit its product and service offering or enhance its competitors' ability to rival the Bank's offering with their own. Also, in spite of the precautions the Bank takes to prevent such an eventuality, failure to comply with laws, regulations and other guidelines could give rise to penalties and fines likely to have an adverse impact on its financial results and reputation.

General Business and Economic Conditions

Although the Bank operates primarily in Canada, it also has business operations in the United States and other countries. The Bank's revenues could therefore be affected by the economic and business conditions prevailing in these countries. Such conditions include the strength of the economy and inflation, the credit conditions of businesses, financial market and exchange rate fluctuations, monetary policy trends and interest rates. All of these factors affect the business and economic conditions in a given geographic region and, consequently, affect the Bank's level of business activity and resulting earnings in that region. Although some risks may seem remotely related to the Bank's business context, strong global economic and financial integration requires a vigilant approach. See the Major Economic Trends section on page 19 of this MD&A for additional information on the economy.

Global Economic Risks

Currently, the main global risks consist of slowing economic growth in certain emerging countries and geopolitical tensions. In addition, given exceptional monetary measures taken by central banks combined with mild economic growth and low inflation, long-term interest rates continue to be historically low in major advanced economies. Such a situation may have prompted market participants to adopt excessive risk-taking strategies in search of higher returns, the negative effects of which may be felt if interest rates return to normal faster than expected, particularly in the United States. Therefore, the Bank is remaining vigilant and continuing to rely on its strong risk management framework to identify, assess and mitigate risk so that it remains within the risk appetite limits.

Economic Risks in Canada

The global shock in oil supply combined with a strong U.S. dollar have driven down energy prices. Given these conditions, the energy sector is struggling and in turn undermining economic growth in Canada, particularly in the western provinces. Despite this economic headwind, the rest of the economy has continued to grow, and employment is maintaining an upward trend in Ontario, Quebec and British Columbia. Still, Canada remains vulnerable to a deteriorating economic backdrop, which threatens to erode job creation and disposable household income—even more so given the high household debt levels. A housing price correction stands as another threat to the Canadian economy. Therefore, the Bank is continuing to monitor the evolution of the market and to remain vigilant in line with its risk tolerance policy. The credit quality of its portfolio remains solid, showing a low level of credit loss allowances and a sound business mix.

Information System Disruptions and Security Breaches

Technology has become a major part of the banking industry's operations given the ever-increasing use of information technologies such as mobile, wireless and web-enabled devices. Despite the Bank's efforts to ensure system and information integrity, it may be unable to prevent or implement effective preventive measures against every potential cyber-threat, as the tactics used change frequently, come from a wide range of sources and are increasingly sophisticated.

Disruptions or malfunctions to the physical infrastructure or operating systems that support the Bank and its clients, or cyber-threats and security breaches affecting the networks, systems or tools that Bank clients use to access products and services, could cause client attrition, financial loss, inability of clients to do their banking, non-compliance with privacy legislation or any other laws in effect, fines, penalties or regulatory action, reputational damage, cost reimbursement, or any other compliance costs, all of which could affect the Bank's operating results or financial position.

The Bank closely monitors its control environment and continues to enhance processes and practices used to ensure its continuous effectiveness and protection.

Reliance on Technology and Third Parties

The Bank depends on technology because many of its products and services require substantial data processing. As such, the Bank's technology platform must be able to manage all such data. The fast pace of technological change combined with competitive pressures require significant and sustained investment in technology. Unsuccessful implementation of technological improvements or new products or services could significantly affect the Bank's ability to serve and retain clients.

Third parties provide essential components of the Bank's commercial infrastructure such as Internet connections and access to network and other communications services. The Bank is also party to outsourcing agreements for IT support and for cash management and processing. Interruptions in these services could adversely affect the Bank's ability to provide products and services to its clients and conduct its business. To mitigate this risk, the Bank has a robust outsourcing risk management framework that includes business continuity plans that are tested periodically to ensure their effectiveness in times of crisis.

Technological Innovation

The Bank's financial performance depends in part on its ability to develop and market new and innovative products and services, adopt and develop new technologies that help differentiate its products and services and generate cost savings, and market these new products and services at the right time and at competitive prices. Failure to properly review critical changes within the business before and during the implementation and deployment of key technological systems or failure to align client expectations with the Bank's client commitments and operating capabilities could adversely affect the Bank's operating results or financial position.

Other Factors That Can Affect Future Results

International Risks

Through the operations of some of its units and subsidiaries in Canada and abroad (in particular, Credigy Ltd. and Maple Financial Group Inc.), the Bank is exposed to risks arising from its presence in international markets or foreign jurisdictions. While these risks do not affect a significant proportion of the Bank's portfolios, their impact must not be overlooked, especially those that are of a legal or regulatory nature. Such risk can be particularly high when the exposure is in a territory where the enforceability of agreements signed by the Bank is uncertain, in countries and regions facing political or socio-economic disturbances, or in countries that may be subject to international sanctions. Generally speaking, there are many ways in which the Bank may be exposed to the risks posed by other countries, not the least of which being foreign laws and regulations. In all such situations, it is important to consider what is referred to as "country risk," which affects not only the activities that the Bank carries out abroad but also the business that it conducts with non-resident clients as well as the services it provides to clients doing business abroad, such as electronic funds transfers and international products.

As part of its program to combat money laundering and terrorist financing (MLTF), the Bank audits country risk, which, in particular, involves classifying countries into three MLTF-risk levels and applying, in accordance with the Bank's various policies, restrictions of varying severity depending on the classification of a particular country.

The Bank is exposed to financial risks outside Canada and the United States primarily through its interbank transactions on international financial markets or through international trade finance activities. Such geographic exposure, which accounts for but a moderate proportion of overall risk, is disclosed in the quarterly *Supplementary Financial Information* report available on the Bank's website at nbc.ca. To control country risk, the Bank sets credit concentration limits by country and reviews and submits them to the Board for approval upon renewal of the Credit Risk Management Policy. These limits, which are based on a percentage of the Bank's regulatory capital, are proportionate to the level of risk represented by each country, particularly emerging countries. The risk is rated using a classification mechanism similar to the one used for credit default risk. In addition to the country limits per se, authorization caps and limits are established, as a percentage of capital, for the world's high-risk regions, i.e., essentially all regions except for North America, Western European countries and the developed countries of Asia.

Level of Competition
The level of competition in the Bank's markets has an impact on its performance. Retaining clients hinges on several factors, including the prices of products and services, quality of service, and changes to the products and services offered.

Acquisitions
The Bank's ability to successfully complete an acquisition is often conditional on regulatory approval, and the Bank cannot be certain when or under what conditions, if any, approval will be granted. Acquisitions could affect future results should the Bank experience difficulty integrating the acquired business. If the Bank does encounter difficulty integrating an acquired business, maintaining an appropriate governance level over the acquired business, or retaining key officers within the acquired business, these factors could prevent the Bank from realizing expected revenue growth, cost savings, market share gains and other projected benefits of the acquisition.

Ability to Attract and Retain Key Officers
The Bank's future performance depends largely on its ability to attract and retain key officers. There is intense competition for the best people in the financial services industry, and there is no assurance that the Bank, or any entity it acquires, will be able to continue to attract and retain key officers.

Judicial and Regulatory Proceedings
The Bank takes reasonable measures to comply with the laws and regulations in effect in the jurisdictions where it operates. Should these measures prove ineffective, the Bank could be subject to judicial or regulatory decisions resulting in fines, damages, or other costs or to restrictions likely to adversely affect its net income and damage its reputation. The Bank may also be subject to litigation in the normal course of business. Although the Bank establishes provisions for the measures it is subject to under accounting requirements, actual losses resulting from such litigation could differ significantly from the recognized amounts, and unfavourable outcomes in such cases could have a significant adverse effect on the Bank's financial results. The resulting reputational damage could also affect the Bank's future business prospects. For additional information on this topic, see Note 27 to the consolidated financial statements.

Accounting Policies, Methods and Estimates Used by the Bank
The accounting policies and methods used by the Bank determine how the Bank reports its financial position and operating results and may require management to make estimates or rely on assumptions about matters that are inherently uncertain. Any changes to these estimates and assumptions may have a significant impact on the Bank's operating results and financial position.

Other Factors
Other factors that could affect the Bank's future results include amendments to tax legislation, unexpected changes in consumer spending and saving habits, the timely development and launch of new products and services, the ability to successfully align its organizational structure, resources and processes, the ability to activate a business continuity plan within a reasonable time, the potential impact of international conflicts or natural catastrophes on the Bank's activities, and the Bank's ability to foresee and effectively manage the risks associated with these factors through rigorous risk management.

Risk Management Framework

Risk must be rigorously managed. That means it is identified, measured and controlled to ensure that the Bank's operations yield an adequate return for the level of risk assumed. Managing risk requires a solid understanding of every type of risk found across the Bank. In addition to providing assurance that risk levels do not exceed acceptable thresholds, effective risk management can be used to control the volatility of the Bank's results.

Despite the exercise of stringent risk management and the mitigation measures in place, risk cannot be suppressed entirely, and the residual risks may occasionally cause significant losses. In the normal course of business, the Bank is primarily exposed to the risks presented below.

Credit risk	Market risk	Funding and liquidity risk	Operational risk	Regulatory compliance risk	Reputation risk	Strategic risk	Environmental risk

To achieve its risk management objectives, the Bank relies on a risk management framework that combines the following components:

- risk management culture;
- risk appetite and reporting;
- enterprise-wide stress testing;
- governance structure;
- risk management policies;
- risk models governance and vetting framework;
- independent oversight by the Compliance Service; and
- independent assessment by Internal Audit.

Risk Management Culture

The Bank's management continually promotes a risk management culture through internal communications. An approach where business development initiatives are balanced with a constant focus on sound risk management is advocated. In particular, risk is taken into consideration when preparing the business plans of the segments, when analyzing strategic initiatives and when launching new products. The Bank's risk management culture is also strengthened by incentive compensation programs that are structured to reflect the Bank's risk appetite. In addition, all employees must take mandatory annual regulatory compliance training on the Bank's code of conduct and ethics and anti-money laundering and anti-terrorism financing efforts. Risk management training is also offered across all the Bank's segments.

Furthermore, to ensure the effectiveness of the existing risk management framework, the Bank has defined clear roles and responsibilities by reinforcing the concept of the three lines of defence. The Governance Structure section presented on the following pages defines this concept as well as the roles and responsibilities at all levels of the organization.

First Line of Defence Business Units	**Second Line of Defence** Risk Management and Oversight Functions	**Third Line of Defence** Internal Audit
– Identify, manage, assess and mitigate risks in day-to-day activities. – Ensure activities are in alignment with the Bank's risk appetite and risk management policies.	– Establish the enterprise-wide risk management framework and policies. – Provide independent oversight of management practices and an independent challenge of the first line of defence. – Promote an effective risk management culture throughout the Bank. – Monitor and report on risk.	– Provide assurance to management and the Board on the overall effectiveness of the risk management policies, processes and practices, including the manner in which the first and second lines of defence reach their control and risk management objectives.

The following guiding principles support a strong risk culture.

– Risk is everyone's business: Business lines, risk management and oversight functions as well as Internal Audit play an important role in ensuring an effective and robust risk management framework is in place.
– Client-centric: Having quality information is key to understanding our clients, effectively managing risk, and delivering excellent client service.
– Enterprise-wide: An integrated view of risk is the basis for sound risk management and decision-making by management.
– Human capital: The Bank's employees are engaged, experienced and have a high level of expertise. Their curiosity supports continuous development and their rigour promotes a sound risk culture across the organization.
– Fact-based: Good risk management relies heavily on common sense and judgment and on advanced systems and models.

Risk Appetite and Reporting

Risk-taking is intrinsic to a financial institution's business. Business unit strategies have always—implicitly or explicitly—incorporated decisions about the amount of risk they are willing to assume. Risk appetite represents how much risk an organization is willing to assume to achieve its business strategy. The Bank cultivates a risk management culture that is aligned with its risk appetite, doing so by setting risk tolerance thresholds that determine its risk-taking capacity.

The Bank's risk appetite framework consists of principles, statements, metrics as well as targets and is reinforced by policies and limits. It is defined both quantitatively and qualitatively and requires:

– a target risk rating of at least A or the equivalent;
– a risk-reward balance;
– a stable risk profile;
– a strategic level of concentration aligned with approved targets;
– a strong capital position;
– a strong liquidity position; and
– a low tolerance to operational, regulatory compliance and reputation risk.

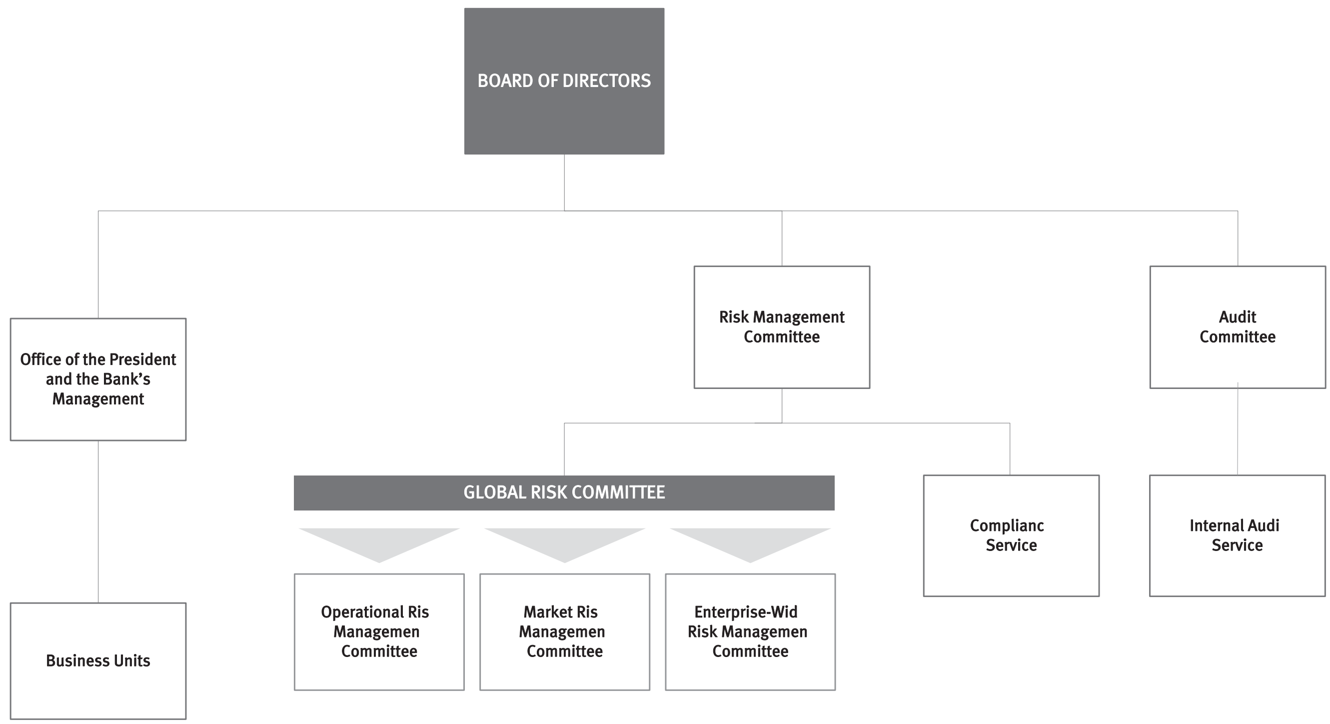
The Bank's management and business units are involved in the process for setting the risk appetite and are responsible for adequately monitoring the chosen key risk indicators. These needs are assessed by means of the enterprise strategic planning process. The risk indicators are reported on a regular basis to ensure an effective alignment of the Bank's risk profile to its risk appetite; otherwise, appropriate actions could be taken.

Enterprise-Wide Stress Testing

As part of a more extensive process aimed at ensuring that the Bank maintains adequate capital levels commensurate with its business strategy and risk appetite, an enterprise-wide stress testing program is in place at the Bank. Stress testing can be defined as a risk management method that assesses the potential effects—on the Bank's financial position, capital and liquidity—of a series of specified changes in risk factors, corresponding to exceptional but plausible events. The program supports management's decision-making process by identifying potential vulnerabilities for the Bank as a whole that are considered in setting limits as well as in longer term business planning. The scenarios and stress test results are reviewed by a stress testing oversight group and the Global Risk Committee and are approved by the Board. For additional information, see the Stress Testing and Crisis Scenarios headings of the credit, market and liquidity risk sections.

Governance Structure *

The following diagram shows the governance relationships for risk management. As the second line of defence, the Risk Management Group sets the risk management rules, policies and guidelines to which the business units must adhere and also ensures compliance therewith.



<u>The Board of Directors (Board)</u>
The Board examines and approves the Bank's overall risk philosophy and risk appetite, acknowledges and understands the main risks faced by the Bank, and makes sure appropriate systems are in place to effectively manage and control those risks. It performs its mandate in this regard both directly and through its committees, particularly the Audit Committee and the Risk Management Committee.

<u>The Risk Management Committee (RMC)</u>
The Risk Management Committee reviews the risk appetite framework, the main risk management policies as well as risk tolerance limits and recommends their approval by the Board. It ensures that appropriate resources, processes and procedures are in place to properly and effectively manage risk on an ongoing basis. Finally, it monitors the risk profile and risk trends of the Bank's activities and ensures alignment with the risk appetite.

<u>The Audit Committee</u>
The Audit Committee oversees the work of the internal auditor and the independent auditor, the financial reporting and analysis process, the Bank's internal controls, and the application of the policy for reporting irregularities related to accounting, internal accounting controls and other auditing matters.

<u>The Office of the President and the Bank's Management</u>
Composed of the President and Chief Executive Officer and the officers responsible for the Bank's main functions and business units, the Office of the President ensures that risk management is effective and aligned with the Bank's pursuit of its objectives and strategies. The Bank's management promotes the risk management culture Bank-wide and manages the primary risks to which it is exposed.

<u>The Global Risk Committee (GRC)</u>
The Global Risk Committee defines the parameters of the policies that determine risk tolerance and the overall risk strategy, for the Bank and its subsidiaries as a whole, and sets limits as well as tolerance and intervention thresholds enabling the Bank to properly manage the main risks to which it is exposed. The Committee approves and monitors all large credit facilities. It also recommends for Board approval the Bank's risk philosophy, risk appetite and risk profile management. The Operational Risk Management Committee, the Market Risk Management Committee, and the Enterprise-Wide Risk Management Committee presented in the governance structure diagram above are the primary committees reporting to the Global Risk Committee. The Global Risk Committee also carries out its mandate through the Senior Complex Valuation Committee, the Committee on Banks, the Models Oversight Committee and the Product and Activity Review Committee.

<u>The Compliance Service</u>
The Compliance Service is responsible for implementing a Bank-wide regulatory compliance risk management framework by relying on an organizational structure that includes functional links to the main business segments.

<u>The Internal Audit Service</u>
The Internal Audit Service is responsible for providing the Bank's board and management with objective assurance and advice on matters of governance, risk management and internal control. By deploying a systematic and a methodical approach, Internal Audit assesses the risk management, control, and corporate governance processes and formulates proposals on strengthening their effectiveness.

<u>The Business Units</u>
As the first line of defence, the business units manage risks related to their operations within established limits and in accordance with risk management policies by identifying, analyzing and understanding the risks to which they are exposed and implementing risk mitigation mechanisms. The management of these units must ensure that employees are adhering to current policies and limits.

Risk Management Policies

Risk management policies and the related standards and procedures are the essential elements of the risk management framework. They set out responsibilities, define and describe the main activity-related risks, specify the requirements that the business units must meet in assessing and managing risk, stipulate the authorization process for risk-taking and set the risk limits to be adhered to. These policies cover all the main risks in the Bank, are reviewed regularly to ensure they are still relevant given changes in the markets and in the business plans of the Bank's business units, and apply to the entire Bank and its subsidiaries. Other policies, standards and procedures complement the main policies and cover more specific aspects of risk management, such as business continuity, the launch of new products, initiatives or activities, or financial instrument measurement.

Risk Models Governance and Vetting Framework

In most cases, exposure to significant risks such as credit risk and market risk is assessed through the use of models. The key components of the Bank's model vetting governance framework are as follows: the Model Risk Management Policy, the Models Oversight Committee, and the model vetting group. The policy sets the rules and standards applicable to both the model development and the model vetting groups. The scope of models covered is wide, from the market risk pricing models and automated credit decision-making models to the business risk capital model, including models used for regulatory capital and stressed capital purposes.

The Bank makes increasing use of models to guide enterprise-wide risk management, financial markets strategy, economic and regulatory capital allocation, global credit risk management, wealth management and profitability measures. Models have in fact become a standard in risk management. This stresses the growing importance of model risk for banks, hence the implementation of a rigorous policy and sound model vetting processes to ensure models can be used appropriately and efficiently to manage risks.

Among the key features of the Bank's policy is the general principle that all models that are deemed important for the Bank or that are used for regulatory capital purposes require independent vetting. To that effect, all models used by the Bank are classified in terms of their risk level (low, medium or high). Based on that assessment, the Bank applies strict guidelines with respect to model review requirements and the minimum frequency of such reviews. The Bank believes that the best defence against "model risk" is the implementation of a robust development and validation framework.

Independent Oversight by the Compliance Service

Compliance is an independent oversight function within the Bank, and its Senior Vice-President has direct access to the Chair of the RMC and to the President and Chief Executive Officer. The Compliance team can communicate directly with officers and directors of the Bank and its subsidiaries, obtain unrestricted access to files, reports, records and data, and require employees of the Bank and of its subsidiaries to provide the information deemed necessary for effective oversight.

Business unit managers must oversee the implementation of mechanisms for the daily control of compliance risks arising from the operations under their responsibility. Compliance exercises independent oversight to assist managers in managing these risks effectively and to obtain reasonable assurance that the Bank is compliant with regulatory requirements.

The control framework covers the following:

- Identification, evaluation, communication, maintenance and updating of regulatory requirements.
- Information gathering and monitoring of regulatory changes.
- Identification of the business units affected by these requirements.
- Documentation of compliance and regulatory requirement controls applicable to daily operations, including monitoring procedures, remedial action plans and periodic reports produced by the business units.
- Continuous training for all employees.
- Information exchange between the business segments, business units and Compliance.
- Independent oversight to detect shortcomings or non-compliance in the application of existing policies and procedures.
- Quarterly reporting to the RMC on the main results of compliance oversight.
- Annual certification process.

Independent Assessment by Internal Audit

Internal Audit is an independent objective function within the Bank. It provides assurance as to the Bank's level of proficiency over its activities, advises on how to improve those activities and contributes to the creation of added value. It helps the Bank accomplish its objectives by applying a systematic, methodical approach for assessing and improving the effectiveness of risk management, control and governance processes. Internal Audit is mandated to provide the Board, through the Audit Committee, and the Office of the President with an evaluation in that respect.

The Senior Vice-President of Internal Audit reports to the Chair of the Audit Committee. His independence is ensured through an administrative relationship with the President and Chief Executive Officer, and he may, at any time, call an unscheduled Audit Committee meeting.

As Internal Audit is not mandated to institute internal control mechanisms but rather to evaluate their effectiveness, it has no direct responsibility or authority over the activities it reviews. Whenever recommendations are issued, Internal Audit is mandated to independently evaluate the appropriateness of the measures taken by the managers to resolve the issues.

Internal Audit has unrestricted access to all business segments, corporate units and subsidiaries of the Bank.

Credit Risk Management

Credit risk is the risk of incurring a financial loss if an obligor does not fully honour its contractual commitments to the Bank. Obligors may be borrowers, issuers, counterparties or guarantors. Credit risk is the most significant risk facing the Bank in the normal course of business. The Bank is exposed to credit risk not only through its direct lending activities and transactions but also through commitments to extend credit, letters of guarantee, letters of credit, over-the-counter derivatives trading, available-for-sale debt securities, securities purchased under reverse repurchase agreements, deposits with financial institutions, brokerage activities, and transactions carrying a settlement risk for the Bank such as irrevocable fund transfers to third parties via electronic payment systems.

Governance

A policy framework centralizes the governance of activities that generate credit risk for the Bank and is supplemented by a series of subordinate internal or sectoral policies and guidelines on specific management issues such as credit limits, collateral requirements and risk quantification or issues that provide more thorough guidance for given business segments.

For example, the institutional activities of the Bank and its subsidiaries on financial markets and international commercial transactions are governed by business unit directives that set out standards adapted to the specific environment of these activities. This also applies to retail brokerage subsidiaries. In isolated cases, a business unit or subsidiary may have its own credit policy, and that policy must always fall within the spirit of the Bank's policy framework and be reviewed and approved by the management of the Risk Management Group. The Risk Management Group defines the scope of the universe of subsidiaries carrying significant credit risks and the magnitude of the risks incurred.

Credit risk is controlled through a rigorous process that comprises the following elements:

- credit application;
- risk rating and assessment;
- assessment of capital at risk;
- credit granting and approval process;
- risk mitigation;
- follow-up of monitored accounts and recovery; and
- identification of impaired loans and provisioning for credit losses.

Credit Risk Assessment

Before a sound and prudent credit decision can be taken, the borrower's or counterparty's credit risk must be accurately assessed. This is the first step in processing credit applications. Each application is analyzed and assigned one of 19 grades on a scale of 1 to 10 using a credit rating system developed by the Bank for all portfolios exposed to credit risk. As each grade corresponds to a borrower's, counterparty's or third party's probability of default, the Bank can determine the credit risk. The credit risk assessment method varies according to portfolio type.

The main parameters used to measure the credit risk of loans outstanding and undrawn amounts are as follows:

- Probability of default (PD), which is the probability that the obligor will default within one year.
- Loss given default (LGD), which represents the magnitude of the expected loss from the obligor's default, expressed as a percentage of exposure at default (EAD).
- EAD, which is the estimated amount potentially drawn at the time of the obligor's default.

The methodology as well as the data and the downturn periods used to estimate LGD are as follows:

AIRB APPROACH	DATA	DOWNTURN PERIOD	METHODOLOGY FOR CALCULATING LGD
Retail	NBC internal historical data from 1996 to 2013.	1996-1998 October 2008 – December 2009	LGD based on the Bank's historical recoveries and losses.
Corporate	NBC internal historical data from 2000 to 2014.	2000-2003 and 2008-2009	LGD based on the Bank's historical recoveries and losses.
Sovereign	Moody's observed default price of bonds, from 1983 to 2010. S&P rating history from 1975 to 2011.	No specific period	Based on implied market LGD using observed bond price decreases following the issuer's default.
Financial institutions	Global Credit Data Consortium loss and recovery database from 1998 to 2014.	1991-1992, 1994, 1998, 2001-2002 and 2008-2009	Econometric model for predicting LGD based on different issue- and issuer-related risk drivers.

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

Maximum Credit Risk Exposure Under the Basel Asset Categories *

(millions of Canadian dollars)						As at October 31, 2015
	Drawn	Undrawn commitments	Repo-style transactions(1)	OTC derivatives	Other off-balance-sheet items(2)	Total
Retail						
Residential mortgage	38,784	5,647	–	–	–	44,431
Qualifying revolving retail	2,708	2,490	–	–	–	5,198
Other retail	13,736	1,302	–	–	14	15,052
	55,228	9,439	–	–	14	64,681
Non-retail						
Corporate	38,859	13,344	3,604	6	2,616	58,429
Sovereign	21,026	3,985	9,833	616	124	35,584
Financial institutions	2,139	277	59,420	505	692	63,033
	62,024	17,606	72,857	1,127	3,432	157,046
Trading portfolio	–	–	–	10,318	–	10,318
Securitization	646	–	–	–	2,336	2,982
Total – Gross credit risk	117,898	27,045	72,857	11,445	5,782	235,027
Standardized Approach	9,074	339	496	525	431	10,865
AIRB Approach	108,824	26,706	72,361	10,920	5,351	224,162
Total – Gross credit risk	117,898	27,045	72,857	11,445	5,782	235,027

(millions of Canadian dollars)						As at October 31, 2014
	Drawn	Undrawn commitments	Repo-style transactions(1)	OTC derivatives	Other off-balance-sheet items(2)	Total
Retail						
Residential mortgage	35,511	5,339	–	–	–	40,850
Qualifying revolving retail	2,671	2,356	–	–	–	5,027
Other retail	11,061	1,205	–	–	14	12,280
	49,243	8,900	–	–	14	58,157
Non-retail						
Corporate	34,070	13,141	5,282	5	2,456	54,954
Sovereign	20,429	3,080	12,187	182	100	35,978
Financial institutions	2,350	248	53,235	516	624	56,973
	56,849	16,469	70,704	703	3,180	147,905
Trading portfolio	–	–	–	9,981	–	9,981
Securitization	1,190	–	–	–	2,955	4,145
Total – Gross credit risk	107,282	25,369	70,704	10,684	6,149	220,188
Standardized Approach	6,228	284	2,468	509	599	10,088
AIRB Approach	101,054	25,085	68,236	10,175	5,550	210,100
Total – Gross credit risk	107,282	25,369	70,704	10,684	6,149	220,188

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

Personal Credit Portfolios

This category comprises portfolios of residential mortgage loans, consumer loans and loans to certain small businesses. A risk analysis based on loan grouping in pools of homogeneous obligor and product profiles is used for overall management of personal credit portfolios. This personal credit assessment approach, which has proven particularly effective for estimating loan defaults and losses, takes a number of factors into account, namely:

- behaviour scoring;
- loan product characteristics;
- collateral provided;
- the length of time on the Bank's balance sheet; and
- loan status (active, delinquent or defaulted).

This mechanism provides adequate risk measurement inasmuch as it effectively differentiates risk levels by pool. Therefore, the results are periodically reviewed and, if necessary, adjustments are made to the models. Obligor migrations between pools are among the factors considered in the credit risk assessment.

Loan pools are also established based on probability of default, loss given default and exposure at default, which are measured based on the characteristics of the obligor and the transaction itself. The credit risk of these portfolios is estimated using credit scoring models that determine the obligor's probability of default. Loss given default is estimated based on transaction-specific factors such as loan product characteristics (for example, a line of credit versus a term loan), loan-to-value ratio and types of collateral.

Under the Bank's standards applicable to default-risk rating and facility-risk rating as well as to risk reviews, renewals and quantification, default risk ratings must be reviewed annually. Personal credit risk assessments are based on a group of borrowers with similar credit histories and behaviour profiles.

The credit scoring models are also used to grant new credit. These models use proven statistical methods that measure applicants' characteristics and history based on internal and external historical information to estimate the applicant's future credit behaviour and assign a probability of default. The underlying data include client information such as current and past employment, historical loan data in the Bank's management systems and information from external sources such as credit rating agencies.

The Bank also uses behaviour scoring models to manage and monitor current commitments. The risk assessment is based on statistical analyses of the past behaviour of obligors with which the Bank has a long-term relationship in an effort to predict their future behaviour. The underlying information includes the obligor's cash flows and borrowing trends. Information on characteristics that determine behaviour in these models also comes from both internal sources on current commitments and external sources.

Business and Government Credit Portfolios

This category comprises business (other than some small businesses that are classified in personal credit portfolios), government and financial institution credit portfolios.

These credit portfolios are assigned a risk rating based on a detailed individual analysis of the financial and non-financial aspects of the borrower, including the borrower's financial strength, sector of economic activity, competitive ability, access to capital and management quality. The Bank has risk-rating tools and models enabling it to specifically assess the risk represented by an obligor in relation to its industry and peers. The models used are adapted to the obligor's broad sector of activity. Models are in place for eight sectors: business/commercial, large business, banks-brokerage, sovereigns, energy, real estate, agriculture and insurance.

This risk assessment method assigns a default risk rating to an obligor that reflects its credit quality. To each credit risk rating corresponds a probability of default (see the following table). This credit quality classification enables the Bank to adequately differentiate its respective assessments of an obligor's ability to meet its contractual obligations. Default risk ratings are assigned according to an assessment of the obligors' commercial and financial risks, based on a solvency review. Various risk quantification models, described below, are used to perform this assessment.

The business and government default risk-rating scale used by the Bank is similar to the systems used by major external rating agencies. The complete rating scale comprised of 19 grades is presented in the Supplementary Regulatory Capital Disclosure report, which is available on the Bank's website at nbc.ca. The following table presents a grouping of the grades by major risk category and compares them with the ratings of two major rating agencies.

Internal Default Risk Ratings – Business and Government *

Ratings	PD (%) – Corporate and Financial institutions	PD (%) – Sovereign	Standard & Poor's	Moody's	Description[(1)]
1–2.5	0.000–0.102	0.000–0.059	AAA to A-	Aaa to A3	Excellent
3–4	0.103–0.461	0.060–0.341	BBB+ to BBB-	Baa1 to Baa3	Good
4.5–6.5	0.462–5.624	0.342–6.275	BB+ to B+	Ba1 to B1	Satisfactory
7–7.5	5.625–15.283	6.276–20.098	B to CCC+	B2 to Caa1	Special mention
8–8.5	15.284–99.999	20.099–99.999	CCC & CCC-	Caa2 & Caa3	Substandard
9–10	100	100	CC, C & D	Ca, C & D	Default

(1) Additional information is provided in the table on page 66.

The Bank also uses individual assessment models by industry to assign a risk rating to the credit facility based on the collateral and guarantees the obligor is able to provide and, in some cases, based on other factors.

The Bank consequently has a bi-dimensional risk-rating system that, using internal and external historical data, establishes a default risk rating for each obligor, and models that assign a risk rating to the credit facility that is independent of the risk rating assigned to the obligor.

The Bank's default, and in some cases, facility risk-rating systems and the associated risk parameters are used to estimate expected and unexpected losses and risk-based pricing as well as to establish counterparty credit concentration limits, assess economic capital and generally manage credit portfolios.

Validation

The Risk Management Group monitors the effectiveness of the risk-rating systems and associated parameters, which are also reviewed regularly in accordance with the Bank's policies.

Backtesting is done at regular intervals to validate the effectiveness of the models used to estimate probability of default, loss given default and exposure at default. For probability of default in particular, this backtesting takes the form of sequentially applied statistical tests designed to assess the following criteria:

- the model's discriminatory power;
- overrides;
- model calibration; and
- the stability of the model's output.

The credit risk quantification models are developed and tested by a team of specialists and their performance is monitored by the applicable business units and related credit risk management services. New models are validated by a unit that is independent of both the specialists that developed the model and the business units concerned, and approved through an escalation process established by the Model Risk Management Policy. Furthermore, new models or changes to existing models that markedly impact regulatory capital must be approved by the Board before being submitted to the regulatory agencies, and a summary report of all changes to the models is submitted to the RMC once a year.

The default risk-rating systems, methods and models are also subject to periodic independent validation as often as required given the inherent risk of the activity. Models that have a significant impact on regulatory capital must be reviewed regularly, thereby further raising the certainty that these quantification mechanisms are working as expected. The key aspects to be validated are factors allowing accurate risk classification by level, adequate quantification of exposure, use of assessment techniques that include external factors such as economic conditions and credit status and, lastly, compliance with internal policies and regulatory provisions. Each year, the Risk Management Group presents a summary report on the validations to the RMC.

The Bank's credit risk assessment and rating systems are overseen by the Models Oversight Committee, the GRC and the RMC, and are an integral part of a comprehensive Bank-wide credit risk oversight framework. Along with the above-mentioned elements, the Bank documents and periodically reviews the policies, definitions of responsibilities, resource allocation and existing processes.

Personal Credit Portfolio Subject to the AIRB Approach *

The following table presents the credit quality of the personal credit portfolio subject to the AIRB Approach, according to the internal risk-rating categories assigned to borrowers.

As at October 31
(millions of Canadian dollars)

					Exposure at default	
					2015	2014
	Probability of Default (%)	Residential mortgage(1)	Qualifying revolving retail(2)	Other retail(3)	Total	Total
Excellent	0.000–0.144	21,256	2,717	2,309	26,282	24,152
Good	0.145–0.506	15,374	919	2,645	18,938	18,139
Satisfactory	0.507–2.681	5,038	1,099	3,808	9,945	9,738
Special mention	2.682–9.348	1,103	366	729	2,198	1,833
Substandard	9.349–99.999	348	74	188	610	706
Default	100	144	23	108	275	261
		43,263	5,198	9,787	58,248	54,829

(1) Includes home equity lines of credit.
(2) Includes lines of credit and credit card receivables.
(3) Includes consumer loans, credit card receivables, certain SME loans, and other personal loans.

Business and Government Credit Portfolio Subject to the AIRB Approach *

The following table presents the credit quality of the business and government credit portfolio subject to the AIRB Approach, according to the internal risk-rating categories assigned to borrowers, as defined in the table on page 64.

As at October 31
(millions of Canadian dollars)

				Exposure at default	
				2015	2014
	Drawn(1)	Undrawn commitments(2)	Other exposures(3)	Total	Total
Excellent	24,030	5,667	48,919	78,616	75,158
Good	16,537	8,022	20,762	45,321	37,583
Satisfactory	16,152	3,293	6,686	26,131	25,135
Special mention	2,260	308	113	2,681	3,334
Substandard	101	2	3	106	46
Default	275	3	–	278	393
	59,355	17,295	76,483	153,133	141,649

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

Assessment of Capital at Risk

The assessment of the Bank's capital at risk, or economic capital, is based on the credit risk assessments of borrowers. These two activities are therefore interlinked. The different models used to assess the credit risk of a given portfolio type also enable the Bank to determine the default correlation among borrowers. This information is a critical component in the evaluation of potential losses for all portfolios carrying credit risk. Potential losses, whether expected or not, are based on past loss experience, portfolio monitoring, market data and statistical modelling. Expected and unexpected losses are factors in the assessment of capital at risk for each business segment. The main risk factors are as follows:

- probability of default;
- balance outstanding at the time of default;
- expected loss in the event of default;
- correlation between transactions;
- term of credit commitments; and
- impact of economic and sector-based cycles on asset quality.

Stress Testing and Crisis Scenarios

The Bank carries out stress tests to evaluate its sensitivity to crisis situations in certain activity sectors and key portfolios. A global stress test methodology covers most business, government, and personal credit portfolios to provide the Bank with an overview of the situation. By simulating specific scenarios, these tests enable the Bank to measure the level of regulatory capital needed to absorb potential losses and to determine the impact on its solvency. In addition, these tests contribute to portfolio management as they influence the determination of concentration limits by borrower, product or business sector.

Mortgage Loan Underwriting

To mitigate the impact of an economic slowdown and ensure the long-term quality of its portfolio, the Bank uses sound risk management when granting residential mortgages to confirm: (i) the borrower's intention to meet its financial obligations, (ii) the borrower's ability to repay its debts and (iii) the quality of the collateral. In addition, the Bank takes a prudent approach to client qualification by using, for example, a higher interest rate for terms less than five years to mitigate the risk of short- or medium-term rate increases.

Nonetheless, the risk of economic slowdown could adversely affect the profitability of the mortgage portfolio. In stress test analyses, the Bank considers a variety of scenarios to measure the impact of adverse market conditions. In such circumstances, our analyses show significantly higher loan losses, which would decrease profitability and reduce the Bank's capital ratios.

Credit-Granting Process

Credit-granting decisions are based first and foremost on the results of the risk assessment. Aside from a client's solvency, credit-granting decisions are also influenced by factors such as available collateral, transaction compliance with policies, standards and procedures, and the Bank's overall risk-adjusted return objective. Each credit-granting decision is made by authorities within the risk management teams and management who are independent of the business units and are at a reporting level commensurate with the size of the proposed credit transaction and the associated risk.

Decision-making authority is determined in compliance with the delegation of authority set out in the Credit Risk Management Policy. A person in a senior position in the organization approves credit facilities that are substantial or carry a higher risk for the Bank. The GRC approves and monitors all substantial credit facilities. Credit applications that exceed management's latitudes are submitted to the Board for approval. The credit-granting process demands a high level of accountability from managers, who must proactively manage the credit portfolio.

Risk Mitigation

The Bank also controls credit risk using various risk mitigation techniques. In addition to the standard practice of requiring collateral to guarantee repayment of the credit it grants, the Bank also uses protection mechanisms such as credit derivative financial instruments, syndication and loan assignments as well as an orderly reduction in the amount of credit granted.

The most common method used to mitigate credit risk is to obtain quality collateral from borrowers. Obtaining collateral cannot replace a rigorous assessment of a borrower's ability to meet its financial obligations, but, beyond a certain risk threshold, it is an essential complement. Collateral is not required in all cases; it depends upon the level of risk presented by the borrower and the type of loan granted. However, if the level of risk to the Bank is considered high, collateral will likely be required. The legal validity and enforceability of any collateral obtained and the Bank's ability to correctly and regularly measure the collateral's value are critical for this mechanism to play its proper role in risk mitigation. The Bank has established specific requirements in its internal policies with respect to the appropriate legal documentation and assessment for the kinds of collateral that business units may require to guarantee loans granted. The categories of eligible collateral and the lending value of the collateralized assets have also been defined by the Bank. For the most part, they include the following asset categories as well as guarantees (whether secured by collateral or unsecured) and government and bank guarantees:

- accounts receivable;
- inventories;
- machinery and equipment and rolling stock;
- residential and commercial real estate, office buildings and industrial facilities; and
- cash and marketable securities.

Portfolio Diversification and Management

The Bank is exposed to credit risk, not only through outstanding loans and undrawn amounts of commitments to a particular borrower but also through the sectoral distribution of the outstanding loans and undrawn amounts and through the exposure of its various credit portfolios to geographical, concentration and settlement risks.

The Bank's approach to controlling these diverse risks begins with optimizing the diversification of its exposures. Measures designed to maintain a healthy degree of diversification of credit risk in its portfolios are set out in the Bank's internal policies and procedures. These instructions are mainly reflected in the application of various exposure limits: credit concentration limits by counterparty and credit concentration limits by business sector, country, region and type of financial instrument. Compliance with these limits, particularly exceptions, is monitored through periodic reports submitted by the Risk Management officers to the Board.

The criteria established for portfolio diversification and the specific limits set for economic, industrial or geographical sectors are based on findings of sector-based studies and analyses conducted by economists and the Risk Management Group and are approved by the Board. Continuous analyses are performed in order to anticipate problems with a sector or borrower before they materialize as defaulted payments.

Other Risk Mitigation Methods

Credit risk mitigation measures for transactions in derivative financial instruments, which are regularly used by the Bank, are described in detail in the Counterparty Risk section.

Credit Derivative Financial Instruments and Financial Guarantee Contracts

The Bank also reduces credit risk by using the protection provided by credit derivative financial instruments such as credit default swaps. When the Bank acquires credit protection, it pays a premium on the swap to the counterparty in exchange for the counterparty's commitment to pay if the underlying entity defaults or another event involving the underlying entity and covered by the legal agreement occurs. Since, like borrowers, providers of credit protection must receive a default risk rating, the Bank's standards set out all the criteria under which a counterparty may be judged eligible to mitigate the Bank's credit risk. The Bank may also reduce its credit risk by entering into financial guarantee contracts whereby a guarantor indemnifies the Bank for a loss resulting from an obligor failing to make a payment when due in accordance with the contractual terms of a debt instrument.

Loan Syndication

The Bank has developed specific instructions on the appropriate objectives, responsibilities and documentation requirements for loan syndication.

Follow-Up of Monitored Accounts and Recovery

Credit granted and borrowers are monitored on an ongoing basis and in a manner commensurate with the related risk. Loan portfolio managers use an array of intervention methods to conduct a particularly rigorous follow-up on files that show risk of default. When loans continue to deteriorate and there is an increase in risk to the point where monitoring has to be increased, a group specialized in managing problem accounts steps in to maximize collection of the disbursed amounts and tailor strategies to these accounts.

In these cases, loan portfolio managers prepare and submit, to the credit department, a detailed monitoring report each month to track the status of at-risk obligors and the corrective measures undertaken. The management of each credit department concerned performs follow-ups on the reports, and each quarter a credit monitoring committee meets to review the action plans and monitoring reports of obligors that have commitments of $2 million or more. The authority to approve allowances for credit losses is attributed using limits delegated on the basis of hierarchical level under the Credit Risk Management Policy.

Information on the recognition of impaired loans and allowances for credit losses are presented in Note 1 to the consolidated financial statements.

Forbearance and Restructuring

Situations where a business or retail obligor begin showing clear signs of potential insolvency are managed on a case-by-case basis and require the use of judgment. The Loan Work Out Policy sets the principles applicable in such situations to guide loan restructuring decisions and identify situations where distressed restructuring applies. A distressed restructuring situation occurs when the Bank, for economic or legal reasons related to the obligor's financial difficulties, grants the obligor a special concession that is contrary to the Bank's policies. Such concessions could include a lower interest rate, waiver of principal and extension of the maturity date.

The Bank has established a management framework for commercial and corporate obligors that represent higher-than-normal risk of default. It outlines the roles and responsibilities of loan portfolio managers with respect to managing high-risk accounts and the responsibilities of the Work Out units and other participants in the process. Lastly, the Credit Risk Management Policy and a management framework are used to determine the authorization limits for distressed restructuring situations. During fiscal 2015, the amount of distressed loan restructurings was not significant.

Counterparty Risk

Counterparty risk is a credit risk that the Bank incurs on various types of transactions involving financial instruments. The most significant risks are those it faces when it trades derivative financial instruments with counterparties on the over-the-counter market or when it purchases securities under reverse repurchase agreements or sells securities under repurchase agreements. Securities lending transactions and securities brokerage activities involving derivative products are also sources of counterparty risk. Note 16 to the consolidated financial statements provides a complete description of the credit risk for derivative financial instruments by type of traded product. The Risk Management Group has developed models by broad category of financial instrument through which it applies an advanced methodology for calculating the Bank's credit risk exposure and economic capital. The exposures are subject to limits. These two elements are established based on the potential volatility of the underlying assets until maturity of the contract.

Counterparty obligations related to the trading of contracts on derivative financial instruments are frequently subject to credit risk mitigation measures. The mitigation techniques are somewhat different from those used for loans and advances and depend on the nature of the instrument or the type of contract traded. The first of these, and the most widely used, is the signing of International Swaps & Derivatives Association, Inc. (ISDA) master agreements with the appropriate counterparties. These agreements make it possible, in the event of default, insolvency or bankruptcy of one of the contracting parties, to apply full netting of the gross amounts of the market values for each of the transactions covered by the agreement and in force at the time of default. The amount of the final settlement is therefore the net balance of gains and losses on each transaction, which reduces exposure when a counterparty defaults. The Bank's policies require signing an ISDA agreement with most derivative and foreign exchange forward contracts trading counterparties.

Another mechanism for reducing credit risk complements the ISDA master agreement in many cases and provides the Bank and its counterparty (or either of the parties, if need be) with the right to request collateral from the counterparty when the net balance of gains and losses on each transaction exceeds a threshold defined in the agreement. These agreements, also known as Credit Support Annexes (CSAs), are common between financial institutions active in international financial markets since they limit credit risk while providing traders with additional flexibility to continue trading with the counterparty. The Bank often uses this type of legal documentation in transactions with financial institutions and governments. For business transactions, the Bank prefers to use internal mechanisms set out in the credit agreements. The Bank's internal policies set the conditions governing the implementation of such mitigation methods.

Requiring collateral as part of a securities lending transaction or reverse repurchase agreement is not solely the result of an internal credit decision. In fact, it is a mandatory market practice imposed by self-regulating organizations in the financial services sector such as the Investment Industry Regulatory Organization of Canada.

The Bank also has policies and guidelines governing its own collateral pledged to counterparties, given the potential impact of such asset transfers on its liquidity. In accordance with its Liquidity, Funding & Pledging Policy, the Bank conducts simulations of potential counterparty collateral claims under CSAs in effect, in the event of a Bank downgrade or other unlikely occurrences. The simulations are based on various Bank downgrading scenarios or market value fluctuations of transactions covered by CSAs.

The Bank identified circumstances in which it is likely to be exposed to wrong-way risk, which is generally associated with exposure to counterparty risk and increases as the counterparty's probability of default increases (unfavourable positive correlation). A common wrong-way risk arises from the trading of derivatives contracts with counterparties where the underlying assets may include equity securities issued by those counterparties.

Settlement Risk

Settlement risk potentially arises from transactions that feature reciprocal delivery of cash or securities between the Bank and a counterparty. Foreign exchange contracts are an example of transactions that can generate significant levels of settlement risk. However, the implementation of multilateral settlement systems that allow settlement netting among participating institutions has contributed greatly to reducing the risks associated with the settlement of foreign exchange transactions among banks. The Bank also uses financial intermediaries to have access to established clearing houses in order to minimize settlement risk for certain financial derivative transactions. In some cases, the Bank may have direct access to established clearing houses for settling financial transactions such as repurchase agreements or reverse repurchase agreements. In addition, certain derivative financial instruments traded over the counter are settled directly or indirectly by central counterparties. For additional information, see the table that presents notional amounts in Note 16 to the consolidated financial statements.

There are several other types of transactions that may generate settlement risk, in particular the use of certain electronic fund transfer services. This risk refers to the possibility that the Bank may make a payment or settlement on a transaction without receiving the amount owed from the counterparty, and with no opportunity to recover the funds delivered (irrevocable settlement).

The ultimate means for completely eliminating such a risk is for the Bank to complete no payments or settlements before receiving the funds due from the counterparty. Such an approach cannot, however, be used systematically. For several electronic payment services, the Bank is able to implement mechanisms that allow it to make its transfers revocable or to debit the counterparty in the amount of the settlements before it makes its own transfer. On the other hand, the nature of transactions in financial instruments makes it impossible for such practices to be widely used. For example, on foreign exchange transactions involving a currency other than the U.S. dollar, time zone differentials impose strict payment schedules on the parties. The Bank cannot unduly postpone a settlement without facing significant penalties, due to the large size of amounts involved.

The most effective way for the Bank to control settlement risks, both for financial market transactions and irrevocable transfers, is to impose internal risk limits based on the counterparty's ability to pay.

Market Risk Management

Market risk is the risk of losses in on- and off-balance-sheet positions arising from movements in market parameters.

The Bank is exposed to market risk through its participation in market making, trading, investing and asset/liability management activities. Trading and market making activities involve taking positions primarily in interest rate, equity and foreign exchange instruments, commodities or derivative financial instruments. The Bank is exposed to non-trading market risk through its asset/liability management portfolios and its short-term funding and investment portfolios.

Market risk comes from a number of factors, the most important of which are:

- Interest rate risk: relates to changes in the term structure of interest rates of financial instruments such as bonds, money market instruments and derivative financial instruments.
- Foreign exchange risk: relates to changes in foreign exchange rates of financial instruments such as investments in foreign subsidiaries, foreign currency denominated loans and securities, future cash flows in foreign currencies and derivative financial instruments.
- Equity risk: relates to changes in overall equity prices (general equity risk) or in individual characteristics that are specific to an entity (equity-specific risk) for financial instruments such as common shares and options.
- Commodity risk: relates to changes in commodity prices of financial instruments in exchange trading or over-the-counter trading, involving either physical trading or derivatives trading of commodities.
- Traded credit risk: relates to changes in the creditworthiness of all issuers (general traded credit risk) or in characteristics of an issuer (traded credit issuer-specific risk) relating mainly to the Bank's portfolios of debt securities and credit derivatives, whose value could be adversely affected by changes in credit spreads, by credit migration or by defaults.
- Implied correlation risk: relates to changes in the implied correlations between two or more risk factors found primarily in complex derivative financial instruments with several correlated risk factors.
- Market liquidity risk: relates to a significant decrease or, at worst, a halt in the level of expected market activity for a specific market or for a variety of instruments, thereby making the instruments concerned less liquid or illiquid. This exposes the Bank to losses due to the inability to execute its transactions at the prevailing prices, which may not represent the true price at which the position can be fully unwound. Almost all traded instruments are exposed to this type of risk depending mainly on frequency and volume of transactions.
- Portfolio diversification and hedging risk (basis risk): relates to changes in correlations realized between two or more risk factors. Adverse changes in realized correlations can reduce the portfolio diversification benefit in the sense that several of the positions could have higher correlation than expected, giving rise to simultaneous losses. In addition, adverse changes in realized correlation can make hedging strategies less effective if the underlying position and the hedge position have weaker correlation than expected.

The trading portfolios include positions in financial instruments and commodities held either with trading intent or to hedge other elements of the trading book. Positions held with trading intent are those held for short-term resale and/or with intent of taking advantage of actual or expected short-term price movements or to lock in arbitrage profits. These portfolios target one of the following objectives: market making, trading, proprietary trading, liquidating positions for clients or selling financial products to clients.

Non-trading portfolios include all financial instruments held to maturity or until conditions are more advantageous to invest in other investments or held strictly for liquidity management, short-term funding and asset/liability management purposes.

Governance

The Board is responsible for approving the market risk policy framework and the Bank's market risk appetite measures and targets. The Board also defines Bank-wide market risk limits. The Bank's President and Chief Executive Officer, who has ultimate responsibility for market risk limits, manages the Bank's market risk based on the risk appetite targets set and approved by the Board to generate acceptable return on market risk capital. The President and Chief Executive Office delegates risk-taking responsibilities to business unit managers reporting to him. The business units are responsible for the market risks inherent to their particular activities and must therefore actively manage such risks. The Market Risk Management Committee monitors market risk across the Bank and ensures that the magnitude and mix of risks remain within the Bank's market risk appetite targets and risk limits. This committee also ensures that the risk management environment is transparent, disciplined and controlled and that market risk capital is used to maximize shareholders' equity.

An integrated internal control framework is used to manage market risk, which is overseen by the Market Risk Management Committee. The Bank is continually adapting its market risk management and oversight framework.

A comprehensive policy governs global market risk management across the Bank's units and subsidiaries that are exposed to this type of risk. The policy presents the main mechanisms used for identifying and measuring the types of market risk to which the Bank is exposed, most of which are described on the previous page. It also defines the link between the Bank's market risk appetite approved by the Board and the framework implemented for setting market risk limits across the Bank's business units that are allowed to undertake market risk. The purpose of the market risk limits is to set out tolerance thresholds for these business units or portfolios to comply with the Bank's market risk appetite targets. These are cascaded down to business units using a hierarchy of different types of limits (e.g., Value at Risk (VaR), stop loss limit) allocated by portfolio, trading unit, unit manager and officer, as well as an appropriate breach escalation process.

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

Reconciliation of Market Risk with Consolidated Balance Sheet Items

(millions of Canadian dollars)					As at October 31, 2015
		Market risk measures			
	Balance sheet	Trading(1)	Non-Trading(2)	Not subject to market risk	Non-traded risk primary risk sensitivity
Assets					
Cash and deposits with financial institutions	7,567	36	7,192	339	Interest rate(3)
Securities					
At fair value through profit or loss	41,997	39,805	2,192	–	Interest rate(3) and other(4)
Available-for-sale	14,043	–	14,043	–	Interest rate(3) and equity(5)
Securities purchased under reverse repurchase agreements and securities borrowed	17,702	–	17,702	–	Interest rate(3)(6)
Loans, net of allowances	105,853	4,565	101,288	–	Interest rate(3)
Customers' liability under acceptances, net of allowances	9,385	–	9,385	–	Interest rate(3)
Derivative financial instruments	10,842	9,412	1,430	–	Interest rate(7)
Purchased receivables	1,438	–	1,438	–	Interest rate
Defined benefit asset	268	–	268	–	Other(8)
Other	6,995	–	–	6,995	
	216,090	53,818	154,938	7,334	
Liabilities					
Deposits	128,830	3,204	125,626	–	Interest rate(3)
Acceptances	9,400	–	9,400	–	Interest rate(3)
Obligations related to securities sold short	17,333	17,333	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	13,779	–	13,779	–	Interest rate(3)(6)
Derivative financial instruments	7,756	6,687	1,069	–	Interest rate(7)
Liabilities related to transferred receivables	19,770	4,139	15,631	–	Interest rate(3)
Defined benefit liability	183	–	183	–	Other(8)
Other	6,162	60	1,349	4,753	Interest rate(3)
Subordinated debt	1,522	–	1,522	–	Interest rate(3)
	204,735	31,423	168,559	4,753	

(1) Trading positions whose risk measures are VaR and SVaR. See the tables on the following pages that show the VaR and SVaR distributions of the trading portfolios by risk category as well as their correlation effect.
(2) Non-trading positions that use other risk measures.
(3) See the tables on the following pages that show the VaR and SVaR distributions of the trading portfolios by risk category and their correlation effect as well as the interest rate sensitivity tables.
(4) See the Master Asset Vehicles section in Note 6 to the consolidated financial statements.
(5) The fair value of equity securities classified as available-for-sale is presented in Notes 3 and 6 to the consolidated financial statements.
(6) These instruments are recorded at amortized cost and are subject to credit risk for capital management purposes. For transactions with maturities of more than one day, interest rate risk is included in the VaR and SVaR measures when they relate to trading activities.
(7) See Notes 16 and 17 to the consolidated financial statements.
(8) See Note 23 to the consolidated financial statements.

(millions of Canadian dollars) As at October 31, 2014

	Balance sheet	Market risk measures: Trading[1]	Market risk measures: Non-trading[2]	Not subject to market risk	Non-traded risk primary risk sensitivity
Assets					
Cash and deposits with financial institutions	8,086	89	7,464	533	Interest rate[3]
Securities					
At fair value through profit or loss	43,200	40,574	2,626	–	Interest rate[3] and other[4]
Available-for-sale	9,753	–	9,753	–	Interest rate[3] and equity[5]
Securities purchased under reverse repurchase agreements and securities borrowed	24,525	–	24,525	–	Interest rate[3][6]
Loans, net of allowances	97,243	2,883	94,360	–	Interest rate[3]
Customers' liability under acceptances	8,926	–	8,926	–	Interest rate[3]
Derivative financial instruments	7,092	6,270	822	–	Interest rate[7]
Purchased receivables	790	–	790	–	Interest rate
Defined benefit asset	185	–	185	–	Other[8]
Other[9]	5,629	–	–	5,629	
	205,429	49,816	149,451	6,162	
Liabilities					
Deposits	119,883	2,726	117,157	–	Interest rate[3]
Acceptances	8,926	–	8,926	–	Interest rate[3]
Obligations related to securities sold short	18,167	18,167	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	16,780	–	16,780	–	Interest rate[3][6]
Derivative financial instruments	5,721	5,400	321	–	Interest rate[7]
Liabilities related to transferred receivables	17,079	2,802	14,277	–	Interest rate[3]
Defined benefit liability	177	–	177	–	Other[8]
Other	6,313	133	1,336	4,844	Interest rate[3]
Subordinated debt	1,881	–	1,881	–	Interest rate[3]
	194,927	29,228	160,855	4,844	

(1) Trading positions whose risk measures are VaR and SVaR. See the tables on the following pages that show the VaR and SVaR distributions of the trading portfolios by risk category as well as their correlation effect.
(2) Non-trading positions that use other risk measures.
(3) See the tables on the following pages that show the VaR and SVaR distributions of the trading portfolios by risk category and their correlation effect as well as the interest rate sensitivity tables.
(4) See the Master Asset Vehicles section in Note 6 to the consolidated financial statements.
(5) The fair value of equity securities classified as available-for-sale is presented in Notes 3 and 6 to the consolidated financial statements.
(6) These instruments are recorded at amortized cost and are subject to credit risk for capital management purposes. For transactions with maturities of more than one day, interest rate risk is included in the VaR and SVaR measures when they relate to trading activities.
(7) See Notes 16 and 17 to the consolidated financial statements.
(8) See Note 23 to the consolidated financial statements.
(9) An amount of $790 million classified in *Other assets* as at October 31, 2014 is now presented separately in *Purchased receivables* on the Consolidated Balance Sheet.

Assessing Market Risk

The Risk Management Group uses a variety of risk measures to estimate the size of potential losses under more or less severe scenarios, and using both short-term and long-term time horizons. For short-term horizons, the Bank's risk measures include VaR, SVaR, and sensitivity metrics. For long-term horizons or sudden significant market moves, including those due to a lack of market liquidity, the risk measures include stress testing across an extensive range of scenarios. VaR is a statistical measure of risk that is used to quantify market risks across products, per types of risks and aggregate risk on a portfolio basis. VaR is defined as the maximum loss at a specific confidence level over a certain horizon under normal market conditions. The VaR method has the advantage of providing a uniform measurement of financial instrument-related market risks based on a single statistical confidence level and time horizon. The Bank uses a historical price distribution to compute the probable loss levels at the 99% confidence level, using a two-year daily time series of risk factor changes. VaR is the maximum daily loss the Bank could incur, in 99 cases out of 100, in a given portfolio. In other words, the loss could exceed that amount in only one out of 100 cases.

The trading VaR is measured by assuming a holding period of one day for ongoing market risk management and a 10-day horizon for regulatory capital purposes. This assumption is used to combine the VaR of various portfolios and provides an estimate of the daily market risk incurred by the Bank. VaR is calculated on a daily basis both for major classes of financial instruments (including derivative financial instruments) and all trading portfolios of the Financial Markets segment and Corporate Treasury of the Bank.

In addition to the one-day trading VaR, the Bank calculates a trading SVaR, which is a statistical measure of risk that replicates the VaR calculation method (one-day holding period for risk management purposes and 10-day horizon for regulatory capital purposes) but uses, instead of the variable two-year history of market risk data input, 12-month historical data corresponding to a continuous period of significant financial stress that is relevant in terms of the Bank's portfolios.

VaR methodology techniques are well suited to measure risks under normal market conditions. VaR metrics are most appropriate as a risk measure for trading positions in liquid financial markets. However, there are limitations in measuring risks with this method when extreme and sudden market risk events occur, since they are likely to underestimate the Bank's market risk. VaR methodology limitations include the following:

- Past changes in market risk factors may not always produce accurate predictions of the distribution and correlations of future market movements.
- A VaR with a daily time horizon does not fully capture the market risk of positions that cannot be liquidated or hedged within one day.
- The market risk factor historical database used for VaR calculation may not reflect potential losses that could occur under unusual market conditions (e.g., periods of extreme illiquidity) relative to the historical period used for VaR estimates.
- The use of a 99% VaR confidence level does not reflect the extent of potential losses beyond that percentile.

Given the limitations to VaR, for the Bank it represents only one component in its risk management oversight, which also incorporates, among other measures, stress testing, sensitivity analysis, concentration and liquidity limits and analysis.

The Bank also conducts backtesting of the VaR model. It consists of comparing the profits and losses to the statistical VaR measure. Backtesting is essential to verifying the VaR model's capacity to adequately forecast the maximum risk of market losses and thus validate, retroactively, the quality and accuracy of the results obtained using the model. If the backtesting results present material discrepancies, the VaR model could be revised in accordance with the Bank's model risk management framework.

Trading Activities

The revenues generated by trading activities are compared with VaR as a backtesting assessment of the appropriateness of this risk measure as well as the financial performance of trading activities relative to the risk undertaken.

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

VaR of Trading Portfolios by Risk Category[1] *

(millions of Canadian dollars)	**Year ended October 31, 2015**			
	Low	**High**	**Average**	**Period end**
Interest rate	**(3.4)**	**(6.5)**	**(5.0)**	**(4.8)**
Foreign exchange	**(0.9)**	**(4.6)**	**(2.3)**	**(2.3)**
Equity	**(2.1)**	**(5.0)**	**(3.4)**	**(4.1)**
Commodity	**(0.5)**	**(2.1)**	**(1.0)**	**(1.1)**
Correlation effect[2]	**n.m.**	**n.m.**	**5.6**	**6.2**
Total trading VaR	**(5.0)**	**(7.8)**	**(6.1)**	**(6.1)**

(millions of Canadian dollars)	Year ended October 31, 2014			
	Low	High	Average	Period end
Interest rate	(3.2)	(7.5)	(5.1)	(4.7)
Foreign exchange	(0.4)	(2.9)	(1.7)	(2.2)
Equity	(2.5)	(6.4)	(4.7)	(3.2)
Commodity	(0.4)	(1.5)	(0.9)	(0.9)
Correlation effect[2]	n.m.	n.m.	5.3	3.8
Total trading VaR	(5.3)	(10.1)	(7.1)	(7.2)

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

SVaR of Trading Portfolios by Risk Category[1] *

(millions of Canadian dollars)	Year ended October 31, 2015			
	Low	High	Average	Period end
Interest rate	(5.8)	(11.9)	(8.8)	(9.8)
Foreign exchange	(1.6)	(8.3)	(3.5)	(2.5)
Equity	(2.2)	(12.0)	(4.8)	(6.0)
Commodity	(0.5)	(5.9)	(1.6)	(1.5)
Correlation effect[2]	n.m.	n.m.	10.2	11.4
Total trading SVaR	(5.0)	(12.1)	(8.5)	(8.4)

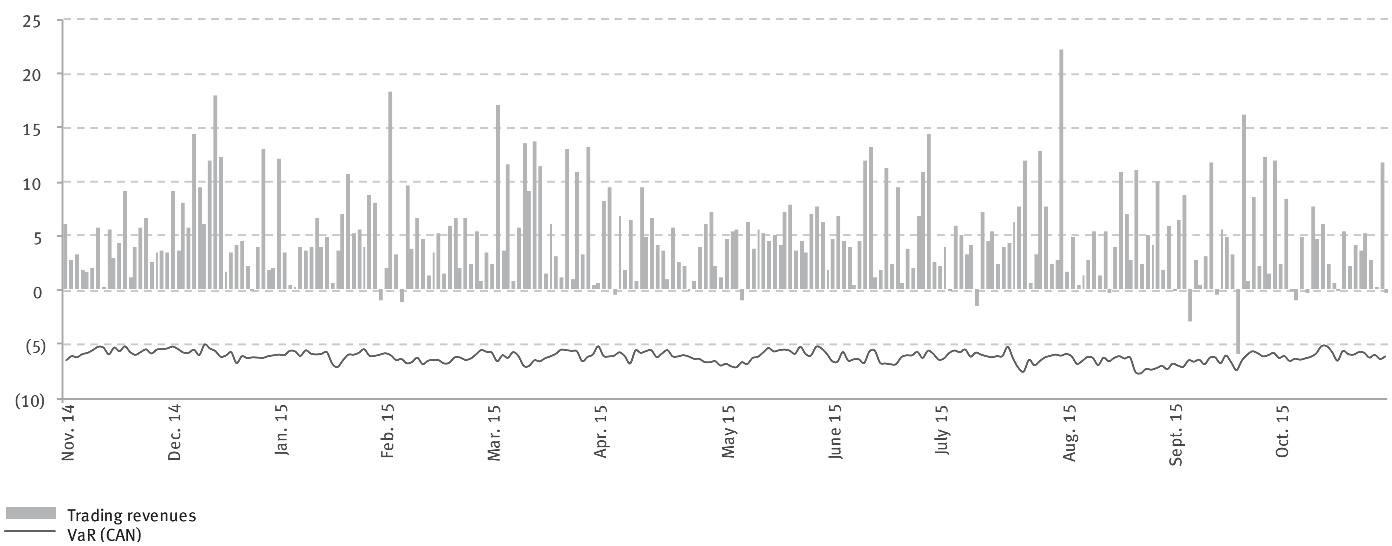
(millions of Canadian dollars)	Year ended October 31, 2014			
	Low	High	Average	Period end
Interest rate	(6.9)	(12.7)	(9.9)	(9.9)
Foreign exchange	(0.6)	(9.0)	(4.0)	(7.4)
Equity	(4.0)	(20.3)	(11.4)	(6.4)
Commodity	(0.4)	(2.6)	(1.1)	(1.3)
Correlation effect[2]	n.m.	n.m.	13.4	14.0
Total trading SVaR	(8.3)	(21.7)	(13.0)	(11.0)

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

The average total trading VaR was $6.1 million for fiscal 2015, down $1.0 million from $7.1 million in fiscal 2014. The decrease came mainly from a lower equity VaR. Total trading VaR peaked during the fourth quarter of 2015 but then moved closer to its average near the end of the fiscal year. The average total trading SVaR decreased by $4.5 million and stood at $8.5 million for fiscal 2015 compared to $13.0 million the previous fiscal year. The decrease was mainly due to lower equity SVaR, but also from lower interest rate and foreign exchange SVaR. Total trading SVaR achieved lows during the third quarter of 2015 and highs during the fourth quarter and closed out fiscal 2015 at a level similar to the annual average.

The following table shows daily trading revenues and VaR. Daily trading revenues were positive almost 93% of the days in the year ended October 31, 2015. Net daily trading losses in excess of $1 million were recorded on four days. None of these losses exceeded the VaR limit.

Daily Trading Revenues
(millions of Canadian dollars)



Stress Testing and Crisis Scenarios

Stress testing is a risk management technique that consists of estimating potential losses under abnormal market conditions and risk factor movements. Stress testing enhances transparency by exploring a range of potential low-probability events. Comprehensive stress testing scenarios include the following:

- changes in all relevant market rates;
- potential political shifts;
- market illiquidity; and
- the interplay between market and credit risk.

These stress tests and sensitivity analyses simulate the results that the portfolios would generate if the extreme scenarios in question were to occur. The Bank's stress testing framework applied to all positions generating market risk currently comprises the following range of different stress test scenarios.

- Interest rate: sharp parallel increases/decreases in interest rates; non-parallel movements (flattening and steepening) and increases/decreases in credit spreads.
- Equity: sharp stock market crash coupled with a significant increase in volatility; increase in stock prices associated with a lesser volatility; increase in volatility of term structure coupled with a decrease in stock prices.
- Commodity: significant increases/decreases in commodity prices coupled with increases/decreases in volatility; short-term and long-term increases/decreases in commodities.
- Foreign exchange: depreciation/appreciation of the U.S. dollar and of other currencies relative to the Canadian dollar.

Controlling Risk

Outstanding VaR exposure is monitored daily in relation to established limits for each type of market risk, portfolio and business unit. The RMC reviews VaR results each quarter, including breaches of the limits set out in the policy, if any. The results of stress tests and sensitivity analyses are subject to maximum potential loss limits for the Bank, which are approved by the Board.

The Bank also uses economic capital for market risk as an indicator for risk appetite and limits setting. This indicator measures the amount of capital that is required to absorb unexpected losses due to market risk events over a one-year horizon and with a determined confidence level. For additional information on economic capital, see page 54 in the Capital Management section of this MD&A.

Separate policies govern the pricing and valuation adjustments on financial instruments valued at fair value.

Structural Interest Rate Risk

As part of its core banking activities, such as lending and deposit taking, the Bank is exposed to interest rate risk. Interest rate risk is the potential negative impact on the Bank's economic value and annual net interest income caused by changes in interest rates. The Bank's material exposure to interest rate risk stems from a variety of sources.

- Yield curve risk, which refers to changes in the level, slope and shape of the yield curve.
- Repricing risk, which arises from timing differences in the maturity and repricing of on- and off-balance-sheet items.
- Options risk, either implicit (e.g., prepayment in mortgage loans) or explicit (e.g., capped mortgages and rate guarantees) in balance sheet products.
- Basis risk that is caused by imperfect correlation between different yield curves.

Structural interest rate risk exposure also includes activities related to hedging, investments and term funding. To manage such risk, the Bank uses a funds transfer pricing mechanism. The funds transfer pricing is a process by which the Bank's business units are charged or paid according to their use or supply of funding. Through this mechanism, all funding activities, interest rate risk and liquidity risk associated with those activities are centralized in Corporate Treasury.

Active management of structural interest rate risk can significantly enhance the Bank's profitability and add to shareholder value. The Bank's goal is to maximize its economic value and annual net interest income subject to the Bank's risk appetite. This has to be accomplished within prescribed risk limits and is done primarily by implementing a policy framework approved by the Board, which establishes a risk tolerance threshold, monitoring structures controlled by the various committees, risk indicators, reporting procedures, delegation of responsibilities and segregation of duties. The Bank also prepares an annual funding plan that incorporates the expected growth of assets and liabilities.

Regulatory Environment

In June 2015, the BCBS issued a consultative document, *Interest Rate Risk in the Banking Book,* covering risk management, capital treatment and supervision of interest rate risk in the banking book. This consultative document is intended to ultimately replace *Principles for the Management and Supervision of Interest Rate Risk* published by the BCBS in 2004. Two objectives are behind the consultative document:

- Ensure that banks have enough capital to cover potential banking book losses stemming from changes in interest rates;
- Limit capital arbitrage between the trading book and the banking book.

Presently, the Bank is fully compliant with the 2004 principles and is participating in the review of the new 2015 consultative document.

Governance

Management of the Bank's structural interest rate risk is mandated to Corporate Treasury. In this role, the Corporate Treasury executives and personnel are responsible for the identification and day-to-day management of the risks inherent to structural interest rate risk hedging decisions and operations. They act as the primary effective challenge function with respect to the execution and monitoring of these activities. Moreover, they must ensure compliance with the structural interest rate risk policy. The Office of the President approves and endorses the structural interest rate exposure and strategies on the recommendation of Corporate Treasury. The operational supervision is ensured by two committees: the Management Forecast Committee and the Intersector Funding Committee. The former analyzes the various structural interest rate risk metrics. The latter ensures that the funds transfer pricing mechanism is adequate and captures all new products offered. Both committees report to the Office of the President – Asset/Liability Management Committee.

Stress Testing and Crisis Scenarios

Simulations and stress tests are performed on a regular basis to assess the impact of various scenarios on annual net interest income and on the economic value of equity in order to guide the management of structural interest rate risk. Crisis scenarios are performed where the yield curve level, slope and shape are shocked. Yield curve basis and volatility scenarios are also performed. All risk factors mentioned above are covered by specific scenarios and have Board-approved or GRC-approved risk limits.

Dynamic simulation is also used to project the Bank's future net interest income, future economic value and future structural interest rate risk exposure. These simulations project cash flows of assets, liabilities and off-balance-sheet products over a given investment horizon. Given their dynamic nature, they encompass assumptions pertaining to changes in volume, client term preference, prepayments of deposits and loans, and yield curve.

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

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

(millions of Canadian dollars)	As at October 31, 2015		
	Canadian dollar	U.S. dollar	Total
Impact on equity			
100-basis-point increase in the interest rate	(145)	20	(125)
100-basis-point decrease in the interest rate	115	(25)	90
Impact on net interest income			
100-basis-point increase in the interest rate	14	16	30
100-basis-point decrease in the interest rate	(12)	(18)	(30)

(millions of Canadian dollars)	As at October 31, 2014		
	Canadian dollar	U.S. dollar	Total
Impact on equity			
100-basis-point increase in the interest rate	(91)	3	(88)
100-basis-point decrease in the interest rate	59	(6)	53
Impact on net interest income			
100-basis-point increase in the interest rate	8	12	20
100-basis-point decrease in the interest rate	(15)	(15)	(30)

Investment Governance

The Bank has created available-for-sale securities portfolios in liquid and less liquid securities for strategic, long-term investment and liquidity management purposes. These investments carry market risk, credit risk, liquidity risk and concentration risk.

The investment governance sets out the guiding principles and general management standards that must be followed by all those who manage portfolios of available-for-sale securities included in the portfolios of the Bank and its subsidiaries. Under this investment governance, business units that are active in managing this type of portfolio must adopt internal investment policies that set, among other things, targets and limits for the allocation of assets in the portfolios concerned and internal approval mechanisms. The primary objective is to reduce concentration risk by industry, issuer, country, type of financial instrument and credit quality.

Overall limits in value and in proportion to the Bank's equity are set on the outstanding amount of liquid preferred shares, liquid equity securities excluding preferred shares, and instruments classified as illiquid securities in the available-for-sale securities portfolios. The overall exposure to common shares with respect to an individual issuer and the total outstanding amount invested in hedge funds and private equity funds, for investment banking services, are also subject to these limits. Restrictions are also set on investments defined as special. Lastly, the Bank has a specific strategic investment policy, approved by the Board, which defines strategic investments as purchases of business assets or acquisitions of significant interests in an entity for purposes of acquiring control or creating a long-term relationship.

Structural Foreign Exchange Risk

The Bank's structural foreign exchange risk arises from investments in foreign operations denominated in currencies other than the Canadian dollar. This risk is measured by assessing the impact of currency fluctuations. The Bank uses financial instruments (derivative and non-derivative) to hedge structural foreign exchange risk. In a hedge of a net investment in a foreign operation, the financial instruments used will offset foreign exchange gains and losses on the investments. Management of this risk is governed by a specific policy submitted to the Board.

Liquidity and Funding Risk Management

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

The Bank's primary objective as a financial institution is to manage liquidity such that it supports the Bank's business strategy and allows it to honour its commitments when they come due, even in extreme conditions. This is done primarily by implementing a policy framework approved by the Board, which establishes a risk tolerance threshold, monitoring structures controlled by various committees, risk indicators, reporting procedures, delegation of responsibilities and segregation of duties. The Bank also prepares an annual funding plan that incorporates the expected growth of assets and liabilities.

Regulatory Environment

In correlation with the continuously evolving regulatory environment, the Bank is working closely with national and international regulators to implement regulatory liquidity standards while adapting its processes and policies to reflect the Bank's liquidity risk appetite towards these new requirements.

In April 2013, the BCBS issued *Monitoring Tools for Intraday Liquidity Management,* a paper on intraday liquidity created to provide guidance to banks on their management of intraday liquidity risk and ability to meet payment and settlement obligations on a timely basis. The proposed implementation schedule ranges from January 2015 to January 2017 at the latest.

On May 30, 2014, OSFI issued its final *Liquidity Adequacy Requirements* (LAR) guideline. The LAR guideline is the new liquidity framework proposed by OSFI. It contains the following six chapters: Overview, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Net Cumulative Cash Flow (NCCF), Liquidity Monitoring Tools and Intraday Liquidity Monitoring Tools. The LCR is intended to oversee banks through severe short-term stress while the NSFR is a structural ratio over a one-year horizon. The NCCF metric is defined as a monitoring tool that calculates survival period. It is based on the assumptions of a stress scenario prescribed by OSFI that aims to represent a combined systemic and bank-specific crisis. The LAR guideline is reviewed annually to reflect both international and domestic regulatory developments.

In July 2014, OSFI also issued *Public Disclosure Requirements for Domestic Systemically Important Banks on Liquidity Coverage Ratio,* a guideline based on the BCBS's final LCR rules that prescribe a common disclosure framework with standardized formats across the banking industry. The Canadian D-SIBs implemented the LCR disclosure requirements in January 2015.

On August 1, 2014, Department of Finance Canada issued, for public comment, *Taxpayer Protection and Bank Recapitalization Regime: Consultation Paper,* which outlines a proposed bail-in regime applicable to D-SIBs. This framework's objective is to allow the conversion of eligible long-term senior debt into common shares. This conversion would take effect under the discretion of domestic regulators. In the federal budget tabled on April 21, 2015, the Government of Canada confirmed its intention to implement the bail-in regime. The Bank is currently assessing the impact of adopting the bail-in regime, and the implementation date has not yet been determined.

In October 2014, the Bank for International Settlements (BIS) published final rules for the NSFR. The Bank is currently monitoring this ratio and expects to be compliant in time for the implementation.

Lastly, in June 2015, BCBS issued its final *Net Stable Funding Ratio Disclosure Standards* document. To improve the transparency of NSFR disclosure, this document sets out a common framework for public disclosure, which will not be required before its formal implementation date of January 1, 2018.

The Bank also produces a quarterly report, *Quantitative Impact Study (QIS),* which is submitted to the BIS and lets them follow the progress of Basel III implementation.

Governance

Corporate Treasury manages liquidity and funding needs Bank-wide. Its activities comprise:

- Managing day-to-day cash flow, collateral and short-term funding.
- Planning and issuing long-term funding and determining liquidity cost transfer pricing.
- Participating in the development and implementation of the liquidity management framework, the Liquidity, Funding and Pledging Policy, the annual funding plan and the liquidity contingency plan.
- Developing and implementing the LAR guidelines and the national and international regulations to which the Bank must adhere.
- Monitoring, measuring and reporting on the Bank's exposure to liquidity risk, both overall and by currency.
- Establishing and maintaining an adequate risk assessment process and effective controls.

The Bank's Liquidity, Funding and Pledging policy requires review and approval by the RMC, based on recommendations from the GRC. The Bank has established two levels of limits. The first level of limits encompasses the Bank's overall liquidity position and is Board approved, while the second level of limits is more focused on specific elements of liquidity risk and is approved by the GRC. The Board not only approves the supervision of day-to-day risk management and governance but also backup plans in anticipation of emergency and liquidity crisis situations. If a limit has to be revised, Corporate Treasury and Risk Management together submit the proposed revision to the GRC. If the latter approves the request, it is presented to the Board for approval only if a level-one limit is concerned.

Liquidity risk supervision at the Bank is mainly assigned to the Liquidity and Funding Committee, composed of Corporate Treasury and Risk Management Group representatives. In accordance with the roles and responsibilities under their respective mandates, the members of this committee are also asked for input in developing risk management and control mechanisms and implementing policies.

Through the Liquidity and Funding Committee, Corporate Treasury regularly reports changes in liquidity, funding and pledging indicators and compliance with regulatory, Board and GRC approved limits. If control reports indicate non-compliance with the limits and, generally, deterioration of liquidity indicators, Corporate Treasury takes remedial action. According to the escalation process, problematic situations are reported to the management of the Finance and Treasury unit and of the Risk Management unit, as well as to the GRC and to the RMC. An executive report on the Bank's liquidity and funding risk management, which describes the Bank's liquidity position and informs the Board of non-compliance with the limits and other rules observed during the reference period as well as remedial action taken, is submitted quarterly to the RMC.

Although the day-to-day management of risks associated with liquidity, funding and pledging activities and the monitoring of compliance with the resulting policy is assumed by Corporate Treasury, the Risk Management Group is responsible for ensuring that an appropriate risk management framework is in place and that risk appetite and policy are adhered to. This provides an independent oversight and effective challenge for the liquidity, funding and pledging decisions, strategy and exposure.

Liquidity Management

The Bank performs liquidity management, funding and pledging operations not only from its head office and regional offices in Canada, but also through certain foreign centres. Although the volume of such operations abroad represents a sizable portion of global liquidity management, the Bank's liquidity management is centralized. By organizing liquidity, funding and pledging activities within Corporate Treasury, the Bank can better coordinate enterprise-wide funding and risk monitoring activities. All internal funding transactions between Bank entities are controlled by Corporate Treasury.

This centralized structure streamlines the allocation and control of liquidity management, funding and pledging limits. Nonetheless, the Liquidity, Funding and Pledging Policy contains special provisions for the financial centres that are most active in terms of institutional funding and sets limits and monitoring thresholds for secured and unsecured short-term funding, both in absolute value and materiality.

The Bank's funds transfer pricing system prices liquidity by allocating the cost or income to the various business segments. Liquidity costs are allocated to liquidity-intensive activities, mainly long-term loans, and commitments to extend credit and less liquid securities as well as strategic investments. The liquidity compensation is credited to the suppliers of funds, primarily funding in the form of stable deposits from the Bank's distribution network.

Short-term day-to-day funding decisions are based on a daily cumulative net cash position, which is controlled using liquidity ratio limits. Among these ratios and metrics, the Bank pays particular attention to the funds obtained on the wholesale market and to cumulative cash flows over various time horizons.

Moreover, the Bank's collateral pledging activities are monitored on a daily basis in relation to the different limits set by the Bank and are subject to monthly stress tests using a series of simulations. In particular, the Bank uses various scenarios to estimate the potential amounts of additional collateral that would be required in the event of a downgrade to the Bank's credit rating.

Liquidity risk can be assessed in many different ways using different liquidity indicators. One of the key monitoring tools of liquidity risk is the Bank's survival period based on contractual maturity and behavioural assumptions applied to balance sheet items as well as off-balance-sheet commitments.

Stress Testing and Crisis Scenarios

Using various simulations, survival period measures the number of months it would take to completely utilize the Bank's liquid assets if the Bank were to lose deposits prematurely or if funds from wholesale markets were not renewed at maturity. It is measured monthly using three scenarios. These scenarios were developed to assess sensitivity to a Bank-specific or systemic crisis. Deposit loss simulations are carried out based on their degree of stability, while the value of certain assets is encumbered by an amount reflecting their readiness for liquidation in a crisis. These stress test scenarios are reviewed and submitted to the Board once a year for approval.

The Bank considers, among its simulations, a severe liquidity crisis scenario, where the Bank experiences difficulties in a turbulent financial market. This scenario combines a significant limitation in the access to its funding channels and a significant decrease of its assets' marketability.

The stress test results provide the Bank with its potential liquidity requirements under each scenario and, given the liquidity risk tolerance level adopted, allow the Bank to manage unwanted risk. Each scenario has its own set of underlying assumptions that cover a wide range of aspects, including haircuts, encumbrance on liquid assets, loss of deposits, collateral usage and assets pledged. It also includes an estimate of the funding needs of contingent liabilities. Contingent liquidity risk refers to the possibility that the Bank needs a significant amount of funding due to events such as an unexpected increase in drawdowns on committed lines, withdrawal of deposits, increase in collateral requirements or other triggers embedded in legal documentation.

The following assumptions underlie the scenarios:

- Partial non-renewal at maturity for most of the Bank's unsecured wholesale funding.
- Non-renewal of a portion of the retail and commercial deposits.
- Run-offs on demand deposits.
- Partial renewal of loans.
- Drawdowns on committed lines.
- Additional collateral required for the Bank in the event of a credit rating downgrade.
- Limited access to the foreign exchange market.

The results of these stress tests are reviewed on a monthly basis by the Liquidity and Funding Committee while the Board reviews the results each quarter.

Lastly, the Bank maintains an up-to-date, comprehensive financial contingency and crisis recovery plan that describes the measures to be taken in the event of a critical liquidity situation. This plan is reviewed and approved annually by the Board as part of business continuity and recovery planning. See the Regulatory Compliance Risk Management section for additional information.

Liquidity Risk Tolerance

The Bank monitors and manages its risk tolerance through liquidity limits, ratios and stress scenarios. The Bank's liquidity risk tolerance is articulated around the following three axes:

- Ensure the Bank has a sufficient amount of unencumbered liquid assets to cover its financial requirements.
- Ensure the Bank keeps a liquidity buffer above the minimum regulatory requirement.
- Ensure the Bank maintains diversified sources of funding.

Liquid Assets

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

Liquid Asset Portfolio

As at October 31 (millions of Canadian dollars)					2015	2014
	Bank-owned liquid assets(1)	Liquid assets received(2)	Total liquid assets	Encumbered liquid assets(3)	Unencumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	7,567	–	7,567	1,316	6,251	7,032
Securities						
Issued or guaranteed by Canada, U.S. Treasury, other U.S. agencies and other foreign governments	17,204	20,686	37,890	25,829	12,061	10,020
Issued or guaranteed by provinces	15,035	10,610	25,645	19,491	6,154	4,220
Issued or guaranteed by municipalities and school boards	1,217	97	1,314	294	1,020	1,156
Other debt securities	3,558	1,202	4,760	1,606	3,154	4,177
Equity securities	18,371	36,320	54,691	40,184	14,507	19,353
Loans						
Securities backed by insured residential mortgages	3,956	–	3,956	1,195	2,761	1,602
As at October 31, 2015	66,908	68,915	135,823	89,915	45,908	
As at October 31, 2014	62,019	68,510	130,529	82,969		47,560

As at October 31 (millions of Canadian dollars)	2015	2014
Unencumbered liquid assets by entity		
National Bank (parent)	34,949	32,104
Domestic subsidiaries	580	7,882
Foreign subsidiaries and branches	10,379	7,574
	45,908	47,560

As at October 31 (millions of Canadian dollars)	2015	2014
Unencumbered liquid assets by currency		
Canadian dollar	24,238	29,091
U.S. dollar	20,752	17,719
Other currencies	918	750
	45,908	47,560

Liquid Asset Portfolio – Average(4)

For the year ended October 31 (millions of Canadian dollars)					2015	2014
	Bank-owned liquid assets(1)	Liquid assets received(2)	Total liquid assets	Encumbered liquid assets(3)	Unencumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	7,594	–	7,594	1,272	6,322	7,285
Securities						
Issued or guaranteed by Canada, U.S. Treasury, other U.S. agencies and other foreign governments	18,014	19,342	37,356	26,945	10,411	9,963
Issued or guaranteed by provinces	13,998	11,484	25,482	19,328	6,154	4,145
Issued or guaranteed by municipalities and school boards	1,084	145	1,229	171	1,058	883
Other debt securities	3,506	1,288	4,794	1,587	3,207	3,161
Equity securities	19,567	38,677	58,244	41,165	17,079	18,039
Loans						
Securities backed by insured residential mortgages	2,929	–	2,929	827	2,102	1,372
As at October 31, 2015	66,692	70,936	137,628	91,295	46,333	
As at October 31, 2014	63,779	63,946	127,725	82,877		44,848

(1) Bank-owned liquid assets include assets for which there are no legal or geographic restrictions.
(2) Securities received as collateral with respect to securities financing and derivative transactions and securities purchased under reverse repurchase agreements and securities borrowed.
(3) In the normal course of its funding activities, the Bank pledges assets as collateral in accordance with standard terms. Encumbered liquid assets include assets used to cover short sales, obligations related to securities sold under repurchase agreements and securities loaned, guarantees related to security-backed loans and borrowings, collateral related to derivative financial instrument transactions, asset-backed securities and liquid assets legally restricted from transfers.
(4) The average is based on the sum of the end-of-period balances of the 12 months of the year divided by 12.

Summary of Encumbered and Unencumbered Assets

(millions of Canadian dollars)						As at October 31, 2015
		Encumbered assets(1)		Unencumbered assets	Total	Encumbered assets as % of total assets
	Pledged as collateral	Other(2)	Available as collateral	Other(3)		
Cash and deposits with financial institutions	42	1,274	6,251	–	7,567	0.6
Securities	18,858	–	36,527	655	56,040	8.7
Securities purchased under reverse repurchase agreements and securities borrowed	–	17,333	369	–	17,702	8.0
Loans, net of allowances	31,594	–	2,761	71,498	105,853	14.6
Customers' liability under acceptances, net of allowances	–	–	–	9,385	9,385	–
Derivative financial instruments	–	–	–	10,842	10,842	–
Due from clients, dealers and brokers	–	–	–	415	415	–
Purchased receivables	–	–	–	1,438	1,438	–
Investments in associates and joint ventures	–	–	–	831	831	–
Premises and equipment	–	–	–	1,817	1,817	–
Goodwill	–	–	–	1,277	1,277	–
Intangible assets	–	–	–	1,059	1,059	–
Other assets	–	–	–	1,864	1,864	–
Total	50,494	18,607	45,908	101,081	216,090	31.9

(millions of Canadian dollars)						As at October 31, 2014
		Encumbered assets(1)		Unencumbered assets	Total	Encumbered assets as % of total assets
	Pledged as collateral	Other(2)	Available as collateral	Other(3)		
Cash and deposits with financial institutions	40	1,014	7,032	–	8,086	0.5
Securities	18,743	400	32,569	1,241	52,953	9.3
Securities purchased under reverse repurchase agreements and securities borrowed	–	18,168	6,357	–	24,525	8.8
Loans, net of allowances	25,631	–	1,602	70,010	97,243	12.5
Customers' liability under acceptances	–	–	–	8,926	8,926	–
Derivative financial instruments	–	–	–	7,092	7,092	–
Due from clients, dealers and brokers	–	–	–	861	861	–
Purchased receivables	–	–	–	790	790	–
Investments in associates and joint ventures	–	–	–	697	697	–
Premises and equipment	–	–	–	380	380	–
Goodwill	–	–	–	1,272	1,272	–
Intangible assets	–	–	–	998	998	–
Other assets(4)	–	–	–	1,606	1,606	–
Total	44,414	19,582	47,560	93,873	205,429	31.1

(1) In the normal course of its funding activities, the Bank pledges assets as collateral in accordance with standard terms. Encumbered assets include assets used to cover short sales, obligations related to securities sold under repurchase agreements and securities loaned, guarantees related to security-backed loans and borrowings, collateral related to derivative financial instrument transactions, asset-backed securities, residential mortgage loans securitized and transferred under the Canada Mortgage Bond program, assets held in consolidated trusts supporting the Bank's funding activities and mortgage loans transferred under covered bond programs.

(2) Other encumbered assets include assets for which there are restrictions and therefore cannot be used for collateral or funding purposes as well as assets used to cover short sales.

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

(4) An amount of $790 million classified in *Other assets* as at October 31, 2014 is now presented separately in *Purchased receivables* on the Consolidated Balance Sheet.

Liquidity Coverage Ratio (LCR)

The LCR was introduced to ensure banks maintain sufficient liquidity to withstand periods of severe short-term stress. While the BIS prescribed a minimum LCR requirement of 60%, OSFI has been requiring Canadian banks to maintain a minimum LCR of 100% since January 1, 2015. An LCR above 100% ensures that banks are holding sufficient high-quality liquid assets (HQLA) to cover net cash outflows given a severe, 30-day liquidity crisis. The assumptions underlying the LCR scenario were established by the BCBS and OSFI.

The following table provides average LCR data calculated using the three month-end figures in the quarter. For the quarter ended October 31, 2015, the Bank's average LCR was 131%, well above the 100% regulatory requirement and demonstrating the Bank's solid liquidity position.

LCR Disclosure Requirements[1]

(millions of Canadian dollars)

		For the quarter ended		
		October 31, 2015		July 31, 2015
		Total unweighted value[2] (average)	Total weighted value[3] (average)	Total weighted value[3] (average)
High-quality liquid assets (HQLA)				
1	Total HQLA	n.a.	32,115	30,147
Cash outflows				
2	Retail deposits and deposits from small business customers, of which:	32,898	2,139	2,130
3	Stable deposits	16,440	493	479
4	Less stable deposits	16,458	1,646	1,651
5	Unsecured wholesale funding, of which:	43,450	24,721	22,712
6	Operational deposits (all counterparties)	9,837	2,364	2,339
7	Non-operational deposits (all counterparties)	24,692	13,436	12,323
8	Unsecured debt	8,921	8,921	8,050
9	Secured wholesale funding	n.a.	2,512	1,612
10	Additional requirements, of which:	34,216	8,709	7,737
11	Outflows related to derivative exposures and other collateral requirements	8,288	4,593	3,450
12	Outflows related to loss of funding on secured debt securities	910	910	859
13	Backstop liquidity and credit enhancement facilities and commitments to extend credit	25,018	3,206	3,428
14	Other contractual commitments to extend credit	579	135	101
15	Other contingent commitments to extend credit	76,409	782	643
16	Total cash outflows	n.a.	38,998	34,935
Cash inflows				
17	Secured lending (e.g., reverse repos)	47,448	7,083	5,004
18	Inflows from fully performing exposures	7,423	3,950	3,885
19	Other cash inflows	3,253	3,253	2,407
20	Total cash inflows	58,124	14,286	11,296
			Total adjusted value[4]	Total adjusted value[4]
21	Total HQLA	n.a.	32,115	30,147
22	Total net cash outflows	n.a.	24,712	23,639
23	Liquidity coverage ratio (%)[5]	n.a.	131 %	128 %

n.a. Not applicable

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

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

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

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

(5) The data in this table has been calculated using averages of the three month-end figures in the quarter. Consequently, the LCR ratio (line 23) is an average ratio for the three months of the quarter and might not equal the LCR ratio calculated using lines 21 and 22.

Level 1 liquid assets represent 85% of the Bank's HQLA, which includes cash, central bank deposits, and bonds issued or guaranteed by the Canadian and provincial governments.

Cash outflows arise from the application of OSFI-prescribed assumptions on deposits, debt, secured funding, commitments and additional collateral requirements. The cash outflows are partly offset by cash inflows, which come mainly from secured loans and performing loans. The Bank expects some quarter-over-quarter variation between reported LCRs, and such variation may not be indicative of a trend. The variation between the quarter ended October 31, 2015 and the previous quarter was a result of normal business activities. The Bank's liquid asset buffer is well in excess of its total net cash outflows.

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

Intraday Liquidity

The Bank manages its intraday liquidity in such a way that the amount of available liquidity exceeds its maximum intraday liquidity requirements. The Bank monitors its intraday liquidity on an hourly basis and the evolution is presented monthly to the Liquidity and Funding Committee.

Funding Risk

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

The Bank's retail network deposits are its primary and most stable source of funding. Stable funds are used to fund Bank activities, whereas funds from the wholesale markets are used to fund securities. In order to maintain the ideal funding profile, the Bank seeks to limit short-term wholesale funding and is careful to diversify its funding sources. The Bank seeks to diversify its funding sources by geographic location, currency, instrument, maturity and depositor. In addition, the Bank is actively involved in securitization programs (residential mortgages and credit card receivables) that diversify its access to long-term funding.

Funding and liquidity levels remained sound and robust over the year and the Bank does not foresee any event, commitment or demand that might have a significant impact on its liquidity risk position. For additional information, see the table entitled Residual Contractual Maturities of Balance Sheet Items and Off-Balance-Sheet Commitments in Note 30 to the consolidated financial statements.

Credit Ratings

The credit ratings assigned by ratings agencies represent their assessment of the Bank's credit quality based on qualitative and quantitative information provided to them. Credit ratings may be revised at any time based on macro-economic factors or on the current and projected financial condition of the Bank. Credit ratings are one of the main factors that influence the Bank's ability to access financial markets at a reasonable cost. A downgrade in the Bank's credit ratings could adversely affect the cost, size and term of future funding. Following the issuance of a consultation paper on a proposed bail-in regime by Department of Finance Canada, certain credit rating agencies lowered their outlook from "stable" to "negative" for all Canadian D-SIBs. The following table presents the Bank's credit ratings according to four rating agencies as at October 31, 2015.

	Moody's	S&P	DBRS	Fitch
Short-term senior debt	P-1	A-1	R-1 (mid)	F1
Canadian commercial paper		A-1 (mid)		
Long-term senior debt	Aa3	A	AA (low)	A+
Subordinated debt	Baa1	BBB+	A (high)	A
Preferred shares	Baa3 (hyb)	P-2 (low)	Pfd-2	BBB-
NVCC preferred shares	Baa3 (hyb)	P-3 (high)	Pfd-2 (low)	
Rating outlook[1]	Negative	Negative	Negative	Stable

(1) Rating outlooks on long-term senior debt.

Guarantees

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

(millions of Canadian dollars)	As at October 31, 2015		
	One-notch downgrade	Two-notch downgrade	Three-notch downgrade
Derivatives[1]	28	48	161
Other[2]	–	199	199

(1) Contractual requirements related to agreements known as Credit Support Annexes.
(2) Contractual requirements related to a margin funding facility related to the MAV conduits.

Funding Strategy

The key objectives of the funding strategy are to:

— Support the organic growth of the Bank through prudent liquidity and funding management to withstand severe stresses.
— Fund core banking activities with deposits and securitizations.
— Limit short-term wholesale funding.

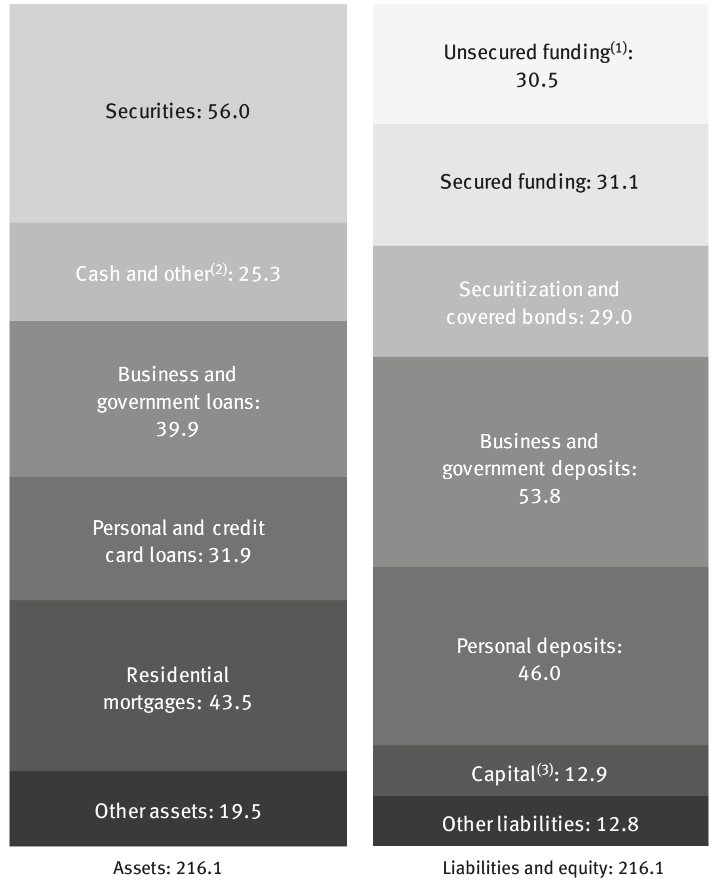
To do so, the Bank actively monitors and controls liquidity risk exposures and funding needs within and across legal entities, business segments and currencies. The process involves evaluating the liquidity position of individual business segments in addition to that of the Bank as a whole as well as the liquidity risk from raising unsecured and secured funding in foreign currencies. The funding strategy is executed through the funding plan.

The Bank's funding framework consists of the following:

— Maintaining active access to wholesale funding markets and ensuring diversification by depositor, funding vehicle type, geographic location, currency, and tenor of funding in the secured and unsecured markets.
— Monitoring and controlling liquidity risk exposure and funding needs across all the Bank's entities, business segments and currencies using a well-developed fund transfer pricing system that includes a liquidity premium.
— Having funding centres in the Montreal, Toronto, New York and London offices.
— Investing in infrastructure to ensure quality and timeliness in data transmission.
— Integrating the regulatory framework in day-to-day liquidity management and the long-term funding plan.

The chart below shows the Bank's funding structure as at October 31, 2015.

(billions of Canadian dollars)



(1) This category comprises term debt funding products, marketable or non-marketable.
(2) This category comprises securities purchased under reverse repurchase agreements and securities borrowed.
(3) This category comprises subordinated debt and equity.

The Bank's balance sheet is well diversified and is aligned with the funding strategy. The core banking activities are funded entirely through personal and commercial deposits and through securitization programs. In addition to core deposits, the Bank also receives non-marketable deposits from governments and corporations. Wholesale funding is invested in cash and securities.

Diversified Funding Sources

The purpose of diversification by source, geographic location, currency, instrument, maturity and depositor is to mitigate liquidity and funding risk by ensuring that the Bank has in place alternative sources of funds that strengthen its capacity to withstand a variety of severe yet plausible institution-specific and market-wide shocks. To meet this objective, the Bank:

- Takes funding diversification into account in the business planning process.
- Maintains a variety of funding programs to access different markets.
- Sets Board-approved limits on funding concentration.
- Maintains strong relationships with fund providers.
- Is active in various funding markets of all tenors.
- Identifies and monitors the main factors that affect the ability to raise funds.

The Bank is active in the following funding programs:

- Canadian dollar Senior Unsecured Debt;
- U.S. dollar Senior Unsecured Debt;
- Canadian Medium Term Note Shelf;
- U.S. dollar Commercial Paper program;
- U.S. dollar Certificates of Deposit;
- Euro Medium Term Note program;
- Canada Mortgage and Housing Corporation securitization programs;
- Canadian Credit Card Trust II; and
- Legislative Covered Bond program.

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

Residual Contractual Maturities of Wholesale Funding[1]

(millions of Canadian dollars)								As at October 31, 2015
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Subtotal 1 year or less	Over 1 year to 2 years	Over 2 years	Total
Deposits from banks[2]	1,720	9	24	10	1,763	7	62	1,832
Certificates of deposit and commercial paper[3]	716	2,575	5,185	1,513	9,989	360	98	10,447
Asset-backed commercial paper	–	–	–	–	–	–	–	–
Senior unsecured medium-term notes[4]	–	1,123	1,322	1,910	4,355	4,132	5,872	14,359
Senior unsecured structured notes	35	65	64	–	164	111	1,404	1,679
Covered bonds and asset-backed securities								
Mortgage securitization	15	1,129	28	1,243	2,415	3,145	14,210	19,770
Covered bonds	–	–	–	2,636	2,636	–	5,274	7,910
Securitization of credit card receivables	–	–	–	–	–	424	872	1,296
Subordinated liabilities[5]	505	–	–	–	505	1,008	9	1,522
Other[6]	2,205	–	–	–	2,205	–	–	2,205
	5,196	4,901	6,623	7,312	24,032	9,187	27,801	61,020
Secured funding	15	1,129	28	3,879	5,051	3,569	20,356	28,976
Unsecured funding	5,181	3,772	6,595	3,433	18,981	5,618	7,445	32,044
	5,196	4,901	6,623	7,312	24,032	9,187	27,801	61,020
As at October 31, 2014	3,538	3,327	1,988	10,664	19,517	8,586	24,442	52,545

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

Operational Risk Management

Operational risk is the risk of loss resulting from an inadequacy or a failure ascribable to people, processes, technology or external events. Operational risk exists for every Bank activity. Theft, fraud, unauthorized transactions, system errors, human error, amendments to or misinterpretation of laws and regulations, litigation or disputes with clients or property damage are just a few examples of events likely to cause financial loss, harm the Bank's reputation or lead to punitive damages or regulatory penalties or sanctions.

Although operational risk cannot be eliminated entirely, it can be managed in a thorough and transparent manner to keep it at an acceptable level. The Bank's operational risk management framework is built on the concept of three lines of defence and provides a clear allocation of responsibilities to all levels of the organization, as mentioned below.

Operational Risk Management Framework

By identifying, assessing and monitoring operational risk, business units and corporate units can:

- recognize and understand the inherent and residual risks to which their activities and operations are exposed;
- identify measures for keeping such risks at an acceptable level; and
- manage the risks proactively and continuously.

The main tools developed for purposes of this framework are described below.

Collection and Analysis of Data on Operational Losses Incurred by the Bank

The Operational and Reputation Risk Unit applies a process, across the Bank and its subsidiaries, for collecting and compiling data on internal operational losses. This data is entered into a centralized database and includes the amount of each loss, the type of risk involved, a description of the event that caused the loss, and the date of the loss, making it possible to better understand the fundamental causes of this type of loss and develop mitigation strategies. During fiscal 2015, there were no material losses resulting from an operational risk event.

Collection and Analysis of Data on External Operational Events Observed in the Financial Industry

The Bank collects and analyzes information reported in the media on significant operational events experienced by other financial institutions in order to assess the effectiveness of its own operational risk management practices and reinforce them, if necessary.

Operational Risk Self-Assessment

The operational risk self-assessment program gives each business unit and corporate unit the means to proactively identify and assess new or major operational risks to which they are exposed, evaluate the effectiveness of mitigating controls, and develop action plans to keep such risks at acceptable levels.

Key Risk Indicators

The business units and corporate units define key indicators associated with their main operational risks. The key indicators are used to monitor operational risk profiles and are related to critical thresholds that, once reached, result in action by management. Using key risk indicators, the business units and corporate units can track risks and proactively detect any adverse change in risk exposure.

Specialized Risk Assessment Programs

Certain specialized groups have implemented programs with their own risk-specific policies and procedures as well as oversight mechanisms to ensure they are adhered to. Such specialized programs exist for:

- management of financial reporting risk;
- management of technological and information security risks;
- management of business continuity;
- management of risks related to third parties;
- fraud risk management;
- model risk management;
- review and approval of new products and activities; and
- information confidentiality.

Operational Risk Reports and Disclosures

The Operational and Reputation Risk Unit regularly reports to the Operational Risk Management Committee, to the GRC, and to the RMC on the status of operational risk across the Bank, on the measures taken with respect to the risks, and on the material exposures to losses and emerging risks in order to ensure management accountability and attention is maintained over current and emerging issues. This reporting enhances the transparency and proactive management of major operational risk factors.

Insurance Program

In order to protect itself against any material losses related to its exposure to unforeseeable operational risks, the Bank also has adequate insurance, the nature and amount of which meet its coverage requirements.

Regulatory Compliance Risk Management

Regulatory compliance risk is the risk of the Bank or its employees failing to comply with the regulatory requirements in effect where the Bank does business, both in Canada and internationally. Regulatory risk is present in all of the daily operations of each Bank segment. A situation of regulatory non-compliance can adversely affect the Bank's reputation and result in penalties, fines and sanctions or increased oversight by regulators.

The Bank operates in a highly regulated industry. The diversity of its activities and its geographical reach in Canada and abroad add to this complexity, since its operations are overseen by various regulatory bodies and self-regulatory organizations.

Organizational Structure of Compliance

The Senior Vice-President and Chief Compliance Officer oversees the compliance program for all the Bank's segments. The Chief Anti-Money Laundering Officer reports directly to the CCO.

Sound Management of Regulatory Compliance

To ensure sound management of regulatory compliance, the Bank favours proactive approaches, incorporates regulatory requirements into its day-to-day operations, and communicates regularly with its employees to remind them of the importance of complying with regulations.

Regulatory risk management ensures that events stemming from regulatory non-compliance that could have an impact on the Bank's activities and reputation are proactively identified and understood and that mitigating strategies are implemented. It also provides reasonable assurance that the Bank is in compliance with the regulatory requirements in effect where it does business, both in Canada and internationally.

The implementation of a regulatory compliance risk management framework across the Bank is entrusted to the Compliance Service, which has the following mandate:

- Make sure that policies and procedures that ensure compliance with the regulations in effect in all territories where the Bank and its subsidiaries operate, including regulations related to money laundering and terrorist financing activities, are in place and operational.
- Develop compliance training and information programs for employees of the Bank and its subsidiaries.
- Exercise independent oversight of Bank and subsidiary compliance with the policies and procedures.
- Refer relevant matters with respect to compliance and anti-money laundering and anti-terrorist financing to the Bank's Board.

The Bank holds itself to high regulatory compliance risk management standards in order to earn the trust of its clients, its shareholders, the market and the general public.

Recovery and Resolution Planning

As part of the regulatory measures used to manage systemic risks, D-SIBs are also required to have in place sufficient recovery and resolution plans. A recovery plan is essentially a road map that guides the recovery of a Bank in the event of severe financial stress; conversely, a resolution plan guides its orderly wind-down in the event of failure when recovery is no longer an option. The Bank began its recovery and resolution planning in 2010 and updates its plans periodically for submission to its domestic regulatory authorities. Over the next year, the Bank will continue to work on documenting a resolution plan with Canada Deposit Insurance Corporation (CDIC) that would ensure orderly winding down of the Bank's operations.

Liquidity Reforms

To promote a more resilient banking sector, more stringent international rules on liquidity were introduced by the BCBS through Basel III and implemented at a national level. In Canada, the liquidity rules began phasing in during 2015. For additional information, refer to the Liquidity and Funding Risk Management section of this MD&A.

Increased Regulatory Oversight for D-SIBs

Since six major Canadian banks were designated as D-SIBs in March 2013, regulatory oversight has increased. The regulatory agencies are paying close attention to capital ratio determination approaches, guaranteed mortgage lending, risk data aggregation and risk reporting (RDARR), stress test scenarios, the implementation of anti-money laundering programs, recovery and resolution planning (living will) and the implementation of effective anti-cyberterrorism measures. The Bank is making every effort to meet the regulatory requirements and is incorporating these initiatives into its day-to-day business management.

Risk Data Aggregation and Risk Reporting (RDARR)

To strengthen risk data aggregation and risk reporting practices, the BCBS issued new principles for effective risk data aggregation and reporting in January 2013. Designated D-SIBs are required to implement these new standards by December 31, 2016.

Over-The-Counter (OTC) Derivatives Reforms

OTC derivatives market reforms have introduced significant changes to capital requirements, regulatory framework and market infrastructures. The most significant changes relate to the requirement to clear OTC derivatives through central counterparties and the higher capital requirements for transactions that are not cleared by qualifying central counterparties. The reforms also cover financial requirements and business conduct rules. The Bank is continuing to work on implementing the G20 commitments to regulate OTC derivative trading.

Client Relationship Model 2
The CSA has amended *Regulation 31-103 Respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* in order to harmonize investment cost disclosure and performance reporting standards so that investors have sufficient information about their accounts to make informed investment decisions. Phased implementation periods have been granted since 2014, with the last ones scheduled for 2016. The most recent amendments require advisors and representatives to inform their clients, prior to a transaction, of any charges and fees related to purchasing, holding, redeeming or transferring securities. In addition, two new reports must be issued annually to clients, one disclosing charges and other forms of compensation arising from securities trading, and the other on investment performance.

Anti-Money Laundering and Anti-Terrorism Financing (AML/ATF)
As a founding member of the Financial Action Task Force (FATF), Canada has committed politically to implementing the task force's standards. Accordingly, legislative and regulatory amendments have been proposed to strengthen Canada's AML/ATF system and also to improve Canada's adherence to international standards. In so doing, Canada is preparing for a mutual evaluation process on the effectiveness of its regime, which will take place in 2015-2016. Canadian financial institutions will have to be ready to implement these changes, which affect, among other things, customer due diligence measures.

Common Reporting Standard (CRS)
The Standard for Automatic Exchange of Financial Account Information, known as the Common Reporting Standard, was developed by the Organization for Economic Co-operation and Development (OECD) at the request of the G8 and G20 in order to fight tax evasion. Canada and about 100 other jurisdictions have confirmed their membership. Under this new standard, the tax authorities of member jurisdictions will provide the Canada Revenue Agency with information on accounts held by Canadian residents in their countries. The CRA will provide, on a reciprocal basis, foreign tax authorities with similar information on accounts held in Canada by residents of those countries.

Canada is planning to implement this standard as of July 1, 2017, allowing the first information exchanges to begin in 2018.

The U.S. Volcker Rule
The Volcker Rule, a part of the *Dodd-Frank Act,* was designed to reform certain financial industry business practices following the 2008 financial crisis. In particular, it seeks to limit bank proprietary trading and prevent the conflicts of interest that can affect investment banks, i.e., advising clients while sometimes simultaneously engaging in proprietary trading against their clients' interest. The Volcker Rule also proposes restrictions on holding interests in hedge funds or covered funds. Financial institutions subject to the Volcker Rule must implement a compliance program ensuring the required documentation and oversight. The Volcker Rule took effect in April 2014 and financial institutions were required to comply with provisions applicable to their business as of July 2015.

Reputation Risk Management

Reputation risk is the risk that the Bank's operations or practices will be judged negatively by the public, whether that judgment is with or without basis, thereby adversely affecting the perception, image or trademarks of the Bank, potentially resulting in costly litigation or loss of income. Reputation risk generally arises from a deficiency in managing another risk. The Bank's reputation may, for example, be adversely affected by non-compliance with laws and regulations or by process failures. All risks must therefore be managed effectively in order to protect the Bank's reputation.

The Bank seeks to ensure that its employees are constantly aware of the potential repercussions of their actions on the Bank's reputation and image. In addition to the previously discussed operational risk management initiatives, a variety of mechanisms are in place to support sound reputation risk management, including codes of professional conduct applicable to all employees, policies regarding ethics and corporate governance and appropriate training programs.

The Bank also has a policy, approved by the Board, that covers reputation risk stemming from complex structured financing transactions and other transactions that may give rise to reputation issues. The policy sets the reputation risk management rules and practices applicable to these transactions. The policy is complemented by the special provisions of the new products and activities policy, which determines the approvals required by the various committees that assess risk whenever new products or activities are introduced within the business units. These provisions are intended, among other things, to provide oversight for the management of reputation risk, which may be material for such products or activities. The new products and activities policy requires that any new product or activity for which reputation risk is determined to be high be submitted to the Global Risk Committee for approval.

The activities of the Compliance Service, Legal Affairs Department, Corporate Secretary's Office, Public Relations Department and Investor Relations Department complete the reputation risk management framework.

Strategic Risk Management

Strategic risk is the risk of a loss arising from inappropriate strategic orientations, improper execution or ineffective response to economic or financial changes. The corporate strategic plan is developed by the Office of the President, in alignment with the Bank's overall risk appetite, and approved by the Board. Once approved, the initiatives of the strategic plan are monitored regularly to ensure that they are progressing according to plan. If not, strategies could be reviewed or adjusted if deemed appropriate.

In addition, the Bank has a specific Board-approved policy for strategic investments, which are defined as purchases of business assets or acquisitions of significant interests in an entity for the purposes of acquiring control or creating a long-term relationship. As such, acquisition projects and other strategic investments are analyzed through a due diligence process to ensure that these investments are aligned with the corporate strategic plan and the Bank's risk appetite.

Environmental Risk Management

Environmental risk is the risk of a loss or damage to the Bank's reputation arising from environmental concerns related to the Bank or its clients. Environmental risk is often associated with credit risk and operational risk.

Environmental risk means any impact of environmental problems that leads to a loss of financial or operational value or affects the Bank's reputation. This risk arises from commercial and operating activities. For example, environmental issues related to the purchase or sale of contaminated properties by clients of the Bank or the deployment of large-scale projects could expose the Bank to credit and reputation risk. The Bank would also be forced to deal with operational risk and the risk related to the legal environment when environmental issues arise in its branches or administrative offices.

In this context, the Risk Management Group develops requirements that are prescribed in its internal policies in order to reveal, assess, control and monitor environmental risk. For their part, the business segments and corporate units must integrate requirements and controls related to the management of environmental risk in their activities. The Risk Management Group monitors its application and regularly reviews the standards.

CRITICAL ACCOUNTING ESTIMATES

A summary of the significant accounting policies used by the Bank is presented in Note 1 to the consolidated financial statements of this Annual Report. 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 subjective and complex judgments and estimates on matters that are inherently uncertain. Any change in these judgments and estimates could have a significant impact on the Bank's consolidated financial statements. The critical accounting estimates are as follows.

Impairment of Financial Assets

At the end of each reporting period, the Bank determines whether there is objective evidence of impairment of a financial asset or group of financial assets. There is objective evidence of impairment when one or more loss events occur after the initial recognition of the asset and prior to or on the balance sheet date and these events adversely affect the estimated future cash flows of the financial assets in question. Management must exercise judgment to determine whether certain events or circumstances constitute objective evidence of impairment and to estimate the timing of future cash flows.

Available-for-Sale Securities

Available-for-sale securities are assessed at the end of each reporting period to determine whether there is objective evidence of impairment, which is an exercise that requires the use of judgment and estimates. The Bank considers all available objective evidence of impairment, including observable data on loss events such as: a significant financial difficulty of the issuer, a breach of contract such as a default, and situations involving bankruptcy or other financial reorganization. In addition to these loss events, objective evidence of impairment for an equity security also includes information about significant changes with an adverse effect that have taken place in the technological, market, economic, or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity security may not be recovered. A significant or prolonged decline in the fair value of equity securities below their cost is also objective evidence of impairment. In general, the term "significant" represents a decline in fair value of more than 30% over a consecutive period of at least six months, and the term "prolonged" represents a decline in fair value of more than 5% over a consecutive period of at least 12 months.

If there is objective evidence of impairment, any amount previously recognized in *Accumulated other comprehensive income* is reclassified to *Non-interest income* in the Consolidated Statement of Income. This amount is determined as the difference between the acquisition cost (net of any capital repayments and amortization) and the current fair value of the asset less any impairment loss on that investment previously recognized in the Consolidated Statement of Income.

This accounting estimate has an impact, across all business segments, on *Available-for-sale securities* on the Consolidated Balance Sheet, on *Other comprehensive income* in the Consolidated Statement of Comprehensive Income, and on *Non-interest income* in the Consolidated Statement of Income.

Allowances for Credit Losses

A loan, except credit card receivables, is considered impaired if there is objective evidence of impairment and, in management's best estimate, the timely collection of principal and interest is no longer reasonably assured, or when a payment is contractually 90 days past due, unless the loan is fully secured and collection efforts are reasonably expected to result in repayment of the debt within 180 days. For credit card receivables, they are written off when payment is 180 days in arrears. Loans that are insured or fully guaranteed by a Canadian government (federal or provincial) or by a Canadian government agency are considered impaired when they are more than 365 days in arrears.

Allowances for credit losses are management's best estimate of losses in its credit portfolio as at the balance sheet date. They relate primarily to loans but may also cover the credit risk associated with deposits with financial institutions, loan substitute securities, credit instruments such as acceptances, and off-balance-sheet items such as commitments to extend credit, letters of guarantee and letters of credit. Management reviews portfolio credit quality on an ongoing basis to ensure that the amount of the allowance for credit losses is adequate.

The allowances for credit losses on impaired loans are calculated on a loan-by-loan basis and assessed either individually or collectively based on the portfolio's historical net loss experience. The allowance for credit losses on non-impaired loans is assessed collectively taking into account the Bank's overall credit portfolio.

When assessing allowances for credit losses, management must use its judgment in establishing reasonable assumptions and subjective and critical estimates concerning the probability of default, probable losses in the event of default, the amount at risk in the event of default, the amount and dates of future cash flows, the value of the underlying collateral and realization costs. Any changes in these estimates and assumptions, as well as the use of different, but equally reasonable, estimates and assumptions, could have an impact on the allowances for credit losses and, consequently, on the provisions for credit losses for the year. A description of the methods used to calculate the allowances for credit losses can be found in Note 1 to the consolidated financial statements. All business segments are affected by this accounting estimate.

Fair Value of Financial Instruments

When they are initially recognized, all financial assets and liabilities, including derivative financial instruments, are recorded at fair value on the Consolidated Balance Sheet. In subsequent periods, they are measured at fair value, except for items classified in the following categories, which are measured at amortized cost using the effective interest rate method: financial assets held to maturity, loans and receivables, and financial liabilities at amortized cost. The fair value of a financial instrument is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction in the principal market at the measurement date under current market conditions (i.e., an exit price).

Unadjusted quoted prices in active markets, based on bid prices for financial assets and offered prices for financial liabilities, provide the best evidence of fair value. A financial instrument is considered quoted in an active market when prices in exchange, dealer, broker or principal-to-principal markets are accessible at the measurement date. An active market is one where transactions occur with sufficient frequency and volume to provide quoted prices on an ongoing basis.

When there is no quoted price in an active market, the Bank uses another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction. Judgment is required in applying a large number of acceptable valuation techniques and estimates to determine fair value. The estimated fair value reflects market conditions on the valuation date and, consequently, may not be indicative of future fair value.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration received or paid. If there's a difference between the fair value at initial recognition and the transaction price, and the fair value is determined using a valuation technique based on observable market inputs or, in the case of a derivative, if the risks are fully offset by other contracts entered into with third parties, the difference is recognized in the Consolidated Statement of Income. In other cases, the difference between the fair value at initial recognition and the transaction price is deferred on the Consolidated Balance Sheet. The amount of the deferred gain or loss is recognized over the term of the financial instrument. The unamortized balance is immediately recognized in net income when (i) observable market inputs can be obtained and support the fair value of the transaction, (ii) the risks associated with the initial contract are substantially offset by other contracts entered into with third parties, (iii) the gain or loss is realized through a cash receipt or payment, or (iv) the transaction matures or is cancelled before maturity.

In certain cases, measurement adjustments are recognized to address factors that market participants would use at the measurement date to determine fair value but that are not included in the measurement technique due to system limitations or uncertainty surrounding the measure. These factors include, but are not limited to, the unobservable nature of inputs used in the valuation model, assumptions about risk such as market risk, credit risk, or risk related to the valuation model and future administrative expenses. The Bank may also consider market liquidity risk when determining the fair value of financial instruments when it believes these instruments could be disposed of for a consideration below the fair value otherwise determined due to a lack of market liquidity or an insufficient volume of transactions in a given market.

IFRS establishes a fair value hierarchy that classifies the inputs used in financial instrument fair value measurement techniques according to three levels. The fair value hierarchy has the following levels:

- Level 1: Inputs corresponding to unadjusted quoted prices in active markets for identical assets and liabilities and accessible to the Bank at the measurement date. These instruments consist primarily of equity securities, derivative financial instruments traded in active markets, and certain highly liquid debt securities actively traded in over-the-counter markets.
- Level 2: Valuation techniques based on inputs, other than the quoted prices included in Level 1 inputs, that are directly or indirectly observable in the market for the asset or liability. These inputs are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market inputs by correlation or other means. These instruments consist primarily of certain loans, certain deposits, derivative financial instruments traded in over-the-counter markets, certain debt securities, certain equity securities whose value is not directly observable in an active market, liabilities related to transferred receivables as well as certain other liabilities.
- Level 3: Valuation techniques based on one or more significant inputs that are not observable in the market for the asset or liability. The Bank classifies financial instruments in Level 3 when the valuation technique is based on at least one significant input that is not observable in the markets. The valuation technique may also be partly based on observable market inputs. Financial instruments whose fair values are classified in Level 3 consist of restructured notes, certain investments in asset-backed debt securities, investments in hedge funds, certain derivative financial instruments, private equity securities and certain deposits (structured deposit notes).

Establishing fair value is an accounting estimate and has an impact on *Securities at fair value through profit or loss*, certain *Loans*, *Available-for-sale securities*, *Obligations related to securities sold short*, *Derivative financial instruments*, and financial instruments designated at fair value through profit or loss on the Consolidated Balance Sheet. This estimate also has an impact on *Non-interest income* in the Consolidated Statement of Income of the Financial Markets segment and of the *Other* heading. Lastly, this estimate has an impact on *Other comprehensive income* in the Consolidated Statement of Comprehensive Income. For additional information on the fair value determination of financial instruments, see Notes 3 and 6 to the consolidated financial statements.

Impairment of Non-Financial Assets

Premises and equipment and intangible assets with finite useful lives are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. At the end of each reporting period, the Bank determines whether there is an indication that premises and equipment or intangible assets with finite useful lives may be impaired. Goodwill and intangible assets that are not yet available for use or that have indefinite useful lives are tested for impairment annually or more frequently if there is an indication that the asset might be impaired.

An asset is tested for impairment by comparing its carrying amount with its recoverable amount. The recoverable amount must be estimated for the individual asset. Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit (CGU) to which the asset belongs will be determined. Goodwill is always tested for impairment at the level of a CGU or a group of CGUs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Bank uses judgment to identify CGUs.

An asset's recoverable amount is the higher of fair value less costs to sell and the value in use of the asset or CGU. Value in use is the present value of expected future cash flows from the asset or CGU. The recoverable amount of the CGU is determined using valuation models that consider various factors such as projected future cash flows, discount rates and growth rates. The use of different estimates and assumptions in applying the impairment tests could have a significant impact on income. If the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss is recognized in *Non-interest expenses* in the Consolidated Statement of Income.

Management exercises judgment when determining whether there is objective evidence that premises and equipment or intangible assets with finite useful lives may be impaired. It also uses judgment in determining to which CGU or group of CGUs an asset or goodwill is to be allocated. Moreover, for impairment assessment purposes, management must make estimates and assumptions regarding the recoverable amount of non-financial assets, CGUs or a group of CGUs. For additional information on the estimates and assumptions used to calculate the recoverable amount of an asset or CGU, see Note 11 to the consolidated financial statements.

Any changes to these estimates and assumptions may have an impact on the recoverable amount of a non-financial asset and, consequently, on impairment testing results. These accounting estimates have an impact on *Premises and equipment*, *Intangible assets* and *Goodwill* reported on the Consolidated Balance Sheet. The aggregate impairment loss, if any, is recognized as a non-interest expense for the corresponding segment and presented in the *Other* item.

Employee Benefits – Pension Plans and Other Post-Employment Benefits

Pension plan and other post-employment plan expenses and obligations are actuarially determined using the projected benefit method prorated on service. The calculations incorporate management's best estimates of various actuarial assumptions such as discount rates, rates of compensation increase, health care cost trend rates, mortality rates and retirement age.

Remeasurements of these plans result in actuarial gains and losses related to the defined benefit obligation and the actual return on plan assets, excluding the net interest determined by applying the discount rate to the net asset or liability of the plans. Remeasurements are immediately recognized in *Other comprehensive income* as items that will not be subsequently reclassified to net income and are recognized in *Retained earnings*.

The use of different assumptions could have a significant impact on the defined benefit asset (liability) presented in *Other assets (Other liabilities)* on the Consolidated Balance Sheet, on the pension plan and other post-employment benefit plan expenses presented in *Compensation and employee benefits* in the Consolidated Statement of Income, as well as on *Remeasurements of pension plans and other post-employment benefit plans* presented in *Other comprehensive income*. All business segments are affected by this accounting estimate. For additional information, including the significant assumptions used to determine the Bank's pension plan and other post-employment benefit plan expenses and the sensitivity analysis for significant plan assumptions, see Note 23 to the consolidated financial statements.

Income Taxes

The Bank makes assumptions to estimate income taxes as well as deferred tax assets and liabilities. This process includes estimating the actual amount of income taxes payable and evaluating tax loss carryforwards and temporary differences arising from differences between the values of the items reported for accounting and for income tax purposes. Deferred tax assets and liabilities, presented in *Other assets* and *Other liabilities* on the Consolidated Balance Sheet, are calculated according to the tax rates to be applied in future periods. Previously recorded deferred tax assets and liabilities must be adjusted when the date of the future event is revised based on current information. The Bank periodically evaluates deferred tax assets to assess recoverability. In the Bank's opinion, based on the information at its disposal, it is probable that all deferred tax assets will be realized prior to their expiration.

This accounting estimate affects *Income taxes* in the Consolidated Statement of Income for all business segments. For additional information on income taxes, see Notes 1 and 25 to the consolidated financial statements.

Litigation

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

Marcotte
On September 19, 2014, the Supreme Court of Canada issued a decision on *Marcotte v. Bank of Montreal, et al.,* a class action seeking reimbursement of foreign currency transaction fees paid by credit cardholders from 2002 to 2008. The decision granted a reimbursement of the fees collected by the Bank between April 17, 2000 and December 31, 2002 in addition to payment of $25.00 in punitive damages to each member, all amounts grossed-up by interest. On May 5, 2015, a settlement was approved by the Superior Court for a total amount of $19.5 million. This case is now closed.

Watson
In 2011, a motion for authorization to institute a class action was filed in the Supreme Court of British Columbia against Visa Corporation Canada (Visa), MasterCard International Incorporated (MasterCard) as well as National Bank and a number of other financial institutions. In this motion, class members allege that the financial institutions engaged in a price-fixing system to increase or maintain the fees paid by merchants on Visa and MasterCard transactions. In so doing, they would have been in breach of the *Competition Act* (Canada). Class members are claiming compensatory and punitive damages. On March 27, 2014, the Court certified the class action in part. The decision was appealed. On August 19, 2015, the Court of Appeal for British Columbia issued a judgment and concluded that the class action be allowed to proceed. The judgment was not appealed to the Supreme Court of Canada. Similar actions were filed in four other jurisdictions.

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

Provisions are liabilities of uncertain timing and amount. A provision is recognized when the Bank has a present obligation (legal or constructive) arising from a past event, when it is probable that an outflow of economic resources will be required to settle the obligation and when the amount of the obligation can be reliably estimated. Provisions are based on the Bank's best estimates of the economic resources required to settle the present obligation, given all relevant risks and uncertainties, and, when it is significant, the effect of the time value of money.

The recognition of a litigation provision requires the Bank's management to assess the probability of loss and estimate any potential monetary impact. The Bank examines each litigation provision individually by considering the development of each case, its past experience in similar transactions and the opinion of its legal counsel. Each new piece of information can alter the Bank's assessment as to the probability and estimated amount of the loss and the extent to which it adjusts the recorded provision. Moreover, the actual settlement cost of these litigations can be significantly higher or lower than the amounts recognized.

Structured Entities

In the normal course of business, the Bank enters into arrangements and transactions with structured entities. Structured entities are entities designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate solely to administrative tasks and the relevant activities are directed by means of contractual arrangements. A structured entity is consolidated when the Bank concludes, after evaluating the substance of the relationship and its right or exposure to variable returns, that it controls that entity. Management must exercise judgment in determining whether the Bank controls an entity. Additional information is provided in the *Securitization and Off-Balance-Sheet Arrangements* section of this MD&A (pages 43 and 44) and in Note 28 to the consolidated financial statements.

ACCOUNTING POLICY CHANGES

The IASB issues revisions and amendments to a number of standards, some of which have already had an impact on the Bank and others that could have an impact in the future. A summary of these amendments and the effective dates applicable to the Bank are presented below.

As at November 1, 2014, the Bank adopted an amended standard as well as a new interpretation, as described below.

IAS 32 – *Financial Instruments: Presentation*

IAS 32 was amended to clarify the requirements for offsetting financial assets and financial liabilities in order to reduce inconsistencies in current practice. Retrospective adoption of these amendments had no significant impact on the Bank's consolidated financial statements.

IFRIC Interpretation 21 – *Levies*

IFRIC Interpretation 21 clarifies the timing of the recognition of a liability to pay a levy imposed by a government that is accounted for in accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets.* The interpretation states that the obligating event, as set out in the relevant legislation, is the trigger for recognizing the liability. Therefore, if the obligating event occurs at a point in time, the liability is recognized at that point in time; if the obligating event occurs over a given period of time, the liability is recognized progressively over that period of time. Retrospective adoption of this interpretation had no significant impact on the Bank's consolidated financial statements.

Effective Date – Early Adoption on November 1, 2017

IFRS 9 – *Financial Instruments*

In July 2014, the IASB issued a complete and final version of IFRS 9, which replaces the current standard on financial instruments. IFRS 9 sets out requirements for the classification and measurement of financial assets and financial liabilities, for the impairment of financial assets, and for general hedge accounting. Macro hedge accounting has been decoupled from IFRS 9 and will be considered and issued as a separate standard. IFRS 9 provides a single model for financial asset classification and measurement that is based on contractual cash flow characteristics and on the business model for holding financial assets. With respect to measuring financial liabilities designated at fair value through profit or loss, the standard prescribes that fair value changes attributable to an entity's own credit risk be accounted for in *Other comprehensive income* unless the changes offset amounts recognized in *Net income*.

IFRS 9 also introduces a new, single impairment model for financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses rather than incurred losses as applied under the current standard. This model requires the recognition of 12-month expected credit losses as of the initial recognition date of a financial asset and recognition of lifetime expected losses if the financial instrument's credit risk has increased significantly since initial recognition.

As for the new hedge accounting model, it provides better alignment of hedge accounting with risk management activities. However, the current hedge accounting requirements may continue to be applied until the IASB finalizes its macro hedge accounting project.

The IASB is requiring IFRS 9 to be applied as of November 1, 2018 and is permitting early adoption. On January 9, 2015, OSFI issued a final version of *Early Adoption of IFRS 9 Financial Instruments for Domestic Systemically Important Banks*, stating, however, that it expects Domestic Systemically Important Banks, a group that includes the Bank, to adopt IFRS 9 as of November 1, 2017. As for the IFRS 9 provisions regarding own credit risk, OSFI has been permitting early adoption since February 2014. In general, IFRS 9 is to be applied retrospectively.

The Bank will therefore adopt the IFRS 9 provisions as of November 1, 2017. Its first financial statements presented in accordance with these provisions will be its unaudited interim condensed consolidated financial statements for the quarter ending January 31, 2018 and will include an opening consolidated balance sheet as at November 1, 2017.

In preparation for the adoption of IFRS 9, the Bank has established an enterprise-wide project, assembled a dedicated team, and established a formal governance structure. It has started implementing a detailed project plan comprising key activities and a corresponding schedule. The project is proceeding according to schedule. At this time, the Bank is unable to quantify the impact that IFRS 9 adoption will have on its consolidated financial statements.

Project Status

Several committees have been created to ensure project success and optimize decision-making regarding the interpretations and choices to be made for the adoption of IFRS 9. The project team is made up of qualified resources in different areas of expertise to ensure a thorough analysis of all aspects of the new standard and its financial, operational and technological impacts. Agreements have also been reached with certain outside advisors and suppliers, particularly with respect to credit risk modelling.

The project follows the execution framework of the Bank's Project Office and Strategic Initiatives Office. 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 and experts from all relevant departments. Reports are also provided to the Bank's external auditors.

The Advisory Committee is made up of professional accountants, who are members of the Bank's staff and who have in-depth knowledge of accounting standards and of the Bank's activities. For the impairment aspects of IFRS 9, experts in credit risk management and modelling are also participating in the committee's work. The Advisory Committee is analyzing the provisions of IFRS 9 in detail, and documentation of their findings is distributed to the various committees and stakeholders as it is produced. Several sources of documentation were consulted to further develop the team's understanding of IFRS 9. These experts have participated in conference calls, training sessions and webinars about IFRS 9. They have also been involved in various working committees of the Canadian Bankers Association where representatives of the major Canadian banks discuss issues and interpretations related to the new standard. The Bank also takes part in meetings with OSFI, which are organized to discuss these same issues and interpretations. The experts remain in constant contact with outside advisors in order to pool their understanding and their interpretations. Moreover, workshops are organized to analyze the repercussions of the implementation of IFRS 9 and to circulate information to the stakeholders affected by the new standard. Lastly, a training plan has been developed for staff, management and members of the Board of Directors.

The Bank's Financial Governance and Internal Audit departments will accompany the project team through the above-described activities, allowing for an ongoing review of the Bank's internal controls over financial reporting.

Effective Date – November 1, 2018

IFRS 15 – *Revenue from Contracts with Customers*

In May 2014, the IASB issued a new standard, IFRS 15, which replaces the current revenue recognition standards and interpretations. IFRS 15 provides a single comprehensive model to use when accounting for revenue arising from contracts with customers. The new model applies to all contracts with customers except those that are within the scope of other IFRS standards such as leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively.

At its meeting on July 22, 2015, the IASB unanimously confirmed its proposal to defer the effective date of IFRS 15 to fiscal years beginning on or after January 1, 2018. Early application of IFRS 15 is still permitted.

ADDITIONAL FINANCIAL INFORMATION

TABLE 1 – QUARTERLY RESULTS

(millions of Canadian dollars, except per share amounts)					2015
	Total	Q4	Q3	Q2	Q1
Statement of income data					
Net interest income	2,643	686	661	640	656
Non-interest income	3,103	719	849	781	754
Total revenues	5,746	1,405	1,510	1,421	1,410
Provisions for credit losses	228	61	56	57	54
Non-interest expenses	3,665	960	906	936	863
Income taxes	234	37	95	24	78
Net income	1,619	347	453	404	415
Non-controlling interests	70	19	17	16	18
Net income attributable to the Bank's shareholders	1,549	328	436	388	397
Earnings per common share(2)					
Basic	$4.56	$0.96	$1.29	$1.14	$1.17
Diluted	4.51	0.95	1.28	1.13	1.16
Dividends (per share)					
Common(2)	$2.04	$0.52	$0.52	$0.50	$0.50
Preferred					
Series 15	–	–	–	–	–
Series 16	–	–	–	–	–
Series 20	1.5000	0.3750	0.3750	0.3750	0.3750
Series 21	–	–	–	–	–
Series 24	–	–	–	–	–
Series 26	–	–	–	–	–
Series 28	0.9500	0.2375	0.2375	0.2375	0.2375
Series 30	1.0250	0.2562	0.2563	0.2562	0.2563
Series 32	1.0760	0.2438	0.2438	0.2438	0.3446
Return on common shareholders' equity	16.9 %	13.6 %	18.8 %	17.6 %	17.8 %
Total assets		216,090	215,560	207,123	214,474
Long-term financial liabilities(3)		1,522	1,530	1,529	1,539
Net impaired loans		254	254	249	194
Number of common shares outstanding(2) *(thousands)*					
Average – Basic	329,790	331,459	329,527	329,275	328,880
Average – Diluted	333,139	334,138	333,127	332,849	332,925
End of period		337,236	330,001	330,141	329,860
Per common share(2)					
Book value		$28.26	$27.60	$27.01	$26.33
Share price					
High	$55.06	46.33	50.01	49.15	55.06
Low	40.75	40.75	43.78	45.02	44.21
Number of employees		19,764	20,067	20,125	20,118
Number of branches in Canada		452	452	452	452

(1) Certain amounts have been adjusted to reflect accounting standard changes in 2014.
(2) The fiscal 2014 and 2013 figures have been adjusted to include the stock dividend paid in 2014.
(3) Subordinated debt.

				2014					2013[1]
Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1
2,544	641	640	649	614	2,437	592	629	620	596
2,920	723	820	627	750	2,714	659	656	763	636
5,464	1,364	1,460	1,276	1,364	5,151	1,251	1,285	1,383	1,232
208	57	49	51	51	181	48	48	53	32
3,423	929	879	799	816	3,206	827	808	834	737
295	48	91	64	92	252	56	27	79	90
1,538	330	441	362	405	1,512	320	402	417	373
69	18	18	17	16	63	16	15	15	17
1,469	312	423	345	389	1,449	304	387	402	356
$4.36	$0.92	$1.26	$1.02	$1.16	$4.34	$0.91	$1.16	$1.21	$1.06
4.32	0.91	1.24	1.01	1.15	4.31	0.90	1.16	1.20	1.05
$1.88	$0.48	$0.48	$0.46	$0.46	$1.70	$0.44	$0.44	$0.41	$0.41
–	–	–	–	–	0.2444	–	–	–	0.2444
1.2125	0.3031	0.3031	0.3032	0.3031	1.2125	0.3031	0.3031	0.3032	0.3031
1.5000	0.3750	0.3750	0.3750	0.3750	1.5000	0.3750	0.3750	0.3750	0.3750
–	–	–	–	–	1.0078	–	0.3360	0.3359	0.3359
0.4125	–	–	–	0.4125	1.6500	0.4125	0.4125	0.4125	0.4125
0.4125	–	–	–	0.4125	1.6500	0.4125	0.4125	0.4125	0.4125
0.9500	0.2375	0.2375	0.2375	0.2375	0.9728	0.2375	0.2375	0.2375	0.2603
0.7849	0.2562	0.2563	0.2724	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
17.9 %	14.3 %	20.1 %	17.4 %	19.8 %	20.1 %	15.8 %	21.0 %	23.4 %	20.7 %
	205,429	198,822	194,289	195,300		188,219	187,195	184,775	183,788
	1,881	1,885	1,892	1,902		2,426	2,426	2,456	2,452
	248	184	191	194		183	172	146	165
327,463	328,330	327,687	327,318	326,510	324,468	325,374	324,772	324,556	323,170
331,086	332,826	331,381	330,716	330,185	327,048	328,593	327,176	327,076	326,090
	329,297	328,469	327,606	326,943		325,983	325,207	325,082	324,937
	$25.76	$25.18	$24.41	$23.68		$22.97	$22.60	$21.57	$20.76
$53.88	53.88	49.15	45.73	46.86	$ 45.24	45.24	39.68	39.76	40.02
41.60	48.16	45.19	41.60	41.72	36.18	38.86	36.33	36.18	37.53
	19,955	20,014	19,831	19,784		19,691	19,817	19,779	19,858
	452	452	451	451		453	453	452	452

TABLE 2 – OVERVIEW OF RESULTS

Year ended October 31 (taxable equivalent basis)(1) (millions of Canadian dollars)	2015	2014	2013(2)	2012(2)	2011(2)
Net interest income	2,954	2,763	2,646	2,498	2,494
Non-interest income	3,103	2,920	2,714	2,975	2,336
Total revenues	6,057	5,683	5,360	5,473	4,830
Non-interest expenses	3,665	3,423	3,206	3,207	2,952
Contribution	2,392	2,260	2,154	2,266	1,878
Provisions for credit losses	228	208	181	180	184
Income before income taxes	2,164	2,052	1,973	2,086	1,694
Income taxes	545	514	461	489	440
Net income	1,619	1,538	1,512	1,597	1,254
Non-controlling interests	70	69	63	61	60
Net income attributable to the Bank's shareholders	1,549	1,469	1,449	1,536	1,194
Average assets	222,929	206,680	193,509	181,344	165,942

(1) See the Financial Reporting Method section on page 12.
(2) Certain amounts have been adjusted to reflect accounting standard changes in 2014.

TABLE 3 – CHANGES IN NET INTEREST INCOME

Year ended October 31 (taxable equivalent basis)(1) (millions of Canadian dollars)	2015	2014	2013(2)	2012(2)	2011(2)
Personal and Commercial					
Net interest income	1,786	1,699	1,615	1,581	1,520
Average assets	86,945	81,516	76,696	70,524	62,205
Average interest-bearing assets	81,399	75,963	70,718	65,426	58,161
Net interest margin(3)	2.19 %	2.24 %	2.28 %	2.42 %	2.61 %
Wealth Management					
Net interest income	323	312	272	255	229
Average assets	10,329	10,400	9,080	8,817	7,861
Financial Markets					
Net interest income	996	824	784	584	579
Average assets	88,616	86,198	87,063	76,084	72,613
Other					
Net interest income	(151)	(72)	(25)	78	166
Average assets	37,039	28,566	20,670	25,919	23,263
Total					
Net interest income	2,954	2,763	2,646	2,498	2,494
Average assets	222,929	206,680	193,509	181,344	165,942

(1) See the Financial Reporting Method section on page 12.
(2) Certain amounts have been adjusted to reflect accounting standard changes in 2014.
(3) Net interest margin is calculated by dividing net interest income by average interest-bearing assets.

TABLE 4 – NON-INTEREST INCOME

Year ended October 31 (millions of Canadian dollars)	2015	2014	2013	2012	2011
Underwriting and advisory fees	387	388	301	318	308
Securities brokerage commissions	273	333	335	343	327
Mutual fund revenues	320	251	219	200	192
Trust service revenues	446	388	314	280	234
Credit fees	186	169	165	166	169
Revenues from acceptances, letters of credit and guarantee	223	217	226	203	166
Card revenues	128	134	121	113	116
Deposit and payment service charges	238	234	235	229	228
Trading revenues (losses)	209	106	186	233	(25)
Gains (losses) on available-for-sale securities, net	82	103	82	123	105
Insurance revenues, net	107	108	118	111	111
Foreign exchange revenues, other than trading	88	89	90	94	105
Share in the net income of associates and joint ventures	26	44	26	29	2
Other	390	356	296	533	298
	3,103	2,920	2,714	2,975	2,336
Domestic	2,811	2,616	2,433	2,675	2,101
International					
United States	284	303	227	223	185
Other	8	1	54	77	50
Non-interest income as a % of total revenues on a taxable equivalent basis[1]	51.2 %	51.4 %	50.6 %	54.4 %	48.4 %
Non-interest income as a % of total revenues on a taxable equivalent basis and excluding specified items[1]	50.3 %	50.7 %	49.2 %	50.8 %	48.3 %

(1) See the Financial Reporting Method section on page 12.

TABLE 5 – TRADING ACTIVITY REVENUES[1]

Year ended October 31 (taxable equivalent basis)[2] (millions of Canadian dollars)	2015	2014	2013	2012	2011
Financial markets					
Equities	450	332	288	246	234
Fixed-income securities	237	207	237	212	130
Commodities and foreign exchange	147	82	88	73	92
	834	621	613	531	456
Other segments	151	122	212	158	(31)
	985	743	825	689	425

(1) Including net interest income and non-interest income.
(2) See the Financial Reporting Method section on page 12.

TABLE 6 – PROVISIONS FOR CREDIT LOSSES

Year ended October 31 (millions of Canadian dollars)	2015	2014	2013	2012	2011
Provisions for credit losses on impaired loans					
Personal	**162**	155	148	135	139
Commercial	**63**	50	44	39	63
Wealth Management	**3**	3	3	3	2
Corporate	**–**	–	(14)	3	(5)
Total	**228**	208	181	180	199
Collective allowance on non-impaired loans[1]	**–**	–	–	–	(15)
Total provisions for credit losses	**228**	208	181	180	184
Average loans and acceptances	**108,740**	99,548	92,398	84,009	73,575
Provisions for credit losses on impaired loans as a % of average loans and acceptances	**0.21 %**	0.21 %	0.20 %	0.21 %	0.27 %
Provisions for credit losses on impaired and non-impaired loans as a % of average loans and acceptances	**0.21 %**	0.21 %	0.20 %	0.21 %	0.25 %
Allowances for credit losses					
Balance at beginning	**604**	578	577	608	638
IFRS-conversion adjustment					58
Provisions for credit losses	**228**	208	181	180	199
Write-offs	**(197)**	(118)	(112)	(154)	(193)
Write-offs on credit cards	**(81)**	(79)	(78)	(78)	(91)
Recoveries[2]	**15**	15	10	21	12
Reversal[3]	**–**	–	–	–	(15)
Balance at end	**569**	604	578	577	608
Composition of allowances					
Individual and collective allowances on impaired loans	**203**	238	212	208	232
Collective allowance on non-impaired loans[4]	**366**	366	366	369	376

(1) Provisions taken (reversed) for credit facilities granted to clients holding restructured notes of the MAV conduits.
(2) Including exchange rate fluctuations and the $2 million portion applicable to securities in 2011.
(3) During the year ended October 31, 2011, a $15 million reversal of allowances for credit losses taken for loans and credit facilities secured by restructured notes of the MAV conduits had been recorded to the provisions for credit losses.
(4) The collective allowance on non-impaired loans was established taking into account the Bank's overall credit portfolio (except for the following amounts created for loans and credit facilities secured by restructured notes of the MAV conduits: 2015, 2014 and 2013: nil; 2012: $3 million; 2011: $10 million).

TABLE 7 – NON-INTEREST EXPENSES

Year ended October 31 (millions of Canadian dollars)	2015	2014	2013(1)	2012(1)	2011(1)
Compensation and employee benefits(2)	**2,160**	2,049	1,899	1,987	1,770
Occupancy	**183**	183	194	162	151
Technology	**352**	335	319	303	323
Amortization – Premises and equipment	**40**	39	43	43	39
Amortization – Technology	**182**	178	139	111	82
Communications	**69**	68	68	70	74
Professional fees	**233**	227	221	195	185
Restructuring charge(3)	**86**	–	–	–	–
Advertising and external relations	**77**	80	71	64	58
Stationery	**24**	25	22	22	25
Travel and business development	**36**	34	30	34	33
Security and theft	**15**	43	26	30	22
Capital and payroll taxes	**69**	44	46	57	63
Other	**139**	118	128	129	127
Total	**3,665**	3,423	3,206	3,207	2,952
Domestic	**3,457**	3,223	3,006	2,987	2,724
International					
United States	**192**	186	183	167	167
Other	**16**	14	17	53	61
Non-interest expenses as a % of total revenues on a taxable equivalent basis(4)	**60.5 %**	60.2 %	59.8 %	58.6 %	61.1 %
Non-interest expenses as a % of total revenues on a taxable equivalent basis and excluding specified items(4)	**58.6 %**	58.6 %	60.2 %	60.1 %	59.8 %

(1) Certain amounts have been adjusted to reflect accounting standard changes in 2014.
(2) Compensation and employee benefits included severance pay amounts of $12 million in 2013, $80 million in 2012 and $27 million in 2011.
(3) The 2015 restructuring charge includes $51 million in compensation and employee benefits and $35 million in other charges such as occupancy expenses and professional fees.
(4) See the Financial Reporting Method section on page 12.

TABLE 8 – CHANGE IN AVERAGE VOLUMES

Year ended October 31 (taxable equivalent basis)[1] (millions of Canadian dollars)	2015		2014		2013[2]		2012[2]		2011[2]	
	Average volume $	**Rate %**	Average volume $	Rate %	Average volume $	Rate %	Average volume $	Rate %	Average volume $	Rate %
Assets										
Deposits with financial institutions	**11,771**	**0.26**	10,313	0.28	7,051	0.27	7,025	0.24	6,211	0.25
Securities	**57,494**	**2.25**	57,559	2.42	58,094	2.33	59,520	2.09	61,277	1.98
Securities purchased under reverse repurchase agreements and securities borrowed	**25,610**	**0.79**	24,789	0.68	21,271	0.79	15,929	0.69	11,241	1.41
Residential mortgage loans	**41,719**	**2.85**	38,517	3.02	35,590	3.13	31,846	3.33	27,265	3.93
Personal loans and credit card receivables	**30,650**	**3.96**	28,714	4.18	26,917	4.21	25,236	4.32	22,585	4.43
Business and government loans	**27,263**	**3.18**	23,498	3.42	21,126	3.60	19,395	3.71	17,318	3.91
Impaired loans, net of total allowances	**(88)**	**(1.78)**	(119)	(1.89)	(161)	(0.78)	(186)	(0.95)	(226)	(0.79)
Interest-bearing assets	**194,419**	**2.47**	183,271	2.60	169,889	2.68	158,765	2.67	145,671	2.84
Other assets	**28,510**		23,409		23,621		22,579		20,271	
Total assets	**222,929**	**2.15**	206,680	2.31	193,509	2.35	181,344	2.34	165,942	2.49
Liabilities and equity										
Personal deposits	**42,480**	**1.20**	43,000	1.31	40,156	1.45	37,835	1.54	35,491	1.45
Deposit-taking institutions	**10,925**	**0.24**	8,685	0.24	7,237	0.32	7,801	0.24	8,501	0.24
Other deposits	**74,611**	**1.14**	63,919	1.22	54,636	1.12	50,753	0.96	46,118	0.91
	128,016	**1.08**	115,604	1.18	102,029	1.19	96,389	1.13	90,110	1.06
Subordinated debt	**1,571**	**3.80**	1,906	3.96	2,381	4.30	1,927	4.54	1,886	4.88
Obligations other than deposits	**40,374**	**0.41**	44,230	0.91	45,156	1.07	43,431	1.23	37,751	1.55
Interest-bearing liabilities	**169,961**	**1.09**	161,740	1.24	149,567	1.27	141,747	1.23	129,747	1.27
Other liabilities	**42,244**		35,288		35,180		31,863		28,882	
Equity	**10,724**		9,652		8,763		7,734		7,313	
Liabilities and equity	**222,929**	**0.82**	206,680	0.97	193,509	0.98	181,344	0.96	165,942	0.99
Net interest margin		**1.33**		1.34		1.37		1.38		1.50

(1) See the Financial Reporting Method section on page 12.
(2) Certain amounts have been adjusted to reflect accounting standard changes in 2014.

TABLE 9 – DISTRIBUTION OF GROSS LOANS AND ACCEPTANCES BY BORROWER CATEGORY UNDER BASEL ASSET CLASSES

As at October 31 (millions of Canadian dollars)	2015		2014		2013		2012		2011	
	$	%	$	%	$	%	$	%	$	%
Residential mortgage[1]	**54,004**	**46.6**	50,011	46.8	46,836	47.8	43,225	47.2	37,639	46.3
Qualifying revolving retail	**4,093**	**3.6**	4,033	3.8	3,962	4.1	3,918	4.3	3,917	4.8
Other retail	**9,512**	**8.2**	9,027	8.5	8,801	9.0	11,605	12.7	11,365	14.0
Agriculture	**4,433**	**3.8**	3,857	3.6	3,553	3.6	2,364	2.6	2,292	2.8
Financial institutions	**2,679**	**2.3**	1,482	1.4	1,693	1.7	1,459	1.6	893	1.1
Manufacturing	**3,765**	**3.3**	3,689	3.5	3,286	3.4	2,780	3.0	2,959	3.6
Construction and real estate	**10,439**	**9.0**	9,088	8.5	7,562	7.7	5,258	5.7	4,302	5.3
Transportation	**1,956**	**1.7**	1,223	1.1	1,202	1.2	1,145	1.3	907	1.1
Telecommunications, media and technology	**1,254**	**1.1**	1,540	1.4	1,471	1.5	1,367	1.5	1,334	1.6
Mining, oil and gas	**3,612**	**3.1**	3,868	3.6	3,763	3.8	3,599	3.9	2,414	3.0
Wholesale and retail	**4,873**	**4.2**	5,281	5.0	4,587	4.7	4,481	4.9	4,238	5.2
Services	**9,861**	**8.5**	9,308	8.7	8,512	8.7	6,401	7.0	5,593	6.9
Other	**5,326**	**4.6**	4,366	4.1	2,688	2.8	3,897	4.3	3,513	4.3
	115,807	**100.0**	106,773	100.0	97,916	100.0	91,499	100.0	81,366	100.0

(1) Including residential mortgage loans on one-to-four unit dwellings (as defined by Basel) as well as home equity lines of credit.

TABLE 10 – IMPAIRED LOANS

As at October 31 (millions of Canadian dollars)	2015	2014	2013	2012	2011
Net impaired loans					
Personal[1]	**92**	88	70	56	57
Commercial	**157**	158	111	81	102
Wealth Management	**5**	2	2	2	–
Corporate	**–**	–	–	40	16
Total net impaired loans	**254**	248	183	179	175
Gross impaired loans	**457**	486	395	387	407
Individual and collective allowances on impaired loans	**203**	238	212	208	232
Net impaired loans	**254**	248	183	179	175
Provisioning rate	**44.4 %**	49.0 %	53.7 %	53.7 %	57.0 %
As a % of average loans and acceptances	**0.2 %**	0.2 %	0.2 %	0.2 %	0.2 %
As a % of common shareholders' equity	**2.7 %**	2.9 %	2.4 %	2.8 %	3.1 %
As a % of tangible capital adjusted for allowances	**5.9 %**	7.1 %	6.5 %	7.5 %	8.6 %

(1) Including $42 million in net consumer loans in 2015 (2014: $46 million; 2013: $37 million; 2012: $30 million; 2011: $26 million).

TABLE 11 – DEPOSITS

As at October 31 (millions of Canadian dollars)	2015		2014		2013[1]		2012[1]		2011[1]	
	$	%	$	%	$	%	$	%	$	%
Personal	**45,981**	**35.7**	44,963	37.6	42,652	41.8	40,814	43.7	37,432	43.6
Business and government	**37,779**	**29.3**	40,931	34.1	31,909	31.2	26,222	28.1	24,136	28.1
Deposit-taking institutions	**6,638**	**5.2**	1,684	1.4	1,072	1.0	2,547	2.7	1,781	2.1
Unsecured senior debt	**30,522**	**23.7**	27,236	22.7	23,336	22.9	20,876	22.3	20,046	23.4
Covered bonds	**7,910**	**6.1**	5,069	4.2	3,142	3.1	3,015	3.2	2,392	2.8
Total	**128,830**	**100.0**	119,883	100.0	102,111	100.0	93,474	100.0	85,787	100.0
Domestic	**114,687**	**89.0**	105,621	88.1	94,647	92.6	82,818	88.6	75,090	87.6
International										
United States	**9,655**	**7.5**	12,152	10.1	6,893	6.8	9,545	10.2	10,144	11.8
Other	**4,488**	**3.5**	2,110	1.8	571	0.6	1,111	1.2	553	0.6
Total	**128,830**	**100.0**	119,883	100.0	102,111	100.0	93,474	100.0	85,787	100.0
Personal deposits as a % of total assets		**21.3**		21.9		22.7		22.9		22.4

(1) Certain amounts have been adjusted to reflect accounting standard changes in 2014.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

Management maintains the accounting and internal control systems needed to discharge its responsibility, which is to provide reasonable assurance that the financial accounts are accurate and complete and that the Bank's assets are adequately safeguarded. Controls that are currently in place include quality standards on staff hiring and training; the implementation of organizational structures with clear divisions of responsibility and accountability for performance; the *Code of Professional Conduct*; and the communication of operating policies and procedures.

As Chief Executive Officer and as Chief Financial Officer, we have overseen the evaluation of the design and operation of the Bank's internal controls over financial reporting in accordance with *Regulation 52-109 respecting Certification of Disclosures in Issuers' Annual and Interim Filings* released by the Canadian Securities Administrators. Based on the evaluation work performed, we have concluded that the internal controls over financial reporting were effective as at October 31, 2015 and that they provide reasonable assurance that the financial information is reliable and that the Bank's consolidated financial statements have been prepared in accordance with IFRS.

The Board of Directors (the Board) is responsible for reviewing and approving the financial information contained in the Annual Report. Acting through the Audit Committee, the Board also oversees the presentation of the consolidated financial statements and ensures that accounting and control systems are maintained. Composed of directors who are neither officers nor employees of the Bank, the Audit Committee is responsible, through Internal Audit, for performing an independent and objective review of the Bank's internal control effectiveness, i.e., governance processes, risk management processes and control measures. Furthermore, the Audit Committee reviews the consolidated financial statements and recommends their approval to the Board.

The control systems are supported by the presence of the Compliance Service, which exercises independent oversight in order to assist managers in effectively managing regulatory compliance risk and to obtain reasonable assurance that the Bank is compliant with regulatory requirements.

The Senior Vice-President of Internal Audit has direct access to the Chair of the Audit Committee and to the President and Chief Executive Officer. In addition, the Senior Vice-President and Chief Compliance Officer has direct access to the Chair of the Risk Management Committee and to the President and Chief Executive Officer.

In accordance with the *Bank Act* (Canada), OSFI is mandated to protect the rights and interests of the depositors. Accordingly, OSFI examines and enquires into the business and affairs of the Bank, as deemed necessary, to ensure that the provisions of the *Bank Act* (Canada) are being satisfied and that the Bank is in sound financial condition.

The independent auditor, Deloitte LLP, whose report follows, was appointed by the shareholders on the recommendation of the Board. The auditor has full and unrestricted access to the Audit Committee to discuss audit and financial reporting matters.

Louis Vachon
President and Chief Executive Officer

Ghislain Parent
Chief Financial Officer and Executive Vice-President
Finance and Treasury

Montreal, Canada, December 1, 2015

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of National Bank of Canada

We have audited the accompanying consolidated financial statements of National Bank of Canada (the Bank), which comprise the consolidated balance sheets as at October 31, 2015 and 2014, the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended October 31, 2015 and 2014, as well as a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2015 and 2014, and its financial performance and its cash flows for the years ended October 31, 2015 and 2014 in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board.

Deloitte LLP[1]

Montreal, Canada, December 1, 2015

[1] CPA auditor, CA, public accountancy permit No. A121444

CONSOLIDATED BALANCE SHEETS

(millions of Canadian dollars)

As at October 31		2015	2014
Assets			
Cash and deposits with financial institutions		7,567	8,086
Securities	Notes 4 and 6		
At fair value through profit or loss		41,997	43,200
Available-for-sale		14,043	9,753
		56,040	52,953
Securities purchased under reverse repurchase agreements and securities borrowed		17,702	24,525
Loans	Note 7		
Residential mortgage		43,520	39,300
Personal and credit card		31,933	29,996
Business and government		30,954	28,551
		106,407	97,847
Customers' liability under acceptances		9,400	8,926
Allowances for credit losses		(569)	(604)
		115,238	106,169
Other			
Derivative financial instruments	Note 16	10,842	7,092
Due from clients, dealers and brokers		415	861
Purchased receivables		1,438	790
Investments in associates and joint ventures	Note 9	831	697
Premises and equipment	Note 10	1,817	380
Goodwill	Note 11	1,277	1,272
Intangible assets	Note 11	1,059	998
Other assets	Note 12	1,864	1,606
		19,543	13,696
		216,090	205,429
Liabilities and Equity			
Deposits	Notes 4 and 13		
Personal		45,981	44,963
Business and government		74,441	67,364
Deposit-taking institutions		8,408	7,556
		128,830	119,883
Other			
Acceptances		9,400	8,926
Obligations related to securities sold short		17,333	18,167
Obligations related to securities sold under repurchase agreements and securities loaned		13,779	16,780
Derivative financial instruments	Note 16	7,756	5,721
Due to clients, dealers and brokers		1,871	1,996
Liabilities related to transferred receivables	Notes 4 and 8	19,770	17,079
Other liabilities	Note 14	4,474	4,494
		74,383	73,163
Subordinated debt	Note 15	1,522	1,881
Equity			
Equity attributable to the Bank's shareholders	Notes 18 and 22		
Preferred shares		1,023	1,223
Common shares		2,614	2,293
Contributed surplus		67	52
Retained earnings		6,705	5,850
Accumulated other comprehensive income		145	289
		10,554	9,707
Non-controlling interests	Note 19	801	795
		11,355	10,502
		216,090	205,429

The accompanying notes are an integral part of these audited consolidated financial statements.

Louis Vachon
President and Chief Executive Officer

Pierre Boivin
Director

CONSOLIDATED STATEMENTS OF INCOME

(millions of Canadian dollars)

Year ended October 31		2015	2014
Interest income			
Loans		3,531	3,393
Securities at fair value through profit or loss		695	970
Available-for-sale securities		286	204
Deposits with financial institutions		30	29
		4,542	4,596
Interest expense			
Deposits		1,329	1,231
Liabilities related to transferred receivables		420	398
Subordinated debt		59	76
Other		91	347
		1,899	2,052
Net interest income		2,643	2,544
Non-interest income			
Underwriting and advisory fees		387	388
Securities brokerage commissions		273	333
Mutual fund revenues		320	251
Trust service revenues		446	388
Credit fees		409	386
Card revenues		128	134
Deposit and payment service charges		238	234
Trading revenues (losses)	Note 21	209	106
Gains (losses) on available-for-sale securities, net		82	103
Insurance revenues, net		107	108
Foreign exchange revenues, other than trading		88	89
Share in the net income of associates and joint ventures		26	44
Other		390	356
		3,103	2,920
Total revenues		5,746	5,464
Provisions for credit losses	Note 7	228	208
		5,518	5,256
Non-interest expenses			
Compensation and employee benefits		2,160	2,049
Occupancy		223	222
Technology		534	513
Communications		69	68
Professional fees		233	227
Restructuring charge	Note 24	86	–
Other		360	344
		3,665	3,423
Income before income taxes		1,853	1,833
Income taxes	Note 25	234	295
Net income		1,619	1,538
Net income attributable to			
Preferred shareholders		45	40
Common shareholders		1,504	1,429
Bank shareholders		1,549	1,469
Non-controlling interests		70	69
		1,619	1,538
Earnings per share *(dollars)*	Note 26		
Basic		4.56	4.36
Diluted		4.51	4.32
Dividends per common share *(dollars)*	Note 18	2.04	1.88

The accompanying notes are an integral part of these audited consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions of Canadian dollars)

Year ended October 31	2015	2014
Net income	**1,619**	1,538
Other comprehensive income, net of income taxes		
Items that may be subsequently reclassified to net income		
Net foreign currency translation adjustments		
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	**114**	47
Impact of hedging net foreign currency translation gains (losses)	**(107)**	(44)
	7	3
Net change in available-for-sale securities		
Net unrealized gains (losses) on available-for-sale securities	**(75)**	85
Net (gains) losses on available-for-sale securities reclassified to net income	**(81)**	(89)
	(156)	(4)
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**14**	87
Net (gains) losses on designated derivative financial instruments reclassified to net income	**(11)**	(11)
	3	76
Share in the other comprehensive income of associates and joint ventures	**4**	–
Item that will not be subsequently reclassified to net income		
Remeasurements of pension plans and other post-employment benefit plans	**61**	23
Total other comprehensive income, net of income taxes	**(81)**	98
Comprehensive income	**1,538**	1,636
Comprehensive income attributable to		
Bank shareholders	**1,466**	1,567
Non-controlling interests	**72**	69
	1,538	1,636

INCOME TAXES – OTHER COMPREHENSIVE INCOME

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

Year ended October 31	2015	2014
Net foreign currency translation adjustments		
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	**5**	3
Impact of hedging net foreign currency translation gains (losses)	**(18)**	(8)
	(13)	(5)
Net change in available-for-sale securities		
Net unrealized gains (losses) on available-for-sale securities	**(28)**	29
Net (gains) losses on available-for-sale securities reclassified to net income	**(31)**	(32)
	(59)	(3)
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**4**	32
Net (gains) losses on designated derivative financial instruments reclassified to net income	**(4)**	(4)
	–	28
Remeasurements of pension plans and other post-employment benefit plans	**23**	10
	(49)	30

The accompanying notes are an integral part of these audited consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of Canadian dollars)

Year ended October 31		2015	2014
Preferred shares at beginning	Note 18	1,223	677
Issuance of Series 30 and 32 preferred shares		–	650
Redemption of Series 16, 24 and 26 preferred shares for cancellation		(200)	(104)
Preferred shares at end		1,023	1,223
Common shares at beginning	Note 18	2,293	2,160
Issuances of common shares			
Stock Option Plan		39	102
Public offering		300	–
Impact of shares purchased or sold for trading		(18)	31
Common shares at end		2,614	2,293
Contributed surplus at beginning		52	58
Stock option expense	Note 22	20	15
Stock options exercised		(5)	(13)
Other		–	(8)
Contributed surplus at end		67	52
Retained earnings at beginning		5,850	5,055
Net income attributable to the Bank's shareholders		1,549	1,469
Dividends	Note 18		
Preferred shares		(45)	(40)
Common shares		(672)	(616)
Share issuance expense		(9)	(14)
Remeasurements of pension plans and other post-employment benefit plans		61	23
Impact of a financial liability resulting from a put option written to a non-controlling interest		(29)	(27)
Retained earnings at end		6,705	5,850
Accumulated other comprehensive income at beginning		289	214
Net foreign currency translation adjustments		7	3
Net change in unrealized gains (losses) on available-for-sale securities		(156)	(4)
Net change in gains (losses) on cash flow hedges		1	76
Share in the other comprehensive income of associates and joint ventures		4	–
Accumulated other comprehensive income at end		145	289
Equity attributable to the Bank's shareholders		10,554	9,707
Non-controlling interests at beginning		795	789
Net income attributable to non-controlling interests		70	69
Other comprehensive income attributable to non-controlling interests		2	–
Distributions to non-controlling interests		(66)	(63)
Non-controlling interests at end		801	795
Equity		11,355	10,502

ACCUMULATED OTHER COMPREHENSIVE INCOME

As at October 31	2015	2014
Accumulated other comprehensive income		
Net foreign currency translation adjustments	4	(3)
Net unrealized gains (losses) on available-for-sale securities	12	168
Net gains (losses) on instruments designated as cash flow hedges	124	123
Share in the other comprehensive income of associates and joint ventures	5	1
	145	289

The accompanying notes are an integral part of these audited consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars)

Year ended October 31		2015	2014
Cash flows from operating activities			
Net income		1,619	1,538
Adjustments for			
Provisions for credit losses		228	208
Amortization of premises and equipment and intangible assets		301	167
Impairment losses on intangible assets	Note 11	46	62
Gain on the disposal of shares of Fiera Capital Corporation	Note 33	(34)	–
Deferred taxes		8	2
Translation adjustment on foreign currency denominated subordinated debt		1	1
Losses (gains) on sales of available-for-sale securities, net		(108)	(110)
Impairment losses on available-for-sale securities		26	7
Share in the net income of associates and joint ventures		(26)	(44)
Stock option expense		20	15
Change in operating assets and liabilities			
Securities at fair value through profit or loss		1,203	800
Securities purchased under reverse repurchase agreements and securities borrowed		6,823	(3,076)
Loans, net of securitization		(6,156)	(7,240)
Investments in associates and joint ventures		(72)	31
Deposits		8,947	16,392
Obligations related to securities sold short		(834)	(742)
Obligations related to securities sold under repurchase agreements and securities loaned		(3,001)	(2,966)
Derivative financial instruments, net		(1,715)	(325)
Due from and to clients, dealers and brokers, net		321	131
Purchased receivables		(648)	(324)
Interest and dividends receivable and interest payable		(42)	(25)
Current tax assets and liabilities		(179)	87
Other items		(353)	(537)
		6,375	4,052
Cash flows from financing activities			
Issuance of preferred shares		–	650
Redemption of preferred shares for cancellation		(200)	(104)
Issuances of common shares		316	120
Redemption of subordinated debt		(350)	(525)
Share issuance expenses		(9)	(14)
Dividends paid		(717)	(795)
Distributions to non-controlling interests		(66)	(63)
		(1,026)	(731)
Cash flows from investing activities			
Acquisition of TD Waterhouse Institutional Services		–	722
Disposal of shares of Fiera Capital Corporation	Note 33	114	–
Acquisition of an equity interest in NSIA Participations	Note 9	(116)	–
Purchases of available-for-sale securities		(9,140)	(6,426)
Maturities of available-for-sale securities		704	382
Sales of available-for-sale securities		4,605	6,138
Net acquisitions of tangible assets leased under operating leases		(1,442)	–
Net acquisitions of other premises and equipment		(130)	(50)
Net acquisitions of intangible assets		(215)	(197)
		(5,620)	569
Impact of currency rate movements on cash and cash equivalents		(248)	600
Increase (decrease) in cash and cash equivalents		(519)	4,490
Cash and cash equivalents at beginning		8,086	3,596
Cash and cash equivalents at end(1)		7,567	8,086
Supplementary information about cash flows from operating activities			
Interest paid		1,936	2,047
Interest and dividends received		4,537	4,567
Income taxes paid		164	264

The accompanying notes are an integral part of these audited consolidated financial statements.

(1) This item is the equivalent of Consolidated Balance Sheet item *Cash and deposits with financial institutions*. It includes an amount of $1.3 billion as at October 31, 2015 ($1.0 billion as at October 31, 2014) for which there are restrictions. In addition, $3 million was held in escrow as at October 31, 2015 ($2 million as at October 31, 2014).

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(millions of Canadian dollars)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

National Bank of Canada (the Bank) is a financial institution incorporated and domiciled in Canada and whose shares are listed on the Toronto Stock Exchange. Its head office is located at 600 De La Gauchetière Street West in Montreal, Quebec, Canada. The Bank is a chartered bank under Schedule 1 of the *Bank Act* (Canada) and is regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI).

The Bank provides integrated financial services to consumers, small- and medium-sized enterprises, and large corporations and operates three business segments, namely, the Personal and Commercial segment, the Wealth Management segment, and the Financial Markets segment. Its full line of services includes banking and investing solutions for individuals and businesses, securities brokerage, insurance and wealth management.

On December 1, 2015, the Board of Directors (the Board) authorized the publication of the Bank's audited annual consolidated financial statements (the consolidated financial statements) for the year ended October 31, 2015.

Basis of Presentation

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

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

Summary of Significant Accounting Policies

Judgments, Estimates and Assumptions

In preparing consolidated financial statements in accordance with IFRS, management must exercise judgment and make estimates and assumptions that affect the reporting date carrying amounts of assets and liabilities, net income and related information. Furthermore, certain accounting policies require complex judgments and estimates because they apply to matters that are inherently uncertain, in particular accounting policies applicable to allowances for credit losses, the fair value determination of financial instruments, the impairment of available-for-sale securities, the impairment of non-financial assets, pension plans and other post-employment benefits, income taxes, provisions, and the consolidation of structured entities. Descriptions of these judgments and estimates are provided in each of the related notes to the consolidated financial statements. Actual results could differ from these estimates, in which case the impact is recognized in the consolidated financial statements of future fiscal periods. The accounting policies described in this note provide greater detail about the use of estimates and assumptions and reliance on judgment.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Basis of Consolidation

Subsidiaries

The consolidated financial statements include all of the assets, liabilities, operating results and cash flows of the Bank and its subsidiaries, after elimination of intercompany transactions and balances. The subsidiaries are entities, including structured entities, controlled by the Bank. A structured entity is an entity created to accomplish a narrow and well-defined objective and is designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate solely to administrative tasks and the relevant activities are directed by means of contractual arrangements.

Management must exercise judgment in determining whether the Bank must consolidate an entity. The Bank controls an entity only if the following three conditions are met:

- It has decision-making authority regarding the entity's relevant activities.
- It has exposure or rights to variable returns from its involvement with the entity.
- It has the ability to use its power to affect the amount of the returns.

When determining decision-making authority, many factors are taken into account, including the existence and effect of actual and potential voting rights held by the Bank that can be exercised as well as the holding of instruments that are convertible into voting shares. In addition, the Bank must determine whether, as an investor with decision-making rights, it acts as a principal or agent.

Based on these principles, an assessment of control is performed at the inception of a relationship between any entity and the Bank. When performing this assessment, the Bank considers all facts and circumstances, and it must reassess whether it still controls an investee if facts and circumstances indicate that there are changes to one or more of the three conditions of control.

The Bank consolidates the entities it controls from the date on which control is obtained and ceases to consolidate them from the date control ceases. The Bank uses the acquisition method to account for the acquisition of a subsidiary from a third party on the date control is obtained.

Non-Controlling Interests

Non-controlling interests in subsidiaries represent the equity interests of third parties in the Bank's subsidiaries and are presented in total *Equity,* separately from *Equity attributable to the Bank's shareholders.* The non-controlling interests' proportionate share in the net income and other comprehensive income of the Bank's subsidiaries are presented in total net income and total comprehensive income, respectively.

With respect to units issued to third parties by mutual funds and certain other funds that are consolidated, they are presented at fair value in *Other liabilities* on the Consolidated Balance Sheet.

Lastly, changes in ownership interests in subsidiaries that do not result in a loss of control are recognized as equity transactions. The difference between the adjustment in the carrying value of the non-controlling interest and the fair value of the consideration paid or received is recognized directly in *Equity attributable to the Bank's shareholders*.

Investments in Associates and Joint Ventures

The Bank exercises significant influence over an entity when it has the power to participate in the financial and operating policy decisions of the investee. The Bank has joint control over an entity when there's a contractually agreed sharing of control of an entity that exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates, i.e., entities over which the Bank exercises significant influence, and investments in joint ventures, i.e., entities over which the Bank has rights to the net assets and exercises joint control, are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and, following acquisition, the Bank's shares in the net income and in the other comprehensive income are recognized, respectively, in *Non-interest income* in the Consolidated Statement of Income and in *Other comprehensive income* in the Consolidated Statement of Comprehensive Income. The carrying value of the investment is adjusted by an equivalent amount on the Consolidated Balance Sheet and reduced by distributions received.

Foreign Currencies

The consolidated financial statements are presented in Canadian dollars, which is the Bank's functional and presentation currency. Each entity in the group determines its own functional currency, and the items reported in the financial statements of each entity are measured using that currency.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the rates in effect on the date of the Consolidated Balance Sheet. Translation gains and losses are recognized in *Non-interest income* in the Consolidated Statement of Income. Revenues and expenses denominated in foreign currencies are translated at the average exchange rates for the period. Non-monetary assets and liabilities are translated into the functional currency at historical rates. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates in effect on the date fair value is determined, and the translation gains or losses are recognized in the Consolidated Statement of Income. Translation gains or losses on non-monetary items classified as available for sale are recognized in *Other comprehensive income.* Upon disposal or due to impairment of a non-monetary item classified as available for sale, the deferred translation gains or losses are reclassified, in whole or in part, from *Accumulated other comprehensive income* to *Non-interest income* of the Consolidated Statement of Income.

In the consolidated financial statements, the assets and liabilities of all foreign operations are translated into the Bank's functional currency using the rates in effect on the Consolidated Balance Sheet date, whereas the revenues and expenses of such foreign operations are translated into the Bank's functional currency at the average exchange rates for the period. Any goodwill resulting from the acquisition of a foreign operation that does not have the same functional currency as the parent company, and any fair value adjustments to the carrying amounts of assets and liabilities resulting from the acquisition, are treated as assets and liabilities of the foreign operation and translated using the rates in effect on the Consolidated Balance Sheet date. Gains and losses on translating the financial statements of foreign operations, along with related hedge and tax effects, are presented in *Other comprehensive income.* Upon disposal of a foreign operation, the deferred cumulative amount recognized in *Accumulated other comprehensive income* relating to that particular operation is reclassified to *Non-interest income* of the Consolidated Statement of Income.

Classification and Measurement of Financial Instruments

In accordance with the accounting framework for financial instruments, all financial assets and liabilities must be classified based on their characteristics, management's intention, or choice of category in certain circumstances. When initially recognized, all financial assets are classified as either at fair value through profit or loss, held to maturity, available for sale, or loans and receivables, while financial liabilities are classified as either at fair value through profit or loss or as financial liabilities at amortized cost. Certain debt securities that are not quoted in an active market may be classified as loans and receivables, and impairment is determined using the same model as for loans. Loans and receivables that the Bank intends to sell immediately or in the near term must be classified as at fair value through profit or loss, whereas loans and receivables for which the Bank may not recover substantially all of its initial investment, for reasons other than credit deterioration, must be classified as available for sale.

When initially recognized, all financial assets and liabilities, including derivative financial instruments, are recorded at fair value on the Consolidated Balance Sheet. In subsequent periods, they are measured at fair value, except for items classified in the following categories, which are measured at amortized cost using the effective interest rate method: financial assets held to maturity, loans and receivables, and financial liabilities at amortized cost.

Under the fair value option, a financial asset or liability may be irrevocably designated at fair value through profit or loss when it is initially recognized. Financial instruments thus designated are accounted for under the fair value option, and any change in fair value is recorded in *Non-interest income* in the Consolidated Statement of Income. Interest income and expenses resulting from these financial instruments are recorded in *Net interest income* in the Consolidated Statement of Income. The Bank may use the option in the following cases.

- If, consistent with a documented risk management strategy, using this option allows the Bank to eliminate or significantly reduce the measurement or recognition mismatch of measuring financial assets or liabilities on a different basis, and if the fair values are reliable.
- If a group of financial assets and financial liabilities to which an instrument belongs is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information is provided on that basis to senior management. Consequently, the Bank may use the fair value option if it has implemented a documented risk management strategy to manage a group of financial instruments together on the fair value basis, if it can demonstrate that significant financial risks are eliminated or significantly reduced, and if the fair values are reliable.
- For hybrid financial instruments with one or more embedded derivatives that would significantly modify the cash flows of the financial instruments and that would otherwise be bifurcated and accounted for separately.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Reclassification of Financial Instruments

A financial asset, other than a derivative financial instrument or a financial asset that, upon initial recognition, was designated as measured at fair value through profit or loss, may be reclassified out of the fair value through profit or loss category in rare circumstances if the financial asset is no longer held for the purpose of selling it in the near term. The financial asset must be reclassified at its fair value on the date of reclassification, and this fair value becomes its new amortized cost, as applicable. No gain or loss previously recognized in the Consolidated Statement of Income may be reversed.

Establishing Fair Value

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

Unadjusted quoted prices in active markets, based on bid prices for financial assets and offered prices for financial liabilities, provide the best evidence of fair value. A financial instrument is considered quoted in an active market when prices in exchange, dealer, broker or principal-to-principal markets are accessible at the measurement date. An active market is one where transactions occur with sufficient frequency and volume to provide quoted prices on an ongoing basis.

When there is no quoted price in an active market, the Bank uses another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction. Judgment is required when applying a large number of acceptable valuation techniques and estimates to determine fair value. The estimated fair value reflects market conditions on the valuation date and, consequently, may not be indicative of future fair value.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration received or paid. If there is a difference between the fair value at initial recognition and the transaction price, and the fair value is determined using a valuation technique based on observable market inputs or, in the case of a derivative, if the risks are fully offset by other contracts entered into with third parties, this difference is recognized in the Consolidated Statement of Income. In other cases, the difference between the fair value at initial recognition and the transaction price is deferred on the Consolidated Balance Sheet. The amount of the deferred gain or loss is recognized over the term of the financial instrument. The unamortized balance is immediately recognized in net income when (i) observable market inputs can be obtained and support the fair value of the transaction, (ii) the risks associated with the initial contract are substantially offset by other contracts entered into with third parties, (iii) the gain or loss is realized through a cash receipt or payment, or (iv) the transaction matures or is cancelled before maturity.

In certain cases, measurement adjustments are recognized to address factors that market participants would use at the measurement date to determine fair value but that are not included in the measurement technique due to system limitations or uncertainty surrounding the measure. These factors include, but are not limited to, the unobservable nature of inputs used in the valuation model, assumptions about risk such as market risk, credit risk, or risk related to the valuation model, and future administration costs. The Bank may also consider market liquidity risk when determining the fair value of financial instruments when it believes these instruments could be disposed of for a consideration below the fair value otherwise determined due to a lack of market liquidity or an insufficient volume of transactions in a given market.

As permitted when certain criteria are met, the Bank has elected to determine fair value based on net exposure to credit risk or market risk for certain portfolios of financial instruments, mainly derivatives.

Cash and Deposits with Financial Institutions

Cash and deposits with financial institutions consist of cash and cash equivalents, amounts pledged as collateral as well as amounts placed in escrow. Cash comprises cash and bank notes. Cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions, including net receivables related to cheques and other items in the clearing process, as well as the net amount of cheques and other items in transit.

Securities at Fair Value Through Profit or Loss

Securities at fair value through profit or loss are generally purchased for sale in the near term or are part of portfolios of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. The Bank accounts for securities transactions at fair value through profit or loss on the settlement date on the Consolidated Balance Sheet. Changes in fair value between the trade date and the settlement date are included in *Non-interest income* in the Consolidated Statement of Income.

Securities at fair value through profit or loss are recognized at fair value, and transaction fees are recognized directly in the Consolidated Statement of Income. Interest income as well as realized and unrealized gains and losses on such securities are recorded in *Non-interest income* in the Consolidated Statement of Income. Dividend income is recorded in *Interest income* in the Consolidated Statement of Income.

Available-for-Sale Securities

Securities that are neither classified as at fair value through profit or loss nor as held to maturity nor in the loans and receivables category are classified as available-for-sale securities. The Bank accounts for available-for-sale securities transactions on the trade date, and the related transaction costs are capitalized.

Available-for-sale securities are recognized at fair value. Unrealized gains and losses are recognized, net of impairment losses and income taxes, provided they are not hedged by derivative financial instruments in a fair value hedging relationship, in *Other comprehensive income.* When the securities are sold, the realized gains or losses, determined on an average cost basis, are reclassified to *Non-interest income* in the Consolidated Statement of Income on the transaction date.

The amortization of premiums and discounts, calculated using the effective interest rate method, as well as dividend and interest income, are recognized in *Interest income* in the Consolidated Statement of Income.

Held-to-Maturity Securities

Securities classified as held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Bank intends and is able to hold to the specified maturity. These securities are recognized at amortized cost using the effective interest rate method less impairment losses.

Securities Purchased Under Reverse Repurchase Agreements, Obligations Related to Securities Sold Under Repurchase Agreements and Securities Borrowed and Loaned

The Bank recognizes these transactions on the settlement date at amortized cost using the effective interest rate method. Securities sold under repurchase agreements remain on the Consolidated Balance Sheet, whereas securities purchased under reverse repurchase agreements are not recognized. Reverse repurchase agreements and repurchase agreements are treated as collateralized lending and borrowing transactions.

The Bank also borrows and lends securities. Securities loaned remain on the Consolidated Balance Sheet while securities borrowed are not recognized. As part of these transactions, the Bank pledges or receives collateral in the form of cash or securities. Collateral pledged in the form of securities remains on the Consolidated Balance Sheet. Collateral received in the form of securities is not recognized on the Consolidated Balance Sheet. Collateral pledged or received in the form of cash is recognized in financial assets or liabilities on the Consolidated Balance Sheet.

When the collateral is pledged or received in the form of cash, the interest income and expense are recorded in *Net interest income* in the Consolidated Statement of Income.

Loans

Loans, including transaction costs directly attributable to the granting of the loans, other than loans classified or designated as measured at fair value through profit or loss, are presented on the Consolidated Balance Sheet at amortized cost using the effective interest rate method. Loans classified or designated as measured at fair value through profit or loss are recognized at fair value.

Impairment of Financial Assets

At the end of each reporting period, the Bank determines whether there is objective evidence of impairment of a financial asset or group of financial assets. There is objective evidence of impairment when one or more loss events occur after the initial recognition of the asset and prior to or on the balance sheet date and these events adversely affect the estimated future cash flows of the financial assets in question. Management must exercise judgment to determine whether certain events or circumstances constitute objective evidence of impairment and to estimate the timing of future cash flows.

<u>Available-for-Sale Securities</u>

Available-for-sale securities are reviewed for objective evidence of impairment at the end of each reporting period. The Bank considers all available objective evidence of impairment, including observable data about loss events such as: a significant financial difficulty of the issuer, a breach of contract such as a default, and situations involving bankruptcy or other financial reorganization. In addition to these loss events, objective evidence of impairment for an equity security also includes information about significant changes with an adverse effect that have taken place in the technological, market, economic, or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity security may not be recovered. A significant or prolonged decline in an equity security's fair value below its cost also constitutes objective evidence of impairment. In general, the term "significant" represents a decline in fair value of more than 30% over a consecutive period of at least six months, and the term "prolonged" represents a decline in fair value of more than 5% over a consecutive period of at least 12 months.

If there is objective evidence of impairment, any amount previously recognized in *Accumulated other comprehensive income* is reclassified to *Non-interest income* in the Consolidated Statement of Income. This amount is determined as the difference between the acquisition cost (net of any capital repayments and amortization) and the current fair value of the asset less any impairment loss on that investment previously recognized in the Consolidated Statement of Income.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Once an impairment loss has been recognized for an available-for-sale security, the subsequent accounting treatment depends on whether the instrument is a debt or equity security.

- For an available-for-sale debt security, a subsequent decline in fair value will be accounted for in *Non-interest income* in the Consolidated Statement of Income when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the debt security. Impairment losses recognized in income relating to an available-for-sale debt security must be reversed in income when, in a subsequent period, the fair value of the security increases and the increase can be objectively associated with an event occurring after the loss was recognized.
- For an available-for-sale equity security, subsequent decreases in fair value are accounted for in the Consolidated Statement of Income. Impairment losses recognized are not reversed through the Consolidated Statement of Income. All subsequent increases in fair value will be accounted for in *Other comprehensive income* in the Consolidated Statement of Comprehensive Income.

Impaired Loans

A loan, except credit card receivables, is considered impaired if there is objective evidence of impairment and, in management's best estimate, the timely collection of principal and interest is no longer reasonably assured, or when a payment is contractually 90 days past due, unless the loan is fully secured and collection efforts are reasonably expected to result in repayment of the debt within 180 days. For credit card receivables, they are written off when payment is 180 days in arrears. Loans that are insured or fully guaranteed by a Canadian government (federal or provincial) or by a Canadian government agency are considered impaired when more than 365 days in arrears.

When a counterparty to a loan fails to make the payment when contractually due, that loan is considered past due but not impaired.

When a loan is deemed impaired, interest recognition ceases and the carrying amount of the loan is reduced to its estimated realizable amount by writing off all or part of the loan or by taking an allowance for credit losses. The impairment loss is calculated by comparing the present value of expected future cash flows, discounted at the initial effective interest rate of the loan, to its current carrying amount including accrued interest. The losses are recorded in *Provisions for credit losses* in the Consolidated Statement of Income.

A loan is returned to performing status when the timely collection of future interest and principal is reasonably assured and when all principal and interest payments in arrears have been collected.

A loan and its related allowance for credit losses is normally written off in whole or in part when the Bank considers the probability of recovery to be non-existent and when all guarantees and other remedies available to the Bank have been exhausted or if the borrower is bankrupt, winding up and balances owing are not likely to be recovered.

Situations where a business or retail borrower begins showing clear signs of potential insolvency are managed on a case-by-case basis and require the use of judgment. In these situations, the Bank may grant a concession to the borrower regarding the original terms and conditions of the loan, for example by reducing the rate, granting a forgiveness of principal or extending the term despite the Bank's credit policies. Once the terms of the loan have been renegotiated and agreed upon with the borrower, the loan is considered a restructured loan. As of the restructuring date, the current carrying amount of the loan, including accrued interest, is reduced to the present value of expected cash flows under the modified terms, discounted at the original effective interest rate of the loan. The reduction in the carrying value is recorded in *Provisions for credit losses* in the Consolidated Statement of Income.

Allowances for Credit Losses

Allowances for credit losses are management's best estimate of losses in its credit portfolio as at the balance sheet date. These allowances are primarily related to loans but may also cover the credit risk associated with deposits with financial institutions, loan substitute securities, credit instruments such as acceptances, and off-balance-sheet items such as commitments to extend credit, letters of guarantee and letters of credit.

Changes in allowances for credit losses attributable to the passage of time are recorded in *Interest income* in the Consolidated Statement of Income, whereas changes attributable to a revision of expected payments are recorded in *Provisions for credit losses* in the Consolidated Statement of Income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the allowances were recognized, the previously recognized impairment loss is reversed directly in *Provisions for credit losses* in the Consolidated Statement of Income.

The allowances for credit losses on impaired loans are calculated on a loan-by-loan basis and assessed either individually or collectively based on the portfolio's historical net loss experience. The allowance for credit losses on non-impaired loans is assessed collectively.

Allowances on Impaired Loans

Impairment allowances are recorded for all individually identified impaired loans to reduce their carrying amount to the estimated realizable amount. For each impaired loan, the Bank records either an individual allowance, when the credit loss assessment is based on a detailed analysis of the borrower's file, or a collective allowance, when the credit loss assessment is based on the portfolio's historical net loss experience.

For all individually significant impaired loans, namely business and government loans, and for certain impaired loans that are not individually significant, namely residential mortgages, the Bank records an individual allowance since the credit loss assessment is based on a detailed analysis of the borrower's file. For all other impaired loans that are not individually significant but have been individually identified as impaired, the Bank records for each such loan a collective allowance based on historical net loss experience.

Allowance on Non-Impaired Loans

All loans that have not been individually identified as impaired are grouped according to their credit risk characteristics for the purpose of calculating a collective allowance. This collective allowance reflects the impairment losses that the Bank has incurred as a result of events that have occurred but where the individual loss was not identified. The collective allowance on non-impaired loans includes two components for credit risk: the allocated collective allowance and the unallocated collective allowance.

The allocated collective allowance for the business and government loan portfolio is based on expected default and loss factors, determined by statistical loss migration analysis, delineated by loan type, to which is added an amount that takes into account the discovery period and migration risk. For personal loans, the allocated collective allowance is calculated based on specific parameters by product, and no discovery period is calculated. Losses are determined by the application of loss ratios established through statistical analysis of loss migration over an economic cycle.

The unallocated collective allowance reflects management's assessment of probable portfolio losses that have not been captured by the allocated collective allowance. This assessment takes into account general economic and business conditions, recent credit loss data, and credit quality and concentration trends when the collective allowance is determined at the Consolidated Balance Sheet date. This allowance also reflects model and estimation risks. The unallocated collective allowance does not represent future losses or serve as a substitute for the allocated collective allowance.

Purchased Receivables

On the acquisition date, purchased receivables are measured at fair value, which incorporates incurred and expected credit losses estimated on the acquisition date and the interest rate differential between the receivable's contractual interest rate and the current market rates for the remaining term. As a result, no allowances for credit losses are recorded on the Consolidated Balance Sheet on the acquisition date. Discounts related to incurred credit losses are not amortized.

Purchased performing receivables are subsequently accounted for at amortized cost based on their contractual cash flows, and any discount or premium is considered an adjustment to the loan yield and is amortized over the expected life of the receivable using the effective interest rate method and recorded in the Consolidated Statement of Income.

When receivables are acquired with objective evidence of incurred credit loss, where the timely collection of contractual principal and interest is not reasonably assured, these receivables are subsequently accounted for at amortized cost based on the present value of expected future cash flows discounted at the initial effective interest rate. At the end of each reporting period, the Bank re-evaluates the expected future cash flows and adjusts the carrying amount of the receivables to reflect the revised expected future cash flows discounted at the initial effective interest rate. This adjustment is immediately recorded in the Consolidated Statement of Income.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Derecognition of Financial Assets and Securitization

A financial asset is considered for derecognition when the Bank has transferred contractual rights to receive the cash flows or assumed an obligation to transfer these cash flows to a third party. The Bank derecognizes a financial asset when it considers that substantially all of the risks and rewards of the asset have been transferred or when the contractual rights to the cash flows of the financial asset expire. When the Bank considers that it has retained substantially all of the risks and rewards of the transferred asset, it continues to recognize the financial asset and, if applicable, recognizes a financial liability on the Consolidated Balance Sheet. If, due to a derivative financial instrument, the transfer of a financial asset does not result in derecognition, the derivative financial instrument is not recognized on the Consolidated Balance Sheet.

When the Bank has neither transferred nor retained substantially all the risks and rewards related to a financial asset, it derecognizes the financial asset it no longer controls. Any rights and obligations retained following the asset transfer are recognized separately as an asset or liability. If the Bank retains control of the financial asset, it continues to recognize the asset to the extent of its continuing involvement in that asset, i.e., to the extent to which it is exposed to changes in the value of the transferred asset.

In order to diversify its funding sources, the Bank participates in two Canada Mortgage and Housing Corporation (CMHC) securitization programs: the Mortgage-Backed Securities Program under the *National Housing Act* (Canada) (NHA) and Canada Mortgage Bond (CMB) program. Under the first program, the Bank issues NHA securities backed by insured residential mortgages and, under the second, the Bank sells NHA securities to Canada Housing Trust (CHT). As part of these transactions, the Bank retains substantially all of the risks and rewards related to ownership of the mortgage loans sold. Therefore, the insured mortgage loans securitized under the CMB program continue to be recognized in the *Loans* item on the Bank's Consolidated Balance Sheet and the liabilities for the considerations received from the transfer are recognized in *Liabilities related to transferred receivables* on the Consolidated Balance Sheet. Moreover, insured mortgage loans securitized and retained by the Bank continue to be recognized in *Loans* on the Consolidated Balance Sheet.

Derecognition of Financial Liabilities

A financial liability is derecognized when the obligation is discharged, cancelled or expires. The difference between the carrying value of the financial liability transferred and the consideration paid is recognized in the Consolidated Statement of Income.

Acceptances and Customers' Liability Under Acceptances

The potential liability of the Bank under acceptances is recorded as a customer commitment liability on the Consolidated Balance Sheet. The Bank's potential recourse vis à vis clients is recorded as an equivalent offsetting asset. Fees are recorded in *Non-interest income* in the Consolidated Statement of Income.

Obligations Related to Securities Sold Short

This financial liability represents the Bank's obligation to deliver the securities it sold but did not own at the time of sale. Obligations related to securities sold short are recorded at fair value and presented as liabilities on the Consolidated Balance Sheet. Realized and unrealized gains and losses are recognized in *Non-interest income* in the Consolidated Statement of Income.

Derivative Financial Instruments

In the normal course of business, the Bank uses derivative financial instruments to meet the needs of its clients, to generate trading activity, and to manage its exposure to interest rate risk, foreign exchange risk, credit risk and other market risks.

All derivative financial instruments are recorded at fair value on the Consolidated Balance Sheet. Derivative financial instruments with a positive fair value are included in assets, and derivative financial instruments with a negative fair value are included in liabilities on the Consolidated Balance Sheet.

Embedded Derivative Financial Instruments

An embedded derivative financial instrument is a component of a financial instrument or another contract, the characteristics of which are similar to those of a derivative product. Taken together, the financial instrument or contract is considered to be a hybrid instrument comprising a host contract and an embedded derivative financial instrument.

Embedded derivatives are bifurcated and accounted for separately if, and only if, the following three conditions are met: the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, the embedded derivative is a separate instrument that meets the definition of a derivative financial instrument, and the hybrid contract is not recorded at fair value.

An embedded derivative financial instrument is classified with the host contract on the Consolidated Balance Sheet and measured at its fair value. Realized and unrealized gains and losses are recognized in *Non-interest income* in the Consolidated Statement of Income.

Held-for-Trading Derivative Financial Instruments

Derivative financial instruments are recognized at fair value, and the realized and unrealized gains and losses (including interest income and expense) are recorded in *Non-interest income* in the Consolidated Statement of Income. Interest income and expense related to derivative financial instruments that are managed with financial instruments designated at fair value through profit or loss are recorded in *Net interest income* in the Consolidated Statement of Income.

Derivative Financial Instruments Designated as Hedging Instruments

Policy

The purpose of a hedging transaction is to modify the Bank's exposure to one or more risks by creating an offset between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging instrument. Hedge accounting ensures that offsetting gains, losses, revenues and expenses are recognized in the Consolidated Statement of Income in the same period or periods.

Documenting and Assessing Effectiveness

The Bank designates and formally documents each hedging relationship, at its inception, by detailing the risk management objective and the hedging strategy. The documentation identifies the specific asset, liability or cash flows being hedged, the related hedging instrument, the nature of the specific risk exposure or exposures being hedged, the intended term of the hedging relationship and the method for assessing the effectiveness or ineffectiveness of the hedging relationship. At the inception of the hedging relationship, and for every financial reporting period for which the hedge has been designated, the Bank ensures that the hedging relationship is highly effective and consistent with its originally documented risk management objective and strategy. When a hedging relationship meets the hedge accounting requirements, it is designated as either a fair value hedge, a cash flow hedge or a foreign exchange hedge of a net investment in a foreign operation.

Fair Value Hedge

In a fair value hedge, the Bank mainly uses interest rate swaps to hedge changes in the fair value of a hedged item. The carrying amount of the hedged item is adjusted based on the effective portion of the gains or losses attributable to the hedged risk, which are recognized in the Consolidated Statement of Income, and on the change in the fair value of the hedging instrument. The resulting ineffective portion is recognized in *Non-interest income* in the Consolidated Statement of Income.

The Bank prospectively discontinues hedge accounting if the hedging instrument is sold or expires or if the hedging relationship no longer qualifies for hedge accounting or if the Bank revokes the designation. When the designation is revoked, the hedged item is no longer adjusted to reflect changes in fair value, and the amounts previously recorded as cumulative adjustments with respect to the effective portion of gains and losses attributable to the hedged risk are amortized using the effective interest rate method and recognized in the Consolidated Statement of Income over the remaining useful life of the hedged item. If the hedged item is sold or terminated before maturity, the cumulative adjustments to the effective portion of gains and losses attributable to the hedged risk are immediately recorded in the Consolidated Statement of Income.

Cash Flow Hedge

In a cash flow hedge, the Bank mainly uses interest rate swaps and total return swaps to hedge variable cash flows attributable to the hedged risk related to a financial asset or liability (or to a group of financial assets or liabilities). The effective portion of changes in fair value of the hedging instrument is recognized in *Other comprehensive income* and the ineffective portion in *Non-interest income* in the Consolidated Statement of Income.

The amounts previously recorded in *Accumulated other comprehensive income* are reclassified to the Consolidated Statement of Income of the period or periods during which the cash flows of the hedged item affect the Consolidated Statement of Income. If the hedging instrument is sold or expires or if the hedging relationship no longer qualifies for hedge accounting or if the Bank cancels that designation, then the amounts previously recognized in *Accumulated other comprehensive income* are reclassified to the Consolidated Statement of Income in the period or periods during which the cash flows of the hedged item affect the Consolidated Statement of Income.

Hedge of a Net Investment in a Foreign Operation

Derivative and non-derivative financial instruments are used to hedge foreign exchange risk related to investments made in foreign operations whose functional currency is not the Canadian dollar. The effective portion of the gains and losses on the hedging instrument is recognized in *Other comprehensive income* and the ineffective portion in *Non-interest income* in the Consolidated Statement of Income. Upon the total or partial sale of a net investment in a foreign operation, amounts reported in *Accumulated other comprehensive income* are reclassified, in whole or in part, to *Non-interest income* in the Consolidated Statement of Income.

Offsetting of Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount is presented on the Consolidated Balance Sheet when the Bank has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Premises and Equipment

Premises and equipment, except for land, are recognized at cost less accumulated amortization and accumulated impairment losses. Land is recorded at cost net of any impairment losses.

Premises and equipment and the significant components of a building that have different useful lives or that provide economic benefits at a different pace are systematically amortized over their useful lives. Amortization methods and useful lives are reviewed on an annual basis. The amortization expense is recorded in *Non-interest expenses* in the Consolidated Statement of Income.

	Methods	Useful life
Significant components of a building		
Exterior design	Straight-line	20 years
Interior design, roofing and electromechanical system	Straight-line	30 years
Structure	Straight-line	75 years
Other buildings	5% declining balance	
Computer equipment	Straight-line	3-4 years
Other equipment and furniture	Straight-line	1-8 years
Leasehold improvements	Straight-line	(1)

(1) The average amortization period is 15 years, determined using the lesser of the useful life or the lease term plus the first renewal option.

Goodwill

The Bank uses the acquisition method to account for business combinations. The consideration transferred in a business combination is measured at the acquisition-date fair value and the transaction costs related to the acquisition are expensed as incurred. When the Bank acquires control of a business, all of the identifiable assets and liabilities of the acquiree, including intangible assets, are recorded at fair value. The interests previously held in the acquiree are also measured at fair value. Goodwill represents the excess of the purchase consideration and all previously held interests over the fair value of identifiable net assets of the acquiree. If the fair value of identifiable net assets exceeds the purchase consideration and all previously held interests, the difference is immediately recognized as a gain on a bargain purchase.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Bank's ownership interest and can be initially measured at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The measurement basis is selected on a case-by-case basis. Following the acquisition, non-controlling interests consist of the value assigned to those interests at initial recognition plus the non-controlling interests' share of changes in equity since the date of the combination.

Intangible Assets

Intangible Assets With Finite Useful Lives

Software, internally-generated technological developments and certain other intangible assets are recognized at cost net of accumulated amortization and accumulated impairment losses. These intangible assets are systematically amortized on a straight-line basis over their useful lives, which vary between four and ten years. The amortization expense is recorded in *Non-interest expenses* in the Consolidated Statement of Income.

Intangible Assets With Indefinite Useful Lives

The Bank's intangible assets with indefinite useful lives come from the acquisition of subsidiaries or groups of assets and consist of management contracts and a trademark. They are recognized at the acquisition-date fair value. The management contracts are for the management of open-ended funds. At the end of each reporting period, the Bank reviews the useful lives to determine whether events and circumstances continue to support an indefinite useful life assessment. Intangible assets are deemed to have an indefinite useful life following an examination of all relevant factors, in particular: a) the contracts do not have contractual maturities; b) stability of the business segment to which the intangible assets belong; c) the Bank's capacity to control the future economic benefits of the intangible assets; and d) continued economic benefits generated by the intangible assets.

Impairment of Non-Financial Assets

Premises and equipment and intangible assets with finite useful lives are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. At the end of each reporting period, the Bank determines whether there is an indication that premises and equipment or intangible assets with finite useful lives may be impaired. Goodwill and intangible assets that are not yet available for use or that have indefinite useful lives are tested for impairment annually or more frequently if there is an indication that the asset might be impaired.

An asset is tested for impairment by comparing its carrying amount with its recoverable amount. The recoverable amount must be estimated for the individual asset. Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit (CGU) to which the asset belongs will be determined. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Bank uses judgment to identify CGUs.

An asset's recoverable amount is the higher of fair value less costs to sell and the value in use of the asset or CGU. Value in use is the present value of expected future cash flows from the asset or CGU. The recoverable amount of the CGU is determined using valuation models that consider various factors such as projected future cash flows, discount rates and growth rates. The use of different estimates and assumptions in applying the impairment tests could have a significant impact on income.

Corporate assets, such as the head office building and computer equipment, do not generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Therefore, the recoverable amount of an individual corporate asset cannot be determined unless management has decided to dispose of the asset. However, if there is an indication that a corporate asset may be impaired, the recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of this CGU or group of CGUs.

Goodwill is always tested for impairment at the level of a CGU or groups of CGUs. For impairment testing purposes, from the acquisition date, goodwill resulting from a business combination must be allocated to the CGU or group of CGUs expected to benefit from the synergies of the business combination. Each CGU or group of CGUs to which goodwill is allocated must represent the lowest level for which the goodwill is monitored internally at the Bank and must not be larger than an operating segment. The allocation of goodwill to a CGU or group of CGUs involves management's judgment. If an impairment loss is to be recognized, the Bank does so by first reducing the carrying amount of goodwill allocated to the CGU or group of CGUs and then reducing the carrying amounts of the other assets of the CGU or group of CGUs in proportion to the carrying amount of each asset in the CGU or group of CGUs.

If the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss is recognized in *Non-interest expenses* in the Consolidated Statement of Income. An impairment loss recognized in prior periods for an asset other than goodwill must be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognized. If this is the case, the carrying amount of the asset is increased, as the impairment loss was reversed, but shall not exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for this asset in previous years.

Leases

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease. The Bank primarily enters into operating leases.

When the Bank is the lessee under an operating lease, the rental expense is recognized on a straight-line basis over the lease term in *Non-interest expenses* in the Consolidated Statement of Income. When the Bank is the lessor, the lease assets remain on the Consolidated Balance Sheet and are reported in premises and equipment, and the rental income is recognized net of related expenses in *Non-interest income* in the Consolidated Statement of Income.

Provisions

Provisions are liabilities of uncertain timing and amount. A provision is recognized when the Bank has a present obligation (legal or constructive) arising from a past event, when it is probable that an outflow of economic resources will be required to settle the obligation and when the amount of the obligation can be reliably estimated. Provisions are based on the Bank's best estimates of the economic resources required to settle the present obligation, given all relevant risks and uncertainties, and, when it is significant, the effect of the time value of money. The provisions are reviewed at the end of each reporting period. Provisions are presented in *Other liabilities* on the Consolidated Balance Sheet.

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Revenue Recognition
The Bank's revenues are recognized in the Consolidated Statement of Income as they are earned.

Interest Income and Expense
Interest income and expense, except for the interest income on securities classified as at fair value through profit or loss, are recognized in *Net interest income* and calculated using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash inflows and outflows through the expected life of the financial instrument (or, when appropriate, a shorter period) to the net carrying amount of the instrument. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but without considering future credit losses and also includes all fees paid or received related to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Commission Revenues
Loan origination fees, including commitment, restructuring and renegotiation fees, are considered an integral part of the yield earned on the loan. They are deferred and amortized using the effective interest rate method, and the amortization is recognized in *Interest income* over the term of the loan. Direct costs for originating a loan are netted against the loan origination fees. If it is likely that a commitment will result in a loan, commitment fees receive the same accounting treatment, i.e., they are deferred and amortized using the effective interest rate method and the amortization is recognized in *Interest income* over the term of the loan. Otherwise, they are recorded in *Non-interest income* over the term of the commitment.

Loan syndication fees are recorded in *Non-interest income* unless the yield on the loan retained by the Bank is less than that of other comparable lenders involved in the financing. In such cases, an appropriate portion of the fees is deferred and amortized using the effective interest rate method, and the amortization is recognized in *Interest income* over the term of the loan. Certain mortgage loan prepayment fees are recognized as *Credit fees* in the Consolidated Statement of Income when earned.

Dividend Income
Dividends from an equity instrument are recognized in the Consolidated Statement of Income when the Bank's right to receive payment is established.

Insurance Revenues
Insurance contracts, including reinsurance contracts, are arrangements under which one party accepts significant insurance risk by agreeing to compensate the policyholder if a specified uncertain future event were to occur. Gross premiums, net of premiums transferred under reinsurance contracts, are recognized when they become due. Royalties received from reinsurers are recognized when earned. Claims are recognized when received and an amount is estimated as they are being processed. All of these amounts are recognized on a net basis in *Non-interest income* in the Consolidated Statement of Income.

Upon recognition of a premium, a reinsurance asset and insurance liability are recognized, respectively, in *Other assets* and in *Other liabilities* on the Consolidated Balance Sheet. Subsequent changes in the carrying value of the reinsurance asset and insurance liability are recognized on a net basis in *Non-interest income* in the Consolidated Statement of Income.

Income Taxes
Income taxes include current taxes and deferred taxes and are recorded in net income except for income taxes generated by items recognized in *Other comprehensive income* or directly in equity.

Current tax is the amount of income tax payable on the taxable income for a period. It is calculated using the enacted or substantively enacted tax rates prevailing on the reporting date, and any adjustments recognized in the period for current tax of prior periods. Current tax assets and liabilities are offset and the net balance is presented in either *Other assets* or *Other liabilities* on the Consolidated Balance Sheet when the Bank has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to simultaneously realize the asset and settle the liability.

Deferred tax is established based on temporary differences between the carrying values and the tax bases of assets and liabilities, in accordance with enacted or substantively enacted income tax laws and rates that will apply on the date the differences will reverse. Deferred tax is not recognized for temporary differences related to the following.

- The initial accounting of goodwill.
- The initial accounting of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting income nor taxable income.
- Investments in subsidiaries, associates and joint ventures when it is probable that the temporary difference will not reverse in the foreseeable future and that the Bank controls the timing of the reversal of the temporary difference.
- Investments in subsidiaries, associates and joint ventures when it is probable that the temporary difference will not reverse in the foreseeable future and that there will not be taxable income to which the temporary difference can be recognized.

Deferred tax assets are tax benefits in the form of deductions the Bank may claim to reduce its taxable income in future years. At the end of each reporting period, the carrying amount of deferred tax assets is revised and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow the benefit of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are offset and the net balance is presented in either *Other assets* or *Other liabilities* on the Consolidated Balance Sheet when the Bank has a legally enforceable right to set off the current tax assets and liabilities, and if the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on the same taxable entity, or on different taxable entities that intend to settle current tax assets and liabilities based on their net amount.

The Bank makes assumptions to estimate income taxes as well as deferred tax assets and liabilities. This process includes estimating the actual amount of current taxes and evaluating tax loss carryforwards and temporary differences arising from differences between the values of the items reported for accounting and for income tax purposes. Deferred tax assets and liabilities presented on the Consolidated Balance Sheet are calculated according to the tax rates to be applied in future periods. Previously recorded deferred tax assets and liabilities must be adjusted when the date of the future event is revised based on current information.

Moreover, the Bank is subject to the jurisdiction of various tax authorities. In the normal course of its business, the Bank is involved in a number of transactions for which the tax impacts are uncertain. As a result, the Bank accounts for provisions for uncertain tax positions that adequately represent the tax risk stemming from tax matters under discussion or being audited by tax authorities or from other matters involving uncertainty. The amounts of these provisions reflect the best possible estimates of the amounts that may have to be paid based on qualitative assessments of all relevant factors. The provisions are estimated at the end of each reporting period. However, it is possible that an adjustment to the provision needs to be recognized at a future date following an audit by the tax authorities. When the final assessment differs from the initially provisioned amounts, the difference will impact the income taxes of the period in which the assessment was made.

Financial Guarantee Contracts

A financial guarantee contract is a contract or indemnification agreement that could require the Bank to make specified payments (in cash, financial instruments, other assets, Bank shares, or provisions of services) to reimburse the beneficiary in the event of a loss resulting from a debtor defaulting on the original or amended terms of a debt instrument.

To reflect the fair value of the obligation assumed at the inception of a financial guarantee, a liability is recorded in *Other liabilities* on the Consolidated Balance Sheet. After initial recognition, the Bank must measure financial guarantee contracts at the higher of the estimated amount needed to settle the financial obligation under the guarantee or the amount initially recognized less, where applicable, the accumulated amortization that corresponds to revenue earned during the period. This revenue is recognized in *Credit fees* in the Consolidated Statement of Income.

Employee Benefits – Pension Plans and Other Post-Employment Benefits

The Bank offers defined benefit pension plans and other post-employment benefit plans to eligible employees. The other post-employment benefit plans include post-retirement medical, dental and life insurance coverage. While pension plans are funded, the other plans are not.

Plan expenses and obligations are determined using actuarial valuations based on the projected benefit method prorated on service. The calculations use management's best estimates of various actuarial assumptions such as discount rates, rates of compensation increase, health care cost trend rates, mortality rates and retirement age.

The net asset or net liability of pension plans and other post-employment benefit plans are calculated separately for each plan as the difference between the present value of the future benefits earned by employees in respect of current- and prior-period service and the fair value of plan assets. The net asset or net liability is included in either the *Other assets* or *Other liabilities* item of the Consolidated Balance Sheet.

The expense related to pension plans and other post-employment benefit plans consists of the following items: current service cost, net interest on the net plan asset or liability, administration costs and past service cost, if any, recognized when a plan is amended. This expense is recognized in *Compensation and employee benefits* in the Consolidated Statement of Income. The net amount of interest income and expense is determined by applying the discount rate to the net plan asset or liability amount.

Remeasurements resulting from pension plans and other post-employment benefit plans represent actuarial gains and losses related to the defined benefit obligation and the actual return on plan assets, excluding net interest determined by applying the discount rate to the net asset or liability of the plans. Remeasurements are immediately recognized in *Other comprehensive income* and will not be subsequently reclassified to net income; they are recognized in *Retained earnings.*

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Share-Based Payments

The Bank has several share-based compensation plans: the Stock Option Plan, the Stock Appreciation Rights (SAR) Plan, the Deferred Stock Unit (DSU) Plan, the Restricted Stock Unit (RSU) Plan, the Performance Stock Unit (PSU) Plan, the Deferred Compensation Plan (DCP) of National Bank Financial and the Employee Share Ownership Plan.

Compensation expense is recognized over the service period required for employees to become fully entitled to the award. This period is generally the same as the vesting period, except where the required service period begins before the award date. Compensation expense related to awards granted to employees eligible to retire on the award date is immediately recognized on the award date. Compensation expense related to awards granted to employees who will become eligible to retire during the vesting period is recognized over the period from the award date to the date the employee becomes eligible to retire. For all of these plans, as of the first year of recognition, the expense includes cancellation and forfeiture estimates. These estimates are subsequently revised as necessary. The Bank uses derivative financial instruments to hedge the risks associated with some of these plans. The compensation expense for these plans, net of related hedges, is recognized in the Consolidated Statement of Income.

Under the Stock Option Plan, the Bank uses the fair value method to account for stock options awarded. The options vest at 25% per year, and each tranche is treated as though it was a separate award. The fair value of each of the tranches is measured on the award date using the Black-Scholes model, and this fair value is recognized in *Compensation and employee benefits* and *Contributed surplus.* When the options are exercised, the *Contributed surplus* amount is credited to *Equity – Common shares* on the Consolidated Balance Sheet. The proceeds received from the employees when these options are exercised are also credited to *Equity – Common shares* on the Consolidated Balance Sheet.

SARs are recorded at fair value when awarded and their fair value is remeasured at the end of each reporting period until they are exercised. The cost is recognized in *Compensation and employee benefits* in the Consolidated Statement of Income and in *Other liabilities* on the Consolidated Balance Sheet. The obligation that results from the change in fair value at each period is recognized in net income gradually over the vesting period, and periodically thereafter, until the SARs are exercised. When a SAR is exercised, the Bank makes a cash payment equal to the increase in the stock price since the date of the award.

The obligation that results from the award of a DSU, RSU, PSU and DCP unit is recognized in net income, and the corresponding amount is included in *Other liabilities* on the Consolidated Balance Sheet. For the DSU, RSU and DCP plans, the change in the obligation attributable to variations in the share price and dividends paid on common shares for these plans is recognized in *Compensation and employee benefits* in the Consolidated Statement of Income for the period in which the variations occur. On the redemption date, the Bank makes a cash payment equal to the value of the common shares on that date. For the PSU Plan, the change in the obligation attributable to changes in the stock price, adjusted upward or downward depending on the relative result of the performance criteria, and the change in the obligation attributable to dividends paid on the shares awarded under the plan, are recognized in *Compensation and employee benefits* in the Consolidated Statement of Income for the period in which the changes occur. On the redemption date, the Bank makes a cash payment equal to the value of the common shares on that date, adjusted upward or downward according to the performance criteria. This is based on the total shareholder return (TSR) achieved by the Bank compared to that of the S&P/TSX Banks Sub-index.

The Bank's contributions to the employee share ownership plan are expensed as incurred.

NOTE 2 – ACCOUNTING POLICY CHANGES

The IASB issues revisions and amendments to a number of standards, some of which have already had an impact on the Bank and others that could have an impact in the future. A summary of these amendments and the effective dates applicable to the Bank are presented below.

As at November 1, 2014, the Bank adopted an amended standard as well as a new interpretation, as described below.

IAS 32 – *Financial Instruments: Presentation*
IAS 32 was amended to clarify the requirements for offsetting financial assets and financial liabilities in order to reduce inconsistencies in current practice. Retrospective adoption of these amendments had no significant impact on the Bank's consolidated financial statements.

IFRIC Interpretation 21 – *Levies*
IFRIC Interpretation 21 clarifies the timing of the recognition of a liability to pay a levy imposed by a government that is accounted for in accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets.* The interpretation states that the obligating event, as set out in the relevant legislation, is the trigger for recognizing the liability. Therefore, if the obligating event occurs at a point in time, the liability is recognized at that point in time; if the obligating event occurs over a given period of time, the liability is recognized progressively over that period of time. Retrospective adoption of this interpretation had no significant impact on the Bank's consolidated financial statements.

Effective Date – Early Adoption on November 1, 2017
IFRS 9 – *Financial Instruments*
In July 2014, the IASB issued a complete and final version of IFRS 9, which replaces the current standard on financial instruments. IFRS 9 sets out requirements for the classification and measurement of financial assets and financial liabilities, for the impairment of financial assets, and for general hedge accounting. Macro hedge accounting has been decoupled from IFRS 9 and will be considered and issued as a separate standard. IFRS 9 provides a single model for financial asset classification and measurement that is based on contractual cash flow characteristics and on the business model for holding financial assets. With respect to measuring financial liabilities designated at fair value through profit or loss, the standard prescribes that fair value changes attributable to an entity's own credit risk be accounted for in *Other comprehensive income* unless the changes offset amounts recognized in *Net income*.

IFRS 9 also introduces a new, single impairment model for financial assets not measured at fair value through profit or loss that requires recognition of expected credit losses rather than incurred losses as applied under the current standard. This model requires the recognition of 12-month expected credit losses as of the initial recognition date of a financial asset and recognition of lifetime expected losses if the financial instrument's credit risk has increased significantly since initial recognition.

As for the new hedge accounting model, it provides better alignment of hedge accounting with risk management activities. However, the current hedge accounting requirements may continue to be applied until the IASB finalizes its macro hedge accounting project.

The IASB is requiring IFRS 9 to be applied as of November 1, 2018 and is permitting early adoption. On January 9, 2015, OSFI issued a final version of *Early Adoption of IFRS 9 Financial Instruments for Domestic Systemically Important Banks*, stating, however, that it expects Domestic Systemically Important Banks, a group that includes the Bank, to adopt IFRS 9 as of November 1, 2017. As for the IFRS 9 provisions regarding own credit risk, OSFI has been permitting early adoption since February 2014. In general, IFRS 9 is to be applied retrospectively.

The Bank will therefore adopt the IFRS 9 provisions as of November 1, 2017. Its first financial statements presented in accordance with these provisions will be its unaudited interim condensed consolidated financial statements for the quarter ending January 31, 2018 and will include an opening consolidated balance sheet as at November 1, 2017.

In preparation for the adoption of IFRS 9, the Bank has established an enterprise-wide project, assembled a dedicated team, and established a formal governance structure. It has started implementing a detailed project plan comprising key activities and a corresponding schedule. The project is proceeding according to schedule. At this time, the Bank is unable to quantify the impact that IFRS 9 adoption will have on its consolidated financial statements.

Effective Date – November 1, 2018
IFRS 15 – *Revenue from Contracts with Customers*
In May 2014, the IASB issued a new standard, IFRS 15, which replaces the current revenue recognition standards and interpretations. IFRS 15 provides a single comprehensive model to use when accounting for revenue arising from contracts with customers. The new model applies to all contracts with customers except those that are within the scope of other IFRS standards such as leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively.

At its meeting on July 22, 2015, the IASB unanimously confirmed its proposal to defer the effective date of IFRS 15 to fiscal years beginning on or after January 1, 2018. Early application of IFRS 15 is still permitted.

(millions of Canadian dollars)

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value and Carrying Value of Financial Instruments by Category

Financial assets and financial liabilities are recognized on the Consolidated Balance Sheet at fair value or at amortized cost in accordance with the categories set out in the accounting framework for financial instruments. The Bank did not classify any financial assets as held to maturity.

							As at October 31, 2015
	Carrying value and fair value			Carrying value	Fair value		
	Financial instruments classified as at fair value through profit or loss	Financial instruments designated at fair value through profit or loss	Available-for-sale	Loans and receivables and financial liabilities at amortized cost	Loans and receivables and financial liabilities at amortized cost	Total carrying value	Total fair value
Financial assets							
Cash and deposits with financial institutions	–	–	–	7,567	7,567	7,567	7,567
Securities	39,753	2,244	14,043	–	–	56,040	56,040
Securities purchased under reverse repurchase agreements and securities borrowed	–	295	–	17,407	17,407	17,702	17,702
Loans and acceptances	4,413	152	–	110,673	111,407	115,238	115,972
Other							
Derivative financial instruments	10,842	–	–	–	–	10,842	10,842
Due from clients, dealers and brokers	–	–	–	415	415	415	415
Purchased receivables	–	–	–	1,438	1,438	1,438	1,438
Other assets	–	–	–	459	459	459	459
Financial liabilities							
Deposits	–	3,053		125,777 (1)	126,247	128,830	129,300
Other							
Acceptances	–	–		9,400	9,400	9,400	9,400
Obligations related to securities sold short	17,333	–		–	–	17,333	17,333
Obligations related to securities sold under repurchase agreements and securities loaned	–	–		13,779	13,779	13,779	13,779
Derivative financial instruments	7,756	–		–	–	7,756	7,756
Due to clients, dealers and brokers	–	–		1,871	1,871	1,871	1,871
Liabilities related to transferred receivables	–	6,402		13,368	13,427	19,770	19,829
Other liabilities	50	–		2,227	2,227	2,277	2,277
Subordinated debt	–	–		1,522	1,526	1,522	1,526

(1) Including embedded derivative financial instruments.

(millions of Canadian dollars)

As at October 31, 2014

	Carrying value and fair value			Carrying value	Fair value		
	Financial instruments classified as at fair value through profit or loss	Financial instruments designated at fair value through profit or loss	Available-for-sale	Loans and receivables and financial liabilities at amortized cost	Loans and receivables and financial liabilities at amortized cost	Total carrying value	Total fair value
Financial assets							
Cash and deposits with financial institutions	–	–	–	8,086	8,086	8,086	8,086
Securities	40,560	2,640	9,753	–	–	52,953	52,953
Securities purchased under reverse repurchase agreements and securities borrowed	–	415	–	24,110	24,110	24,525	24,525
Loans and acceptances	2,762	121	–	103,286	103,956	106,169	106,839
Other							
Derivative financial instruments	7,092	–	–	–	–	7,092	7,092
Due from clients, dealers and brokers	–	–	–	861	861	861	861
Purchased receivables	–	–	–	790	790	790	790
Other assets(1)	–	–	–	454	454	454	454
Financial liabilities							
Deposits	–	2,524		117,359 (2)	117,707	119,883	120,231
Other							
Acceptances	–	–		8,926	8,926	8,926	8,926
Obligations related to securities sold short	18,167	–		–	–	18,167	18,167
Obligations related to securities sold under repurchase agreements and securities loaned	–	–		16,780	16,780	16,780	16,780
Derivative financial instruments	5,721	–		–	–	5,721	5,721
Due to clients, dealers and brokers	–	–		1,996	1,996	1,996	1,996
Liabilities related to transferred receivables	–	6,127		10,952	11,067	17,079	17,194
Other liabilities	133	–		2,224	2,243	2,357	2,376
Subordinated debt	–	–		1,881	1,904	1,881	1,904

(1) An amount of $790 million classified in *Other assets* as at October 31, 2014 is now presented separately in *Purchased receivables* on the Consolidated Balance Sheet.
(2) Including embedded derivative financial instruments.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

Establishing Fair Value

Unadjusted quoted prices in active markets provide the best evidence of fair value. When there is no quoted price in an active market, the Bank applies other valuation techniques that maximize the use of relevant observable inputs and that minimize the use of unobservable inputs. Such valuation techniques include the following: using information available from recent market transactions, referring to the current fair value of a comparable financial instrument, applying discounted cash flow analysis, applying option pricing models, or relying on any other valuation technique that is commonly used by market participants and has proven to yield reliable estimates. Judgment is required when applying many of the valuation techniques. The Bank's valuation was based on its assessment of the conditions prevailing as at October 31, 2015 and may change in the future. Furthermore, there may be valuation uncertainty resulting from the choice of valuation model used.

Valuation Governance

Fair value is established in accordance with a rigorous control framework. The Bank has policies and procedures that govern the process for determining fair value. These policies are documented and periodically reviewed by the Risk Management Group. All valuation models are validated, and controls have been implemented to ensure that they are applied.

The fair value of existing or new products is determined and validated by functions independent of the risk-taking team. Fair value matters are reviewed by complex valuation committees made up of experts from various specialized functions.

For financial instruments classified in Level 3 of the fair value hierarchy, the Bank has documented the classification policies to determine the hierarchy and there are controls in place to ensure that fair value is measured appropriately, reliably and consistently. Valuation methods and the underlying assumptions are reviewed on a regular basis.

Valuation Methods and Assumptions

Financial Instruments Whose Fair Value Equals Carrying Value

The carrying value of the following financial instruments is a reasonable approximation of fair value:

- cash and deposits with financial institutions;
- securities purchased under reverse repurchase agreements and securities borrowed;
- obligations related to securities sold under repurchase agreements and securities loaned;
- customers' liability under acceptances;
- acceptances;
- amounts due from clients, dealers and brokers;
- purchased receivables;
- amounts due to clients, dealers and brokers; and
- certain items of other assets and other liabilities.

Securities and Obligations Related to Securities Sold Short

These financial instruments are recognized at fair value on the Consolidated Balance Sheet. Their fair value is based on quoted prices in active markets, i.e., bid prices for financial assets and offered prices for financial liabilities. If there are no quoted prices in an active market, fair value is estimated based on prices for securities that, in substance, are identical. If such prices are not available, fair value is determined using valuation techniques that incorporate assumptions based primarily on observable market inputs such as current market prices, the contractual prices of the underlying instruments, the time value of money, credit risk, interest rate yield curves and currency rates.

When one or more significant inputs are not observable in the markets, fair value is established primarily on the basis of internal estimates and data that consider the valuation policies in effect at the Bank, economic conditions, the specific characteristics of the financial asset or liability and other relevant factors.

Securities Issued or Guaranteed by Governments, Municipalities, School Boards and U.S. Agencies

Securities issued or guaranteed include debt securities of the governments of Canada (federal and provincial), debt securities of municipalities and of school boards, debt securities of the U.S. government (U.S. Treasury), of other U.S. agencies and of other foreign governments. The fair value of these securities is based on unadjusted quoted prices in active markets. For those classified in Level 2, quoted prices for identical or similar instruments in active markets are used to determine fair value. In the absence of an observable market, valuation techniques such as the discounted cash flow method could be used, incorporating assumptions on benchmark yields (CDOR, LIBOR and other) and the risk spreads of similar securities.

Other Debt Securities

The fair value of other debt securities is determined primarily by using quoted prices in active markets. For those classified in Level 2, a valuation technique based on quoted prices of identical and similar instruments in an active market is used to determine fair value. In the absence of observable inputs, valuation techniques such as the discounted cash flow method could be used, incorporating assumptions on benchmark yields (CDOR, LIBOR and other) and the risk spreads of similar securities.

Restructured Notes of the Master Asset Vehicle (MAV) Conduits and Other Restructured Notes

In establishing the fair value of the restructured notes of the MAV conduits, the Bank considered the quality of the underlying assets. The Bank determined fair value using a valuation technique that incorporates discounted cash flows. For the restructured notes of the MAV I and MAV II Class A-1, A-2 and B conduits, the discount rate is based 80% on the CDX.IG index tranches and 20% on a basket of securities backed by assets such as credit card receivables, Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS) and automobile loans. The fair value valuation method also includes the effects of broker quotes and market conditions on the MAV II Class A-1, A-2, B and C notes. As at October 31, 2015, broker quotes were no longer observable and therefore no longer taken into consideration. As at October 31, 2014, for the restructured notes of the MAV I and MAV II Class A-1, A-2 and B conduits, the adjustment related to broker quotes represented 30% of the weighting used to determine fair value in accordance with market conditions on that date. For the restructured notes of the MAV I and MAV II Class C conduits, the adjustment related to broker quotes represented 100% of the weighting used to determine fair value as at October 31, 2014. The credit ratings and coupons were based on the terms set out in the restructured notes of the MAV conduits. Maturities are based on the anticipated cash flows of the underlying assets.

In establishing the fair value of the restructured notes, the Bank adjusts, as required, its liquidity assumption to reflect market conditions. The Bank determines the fair value of the restructured notes of the MAV conduits it is holding by comparing the value obtained using the above-described methodology against a range of values. The values situated in this range were obtained by adjusting various liquidity scenarios.

Derivative Financial Instruments

Derivative financial instruments are recorded at fair value on the Consolidated Balance Sheet. For exchange-traded derivative financial instruments, fair value is based on the quoted price in an active market, i.e., bid prices for financial assets or offered prices for financial liabilities.

For over-the-counter (OTC) derivative financial instruments, fair value is determined using well established valuation techniques that incorporate assumptions based primarily on observable market inputs such as current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves, currency rates as well as price and rate volatility factors. In establishing the fair value of OTC derivative financial instruments, the Bank also incorporates the following factors:

Credit Valuation Adjustment (CVA)

The CVA is a valuation adjustment applied to derivative financial instruments to reflect the credit risk of the counterparty. For each counterparty, the CVA is based on the expected positive exposure and probabilities of default through time. The exposures are determined by incorporating relevant factors such as current and potential future market values, master netting arrangements, collateral agreements and expected recovery rates. The default probabilities are inferred using credit default swap (CDS) spreads. When unavailable, relevant proxies are used. While the general methodology currently assumes independence between expected positive exposures and probabilities of default, adjustments are applied to certain types of transactions where there is a direct link between the exposure at default and the default probabilities.

Debit Valuation Adjustment (DVA)

The DVA reflects the Bank's own credit risk in the valuation of derivative financial instruments. The DVA is based on the expected negative exposure and probabilities of default of the Bank through time. The exposures are determined by incorporating relevant factors such as current and potential future market values, master netting arrangements, collateral agreements and expected recovery rates. The market implied spreads of the Bank are used in the calculation of the DVA.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

Funding Valuation Adjustment (FVA)
The FVA is a valuation adjustment applied to derivative financial instruments to reflect the market implied cost or benefits of funding collateral for uncollateralized or partly collateralized transactions. The expected exposures are determined using methodologies consistent with the CVA and DVA framework. The funding level used to determine the FVA is based on the average funding level of relevant market participants.

When the valuation techniques incorporate one or more significant inputs that are not observable in the markets, the fair value of OTC derivative financial instruments is established primarily on the basis of internal estimates and data that consider the valuation policies in effect at the Bank, economic conditions, the specific characteristics of the financial asset or financial liability and other relevant factors.

Loans
The fair value of fixed-rate mortgage loans is determined by discounting expected future contractual cash flows, adjusted for several factors, including prepayment options, current market interest rates for similar loans, and other relevant variables where applicable. The fair value of variable-rate mortgage loans is deemed to equal carrying value.

The fair value of other fixed-rate loans is determined by discounting expected future contractual cash flows using current market interest rates charged for similar new loans. The fair value of variable-rate loans is deemed to equal carrying value.

Deposits
The fair value of fixed-term deposits is determined primarily by discounting expected future contractual cash flows and considering several factors such as redemption options and market interest rates currently offered for financial instruments with similar conditions. For certain term funding instruments, fair value is determined using market prices for similar instruments. The fair value of demand deposits and notice deposits is deemed to equal carrying value.

The fair value of structured deposit notes is established using valuation models that maximize the use of observable inputs when available, such as benchmark indices. In addition, the Bank incorporates the DVA, which reflects the Bank's own credit risk. In calculating DVA, the market implied spreads of the Bank are used to infer its probabilities of default.

Liabilities Related to Transferred Receivables
These liabilities arise from two types of transactions: (1) the sale to Canada Housing Trust (CHT) of securities backed by insured residential mortgages and other securities under the Canada Mortgage Bond (CMB) program, and (2) the sale of insured and uninsured residential mortgages to a mutual fund administered by the Bank. These transactions do not qualify for derecognition. They are recorded as guaranteed borrowings, which results in the recording of liabilities on the Consolidated Balance Sheet. As part of the sale to CHT, the fair value of the liability is established using valuation techniques based on observable market inputs such as Canada Mortgage Bond prices. As for the sales to the mutual fund, the fair value of the liability is determined by discounting expected contractual cash flows, adjusted for prepayment options, using market interest rates currently offered for similar new financial instruments.

Other Liabilities and Subordinated Debt
The fair value of these financial liabilities is based on quoted market prices in an active market. If there is no active market, fair value is determined by discounting contractual cash flows using the current market interest rates offered for similar financial instruments that have the same term to maturity.

Hierarchy of Fair Value Measurements

IFRS establishes a fair value hierarchy that classifies the inputs used in financial instrument fair value measurement techniques according to three levels. This fair value hierarchy requires observable market inputs to be used whenever such inputs exist. According to the hierarchy, the highest level of inputs are unadjusted quoted prices in active markets for identical instruments and the lowest level of inputs are unobservable inputs. If inputs from different levels of the hierarchy are used, the financial instrument is classified in the same level as the lowest level input that is significant to the fair value measurement. The fair value hierarchy has the following levels.

- Level 1: Inputs corresponding to unadjusted quoted prices in active markets for identical assets and liabilities and accessible to the Bank at the measurement date. These instruments consist primarily of equity securities, derivative financial instruments traded in active markets, and certain highly liquid debt securities actively traded in over-the-counter markets.
- Level 2: Valuation techniques based on inputs, other than the quoted prices included in Level 1 inputs, that are directly or indirectly observable in the market for the asset or liability. These inputs are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market inputs by correlation or other means. These instruments consist primarily of certain loans, certain deposits, derivative financial instruments traded in over-the-counter markets, certain debt securities, certain equity securities whose value is not directly observable in an active market, liabilities related to transferred receivables and certain other liabilities.
- Level 3: Valuation techniques based on one or more significant inputs that are not observable in the market for the asset or liability. The Bank classifies financial instruments in Level 3 when the valuation technique is based on at least one significant input that is not observable in the markets. The valuation technique may also be partly based on observable market inputs.

Financial instruments whose fair values are classified in Level 3 consist of the following.

- Financial instruments measured at fair value through profit or loss: restructured notes, certain investments in asset-backed debt securities, investments in hedge funds for which there are certain restrictions on unit or security redemptions, as well as certain derivative financial instruments whose fair value is established using internal valuation models that are based on significant unobservable market inputs.
- Available-for-sale securities: restructured notes and private equity securities.
- Certain deposits (structured deposit notes) whose fair value is established using internal valuation models that are based on significant unobservable market inputs.

Transfers Between the Fair Value Hierarchy Levels

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

During fiscal 2015, the Bank transferred $631 million (no transfer for fiscal 2014) in restructured notes of the MAV I and II Class A-1, A-2, B and C conduits as well as certain other restructured notes from Level 3 to Level 2 as the unobservable inputs did not have a significant impact on fair value determination given the short expected maturity. In addition, during fiscal 2015, $120 million in securities classified as at fair value through profit or loss was transferred from Level 2 to Level 1 resulting from changing market conditions (no significant transfer for fiscal 2014). During fiscal years 2015 and 2014, other financial instruments were transferred to (or from) Level 3 due to changes in the availability of observable market inputs resulting from changing market conditions.

(millions of Canadian dollars)

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

Financial Instruments Recorded at Fair Value on the Consolidated Balance Sheet

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

				As at October 31, 2015
	Level 1	Level 2	Level 3	Total financial assets/liabilities at fair value
Financial assets				
Securities				
At fair value through profit or loss				
Securities issued or guaranteed by				
Canada	1,969	6,647	–	8,616
Provinces	–	10,359	–	10,359
Municipalities and school boards	–	789	–	789
U.S. Treasury, other U.S. agencies and other foreign governments	326	866	–	1,192
Other debt securities	–	3,264	–	3,264
Equity securities	17,145	611	21	17,777
	19,440	22,536	21	41,997
Available-for-sale				
Securities issued or guaranteed by				
Canada	283	6,184	–	6,467
Provinces	–	4,676	–	4,676
Municipalities and school boards	–	428	–	428
U.S. Treasury, other U.S. agencies and other foreign governments	904	25	–	929
Other debt securities	–	913	30	943
Equity securities	225	144	231	600
	1,412	12,370	261	14,043
Securities purchased under reverse repurchase agreements and securities borrowed	–	295	–	295
Loans and acceptances	–	4,565	–	4,565
Other				
Derivative financial instruments	95	10,730	17	10,842
	20,947	50,496	299	71,742
Financial liabilities				
Deposits	–	3,184	20	3,204
Other				
Obligations related to securities sold short	11,456	5,877	–	17,333
Derivative financial instruments	42	7,659	55	7,756
Liabilities related to transferred receivables	–	6,402	–	6,402
Other liabilities	–	50	–	50
	11,498	23,172	75	34,745

(millions of Canadian dollars)

			As at October 31, 2014	
	Level 1	Level 2	Level 3	Total financial assets/liabilities at fair value
Financial assets				
Securities				
At fair value through profit or loss				
Securities issued or guaranteed by				
Canada	2,376	5,151	–	7,527
Provinces	–	8,395	–	8,395
Municipalities and school boards	–	740	–	740
U.S. Treasury, other U.S. agencies and other foreign governments	1,294	448	–	1,742
Other debt securities	–	3,667	1,174	4,841
Equity securities	18,637	1,269	49	19,955
	22,307	19,670	1,223	43,200
Available-for-sale				
Securities issued or guaranteed by				
Canada	135	4,128	–	4,263
Provinces	–	3,880	–	3,880
Municipalities and school boards	–	348	–	348
U.S. Treasury, other U.S. agencies and other foreign governments	274	–	–	274
Other debt securities	–	408	89	497
Equity securities	223	120	148	491
	632	8,884	237	9,753
Securities purchased under reverse repurchase agreements and securities borrowed	–	415	–	415
Loans and acceptances	–	2,883	–	2,883
Other				
Derivative financial instruments	74	6,974	44	7,092
	23,013	38,826	1,504	63,343
Financial liabilities				
Deposits	–	2,645	81	2,726
Other				
Obligations related to securities sold short	12,795	5,372	–	18,167
Derivative financial instruments	45	5,593	83	5,721
Liabilities related to transferred receivables	–	6,127	–	6,127
Other liabilities	–	133	–	133
	12,840	19,870	164	32,874

(millions of Canadian dollars)

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

Financial Instruments Classified in Level 3

The Bank classifies financial instruments in Level 3 when the valuation technique is based on at least one significant input that is not observable in the markets. The valuation technique may also be based, in part, on observable market inputs. The following table shows the significant unobservable inputs used for the fair value measurements of financial instruments classified in Level 3 of the hierarchy.

As at October 31, 2015

	Fair value	Primary valuation techniques	Significant unobservable inputs	Range of input values Low	High
Financial assets					
Securities					
Other restructured notes of the MAV I and MAV II conduits	7	Net asset value	Net asset value		100 %
Equity securities and other debt securities	275	Discounted cash flows	Credit spread	425 Bps[1]	445 Bps[1]
		Net asset value	Net asset value		100 %
		Market comparable	EV/EBITDA[2] multiple	4.2 x	13 x
		Price-based model	Price equivalent	80 %	95 %
Other					
Derivative financial instruments					
Interest rate contracts	2	Discounted cash flows	Discount rate		2.20 %
Equity contracts	15	Option pricing model	Long-term volatility	9 %	49 %
			Market correlation	(50) %	77 %
	299				
Financial liabilities					
Deposits					
Structured deposit notes	20	Option pricing model	Long-term volatility	10 %	59 %
			Market correlation	(51) %	85 %
Other					
Derivative financial instruments					
Equity contracts	55	Option pricing model	Long-term volatility	9 %	67 %
			Market correlation	(50) %	85 %
	75				

(1) Bps or basis point is a unit of measure equal to 0.01%.
(2) EV/EBITDA means Enterprise Value/Earnings Before Interest, Taxes, Depreciation and Amortization.

(millions of Canadian dollars)

As at October 31, 2014

	Fair value	Primary valuation techniques	Significant unobservable inputs	Range of input values Low	High
Financial assets					
Securities					
Restructured notes of the MAV I conduits					
Class A-1 and A-2	941	Internal model(1)	Liquidity discount		3.00 %
			Credit spread(2)	33 Bps(3)	44 Bps(3)
Class B and other	122	Internal model(1)	Liquidity discount		3.00 %
			Credit spread(2)	33 Bps(3)	60 Bps(3)
			Net asset value		100 %
Restructured notes of the MAV II and MAV III conduits and other restructured notes					
Class A-1 and A-2	5	Internal model(1)	Liquidity discount		1.50 %
			Credit spread(2)	42 Bps(3)	125 Bps(3)
Class B and other	57	Internal model(1)	Liquidity discount		1.50 %
			Credit spread(2)	42 Bps(3)	164 Bps(3)
			Net asset value		100 %
Other restructured notes	111	Internal model(1)	Liquidity discount	1.50 %	6.31 %
			Credit spread(2)	51 Bps(3)	91 Bps(3)
Equity securities and other debt securities	224	Net asset value	Net asset value		100 %
		Market comparable	EV/EBITDA(4) multiple	4.2 x	13 x
		Price-based model	Price equivalent	80 %	95 %
Other					
Derivative financial instruments					
Interest rate contracts	1	Discounted cash flows	Discount rate		2.10 %
Equity contracts	43	Option pricing model	Long-term volatility	12 %	36 %
			Market correlation	(31) %	81 %
	1,504				
Financial liabilities					
Deposits					
Structured deposit notes	81	Option pricing model	Long-term volatility	14 %	35 %
			Market correlation	(7) %	78 %
Other					
Derivative financial instruments					
Equity contracts	83	Option pricing model	Long-term volatility	12 %	36 %
			Market correlation	(31) %	99 %
	164				

(1) See page 133 for a description of the valuation techniques.
(2) Credit spread does not include the liquidity discount.
(3) Bps or basis point is a unit of measure equal to 0.01%.
(4) EV/EBITDA means Enterprise Value/Earnings Before Interest, Taxes, Depreciation and Amortization.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

Significant Unobservable Inputs Used for Fair Value Measurements Classified in Level 3

Liquidity Discount

The liquidity discount is the difference in liquidity between the measured financial asset and comparable assets. There is no predictable correlation between the liquidity discount and the credit spread. An increase (decrease) in this unobservable input generally results in a decrease (increase) in fair value.

Credit Spread

Credit spread is the difference between a benchmark interest rate and the interest rate required by market participants to accept the lower credit quality of the measured financial asset. The interest rate on certain government bonds with a high credit rating and a maturity similar to the measured asset can often be considered a benchmark interest rate. An increase (decrease) in this unobservable input generally results in a decrease (increase) in fair value.

Long-Term Volatility

Volatility is a measure of the expected future variability of market prices. Volatility is generally observable in the market through options prices. However, the long-term volatility of options with a longer maturity might not be observable. An increase (decrease) in long-term volatility is generally associated with an increase (decrease) in long-term correlation. Higher long-term volatility may increase or decrease an instrument's fair value depending on its terms.

Market Correlation

Correlation is a measure of the inter-relationship between two different variables. A positive correlation means that the variables tend to move in the same direction; a negative correlation means that the variables tend to move in opposite directions. Correlation is used to measure financial instruments whose future returns depend on several variables. Changes in correlation will either increase or decrease a financial instrument's fair value depending on the terms of its contractual payout.

Net Asset Value

Net asset value is the estimated value of a security based on valuations received from the investment or fund managers or the general partners of the limited partnerships. The net asset value of a fund is the total fair value of assets less liabilities.

EV/EBITDA (Enterprise Value/Earnings Before Interest, Taxes, Depreciation and Amortization) Multiple and Price Equivalent

Private equity valuation inputs include earnings multiples, which are determined based on comparable companies, and a higher multiple will translate into a higher fair value. Price equivalent is a percentage of the market price based on the liquidity of the security.

Discount Rate

When discounted cash flow methods are used, the discount rate is the input used to bring future cash flows to their present value. A higher discount rate will translate into a lower fair value.

Sensitivity Analysis of Financial Instruments Classified in Level 3

The Bank performs sensitivity analyses for the fair value measurements of financial instruments classified in Level 3, substituting unobservable inputs with one or more reasonably possible alternative assumptions.

As at October 31, 2015, for the other restructured notes of the MAV I and MAV II conduits classified in Level 3, the most significant input used to determine fair value is net asset value. As at October 31, 2015, the Bank varies the values used within a range that could result in a less-than $1 million increase or decrease in fair value.

As at October 31, 2014, for the restructured notes of the MAV conduits, the most significant unobservable inputs used to determine fair value were the liquidity discount, the credit spread (a component of the discount rate) and the weighting attributed to the discount rate and the broker quotes for the MAV II Class A-1, A-2 and B notes. As at October 31, 2014, a 100-basis-point change in the liquidity discount would have resulted in an $11 million decrease or increase in fair value. A 10-basis-point change in the discount rate would have resulted in a $6 million decrease or increase in the fair value of the MAV I and II Class A-1, A-2 and B restructured notes. Also, a 10% change in the weighting attributed to the discount rate and the broker quotes on the MAV II Class A-1, A-2 and B notes would have resulted in a $7 million decrease or increase in fair value. The fair values resulting from such assumptions could have been situated within the ranges or outside the ranges established by the Bank.

For private equity securities, the Bank varies significant unobservable inputs such as net asset values, credit spreads, or EV/EBITDA multiple and price equivalent, and establishes a reasonable fair value range that could result in a $36 million increase or decrease in the fair value recorded as at October 31, 2015 (a $16 million increase or decrease as at October 31, 2014).

For derivative financial instruments and embedded derivatives related to structured deposit notes, the Bank varies long-term volatility and market correlation inputs and establishes a reasonable fair value range. As at October 31, 2015, for derivative financial instruments, the net fair value could result in an $11 million increase or decrease ($10 million increase or decrease as at October 31, 2014), whereas for structured deposit notes, the fair value could result in a $4 million increase or decrease ($12 million increase or decrease as at October 31, 2014).

(millions of Canadian dollars)

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

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

	Year ended October 31, 2015			
	Securities at fair value through profit or loss	**Available-for-sale securities**	**Derivative financial instruments**[(1)]	**Deposits**
Fair value as at October 31, 2014	**1,223**	**237**	**(39)**	**(81)**
Total realized and unrealized gains (losses) included in *Net income* [(2)]	**56**	**62**	**(5)**	**(5)**
Total realized and unrealized gains (losses) included in *Other comprehensive income*	**–**	**(25)**	**–**	**–**
Purchases	**3**	**85**	**–**	**–**
Sales	**(43)**	**(99)**	**–**	**–**
Issuances	**–**	**–**	**–**	**(20)**
Settlements and other	**(587)**	**(5)**	**3**	**–**
Financial instruments transferred into Level 3	**–**	**6**	**(6)**	**(10)**
Financial instruments transferred out of Level 3	**(631)**	**–**	**9**	**96**
Fair value as at October 31, 2015	**21**	**261**	**(38)**	**(20)**
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at October 31, 2015[(3)]	**1**	**–**	**(5)**	**(5)**

	Year ended October 31, 2014			
	Securities at fair value through profit or loss	Available-for-sale securities	Derivative financial instruments[(1)]	Deposits
Fair value as at October 31, 2013	1,351	248	(18)	(73)
Total realized and unrealized gains (losses) included in *Net income* [(4)]	106	12	(6)	2
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	11	–	–
Purchases	24	18	–	–
Sales	(207)	(44)	–	–
Issuances	–	–	–	(51)
Settlements and other	(51)	(9)	–	–
Financial instruments transferred into Level 3	–	–	(9)	(10)
Financial instruments transferred out of Level 3	–	1	(6)	51
Fair value as at October 31, 2014	1,223	237	(39)	(81)
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at October 31, 2014[(5)]	98	–	(6)	2

(1) The derivative financial instruments include assets and liabilities presented on a net basis.
(2) Total net gains included in *Non-interest income* was $108 million.
(3) Total unrealized losses included in *Non-interest income* was $9 million.
(4) Total net gains included in *Non-interest income* was $114 million.
(5) Total unrealized gains included in *Non-interest income* was $94 million.

(millions of Canadian dollars)

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

Financial Instruments Not Recorded at Fair Value on the Consolidated Balance Sheet

The following tables show the financial instruments that have not been recorded at fair value on the Consolidated Balance Sheet according to the fair value hierarchy, except for those whose carrying value is a reasonable approximation of fair value.

				As at October 31, 2015
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans	–	36,947	65,060	102,007
Financial liabilities				
Deposits	–	126,096	–	126,096
Other				
Liabilities related to transferred receivables	–	13,427	–	13,427
Other liabilities	–	1,348	–	1,348
Subordinated debt	–	1,526	–	1,526
	–	142,397	–	142,397

				As at October 31, 2014
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans	–	42,265	52,765	95,030
Financial liabilities				
Deposits	–	117,505	–	117,505
Other				
Liabilities related to transferred receivables	–	11,067	–	11,067
Other liabilities	–	1,354	–	1,354
Subordinated debt	–	1,904	–	1,904
	–	131,830	–	131,830

(millions of Canadian dollars)

NOTE 4 – FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The Bank chose to designate certain financial instruments at fair value through profit or loss according to the criteria presented in Note 1. Consistent with its risk management strategy and as permitted by the fair value option, when the designation eliminates or significantly reduces the measurement or recognition mismatch resulting from measuring financial assets and liabilities on different bases, the Bank designated as at fair value through profit or loss certain securities, certain securities purchased under reverse repurchase agreements, and certain liabilities related to transferred receivables. The fair value of liabilities related to transferred receivables does not include credit risk, as the holders of these liabilities are not exposed to the Bank's credit risk.

The Bank also designated certain hybrid financial instruments with one or more embedded derivatives, such as restructured notes of the MAV conduits, certain deposits, and certain loans as at fair value through profit or loss. There is no exposure to credit risk on the loans to the extent that they are fully collateralized.

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

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

	Carrying value as at October 31, 2015	Change in the total fair value (including the change in the fair value attributable to credit risk) for the year ended October 31, 2015	Change in fair value since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss			
Securities	2,244	66	347
Securities purchased under reverse repurchase agreements	295	–	–
Loans	152	(19)	(25)
	2,691	47	322
Financial liabilities designated at fair value through profit or loss			
Deposits(1)(2)	3,053	100	–
Liabilities related to transferred receivables	6,402	(76)	(250)
	9,455	24	(250)

	Carrying value as at October 31, 2014	Change in the total fair value (including the change in the fair value attributable to credit risk) for the year ended October 31, 2014	Change in fair value since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss			
Securities	2,640	117	416
Securities purchased under reverse repurchase agreements	415	–	–
Loans	121	(18)	(18)
	3,176	99	398
Financial liabilities designated at fair value through profit or loss			
Deposits(1)(2)	2,524	(77)	(148)
Liabilities related to transferred receivables	6,127	10	(183)
	8,651	(67)	(331)

(1) For the year ended October 31, 2015, the change in the fair value of deposits designated at fair value through profit or loss attributable to credit risk resulted in a $30 million gain ($2 million for the year ended October 31, 2014).
(2) The amount at maturity that the Bank will be contractually required to pay to the holders of these deposits varies and will differ from the reporting date fair value.

(millions of Canadian dollars)

NOTE 5 – OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities are offset and the net amount is presented on the Consolidated Balance Sheet when the Bank has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Generally, over-the-counter financial derivatives subject to master netting arrangements of the International Swaps & Derivatives Association, Inc. or other similar agreements do not meet the netting criteria on the Consolidated Balance Sheet because the right of set-off is legally enforceable only in the event of default, insolvency or bankruptcy.

Generally, securities purchased under reverse repurchase agreements and securities borrowed as well as obligations related to securities sold under repurchase agreements and securities loaned, subject to master agreements, do not meet the netting criteria since they confer a right of set-off that is enforceable only in the event of default, insolvency or bankruptcy.

However, the above-mentioned transactions may be subject to contractual netting agreements concluded with clearing houses. If the netting criteria are met, these transactions are netted on the Consolidated Balance Sheet. In addition, as part of these transactions, the Bank may give or receive cash or other financial instruments used as collateral.

The following tables present information on financial assets and financial liabilities that are netted on the Consolidated Balance Sheet because they meet the netting criteria and on those that are not netted and are subject to an enforceable master netting arrangement or similar agreement.

						As at October 31, 2015
				Associated amounts not set off on the Consolidated Balance Sheet		
	Gross amounts recognized	Amounts set off on the Consolidated Balance Sheet	Net amounts reported on the Consolidated Balance Sheet	Financial instruments(1)	Financial assets received/pledged as collateral(2)	Net amounts
Financial assets						
Securities purchased under reverse repurchase agreements and securities borrowed	24,997	7,295	17,702	704	16,955	43
Derivative financial instruments	12,400	1,558	10,842	5,110	2,818	2,914
	37,397	8,853	28,544	5,814	19,773	2,957
Financial liabilities						
Obligations related to securities sold under repurchase agreements and securities loaned	21,074	7,295	13,779	704	13,000	75
Derivative financial instruments	9,314	1,558	7,756	5,110	1,119	1,527
	30,388	8,853	21,535	5,814	14,119	1,602

						As at October 31, 2014
				Associated amounts not set off on the Consolidated Balance Sheet		
	Gross amounts recognized	Amounts set off on the Consolidated Balance Sheet	Net amounts reported on the Consolidated Balance Sheet	Financial instruments(1)	Financial assets received/pledged as collateral(2)	Net amounts
Financial assets						
Securities purchased under reverse repurchase agreements and securities borrowed	32,381	7,856	24,525	2,825	21,608	92
Derivative financial instruments	7,585	493	7,092	3,661	1,960	1,471
	39,966	8,349	31,617	6,486	23,568	1,563
Financial liabilities						
Obligations related to securities sold under repurchase agreements and securities loaned	24,636	7,856	16,780	2,825	13,852	103
Derivative financial instruments	6,214	493	5,721	3,661	698	1,362
	30,850	8,349	22,501	6,486	14,550	1,465

(1) Carrying amount of financial instruments that are subject to a master netting agreement or similar agreement but that do not satisfy offsetting criteria.
(2) Excluding non-financial instruments collateral.

(millions of Canadian dollars)

NOTE 6 – SECURITIES

Residual Contractual Maturities of Securities

As at October 31	2015					2014
	1 year or less	Over 1 year to 5 years	Over 5 years	No specified maturity	Total	Total
Securities at fair value through profit or loss						
Securities issued or guaranteed by						
Canada	1,595	5,339	1,682	–	8,616	7,527
Provinces	1,252	5,726	3,381	–	10,359	8,395
Municipalities and school boards	140	456	193	–	789	740
U.S. Treasury, other U.S. agencies and other foreign governments	470	625	97	–	1,192	1,742
Other debt securities	604	1,307	1,353	–	3,264	4,841
Equity securities	8	12	–	17,757	17,777	19,955
	4,069	13,465	6,706	17,757	41,997	43,200
Available-for-sale securities						
Securities issued or guaranteed by						
Canada	342	5,323	802	–	6,467	4,263
Provinces	3	692	3,981	–	4,676	3,880
Municipalities or school boards	1	79	348	–	428	348
U.S. Treasury, other U.S. agencies and other foreign governments	39	805	85	–	929	274
Other debt securities	235	407	301	–	943	497
Equity securities	13	67	2	518	600	491
	633	7,373	5,519	518	14,043	9,753

Gross Gains (Losses) on Available-for-Sale Securities

	As at October 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities issued or guaranteed by				
Canada	6,423	62	(18)	6,467
Provinces	4,475	231	(30)	4,676
Municipalities and school boards	414	15	(1)	428
U.S. Treasury, other U.S. agencies and other foreign governments	929	2	(2)	929
Other debt securities	937	15	(9)	943
Equity securities	569	78	(47)	600
	13,747	403	(107)	14,043

	As at October 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities issued or guaranteed by				
Canada	4,226	38	(1)	4,263
Provinces	3,704	186	(10)	3,880
Municipalities and school boards	332	16	–	348
U.S. Treasury, other U.S. agencies and other foreign governments	274	–	–	274
Other debt securities	447	50	–	497
Equity securities	437	69	(15)	491
	9,420	359	(26)	9,753

(millions of Canadian dollars)

NOTE 6 – SECURITIES (cont.)

Impairment Losses Recognized

At the end of each reporting period, the Bank determines whether there is objective evidence of impairment for each available-for-sale security. During the year ended October 31, 2015, an amount of $26 million ($7 million for the year ended October 31, 2014) for impairment charges was recognized in *Gains (losses) on available-for-sale securities, net* in the Consolidated Statement of Income. In addition, during the years ended October 31, 2015 and 2014, no amounts were reversed in the Consolidated Statement of Income to recognize subsequent increases in the fair value of previously impaired debt securities.

Gross Unrealized Losses

As at October 31, 2015 and 2014, the Bank concluded that the gross unrealized losses on available-for-sale securities were mainly due to market price fluctuations and to changes in foreign exchange rates and that there is no objective evidence of impairment requiring an impairment charge to be recognized in the Consolidated Statement of Income.

Master Asset Vehicles

As at October 31, 2015, the face value of the restructured notes of the MAV conduits and of the other restructured notes held by the Bank was $703 million ($1,479 million as at October 31, 2014), of which $662 million was designated as *Securities at fair value through profit or loss* under the fair value option, and an amount of $41 million was classified in *Available-for-sale securities* ($1,253 million designated as *Securities at fair value through profit or loss* and $226 million classified in *Available-for-sale securities* as at October 31, 2014). The change in the face value of the restructured notes of the MAV conduits during the year ended October 31, 2015 was mainly due to capital repayments and disposals.

The Bank has committed to contribute $821 million ($831 million as at October 31, 2014) to a margin funding facility related to the MAV conduits in order to finance potential collateral calls. As at October 31, 2015 and 2014, no amount had been advanced by the Bank.

The carrying value of the restructured notes of the MAV conduits and of the other restructured notes held by the Bank in an investment portfolio as at October 31, 2015, designated as *Securities at fair value through profit or loss,* was $642 million, and $13 million was classified in *Available-for-sale securities* ($1,166 million designated as *Securities at fair value through profit or loss* and $75 million classified in *Available-for-sale securities* as at October 31, 2014). The notes held in an investment portfolio with one or more embedded derivatives were designated as *Securities at fair value through profit or loss* under the fair value option, and the other notes were classified in *Available-for-sale securities.*

During the year ended October 31, 2015, revenues amounting to $63 million were recorded to reflect capital repayments and a rise in the fair value of restructured notes ($92 million during the year ended October 31, 2014). These amounts were recorded in *Trading revenues* in the Consolidated Statement of Income. In addition, during the year ended October 31, 2015, a gain of $37 million was recorded upon the disposal of restructured notes of the MAV III conduits. This gain was recognized in *Gains (losses) on available-for-sale securities, net* in the Consolidated Statement of Income. The carrying value of the restructured notes, designated as *Securities at fair value through profit or loss,* was within the range of the estimated fair value as at October 31, 2015. The credit rating of the MAV I Class A-2 notes was upgraded from “A (sf)” to “AA low (sf)” and the credit rating of the MAV II Class A-2 notes was upgraded from “A (low) (sf)” to “A (sf).” The credit rating of the MAV I Class B notes was upgraded from “BBB (low) (sf)” to "A (sf)." The credit rating of the MAV II Class A-1 notes remained unchanged at “AA (low) (sf).”

The following table presents the carrying values of the MAV-related financial assets and liabilities and their residual contractual maturities, which are not representative of expected maturities.

As at October 31

					Carrying value	
					2015	2014
	1 year or less	Over 1 year to 5 years	Over 5 years	No specified maturity	Total	Total
MAV I and MAV II	–	–	548	–	548	1,072
MAV III	–	–	–	–	–	63
Commercial paper not included in the Pan-Canadian restructuring plan	20	81	–	–	101	101
Liquidation trust units	–	–	–	6	6	5
	20	81	548	6	655	1,241
Margin funding facility	–	(11)	–	–	(11)	(21)
	20	70	548	6	644	1,220

(millions of Canadian dollars)

NOTE 7 – LOANS

Credit Quality

				As at October 31, 2015
	Residential mortgage	Personal and credit card	Business and government[1][2]	Total
Neither past due[3] nor impaired	43,184	31,556	39,953	114,693
Past due[3] but not impaired	266	295	96	657
Impaired	70	82	305	457
Gross loans	43,520	31,933	40,354	115,807
Less: Allowances on impaired loans				
Individual allowances	10	18	151	179
Collective allowances	–	22	2	24
Allowances on impaired loans	10	40	153	203
	43,510	31,893	40,201	115,604
Less: Collective allowance on non-impaired loans[4]				366
Loans, net of allowances				115,238

				As at October 31, 2014
	Residential mortgage	Personal and credit card	Business and government[1][2]	Total
Neither past due[3] nor impaired	38,969	29,663	36,987	105,619
Past due[3] but not impaired	270	252	146	668
Impaired	61	81	344	486
Gross loans	39,300	29,996	37,477	106,773
Less: Allowances on impaired loans				
Individual allowances	9	15	191	215
Collective allowances	–	21	2	23
Allowances on impaired loans	9	36	193	238
	39,291	29,960	37,284	106,535
Less: Collective allowance on non-impaired loans[4]				366
Loans, net of allowances				106,169

(1) Business credit portfolios are closely monitored and a monthly watchlist of problem commitments is produced. The watchlist is analyzed by the loan portfolio managers concerned, who must then submit a report to Credit Risk Management.
(2) Including customers' liability under acceptances.
(3) A loan is past due when the counterparty has not made a payment by the contractual due date.
(4) The collective allowance on non-impaired loans for credit risk was established taking into account the Bank's overall credit portfolio.

(millions of Canadian dollars)

NOTE 7 – LOANS (cont.)

Loans Past Due But Not Impaired[1]

As at October 31			2015			2014
	Residential mortgage	Personal and credit card	Business and government[2]	Residential mortgage	Personal and credit card	Business and government[2]
Past due but not impaired						
31 to 60 days	120	109	36	123	90	56
61 to 90 days	54	38	26	45	30	23
90 days and greater	92	148	34	102	132	67
	266	295	96	270	252	146

(1) This table does not present loans less than 31 days past due as they are not considered past due from an administrative standpoint.
(2) As at October 31, 2015, the fair value of financial collateral held against loans past due but not impaired was $16 million ($20 million as at October 31, 2014).

Impaired Loans

				As at October 31, 2015
	Gross	Individual allowances	Collective allowances	Net
Loans				
Residential mortgage	70	10	–	60
Personal and credit card	82	18	22	42
Business and government[1]	305	151	2	152
	457	179	24	254

				As at October 31, 2014
	Gross	Individual allowances	Collective allowances	Net
Loans				
Residential mortgage	61	9	–	52
Personal and credit card	81	15	21	45
Business and government	344	191	2	151
	486	215	23	248

(1) Including customers' liability under acceptances.

(millions of Canadian dollars)

Allowances for Credit Losses

	Year ended October 31, 2015								
	Residential mortgage		Personal and credit card		Business and government[1]		Total		
	Individual allowances	Collective allowances	Individual allowances	Collective allowances	Individual allowances	Collective allowances	Individual allowances	Collective allowances	Total
Allowances on impaired loans[1]									
Balance at beginning	9	–	15	21	191	2	215	23	238
Provisions for credit losses	10	–	121	35	60	2	191	37	228
Write-offs	(9)	–	(38)	(40)	(108)	(2)	(155)	(42)	(197)
Write-offs on credit cards	–	–	(81)	–	–	–	(81)	–	(81)
Recoveries	–	–	1	6	8	–	9	6	15
Balance at end	10	–	18	22	151	2	179	24	203
Collective allowance on non-impaired loans[2]									366
Total allowances									569

	Year ended October 31, 2014								
	Residential mortgage		Personal and credit card		Business and government		Total		
	Individual allowances	Collective allowances	Individual allowances	Collective allowances	Individual allowances	Collective allowances	Individual allowances	Collective allowances	Total
Allowances on impaired loans									
Balance at beginning	7	–	13	20	170	2	190	22	212
Provisions for credit losses	7	–	116	34	49	2	172	36	208
Write-offs	(7)	–	(36)	(38)	(35)	(2)	(78)	(40)	(118)
Write-offs on credit cards	–	–	(79)	–	–	–	(79)	–	(79)
Recoveries	2	–	1	5	7	–	10	5	15
Balance at end	9	–	15	21	191	2	215	23	238
Collective allowance on non-impaired loans[2]									366
Total allowances									604

(1) Including customers' liability under acceptances.
(2) The collective allowance on non-impaired loans for credit risk was established taking into account the Bank's overall credit portfolio.

(millions of Canadian dollars)

NOTE 7 – LOANS (cont.)

Distribution of Gross and Impaired Loans by Borrower Category Under the Basel Asset Classes

					2015
			As at October 31	Year ended October 31	
	Gross loans(1)	Impaired loans(1)	Allowances for impaired loans(1)	Provisions for credit losses	Write-offs
Retail					
Residential mortgage(2)	54,004	77	10	11	9
Qualifying revolving retail(3)	4,093	19	11	107	108
Other retail(4)	9,512	51	28	49	51
	67,609	147	49	167	168
Non-retail(1)					
Agriculture	4,433	29	9	3	2
Mining, oil and gas	3,612	62	46	36	27
Construction and real estate(5)	10,439	40	5	(3)	4
Manufacturing	3,765	28	20	3	30
Wholesale and retail	4,873	74	36	16	14
Transportation	1,956	10	4	–	–
Telecommunications, media and technology	1,254	23	6	2	–
Financial institutions	2,679	1	–	–	–
Services	5,414	17	7	1	28
Governments and other related services	4,447	18	13	3	–
Other	5,326	8	8	–	5
	48,198	310	154	61	110
	115,807	457	203	228	278

					2014
			As at October 31	Year ended October 31	
	Gross loans(1)	Impaired loans	Allowances for impaired loans	Provisions for credit losses	Write-offs
Retail					
Residential mortgage(2)	50,011	66	10	7	7
Qualifying revolving retail(3)	4,033	19	10	101	103
Other retail(4)	9,027	52	24	49	50
	63,071	137	44	157	160
Non-retail(1)					
Agriculture	3,857	17	8	(1)	4
Mining, oil and gas	3,868	68	29	7	2
Construction and real estate(5)	9,088	44	14	7	3
Manufacturing	3,689	64	55	4	3
Wholesale and retail	5,281	62	31	26	4
Transportation	1,223	11	5	2	2
Telecommunications, media and technology	1,540	11	7	1	–
Financial institutions	1,482	1	–	–	–
Services	5,226	31	20	3	11
Governments and other related services	4,082	26	11	–	–
Other	4,366	14	14	2	8
	43,702	349	194	51	37
	106,773	486	238	208	197

(1) Including customers' liability under acceptances.
(2) Includes residential mortgages on one-to-four unit dwellings (Basel definition) and home equity lines of credit.
(3) Includes lines of credit and credit card receivables.
(4) Includes consumer loans and other retail loans but excludes SME loans.
(5) Includes non-residential mortgages.

(millions of Canadian dollars)

NOTE 8 – FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

In the normal course of its business, the Bank enters into transactions in which it transfers financial assets such as securities or loans directly to third parties, in particular structured entities. According to the terms of some of those transactions, the Bank retains substantially all of the risks and rewards related to those financial assets. The risks include credit risk, interest rate risk, foreign exchange risk, prepayment risk and other price risks, whereas the rewards include income streams associated with the financial assets. As such, those financial assets are not derecognized and the transactions are treated as collateralized or secured borrowings. The nature of those transactions is described below.

Securities Sold Under Repurchase Agreements and Securities Loaned
When securities are sold under repurchase agreements and securities loaned under securities lending agreements, the Bank transfers financial assets to third parties in accordance with the standard terms for such transactions. These third parties may have an unlimited right to resell or repledge the financial assets received. If cash collateral is received, the Bank records the cash along with an obligation to return the cash, which is included in *Obligations related to securities sold under repurchase agreements and securities loaned* on the Consolidated Balance Sheet. Where securities are received as collateral, the Bank does not record the collateral on the Consolidated Balance Sheet.

Financial Assets Transferred to Structured Entities
Under the Canada Mortgage Bond (CMB) program, the Bank sells securities backed by insured residential mortgages and other securities to Canada Housing Trust (CHT), which finances the purchase through the issuance of insured mortgage bonds. Third-party CMB investors have legal recourse only to the transferred assets. The Bank also sells insured and non-insured residential mortgages to a mutual fund administered by the Bank. The cash received for these transferred assets is treated as a secured borrowing, and a corresponding liability is recorded in *Liabilities related to transferred receivables* on the Consolidated Balance Sheet.

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

As at October 31	2015	2014
Carrying value of financial assets transferred but not derecognized		
Securities(1)	32,902	31,359
Residential mortgages	17,732	15,790
	50,634	47,149
Carrying value of associated liabilities(2)	26,820	28,933
Fair value of financial assets transferred but not derecognized		
Securities(1)	32,902	31,359
Residential mortgages	18,032	16,068
	50,934	47,427
Fair value of associated liabilities(2)	26,879	29,049

(1) The amount related to the securities loaned is the maximum amount of Bank securities that can be lent. For the obligations related to securities sold under repurchase agreements, the amount includes the Bank's own financial assets as well as those of third parties.
(2) Associated liabilities include obligations related to securities sold under repurchase agreements before the offsetting impact of $1,411 million as at October 31, 2015 ($2,737 million as at October 31, 2014) and liabilities related to transferred receivables. Liabilities related to securities loaned are not included, as the Bank can lend its own financial assets and those of third parties. The carrying value and fair value of liabilities related to securities loaned were $8,140 million as at October 31, 2015 ($7,662 million as at October 31, 2014).

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

As at October 31	2015	2014
Carrying value of financial assets transferred but not derecognized		
Securities backed by insured residential mortgages and other securities sold to CHT	18,958	16,604
Securities sold under repurchase agreements	7,148	11,921
Securities loaned	24,526	18,619
Residential mortgages transferred to a mutual fund	2	5
	50,634	47,149

(millions of Canadian dollars)

NOTE 9 – ASSOCIATES AND JOINT VENTURES

As at October 31			2015	2014
	Business segment	Ownership percentage	Carrying value	Carrying value
Listed associates[1]				
TMX Group Limited[2]	Other	8.7 %	240	232
Fiera Capital Corporation[3]	Wealth Management	22.7 %	149	207
Unlisted associates				
Maple Financial Group Inc.	Financial Markets	24.9 %	160	170
Other[4]			248	58
Unlisted joint ventures			34	30
			831	697

(1) The fair value of investments in associates based on quoted prices in an active market was $399 million as at October 31, 2015 ($554 million as at October 31, 2014).
(2) The Bank exercises significant influence over TMX Group Limited mainly because of its equity interest, debt financing, and presence on TMX Group's board of directors.
(3) During fiscal 2015, the Bank disposed of a portion of its equity interest in Fiera Capital Corporation. For additional information, see Note 33.
(4) During fiscal 2015, the Bank acquired an equity interest in NSIA Participations (NSIA), a financial group headquartered in Abidjan, Côte d'Ivoire. Through this transaction, the Bank and Amethis Africa Finance (Amethis Finance) acquired the interest held by ECP Africa Fund III PCC in NSIA. The Bank has a 20.9% interest in NSIA, while that of Amethis Finance is 5.4%, and the Bank's purchase price was $116 million. The Bank has accounted for this investment using the equity method since the acquisition date.

As at October 31, 2015 and 2014, there were no significant restrictions limiting the ability of associates and joint ventures to transfer funds to the Bank in the form of dividends or to repay any loans or advances. Furthermore, the Bank has not made any specific commitment or contracted any contingent liability with respect to associates or joint ventures.

<u>TMX Group Limited</u>
TMX Group Limited is a Canadian corporation that directly or indirectly controls a number of entities that operate stock exchanges and clearing houses and provide clearing and settlement services. During the year ended October 31, 2015, TMX Group Limited paid $8 million in dividends to the Bank ($8 million for the year ended October 31, 2014).

<u>Fiera Capital Corporation</u>
Fiera Capital Corporation is an independent Canadian investment management firm. During the year ended October 31, 2015, Fiera Capital Corporation paid $9 million in dividends to the Bank ($10 million for the year ended October 31, 2014).

<u>Maple Financial Group Inc.</u>
The Bank holds a 24.9% equity interest in Maple Financial Group Inc., a privately owned Canadian company that operates in Canada, Germany, the United Kingdom and the United States. The company is active in equity, fixed income and associated derivative financial instrument markets in these locations to provide structured financial solutions for the needs of its customers and market-neutral trading for its own account.

Maple Bank GmbH, an indirectly wholly owned subsidiary of the company, is subject to an investigation by German prosecutors regarding alleged tax irregularities for taxation years 2006 to 2010. Given the seriousness of the reported allegations and the actions that may be taken by German regulatory authorities, the Bank recognizes that there is uncertainty as to the valuation of its investment.

At this time, the Bank does not have sufficient information to be used in valuing its investment. As at October 31, 2015, the carrying value of the investment was $160 million ($138 million net of income taxes). Should this investment be fully written off, diluted earnings per share would be reduced by $0.41 and Common Equity Tier 1 regulatory capital under Basel III would be reduced by 13 basis points.

(millions of Canadian dollars)

The following table provides summarized financial information on the Bank's listed associates.

As at October 31			2015	2014
	TMX Group Limited[1]	Fiera Capital Corporation[1]	Total	Total
Balance sheet				
Current assets	14,163	83	14,246	11,136
Non-current assets	4,776	693	5,469	5,517
Current liabilities	14,052	45	14,097	11,074
Non-current liabilities	1,888	289	2,177	2,222
Income statement				
Total revenues	723	217	940	905
Net income	147	26	173	79
Other comprehensive income	9	17	26	18
Comprehensive income	156	43	199	97

(1) The balance sheet amounts are the balances reported in the unaudited financial statements as at September 30, 2015 and 2014, which are the most recent available, and the income statement amounts are based on the cumulative balances for the 12-month periods ended September 30, 2015 and 2014.

The table below provides summarized financial information related to the Bank's share of Maple Financial Group Inc. and associates and joint ventures that are not individually significant.

As at October 31				2015[1]	2014[1]
	Maple Financial Group Inc.	Other unlisted associates	Unlisted joint ventures	Total	Total
Net income	(10) [2]	7	4	1	13
Other comprehensive income	–	–	–	–	–
Comprehensive income	(10)	7	4	1	13

(1) The amounts are based on the cumulative balances for the 12-month periods ended September 30, 2015 and 2014.
(2) Includes the Bank's $18 million share in the current tax asset write-down.

(millions of Canadian dollars)

NOTE 10 – PREMISES AND EQUIPMENT

	Land	Buildings	Computer equipment	Other equipment and furniture	Leasehold improvements	Total
Cost						
As at October 31, 2013	14	255	212	339	573	1,393
Acquisitions	–	1	20	15	16	52
Disposals	–	(2)	–	(5)	(7)	(14)
As at October 31, 2014	14	254	232	349	582	1,431
Acquisitions	–	2	65	1,597	21	1,685
Disposals	–	–	(2)	(58)	(6)	(66)
As at October 31, 2015	**14**	**256**	**295**	**1,888**	**597**	**3,050**
Accumulated amortization						
As at October 31, 2013		146	137	294	412	989
Amortization for the year		5	35	10	24	74
Disposals		(1)	–	(5)	(6)	(12)
As at October 31, 2014		150	172	299	430	1,051
Amortization for the year		5	38	125	25	193
Disposals		–	(1)	(5)	(5)	(11)
As at October 31, 2015		**155**	**209**	**419**	**450**	**1,233**
Carrying value as at October 31, 2014	14	104	60	50	152	380
Carrying value as at October 31, 2015	**14**	**101**	**86**	**1,469**	**147**	**1,817**

Assets Leased Under Operating Leases

The Bank is a lessor under operating lease agreements for certain buildings. In addition, during fiscal 2015, the Bank, through one of its subsidiaries, acquired equipment leased under operating leases. These leases have terms varying from one year to five years and do not contain any bargain purchase options or contingent rent.

The following table breaks down the future minimum payments receivable under these operating leases.

	As at October 31, 2015
1 year or less	925
Over 1 year to 5 years	601
Over 5 years	9
	1,535

(millions of Canadian dollars)

NOTE 11 – GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table presents the change in the carrying amount of goodwill by cash-generating unit (CGU) and by business segment for the years ended October 31, 2015 and 2014.

	Personal and Commercial(1)				Wealth Management	Financial Markets(1)	Total
		Third-Party Solutions(1)	Securities Brokerage(1)	Managed Solutions(1)	Total		
Balance as at October 31, 2013	51	50	434	269	753	260	1,064
Acquisition of TD Waterhouse Institutional Services	–	206	–	–	206	–	206
Impact of foreign currency translation	–	–	–	–	–	2	2
Balance as at October 31, 2014	51	256	434	269	959	262	1,272
Impact of foreign currency translation	–	–	–	–	–	5	5
Balance as at October 31, 2015	**51**	**256**	**434**	**269**	**959**	**267**	**1,277**

(1) Constitutes a CGU.

Goodwill Impairment Testing and Significant Assumptions

For impairment testing purposes, from the acquisition date, goodwill resulting from a business combination must be allocated to a CGU or a group of CGUs expected to benefit from the synergies of the business combination. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the recoverable value of the CGU or group of CGUs may have fallen below its carrying amount.

Goodwill was tested for impairment during the years ended October 31, 2015 and 2014, and no impairment loss was recognized.

The recoverable value of a CGU or group of CGUs is based on the value in use that is calculated based on discounted pre-tax cash flows. Future pre-tax cash flows are estimated based on a five-year period, which is the reference period used for the most recent financial forecasts approved by management. Cash flows beyond that period are extrapolated using a long-term growth rate.

The discount rate used for each CGU or group of CGUs is calculated using the cost of debt financing and cost related to the Bank's equity. This rate corresponds to the Bank's weighted average cost of capital and reflects the risk specific to the CGU. The long-term growth rate used in calculating discounted cash flow estimates is based on the forecasted growth rate plus a risk premium. The rate is constant over the entire five-year period for which the cash flows were determined. Growth rates are determined, among other factors, based on past growth rates, economic trends, inflation, competition and the impact of the Bank's strategic initiatives. As at October 31, 2015 and 2014, for each CGU or CGU group, the discount rate used was 12.5% and the long-term growth rate was between 2.0% and 4.0% depending on the CGU.

Estimating a CGU's value in use requires significant judgment regarding the inputs used in applying the discounted cash flow method. The Bank conducts sensitivity analyses by varying the after-tax discount rate and the terminal growth rates upward by 1%; such sensitivity analyses would not increase a CGU's carrying value above its value in use.

(millions of Canadian dollars)

NOTE 11 – GOODWILL AND INTANGIBLE ASSETS (cont.)

Intangible Assets

	Indefinite useful life			Useful life				Total
	Management contracts[1]	Trademark	Total	Internally-generated technological developments[2]	Software	Other intangible assets	Total	
Cost								
As at October 31, 2013	161	11	172	1,032	199	48	1,279	1,451
Acquisitions	–	–	–	186	11	58	255	255
Impairment losses[3]	–	–	–	(159)	(3)	–	(162)	(162)
As at October 31, 2014	161	11	172	1,059	207	106	1,372	1,544
Acquisitions	–	–	–	183	31	1	215	215
Impairment losses[3]	–	–	–	(46)	–	–	(46)	(46)
As at October 31, 2015	**161**	**11**	**172**	**1,196**	**238**	**107**	**1,541**	**1,713**
Accumulated amortization								
As at October 31, 2013				380	148	25	553	553
Amortization for the year				61	20	12	93	93
Impairment losses[3]				(97)	(3)	–	(100)	(100)
As at October 31, 2014				344	165	37	546	546
Amortization for the year				72	24	12	108	108
Impairment losses[3]				–	–	–	–	–
As at October 31, 2015				**416**	**189**	**49**	**654**	**654**
Carrying value as at October 31, 2014	161	11	172	715	42	69	826	998
Carrying value as at October 31, 2015	**161**	**11**	**172**	**780**	**49**	**58**	**887**	**1,059**

(1) For annual impairment testing purposes, management contracts are allocated to the Managed Solutions CGU.
(2) The remaining amortization period for significant internally-generated technology developments is five years.
(3) The Bank wrote off certain technology developments due to obsolescence and decided to discontinue them. The recoverable amount of those technology developments was estimated to be nil. During the year ended October 31, 2015, $46 million in impairment losses ($62 million for the year ended October 31, 2014) was recognized and charged to the *Other* heading.

NOTE 12 – OTHER ASSETS

As at October 31	2015	2014[1]
Receivables, prepaid expenses and other items	690	634
Interest and dividends receivable	459	454
Defined benefit asset (Note 23)	268	185
Deferred tax assets (Note 25)	230	264
Current tax assets	192	44
Reinsurance assets	25	25
	1,864	1,606

(1) An amount of $790 million classified in *Other assets* as at October 31, 2014 is now presented separately in *Purchased receivables* on the Consolidated Balance Sheet.

(millions of Canadian dollars)

NOTE 13 – DEPOSITS

As at October 31			2015	2014
	On demand or after notice(1)	Fixed term(2)	Total	Total
Personal	25,728	20,253	45,981	44,963
Business and government	32,329	42,112	74,441	67,364
Deposit-taking institutions	1,459	6,949	8,408	7,556
	59,516	69,314	128,830	119,883

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

The *Deposits – Business and government* item includes the deposit from NBC Capital Trust and the covered bonds, as described below.

Deposit from NBC Capital Trust

On June 15, 2006, NBC Capital Trust (the Trust), an open-end trust established under the laws of the Province of Ontario, issued 225,000 transferable non-voting trust units called Trust Capital Securities – Series 1 or NBC CapS – Series 1. The gross proceeds of $225 million from the offering were used by the Trust to acquire a deposit note from the Bank.

The Bank does not control the Trust and therefore does not consolidate it. See Note 28 for additional information. Consequently, the NBC CapS – Series 1 issued by the Trust are not included on the Bank's Consolidated Balance Sheet, but the deposit note is presented in *Deposits – Business and government*.

The main terms and characteristics of the $225 million deposit note are as follows.

Issuance date	Fixed annual interest rate	Interest payment dates	Semi-annual payment(1)	Maturity	Date of conversion at the option of the Trust(2)
June 15, 2006	5.329 %(3)	June 30, December 31	$26.645	June 30, 2056	Anytime

(1) Per $1,000 principal amount.
(2) Each $1,000 principal amount of the deposit note is convertible at the option of the Trust, upon notice, into 40 Series 17 First Preferred Shares of the Bank. The Trust will exercise this conversion right in circumstances in which holders of NBC CapS – Series 1 exercise their exchange right. This holder exchange right will be effected through the Trust's conversion of the appropriate value of the Bank's deposit note.
(3) The rate of 5.329% will be in effect up to and including June 30, 2016. After that date, the note will bear interest at a fixed annual rate equal to the 180-day bankers' acceptance rate in effect plus 1.50%.

Redemption at the Option of the Bank

Since June 30, 2011, and on any subsequent distribution date, the Bank may, at its option, redeem the deposit note, in whole or in part, upon the occurrence of predetermined events of a regulatory or fiscal nature. Any redemption may be carried out without the consent of the Trust, subject to prior written notice and OSFI approval. If the Bank redeems the deposit note in whole or in part, the Trust will be required to redeem a corresponding amount of NBC CapS – Series 1.

Purchase for Cancellation

Since June 30, 2011, the Bank may, with OSFI approval, purchase the deposit note in whole or in part on the open market by tender or private contract at any price. Any part of the deposit note purchased by the Bank will be cancelled and will not be reissued.

Instances of Default

Failure by the Bank to make payments or to satisfy its other obligations under the deposit note will not entitle the Trust to accelerate payment of the deposit note.

(millions of Canadian dollars)

NOTE 13 – DEPOSITS (cont.)

Covered Bonds

NBC Covered Bond Guarantor (Legislative) Limited Partnership

In December 2013, the Bank established the covered bond legislative program under which covered bonds are issued. As a result, the Bank created NBC Covered Bond Guarantor (Legislative) Limited Partnership (the Guarantor) in order to guarantee payment of the principal and interest owed to the bondholders. The Bank sold uninsured residential mortgages to the Guarantor and granted it loans to facilitate the acquisition of these assets. During the year ended October 31, 2015, the Bank issued covered bonds under this program in amounts of US$750 million and of 1.0 billion euros (covered bonds in an amount of 2.0 billion euros issued during the year ended October 31, 2014). The covered bonds, totalling $5.3 billion as at October 31, 2015 ($2.8 billion as at October 31, 2014), are presented in *Deposits – Business and government* on the Bank's Consolidated Balance Sheet. See Note 28 for additional information.

The Bank has limited access to the assets owned by this structured entity according to the terms of the agreements that apply to this transaction. The assets owned by this entity totalled $10.8 billion as at October 31, 2015 ($8.2 billion as at October 31, 2014), of which $10.6 billion ($8.0 billion as at October 31, 2014) is presented in *Residential mortgage* loans on the Bank's Consolidated Balance Sheet.

NBC Covered Bond Guarantor Limited Partnership

In January 2011, the Bank established the structured covered bond program. It therefore created NBC Covered Bond Guarantor Limited Partnership (the Guarantor) in order to guarantee payment of the principal and interest owed to the bondholders. The Bank sold insured residential mortgages to the Guarantor and granted it a demand loan to facilitate the acquisition of these assets. During the year ended October 31, 2014, an amount of US$1.0 billion matured. The covered bonds issued under this program, totalling $2.6 billion as at October 31, 2015 ($2.3 billion as at October 31, 2014), are presented in *Deposits – Business and government* on the Bank's Consolidated Balance Sheet. See Note 28 for additional information.

The Bank has limited access to the assets owned by this structured entity according to the terms of the agreements that apply to this transaction. The assets owned by this entity totalled $2.3 billion as at October 31, 2015 ($2.5 billion as at October 31, 2014), of which $2.1 billion ($2.3 billion as at October 31, 2014) is presented in *Residential mortgage* loans on the Bank's Consolidated Balance Sheet.

NOTE 14 – OTHER LIABILITIES

As at October 31	2015	2014
Accounts payable and accrued expenses	1,334	1,317
Subsidiaries' debts to third parties	1,400	1,472
Interest and dividends payable	615	650
Defined benefit liability (Note 23)	183	177
Deferred tax liabilities (Note 25)	123	108
Current tax liabilities	82	113
Insurance liabilities	67	72
Other items(1)(2)(3)	670	585
	4,474	4,494

(1) As at October 31, 2015, other items included a $67 million restructuring provision (nil as at October 31, 2014). See Note 24 for additional information.
(2) As at October 31, 2015, other items included a $2 million provision for severance pay ($14 million as at October 31, 2014) related to the optimization of certain organizational structures.
(3) As at October 31, 2015, other items included a $15 million litigation provision ($50 million as at October 31, 2014).

(millions of Canadian dollars)

NOTE 15 – SUBORDINATED DEBT

The subordinated debt represents direct unsecured obligations, in the form of notes and debentures, to the Bank's debt holders. The rights of the Bank's note and debenture holders are subordinate to the claims of depositors and certain other creditors. Approval from OSFI is required before the Bank can redeem its subordinated notes and debentures in whole or in part.

On December 22, 2014, the Bank redeemed $350 million of notes maturing on December 22, 2019 at a price equal to their nominal value plus accrued interest.

As at October 31				2015	2014
Maturity date		**Interest rate**	**Characteristics**		
December	2019	4.926%[1]	Redeemable[2]	–	350
November	2020	4.70%[3]	Redeemable[4]	500	500
April	2022	3.261%[5]	Redeemable[6]	1,000	1,000
February	2087	Variable[7]	Redeemable at the Bank's option since February 28, 1993	9	8
				1,509	1,858
Fair value hedge adjustment				15	26
Unamortized issuance costs[8]				(2)	(3)
Total				1,522	1,881

(1) Bearing interest at a rate of 4.926% until December 22, 2014 and thereafter at a rate equal to the 90-day bankers' acceptance rate plus 1%.
(2) The Bank may, at its option, redeem all or any portion of the notes at the following price: (i) if the notes are redeemed before December 22, 2014, the interest reset date, at the price based on the Government of Canada yield (defined as the yield, compounded semi-annually, that non-callable Government of Canada bonds would offer if they were issued at their nominal value on the redemption date, in Canadian dollars, in Canada and for which the term to maturity would equal the term to the interest reset date) plus 17 basis points or the nominal value, whichever of the two amounts is higher; (ii) if the notes are redeemed on or after December 22, 2014, at their nominal value.
(3) Bearing interest at a rate of 4.70% until November 2, 2015 and thereafter at a rate equal to the 90-day bankers' acceptance rate plus 1%.
(4) The Bank may, at its option, redeem all or any portion of the notes at the following price: (i) if the notes are redeemed before November 2, 2015, the interest reset date, at the price based on the Government of Canada yield (as defined in point 2 above) plus 16 basis points or the nominal value, whichever of the two amounts is higher; (ii) if the notes are redeemed on or after November 2, 2015, at their nominal value.
(5) Bearing interest at a rate of 3.261% until April 11, 2017 and thereafter at a floating rate equal to the rate on three-month CDOR plus 1.38%.
(6) The Bank may, at its option, redeem all or any portion of the notes at nominal value plus unpaid accrued interest.
(7) Debentures denominated in foreign currency totalling US$7 million as at October 31, 2015 (2014: US$7 million) bearing interest at a rate of 1/8% above six-month LIBOR.
(8) The unamortized costs related to the issuance of the subordinated debt represent the initial cost, net of accumulated amortization calculated using the effective interest rate method.

On November 2, 2015, the Bank completed a $500 million redemption of notes maturing in November 2020 at a price equal to their nominal value plus accrued interest.

NOTE 16 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, exchange rate, or equity, commodity or credit instrument or index.

The main types of derivative financial instruments used are presented below.

Forwards and Futures

Forwards and futures are contractual obligations to buy or deliver a specified amount of currency, interest rate, commodity or financial instrument on a specified future date at a specified price. Forwards are tailor-made agreements transacted in the over-the-counter market. Futures are traded on organized exchanges and are subject to cash margining calculated daily by clearing houses.

Swaps

Swaps are over-the-counter contracts in which two parties agree to exchange cash flows. The Bank uses the following types of swap contracts:

- Cross-currency swaps are transactions in which counterparties exchange fixed-rate interest payments and principal payments in different currencies.
- Interest rate swaps are transactions in which counterparties exchange fixed and floating rate interest payments, based on the notional principal value in the same currency.
- Commodity swaps are transactions in which counterparties exchange fixed and floating rate payments, based on the notional principal value of a single product.
- Equity swaps are transactions in which counterparties agree to exchange the return on one equity or group of equities for a payment based on a benchmark interest rate.
- Credit default swaps are transactions in which one of the parties agrees to pay returns to the other party so that the latter can make a payment if a credit event occurs.

Options

Options are agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to buy or sell, either at a specified date or dates or at any time prior to a predetermined expiry date, a specific amount of currency, commodity or financial instrument at an agreed-upon price upon the sale of the option. The writer receives a premium for the sale of this instrument.

(millions of Canadian dollars)

Notional Amounts

Notional amounts are not presented in assets or liabilities on the Consolidated Balance Sheet. They represent the reference amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged.

As at October 31							2015	2014
	Term to maturity							
	3 months or less	Over 3 months to 12 months	Over 1 year to 5 years	Over 5 years	Total contracts	Contracts held for trading purposes	Contracts designated as hedges	Total contracts
Interest rate contracts								
OTC contracts								
Forward rate agreements								
Not settled by central counterparties	979	139	843	–	1,961	1,961	–	2,364
Settled by central counterparties	–	7,379	1,531	–	8,910	8,910	–	1,691
Swaps								
Not settled by central counterparties	13,032	24,866	71,123	41,190	150,211	130,726	19,485	171,260
Settled by central counterparties	63,868	53,616	116,796	52,638	286,918	253,608	33,310	252,588
Options purchased	2,154	2,489	3,593	93	8,329	8,226	103	7,130
Options written	1,375	1,927	1,925	894	6,121	5,109	1,012	5,625
	81,408	90,416	195,811	94,815	462,450	408,540	53,910	440,658
Exchange-traded contracts								
Futures								
Long positions	1,712	1,404	2,900	–	6,016	6,016	–	23,046
Short positions	10,522	8,429	3,876	–	22,827	22,827	–	24,425
Options purchased	1,674	247	–	–	1,921	1,921	–	11,570
Options written	–	–	–	–	–	–	–	8,422
	13,908	10,080	6,776	–	30,764	30,764	–	67,463
Foreign exchange contracts								
OTC contracts								
Forwards	10,376	8,353	4,110	1,907	24,746	24,701	45	17,402
Swaps	78,665	33,512	35,337	29,202	176,716	176,129	587	118,274
Options purchased	5,143	4,801	675	–	10,619	10,619	–	4,875
Options written	5,117	4,892	515	–	10,524	10,524	–	5,072
	99,301	51,558	40,637	31,109	222,605	221,973	632	145,623
Exchange-traded contracts								
Futures								
Long positions	48	–	–	–	48	48	–	67
Short positions	108	–	–	–	108	108	–	99
Options purchased	2	–	–	–	2	2	–	–
Options written	7	–	–	–	7	7	–	–
	165	–	–	–	165	165	–	166
Equity, commodity and credit derivative contracts(1)								
OTC contracts								
Forwards	34	87	3,316	550	3,987	3,987	–	4,032
Swaps								
Not settled by central counterparties	1,745	6,741	11,520	300	20,306	20,262	44	22,276
Settled by central counterparties	167	134	724	295	1,320	1,320	–	672
Options purchased	378	620	922	180	2,100	2,100	–	1,680
Options written	220	536	1,388	42	2,186	2,186	–	2,176
	2,544	8,118	17,870	1,367	29,899	29,855	44	30,836
Exchange-traded contracts								
Futures								
Long positions	3,873	103	343	77	4,396	4,396	–	3,214
Short positions	3,315	1,122	1,054	55	5,546	5,546	–	6,911
Options purchased	1,735	211	200	–	2,146	2,146	–	2,833
Options written	648	266	471	–	1,385	1,385	–	1,257
	9,571	1,702	2,068	132	13,473	13,473	–	14,215
	206,897	161,874	263,162	127,423	759,356	704,770	54,586	698,961

(1) Includes precious metal contracts.

(millions of Canadian dollars)

NOTE 16 – DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

Credit Risk

Credit risk on derivative financial instruments is the risk of financial loss that the Bank will have to assume if a counterparty fails to honour its contractual obligations. Credit risk related to derivative financial instruments is subject to the same credit approval, credit limit and monitoring standards as those applied to the Bank's other credit transactions. Consequently, the Bank evaluates the creditworthiness of counterparties and monitors the size of the portfolios as well as the diversification and maturity profiles of these financial instruments.

The Bank limits the credit risk of over-the-counter contracts by dealing with creditworthy counterparties and entering into contracts that provide for the exchange of collateral between parties where the fair value of the outstanding transactions exceeds an agreed threshold. The Bank also negotiates master netting agreements that provide for the simultaneous close-out and settling of all transactions with a given counterparty in the event of default, insolvency or bankruptcy. However, overall exposure to credit risk, reduced through master netting agreements, may change substantially after the balance sheet date because it is affected by all transactions subject to a contract as well as by changes in the market rates of the underlying instruments.

The Bank also uses financial intermediaries to have access to established clearing houses in order to minimize the settlement risk for certain financial derivative transactions. In some cases, the Bank has direct access to clearing houses for settling derivative financial instruments. In addition, certain derivative financial instruments traded over the counter are settled directly or indirectly by central counterparties.

In the case of exchange-traded contracts, exposure to credit risk is limited because these transactions are standardized contracts executed on established exchanges, each of which is associated with a well-capitalized clearing house that assumes the obligations of both counterparties and guarantees their performance obligations. All exchange-traded contracts are subject to initial margins and daily settlement.

Terms Used

Replacement Cost

Replacement cost is the Bank's maximum credit risk associated with derivative financial instruments as at the Consolidated Balance Sheet date. This amount is the positive fair value of all over-the-counter derivative financial instruments, before all master netting agreements and collateral held.

Credit Risk Equivalent

The credit risk equivalent amount is the total replacement cost plus an amount representing the potential future credit risk exposure, as outlined in the guidelines issued by OSFI.

Risk-Weighted Amount

The risk-weighted amount is determined by applying the Basel rules to the credit risk equivalent.

Credit Risk Exposure of the Derivative Financial Instrument Portfolio

As at October 31			2015			2014
	Replacement cost[(1)]	Credit risk equivalent	Risk-weighted amount	Replacement cost[(1)]	Credit risk equivalent	Risk-weighted amount
Interest rate contracts	4,284	8,212	1,183	3,067	5,605	1,232
Foreign exchange contracts	4,278	10,150	1,532	2,297	6,431	1,889
Equity, commodity and credit derivative contracts	2,185	4,573	690	1,652	4,244	987
	10,747	22,935	3,405	7,016	16,280	4,108
Impact of master netting agreements	(5,110)	(11,364)	(457)	(3,661)	(8,266)	(671)
	5,637	11,571	2,948	3,355	8,014	3,437

(1) As at October 31, 2015, the total positive fair value of exchange-traded contracts, which amounted to $95 million ($76 million as at October 31, 2014), was excluded.

Credit Risk Exposure of the Derivative Financial Instrument Portfolio by Counterparty

As at October 31		2015		2014
	Replacement cost	Credit risk equivalent	Replacement cost	Credit risk equivalent
OECD[(1)] governments	1,163	1,917	421	1,019
Banks of OECD member countries	1,132	4,040	721	2,953
Other	3,342	5,614	2,213	4,042
	5,637	11,571	3,355	8,014

(1) Organization for Economic Co-operation and Development.

(millions of Canadian dollars)

Fair Value of Derivative Financial Instruments

As at October 31			2015			2014
	Positive	Negative	Net	Positive	Negative	Net
Contracts held for trading purposes						
Interest rate contracts						
Forwards	3	5	(2)	22	3	19
Swaps	3,115	2,279	836	2,374	1,835	539
Options	30	20	10	24	15	9
	3,148	2,304	844	2,420	1,853	567
Foreign exchange contracts						
Forwards	593	488	105	249	215	34
Swaps	3,494	2,467	1,027	1,941	1,583	358
Options	187	197	(10)	77	94	(17)
	4,274	3,152	1,122	2,267	1,892	375
Equity, commodity and credit derivative contracts						
Forwards	1,378	316	1,062	1,050	257	793
Swaps	592	810	(218)	440	1,085	(645)
Options	310	341	(31)	238	370	(132)
	2,280	1,467	813	1,728	1,712	16
Total – Contracts held for trading purposes	9,702	6,923	2,779	6,415	5,457	958
Contracts designated as hedges						
Interest rate contracts						
Forwards	–	–	–	–	–	–
Swaps	1,133	751	382	645	238	407
Options	3	80	(77)	2	26	(24)
	1,136	831	305	647	264	383
Foreign exchange contracts						
Forwards	–	2	(2)	–	–	–
Swaps	4	–	4	30	–	30
Options	–	–	–	–	–	–
	4	2	2	30	–	30
Equity, commodity and credit derivative contracts						
Forwards	–	–	–	–	–	–
Swaps	–	–	–	–	–	–
Options	–	–	–	–	–	–
	–	–	–	–	–	–
Total – Contracts designated as hedges	1,140	833	307	677	264	413
Designated as fair value hedges	731	466	265	420	178	242
Designated as cash flow hedges	405	365	40	243	86	157
Designated as a hedge of a net investment in a foreign operation	4	2	2	14	–	14
Total fair value	10,842	7,756	3,086	7,092	5,721	1,371
Impact of master netting agreements	(5,110)	(5,110)	–	(3,661)	(3,661)	–
	5,732	2,646	3,086	3,431	2,060	1,371

(millions of Canadian dollars)

NOTE 17 – HEDGING ACTIVITIES

Derivative and Non-Derivative Financial Instruments Designated as Hedging Instruments

As at October 31			2015			2014
	Fair value hedge	Cash flow hedge	Net investment hedge	Fair value hedge	Cash flow hedge	Net investment hedge
Assets						
Derivative financial instruments	731	405	4	420	243	14
Liabilities						
Derivative financial instruments	466	365	2	178	86	–
Carrying value of non-derivative financial instruments	–	–	1,690	–	–	1,373
Notional amounts of designated derivative financial instruments	25,433	28,521	632	19,156	19,918	637

Fair Value Hedges

Fair value hedge transactions consist of using interest rate swaps to hedge changes in the fair value of a financial asset or financial liability caused by interest rate fluctuations. Changes in the fair value of the derivative financial instruments used as hedging instruments offset changes in the fair value of the hedged item. The Bank applies this strategy mainly to portfolios of available-for-sale securities, fixed-rate deposits, liabilities related to transferred receivables and subordinated debt.

Results of the Fair Value Hedges

Year ended October 31	2015	2014
Gains (losses) on hedging instruments	61	95
Gains (losses) on hedged items attributable to the hedged risk	(59)	(96)
Ineffectiveness of fair value hedging relationships	–	1

Cash Flow Hedges

Cash flow hedge transactions consist of using interest rate swaps to hedge the risk of changes in future cash flows caused by floating-rate assets or liabilities. The Bank applies this strategy mainly to loan, personal credit line and deposit portfolios. The Bank also uses total return swaps to hedge the risk of changes in future cash flows related to the Restricted Stock Unit (RSU) Plan. Some of these swaps are designated as part of a cash flow hedge against a portion of the unrecognized obligation of the RSU Plan. In a cash flow hedge, the derivative financial instruments used as hedging instruments reduce the variability of future cash flows related to the hedged item.

Results of the Cash Flow Hedges

Year ended October 31	2015	2014
Unrealized gains (losses) included in *Other comprehensive income* as the effective portion of the hedging instrument	18	119
Losses (gains) reclassified to *Net interest income* in the Consolidated Statement of Income	(15)	(15)
Ineffectiveness of cash flow hedging relationships	1	–

(millions of Canadian dollars)

The following table shows the periods during which the Bank expects the hedged cash flows to occur and have an impact on net income.

				As at October 31, 2015
	1 year or less	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years
Expected cash flows from hedged assets	**48**	**51**	**166**	**56**
Expected cash flows from hedged liabilities	**96**	**93**	**211**	**74**
Net exposure	**(48)**	**(42)**	**(45)**	**(18)**

				As at October 31, 2014
	1 year or less	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years
Expected cash flows from hedged assets	55	64	229	77
Expected cash flows from hedged liabilities	92	72	165	64
Net exposure	(37)	(8)	64	13

Hedges of Net Investments in Foreign Operations

The Bank's structural foreign exchange risk arises from investments in foreign operations denominated in currencies other than the Canadian dollar. The Bank measures this risk by assessing the impact of foreign currency fluctuations and hedges it using financial instruments (derivative or non-derivative). In a hedge of a net investment in a foreign operation, the financial instruments used offset foreign exchange gains and losses on the investments. When non-derivative financial instruments are designated as foreign exchange risk hedges, only the changes in fair value that are attributable to foreign exchange risk are taken into account in assessing and calculating the effectiveness of the hedge.

For the years ended October 31, 2015 and 2014, a negligible amount representing the ineffective portion was recognized in *Non-interest income* in the Consolidated Statement of Income.

(millions of Canadian dollars)

NOTE 18 – SHARE CAPITAL

Authorized

Common Shares

An unlimited number of shares without par value.

First Preferred Shares

An unlimited number of shares, without par value, issuable for a maximum aggregate consideration of $5 billion.

First Preferred Shares

As at October 31, 2015

	Redemption and conversion date in effect as of (1)	Redemption price per share ($) (1)	Convertible into preferred shares (2)	Dividend per share ($) (3)	Reset premium
First preferred shares issued and outstanding					
Series 20	May 15, 2013	25.50	n.a.	0.37500	n.a.
Series 28	November 15, 2017 (4)(5)	25.00	Series 29	0.23750 (6)	2.43 %
Series 30[7]	May 15, 2019 (4)(5)	25.00	Series 31	0.25625 (6)	2.40 %
Series 32[7]	February 15, 2020 (4)(5)	25.00	Series 33	0.24380 (6)	2.25 %
First preferred shares authorized but not issued					
Series 17[8]	June 30, 2011	25.00	n.a.	0.46900	n.a.
Series 18[9]	June 30, 2011	25.00	n.a.	0.60000	n.a.
Series 19[10]	June 30, 2013	25.50 (11)	n.a.	0.68750	n.a.
Series 23[10]	July 31, 2013	25.50 (11)	n.a.	0.75000	n.a.
Series 29	November 15, 2017 (4)	25.50 (12)	n.a.	Floating rate (13)	2.43 %
Series 31[7]	May 15, 2019 (4)	25.50 (12)	n.a.	Floating rate (13)	2.40 %
Series 33[7]	February 15, 2020 (4)	25.50 (12)	n.a.	Floating rate (13)	2.25 %

n.a. Not applicable

(1) Redeemable in cash at the Bank's option, in whole or in part, subject to the provisions of the *Bank Act* (Canada) and to OSFI approval. Redemption prices are increased by all the declared and unpaid dividends on the preferred shares to the date fixed for redemption.

(2) Convertible at the option of the holders of first preferred shares, subject to certain conditions.

(3) The dividends are non-cumulative and payable quarterly, except for Series 17, 18, 19 and 23, for which the dividends are payable semi-annually.

(4) Redeemable as of the date fixed for redemption and on the same date every five years thereafter.

(5) Convertible as of the date fixed for conversion and on the same date every five years thereafter, subject to certain conditions.

(6) The dividend amount is set for the initial period ending on the date fixed for redemption. Thereafter, these shares carry a non-cumulative quarterly fixed dividend in an amount per share determined by multiplying the rate of interest equal to the sum of the 5-year Government of Canada bond yield on the applicable fixed-rate calculation date by $25.00, plus the reset premium.

(7) Upon the occurrence of a trigger event as defined by OSFI, each outstanding preferred share will be automatically and immediately converted, on a full and permanent basis, without the consent of the holder, into a number of common shares of the Bank determined pursuant to an automatic conversion formula. This conversion will be calculated by dividing the value of the preferred shares, i.e., $25.00 per share, plus all declared and unpaid dividends as at the date of the trigger event, by the value of the common shares. The value of the common shares will be the greater of a $5.00 floor price or the current market price of the common shares. Current market price means the volume weighted average trading price of common shares for the ten consecutive trading days ending on the trading day preceding the date of the trigger event. If the common shares are not listed on an exchange when this price is being established, the price will be the fair value reasonably determined by the Bank's Board.

(8) Each NBC CapS – Series 1 is exchangeable at any time, upon prior notice, for 40 Series 17 First Preferred Shares, which pay semi-annual non-cumulative cash dividends and are redeemable at the Bank's option, subject to the provisions of the *Bank Act* (Canada) and to OSFI approval, since June 30, 2011, but are not redeemable at the option of the holders.

(9) Each NBC CapS – Series 1 can be exchanged automatically, without the consent of the holders, for 40 Series 18 First Preferred Shares, upon the occurrence of any one of the following events: (i) proceedings are commenced for the winding-up of the Bank; (ii) OSFI takes control of the Bank; (iii) the Bank posts a Tier 1 capital ratio of less than 5% or a Total capital ratio of less than 8%; or (iv) OSFI has directed the Bank to increase its capital or to provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction to OSFI's satisfaction within the prescribed time frame.

(10) For additional information, see Note 19.

(11) Redeemable at $25.50 per share if redeemed during the 12-month period prior to June 30, 2016, at $25.25 per share if redeemed during the 12-month period prior to June 30, 2017 and at $25.00 if redeemed on or after June 30, 2017.

(12) As of the date fixed for redemption, the redemption price will be $25.50 per share. Thereafter, on the same date every five years, the redemption price will be $25.00 per share.

(13) The dividend period begins as of the date fixed for redemption. The amount of the floating quarterly non-cumulative dividend is determined by multiplying the rate of interest equal to the sum of the 90-day Government of Canada treasury bill yield on the floating rate calculation date by $25.00, plus the reset premium.

Second Preferred Shares

15 million shares without par value, issuable for a total maximum consideration of $300 million. As at October 31, 2015, no shares had been issued or traded.

(millions of Canadian dollars)

Shares Outstanding

As at October 31		2015		2014
	Number of shares	Shares $	Number of shares	Shares $
First Preferred Shares				
Series 16	–	–	8,000,000	200
Series 20	6,900,000	173	6,900,000	173
Series 28	8,000,000	200	8,000,000	200
Series 30	14,000,000	350	14,000,000	350
Series 32	12,000,000	300	12,000,000	300
	40,900,000	1,023	48,900,000	1,223
Common shares at beginning of year	329,297,375	2,293	325,982,736	2,160
Issued under a public offering	7,160,000	300	–	–
Issued pursuant to the Stock Option Plan	1,059,650	39	2,944,507	102
Impact of shares purchased or sold for trading(1)	(280,703)	(18)	405,424	31
Other	–	–	(35,292)	–
Common shares at end of year	337,236,322	2,614	329,297,375	2,293

(1) As at October 31, 2015, 343,887 shares were sold short for trading, representing a total amount of $14 million (624,590 shares representing $32 million as at October 31, 2014).

Dividends Declared

Year ended October 31		2015		2014
	Dividends $	Dividends per share	Dividends $	Dividends per share
First Preferred Shares				
Series 16	–	–	10	1.2125
Series 20	10	1.5000	10	1.5000
Series 24	–	–	1	0.4125
Series 26	–	–	1	0.4125
Series 28	8	0.9500	7	0.9500
Series 30	14	1.0250	11	0.7849
Series 32	13	1.0760	–	–
	45		40	
Common shares	672	2.0400	616	1.8800
	717		656	

Issuances of Preferred Shares

On October 9, 2014, the Bank had completed the issuance of 12,000,000 Non-Cumulative 5-Year Rate-Reset Series 32 First Preferred Shares at a price equal to $25.00 per share for gross proceeds of $300 million. Given that the Series 32 preferred shares satisfy the non-viability contingent capital requirements, they qualify for the purposes of calculating regulatory capital under Basel III.

On February 7, 2014, the Bank had completed the issuance of 14,000,000 Non-Cumulative 5-Year Rate-Reset Series 30 First Preferred Shares at a price equal to $25.00 per share for gross proceeds of $350 million. Given that the Series 30 preferred shares satisfy the non-viability contingent capital requirements, they qualify for the purposes of calculating regulatory capital under Basel III.

NOTE 18 – SHARE CAPITAL (cont.)

Redemptions of Preferred Shares

On August 25, 2015, the Board approved the redemption, on November 15, 2015, of all the issued and outstanding Non-Cumulative Fixed-Rate Series 20 First Preferred Shares. Pursuant to the share conditions, the redemption price is $25.50 per share plus the periodic dividend declared and unpaid. The Bank completed the redemption of 6,900,000 Series 20 preferred shares for a total amount of $176 million on November 16, 2015, the first business day after the redemption date.

On November 17, 2014, which was the first business day after the November 15, 2014 redemption date, the Bank completed the redemption of all the issued and outstanding Non-Cumulative Series 16 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.00 per share plus the periodic dividend declared and unpaid. The Bank redeemed 8,000,000 Series 16 preferred shares for a total amount of $200 million, which reduced *Preferred share capital* by $200 million.

On February 15, 2014, the Bank had completed the redemption of all the issued and outstanding Non-Cumulative 5-Year Rate-Reset Series 24 and Series 26 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.00 per share plus the periodic dividend declared and unpaid. The Bank redeemed 2,425,880 Series 24 preferred shares for a total amount of $61 million and 1,724,835 Series 26 preferred shares for a total amount of $43 million, which reduced *Preferred share capital* by $104 million.

Issuance of Common Shares

On October 9, 2015, the Bank completed the issuance of 7,160,000 common shares at a per-share price of $41.90 for gross proceeds of $300 million, which increased *Common share capital* by $300 million.

Repurchase of Common Shares

On May 11, 2015, the Bank began a normal course issuer bid to repurchase for cancellation up to 6,000,000 common shares over the 12-month period ending no later than May 10, 2016. The shares will be repurchased on the open market at market prices through the Toronto Stock Exchange. Amounts paid above the average book value of the common shares will be charged to *Retained earnings*. During the year ended October 31, 2015, the Bank did not repurchase any shares.

Reserved Common Shares

As at October 31, 2015 and 2014, 15,507,568 common shares were reserved under the Dividend Reinvestment and Share Purchase Plan. As at October 31, 2015, 22,126,717 common shares (23,186,367 as at October 31, 2014) were reserved under the Stock Option Plan.

Common Shares Held in Escrow

As part of the acquisition of Wellington West Holdings Inc. in 2011, the Bank had issued common shares held in escrow. As at October 31, 2015, the number of common shares held in escrow was 936,785 (977,110 as at October 31, 2014). The Bank expects that the conditions will be met and that the remaining shares held in escrow will be released by the end of fiscal 2016.

Restriction on the Payment of Dividends

The Bank is prohibited from declaring dividends on its common or preferred shares if there are reasonable grounds for believing that the Bank would, by so doing, be in contravention of the regulations of the *Bank Act* (Canada) or OSFI's capital adequacy and liquidity guidelines. In addition, the ability to pay common share dividends is restricted by the terms of the outstanding preferred shares pursuant to which the Bank may not pay dividends on its common shares without the approval of the holders of the outstanding preferred shares, unless all preferred share dividends have been declared and paid or set aside for payment. Moreover, if NBC Capital Trust or NBC Asset Trust were unable to pay the full amount of distributions on the trust units, the Bank would not be permitted to pay dividends on its preferred or common shares. For additional information, see Notes 19 and 28.

Dividend Reinvestment Plan

The Bank has a dividend reinvestment plan for common and preferred shareholders. Participation in the plan is optional. Under the terms and conditions of the plan, participants acquire shares through the reinvestment of cash dividends paid on the shares they hold or through optional cash payments. Common shares subscribed by participants are purchased on their behalf in the secondary market through the Bank's transfer agent, Computershare Trust Company of Canada, at a price equal to the average purchase price of the common shares during the ten business days immediately following the dividend payment date.

(millions of Canadian dollars)

NOTE 19 – NON-CONTROLLING INTERESTS

As at October 31	2015	2014
Trust units issued by NBC Asset Trust (NBC CapS II)		
Series 1[(1)]	410	409
Series 2[(2)]	359	359
Other	32	27
	801	795

(1) Includes $10 million in accrued interest ($9 million as at October 31, 2014).
(2) Includes $9 million in accrued interest ($9 million as at October 31, 2014).

Trust Units Issued by NBC Asset Trust

Through structured entity NBC Asset Trust (the Trust), an open-end trust established under the laws of the Province of Ontario, the Bank issued transferable non-voting trust units called "Trust Capital Securities" or "NBC CapS II." These securities are not redeemable or exchangeable for Bank preferred shares at the option of the holder. The gross proceeds from the issuance were used by the Trust to finance the acquisition of mortgage loans from the Bank. For additional information, see Note 28.

The main terms and characteristics of the NBC CapS II trust units are presented below.

	Number	Issuance date	Annual yield	Distribution date	Semi-annual distribution by NBC CapS II[(1)]
Series 1	400,000	January 22, 2008	7.235 %	June 30, December 31	$36.175 [(2)]
Series 2	350,000	June 30, 2008	7.447 %	June 30, December 31	$37.235 [(3)]

(1) For each unit with a face value of $1,000.
(2) For each distribution date after June 30, 2018, the distribution will be paid at the rate equal to one-half of the sum of 180-day bankers' acceptance rate in effect plus 3.79%.
(3) For each distribution date after June 30, 2020, the distribution will be paid at the rate equal to one-half of the sum of 180-day bankers' acceptance rate in effect plus 4.09%.

Distribution

No cash distributions will be payable by the Trust on NBC CapS II if the Bank fails to declare regular dividends on its preferred shares or, if no preferred shares are then outstanding, on its outstanding common shares. In this case, the net distributable funds of the Trust will be paid to the Bank as the sole holder of the special trust securities, representing the residual interest in the Trust. Should the Trust fail to pay the semi-annual distributions in full on the NBC CapS II, the Bank will withhold from declaring dividends on any of its preferred and common shares during a determined period.

Automatic Exchange

Each NBC CapS II – Series 1 can be exchanged automatically, without the consent of the holders, for 40 Series 19 First Preferred Shares of the Bank, and each NBC CapS II – Series 2 can be exchanged automatically, without the consent of the holders, for 40 Series 23 First Preferred Shares of the Bank upon the occurrence of one of the following events: (i) proceedings are commenced for the winding-up of the Bank; (ii) OSFI takes control of the Bank; (iii) the Bank posts a Tier 1 capital ratio of less than 5% or a Total capital ratio of less than 8%; or (iv) OSFI has directed the Bank to increase its capital or to provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction to the satisfaction of OSFI. On an automatic exchange, the Bank will hold all outstanding trust capital securities of the Trust.

Redemption at the Option of the Trust

On any distribution date, the Trust may, subject to prior written notice and OSFI approval, redeem, at its option, the NBC CapS II – Series 1 and Series 2, in whole but not in part, without the consent of the holders.

Purchase for Cancellation

The Trust may, with OSFI approval, purchase NBC CapS II – Series 1 and Series 2, in whole or in part, on the open market or by tender or private contract at any price. The NBC CapS II purchased by the Trust, if any, will be cancelled and will not be reissued.

Regulatory Capital

The NBC CapS II – Series 1 and Series 2 qualify as innovative capital instruments and are eligible as additional Tier 1 capital, but because these instruments do not satisfy the non-viability contingent capital requirements, they are to be phased out at a rate of 10% per year between 2013 and 2022.

NOTE 20 – CAPITAL DISCLOSURE

Capital Management Objectives, Policies and Procedures

Capital management has a dual role of ensuring a competitive return to the Bank's shareholders while maintaining a solid capital foundation that covers the risks inherent to the Bank's business, supports its business segments and protects its clients.

The Bank's capital management policy defines the guiding principles as well as the roles and responsibilities regarding its internal capital adequacy assessment process. This process is a key tool in establishing the Bank's capital strategy and is subject to quarterly reviews and periodic amendments.

Capital Management

The capital ratio is the ratio expressed as a percentage of regulatory capital to risk-weighted assets. Risk-weighted assets are calculated in accordance with the rules established by OSFI for on- and off-balance-sheet risks. Credit, market and operational risks are factored into the risk-weighted assets calculation for regulatory purposes. The definition adopted by the Basel Committee on Banking Supervision (BCBS) distinguishes between three types of capital. Common Equity Tier 1 (CET1) capital consists of common shareholders' equity less goodwill, intangible assets and other capital deductions. The Additional Tier 1 instruments comprise eligible non-cumulative preferred shares and the eligible amount of innovative instruments. The sum of CET1 and Additional Tier 1 capital form what is known as Tier 1 capital. Tier 2 capital consists of the eligible portion of subordinated debt and the eligible collective allowance for credit risk on non-impaired loans. Total regulatory capital is the sum of Tier 1 and Tier 2 capital.

The Basel III regulatory framework sets out transitional arrangements for the period of 2013 to 2019. However, OSFI has been requiring Canadian banks to meet the 2019 minimum "all-in" requirements rather than the minimum ratios calculated using the transitional methodology. The "all-in" methodology includes all of the regulatory adjustments that will be required by 2019 while retaining the phase-out rules for non-qualifying capital instruments. Consequently, since the first quarter of 2013, the Bank has had to maintain a CET1 capital ratio of at least 7.0% and, since the first quarter of 2014, a Tier 1 capital ratio of 8.5% and Total capital ratio of 10.5%, including a 2.5% capital conservation buffer for all ratios.

In March 2013, OSFI designated Canada's six largest banks, a group that includes National Bank, as Domestic Systemically Important Banks (D-SIBs). For these banks, a 1.0% surcharge will apply to their capital ratios as of January 1, 2016. Consequently, as of that date, the Bank and all other major Canadian banks will have to maintain a CET1 capital ratio of at least 8.0%, a Tier 1 capital ratio of at least 9.5% and a Total capital ratio of at least 11.5%, all determined using the "all-in" methodology.

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

During the years ended October 31, 2015 and 2014, the Bank was in compliance with all of OSFI's regulatory capital requirements.

(millions of Canadian dollars)

Regulatory Capital and Ratios Under Basel III[1]

As at October 31	2015	2014
Capital		
CET1	6,801	5,985
Tier 1[2]	8,626	7,983
Total[2][3]	9,678	9,868
Risk-weighted assets		
CET1 capital	68,835	64,818
Tier 1 capital	69,094	65,074
Total capital	69,316	65,459
Total exposure	234,957	n.a.
Capital ratios		
CET1	9.9 %	9.2 %
Tier 1[2]	12.5 %	12.3 %
Total[2][3]	14.0 %	15.1 %
Leverage ratio	3.7 %	n.a.

n.a. Not applicable
(1) Figures are presented on an "all-in" basis.
(2) Figures as at October 31, 2015 include the redemption of the Series 20 preferred shares on November 15, 2015, and the figures as at October 31, 2014 include the redemption of the Series 16 preferred shares on November 15, 2014.
(3) Figures as at October 31, 2015 include the $500 million redemption of notes on November 2, 2015.

NOTE 21 – TRADING ACTIVITY REVENUES

Trading activity revenues consist of the net interest income from trading activities and trading revenues recognized in *Non-interest income* in the Consolidated Statement of Income.

Net interest income comprises dividends related to financial assets and liabilities associated with trading activities, net of interest expenses and interest income related to the financing of these financial assets and liabilities.

Non-interest income consists of realized and unrealized gains and losses as well as interest income on securities measured at fair value through profit or loss, income from held-for-trading derivative financial instruments, and the change in fair value of financial instruments designated at fair value through profit or loss.

Year ended October 31	2015	2014
Net interest income	473	418
Non-interest income	209	106
	682	524

(millions of Canadian dollars)

NOTE 22 – SHARE-BASED PAYMENTS

The compensation expense information provided below excludes the impact of hedging.

Stock Option Plan

The Bank's Stock Option Plan is for officers and other designated persons of the Bank and its subsidiaries. Under this plan, options are awarded annually and provide participants with the right to purchase common shares at an exercise price equal to the closing price of the Bank's common share on the Toronto Stock Exchange on the day preceding the award. The options vest evenly over a four-year period and expire ten years from the award date or, in certain circumstances set out in the plan, within specified time limits. The Stock Option Plan contains provisions for retiring employees that allow the participant's rights to continue vesting in accordance with the stated terms of the grant agreement. The maximum number of common shares that may be issued under the Stock Option Plan was 22,126,717 as at October 31, 2015 (23,186,367 as at October 31, 2014). The number of common shares reserved for a participant may not exceed 5% of the total number of Bank shares issued and outstanding.

As at October 31	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock Option Plan				
Outstanding at beginning	**14,676,191**	**$ 34.65**	15,015,756	$ 31.86
Awarded	**3,170,260**	**$ 47.93**	2,863,376	$ 44.96
Exercised	**(1,059,650)**	**$ 32.11**	(2,944,507)	$ 30.16
Cancelled[(1)]	**(134,488)**	**$ 36.27**	(258,434)	$ 37.37
Outstanding at end	**16,652,313**	**$ 37.33**	14,676,191	$ 34.65
Exercisable at end	**9,103,781**	**$ 31.98**	7,286,133	$ 29.65

(1) No options expired during the years ended October 31, 2015 and 2014.

Exercise price	Options outstanding	Options exercisable	Expiry date
$30.72	156,800	156,800	December 2015
$32.95	590,604	590,604	December 2016
$26.93	851,898	851,898	December 2017
$17.44	1,095,690	1,095,690	December 2018
$29.25	1,309,970	1,309,970	December 2019
$34.34	1,716,791	1,716,791	December 2020
$34.09	2,301,676	1,534,196	December 2021
$38.36	2,695,060	1,178,260	December 2022
$44.96	2,768,900	669,572	December 2023
$47.93	3,164,924	–	December 2024
	16,652,313	9,103,781	

During the year ended October 31, 2015, the Bank awarded 3,170,260 stock options (2,863,376 during the year ended October 31, 2014) with an average fair value of $7.44 per option ($5.39 for the year ended October 31, 2014).

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

As at October 31	2015	2014
Risk-free interest rate	**2.01%**	2.47%
Expected life of options	**7 years**	7 years
Expected volatility	**24.82%**	20.46%
Expected dividend yield	**4.0%**	4.4%

(millions of Canadian dollars)

The expected life of the options is based on historical data and is not necessarily representative of how options will be exercised in the future. Expected volatility is extrapolated from the implied volatility of the Bank's share price and observable market inputs, which are not necessarily representative of actual results. The expected dividend yield represents the annualized dividend divided by the Bank's share price at the award date. The risk-free interest rate is based on the Canadian dollar swap curve at the award date. The exercise price is equal to the Bank's share price at the award date. No other market parameter has been included in the fair value measurement of the options.

The compensation expense recorded for this plan for the year ended October 31, 2015 was $20 million ($15 million for the year ended October 31, 2014).

Stock Appreciation Rights (SAR) Plan

The SAR Plan is for officers and other designated persons of the Bank and its subsidiaries. Under this plan, participants receive, upon exercising the right, a cash amount equal to the difference between the closing price of the Bank's common share on the Toronto Stock Exchange on the day preceding the exercise date and the closing price on the day preceding the award date. SARs vest evenly over a four-year period and expire 10 years after the award date or, in certain circumstances set out in the plan, within specified time limits. The SAR Plan contains provisions for retiring employees that allow the participant's rights to continue vesting in accordance with the stated terms of the grant agreement. A $1 million reversal of compensation expense was recognized for the year ended October 31, 2015 with respect to this plan (compensation expense of $3 million for the year ended October 31, 2014).

As at October 31		**2015**		2014
	Number of SARs	**Weighted average exercise price**	Number of SARs	Weighted average exercise price
SAR Plan				
Outstanding at beginning	**243,540**	**$ 33.58**	356,094	$ 30.01
Awarded	**83,252**	**$ 47.93**	36,320	$ 44.96
Exercised	**(6,872)**	**$ 28.61**	(127,480)	$ 26.90
Cancelled[1]	**–**	**$ –**	(21,394)	$ 33.31
Outstanding at end	**319,920**	**$ 37.42**	243,540	$ 33.58
Exercisable at end	**181,188**	**$ 31.51**	141,428	$ 29.49

(1) No SARs expired during the years ended October 31, 2015 and 2014.

Exercise price	SARs outstanding	SARs exercisable	Expiry date
$30.72	4,600	4,600	December 2015
$32.95	5,200	5,200	December 2016
$26.93	5,896	5,896	December 2017
$17.44	21,340	21,340	December 2018
$29.25	48,014	48,014	December 2019
$34.34	45,350	45,350	December 2020
$34.09	32,084	23,712	December 2021
$38.36	38,184	18,316	December 2022
$44.96	36,000	8,760	December 2023
$47.93	83,252	–	December 2024
	319,920	181,188	

Deferred Stock Unit (DSU) Plans

The DSU Plans are for officers and other designated persons of the Bank and its subsidiaries as well as directors. These plans allow the Bank to tie a portion of the value of the compensation of participants to the future value of the Bank's common shares. A DSU is a right that has a value equal to the closing price of a common share of the Bank on the Toronto Stock Exchange on the day preceding the award. DSUs generally vest evenly over four years. Additional DSUs are credited to the account of participants equal in amount to the dividends paid on common shares of the Bank and vest evenly over the same period as the reference DSUs. DSUs may only be cashed when participants retire or leave the Bank, or for directors, when their term ends. The DSU Plan contains provisions for retiring employees that allow the participant's units to continue vesting in accordance with the stated terms of the grant agreement.

During the year ended October 31, 2015, the Bank awarded 78,011 DSUs at a weighted average price of $47.93 (90,402 DSUs at a weighted average price of $44.96 for the year ended October 31, 2014). A total of 772,348 DSUs were outstanding as at October 31, 2015 (699,906 DSUs as at October 31, 2014). A $1 million reversal of compensation expense was recognized for the year ended October 31, 2015 with respect to these plans (compensation expense of $11 million for the year ended October 31, 2014).

NOTE 22 – SHARE-BASED PAYMENTS (cont.)

Restricted Stock Unit (RSU) Plan

The RSU Plan is for certain officers and other designated persons of the Bank and its subsidiaries. The objective of this plan is to ensure that the compensation of certain officers is competitive and to foster retention. An RSU is a right that has a value equal to the closing price of a common share of the Bank on the Toronto Stock Exchange on the day preceding the award. RSUs generally vest evenly over three years, although some RSUs vest on the last day of the 35th month following the date of the award, the date on which all RSUs expire. Additional RSUs are credited to the account of participants equal in amount to the dividends declared on the common shares of the Bank and vest evenly over the same period as the reference RSUs. The RSU Plan contains provisions for retiring employees that allow the participant's units to continue vesting in accordance with the stated terms of the grant agreement.

During the year ended October 31, 2015, the Bank awarded 1,952,849 RSUs at a weighted average price of $47.93 (1,704,530 RSUs at a weighted average price of $44.96 for the year ended October 31, 2014). As at October 31, 2015, a total of 4,817,459 RSUs were outstanding (4,807,225 RSUs as at October 31, 2014). A compensation expense of $77 million was recognized for the year ended October 31, 2015 with respect to this plan ($120 million for the year ended October 31, 2014).

Performance Stock Unit (PSU) Plan

The PSU Plan is for certain members of senior management of the Bank. The objective of this plan is to tie a portion of the value of the compensation of these members of senior management to the future value of the Bank's common shares. A PSU is a right that has a value equal to the closing price of a common share of the Bank on the Toronto Stock Exchange on the day preceding the award, adjusted upward or downward according to performance criteria, which is based on the total shareholder return (TSR) achieved by the Bank compared to that of the S&P/TSX Banks Sub-index. PSUs vest on the last day of the 35th month following the date of the award, the date on which all PSUs expire. Additional PSUs are credited to the account of participants in an amount equal to the dividends declared on the common shares of the Bank and vest evenly over the same period as the reference PSUs. The PSU Plan contains provisions for retiring employees that allow the participant's units to continue vesting in accordance with the stated terms of the award agreement.

During the year ended October 31, 2015, the Bank awarded 201,101 PSUs at a weighted average price of $47.93 (181,348 PSUs at a weighted average price of $44.96 for the year ended October 31, 2014). As at October 31, 2015, a total of 646,985 PSUs were outstanding (707,126 PSUs as at October 31, 2014). A compensation expense of $8 million was recognized for the year ended October 31, 2015 with respect to this plan ($15 million for the year ended October 31, 2014).

Deferred Compensation Plan of National Bank Financial (NBF)

This plan is exclusively for key employees of Individual Investor Services of NBF. The purpose of this plan is to foster the retention of key employees and promote the growth in income and the continuous improvement in profitability at Individual Investor Services. Under this plan, participants can defer a portion of their annual compensation and NBF may pay a contribution to key employees when certain financial objectives are met. Amounts awarded by NBF and the compensation deferred by participants are invested in, among others, Bank share units. These share units represent a right, the value of which corresponds to the closing price of the Bank's common share on the Toronto Stock Exchange on the award date. Additional units are paid to the participant's account equal in amount to the dividends declared on the common shares of the Bank. Share units representing the amounts awarded by NBF vest evenly over four years. When a participant retires, or in certain cases when the participant's employment is terminated, the participant receives a cash amount representing the value of the vested share units.

During the year ended October 31, 2015, NBF awarded 230,179 share units at a weighted average price of $46.88 (157,842 share units at a weighted average price of $44.25 for the year ended October 31, 2014). As at October 31, 2015, 1,402,856 share units were outstanding (1,226,249 share units as at October 31, 2014). During the year ended October 31, 2015, a $6 million compensation expense was recognized for this plan ($12 million for the year ended October 31, 2014).

Employee Share Ownership Plan

Under the Bank's Employee Share Ownership Plan, employees who meet the eligibility criteria can contribute up to 8% of their annual gross salary by way of payroll deductions. The Bank matches 25% of the employee contribution up to a maximum of $1,500 per annum. Bank contributions vest to the employee after one year of uninterrupted participation in the plan. Subsequent contributions vest immediately. The Bank's contributions, amounting to $10 million for the year ended October 31, 2015 ($9 million for the year ended October 31, 2014), were charged to *Compensation and employee benefits* when paid. As at October 31, 2015, a total of 6,201,300 common shares were held for this plan (5,958,437 common shares as at October 31, 2014).

Plan shares are purchased on the open market and are considered to be outstanding for earnings per share calculations. Dividends paid on the Bank's common shares held for the Employee Share Ownership Plan are used to purchase other common shares on the open market.

Total liabilities arising from the Bank's share-based compensation plans amounted to $339 million as at October 31, 2015 ($470 million as at October 31, 2014). The intrinsic value of liabilities that had vested as at October 31, 2015 was $167 million ($203 million as at October 31, 2014).

(millions of Canadian dollars)

NOTE 23 – EMPLOYEE BENEFITS – PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Bank offers defined benefit pension plans and other post-employment benefit plans to eligible employees. The pension plans provide benefits based on years of plan participation and average earnings at retirement. Other post-employment benefit plans include post-retirement health care, dental and life insurance coverage. The pension plans are funded whereas the other plans are not funded. The fair value of plan assets and the present value of the defined benefit obligation are measured as at October 31.

The Bank's most significant pension plan is the *Employee Pension Plan of the National Bank of Canada*; it is registered with OSFI and the Canada Revenue Agency and subject to the *Pension Benefits Standards Act, 1985* and the *Income Tax Act*.

The defined benefit plans expose the Bank to specific risks such as investment performance, changes to the discount rate used to calculate the obligation, the longevity of plan members and future inflation. While management believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty that may cause future results to differ significantly from these assumptions, which could give rise to gains or losses.

According to the Bank's governance rules, the policies and risk management related to the defined benefit plans are overseen at different levels by the pension committees, the Bank's management and the Board's Human Resources Committee. The defined benefit plans are examined on an ongoing basis in order to monitor the funding and investment policies, the plans' financial status and the Bank's funding requirements.

The Bank's funding policy for the defined benefit pension plans is to make at least the minimum annual contributions required by pension regulators.

For funded plans, the Bank determines whether an economic benefit exists in the form of potential reductions in future contributions and in the form of refunds from the plan surplus, where permitted by applicable regulations and plan provisions.

Defined Benefit Obligation, Plan Assets and Funded Status

As at October 31

	Pension plans		Other post-employment benefit plans	
	2015	2014	**2015**	2014
Defined benefit obligation				
Balance at beginning	**3,161**	2,820	**171**	175
Current service cost	**79**	76	**4**	4
Interest cost	**142**	137	**7**	8
Remeasurements				
Actuarial (gains) losses arising from changes in demographic assumptions	**–**	39	**–**	1
Actuarial (gains) losses arising from changes in financial assumptions	**(15)**	153	**(1)**	9
Actuarial (gains) losses arising from experience adjustments	**–**	24	**–**	(18)
Employee contributions	**46**	43		
Benefits paid	**(150)**	(131)	**(8)**	(8)
Balance at end	**3,263**	3,161	**173**	171
Plan assets				
Fair value at beginning	**3,340**	2,948		
Interest income	**147**	142		
Administration costs	**(4)**	(3)		
Remeasurements				
Return on plan assets (excluding interest income)	**68**	241		
Bank contributions[1]	**74**	100		
Employee contributions	**46**	43		
Benefits paid	**(150)**	(131)		
Fair value at end	**3,521**	3,340		
Defined benefit asset (liability) at end	**258**	179	**(173)**	(171)

(1) For fiscal 2016, the Bank expects to pay an employer contribution of $81 million to the defined benefit pension plans.

(millions of Canadian dollars)

NOTE 23 – EMPLOYEE BENEFITS – PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (cont.)

Defined Benefit Asset (Liability)

As at October 31

	Pension plans		Other post-employment benefit plans	
	2015	2014	**2015**	2014
Defined benefit asset included in *Other assets*	**268**	185		
Defined benefit liability included in *Other liabilities*	**(10)**	(6)	**(173)**	(171)
	258	179	**(173)**	(171)

Cost for Pension Plans and Other Post-Employment Benefits

Year ended October 31

	Pension plans		Other post-employment benefit plans	
	2015	2014	**2015**	2014
Current service cost	**79**	76	**4**	4
Interest expense (income), net	**(5)**	(5)	**7**	8
Administration costs	**4**	3		
Expense recognized in *Net income*	**78**	74	**11**	12
Remeasurements				
Actuarial (gains) losses on defined benefit obligation	**(15)**	216	**(1)**	(8)
Return on plan assets (excluding interest income)	**(68)**	(241)		
Remeasurements recognized in *Other comprehensive income*	**(83)**	(25)	**(1)**	(8)
	(5)	49	**10**	4

Allocation of the Fair Value of Pension Plan Assets

As at October 31

			2015			2014
	Quoted in an active market(1)	**Not quoted in an active market**	**Total**	Quoted in an active market(1)	Not quoted in an active market	Total
Asset classes						
Cash and cash equivalents	**–**	**37**	**37**	–	23	23
Equity securities	**1,740**	**339**	**2,079**	1,386	253	1,639
Debt securities						
Government of Canada	**209**	**–**	**209**	309	–	309
Provinces, municipalities and other public administrations	**–**	**761**	**761**	–	984	984
Restructured notes of the MAV III conduits	**–**	**54**	**54**	–	–	–
Other issuers	**–**	**296**	**296**	–	308	308
Other	**–**	**85**	**85**	–	77	77
	1,949	**1,572**	**3,521**	1,695	1,645	3,340

(1) Unadjusted quoted prices in active markets for identical assets that the Bank can access at the measurement date.

The Bank's investment strategy for plan assets considers several factors, including the time horizon of pension plan obligations and investment risk. For each plan, an allocation range per asset class is defined using a mix of equity and debt securities to optimize the risk-return profile of plan assets and minimize asset/liability mismatching.

The pension plan assets may include investment securities issued by the Bank. As at October 31, 2015, the pension plan assets do not include any securities issued by the Bank ($131 million as at October 31, 2014).

For fiscal 2015, the Bank and its related entities received $7 million ($6 million for the year ended October 31, 2014) in fees from the pension plans for related management, administration and custodial services.

(millions of Canadian dollars)

Allocation of the Defined Benefit Obligation by the Status of Defined Benefit Plan Participants

As at October 31

	Pension plans		Other post-employment benefit plans	
	2015	2014	**2015**	2014
Active employees	**46 %**	45 %	**38 %**	37 %
Retirees	**49 %**	51 %	**62 %**	63 %
Participants with deferred vested benefits	**5 %**	4 %		
	100 %	100 %	**100 %**	100 %
Weighted average duration of the defined benefit obligation *(in years)*	**16**	16	**14**	15

Significant Actuarial Assumptions (Weighted Average)

Discount Rate

The discount rate assumption is based on an interest rate curve that represents the yields on corporate AA bonds. Short-term maturities are obtained using a curve based on observed data from corporate AA bonds. Long-term maturities are obtained using a curve based on extrapolated data, which is obtained by adding a yield spread, based on maturity, to the long-term provincial bond yields. The spread is established based on the differences observed between the yields on corporate AA bonds and provincial AA bonds in three maturity ranges of the yield curve.

In order to measure the pension plan and other post-employment plan obligation, the vested benefits that the Bank expects to pay in each future period are discounted to the measurement date using the spot rate associated with each of the respective periods based on the yield curve derived using the above methodology. The sum of discounted benefit amounts represents the defined benefit obligation. An average discount rate that replicates this obligation is then computed. This single rate was also used to calculate current service cost and net interest on the defined benefit asset (liability) for the year ended October 31, 2014.

As of November 1, 2014, to better reflect current service cost, a separate discount rate was determined to account for the timing of future benefit payments associated with the additional year of service to be earned by the plan's active participants. Since these benefits are, on average, being paid at a later date than the benefits already earned by participants as a whole (i.e., longer duration), this method results in the use of a generally higher discount rate for calculating current service cost than that used to measure obligations where the yield curve is positively sloped. The methodology used to determine this discount rate is the same as the one used to establish the discount rate for measuring the obligation.

(millions of Canadian dollars)

NOTE 23 – EMPLOYEE BENEFITS – PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (cont.)

Other Assumptions

For measurement purposes, the estimated annual growth rate for health care costs was 5.90% for 2015 (6.07% for 2014). Based on the assumption retained, this rate is expected to decrease gradually to 2.97% in 2034 and remain steady thereafter.

The mortality assumption is a determining factor when measuring the defined benefit obligation. Determining the expected benefit payout period is based on best estimate assumptions regarding mortality. Mortality tables are reviewed at least once a year, and the assumptions made are in accordance with accepted actuarial practice. New results regarding the plans are reviewed and used in calculating best estimates of future mortality.

As at October 31

	Pension plans		Other post-employment benefit plans	
	2015	2014	**2015**	2014
Defined benefit obligation				
Discount rate	**4.40 %**	4.35 %	**4.40 %**	4.35 %
Rate of compensation increase	**3.00 %**	3.00 %	**3.00 %**	3.00 %
Health care cost trend rate			**5.90 %**	6.07 %
Life expectancy *(in years)* at 65 for a participant currently at				
Age 65				
Men	**21.1**	21.0	**21.1**	21.0
Women	**23.4**	23.4	**23.4**	23.4
Age 45				
Men	**22.1**	22.1	**22.1**	22.1
Women	**24.4**	24.4	**24.4**	24.4

Year ended October 31

	Pension plans		Other post-employment benefit plans	
	2015	2014	**2015**	2014
Pension plan expense				
Discount rate – Current service	**4.60 %**	4.75 %	**4.60 %**	4.75 %
Discount rate – Interest expenses (income), net	**4.35 %**	4.75 %	**4.35 %**	4.75 %
Rate of compensation increase	**3.00 %**	3.00 %	**3.00 %**	3.00 %
Health care cost trend rate			**5.90 %**	6.07 %
Life expectancy *(in years)* at 65 for a participant currently at				
Age 65				
Men	**21.0**	20.3	**21.0**	20.3
Women	**23.4**	22.6	**23.4**	22.6
Age 45				
Men	**22.1**	22.1	**22.1**	22.1
Women	**24.4**	23.7	**24.4**	23.7

(millions of Canadian dollars)

Sensitivity of Significant Assumptions for 2015

The following table shows the potential impacts of changes to key assumptions on the defined benefit obligation of the pension plans and other post-employment benefit plans as at October 31, 2015. These impacts are hypothetical and should be interpreted with caution as changes in each significant assumption may not be linear.

	Pension plans	Other post-employment benefit plans
	Change in the obligation	Change in the obligation
Impact of a 0.25% increase in the discount rate	(123)	(6)
Impact of a 0.25% decrease in the discount rate	131	6
Impact of a 0.25% increase in the rate of compensation increase	29	1
Impact of a 0.25% decrease in the rate of compensation increase	(28)	(1)
Impact of a 1.00% increase in the health care cost trend rate		9
Impact of a 1.00% decrease in the health care cost trend rate		(8)
Impact of an increase in the age of participants by one year	(72)	(1)
Impact of a decrease in the age of participants by one year	70	1

Projected Benefit Payments

Year ended October 31	Pension plans	Other post-employment benefit plans
2016	147	9
2017	126	9
2018	126	9
2019	126	9
2020	129	9
2021 to 2025	760	45

NOTE 24 – RESTRUCTURING CHARGE

During fiscal 2015, the Board approved certain restructuring initiatives in order to continue its transformation plan, satisfy the changing needs of its clients and enhance operational efficiency. This transformation will allow the Bank to maintain the pace of its client-centric shift, pursue the transition to digital banking, maintain a compelling workplace and focus on operational excellence. During the fourth quarter of fiscal 2015, the Bank launched some of these restructuring initiatives and expects to finalize them during fiscal 2016.

During fiscal 2015, the Bank recorded an $86 million charge in *Restructuring charge* in the Consolidated Statement of Income, consisting of severance pay, professional fees, onerous contracts and write-offs of premises and equipment. This restructuring charge is allocated across all the Bank's business segments.

	Year ended October 31, 2015		
	Severance pay	Other charges	Total
Balance at beginning of year	–	–	–
Restructuring charge	53	33	86
Payments made during the year	(2)	(17)	(19)
Balance at end of year	51	16	67

(millions of Canadian dollars)

NOTE 25 – INCOME TAXES

The Bank's income tax expense reported in the consolidated financial statements is as follows.

Year ended October 31	2015	2014
Consolidated Statement of Income		
Current taxes		
Current year	231	325
Prior period adjustments	(5)	(32)
	226	293
Deferred taxes		
Origination and reversal of temporary differences	36	3
Prior period adjustments	(28)	(1)
	8	2
	234	295
Consolidated Statement of Changes in Equity		
Share issuance expense and other	(3)	(5)
Consolidated Statement of Comprehensive Income		
Remeasurements of pension plans and other post-employment benefits	23	10
Other	(72)	20
	(49)	30
Income taxes	182	320

The breakdown of the income tax expense is as follows.

Year ended October 31	2015	2014
Current taxes	137	311
Deferred taxes	45	9
	182	320

The temporary differences and tax loss carryforwards resulting in deferred tax assets and liabilities are as follows.

	As at October 31		Year ended October 31		Year ended October 31	
	Consolidated Balance Sheet		Consolidated Statement of Income		Consolidated Statement of Comprehensive Income	
	2015	2014	2015	2014	2015	2014
Deferred tax assets						
Allowances for credit losses and provisions	293	284	9	13	–	–
Defined benefit liability – Other post-employment benefit plans	50	50	1	(3)	(1)	(1)
Deferred revenue	36	32	4	–	–	–
Tax loss carryforwards	4	2	2	(2)	–	–
Other(1)	68	70	9	1	(14)	–
	451	438	25	9	(15)	(1)
Deferred tax liabilities						
Premises and equipment(2)	(155)	(132)	(23)	(29)	–	–
Defined benefit asset – Pension plans	(57)	(40)	5	3	(22)	(16)
Investments in associates	(65)	(69)	5	4	(1)	–
Other(3)	(67)	(41)	(20)	11	(2)	4
	(344)	(282)	(33)	(11)	(25)	(12)
Net deferred tax assets (liabilities)	107	156	(8)	(2)	(40)	(13)

(1) As at October 31, 2015, the amount on the Consolidated Balance Sheet includes $3 million in deferred tax assets related to share issuance costs ($5 million as at October 31, 2014) presented in *Retained earnings* on the Consolidated Statement of Changes in Equity.
(2) As at October 31, 2014, the amount on the Consolidated Balance Sheet includes $4 million in deferred tax liabilities related to intangible assets acquired during the TD Waterhouse Institutional Services acquisition that had no impact on the Consolidated Statement of Comprehensive Income.
(3) As at October 31, 2015, the amount on the Consolidated Balance Sheet includes $4 million in deferred tax liabilities related to foreign exchange that had no impact on income taxes.

Net deferred tax assets are included in *Other assets* and net deferred tax liabilities are included in *Other liabilities*.

As at October 31	2015	2014
Deferred tax assets	230	264
Deferred tax liabilities	(123)	(108)
	107	156

According to forecasts, which are based on information available on October 31, 2015, the Bank believes that it is probable that the results of future operations will generate sufficient taxable income to utilize all the deferred tax assets before they expire.

As at October 31, 2015, the total amount of temporary differences, unused tax loss carryforwards and unused tax credits for which no deferred tax asset has been recognized was $166 million ($113 million as at October 31, 2014).

As at October 31, 2015, the total amount of temporary differences related to investments in subsidiaries, associates, and joint ventures for which no deferred tax liability has been recognized was $761 million ($557 million as at October 31, 2014).

The following table provides a reconciliation of the Bank's income tax rate.

Year ended October 31	2015		2014	
	$	%	$	%
Income before income taxes	1,853	100.0	1,833	100.0
Income taxes at Canadian statutory income tax rate	510	27.5	495	27.0
Reduction in income tax rate due to				
Tax-exempt income from securities, mainly dividends from Canadian corporations	(236)	(12.8)	(163)	(8.9)
Tax rates of subsidiaries, foreign entities and associates	(33)	(1.8)	(3)	(0.2)
Other items	(7)	(0.3)	(34)	(1.9)
	(276)	(14.9)	(200)	(11.0)
Income taxes reported in the Consolidated Statement of Income and effective income tax rate	234	12.6	295	16.0

NOTE 26 – EARNINGS PER SHARE

Diluted earnings per share is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding after taking into account the dilution effect of stock options using the treasury stock method.

Year ended October 31	2015	2014
Basic earnings per share		
Net income attributable to the Bank's shareholders	1,549	1,469
Dividends on preferred shares	45	40
Net income attributable to common shareholders	1,504	1,429
Weighted average basic number of common shares outstanding *(thousands)*	329,790	327,463
Basic earnings per share *(dollars)*	4.56	4.36
Diluted earnings per share		
Net income attributable to common shareholders	1,504	1,429
Weighted average basic number of common shares outstanding *(thousands)*	329,790	327,463
Adjustment to average number of common shares *(thousands)*		
Stock options(1)	3,349	3,623
Weighted average diluted number of common shares outstanding *(thousands)*	333,139	331,086
Diluted earnings per share *(dollars)*	4.51	4.32

(1) For the year ended October 31, 2015, the diluted earnings per share calculation does not include an average number of 2,829,945 options outstanding with a weighted average exercise price of $47.93, as the exercise price of these options was higher than the average price of the Bank's common shares. For the year ended October 31, 2014, as the exercise price of the options was less than the average price of the Bank's common shares, no option was excluded from the diluted earnings per share calculation.

(millions of Canadian dollars)

NOTE 27 – GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

Guarantees

The maximum potential amount of future payments represents the maximum risk of loss if there were a total default by the guaranteed parties, without consideration of recoveries under recourse provisions, insurance policies or from collateral held or pledged. The maximum potential amount of future payments for significant guarantees issued by the Bank and in effect as at October 31 is presented in the following table.

	2015	2014
Letters of guarantee	**3,025**	2,613
Backstop liquidity, credit enhancement facilities and other	**5,128**	5,035
Securities lending	**1,461**	1,957
Other guarantee	**28**	29

Letters of Guarantee

In the normal course of business, the Bank issues letters of guarantee. These letters of guarantee represent irrevocable commitments that the Bank will make payments in the event that a client cannot meet its financial obligations to third parties. The Bank's policy for requiring collateral security with respect to letters of guarantee is similar to that for loans. Generally, the term of these letters of guarantee is less than two years. The collective allowance on non-impaired loans covers all credit risks, including those relating to letters of guarantee. As at October 31, 2015 and 2014, no amount has been recorded on the Consolidated Balance Sheet with respect to these letters of guarantee.

Backstop Liquidity and Credit Enhancement Facilities

Facilities to Multi-Seller Conduits

The Bank administers multi-seller conduits that purchase financial assets from clients and finance those purchases by issuing asset-backed commercial paper. The Bank provides backstop liquidity facilities to these multi-seller conduits. As at October 31, 2015, the notional amount of the global-style backstop liquidity facilities totalled $2.3 billion ($2.2 billion as at October 31, 2014), representing the total amount of the commercial paper outstanding.

These backstop liquidity facilities can be drawn if the conduits are unable to access the commercial paper market, even if there is no general market disruption. These facilities have terms of less than one year and can be periodically renewed. The terms and conditions of these backstop liquidity facilities do not require the Bank to advance money to the conduits if the conduits are insolvent or involved in bankruptcy proceedings or to fund non-performing assets beyond the amount of the available credit enhancements. The backstop liquidity facilities provided by the Bank have not been drawn to date.

The Bank also provides credit enhancement facilities to these multi-seller conduits. These facilities have terms of less than one year and are automatically renewable unless the Bank sends a non-renewal notice. As at October 31, 2015 and 2014, the committed notional value for these facilities was $30 million. To date, the credit enhancement facilities provided by the Bank have not been drawn.

The maximum risk of loss for the Bank cannot exceed the total amount of commercial paper outstanding, i.e., $2.3 billion as at October 31, 2015 ($2.2 billion as at October 31, 2014). As at October 31, 2015, the Bank held $22 million ($30 million as at October 31, 2014) of this commercial paper and, consequently, the maximum potential amount of future payments was $2.2 billion ($2.1 billion as at October 31, 2014).

CDCC Overnight Liquidity Facility

Canadian Derivatives Clearing Corporation (CDCC) acts as a central clearing counterparty for multiple financial instrument transactions in Canada. Certain fixed-income clearing members of CDCC have provided an equally shared committed and uncommitted global overnight liquidity facility for the purpose of supporting CDCC in its clearing activities of securities purchased under reverse repurchase agreements or sold under repurchase agreements. The objective of this facility is to maintain sufficient liquidity in the event of a clearing member's default. As a fixed-income clearing member providing support to CDCC, the Bank provides a liquidity facility. As at October 31, 2015, the notional amount of the overnight uncommitted liquidity facility amounted to $2.0 billion (committed: $200 million and uncommitted: $1.8 billion as at October 31, 2014). As at October 31, 2015 and 2014, no amount had been drawn.

(millions of Canadian dollars)

Securities Lending

Under securities lending agreements the Bank has entered into with certain clients who have entrusted it with the safekeeping of their securities, the Bank lends the securities to third parties and indemnifies its clients in the event of loss. In order to protect itself against any contingent loss, the Bank obtains, as security from the borrower, a cash amount or extremely liquid marketable securities with a fair value greater than that of the securities loaned. No amount has been recognized on the Consolidated Balance Sheet with respect to potential indemnities resulting from securities lending agreements.

Other Guarantee

Pursuant to a mutual guarantee agreement required by a regulatory authority, a subsidiary of the Bank has agreed to guarantee all commitments, debts and liabilities of an associate to the maximum of its regulatory capital. This guarantee expires no later than the date the investment in the associate is sold, or sooner if deemed appropriate by the regulatory authority. As at October 31, 2015 and 2014, this guarantee remains undrawn, and no amount has been recognized on the Consolidated Balance Sheet with respect to this agreement.

Other Indemnification Agreements

In the normal course of business, including securitization transactions and discontinuances of businesses and operations, the Bank enters into numerous contractual agreements under which it undertakes to compensate the counterparty for costs incurred as a result of litigation, changes in laws and regulations (including tax legislation), claims with respect to past performance, incorrect representations or the non-performance of certain restrictive covenants. The Bank also undertakes to indemnify any person acting as a director or officer or performing a similar function within the Bank or one of its subsidiaries or another entity, at the request of the Bank, for all expenses incurred by that person in proceedings or investigations to which he or she is party in that capacity. Moreover, as a member of a securities transfer network and pursuant to the membership agreement and the regulations governing the operation of the network, the Bank granted a movable hypothec to the network that can be used in the event another member fails to meet its contractual obligations. The durations of the indemnification agreements vary according to circumstance; as at October 31, 2015 and 2014, given the nature of the agreements, the Bank is unable to make a reasonable estimate of the maximum potential liability it could be required to pay to counterparties. No amount has been recorded on the Consolidated Balance Sheet with respect to these agreements.

Master Asset Vehicles

Margin Funding Facility

The Bank has committed to contribute $821 million ($831 million as at October 31, 2014) to a margin funding facility related to the MAV conduits in order to finance potential collateral calls. As at October 31, 2015 and 2014, no amount had been advanced by the Bank. For additional information, see Note 6.

Commitments

Credit Instruments

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

As at October 31	**2015**	2014
Letters of guarantee(1)	**3,025**	2,613
Documentary letters of credit(2)	**48**	76
Credit card receivables(3)	**6,578**	6,442
Commitments to extend credit(3)	**45,545**	41,139

(1) See *Letters of guarantee* on page 182.
(2) Documentary letters of credit are documents issued by the Bank and used in international trade to enable a third party to draw drafts on the Bank up to an amount established under specific terms and conditions; these instruments are collateralized by the delivery of the goods to which they are related.
(3) Credit card receivables and commitments to extend credit represent the undrawn portions of credit authorizations granted in the form of loans, acceptances, letters of guarantee and documentary letters of credit. The Bank is required at all times to make the undrawn portion of the credit authorization available, subject to certain conditions.

Financial Assets Received as Collateral

As at October 31, 2015, the fair value of financial assets received as collateral that the Bank was authorized to sell or repledge totalled $68.9 billion ($68.5 billion as at October 31, 2014). These financial assets received as collateral consist of securities related to securities financing and derivative transactions as well as securities purchased under reverse repurchase agreements and securities borrowed.

Other Commitments

The Bank acts as an investor in investment banking activities where it enters into agreements to finance external private equity funds and investments in equity and debt securities at market value at the time the agreements are signed. In connection with these activities, the Bank has commitments to invest up to $32 million as at October 31, 2015 ($67 million as at October 31, 2014).

(millions of Canadian dollars)

NOTE 27 – GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

Pledged Assets

In the normal course of business, the Bank pledges securities and other assets as collateral. A breakdown of encumbered assets pledged as collateral is provided in the following table. These transactions are concluded in accordance with standard terms and conditions for such transactions.

As at October 31	2015	2014
Assets pledged to		
Bank of Canada	–	25
Direct clearing organizations(1)	460	1,363
Assets pledged in relation to		
Derivative financial instrument transactions	1,870	1,350
Borrowing, securities lending and securities sold under reverse repurchase agreements	37,104	31,702
Securitization transactions	23,017	20,134
Covered bonds(2)	8,577	5,498
Other	123	107
Total	71,151	60,179

(1) Includes assets pledged as collateral for Large Value Transfer System (LVTS) activities.
(2) The Bank established two covered bond programs. For additional information, see Notes 13 and 28.

Contingent Liabilities

Litigation

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

Marcotte

On September 19, 2014, the Supreme Court of Canada issued a decision on *Marcotte v. Bank of Montreal, et al.,* a class action seeking reimbursement of foreign currency transaction fees paid by credit cardholders from 2002 to 2008. The decision granted a reimbursement of the fees collected by the Bank between April 17, 2000 and December 31, 2002 in addition to payment of $25.00 in punitive damages to each member, all amounts grossed-up by interest. On May 5, 2015, a settlement was approved by the Superior Court for a total amount of $19.5 million. This case is now closed.

Watson

In 2011, a motion for authorization to institute a class action was filed in the Supreme Court of British Columbia against Visa Corporation Canada (Visa), MasterCard International Incorporated (MasterCard) as well as National Bank and a number of other financial institutions. In this motion, class members allege that the financial institutions engaged in a price-fixing system to increase or maintain the fees paid by merchants on Visa and MasterCard transactions. In so doing, they would have been in breach of the *Competition Act*. Class members are claiming compensatory and punitive damages. On March 27, 2014, the Court certified the class action in part. The decision was appealed. On August 19, 2015, the Court of Appeal of British Columbia issued a judgment and concluded that the class action be allowed to proceed. The judgment was not appealed to the Supreme Court of Canada. Similar actions were filed in four other jurisdictions.

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

NOTE 28 – STRUCTURED ENTITIES

A structured entity is an entity created to accomplish a narrow and well-defined objective and is designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate solely to administrative tasks and the relevant activities are directed by means of contractual arrangements. Structured entities are assessed for consolidation in accordance with the accounting treatment described in Note 1. The Bank's maximum exposure to loss resulting from its interests in these structured entities consists primarily of the investments in these entities, the fair value of the derivative contracts entered into with them, and the backstop liquidity and credit enhancement facilities granted to certain structured entities.

In the normal course of business, the Bank may enter into financing transactions with third-party structured entities, including commercial loans, reverse repurchase agreements, prime brokerage margin lending, and similar collateralized lending transactions. While such transactions expose the Bank to the counterparty credit risk of the structured entities, this exposure is mitigated by the collateral related to these transactions. The Bank typically has neither power nor significant variable returns resulting from financing transactions with structured entities and does not consolidate such entities. Financing transactions with third-party-sponsored structured entities are included on the Bank's consolidated financial statements and are not included in the table accompanying this note.

Non-Consolidated Structured Entities

Multi-Seller Conduits

The Bank administers multi-seller conduits that purchase financial assets from clients and finance those purchases by issuing commercial paper backed by the assets acquired. Clients use these multi-seller conduits to diversify their funding sources and reduce borrowing costs, while continuing to manage the financial assets and providing some amount of first-loss protection. Notes issued by the conduits and held by third parties provide additional credit loss protection. The Bank acts as a financial agent and provides these conduits with administrative and transaction structuring services as well as backstop liquidity and credit enhancement facilities under the commercial paper program. These facilities are presented and described in Note 27. The Bank has concluded derivative contracts with these conduits, the fair value of which is presented on the Bank's Consolidated Balance Sheet. Although the Bank has the ability to direct the relevant activities of these conduits, it cannot use its power to affect the amount of the returns it obtains, as it acts as an agent. Consequently, the Bank does not control these conduits and does not consolidate them.

Master Asset Vehicles (MAV)

The MAVs are structured entities created for the purpose of grouping the restructured notes stemming from asset-backed commercial paper held by Canadian corporate investors. For additional information, see Note 6. The Bank holds economic interests in MAVs in the form of restructured notes and the margin funding facility. The Bank does not have the ability to direct the relevant activities of the MAVs. Consequently, it does not control these MAVs and does not consolidate them.

Investment Funds

The Bank enters into derivative or other financial instrument contracts with third parties to provide them with the desired exposure to certain investment funds. The Bank economically hedges the risks related to these derivatives by investing in those investment funds. The Bank can also hold economic interests in certain investment funds as part of its investing activities. The Bank does not control the funds where its holdings are not significant as in these circumstances, the Bank either acts only as an agent or does not have any power over the relevant activities. In both cases, it does not have significant exposure to the variable returns of the funds. Therefore, the Bank does not consolidate these funds.

Private Investments

As part of its investment banking operations, the Bank invests in several limited liability partnerships and other incorporated entities. These investment companies in turn invest in operating companies with a view to reselling these investments at a profit over the medium or long term. The Bank does not intervene in the operations of these entities; its only role is that of an investor. Consequently, it does not control these companies and does not consolidate them.

Asset-Backed Fund

The Bank invested in the preferred shares of an automobile-loan-backed fund. The preferred shares provide dividend income and are mandatorily redeemable. The Bank merely has protective rights and does not have the ability to direct the relevant activities of the fund. Consequently, the Bank does not control this fund and does not consolidate it.

(millions of Canadian dollars)

NOTE 28 – STRUCTURED ENTITIES (cont.)

NBC Capital Trust

The Bank created NBC Capital Trust (the Trust) for its funding and capital management needs. The securities issued by this trust constitute innovative capital instruments and are eligible as additional Tier 1 capital, but because these instruments do not satisfy the non-viability contingent capital requirements, they are to be phased out at a rate of 10% per year between 2013 and 2022. The gross proceeds from the securities issued by this trust were used to acquire a deposit note from the Bank. For additional information, see Note 13. The Bank also holds all of the trust's equity and has committed to lend it the liquidity required in the normal course of business. Although the Bank has the ability to direct the relevant activities of the Trust, it is not exposed to or have the rights to variable returns since the Trust's primary asset is a deposit note issued by the Bank. Consequently, the Bank does not control the Trust and does not consolidate it.

The following table presents the carrying amounts of the assets and liabilities relating to the Bank's interests in non-consolidated structured entities, the Bank's maximum exposure to loss from these interests, as well as the total assets of these structured entities. The structured entity Canada Housing Trust is not presented. For additional information, see Note 8.

						As at October 31, 2015
	Multi-seller conduits(1)	Master asset vehicles(2)	Investment funds(3)	Private investments(4)	Asset-backed funds(5)	NBC Capital Trust(6)
Assets on the Consolidated Balance Sheet						
Securities at fair value through profit or loss	22	642	130	–	–	–
Available-for-sale securities	–	13	50	95	102	–
Derivative financial instruments	11	–	–	–	–	–
Other assets	–	–	–	–	12	–
	33	655	180	95	114	–
As at October 31, 2014	34	1,241	992	87	–	–
Liabilities on the Consolidated Balance Sheet						
Deposits – Business and government	–	–	–	–	–	225
Other liabilities	–	–	–	–	–	4
	–	–	–	–	–	229
As at October 31, 2014	–	–	–	–	–	229
Maximum exposure to loss						
Securities and derivative financial instruments	33	655	180	95	114	–
Liquidity and credit enhancement facilities	2,233	–	–	–	–	–
Margin funding facility	–	821	–	–	–	–
	2,266	1,476	180	95	114	–
As at October 31, 2014	2,164	2,072	992	87	–	–
Total assets of the structured entities	2,283	–	1,243	3,648	144	234
As at October 31, 2014	2,174	–	6,029	3,218	–	241

(1) The main underlying assets, located in Canada, are residential mortgages, automobile loans, automobile inventory financings, and other receivables. As at October 31, 2015, the notional committed amount of the global-style liquidity facilities totalled $2.3 billion ($2.2 billion as at October 31, 2014), representing the total amount of commercial paper outstanding. The Bank also provides series-wide credit enhancement facilities for a notional committed amount of $30 million ($30 million as at October 31, 2014). The maximum exposure to loss cannot exceed the amount of commercial paper outstanding. As at October 31, 2015, the Bank held $22 million in commercial paper ($30 million as at October 31, 2014) and, consequently, the maximum potential amount of future payments as at October 31, 2015 is limited to $2.2 billion ($2.1 billion as at October 31, 2014), which represents the undrawn liquidity and credit enhancement facilities.
(2) See the Master Asset Vehicles section in Note 6. The total amount outstanding of restructured notes of the MAV conduits was $9.3 billion as at October 31, 2015 ($18 billion as at October 31, 2014). The undrawn margin funding facility amounted to $821 million as at October 31, 2015 ($831 million as at October 31, 2014).
(3) The underlying assets are various financial instruments and are presented on a net asset basis. Certain investment funds are in a trading portfolio.
(4) The underlying assets are private investments. The amount of total assets of the structured entities corresponds to the amount for the most recent available period.
(5) The underlying assets are automobile loans.
(6) The underlying asset is a deposit note from the Bank. See Note 13.

Consolidated Structured Entities

Securitization Entity for the Bank's Credit Card Receivables

In 1998, the Bank established Canadian Credit Card Trust (CCCT) to securitize its credit card receivables on a revolving basis and uses the entity for capital management and funding purposes. On April 2, 2015, Canadian Credit Card Trust II (CCCT II) was established in order to continue the securitization program of CCCT. On April 10, 2015, all of CCCT's assets were transferred to CCCT II and all of its liabilities were assumed by CCCT II. CCCT was subsequently dissolved as of November 23, 2015.

The Bank provides first-loss protection against the losses since it retains the excess spread from the portfolio of sold receivables. The excess spread represents the residual net interest income after all the expenses related to this structure have been paid. The Bank also provides second-loss protection as it holds subordinated notes issued by CCCT II. In addition, the Bank acts as an administrative agent and servicer and as such is responsible for the daily administration and management of CCCT II's credit card receivables. The Bank therefore has the ability to direct the relevant activities of CCCT II and can exercise its power to affect the amount of returns it obtains. Consequently, the Bank controls CCCT II and consolidates it.

National Bank Hedge Fund Managed Accounts (Innocap Platform)

Innocap Investment Management Inc. (Innocap), a company under joint control, offers hedge fund account programs for fund sponsors seeking a platform that gives them a high degree of transparency and leading-edge tools to manage liquidity and control assets and risk. The Bank can hold economic interests in certain hedge funds of the platform and consolidates those funds over which it has the ability to direct the relevant activities and in which it can exercise its power to affect the amount of returns it obtains.

Covered Bond Guarantors

NBC Covered Bond Guarantor (Legislative) Limited Partnership

In December 2013, the Bank established the covered bond legislative program under which covered bonds are issued. It therefore created NBC Covered Bond Guarantor (Legislative) Limited Partnership (the Guarantor) to guarantee payment of the principal and interest owed to the bondholders. The Bank sold uninsured residential mortgages to the Guarantor and granted it loans to facilitate the acquisition of these assets. The Bank acts as manager of the partnership and has decision-making authority over its relevant activities in accordance with the contractual terms governing the covered bond legislative program. In addition, the Bank is able, in accordance with the contractual terms governing the covered bond legislative program, to affect the variable returns of the partnership, which are directly related to the return on the mortgage loan portfolio and the interest on the loans from the Bank. Consequently, the Bank controls the partnership and consolidates it.

NBC Covered Bond Guarantor Limited Partnership

In January 2011, the Bank established the structured covered bond program. It therefore created NBC Covered Bond Guarantor Limited Partnership (the Guarantor) to guarantee payment of the principal and interest owed to the bondholders. The Bank sold insured residential mortgages to the Guarantor and granted it a demand loan to facilitate the acquisition of these assets. The Bank acts as manager of the partnership and has decision-making authority over its relevant activities in accordance with the contractual terms governing the structured covered bond program. In addition, the Bank is able, in accordance with the contractual terms governing the structured covered bond program, to affect the variable returns of the partnership, which are directly related to the return on the mortgage loan portfolio and the interest on the loans from the Bank. Consequently, the Bank controls the partnership and consolidates it.

Investment Funds

The Bank enters into derivative or other financial instrument contracts with third parties to provide them with the desired exposure to certain investment funds. The Bank economically hedges the risks related to these derivatives by investing in those investment funds. The Bank can also hold economic interests in certain investment funds as part of its investing activities. The Bank controls the relevant activities of these funds through its involvement as an investor and its significant exposure to their variable returns. Therefore, the Bank consolidates these funds.

NBC Asset Trust

The Bank created NBC Asset Trust for its funding and capital management needs. The securities issued by this trust constitute innovative capital instruments and are eligible as additional Tier 1 capital, but because these instruments do not satisfy the non-viability contingent capital requirements, they are to be phased out at a rate of 10% per year between 2013 and 2022. For additional information, see Note 19. The issuance proceeds were used to acquire, from the Bank, residential mortgage loans. The Bank continues to administer these loans and is committed to repurchase from NBC Asset Trust the capital balance and unpaid accrued interest on any loan that is more than 90 days past due. The Bank also manages day-to-day operations and holds the special voting securities of the trust. After the distribution has been paid to the holders of the trust capital securities, the Bank, as the sole holder of the special trust securities, is entitled to receive the balance of net residual funds. Therefore, the Bank has the ability to direct the relevant activities of NBC Asset Trust and can use its power to affect the amount of returns it obtains. Consequently, the Bank controls this trust and consolidates it.

(millions of Canadian dollars)

NOTE 28 – STRUCTURED ENTITIES (cont.)

Third-Party Structured Entities

In 2015, the Bank, through one of its subsidiaries, acquired interests in portions of a third-party structured entity. Each portion of the structured entity is a deemed separate entity since all of the following criteria are met: 1) specified assets of the entity are the only source of payment for specified liabilities of (or specified other interests in) the entity; 2) parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets. The Bank controls and therefore consolidates the deemed separate entities, as it has the ability to direct their relevant activities through its kick-out rights over the servicer of their assets and because it is also exposed to the variability of their returns.

The following table presents the Bank's investments and other assets in the consolidated structured entities as well as the total assets of these entities.

As at October 31		2015		2014
	Investments and other assets	Total assets(1)	Investments and other assets	Total assets(1)
Consolidated structured entities				
Securitization entity for the Bank's credit card receivables(2)(3)	339	1,649	342	1,636
National Bank hedge fund managed accounts (Innocap platform)(3)(4)	23	23	467	549
Investment funds(5)	410	460	281	332
Covered bonds(6)	12,722	13,099	10,315	10,696
Building(7)	70	63	73	66
NBC Asset Trust(8)	1,125	1,900	938	1,709
Third-party structured entities(9)	1,395	1,395	–	–
	16,084	18,589	12,416	14,988

(1) There are restrictions that stem mainly from regulatory requirements, corporate or securities laws and contractual arrangements that limit the ability of certain consolidated structured entities to transfer funds to the Bank.
(2) The underlying assets are credit card receivables.
(3) The Bank's investment is presented net of third-party holdings.
(4) The underlying assets are various financial instruments (trading portfolio). The total assets of the Innocap platform are presented on a net asset basis.
(5) The underlying assets are various financial instruments and are presented on a net asset basis. Certain investment funds are in a trading portfolio.
(6) For the covered bonds issued under the covered bond legislative program, the underlying assets are uninsured residential mortgage loans of the Bank. The average maturity of these underlying assets is two years. For covered bonds issued under the structured covered bond program, the underlying assets are insured residential mortgage loans of the Bank. The average maturity of these underlying assets is two years. As at October 31, 2015, the total amount of transferred mortgage loans was $12.7 billion ($10.3 billion as at October 31, 2014), and the total amount of covered bonds of $7.9 billion was recognized in *Deposits – Business and government* on the Consolidated Balance Sheet ($5.1 billion as at October 31, 2014). See Note 13.
(7) The underlying asset is a building located in Canada.
(8) The underlying assets are insured and uninsured residential mortgage loans of the Bank. As at October 31, 2015, insured loans amounted to $188 million ($253 million as at October 31, 2014). The average maturity of the underlying assets is two years. See Note 19.
(9) The underlying assets consist of equipment leased under operating leases.

(millions of Canadian dollars)

NOTE 29 – RELATED PARTY DISCLOSURES

In the normal course of business, the Bank provides various banking services to related parties and enters into contractual agreements and other operations with related parties. The Bank considers the following to be related parties.

– Its key officers and directors and members of their immediate family, i.e., spouses and children under 18 living in the same household.
– Entities over which its key officers and directors and their immediate family have control and/or significant influence through their significant voting power.
– The Bank's associates and joint ventures.
– The Bank's pension plans (for additional information, see Note 23).

According to the established definition, the Bank's key officers are those persons having authority and responsibility for planning, directing and controlling the Bank's activities, directly or indirectly.

Related Party Transactions

As at October 31

	Key officers and directors[1]		Related entities	
	2015	2014	**2015**	2014
Assets				
Mortgage loans and other loans[2]	**47**	64	**536** [3]	429 [3]
Other	**–**	–	**40**	57
Liabilities				
Deposits	**41**	43	**1,687** [4]	588 [4]
Other	**–**	–	**17**	29

(1) As at October 31, 2015, key officers, directors and their immediate family members were holding $27 million of the Bank's common and preferred shares ($32 million as at October 31, 2014).
(2) The Bank did not record any allowance or provisions for credit losses in 2015 and 2014.
(3) As at October 31, 2015, mortgage loans and other loans consisted of (i) $89 million in loans to the Bank's associates and joint ventures ($107 million as at October 31, 2014), and (ii) $447 million in loans to entities whose key officers, directors and their immediate family members exercise control or significant influence through significant voting power ($322 million as at October 31, 2014).
(4) As at October 31, 2015, deposits consisted of (i) $1,512 million in deposits from the Bank's associates and joint ventures ($189 million as at October 31, 2014), (ii) $175 million in deposits from entities whose key officers, directors and their immediate family members exercise control or significant influence through significant voting power ($268 million as at October 31, 2014), and (iii) the Bank's pension plans do not hold any Bank-issued investment securities ($131 million as at October 31, 2014).

The contractual agreements and other transactions with related entities as well as with directors and key officers are entered into under conditions similar to those offered to non-related third parties. These agreements did not have a significant impact on the Bank's results. The Bank also offers a deferred stock unit plan to directors who are not Bank employees. For additional information, see Notes 9, 22 and 28.

During the fiscal year, the Bank recorded a gain of $37 million ($27 million net of income taxes) upon a $54 million disposal of restructured notes of the MAV III conduits to one of its pension plans.

Compensation of Key Officers and Directors

As at October 31	**2015**	2014
Compensation and other short-term and long-term benefits	**29**	23
Share-based payments	**17**	15

(millions of Canadian dollars)

NOTE 29 – RELATED PARTY DISCLOSURES (cont.)

Principal Subsidiaries of the Bank[1]

			As at October 31, 2015	
Name	Business activity	Principal office address	Voting shares[2]	Investment at carrying value
Canada and United States				
National Bank Acquisition Holding Inc.	Holding Company	Montreal, Canada	100%	772
National Bank Group Inc.	Holding Company	Montreal, Canada	100%	
National Bank Financial Inc.	Investment Dealer	Montreal, Canada	100%	
NBCN Inc.	Investment Dealer	Toronto, Canada	100%	
National Bank Financial Ltd.	Investment Dealer	Montreal, Canada	100%	
NBF International Holdings Inc.	Holding Company	Montreal, Canada	100%	
Credigy International Holdings Inc.	Holding Company	Montreal, Canada	80%	
National Bank of Canada Financial Group Inc.	Holding Company	New York, NY, United States	100%	
Credigy Ltd.	Holding Company	Atlanta, GA, United States	80%	
National Bank of Canada Financial Inc.	Investment Dealer	New York, NY, United States	100%	
National Bank Life Insurance Company	Insurance	Montreal, Canada	100%	
Natcan Trust Company	Trustee	Montreal, Canada	100%	
National Bank Trust Inc.	Trustee	Montreal, Canada	100%	195
National Bank Realty Inc.	Real estate	Montreal, Canada	100%	13
National Bank Investments Inc.	Mutual Funds Dealer	Montreal, Canada	100%	421
National Bank Direct Brokerage Inc.	Investment Dealer	Montreal, Canada	100%	38
NatBC Holding Corporation	Holding Company	Hollywood, FL, United States	100%	31
Natbank, National Association	Banking	Hollywood, FL, United States	100%	
Other countries				
Natcan Global Holdings Ltd.	Holding Company	Sliema, Malta	100%	29
NBC Global Finance Limited	Investment Services	Dublin, Ireland	100%	
NBC Financial Markets Asia Limited	Dealing in securities	Hong Kong, China	100%	1

(1) Excluding consolidated structured entities. See Note 28.
(2) The Bank's percentage of voting rights in these subsidiaries.

(millions of Canadian dollars)

NOTE 30 – MANAGEMENT OF THE RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Bank is exposed to credit risk, market risk, liquidity risk and financing risk. The Bank's objectives, policies and procedures for managing risk and the risk measurement methods are presented in the Risk Management section of the MD&A. Text in grey shading and tables identified with an asterisk (*) in the Risk Management section of the MD&A are an integral part of these consolidated financial statements.

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

The following tables present balance sheet items and off-balance-sheet commitments by residual contractual maturity as at October 31, 2015 and 2014. The information gathered from this maturity analysis is a component of liquidity and funding management. However, this maturity profile does not represent how the Bank manages its interest rate risk nor its liquidity risk and funding needs. The Bank considers factors other than contractual maturity in the assessment of liquid assets or in determining expected future cash flows.

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

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

Assets

									As at October 31, 2015	
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Cash and deposits with financial institutions	5,317	14	–	–	–	–	–	–	2,236	7,567
Securities										
At fair value through profit or loss	587	673	701	1,351	757	5,473	7,992	6,706	17,757	41,997
Available-for-sale	1	356	92	147	37	527	6,846	5,519	518	14,043
	588	1,029	793	1,498	794	6,000	14,838	12,225	18,275	56,040
Securities purchased under reverse repurchase agreements and securities borrowed	6,280	4,036	4,345	25	312	1,185	–	–	1,519	17,702
Loans and acceptances(1)										
Residential mortgage	1,125	1,343	2,121	3,072	2,291	6,896	25,523	872	277	43,520
Personal and credit card	336	410	743	907	750	1,795	7,334	1,844	17,814	31,933
Business and government	3,767	1,609	1,719	2,143	1,479	2,558	7,269	2,127	8,283	30,954
Customers' liability under acceptances	7,896	919	585	–	–	–	–	–	–	9,400
Allowances for credit losses									(569)	(569)
	13,124	4,281	5,168	6,122	4,520	11,249	40,126	4,843	25,805	115,238
Other										
Derivative financial instruments	520	682	550	606	208	831	2,627	4,818	–	10,842
Due from clients, dealers and brokers(1)									415	415
Purchased receivables									1,438	1,438
Investments in associates and joint ventures									831	831
Premises and equipment									1,817	1,817
Goodwill									1,277	1,277
Intangible assets									1,059	1,059
Other assets	235	226	216	118	92	110	71	–	796	1,864
	755	908	766	724	300	941	2,698	4,818	7,633	19,543
	26,064	10,268	11,072	8,369	5,926	19,375	57,662	21,886	55,468	216,090

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

(millions of Canadian dollars)

NOTE 30 – MANAGEMENT OF THE RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (cont.)

Liabilities, Equity and Off-Balance-Sheet Commitments

									As at October 31, 2015	
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Deposits[1][2]										
Personal	1,063	1,103	1,920	1,170	1,451	5,304	7,333	910	25,727	45,981
Business and government	1,463	341	423	337	62	625	1,318	879	32,331	37,779
Deposit-taking institutions	4,814	344	13	1	2	2	4	–	1,458	6,638
Unsecured senior debt	4,676	3,772	6,595	2,874	559	4,610	5,091	2,345	–	30,522
Covered bonds	–	–	–	–	2,636	–	2,419	2,855	–	7,910
	12,016	5,560	8,951	4,382	4,710	10,541	16,165	6,989	59,516	128,830
Other										
Acceptances	7,896	919	585	–	–	–	–	–	–	9,400
Obligations related to securities sold short[3]	340	1,270	207	65	327	1,521	4,579	5,933	3,091	17,333
Obligations related to securities sold under repurchase agreements and securities loaned	5,875	736	4,733	–	–	840	–	–	1,595	13,779
Derivative financial instruments	527	748	646	418	153	886	1,825	2,553	–	7,756
Due to clients, dealers and brokers[1]									1,871	1,871
Liabilities related to transferred receivables[4]	15	1,129	28	1,163	80	3,145	9,083	5,127	–	19,770
Securitization – Credit card[5]	–	–	–	–	–	424	872	–	–	1,296
Other liabilities – Other items[1][5]	442	191	133	60	74	57	368	185	1,668	3,178
	15,095	4,993	6,332	1,706	634	6,873	16,727	13,798	8,225	74,383
Subordinated debt	505	–	–	–	–	1,008	–	9	–	1,522
Equity									11,355	11,355
	27,616	10,553	15,283	6,088	5,344	18,422	32,892	20,796	79,096	216,090
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	6	426	120	410	371	664	864	212	–	3,073
Credit card receivables[6]									6,578	6,578
Backstop liquidity and credit enhancement facilities[7]	–	15	2,044	15	–	3,054	–	–	–	5,128
Commitments to extend credit[8]	544	1,481	802	1,793	2,246	8,046	9,215	648	20,770	45,545
Lease commitments and other contracts	76	150	221	214	208	735	1,158	812	–	3,574
Other guarantee	–	–	–	–	–	–	–	–	28	28

(1) Amounts payable upon demand or notice are considered to have no specified maturity.
(2) The *Deposits* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(3) Amounts have been disclosed according to the remaining contractual maturity of the underlying security.
(4) These amounts mainly include liabilities related to the securitization of mortgage loans.
(5) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(6) These amounts are unconditionally revocable at the Bank's discretion at any time.
(7) In the event of payment on one of the backstop liquidity facilities, the Bank will receive as collateral government bonds in an amount up to $1.8 billion.
(8) These amounts include $20.8 billion that is unconditionally revocable at the Bank's discretion at any time.

(millions of Canadian dollars)

Assets

As at October 31, 2014

	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Cash and deposits with financial institutions	5,695	4	–	–	–	–	–	–	2,387	8,086
Securities										
At fair value through profit or loss	398	582	584	1,070	1,665	3,114	7,255	8,628	19,904	43,200
Available-for-sale	171	177	–	264	89	222	3,758	4,617	455	9,753
	569	759	584	1,334	1,754	3,336	11,013	13,245	20,359	52,953
Securities purchased under reverse repurchase agreements and securities borrowed	9,894	3,876	5,480	283	–	1,125	1,044	–	2,823	24,525
Loans and acceptances(1)										
Residential mortgage	915	1,144	1,693	2,848	2,168	9,183	20,523	564	262	39,300
Personal and credit card	254	333	573	782	661	2,465	5,850	1,585	17,493	29,996
Business and government	3,922	1,849	1,337	1,637	1,100	2,027	5,714	1,142	9,823	28,551
Customers' liability under acceptances	7,878	870	178	–	–	–	–	–	–	8,926
Allowances for credit losses									(604)	(604)
	12,969	4,196	3,781	5,267	3,929	13,675	32,087	3,291	26,974	106,169
Other										
Derivative financial instruments	305	491	310	225	142	842	1,449	3,328	–	7,092
Due from clients, dealers and brokers(1)									861	861
Purchased receivables									790	790
Investments in associates and joint ventures									697	697
Premises and equipment									380	380
Goodwill									1,272	1,272
Intangible assets									998	998
Other assets(2)	158	55	212	89	253	54	9	44	732	1,606
	463	546	522	314	395	896	1,458	3,372	5,730	13,696
	29,590	9,381	10,367	7,198	6,078	19,032	45,602	19,908	58,273	205,429

(1) Amounts collectible on demand are considered to have no specified maturity.
(2) An amount of $790 million classified in *Other assets* as at October 31, 2014 is now presented separately in *Purchased receivables* on the Consolidated Balance Sheet.

(millions of Canadian dollars)

NOTE 30 – MANAGEMENT OF THE RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (cont.)

Liabilities, Equity and Off-Balance-Sheet Commitments

As at October 31, 2014

	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Deposits(1)(2)										
Personal	532	1,029	1,807	1,049	1,373	4,586	8,858	876	24,853	44,963
Business and government	5,746	767	143	44	87	499	316	501	32,828	40,931
Deposit-taking institutions	436	–	–	–	–	–	–	–	1,248	1,684
Unsecured senior debt	3,531	2,640	1,253	5,464	3,867	3,588	6,253	640	–	27,236
Covered bonds	–	–	–	–	–	2,260	1,407	1,402	–	5,069
	10,245	4,436	3,203	6,557	5,327	10,933	16,834	3,419	58,929	119,883
Other										
Acceptances	7,878	870	178	–	–	–	–	–	–	8,926
Obligations related to securities sold short(3)	288	1,175	75	39	95	2,321	3,667	7,414	3,093	18,167
Obligations related to securities sold under repurchase agreements and securities loaned	8,146	1,469	3,438	2,415	–	–	–	–	1,312	16,780
Derivative financial instruments	296	664	389	325	160	880	1,432	1,575	–	5,721
Due to clients, dealers and brokers(1)									1,996	1,996
Liabilities related to transferred receivables(4)	7	335	405	367	16	2,223	8,703	5,023	–	17,079
Securitization – Credit card(5)	–	–	330	550	400	–	–	–	–	1,280
Other liabilities – Other items(1)(5)	228	53	142	21	753	2	2	69	1,944	3,214
	16,843	4,566	4,957	3,717	1,424	5,426	13,804	14,081	8,345	73,163
Subordinated debt	–	352	–	–	–	515	1,006	8	–	1,881
Equity									10,502	10,502
	27,088	9,354	8,160	10,274	6,751	16,874	31,644	17,508	77,776	205,429
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	102	715	62	287	182	363	574	404	–	2,689
Credit card receivables(6)									6,442	6,442
Backstop liquidity and credit enhancement facilities(7)	–	–	2,044	15	–	2,130	846	–	–	5,035
Commitments to extend credit(8)	725	868	1,155	1,895	1,474	8,104	7,216	439	19,263	41,139
Lease commitments and other contracts	64	125	181	179	175	486	811	495	–	2,516
Other guarantee	–	–	–	–	–	–	–	–	29	29

(1) Amounts payable upon demand or notice are considered to have no specified maturity.
(2) The *Deposits* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(3) Amounts have been disclosed according to the remaining contractual maturity of the underlying security.
(4) These amounts mainly include liabilities related to the securitization of mortgage loans.
(5) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(6) These amounts are unconditionally revocable at the Bank's discretion at any time.
(7) In the event of payment on one of the backstop liquidity facilities, the Bank will receive as collateral government bonds in an amount up to $1.8 billion.
(8) These amounts include $17.2 billion that is unconditionally revocable at the Bank's discretion at any time.

(millions of Canadian dollars)

NOTE 31 – INTEREST RATE SENSITIVITY

The Bank offers a range of financial products whose cash flows are sensitive to interest rate fluctuations. Interest rate risk arises from on- and off-balance-sheet cash flow mismatches. The degree of exposure is based on the magnitude and direction of interest rate movements and on the extent of the mismatch of the maturities. Analyzing interest rate sensitivity gaps is one of the techniques used by the Bank to manage interest rate risk.

The following table presents the sensitivity of the Bank's Consolidated Balance Sheet items to interest rate fluctuations.

As at October 31							2015	2014
	Floating rate	3 months or less	Over 3 months to 12 months	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total	Total
Assets								
Cash and deposits with financial institutions	797	77	–	–	–	6,693	7,567	8,086
Effective yield		0.1 %	– %	– %	– %			
Securities	1,354	2,634	2,869	19,242	11,616	18,325	56,040	52,953
Effective yield		1.0 %	1.2 %	1.5 %	2.7 %			
Loans and acceptances[1]	51,241	30,731	15,076	31,903	1,789	2,200	132,940	130,694
Effective yield		1.7 %	3.0 %	3.0 %	2.3 %			
Other	10,576	–	–	–	–	8,967	19,543	13,696
	63,968	33,442	17,945	51,145	13,405	36,185	216,090	205,429
Liabilities and equity								
Deposits	44,055	18,754	17,790	26,658	5,476	16,097	128,830	119,883
Effective yield		0.6 %	1.2 %	1.7 %	1.5 %			
Obligations related to securities sold short and related to securities sold under repurchase agreements and securities loaned	4,929	7,233	3,037	6,932	5,888	3,093	31,112	34,947
Effective yield		2.4 %	0.1 %	0.7 %	2.5 %			
Subordinated debt	–	505	–	–	1,017	–	1,522	1,881
Effective yield		4.7 %	– %	– %	3.2 %			
Acceptances and other liabilities	12,972	11,065	976	6,943	4,769	6,546	43,271	38,216
Equity	–	173	–	850	–	10,332	11,355	10,502
	61,956	37,730	21,803	41,383	17,150	36,068	216,090	205,429
On-balance-sheet gap	2,012	(4,288)	(3,858)	9,762	(3,745)	117	–	–
Position in Canadian dollars	854	(747)	4,212	14,079	(2,330)	(8,935)	7,133	6,979
Position in foreign currency	1,158	(3,541)	(8,070)	(4,317)	(1,415)	9,052	(7,133)	(6,979)
On-balance-sheet gap	2,012	(4,288)	(3,858)	9,762	(3,745)	117	–	–

(1) Includes securities purchased under reverse repurchase agreements and securities borrowed.

The effective yield represents the weighted average effective yield based on the earlier of contractual repricing and maturity dates.

(millions of Canadian dollars)

NOTE 32 – SEGMENT DISCLOSURES

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

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

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

Financial Markets
The Financial Markets segment encompasses banking services, investment banking services and financial solutions for institutional clients. The segment is also active in proprietary trading and investment activities for the Bank.

Other
This heading encompasses Treasury activities, including the Bank's asset and liability management, liquidity management and funding operations, certain non-recurring items and the unallocated portion of corporate services.

The Bank's segment reporting for fiscal 2015 is consistent with the reporting for fiscal 2014. The segment disclosures have been prepared in accordance with the accounting policies described in Note 1, except for 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 otherwise been payable. The effect of these adjustments is reversed under the *Other* heading. Head office expenses are allocated to each operating segment presented in the segmented results. The Bank assesses performance based on the net income attributable to the Bank's shareholders. Intersegment revenues are recognized at the exchange amount. Segment assets correspond to average assets used in segment operations.

Results by Business Segment

Year ended October 31

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Net interest income(1)	**1,786**	1,699	**323**	312	**996**	824	**(462)**	(291)	**2,643**	2,544
Non-interest income	**1,030**	990	**1,095**	1,011	**706**	690	**272**	229	**3,103**	2,920
Total revenues	**2,816**	2,689	**1,418**	1,323	**1,702**	1,514	**(190)**	(62)	**5,746**	5,464
Non-interest expenses	**1,647**	1,548	**978**	953	**746**	690	**294**	232	**3,665**	3,423
Contribution	**1,169**	1,141	**440**	370	**956**	824	**(484)**	(294)	**2,081**	2,041
Provisions for credit losses	**225**	205	**3**	3	**–**	–	**–**	–	**228**	208
Income before income taxes (recovery)	**944**	936	**437**	367	**956**	824	**(484)**	(294)	**1,853**	1,833
Income taxes (recovery)(1)	**254**	253	**111**	95	**259**	222	**(390)**	(275)	**234**	295
Net income	**690**	683	**326**	272	**697**	602	**(94)**	(19)	**1,619**	1,538
Non-controlling interests	**–**	–	**–**	–	**13**	14	**57**	55	**70**	69
Net income attributable to the Bank's shareholders	**690**	683	**326**	272	**684**	588	**(151)**	(74)	**1,549**	1,469
Average assets	**86,945**	81,516	**10,329**	10,400	**88,616**	86,198	**37,039**	28,566	**222,929**	206,680

(1) *Net interest income* was grossed up by $311 million for the fiscal year ended October 31, 2015 ($219 million for 2014). An equivalent amount was added to *Income taxes (recovery)*. The effect of these adjustments is reversed under the *Other* heading.

(millions of Canadian dollars)

Results by Geographic Segment

Year ended October 31

	Canada		United States		Other		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Net interest income	**2,648**	2,533	**9**	18	**(14)**	(7)	**2,643**	2,544
Non-interest income	**2,811**	2,616	**284**	303	**8**	1	**3,103**	2,920
Total revenues	**5,459**	5,149	**293**	321	**(6)**	(6)	**5,746**	5,464
Non-interest expenses	**3,457**	3,223	**192**	186	**16**	14	**3,665**	3,423
Contribution	**2,002**	1,926	**101**	135	**(22)**	(20)	**2,081**	2,041
Provisions for credit losses	**228**	208	**–**	–	**–**	–	**228**	208
Income before income taxes (recovery)	**1,774**	1,718	**101**	135	**(22)**	(20)	**1,853**	1,833
Income taxes (recovery)	**189**	245	**13**	49	**32**	1	**234**	295
Net income	**1,585**	1,473	**88**	86	**(54)**	(21)	**1,619**	1,538
Non-controlling interests	**56**	56	**14**	13	**–**	–	**70**	69
Net income attributable to the Bank's shareholders	**1,529**	1,417	**74**	73	**(54)**	(21)	**1,549**	1,469
Average assets	**202,714**	191,762	**17,093**	13,182	**3,122**	1,736	**222,929**	206,680

NOTE 33 – DISPOSAL

On March 12, 2015, through one of its subsidiaries, the Bank disposed of 9,083,000 Class A subordinate voting shares of Fiera Capital Corporation (Fiera Capital) at a per-share price of $12.60 for gross proceeds of $114 million. On the transaction date, the Bank's ownership percentage in Fiera Capital was reduced to 22% from 35% before the transaction. A gain of $34 million ($29 million net of income taxes) as well as $5 million in direct charges ($4 million net of income taxes) on this disposal of Fiera Capital shares were recognized in the *Non-interest income – Other* and *Non-interest expenses – Other* items, respectively, of the Consolidated Statement of Income for the year ended October 31, 2015 and were presented in the Wealth Management segment.

NOTE 34 – EVENTS AFTER THE CONSOLIDATED BALANCE SHEET DATE

Redemption of Subordinated Debt

On November 2, 2015, the Bank completed a $500 million redemption of notes maturing in November 2020 at a price equal to their nominal value plus accrued interest.

Redemption of Preferred Shares

On November 16, 2015, which was the first business day after the November 15, 2015 redemption date, the Bank completed the redemption of all the issued and outstanding Non-Cumulative Fixed-Rate Series 20 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.50 per share plus the periodic dividend declared and unpaid. The Bank redeemed 6,900,000 Series 20 preferred shares for a total amount of $176 million, which will reduce *Preferred share capital* by $173 million and *Retained earnings* by $3 million.

SUPPLEMENTARY INFORMATION

STATISTICAL REVIEW

As at October 31[1] (millions of Canadian dollars)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Consolidated Balance Sheet data										
Cash and deposits with financial institutions	**7,567**	8,086	3,596	3,249	2,851	2,274	2,228	3,660	3,328	10,879
Securities	**56,040**	52,953	53,744	54,898	56,592	54,268	50,233	46,185	39,270	38,678
Securities purchased under reverse repurchase agreements and securities borrowed	**17,702**	24,525	21,449	15,529	12,507	10,878	7,637	7,868	5,966	7,592
Loans and acceptances	**115,238**	106,169	97,338	90,922	80,758	63,134	58,370	56,015	52,045	50,670
Other assets	**19,543**	13,696	12,092	13,305	14,146	14,748	13,670	15,604	12,476	8,982
Total assets	**216,090**	205,429	188,219	177,903	166,854	145,302	132,138	129,332	113,085	116,801
Deposits	**128,830**	119,883	102,111	93,474	85,787	81,785	75,170	76,022	70,798	71,917
Other liabilities	**74,383**	73,163	74,729	73,948	71,791					
Other liabilities and non-controlling interests						54,276	48,474	45,546	36,045	38,647
Subordinated debt	**1,522**	1,881	2,426	2,470	2,000	2,033	2,017	2,255	1,605	1,449
Share capital										
Preferred	**1,023**	1,223	677	762	762	1,089	1,089	774	400	400
Common	**2,614**	2,293	2,160	2,054	1,970	1,804	1,729	1,656	1,575	1,566
Contributed surplus	**67**	52	58	58	46	66	48	31	32	21
Retained earnings	**6,705**	5,850	5,055	4,091	3,366	4,081	3,515	3,110	2,793	2,893
Accumulated other comprehensive income (loss)	**145**	289	214	255	337	168	96	(62)	(163)	(92)
Non-controlling interests	**801**	795	789	791	795					
Total liabilities and equity	**216,090**	205,429	188,219	177,903	166,854	145,302	132,138	129,332	113,085	116,801
Average assets	**222,929**	206,680	193,509	181,344	165,942	140,360	140,978	128,319	125,964	106,192
Net impaired loans[2]	**254**	248	183	179	175	162	223	169	129	116
Consolidated Statement of Income data										
Net interest income	**2,643**	2,544	2,437	2,326	2,318	1,933	1,961	1,772	1,116	1,284
Non-interest income	**3,103**	2,920	2,714	2,975	2,336	2,351	2,172	2,062	2,301	2,511
Total revenues	**5,746**	5,464	5,151	5,301	4,654	4,284	4,133	3,834	3,417	3,795
Provisions for credit losses	**228**	208	181	180	184	144	305	144	103	77
Non-interest expenses	**3,665**	3,423	3,206	3,207	2,952	2,822	2,662	2,695	2,626	2,538
Income taxes	**234**	295	252	317	264	221	252	167	79	277
Non-controlling interests						63	60	52	68	32
Net income	**1,619**	1,538	1,512	1,597	1,254	1,034	854	776	541	871
Non-controlling interests	**70**	69	63	61	60					
Net income attributable to the Bank's shareholders	**1,549**	1,469	1,449	1,536	1,194					

(1) Figures for 2010 and prior years are presented in accordance with previous Canadian GAAP, and certain amounts from fiscal years 2013, 2012 and 2011 have been adjusted to reflect changes to the accounting standards in 2014.

(2) Including customers' liability under acceptances.

As at October 31[1]	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Number of common shares[2] *(thousands)*	337,236	329,297	325,983	322,617	320,948	325,544	322,402	318,894	315,612	323,024
Number of common shareholders on record	22,152	22,394	22,737	23,180	23,588	23,598	23,970	24,354	24,780	25,531
Basic earnings per share[2]	$ 4.56	$ 4.36	$ 4.34	$ 4.63	$ 3.41	$ 3.00	$ 2.48	$ 2.35	$ 1.63	$ 2.61
Diluted earnings per share[2]	$ 4.51	$ 4.32	$ 4.31	$ 4.58	$ 3.37	$ 2.97	$ 2.47	$ 2.34	$ 1.61	$ 2.57
Dividend per share[2]	$ 2.04	$ 1.88	$ 1.70	$ 1.54	$ 1.37	$ 1.24	$ 1.24	$ 1.24	$ 1.14	$ 0.98
Share price[2]										
High	$ 55.06	$ 53.88	$ 45.24	$ 40.64	$ 40.72	$ 33.94	$ 31.04	$ 27.32	$ 33.30	$ 32.80
Low	$ 40.75	$ 41.60	$ 36.18	$ 31.64	$ 32.43	$ 27.23	$ 12.81	$ 21.13	$ 25.25	$ 28.07
Close	$ 43.31	$ 52.68	$ 45.24	$ 38.59	$ 35.57	$ 33.57	$ 28.20	$ 22.61	$ 27.33	$ 30.63
Book value[2]	$ 28.26	$ 25.76	$ 22.97	$ 20.02	$ 17.82	$ 18.80	$ 16.72	$ 14.85	$ 13.43	$ 13.59
Dividends on preferred shares										
Series 15	–	–	$ 0.2444	$ 1.4625	$ 1.4625	$ 1.4625	$ 1.4625	$ 1.4625	$ 1.4625	$ 1.4625
Series 16	–	$ 1.2125	$ 1.2125	$ 1.2125	$ 1.2125	$ 1.2125	$ 1.2125	$ 1.2125	$ 1.2125	$ 1.2125
Series 20	$ 1.5000	$ 1.5000	$ 1.5000	$ 1.5000	$ 1.5000	$ 1.5000	$ 1.5000	$ 0.8692	–	–
Series 21	–	–	$ 1.0078	$ 1.3438	$ 1.3438	$ 1.3438	$ 1.3438	$ 0.5596	–	–
Series 24	–	$ 0.4125	$ 1.6500	$ 1.6500	$ 1.6500	$ 1.6500	$ 1.3765	–	–	–
Series 26	–	$ 0.4125	$ 1.6500	$ 1.6500	$ 1.6500	$ 1.6500	$ 1.3042	–	–	–
Series 28	$ 0.9500	$ 0.9500	$ 0.9728	–	–	–	–	–	–	–
Series 30	$ 1.0250	$ 0.7849	–	–	–	–	–	–	–	–
Series 32	$ 1.0760	–	–	–	–	–	–	–	–	–
Financial ratios										
Return on common shareholders' equity	16.9 %	17.9 %	20.1 %	24.1 %	19.8 %	17.0 %	15.6 %	16.4 %	11.5 %	20.1 %
Return on average assets	0.73 %	0.74 %	0.78 %	0.88 %	0.76 %	0.74 %	0.61 %	0.60 %	0.43 %	0.82 %
Regulatory ratios under Basel III										
Capital ratios[3]										
CET1[4]	9.9 %	9.2 %	8.7 %	7.3 %	7.6 %					
Tier 1[4][5]	12.5 %[6]	12.3 %[7]	11.4 %	10.1 %	10.8 %	14.0 %	10.7 %	9.4 %	9.0 %	9.9 %
Total[4][5]	14.0 %[8]	15.1 %[7]	15.0 %	14.1 %	14.3 %	17.5 %	14.3 %	13.2 %	12.4 %	14.0 %[9]
Leverage ratio[4]	3.7 %									
Other information										
Number of employees[10]	17,014	17,056	16,675	16,636	16,217	15,298	14,851	14,420	14,484	14,381
Branches in Canada	452	452	453	451	448	442	445	446	447	451
Banking machines	930	935	937	923	893	869	866	858	836	801

(1) Figures for 2010 and prior years are presented in accordance with previous Canadian GAAP, and certain amounts from fiscal years 2013, 2012 and 2011 have been adjusted to reflect changes to the accounting standards in 2014.
(2) Figures for 2014 and prior years have been adjusted to reflect the stock dividend paid in 2014.
(3) The October 31, 2013, 2012 and 2011 ratios have not been adjusted to reflect changes in accounting standards.
(4) As at October 31, 2015, 2014 and 2013, the capital ratios were calculated using the "all-in" methodology and the October 31, 2012 and 2011 ratios are presented on a pro forma basis.
(5) In 2008, the Bank adopted the rules of the Basel II Accord and, since November 1, 2009, it has been applying the AIRB Approach for credit risk, whereas prior to that date, it had been using the Standardized Approach under Basel I for 2007 and 2006.
(6) Taking into account the redemption of the Series 20 preferred shares on November 15, 2015.
(7) Taking into account the redemption of the Series 16 preferred shares on November 15, 2014.
(8) Taking into account the redemption of the Series 20 preferred shares on November 15, 2015 and the $500 million redemption of notes on November 2, 2015.
(9) Taking into account the issuance of $500 million in subordinated debt on November 2, 2006.
(10) In full-time equivalent.

GLOSSARY OF FINANCIAL TERMS

Acceptances
Acceptances constitute a guarantee of payment by a bank and can be traded in the money market. The bank earns a “stamping fee” for providing this guarantee.

Allowances for credit losses
Allowances for credit losses are management’s best estimate of losses in its credit portfolio as at the balance sheet date. These allowances are primarily related to loans but may also cover the credit risk associated with deposits with financial institutions, loan substitute securities, credit instruments such as acceptances, and off-balance-sheet items such as commitments to extend credit, letters of guarantee and letters of credit. The allowances are increased by the provisions for credit losses, which are charged to income and decreased by the amount of write-offs, net of recoveries in the period.

Assets under administration
Assets in respect of which a financial institution provides administrative services such as custodial services, collection of investment income, settlement of purchase and sale transactions and record-keeping. Assets under administration, which are beneficially owned by clients, are not reported on the balance sheet of the institution offering such services.

Assets under management
Assets managed by a financial institution that are beneficially owned by clients. Management services are more comprehensive than administrative services, and include selecting investments or offering investment advice. Assets under management, which may also be administered by the financial institution, are not reported on the financial institution’s balance sheet.

Basis point
Unit of measure equal to one one-hundredth of a percentage point (0.01%).

Common Equity Tier 1 (CET1) capital ratio
Common Equity Tier 1 capital consists of common shareholders’ equity less goodwill, intangible assets and other capital deductions. Common Equity Tier 1 capital ratio is calculated by dividing Common Equity Tier 1 capital by the corresponding risk-weighted assets.

Derivative financial instruments
Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, exchange rate or equity, commodity or credit instrument or index. Examples of derivatives include swaps, options, forward rate agreements and futures. The notional amount of the derivative is the contract amount used as a reference point to calculate the payments to be exchanged between the two parties, and the notional amount itself is generally not exchanged by the parties.

Dividend payout ratio
Common dividends as a percentage of net income after preferred share dividends.

Economic capital
Economic capital is the internal measure used by the Bank to determine the capital required for its solvency and to pursue its business operations. Economic capital takes into consideration the credit, market, operational, business and other risks to which the Bank is exposed, as well as the risk diversification effect among them and among the business segments. Economic capital thus helps the Bank to determine the capital required to protect itself against such risks and ensure its long-term viability.

Efficiency ratio
Non-interest expenses as a percentage of total revenue; the efficiency ratio measures the efficiency of the Bank’s operations.

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

Hedging
The purpose of a hedging transaction is to modify the Bank’s exposure to one or more risks by creating an offset between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging instrument.

Impaired loans
A loan, except credit card receivables, is considered impaired if there is objective evidence of impairment and, in management’s best estimate, the timely collection of principal and interest is no longer reasonably assured, or when a payment is contractually 90 days past due, unless the loan is fully secured and collection efforts are reasonably expected to result in repayment of the debt within 180 days. Loans that are insured or fully guaranteed by a Canadian government (federal or provincial) or by a Canadian government agency are considered impaired when they are more than 365 days in arrears.

Leverage Ratio
The leverage ratio is calculated by dividing Tier 1 capital by total exposure. Total exposure is defined as the sum of on-balance-sheet assets (including derivative exposures and securities financing transaction exposures) and off-balance-sheet items.

Master netting agreement
Legal agreement between two parties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in the event of default, insolvency or bankruptcy.

Net interest margin
Net interest income as a percentage of average interest-bearing assets.

Office of the Superintendent of Financial Institutions (Canada) (OSFI)
The mandate of the Office of the Superintendent of Financial Institutions (OSFI) is to regulate and supervise financial institutions and private pension plans subject to federal oversight, to help minimize undue losses to depositors and policyholders and, thereby, to contribute to public confidence in the Canadian financial system.

Provisions for credit losses
The amount charged to income necessary to bring the allowances for credit losses to a level determined appropriate by management. This includes both individual and collective provisions.

Return on common shareholders' equity (ROE)
Net income, less dividends on preferred shares, expressed as a percentage of the average value of common shareholders' equity.

Risk-weighted assets
Assets are risk weighted according to the guidelines established by OSFI. In the Standardized calculation approach, factors are applied to the face value of certain assets in order to reflect comparable risk levels. In the Advanced Internal Rating-Based (AIRB) approach, risk-weighted assets are derived from the Bank's internal models, which represent the Bank's own assessment of the risks it incurs. Off-balance-sheet instruments are converted to balance sheet (or credit) equivalents by adjusting the notional values before applying the appropriate risk-weighting factors.

Securities purchased under reverse repurchase agreements
Securities purchased by the Bank from a client pursuant to an agreement under which the securities will be resold to the same client on a specified date and at a specified price. Such an agreement is a form of short-term collateralized lending.

Securities sold under repurchase agreements
Financial obligations related to securities sold pursuant to an agreement under which the securities will be repurchased on a specified date and at a specified price. Such an agreement is a form of short-term funding.

Structured entities
A structured entity is an entity created to accomplish a narrow and well-defined objective and is designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate solely to administrative tasks and the relevant activities are directed by means of contractual arrangements.

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 otherwise been payable.

Tier 1 capital ratio
Tier 1 capital ratio consists of Common Equity Tier 1 capital and Additional Tier 1 instruments, namely, eligible non-cumulative preferred shares and the eligible amount of innovative instruments. Tier 1 capital ratio is calculated by dividing Tier 1 capital, less regulatory adjustments, by the corresponding risk-weighted assets.

Total capital ratio
Total capital is the sum of Tier 1 and Tier 2 capital. Tier 2 capital consists of the eligible portion of subordinated debt and the eligible collective allowance for credit risk on non-impaired loans. Total capital ratio is calculated by dividing total capital, less regulatory adjustments, by the corresponding risk-weighted assets.

Total shareholder return
The one-year, five-year and ten-year average annual total shareholder return represents the average annual total return on an investment in the Bank's common shares made at the beginning of a one-year, five-year and ten-year period, respectively. The return includes changes in share price and assumes that the dividends received were reinvested in additional common shares of the Bank.

Value-at-Risk (VaR)
VaR is a statistical measure of risk that is used to quantify market risks across products, per types of risks and aggregate risk on a portfolio basis. VaR is defined as the maximum loss at a specific confidence level over a certain horizon under normal market conditions. The VaR method has the advantage of providing a uniform measurement of financial instrument-related market risks based on a single statistical confidence level and time horizon.

INFORMATION FOR SHAREHOLDERS

Description of Share Capital

The authorized share capital of the Bank consists of an unlimited number of common shares, without par value, an unlimited number of first preferred shares, without par value, issuable for a maximum aggregate consideration of $5 billion, and 15 million second preferred shares, without par value, issuable for a maximum aggregate consideration of $300 million. As at October 31, 2015, the Bank had a total of 337,236,322 common shares and 40,900,000 first preferred shares issued and outstanding.

Stock Exchange Listings

The Bank's common shares and Series 28, 30 and 32 First Preferred Shares are listed on the Toronto Stock Exchange in Canada.

Issue or class	Ticker symbol	Newspaper abbreviation
Common shares	NA	Nat Bk or Natl Bk
First Preferred Shares		
Series 28	NA.PR.Q	Nat Bk s28 or Natl Bk s28
Series 30	NA.PR.S	Nat Bk s30 or Natl Bk s30
Series 32	NA.PR.W	Nat Bk s32 or Natl Bk s32

Number of Registered Shareholders

As at October 31, 2015, there were 22,152 common shareholders recorded in the Bank's common share register.

Dividends

Dividend Dates in Fiscal 2016
(subject to approval by the Board of Directors of the Bank)

Ex-dividend date	Record date	Payment date
Common shares		
December 17, 2015	December 21, 2015	February 1, 2016
March 23, 2016	March 28, 2016	May 1, 2016
June 16, 2016	June 20, 2016	August 1, 2016
September 22, 2016	September 26, 2016	November 1, 2016
Preferred shares, Series 28, 30 and 32		
December 30, 2015	January 4, 2016	February 15, 2016
April 7, 2016	April 11, 2016	May 15, 2016
June 29, 2016	July 4, 2016	August 15, 2016
October 6, 2016	October 10, 2016	November 15, 2016

Dividends Declared on Common Shares During Fiscal 2015

Ex-dividend date	Record date	Payment date	Dividend per share ($)
December 23, 2014	December 29, 2014	February 1, 2015	0.50
March 26, 2015	March 30, 2015	May 1, 2015	0.50
June 18, 2015	June 22, 2015	August 1, 2015	0.52
September 24, 2015	September 28, 2015	November 1, 2015	0.52

Dividends Declared on Preferred Shares During Fiscal 2015

			Dividend per share ($)			
Ex-dividend date	Record date	Payment date	Series 20(1)	Series 28	Series 30	Series 32
Jan. 8, 15	Jan. 12, 15	Feb. 15, 15	0.3750	0.2375	0.2563	0.3446
Apr. 9, 15	Apr. 13, 15	May 15, 15	0.3750	0.2375	0.2562	0.2438
Jul. 2, 15	Jul. 6, 15	Aug. 15, 15	0.3750	0.2375	0.2563	0.2438
Oct. 8, 15	Oct. 13, 15	Nov. 15, 15	0.3750	0.2375	0.2562	0.2438

(1) On November 15, 2015, the Bank redeemed all the issued and outstanding non-cumulative Series 20 First Preferred Shares.

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

Dividend Reinvestment and Share Purchase Plan

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

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

Direct Deposit
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.

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National Bank of Canada
National Bank Tower
600 De La Gauchetière Street West, 4th Floor
Montreal, Quebec H3B 4L2 Canada

Telephone: 514-394-5000
Website: nbc.ca

Annual Meeting
The Annual Meeting of Holders of Common Shares of the Bank will be held on Friday, April 15, 2016, at the National Bank of Canada's head office in Montreal, Quebec, Canada.

Public Accountability Statement
The 2015 Social Responsibility Report will be available in March 2016 on the Bank's website at nbc.ca.

Communication with Shareholders
For information about stock transfers, address changes, dividends, lost certificates, tax forms and estate transfers, shareholders of record may contact the Transfer Agent at the following address:

Computershare Trust Company of Canada
Share Ownership Management
1500 University Street, 7th Floor
Montreal, Quebec H3A 3S8 Canada

Telephone: 1-888-838-1407
Fax: 1-888-453-0330
E-mail: *service@computershare.com*
Website: computershare.com

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

Other shareholder inquiries can be addressed to:
Investor Relations
National Bank of Canada
National Bank Tower
600 De La Gauchetière Street West, 7th Floor
Montreal, Quebec H3B 4L2 Canada

Telephone: 1-866-517-5455
Fax: 514-394-6196
E-mail: investorrelations@nbc.ca
Website: nbc.ca/investorrelations

Caution Regarding Forward-Looking Statements
From time to time, National Bank of Canada makes written and oral forward-looking statements included in this Annual Report, in other filings with Canadian regulators, in reports to shareholders, in press releases and in other communications. All such statements are made pursuant to the Canadian and American securities legislation and the provisions of the United States *Private Securities Litigation Reform Act of 1995*.

Additional information about these statements can be found on page 11 of this Annual Report.

Trademarks
The trademarks used in this report include National Bank of Canada, Private Wealth 1859, *One client, one bank*, CashPerformer, NBC CapS, NBC CapS II, NBC Asset Trust, NBC Capital Trust and National Bank All-in-One and their respective logos, which are trademarks of National Bank of Canada used under licence by National Bank of Canada or its subsidiaries. All other trademarks mentioned in this report, which are not the property of National Bank of Canada, are owned by their respective holders.

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Legal Deposit
ISBN 978-2-921835-47-3
Legal deposit – Bibliothèque et Archives nationales du Québec, 2015
Legal deposit – Library and Archives Canada, 2015

Printing
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