NATIONAL BANK

REPORT TO SHAREHOLDERS FIRST QUARTER 2016

National Bank reports its results for the First Quarter of 2016

The financial information reported herein is based on the unaudited interim condensed consolidated financial statements for the quarter ended January 31, 2016 and prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). All amounts are presented in Canadian dollars.

MONTREAL, February 23, 2016 – For the first quarter of 2016, National Bank is reporting $261 million in net income, down from $415 million recorded in the same quarter of 2015 given the write-off of its equity interest in associate Maple Financial Group Inc. Diluted earnings per share stood at $0.67 in the first quarter of 2016 compared to $1.16 in the same quarter of 2015.

Excluding the specified items described on page 4, the 2016 first-quarter net income totalled $427 million, up 4% from $410 million in the first quarter of 2015, and first-quarter diluted earnings per share stood at $1.17, up 3% from $1.14 in the same quarter of 2015.

"The Bank delivered sound performance in each of its three business segments during the first quarter of 2016," said Louis Vachon, President and Chief Executive Officer of National Bank. "Loans and deposits from the Personal and Commercial segment were up while Wealth Management benefited from the initiatives of Private Banking 1859 and Intermediary Business Solutions. The economies of Quebec and Ontario maintained their steady performance and continued to have a positive impact on our credit portfolio," added Mr. Vachon.

Highlights

(millions of Canadian dollars)							Quarter ended January 31
		2016			2015		% Change
Net income		261			415		(37)
Diluted earnings per share *(dollars)*	$	0.67		$	1.16		(42)
Return on common shareholders' equity		9.5	%		17.8	%	
Dividend payout ratio		51	%		44	%	
Excluding specified items[1]							
Net income		427			410		4
Diluted earnings per share *(dollars)*	$	1.17		$	1.14		3
Return on common shareholders' equity		16.4	%		17.5	%	
Dividend payout ratio		44	%		42	%	
		As at January 31, 2016			As at October 31, 2015		
CET1 capital ratio under Basel III		9.7	%		9.9	%	
Leverage ratio under Basel III		3.8	%		3.7	%	

(1) See the Financial Reporting Method section on page 4.

Personal and Commercial

- Net income totalled $184 million in the first quarter of 2016, an 8% increase from $171 million in the first quarter of 2015.
- At $724 million, the 2016 first-quarter total revenues rose $32 million or 5% year over year.
- Rising 6% from a year ago, personal lending experienced sustained growth, with the most significant increases coming from mortgage loans, and commercial lending grew 8% from a year ago.
- The net interest margin was 2.22% in the first quarter of 2016 versus 2.24% in the first quarter of 2015 and 2.25% in the preceding quarter.
- Before provisions for credit losses and income taxes, the segment's contribution was up $26 million or 9%.
- At 56.6%, the efficiency ratio improved from 58.4% in the same quarter of 2015.

Wealth Management

- Net income totalled $77 million in the first quarter of 2016, a 4% increase from $74 million in the same quarter of 2015.
- Excluding specified items[(1)], first-quarter net income totalled $84 million, up $3 million or 4%.
- Excluding specified items[(1)], first-quarter total revenues amounted to $358 million versus $346 million in the first quarter of 2015, a $12 million or 3% increase driven mainly by growth in fee-based revenues, tempered by a decrease in transaction-based revenues.
- Excluding specified items[(1)], first-quarter non-interest expenses stood at $243 million, an increase from $236 million posted in the first quarter of 2015.
- Excluding specified items[(1)], the efficiency ratio was 67.9%, an improvement from 68.2% in the first quarter of 2015.

Financial Markets

- Net income totalled $41 million in the first quarter of 2016 versus $177 million in the same quarter of 2015, a decrease resulting from the write-off of the equity interest in associate Maple Financial Group Inc.
- Excluding specified items[(1)], the segment's first-quarter net income totalled $186 million, a 5% increase from $177 million in the first quarter of 2015.
- Excluding specified items[(1)], the segment's total revenues amounted to $451 million, a $33 million or 8% increase that was notably due to higher revenues from the Credigy Ltd. subsidiary.
- At $190 million, the first-quarter non-interest expenses increased $14 million year over year.
- At 42.1%, the efficiency ratio remained stable compared to the first quarter of 2015.

Other

- The *Other* heading posted a first-quarter net loss of $41 million versus a net loss of $7 million in the same quarter of 2015. This higher net loss came from the Bank's share in the charges related to its interest in TMX Group Limited, particularly goodwill and intangible asset impairment losses, and from a rise in the fair value of restructured notes that had been recorded in the first quarter of 2015.

Capital Management

- As at January 31, 2016, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 9.7% compared to 9.9% as at October 31, 2015 due to the write-off of the equity interest in associate Maple Financial Group Inc. and the increase in risk-weighted assets.
- The leverage ratio under Basel III was 3.8% as at January 31, 2016 compared to 3.7% as at October 31, 2015.

(1) See the Financial Reporting Method section on page 4.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 22, 2016

The following Management's Discussion and Analysis (MD&A) presents the financial condition and operating results of National Bank of Canada (the Bank). This analysis was prepared in accordance with the requirements set out in *National Instrument 51-102 Continuous Disclosure Obligations* released by the Canadian Securities Administrators (CSA). It is based on the unaudited interim condensed consolidated financial statements (the consolidated financial statements) for the quarter ended January 31, 2016 prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes for the quarter ended January 31, 2016 and with the *2015 Annual Report*. All amounts are presented in Canadian dollars. Additional information about the Bank, including the *Annual Information Form*, can be obtained from the Bank's website at nbc.ca and SEDAR's website at sedar.com.

Caution Regarding Forward-Looking Statements

From time to time, the Bank makes written and oral forward-looking statements, such as those contained in the Outlook for National Bank and the Major Economic Trends sections of the *2015 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 the *2015 Annual Report*), general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business, including regulatory changes affecting the Bank's business, capital and liquidity; changes in the accounting policies the Bank uses to report its financial condition, including uncertainties associated with assumptions and critical accounting estimates; tax laws in the countries in which the Bank operates, primarily Canada and the United States (including the U.S. *Foreign Account Tax Compliance Act* (FATCA)); changes to capital and liquidity guidelines and to the manner in which they are to be presented and interpreted; changes to the credit ratings assigned to the Bank; and potential disruptions to the Bank's information technology systems, including evolving cyber attack risk.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the Risk Management section of the *2015 Annual Report*. Investors and others who rely on the Bank's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

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

FINANCIAL REPORTING METHOD

The Bank's unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB. The Bank also uses non-IFRS financial measures when assessing its results and measuring Bank-wide performance. Presenting such information helps readers to better understand how management analyzes results, shows the impacts of specified items on the results of the reported periods, and allows readers to assess results without the specified items if they consider such items to not be reflective of ordinary operations. Securities regulators require companies to caution readers that net income and other measures adjusted using non-IFRS criteria are not standard under IFRS and cannot be easily compared with similar measures used by other companies.

Financial Information

(millions of Canadian dollars, except per share amounts)	Quarter ended January 31		
	2016	2015	% Change
Net income excluding specified items			
Personal and Commercial	184	171	8
Wealth Management	84	81	4
Financial Markets	186	177	5
Other	(27)	(19)	
Net income excluding specified items	427	410	4
Items related to holding restructured notes[1]	(1)	13	
Acquisition-related items[2]	(20)	(8)	
Write-off of an equity interest in an associate[3]	(145)	–	
Net income	261	415	(37)
Diluted earnings per share excluding specified items	$ 1.17	$ 1.14	3
Items related to holding restructured notes[1]	–	0.04	
Acquisition-related items[2]	(0.06)	(0.02)	
Write-off of an equity interest in an associate[3]	(0.43)	–	
Premium paid on preferred shares redeemed for cancellation[4]	(0.01)	–	
Diluted earnings per share	$ 0.67	$ 1.16	(42)
Return on common shareholders' equity			
Including specified items	9.5 %	17.8 %	
Excluding specified items	16.4 %	17.5 %	

(1) During the quarter ended January 31, 2016, the Bank recorded $2 million in financing costs ($1 million net of income taxes) related to holding restructured notes (2015: $5 million, $4 million net of income taxes). During the quarter ended January 31, 2015, the Bank had recorded $23 million in revenues ($17 million net of income taxes) to reflect a rise in the fair value of those notes.

(2) During the quarter ended January 31, 2016, the Bank recorded $27 million in acquisition-related charges ($20 million net of income taxes) (2015: $10 million, $8 million net of income taxes). These charges consisted mostly of retention bonuses and also included the Bank's share in the integration costs incurred by Fiera Capital Corporation (Fiera Capital) as well as the Bank's share in the charges related to its equity interest in TMX Group Limited (TMX), particularly goodwill and intangible asset impairment losses of $18 million ($13 million net of income taxes).

(3) During the quarter ended January 31, 2016, the Bank wrote off its equity interest in associate Maple Financial Group Inc. (Maple) in an amount of $164 million ($145 million net of income taxes) following the February 6, 2016 event described in the Event After the Consolidated Balance Sheet Date section on page 13.

(4) During the quarter ended January 31, 2016, a $3 million premium was paid on the Series 20 First Preferred Shares redeemed for cancellation.

HIGHLIGHTS

(millions of Canadian dollars, except per share amounts)	Quarter ended January 31		
	2016	2015	% Change
Operating results			
Total revenues	1,289	1,410	(9)
Net income	261	415	(37)
Net income attributable to the Bank's shareholders	239	397	(40)
Return on common shareholders' equity	9.5 %	17.8 %	
Earnings per share			
Basic	$ 0.68	$ 1.17	(42)
Diluted	0.67	1.16	(42)
Excluding specified items[1]			
Operating results			
(taxable equivalent basis)[2]			
Total revenues	1,530	1,459	5
Net income	427	410	4
Net income attributable to the Bank's shareholders	405	392	3
Return on common shareholders' equity	16.4 %	17.5 %	
Efficiency ratio	58.6 %	58.7 %	
Earnings per share			
Basic	$ 1.18	$ 1.15	3
Diluted	1.17	1.14	3
Common share information			
Dividends declared	$ 0.54	$ 0.50	
Book value	27.77	26.33	
Share price			
High	44.11	55.06	
Low	35.83	44.21	
Close	39.97	44.21	
Number of common shares *(thousands)*	337,535	329,860	
Market capitalization	13,491	14,583	

(millions of Canadian dollars)	As at January 31, 2016	As at October 31, 2015	% Change
Balance sheet and off-balance-sheet			
Total assets	219,301	216,090	1
Loans and acceptances	118,510	115,238	3
Impaired loans, net of total allowances	(132)	(112)	
As a % of average loans and acceptances	(0.1) %	(0.1) %	
Deposits	131,064	128,830	2
Equity attributable to common shareholders	9,375	9,531	(2)
Assets under administration and under management	352,729	358,139	(2)
Earnings coverage	9.89	10.49	
Asset coverage	9.59	6.78	
Regulatory ratios under Basel III			
Capital ratios[3]			
Common Equity Tier 1 (CET1)	9.7 %	9.9 %	
Tier 1[4]	12.8 %	12.5 %	
Total[4][5]	14.2 %	14.0 %	
Leverage ratio[3]	3.8 %	3.7 %	
Liquidity coverage ratio (LCR)	135 %	131 %	
Other information			
Number of employees	19,696	19,764	–
Number of branches in Canada	453	452	–
Number of banking machines	932	930	–

(1) See the Financial Reporting Method section on page 4.
(2) See the Consolidated Results section on page 6.
(3) The ratios are calculated using the "all-in" methodology.
(4) The ratios as at October 31, 2015 include the redemption of the Series 20 preferred shares on November 15, 2015.
(5) The ratio as at October 31, 2015 includes the $500 million redemption of notes on November 2, 2015.

FINANCIAL ANALYSIS

Consolidated Results

For the quarter ended January 31, 2016, the Bank has reclassified certain amounts in the Consolidated Statement of Income to better reflect the nature of reported revenues. As a result, for the quarter ended January 31, 2015, an amount of $9 million presented in the *Non-interest income – Credit fees* item has been reclassified to *Net interest income*. This reclassification had no impact on net income.

(millions of Canadian dollars)	Quarter ended January 31		
	2016	2015	% Change
Operating results			
Net interest income	**706**	665	6
Non-interest income	**583**	745	(22)
Total revenues	**1,289**	1,410	(9)
Non-interest expenses	**903**	863	5
Contribution	**386**	547	(29)
Provisions for credit losses	**63**	54	17
Income before income taxes	**323**	493	(34)
Income taxes	**62**	78	(21)
Net income	**261**	415	(37)
Diluted earnings per share *(dollars)*	**0.67**	1.16	(42)
Taxable equivalent(1)			
Net interest income	**55**	63	
Income taxes	**55**	63	
Net income	**–**	–	
Specified items(2)			
Items related to holding restructured notes	**(2)**	18	
Acquisition-related items	**(27)**	(10)	
Write-off of an equity interest in an associate	**(164)**	–	
Specified items before income taxes	**(193)**	8	
Income taxes on specified items	**(27)**	3	
Specified items after income taxes(3)	**(166)**	5	
Operating results on a taxable equivalent basis excluding specified items(1)(2)			
Net interest income	**763**	733	4
Non-interest income	**767**	726	6
Total revenues	**1,530**	1,459	5
Non-interest expenses	**896**	857	5
Contribution	**634**	602	5
Provisions for credit losses	**63**	54	17
Income before income taxes	**571**	548	4
Income taxes	**144**	138	4
Net income	**427**	410	4
Diluted earnings per share *(dollars)*(3)	**1.17**	1.14	3
Average assets	**232,213**	218,530	6
Average loans and acceptances	**117,325**	104,820	12
Impaired loans, net of total allowances	**(132)**	(172)	
Average deposits	**140,379**	123,527	14
Efficiency ratio excluding specified items(2)	**58.6 %**	58.7 %	

(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) See the Financial Reporting Method section on page 4.
(3) For the quarter ended January 31, 2016, the specified items included a premium of $3 million, or $0.01 per share, on the redemption of the Series 20 preferred shares for cancellation.

Financial Results

For the first quarter of 2016, the Bank reported net income of $261 million, down from $415 million in the first quarter of 2015 given the write-off of its equity interest in associate Maple Financial Group Inc. (Maple). Diluted earnings per share stood at $0.67 compared to $1.16 in the same quarter of 2015.

Excluding specified items, the Bank's 2016 first-quarter net income totalled $427 million, up 4% from $410 million in the first quarter of 2015, and its first-quarter diluted earnings per share stood at $1.17, up 3% from $1.14 in the same quarter of 2015. For the first quarter of 2016, the specified items, net of income taxes, comprised the following items: $1 million in financing costs (2015: $4 million) related to holding restructured notes; $20 million in acquisition-related items (2015: $8 million), including an amount of $13 million for the Bank's share in goodwill and intangible asset impairment losses stemming from its interest in TMX; and a $145 million write-off of the Bank's equity interest in associate Maple. For the first quarter of 2015, the specified items had also included an amount of $17 million in revenues to reflect a rise in the fair value of the restructured notes.

Return on common shareholders' equity, excluding specified items, was 16.4% for the quarter ended January 31, 2016 compared to 17.5% in the same period of 2015.

Total Revenues

For the first quarter of 2016, the Bank's total revenues amounted to $1,289 million, down $121 million year over year. Excluding the specified items related to holding restructured notes, to the Wealth Management acquisitions, to the Bank's share in the goodwill and intangible asset impairment losses stemming from its interest in TMX, and to the write-off of its equity interest in Maple recorded during the first quarter of 2016, total revenues on a taxable equivalent basis amounted to $1,530 million, up 5% from $1,459 million in the first quarter of 2015. Growth in net interest income came mainly from increases in personal and commercial loans and deposits, tempered by lower deposit margins, as well as from an increase in the net interest income of the Wealth Management segment. Non-interest income was up $41 million owing to greater business activity in the Wealth Management segment, mainly driven by an increase in assets under administration and under management, as well as to growth in credit fees, gains on available-for-sale securities and insurance revenues. In addition, other revenues rose $51 million year over year, mainly due to higher revenues from the Credigy Ltd. subsidiary. There were first-quarter year-over-year decreases in underwriting and advisory fees, in securities brokerage commission revenues, particularly because of customer migration towards fee-based services, and in card revenues. Trading activity revenues were also down in the first quarter of 2016.

Provisions for Credit Losses

For the first quarter of 2016, the Bank recorded $63 million in provisions for credit losses, $9 million more than in the same quarter of 2015. This increase came mainly from provisions for credit losses on credit cards and on Commercial Banking loans.

As at January 31, 2016, gross impaired loans totalled $434 million, a $23 million decrease since October 31, 2015 given the write-offs recorded during the quarter. Impaired loans represented 5.7% of the tangible capital adjusted for allowances as at January 31, 2016, down 0.2 percentage points from 5.9% as at October 31, 2015. As at January 31, 2016, allowances for credit losses exceeded gross impaired loans by $132 million compared to $112 million as at October 31, 2015.

Non-Interest Expenses

For the first quarter of 2016, non-interest expenses stood at $903 million, a $40 million or 5% year-over-year increase attributable to technology investment expenses, professional fees (specifically, servicing fees associated with greater business activity at the Credigy Ltd. subsidiary), the compensatory tax on salaries as well as other expenses, particularly due to sales tax recoveries recorded in the first quarter of 2015. These increases were partly offset by a lower compensation and employee benefits expense.

Income Taxes

Income taxes for the first quarter of 2016 stood at $62 million compared to $78 million in the same quarter of 2015. The 2016 first-quarter effective income tax rate was 19% versus 16% in the same quarter of 2015, as there was less tax-exempt dividend income year over year and given the write-off of the equity interest in associate Maple during the quarter ended January 31, 2016.

Results by Segment

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

Personal and Commercial

(millions of Canadian dollars)	Quarter ended January 31		
	2016	2015	% Change
Operating results			
Net interest income	**475**	450	6
Non-interest income	**249**	242	3
Total revenues	**724**	692	5
Non-interest expenses	**410**	404	1
Contribution	**314**	288	9
Provisions for credit losses	**62**	54	15
Income before income taxes	**252**	234	8
Income taxes	**68**	63	8
Net income	**184**	171	8
Net interest margin(1)	**2.22 %**	2.24 %	
Average interest-bearing assets	**85,146**	79,552	7
Average assets	**90,514**	84,915	7
Average loans and acceptances	**90,139**	84,533	7
Net impaired loans	**227**	191	19
Net impaired loans as a % of average loans and acceptances	**0.3 %**	0.2 %	
Average deposits	**46,421**	43,825	6
Efficiency ratio	**56.6 %**	58.4 %	

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

In the Personal and Commercial segment, net income totalled $184 million in the first quarter of 2016, up 8% from $171 million in the first quarter of 2015. First-quarter total revenues increased by $32 million year over year owing to growth in net interest income, which rose $25 million, and to a $7 million increase in non-interest income. The higher net interest income came mainly from growth in personal and commercial loans and deposits, tempered by a narrowing of the net interest margin, which was 2.22% in the first quarter of 2016 versus 2.24% in the first quarter of 2015, a decrease stemming mainly from deposit margins.

Personal Banking's total revenues rose $19 million, mainly due to higher loans, particularly mortgage loans and home equity lines of credit. Commercial Banking's total revenues increased by $13 million, mainly due to growth in loans and deposits, to credit fees on lending transactions and bankers' acceptances as well as to revenues from international services. This increase was partly offset by lower deposit margins.

The segment's 2016 first-quarter non-interest expenses increased by $6 million, or 1%, from the same quarter in 2015, mainly due to an increase in operations support charges, partly offset by a lower compensation and employee benefits expense. The first-quarter contribution therefore increased 9% year over year. At 56.6%, the efficiency ratio for the first quarter of 2016 improved by 1.8 percentage points compared to the same quarter of 2015.

The segment's first-quarter provisions for credit losses were $62 million, $8 million more than in the same quarter of 2015. This increase came from higher provisions for credit losses on credit cards and on Commercial Banking loans.

Wealth Management

(millions of Canadian dollars)	Quarter ended January 31		
	2016	2015	% Change
Operating results excluding specified items(1)			
Net interest income	**89**	83	7
Fee-based revenues	**196**	179	9
Transaction-based and other revenues	**73**	84	(13)
Total revenues	**358**	346	3
Non-interest expenses	**243**	236	3
Contribution	**115**	110	5
Provisions for credit losses	**1**	–	
Income before income taxes	**114**	110	4
Income taxes	**30**	29	3
Net income excluding specified items	**84**	81	4
Specified items after income taxes(1)	**(7)**	(7)	
Net income	**77**	74	4
Average assets	**10,944**	10,186	7
Average loans and acceptances	**9,266**	8,600	8
Net impaired loans	**7**	3	
Average deposits	**26,214**	24,525	7
Efficiency ratio excluding specified items(1)	**67.9 %**	68.2 %	

(1) See the Financial Reporting Method section on page 4.

In the Wealth Management segment, net income totalled $77 million for the first quarter of 2016 compared to $74 million in the same quarter of 2015. Excluding specified items, which include the acquisition-related items of recent years, Wealth Management's net income totalled $84 million in the first quarter of 2016, up 4% from $81 million in the same quarter of 2015. The segment's 2016 first-quarter total revenues, excluding specified items, amounted to $358 million, up 3% from $346 million in the first quarter of 2015. This increase came mainly from higher fee-based revenues associated with the migration of assets from transactional accounts to asset-based fee accounts, from net interest income growth that was partly driven by the CashPerformer account, and from growth in banking and brokerage activities. Furthermore, the first-quarter transaction-based and other revenues were down year over year due to the migration of assets and to a decrease in the number of brokerage transactions.

Excluding the acquisition-related specified items of recent years, non-interest expenses stood at $243 million in the first quarter of 2016, up 3% from the same quarter of 2015. This increase came mainly from the higher variable compensation owing to growth in the segment's business volume as well as from higher operations support charges. At 67.9%, the efficiency ratio for the first quarter of 2016 improved by 0.3 percentage points when compared to the same quarter of 2015.

Financial Markets

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

	Quarter ended January 31		
	2016	2015	% Change
Operating results excluding specified items[2]			
Trading activity revenues			
Equities	**107**	109	(2)
Fixed-income	**65**	66	(2)
Commodities and foreign exchange	**44**	57	(23)
	216	232	(7)
Financial market fees	**50**	58	(14)
Gains (losses) on available-for-sale securities, net	**(1)**	(7)	
Banking services	**72**	69	4
Other	**114**	66	
Total revenues	**451**	418	8
Non-interest expenses	**190**	176	8
Contribution	**261**	242	8
Provisions for credit losses	**–**	–	
Income before income taxes	**261**	242	8
Income taxes	**75**	65	15
Net income excluding specified items	**186**	177	5
Specified items after income taxes[2]	**(145)**	–	
Net income	**41**	177	(77)
Non-controlling interests	**8**	3	
Net income attributable to the Bank's shareholders	**33**	174	(81)
Average assets	**89,683**	89,647	–
Average loans and acceptances (Corporate Banking only)	**11,732**	9,195	28
Average deposits	**14,268**	12,157	17
Efficiency ratio excluding specified items[2]	**42.1 %**	42.1 %	

(1) See Note 22 to the consolidated financial statements.
(2) See the Financial Reporting Method section on page 4.

In the Financial Markets segment, net income totalled $41 million for the first quarter of 2016 compared to $177 million in the same quarter of 2015. Excluding the write-off of the equity interest in associate Maple, net income totalled $186 million, up 5% year over year. On a taxable equivalent basis, the segment's first-quarter total revenues amounted to $451 million compared to $418 million in the first quarter of 2015. This increase came primarily from the segment's *Other* revenue category, which saw a $48 million year-over-year increase owing mainly to higher revenues from the Credigy Ltd. subsidiary. In addition, banking service revenues grew by 4% and losses on available-for-sale securities were down in the first quarter of 2016 compared to the same quarter of 2015. As a result of market volatility, trading activity revenues and financial market fees decreased year over year. The decrease in trading activity revenues came from all of the revenue categories, particularly the commodities and foreign exchange category, the revenues of which decreased 23% year over year.

For the first quarter of 2016, non-interest expenses stood at $190 million, a $14 million year-over-year increase that was notably due to an increase in Credigy Ltd.'s expenses as a result of its revenue growth. Excluding specified items, the efficiency ratio for the first quarter of 2016 was 42.1%, unchanged from the first quarter of 2015. Provisions for credit losses were nil in both the first quarters of 2016 and 2015.

Other

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

	Quarter ended January 31	
	2016	2015
Operating results excluding specified items(2)		
Net interest income	**(37)**	(38)
Non-interest income	**34**	41
Total revenues	**(3)**	3
Non-interest expenses	**53**	41
Income before income taxes	**(56)**	(38)
Income taxes (recovery)	**(29)**	(19)
Net income excluding specified items	**(27)**	(19)
Specified items after income taxes(2)	**(14)**	12
Net income	**(41)**	(7)
Non-controlling interests	**14**	15
Net income attributable to the Bank's shareholders	**(55)**	(22)
Average assets	**41,072**	33,782

(1) See Note 22 to the consolidated financial statements.
(2) See the Financial Reporting Method section on page 4.

For the *Other* heading of segment results, there was a net loss of $41 million in the first quarter of 2016 compared to a net loss of $7 million in the same quarter of 2015. The higher net loss stems from the Bank's share in the charges related to its interest in TMX, particularly an amount of $13 million, net of income taxes, in goodwill and intangible asset impairment losses, from a higher compensatory tax on salaries, from business development expenses, and from the fact that, in the first quarter of 2015, $17 million, net of income taxes, in revenues had been recorded to reflect a rise in the fair value of restructured notes.

Consolidated Balance Sheet

Consolidated Balance Sheet Summary

(millions of Canadian dollars)	**As at January 31, 2016**	As at October 31, 2015	% Change
Assets			
Cash and deposits with financial institutions	**6,589**	7,567	(13)
Securities	**56,436**	56,040	1
Securities purchased under reverse repurchase agreements and securities borrowed	**15,628**	17,702	(12)
Loans and acceptances (net of allowances for credit losses)	**118,510**	115,238	3
Other	**22,138**	19,543	13
	219,301	216,090	1
Liabilities and equity			
Deposits	**131,064**	128,830	2
Other	**75,802**	74,383	2
Subordinated debt	**1,021**	1,522	(33)
Equity attributable to the Bank's shareholders	**10,625**	10,554	1
Non-controlling interests	**789**	801	(1)
	219,301	216,090	1

Assets

As at January 31, 2016, the Bank had total assets of $219.3 billion compared to $216.1 billion as at October 31, 2015, a $3.2 billion or 1% increase. Cash and deposits with financial institutions decreased by $1.0 billion due to a decrease in liquidities at the New York branch. Securities increased by $0.4 billion since October 31, 2015, particularly from securities issued or guaranteed by Canada and the provinces, whereas securities purchased under reverse repurchase agreements and securities borrowed decreased by $2.1 billion.

As at January 31, 2016, loans and acceptances increased by $3.3 billion since October 31, 2015 owing to growth in mortgage lending (including home equity lines of credit) and in loans to businesses. The following table provides a breakdown of the main loan and acceptance portfolios.

(millions of Canadian dollars)	As at January 31, 2016	As at October 31, 2015	As at January 31, 2015
Loans and acceptances			
Consumer	30,286	29,864	28,321
Residential mortgage	44,409	43,520	40,011
Credit card receivable	2,028	2,069	1,969
Business and government	42,353	40,354	37,583
	119,076	115,807	107,884

Consumer loans increased by 1%, primarily due to home equity lines of credit and personal loans. Rising 2%, residential mortgages also grew since October 31, 2015. Loans and acceptances to businesses increased by $2.0 billion or 5% since October 31, 2015, particularly due to the activities of the Credigy Ltd. subsidiary. When compared to a year ago, loans and acceptances increased by $11.2 billion or 10%. Consumer loans and residential mortgage loans rose, respectively, by 7% and 11% from a year ago. Loans and acceptances to businesses also contributed to the growth, rising 13% from a year ago, mainly because of corporate loan financing and the activities of the Credigy Ltd. subsidiary.

As at January 31, 2016, derivative financial instruments amounted to $13.5 billion, an increase of $2.7 billion since October 31, 2015. This increase should be analyzed along with the derivative financial instruments presented in liabilities, which, at $10.0 billion, were up $2.2 billion. The $0.5 billion net increase since October 31, 2015 was due to an increase in interest rate swaps.

Liabilities

As at January 31, 2016, the Bank had total liabilities of $207.9 billion compared to $204.7 billion as at October 31, 2015.

As at January 31, 2016, the Bank's total deposit liability was $131.1 billion versus $128.8 billion as at October 31, 2015, an increase of $2.3 billion or 2%. The following table provides a breakdown of total personal savings.

(millions of Canadian dollars)	As at January 31, 2016	As at October 31, 2015	As at January 31, 2015
Balance sheet			
Deposits	47,941	45,981	45,660
Off-balance-sheet			
Full-service brokerage	103,435	105,395	107,980
Mutual funds	25,515	25,783	19,849
Other	900	636	4,093
	129,850	131,814	131,922
Total personal savings	177,791	177,795	177,582

At $47.9 billion as at January 31, 2016, personal deposits increased by 4% since October 31, 2015 and were up $2.2 billion from a year ago. Since the beginning of the fiscal year, personal savings included in assets under administration and under management decreased 1% and were down $2.0 billion or 2% from a year ago due to the stock market decline.

At $76.5 billion, business and government deposits rose $2.1 billion since October 31, 2015. This increase came from the effects of changes in foreign exchange rates on covered bonds and from the issuance of floating rate deposits by Treasury. At $6.7 billion, deposits from deposit-taking institutions decreased $1.7 billion since October 31, 2015, mainly attributable to deposits from U.S. government financial institutions and other international financial institutions. Other funding activities increased $1.4 billion since October 31, 2015, essentially due to obligations related to securities sold under repurchase agreements and securities loaned.

Equity

As at January 31, 2016, the Bank's equity totalled $11.4 billion, stable when compared to October 31, 2015. A decrease in retained earnings, attributable to remeasurements of pension plans and other post-employment benefit plans as well as to a $176 million redemption of Series 20 preferred shares, was offset by a $400 million issuance of Series 34 preferred shares.

As at February 18, 2016, there were 337,251,783 common shares and 18,300,587 stock options outstanding. For additional information on share capital, see Note 18 to the audited annual consolidated financial statements for the year ended October 31, 2015 and Note 14 to the consolidated financial statements of this quarter.

Event After the Consolidated Balance Sheet Date

Maple Financial Group Inc.

The Bank has 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. Maple Bank GmbH, an indirectly wholly owned subsidiary of the company, is being investigated by German prosecutors regarding alleged tax irregularities.

On February 6, 2016, the German Federal Financial Supervisory Authority, BaFin, placed a moratorium on the business activities of Maple Bank GmbH, preventing it from carrying out its normal business activities. This situation is the result of ongoing investigations launched by German authorities in September 2015 focusing on selected trading activities made by Maple Bank GmbH and some of its current and former employees during taxation years 2006 to 2010. The German authorities have alleged that these trading activities violated German tax laws. Neither the Bank nor its employees were involved in these trading activities and to our knowledge are not the subject of these investigations.

In light of the situation, the Bank wrote off the carrying value of its equity interest in Maple Financial Group Inc. in an amount of $164 million ($145 million net of income taxes). The $164 million write-off of the equity interest in this associate was recognized in the *Non-interest income – Other* item of the Consolidated Statement of Income for the quarter ended January 31, 2016 and is presented in the Financial Markets segment. This write-off reduced the CET1 capital ratio under Basel III by 13 basis points.

The Bank has advised the German authorities that if it is determined that portions of dividends received from Maple Financial Group Inc. could be reasonably attributable to tax fraud by Maple Bank GmbH, arrangements will be made to repay those amounts to the relevant authority. If any repayments are required, they are not expected to be material to the Bank's financial position.

Related Party Transactions

The Bank's policies and procedures regarding related party transactions have not significantly changed since October 31, 2015. For additional information, see Note 29 to the audited annual consolidated financial statements for the year ended October 31, 2015.

Securitization and Off-Balance-Sheet Arrangements

In the normal course of business, the Bank is party to various financial arrangements that, under IFRS, are not required to be recorded on the Consolidated Balance Sheet or are recorded at amounts other than their notional or contractual values. These arrangements include, among others, transactions with structured entities, derivative financial instruments, issuances of guarantees, the margin funding facility of the master asset vehicle (MAV) conduits, credit instruments, and financial assets received as collateral. A complete analysis of these types of arrangements, including their nature, business purpose and importance, is provided on pages 43 and 44 of the *2015 Annual Report*. For additional information on guarantees and a description of obligations under certain indemnification agreements, see Note 27 to the audited annual consolidated financial statements for the year ended October 31, 2015.

For additional information about financial assets transferred but not derecognized and structured entities, see Notes 7 and 21, respectively, to the consolidated financial statements.

ACCOUNTING POLICIES AND FINANCIAL DISCLOSURE

Accounting Policies and Critical Accounting Estimates

The Bank's consolidated financial statements are 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 IFRS, as issued by the IASB. None of the OSFI accounting requirements are exceptions to IFRS.

These consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* using the accounting policies described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2015. Future accounting policy changes are described below.

For the quarter ended January 31, 2016, the Bank has reclassified certain amounts in the Consolidated Statement of Income to better reflect the nature of reported revenues. As a result, for the quarter ended January 31, 2015, an amount of $9 million presented in the *Non-interest income – Credit fees* item has been reclassified to *Net interest income*. This reclassification had no impact on net income.

In preparing consolidated financial statements in accordance with IFRS, management must exercise judgment and make estimates and assumptions that affect the reporting date carrying amounts of assets and liabilities, net income and related information. Certain accounting policies are considered critical given their importance to the presentation of the Bank's financial position and operating results and require difficult, subjective and complex judgments and estimates because they relate to matters that are inherently uncertain. Any change in these judgments and estimates could have a significant impact on the Bank's consolidated financial statements. The critical accounting estimates remain substantially unchanged from those described on pages 90 to 93 of the *2015 Annual Report*, except for the change in accounting estimate described in the following paragraph.

Following an assessment of current market conditions, the Bank revisited the definition of the terms "significant" and "prolonged" in order to provide a better estimate of impairment losses, if any, on the equity securities classified in available-for-sale securities. As defined in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2015, 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. Considering current facts and circumstances, the definitions were changed to the following: a decline in fair value of more than 40% over a consecutive period of at least six months for the term "significant" and a decline in fair value of more than 5% over a consecutive period of at least 18 months for the term "prolonged." This change in definitions, effective November 1, 2015, is considered a change in estimate and is therefore applied prospectively. This change had the effect of decreasing the impairment losses on the equity securities classified in available-for-sale securities from $9 million to $3 million for the quarter ended January 31, 2016.

Future Accounting Policy Changes

The Bank is currently assessing the impact that the adoption of the following standards will have on its 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. In December 2015, the Basel Committee on Banking Supervision issued *Guidance on Credit Risk and Accounting for Expected Credit Losses*.

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. As interpretations of the new standard are still evolving, the Bank continues to monitor the interpretations and revisit its preliminary conclusions.

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.

Effective Date – November 1, 2019

IFRS 16 – *Leases*

In January 2016, the IASB issued a new standard, IFRS 16 – *Leases*. The new standard requires lessees to recognize most leases on the balance sheet under a single model, thereby eliminating the distinction between operating and finance leases. Lessor accounting, however, remains similar to current accounting practice, and the distinction between operating and finance leases is retained. Early application is permitted if IFRS 15 – *Revenue from Contracts with Customers* has also been applied.

Financial Disclosure

During the first quarter of 2016, no changes were made to the policies, procedures and other processes that comprise the Bank's internal control over financial reporting that had or could reasonably have a significant impact on the Bank's internal control over financial reporting.

ADDITIONAL FINANCIAL DISCLOSURE

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

The Bank does not market any specific mortgage financing program to subprime or Alt-A clients. Subprime loans are generally defined as loans granted to borrowers with a higher credit risk profile than prime borrowers, and the Bank does not grant this type of loan. Alt-A loans are granted to borrowers who cannot provide standard proof of income. The Bank's Alt-A loan volume was $553 million as at January 31, 2016 ($568 million as at October 31, 2015).

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

Leveraged financing structures are defined by the Bank as loans granted to large corporate and financial sponsor-backed companies that are typically non-investment grade with much higher levels of debt relative to other companies in the same industry. Leveraged finance is commonly employed to achieve a specific objective, for example, to make an acquisition, complete a buy-out or repurchase shares. Leveraged finance risk exposure takes the form of both funded and unfunded commitments. As at January 31, 2016, total commitments for this type of loan stood at $2,537 million ($1,859 million as at October 31, 2015). Details about other exposures are provided in the table on structured entities in Note 21 to the consolidated financial statements.

The FSB created the Enhanced Disclosure Task Force (EDTF), a working group that, on October 29, 2012, published a report entitled *Enhancing the Risk Disclosures of Banks*, which contains 32 recommendations. The Bank makes sure it is in full compliance with those recommendations and is continuing to enhance its risk disclosures to meet the best practices on an ongoing basis. The risk disclosures required by the EDTF are provided in the *2015 Annual Report*, in this *Report to Shareholders*, and in the documents entitled *Supplementary Regulatory Capital Disclosure for the First Quarter Ended January 31, 2016,* and *Supplementary Financial Information for the First Quarter Ended January 31, 2016*, which are available on the Bank's website at nbc.ca. In addition, on the following page is a table of contents that users can use to locate information relative to the 32 recommendations.

Risk Disclosures

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

				Pages
		2015 Annual Report	Report to Shareholders(1)	Supplementary Regulatory Capital Disclosure(1)
General				
1	Location of risk disclosures	10	17	
	Management's Discussion and Analysis	46 to 89, 100 and 104	18 to 37	
	Consolidated Financial Statements	Notes 1, 7, 16, 23 and 30	Notes 6 and 16	
	Supplementary Regulatory Capital Disclosure			4 to 29
2	Risk terminology and risk measures	55 to 89		
3	Top and emerging risks	55 and 56		
4	New key regulatory ratios	47 to 49, 75, 77 and 82	18 to 20, 29 and 66	
Risk governance and risk management				
5	Risk management organization, processes and key functions	58 to 61		
6	Risk management culture	58 and 59		
7	Key risks by business segment, risk management and risk appetite	54, 58 and 59		
8	Stress testing	46, 59, 67 and 75 to 79		
Capital adequacy and risk-weighted assets (RWA)				
9	Minimum Pillar 1 capital requirements	47 to 49	18 to 20	
10	Reconciliation of the accounting balance sheet to the regulatory balance sheet			4 to 7
11	Movements in regulatory capital	51	21	
12	Capital planning	46 to 54		
13	RWA by business segment and by risk type	52 and 54	22	8
14	Capital requirements by risk and RWA calculation method	52 and 62 to 67	22	8
15	Banking book credit risk	52	22	8 and 11 to 16
16	Movements in RWA by risk type	53	23	9
17	Assessment of credit risk model performance	61, 65 and 73		11 to 17
Liquidity				
18	Liquidity management and components of the liquidity buffer	77 to 83	29 to 33	
Funding				
19	Summary of encumbered and unencumbered assets	80 and 81	31	
20	Residual contractual maturities of balance sheet items and off-balance-sheet commitments	191 to 194	34 to 37	
21	Funding strategy and funding sources	83 to 85	33	
Market risk				
22	Linkage of market risk measures to balance sheet	71 and 72	26 and 27	
23	Market risk factors	70, 73 to 76, 177 to 179	27 to 29	
24	VaR: Assumptions, limitations and validation procedures	73 to 75		
25	Stress tests, stressed VaR and backtesting	73 to 76		
Credit risk				
26	Credit risk exposures	63, 66 and 147 to 150	25 and 57 to 59	10 to 24 and 18 to 23(2)
27	Policies for identifying impaired loans	68, 120 and 121		
28	Movements in impaired loans and allowances for credit losses	100, 104 and 147 to 150	57 to 59	20
29	Counterparty credit risk relating to derivatives transactions	68, 69 and 161 to 163		25 and 26
30	Credit risk mitigation	67 to 69		22 and 24
Other risks				
31	Other risks: Governance, measurement and management	56, 57 and 86 to 89		
32	Publicly known risk events	86	No risk event	

(1) For the first quarter ended January 31, 2016.
(2) These pages are included in the document entitled *Supplementary Financial Information for the First Quarter Ended January 31, 2016*.

CAPITAL MANAGEMENT

Capital management has a dual role of ensuring a competitive return to the Bank's shareholders while maintaining a solid capital foundation that covers risks inherent to the Bank's business, supports its business segments and protects its clients. The Bank's capital management policy defines guiding principles as well as the roles and responsibilities of its internal capital adequacy assessment process. This process aims to determine the capital that the Bank needs to pursue its business operations and accommodate unexpected losses arising from extremely adverse economic and operational conditions. For additional information on the capital management framework, see the Capital Management section on pages 46 to 54 of the Bank's *2015 Annual Report*.

Basel Accord

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

OSFI designated Canada's six largest banks, a group that includes National Bank, as Domestic Systemically Important Banks (D-SIBs). Consequently, the Bank and all other major Canadian banks have to maintain a CET1 capital ratio of at least 8.0%, a Tier 1 capital ratio of at least 9.5%, and a Total capital ratio of at least 11.5%, all determined using the "all-in" methodology.

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

To ensure an implementation similar to that in other countries, OSFI has decided to phase in the Credit Valuation Adjustment (CVA) charge over a period of five years beginning in 2014. For fiscal 2016, 64%, 71% and 77% of total CVA will be applied to the calculation of the CET1, Tier 1 and Total capital ratios, respectively, and these percentages will 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 regulatory capital requirements for OSFI's "all-in" ratios. By maintaining a strong capital structure, the Bank can cover the risks inherent to its business activities, support its business segments and protect its clients.

Other disclosure requirements pursuant to Pillar 3 of the Basel Accord and a set of recommendations defined by the EDTF are presented in the *Supplementary Regulatory Capital Disclosure* report published quarterly and available on the Bank's website at nbc.ca. 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 > Regulatory Capital > Main Features of Regulatory Capital Instruments*.

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 issued two consultative papers, *Capital Floors: The Design of a Framework Based on Standardised Approaches* and *Revisions to the Standardised Approach for Credit Risk*, the latter having been reviewed a second time in December 2015. 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 issued 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, on January 21, 2016, OSFI issued a draft guideline entitled *Pillar 3 Disclosure Requirements*, specifying therein that D-SIBs will have to meet the BCBS's requirements as of the fiscal year ending October 31, 2017. The final version of the guideline will replace OSFI's November 2007 advisory, *Pillar 3 Disclosure Requirements*. Thereafter, other disclosure requirements are expected once the BCBS completes its analysis of the Pillar 3 disclosure requirements.

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*. 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 bail-in regime, which has yet to be finalized. Also on November 9, 2015, the BCBS issued 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.

On December 17, 2015, the BCBS issued a consultative paper, *Identification and Measurement of Step-In Risk,* that measures the risk of the Bank providing support to an unconsolidated entity, should that entity experience financial stress, and do so beyond or in the absence of any contractual obligation in order to mitigate the impact of the shadow banking system.

Lastly, on January 14, 2016, the BCBS issued the final rules for calculating market risk in *Minimum Capital Requirements for Market Risk*, a document that aims to remedy structural weaknesses in the trading portfolio that had not been addressed in previous market risk revisions. These rules will come into effect on January 1, 2019.

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

	Regulatory ratios		Minimum regulatory ratios to be maintained	
	As at January 31, 2016	As at October 31, 2015	BCBS 2016 (1)	OSFI 2016 (1)(2)
Capital ratios				
CET1	**9.7 %**	9.9 %	5.125 %	8.0 %
Tier 1(3)	**12.8 %**	12.5 %	6.625 %	9.5 %
Total(3)(4)	**14.2 %**	14.0 %	8.625 %	11.5 %
Leverage ratio	**3.8 %**	3.7 %	n.a.	3.0 %

n.a. Not applicable
(1) For the capital ratios, includes the 0.625% conservation buffer set by the BCBS and the 2.5% conservation buffer set by OSFI.
(2) For the capital ratios, includes a 1% surcharge applicable to D-SIBs since January 1, 2016.
(3) Figures as at October 31, 2015 include the redemption of the Series 20 preferred shares on November 15, 2015.
(4) Figures as at October 31, 2015 include the $500 million redemption of notes on November 2, 2015.

Management Activities

On November 2, 2015, the Bank completed a $500 million redemption of medium-term notes maturing in November 2020 at a price equal to their nominal value plus accrued interest. These instruments had already been excluded from the capital ratio calculations as at October 31, 2015.

On November 15, 2015, the Bank redeemed 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. These instruments had already been excluded from the capital ratio calculations as at October 31, 2015.

On January 22, 2016, the Bank completed the issuance of 16,000,000 Non-Cumulative 5-Year Rate-Reset Series 34 First Preferred Shares at a price equal to $25.00 per share for gross proceeds of $400 million. Given that the Series 34 preferred shares satisfy the non-viability contingent capital requirements, they qualify for the purposes of calculating regulatory capital under Basel III.

Movement in Regulatory Capital(1)

(millions of Canadian dollars)	Quarter ended January 31, 2016
Common Equity Tier 1 (CET1) capital	
Balance at beginning	6,801
Issuance of common shares (including Stock Option Plan)	9
Repurchase of common shares	–
Contributed surplus	1
Dividends on preferred and common shares	(190)
Net income attributable to the Bank's shareholders	239
Removal of own credit spread net of income taxes	(23)
Other	(161)
Movements in accumulated other comprehensive income	
Translation adjustments	12
Available-for-sale securities	(70)
Other	4
Change in goodwill and intangible assets (net of related tax liability)	(11)
Other, including regulatory adjustments and transitional arrangements	
Change in defined benefit pension plan asset (net of related tax liability)	141
Change in amount exceeding 15% threshold	
Deferred tax assets	–
Significant investment in common shares of financial institutions	–
Change in other regulatory adjustments(2)	(9)
Balance at end	6,743
Additional Tier 1 capital	
Balance at beginning	1,825
New Tier 1 eligible capital issuances	400
Redeemed capital(3)	–
Change in non-qualifying Additional Tier 1 subject to phase-out	(14)
Other, including regulatory adjustments and transitional arrangements	–
Balance at end	2,211
Total Tier 1 capital	8,954
Tier 2 capital	
Balance at beginning	1,052
New Tier 2 eligible capital issuances	–
Redeemed capital(4)	–
Change in non-qualifying Tier 2 subject to phase-out	2
Change in eligible collective allowances	(11)
Other, including regulatory adjustments and transitional arrangements	–
Balance at end	1,043
Total regulatory capital	9,997

(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) The redemption of the Series 20 preferred shares on November 15, 2015 was included in the October 31, 2015 Tier 1 capital.
(4) The $500 million redemption of notes on November 2, 2015 was included in the October 31, 2015 Tier 2 capital.

Risk-Weighted Assets by Key Risk Drivers

CET1 risk-weighted assets (RWA) increased by $0.9 billion to total $69.7 billion as at January 31, 2016 compared to $68.8 billion as at October 31, 2015. This increase was mainly due to organic growth and foreign exchange movements. The Bank's CET1 RWA are presented in the following table.

Capital Adequacy Under Basel III(1)

(millions of Canadian dollars)					As at January 31, 2016		As at October 31, 2015
	Exposure at default				Risk-weighted assets	Capital requirement(2)	Risk-weighted assets
		Standardized Approach	AIRB Approach	Other	Total		Total
Credit risk							
Retail							
Residential mortgages	45,019	356	4,909	–	5,265	421	4,975
Qualifying revolving retail	5,105	–	1,011	–	1,011	81	1,036
Other retail	15,209	1,932	4,760	–	6,692	535	6,651
Non-retail							
Corporate	55,928	1,891	25,305	–	27,196	2,176	26,662
Sovereign	25,980	–	658	–	658	53	629
Financial institutions	4,431	168	1,041	–	1,209	97	974
Banking book equities(3)	580	–	580	–	580	46	593
Securitization	2,958	–	795	–	795	64	798
Other assets	28,187	–	–	3,842	3,842	307	4,252
Counterparty credit risk							
Corporate	5,148	28	66	–	94	8	96
Sovereign	10,087	–	14	–	14	1	22
Financial institutions	52,797	–	1,415	–	1,415	113	1,402
Trading portfolio	11,428	209	2,688	–	2,897	232	2,774
Credit valuation adjustment charge(4)		2,423	–	–	2,423	194	2,367
Regulatory scaling factor		–	2,593	–	2,593	207	2,512
Total – Credit risk	262,857	7,007	45,835	3,842	56,684	4,535	55,743
Market risk							
VaR		–	1,266	–	1,266	101	1,262
Stressed VaR		–	1,707	–	1,707	137	1,875
Interest-rate-specific risk		806	–	–	806	64	828
Total – Market risk		806	2,973	–	3,779	302	3,965
Operational risk		9,278	–	–	9,278	742	9,127
Total	262,857	17,091	48,808	3,842	69,741	5,579	68,835

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

Risk-Weighted Assets Movement by Key Drivers[1]

(millions of Canadian dollars)	Quarter ended January 31, 2016		
	Non-counterparty credit risk	Counterparty credit risk[2]	Total
Credit risk – Risk-weighted assets at beginning	**49,082**	**6,661**	**55,743**
Book size	250	381	631
Book quality	(30)	(381)	(411)
Model updates	–	–	–
Methodology and policy	–	–	–
Acquisitions and disposals	–	–	–
Foreign exchange movements	539	182	721
Credit risk – Risk-weighted assets at end	**49,841**	**6,843**	**56,684**
Market risk – Risk-weighted assets at beginning			**3,965**
Movement in risk levels[3]			(186)
Model updates			–
Methodology and policy			–
Acquisitions and disposals			–
Market risk – Risk-weighted assets at end			**3,779**
Operational risk – Risk-weighted assets at beginning			**9,127**
Movement in risk levels			151
Acquisitions and disposals			–
Operational risk – Risk-weighted assets at end			**9,278**
Risk-weighted assets at end			**69,741**

(1) Figures are presented on an "all-in" basis.
(2) Calculated based on CET1 risk-weighted assets.
(3) Also includes foreign exchange movements that are not considered material.

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

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

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

Regulatory Capital Ratios

The CET1 capital ratio was 9.7% as at January 31, 2016 versus 9.9% as at October 31, 2015. The decrease in the CET1 capital ratio was essentially due to the write-off of the equity interest in associate Maple and to an increase in risk-weighted assets. The Tier 1 and the Total capital ratios were, respectively, 12.8% and 14.2% as at January 31, 2016 versus 12.5% and 14.0% as at October 31, 2015. The change in these two capital ratios stems essentially from the above-mentioned factors and from the issuance of Series 34 First Preferred Shares for $400 million.

The leverage ratio was 3.8% as at January 31, 2016 compared to 3.7% as at October 31, 2015.

Regulatory Capital and Ratios Under Basel III[1]

(millions of Canadian dollars)	As at January 31, 2016	As at October 31, 2015
Capital		
CET1	6,743	6,801
Tier 1[2]	8,954	8,626
Total[2][3]	9,997	9,678
Risk-weighted assets		
CET1 capital	69,741	68,835
Tier 1 capital	70,006	69,094
Total capital	70,233	69,316
Total exposure	236,906	234,957
Capital ratios		
CET1	9.7 %	9.9 %
Tier 1[2]	12.8 %	12.5 %
Total[2][3]	14.2 %	14.0 %
Leverage ratio	3.8 %	3.7 %

(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.
(3) Figures as at October 31, 2015 include the $500 million redemption of notes on November 2, 2015.

Dividends

On February 22, 2016, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 54 cents per common share payable on May 1, 2016 to shareholders of record on March 28, 2016.

RISK MANAGEMENT

The Bank aims to maintain its financial performance by continuing to ensure prudent management and a sound balance between return and the risks assumed. The Bank views risk as an integral part of its development and the diversification of its activities and advocates a risk management approach consistent with its business expansion strategy. The Bank's governance structure for risk management has remained largely unchanged from that described in the *2015 Annual Report*.

Managing risk requires a solid understanding of every type of risk found across the Bank. In addition to providing assurance that risk levels do not exceed acceptable thresholds, effective risk management can 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.

Certain risks are discussed below. For additional information, see the Risk Management section on pages 55 to 89 of the *2015 Annual Report*. Risk management information is also provided in Note 6 to the consolidated financial statements, which covers loans.

Credit Risk

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

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

Maximum Credit Risk Exposure Under the Basel Asset Categories

(millions of Canadian dollars)						As at January 31, 2016	As at October 31, 2015
	Drawn	Undrawn commitments	Repo-style transactions(1)	OTC derivatives	Other off-balance-sheet items(2)	Total	Total
Retail							
Residential mortgages	39,234	5,785	–	–	–	45,019	44,431
Qualifying revolving retail	2,660	2,445	–	–	–	5,105	5,198
Other retail	13,892	1,304	–	–	13	15,209	15,052
	55,786	9,534	–	–	13	65,333	64,681
Non-retail							
Corporate	40,053	13,283	5,142	6	2,592	61,076	58,429
Sovereign	21,927	3,923	9,779	306	132	36,067	35,584
Financial institutions	3,468	301	52,256	541	662	57,228	63,033
	65,448	17,507	67,177	853	3,386	154,371	157,046
Trading portfolio	–	–	–	11,428	–	11,428	10,318
Securitization	647	–	–	–	2,311	2,958	2,982
Total – Gross Credit Risk	121,881	27,041	67,177	12,281	5,710	234,090	235,027
Standardized Approach	9,588	419	1,406	585	401	12,399	10,865
AIRB Approach	112,293	26,622	65,771	11,696	5,309	221,691	224,162
Total – Gross Credit Risk	121,881	27,041	67,177	12,281	5,710	234,090	235,027

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

In order to meet OSFI's mortgage loan disclosure requirements, additional information has been provided in *Supplementary Financial Information for the First Quarter Ended January 31, 2016* and in *Supplementary Regulatory Capital Disclosure for the First Quarter Ended January 31, 2016,* which are available on the Bank's website at nbc.ca.

Market Risk

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

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

Reconciliation of Market Risk with Consolidated Balance Sheet Items

(millions of Canadian dollars)					As at January 31, 2016
		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	6,589	9	6,114	466	Interest rate(3)
Securities					
At fair value through profit or loss	41,280	39,077	2,203	–	Interest rate(3) and other(4)
Available-for-sale	15,156	–	15,156	–	Interest rate(3) and equity(5)
Securities purchased under reverse repurchase agreements and securities borrowed	15,628	–	15,628	–	Interest rate(3)(6)
Loans, net of allowances	109,568	4,748	104,820	–	Interest rate(3)
Customers' liability under acceptances	8,942	–	8,942	–	Interest rate(3)
Derivative financial instruments	13,531	11,541	1,990	–	Interest rate
Purchased receivables	1,539	–	1,539	–	Interest rate
Defined benefit asset	67	–	67	–	Other
Other	7,001	–	–	7,001	
	219,301	55,375	156,459	7,467	
Liabilities					
Deposits	131,064	3,236	127,828	–	Interest rate(3)
Acceptances	8,942	–	8,942	–	Interest rate(3)
Obligations related to securities sold short	15,573	15,573	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	15,371	–	15,371	–	Interest rate(3)(6)
Derivative financial instruments	9,989	8,689	1,300	–	Interest rate
Liabilities related to transferred receivables	19,255	3,960	15,295	–	Interest rate(3)
Defined benefit liability	192	–	192	–	Other
Other	6,480	52	1,349	5,079	Interest rate(3)
Subordinated debt	1,021	–	1,021	–	Interest rate(3)
	207,887	31,510	171,298	5,079	

(1) Trading positions whose risk measures are VaR and SVaR. See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category as well as their correlation effect, which are presented on the following pages and in the Market Risk Management section of the *2015 Annual Report*.
(2) Non-trading positions that use other risk measures.
(3) See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category and their correlation effect as well as the interest rate sensitivity tables, which are presented on the following pages and in the Market Risk Management section of the *2015 Annual Report*.
(4) See the Master Asset Vehicles section in Note 6 to the audited annual consolidated financial statements as at October 31, 2015.
(5) The fair value of equity securities classified as available-for-sale is disclosed in Notes 3 and 5 to the consolidated financial statements.
(6) These instruments are recorded at amortized cost and are subject to credit risk for capital management purposes. For trading-related transactions with maturities of more than one day, interest rate risk is included in the VaR and SVaR measures.

(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	50	1,349	4,763	Interest rate(3)
Subordinated debt	1,522	–	1,522	–	Interest rate(3)
	204,735	31,413	168,559	4,763	

(1) Trading positions whose risk measures are VaR and SVaR. See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category as well as their correlation effect, which are presented on the following pages and in the Market Risk Management section of the *2015 Annual Report*.
(2) Non-trading positions that use other risk measures.
(3) See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category and their correlation effect as well as the interest rate sensitivity tables, which are presented on the following pages and in the Market Risk Management section of the *2015 Annual Report*.
(4) See the Master Asset Vehicles section in Note 6 to the audited annual consolidated financial statements as at October 31, 2015.
(5) The fair value of equity securities classified as available-for-sale is disclosed in Notes 3 and 5 to the consolidated financial statements.
(6) These instruments are recorded at amortized cost and are subject to credit risk for capital management purposes. For trading-related transactions with maturities of more than one day, interest rate risk is included in the VaR and SVaR measures.
(7) See Notes 16 and 17 to the audited annual consolidated financial statements as at October 31, 2015.
(8) See Note 23 to the audited annual consolidated financial statements as at October 31, 2015.

Trading Activities

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

VaR of Trading Portfolios by Risk Category(1)

(millions of Canadian dollars) Quarter ended

	January 31, 2016				October 31, 2015		January 31, 2015	
	Low	High	Average	Period end	Average	Period end	Average	Period end
Interest rate	(4.2)	(5.8)	(5.1)	(5.3)	(5.1)	(4.8)	(5.4)	(5.4)
Exchange rate	(2.1)	(3.5)	(2.8)	(3.0)	(3.1)	(2.3)	(1.5)	(1.9)
Equity	(3.4)	(4.5)	(4.1)	(4.2)	(3.8)	(4.1)	(3.6)	(4.3)
Commodity	(0.7)	(2.6)	(1.7)	(0.7)	(1.0)	(1.1)	(1.2)	(0.9)
Correlation effect(2)	n.m.	n.m.	7.3	5.4	6.6	6.2	5.9	6.5
Total trading VaR	(5.2)	(8.4)	(6.4)	(7.8)	(6.4)	(6.1)	(5.8)	(6.0)

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 VaR using a 99% confidence level.
(2) The total trading VaR is less than the sum of the individual risk factor VaR results due to the correlation effect.

SVaR of Trading Portfolios by Risk Category[1]

(millions of Canadian dollars)

							Quarter ended	
				January 31, 2016		October 31, 2015		January 31, 2015
	Low	**High**	**Average**	**Period end**	Average	Period end	Average	Period end
Interest rate	**(7.7)**	**(10.1)**	**(9.4)**	**(9.0)**	(9.1)	(9.8)	(10.1)	(9.5)
Exchange rate	**(2.5)**	**(8.5)**	**(3.8)**	**(8.0)**	(4.4)	(2.5)	(3.3)	(2.7)
Equity	**(3.9)**	**(6.6)**	**(5.3)**	**(6.1)**	(5.2)	(6.0)	(5.5)	(5.4)
Commodity	**(0.8)**	**(4.0)**	**(2.4)**	**(0.9)**	(1.6)	(1.5)	(2.2)	(2.5)
Correlation effect[2]	**n.m.**	**n.m.**	**12.3**	**13.9**	10.9	11.4	11.9	11.2
Total trading SVaR	**(6.8)**	**(11.4)**	**(8.6)**	**(10.1)**	(9.4)	(8.4)	(9.2)	(8.9)

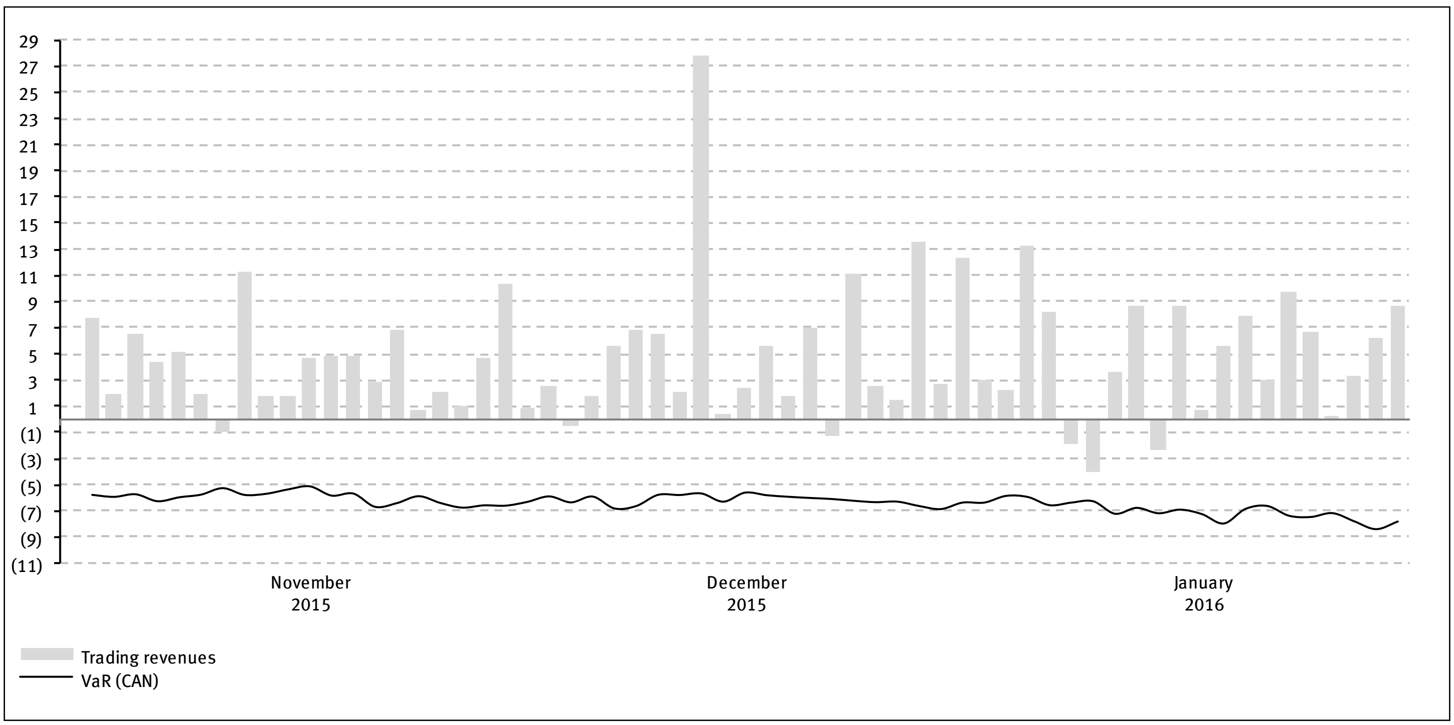
n.m. Computation of a correlation effect for the high and low is not meaningful, as highs and lows may occur on different days and be attributable to different types of risk.
(1) Amounts are presented on a pre-tax basis and represent one-day SVaR using a 99% confidence level.
(2) The total trading SVaR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

The average total trading VaR was $6.4 million for the quarter ended January 31, 2016, unchanged from the quarter ended October 31, 2015. Total trading VaR was relatively stable during the quarter but closed out the quarter above average at $7.8 million as at January 31, 2016. The increase was driven mainly by higher interest rate and equity risks. The average total trading SVaR was $8.6 million for the first quarter of 2016, down $0.8 million from the preceding quarter. Total trading SVaR was relatively lower than average but subsequently peaked towards the end of the quarter, a change that was driven mainly by higher equity and foreign exchange risks.

Daily Trading Revenues

The following table shows daily trading and underwriting revenues and VaR. Daily trading and underwriting revenues were positive more than 90% of the days for the quarter ended January 31, 2016. Net daily trading losses in excess of $1 million were recorded on four days. None of these losses exceeded the VaR limit.

Quarter ended January 31, 2016
(millions of Canadian dollars)



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

The following tables present the potential before-tax impact of an immediate and sustained 100-basis-point increase or decrease in interest rates on 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.

(millions of Canadian dollars)						As at January 31, 2016
			Impact on equity			Impact on net interest income
	Canadian dollar	U.S. dollar	Total	Canadian dollar	U.S. dollar	Total
100-basis-point increase in the interest rate	(153)	20	(133)	26	7	33
100-basis-point decrease in the interest rate	132	(27)	105	(15)	(11)	(26)

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

Liquidity Risk

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

Regulatory Environment

The regulatory environment surrounding liquidity has evolved significantly in recent years. The Bank works closely with national and international regulators to implement regulatory liquidity standards. The guiding principles, standards and guidelines issued in recent years by the BCBS and OSFI are described on page 77 of the *2015 Annual Report*.

With regard to the BCBS's intraday liquidity document entitled *Monitoring Tools for Intraday Liquidity Management*, which presents metrics and stress tests designed to improve monitoring and management of intraday liquidity risk, the proposed implementation schedule ranges from January 2015 to January 2017, at the latest. As for the *Liquidity Adequacy Requirements* (LAR) guideline issued by OSFI, the Bank has been in compliance with the Liquidity Coverage Ratio (LCR) and Net Cumulative Cash Flow (NCCF) metrics since their coming into force on January 1, 2015. The LAR guideline will be reviewed annually to reflect both national and international regulatory developments. Lastly, the Bank is currently assessing the impact of the probable adoption of the bail-in regime applicable to D-SIBs.

In October 2014, the Bank for International Settlements (BIS) issued final rules for the Net Stable Funding Ratio (NSFR), which is a structural ratio over a one-year horizon. The Bank is currently monitoring this ratio and expects to be compliant in time for the implementation. In June 2015, the BCBS issued the final document on *Net Stable Funding Ratio Disclosure Standards*. This document sets out a common framework for the public disclosure of the NSFR, which would not be required before its formal implementation date of January 1, 2018.

Liquid Assets

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

Liquid Asset Portfolio

(millions of Canadian dollars)					As at January 31, 2016	As at October 31, 2015
	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	6,589	–	6,589	1,162	5,427	6,251
Securities						
Issued or guaranteed by Canada, U.S. Treasury, other U.S. agencies and other foreign governments	17,759	13,260	31,019	19,668	11,351	12,061
Issued or guaranteed by provinces	15,182	10,666	25,848	18,563	7,285	6,154
Issued or guaranteed by municipalities and school boards	1,072	126	1,198	316	882	1,020
Other debt securities	3,957	899	4,856	1,552	3,304	3,154
Equity securities	17,810	40,378	58,188	46,190	11,998	14,507
Loans						
Securities backed by insured residential mortgages	5,017	–	5,017	2,076	2,941	2,761
As at January 31, 2016	67,386	65,329	132,715	89,527	43,188	
As at October 31, 2015	66,908	68,915	135,823	89,915		45,908

(millions of Canadian dollars)	As at January 31, 2016	As at October 31, 2015
Unencumbered liquid assets by entity		
National Bank (parent)	32,277	34,949
Domestic subsidiaries	–	580
Foreign subsidiaries and branches	10,911	10,379
	43,188	45,908

(millions of Canadian dollars)	As at January 31, 2016	As at October 31, 2015
Unencumbered liquid assets by currency		
Canadian dollar	23,787	24,238
U.S. dollar	16,697	20,752
Other currencies	2,704	918
	43,188	45,908

Liquid Asset Portfolio – Average(4)

(millions of Canadian dollars)					Quarter ended January 31, 2016
	Bank-owned liquid assets(1)	Liquid assets received(2)	Total liquid assets	Encumbered liquid assets(3)	Unencumbered liquid assets
Cash and deposits with financial institutions	6,659	–	6,659	908	5,751
Securities					
Issued or guaranteed by Canada, U.S. Treasury, other U.S. agencies and other foreign governments	18,329	15,691	34,020	21,833	12,187
Issued or guaranteed by provinces	15,198	10,822	26,020	18,659	7,361
Issued or guaranteed by municipalities and school boards	1,082	121	1,203	330	873
Other debt securities	3,742	961	4,703	1,599	3,104
Equity securities	18,271	40,040	58,311	46,177	12,134
Loans					
Securities backed by insured residential mortgages	4,589	–	4,589	1,910	2,679
	67,870	67,635	135,505	91,416	44,089

(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 transactions and derivative transactions and securities purchased under reverse repurchase agreements and securities borrowed.
(3) In the normal course of its funding activities, the Bank pledges assets as collateral in accordance with standard terms. Encumbered liquid assets include assets used to cover short sales, obligations related to securities sold under repurchase agreements and securities loaned, guarantees related to security-backed loans and borrowings, collateral related to derivative financial instrument transactions, asset-backed securities and liquid assets legally restricted from transfers.
(4) The average is based on the sum of the end-of-period balances of the three months of the quarter divided by three.

Summary of Encumbered and Unencumbered Assets

(millions of Canadian dollars)						As at January 31, 2016
	Encumbered assets(1)		Unencumbered assets		Total	Encumbered assets as a % of total assets
	Pledged as collateral	Other(2)	Available as collateral	Other(3)		
Cash and deposits with financial institutions	42	1,120	5,427	–	6,589	0.5
Securities	21,014	–	34,766	656	56,436	9.6
Securities purchased under reverse repurchase agreements and securities borrowed	–	15,574	54	–	15,628	7.1
Loans, net of allowances	31,594	–	2,941	75,033	109,568	14.4
Customers' liability under acceptances	–	–	–	8,942	8,942	–
Derivative financial instruments	–	–	–	13,531	13,531	–
Due from clients, dealers and brokers	–	–	–	419	419	–
Purchased receivables	–	–	–	1,539	1,539	–
Investments in associates and joint ventures	–	–	–	730	730	–
Premises and equipment	–	–	–	1,844	1,844	–
Goodwill	–	–	–	1,280	1,280	–
Intangible assets	–	–	–	1,083	1,083	–
Other assets	–	–	–	1,712	1,712	–
	52,650	16,694	43,188	106,769	219,301	31.6

(millions of Canadian dollars)						As at October 31, 2015
	Encumbered assets(1)		Unencumbered assets		Total	Encumbered assets as a % of total assets
	Pledged as collateral	Other(2)	Available as collateral	Other(3)		
Cash and deposits with financial institutions	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	–
	50,494	18,607	45,908	101,081	216,090	31.9

(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, mortgages insured by the CMHC that can be securitized into mortgage-backed securities under the *National Housing Act* (Canada)).

Liquidity Coverage Ratio (LCR)

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

The following table provides average LCR data calculated using the three month-end figures in the quarter. For the quarter ended January 31, 2016, the Bank's average LCR was 135%, 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
		January 31, 2016		October 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.**	**32,718**	32,115
	Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	**34,034**	**2,229**	2,139
3	Stable deposits	**16,776**	**503**	493
4	Less stable deposits	**17,258**	**1,726**	1,646
5	Unsecured wholesale funding, of which:	**39,738**	**21,712**	24,721
6	Operational deposits (all counterparties)	**9,671**	**2,312**	2,364
7	Non-operational deposits (all counterparties)	**21,482**	**10,815**	13,436
8	Unsecured debt	**8,585**	**8,585**	8,921
9	Secured wholesale funding	**n.a.**	**3,589**	2,512
10	Additional requirements, of which:	**35,004**	**9,285**	8,709
11	Outflows related to derivative exposures and other collateral requirements	**8,975**	**5,256**	4,593
12	Outflows related to loss of funding on secured debt securities	**810**	**810**	910
13	Backstop liquidity and credit enhancement facilities and commitments to extend credit	**25,219**	**3,219**	3,206
14	Other contractual commitments to extend credit	**531**	**139**	135
15	Other contingent commitments to extend credit	**77,663**	**796**	782
16	Total cash outflows	**n.a.**	**37,750**	38,998
	Cash inflows			
17	Secured lending (e.g., reverse repos)	**46,492**	**6,881**	7,083
18	Inflows from fully performing exposures	**7,062**	**3,908**	3,950
19	Other cash inflows	**2,718**	**2,718**	3,253
20	Total cash inflows	**56,272**	**13,507**	14,286
			Total adjusted value[4]	Total adjusted value[4]
21	Total HQLA	**n.a.**	**32,718**	32,115
22	Total net cash outflows	**n.a.**	**24,243**	24,712
23	Liquidity coverage ratio (%)[5]	**n.a.**	**135 %**	131 %

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 87% 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 without such variations necessarily being indicative of a trend. The variation between the quarter ended January 31, 2016 and the previous quarter was a result of normal business activities. The Bank's liquid asset buffer is well in excess of its total net cash outflows.

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

Funding Risk

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

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

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

Residual Contractual Maturities of Wholesale Funding[1]

(millions of Canadian dollars)								As at January 31, 2016
	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]	516	54	10	12	592	–	66	658
Certificates of deposit and commercial paper[3]	2,853	2,765	4,144	670	10,432	700	105	11,237
Asset-backed commercial paper	–	–	–	–	–	–	–	–
Senior unsecured medium-term notes[4]	278	1,049	1,650	1,085	4,062	6,696	5,960	16,718
Senior unsecured structured notes	15	49	65	102	231	–	1,690	1,921
Covered bonds and asset-backed securities								
Mortgage securitization	16	23	1,176	1,180	2,395	3,133	13,727	19,255
Covered bonds	–	–	–	2,818	2,818	–	5,590	8,408
Securitization of credit card receivables	–	–	–	424	424	–	872	1,296
Subordinated liabilities[5]	–	–	–	–	–	1,012	9	1,021
Other[6]	809	–	–	–	809	–	–	809
	4,487	3,940	7,045	6,291	21,763	11,541	28,019	61,323
Secured funding	16	23	1,176	4,422	5,637	3,133	20,189	28,959
Unsecured funding	4,471	3,917	5,869	1,869	16,126	8,408	7,830	32,364
	4,487	3,940	7,045	6,291	21,763	11,541	28,019	61,323
As at October 31, 2015	5,196	4,901	6,623	7,312	24,032	9,187	27,801	61,020

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

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

(millions of Canadian dollars)			As at January 31, 2016
	One-notch downgrade	Two-notch downgrade	Three-notch downgrade
Derivatives[1]	25	57	88
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.

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

The following tables present balance sheet items and off-balance-sheet commitments by residual contractual maturity as at January 31, 2016 with comparative figures as at October 31, 2015. The information gathered from this maturity analysis is a component of liquidity and funding management. However, this maturity profile does not represent how the Bank manages its interest rate risk nor its liquidity risk and funding needs. The Bank considers factors other than contractual maturity in the assessment of liquid assets or in determining expected future cash flows.

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

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

(millions of Canadian dollars)									As at January 31, 2016	
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Assets										
Cash and deposits with financial institutions	4,501	–	–	–	–	–	–	–	2,088	6,589
Securities										
At fair value through profit or loss	275	1,250	1,032	1,136	530	5,643	7,488	6,718	17,208	41,280
Available-for-sale	1	103	143	39	130	547	7,663	5,984	546	15,156
	276	1,353	1,175	1,175	660	6,190	15,151	12,702	17,754	56,436
Securities purchased under reverse repurchase agreements and securities borrowed	3,256	5,072	4,528	301	312	1,257	–	–	902	15,628
Loans and acceptances(1)										
Residential mortgage	983	1,435	3,042	2,212	1,853	6,816	27,196	588	284	44,409
Personal and credit card	321	498	882	734	625	1,677	7,866	1,940	17,771	32,314
Business and government	4,125	1,958	2,120	1,809	1,568	3,672	7,950	2,622	7,587	33,411
Customers' liability under acceptances	7,589	804	549	–	–	–	–	–	–	8,942
Allowances for credit losses									(566)	(566)
	13,018	4,695	6,593	4,755	4,046	12,165	43,012	5,150	25,076	118,510
Other										
Derivative financial instruments	1,106	1,198	882	333	457	1,123	2,967	5,465	–	13,531
Due from clients, dealers and brokers(1)									419	419
Purchased receivables									1,539	1,539
Investments in associates and joint ventures									730	730
Premises and equipment									1,844	1,844
Goodwill									1,280	1,280
Intangible assets									1,083	1,083
Other assets	302	57	171	68	155	131	112	102	614	1,712
	1,408	1,255	1,053	401	612	1,254	3,079	5,567	7,509	22,138
	22,459	12,375	13,349	6,632	5,630	20,866	61,242	23,419	53,329	219,301

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

(millions of Canadian dollars)									As at January 31, 2016	
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Liabilities and equity										
Deposits[1][2]										
Personal	1,328	1,452	1,203	1,396	2,212	4,737	7,238	911	27,464	47,941
Business and government	2,588	485	260	223	498	748	1,437	992	30,121	37,352
Deposit-taking institutions	2,739	1,387	1	–	–	–	–	4	1,889	6,020
Unsecured senior debt	4,471	3,917	5,869	806	1,063	7,396	5,172	2,649	–	31,343
Covered bonds	–	–	–	2,818	–	–	2,571	3,019	–	8,408
	11,126	7,241	7,333	5,243	3,773	12,881	16,418	7,575	59,474	131,064
Other										
Acceptances	7,589	804	549	–	–	–	–	–	–	8,942
Obligations related to securities sold short[3]	199	141	158	11	33	455	5,564	5,898	3,114	15,573
Obligations related to securities sold under repurchase agreements and securities loaned	5,135	3,028	3,885	1,119	–	716	–	–	1,488	15,371
Derivative financial instruments	695	1,308	870	462	761	929	1,881	3,083	–	9,989
Due to clients, dealers and brokers[1]									2,587	2,587
Liabilities related to transferred receivables[4]	16	23	1,176	90	1,090	3,133	9,077	4,650	–	19,255
Securitization – Credit card[5]	–	–	–	–	424	–	872	–	–	1,296
Other liabilities – Other items[1][5]	439	35	9	5	183	20	38	180	1,880	2,789
	14,073	5,339	6,647	1,687	2,491	5,253	17,432	13,811	9,069	75,802
Subordinated debt	–	–	–	–	–	1,012	–	9	–	1,021
Equity									11,414	11,414
	25,199	12,580	13,980	6,930	6,264	19,146	33,850	21,395	79,957	219,301
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	14	47	227	189	868	602	889	214	–	3,050
Credit card receivables[6]									6,716	6,716
Backstop liquidity and credit enhancement facilities[7]	–	2,244	15	–	2,927	–	–	–	–	5,186
Commitments to extend credit[8]	938	630	1,599	1,790	2,134	8,162	9,286	474	20,724	45,737
Lease commitments and other contracts	77	150	218	212	209	737	1,173	850	–	3,626
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 are disclosed according to the remaining contractual maturity of the underlying security.
(4) These amounts mainly include liabilities related to the securitization of mortgage loans.
(5) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(6) These amounts are unconditionally revocable at the Bank's discretion at any time.
(7) In the event of payment on one of the backstop liquidity facilities, the Bank will receive as collateral government bonds in an amount up to $1.8 billion.
(8) These amounts include $20.9 billion that is unconditionally revocable at the Bank's discretion at any time.

(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 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Assets										
Cash and deposits with financial institutions	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)										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
Liabilities and equity										
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 are disclosed according to the remaining contractual maturity of the underlying security.
(4) These amounts mainly include liabilities related to the securitization of mortgage loans.
(5) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(6) These amounts are unconditionally revocable at the Bank's discretion at any time.
(7) In the event of payment on one of the backstop liquidity facilities, the Bank will receive as collateral government bonds in an amount up to $1.8 billion.
(8) These amounts include $20.8 billion that is unconditionally revocable at the Bank's discretion at any time.

QUARTERLY FINANCIAL INFORMATION

(millions of Canadian dollars, except per share amounts)	2016				2015			2014	2015	2014
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Total	Total
Total revenues	**1,289**	1,405	1,510	1,421	1,410	1,364	1,460	1,276	5,746	5,464
Net income	**261**	347	453	404	415	330	441	362	1,619	1,538
Earnings per share ($)										
Basic	**0.68**	0.96	1.29	1.14	1.17	0.92	1.26	1.02	4.56	4.36
Diluted	**0.67**	0.95	1.28	1.13	1.16	0.91	1.24	1.01	4.51	4.32
Dividends per common share ($)	**0.54**	0.52	0.52	0.50	0.50	0.48	0.48	0.46	2.04	1.88
Return on common shareholders' equity (%)	**9.5**	13.6	18.8	17.6	17.8	14.3	20.1	17.4	16.9	17.9
Total assets	**219,301**	216,090	215,560	207,123	214,474	205,429	198,822	194,289		
Impaired loans, net	**234**	254	254	249	194	248	184	191		
Per common share ($)										
Book value	**27.77**	28.26	27.60	27.01	26.33	25.76	25.18	24.41		
Share price										
High	**44.11**	46.33	50.01	49.15	55.06	53.88	49.15	45.73		
Low	**35.83**	40.75	43.78	45.02	44.21	48.16	45.19	41.60		

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

CONSOLIDATED BALANCE SHEETS

(unaudited) (millions of Canadian dollars)

	As at January 31, 2016	As at October 31, 2015
Assets		
Cash and deposits with financial institutions	6,589	7,567
Securities (Notes 4 and 5)		
At fair value through profit or loss	41,280	41,997
Available-for-sale	15,156	14,043
	56,436	56,040
Securities purchased under reverse repurchase agreements and securities borrowed	15,628	17,702
Loans (Note 6)		
Residential mortgage	44,409	43,520
Personal and credit card	32,314	31,933
Business and government	33,411	30,954
	110,134	106,407
Customers' liability under acceptances	8,942	9,400
Allowances for credit losses	(566)	(569)
	118,510	115,238
Other		
Derivative financial instruments	13,531	10,842
Due from clients, dealers and brokers	419	415
Purchased receivables	1,539	1,438
Investments in associates and joint ventures (Note 23)	730	831
Premises and equipment	1,844	1,817
Goodwill	1,280	1,277
Intangible assets	1,083	1,059
Other assets (Note 8)	1,712	1,864
	22,138	19,543
	219,301	216,090
Liabilities and equity		
Deposits (Notes 4 and 9)		
Personal	47,941	45,981
Business and government	76,459	74,441
Deposit-taking institutions	6,664	8,408
	131,064	128,830
Other		
Acceptances	8,942	9,400
Obligations related to securities sold short	15,573	17,333
Obligations related to securities sold under repurchase agreements and securities loaned	15,371	13,779
Derivative financial instruments	9,989	7,756
Due to clients, dealers and brokers	2,587	1,871
Liabilities related to transferred receivables (Notes 4 and 7)	19,255	19,770
Other liabilities (Note 10)	4,085	4,474
	75,802	74,383
Subordinated debt (Note 12)	1,021	1,522
Equity		
Equity attributable to the Bank's shareholders (Notes 14 and 18)		
Preferred shares	1,250	1,023
Common shares	2,623	2,614
Contributed surplus	68	67
Retained earnings	6,593	6,705
Accumulated other comprehensive income	91	145
	10,625	10,554
Non-controlling interests (Note 15)	789	801
	11,414	11,355
	219,301	216,090

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

CONSOLIDATED STATEMENTS OF INCOME

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2016	2015
Interest income		
Loans	**913**	915
Securities at fair value through profit or loss	**165**	175
Available-for-sale securities	**83**	69
Deposits with financial institutions	**14**	7
	1,175	1,166
Interest expense		
Deposits	**337**	345
Liabilities related to transferred receivables	**102**	106
Subordinated debt	**8**	17
Other	**22**	33
	469	501
Net interest income	**706**	665
Non-interest income		
Underwriting and advisory fees	**75**	80
Securities brokerage commissions	**59**	73
Mutual fund revenues	**85**	73
Trust service revenues	**114**	107
Credit fees	**94**	83
Card revenues	**29**	36
Deposit and payment service charges	**62**	57
Trading revenues (losses) (Note 17)	**47**	103
Gains (losses) on available-for-sale securities, net	**11**	7
Insurance revenues, net	**26**	22
Foreign exchange revenues, other than trading	**24**	22
Share in the net income of associates and joint ventures	**(4)**	8
Other (Note 23)	**(39)**	74
	583	745
Total revenues	**1,289**	1,410
Provisions for credit losses (Note 6)	**63**	54
	1,226	1,356
Non-interest expenses		
Compensation and employee benefits	**543**	548
Occupancy	**56**	54
Technology	**135**	120
Communications	**17**	17
Professional fees	**61**	54
Other	**91**	70
	903	863
Income before income taxes	**323**	493
Income taxes	**62**	78
Net income	**261**	415
Net income attributable to		
Preferred shareholders	**11**	12
Common shareholders	**228**	385
Bank shareholders	**239**	397
Non-controlling interests	**22**	18
	261	415
Earnings per share *(dollars)* (Note 20)		
Basic	**0.68**	1.17
Diluted	**0.67**	1.16
Dividends per common share *(dollars)*	**0.54**	0.50

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2016	2015
Net income	**261**	415
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	**110**	120
Net foreign currency translation (gains) losses on investments in foreign operations reclassified to net income	**(12)**	–
Impact of hedging net foreign currency translation gains (losses)	**(91)**	(104)
Impact of hedging net foreign currency translation (gains) losses reclassified to net income	**5**	–
	12	16
Net change in available-for-sale securities		
Net unrealized gains (losses) on available-for-sale securities	**(66)**	69
Net (gains) losses on available-for-sale securities reclassified to net income	**(4)**	(9)
	(70)	60
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**4**	–
Net (gains) losses on designated derivative financial instruments reclassified to net income	**(3)**	(3)
	1	(3)
Share in the other comprehensive income of associates and joint ventures	**4**	3
Item that will not be subsequently reclassified to net income		
Remeasurements of pension plans and other post-employment benefit plans	**(152)**	(113)
Total other comprehensive income, net of income taxes	**(205)**	(37)
Comprehensive income	**56**	378
Comprehensive income attributable to		
Bank shareholders	**33**	357
Non-controlling interests	**23**	21
	56	378

INCOME TAXES – OTHER COMPREHENSIVE INCOME

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

	Quarter ended January 31	
	2016	2015
Net foreign currency translation adjustments		
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	**5**	7
Net foreign currency translation (gains) losses on investments in foreign operations reclassified to net income	**(2)**	–
Impact of hedging net foreign currency translation gains (losses)	**(23)**	(22)
Impact of hedging net foreign currency translation (gains) losses reclassified to net income	**2**	–
	(18)	(15)
Net change in available-for-sale securities		
Net unrealized gains (losses) on available-for-sale securities	**(24)**	26
Net (gains) losses on available-for-sale securities reclassified to net income	**(1)**	(3)
	(25)	23
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**2**	(1)
Net (gains) losses on designated derivative financial instruments reclassified to net income	**(1)**	(1)
	1	(2)
Remeasurements of pension plans and other post-employment benefit plans	**(56)**	(41)
	(98)	(35)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2016	2015
Preferred shares at beginning (Note 14)	1,023	1,223
Issuance of Series 34 preferred shares	400	–
Redemption of Series 16 and 20 preferred shares for cancellation	(173)	(200)
Preferred shares at end	1,250	1,023
Common shares at beginning	2,614	2,293
Issuances of common shares		
Stock Option Plan	13	16
Impact of shares purchased or sold for trading	(4)	4
Common shares at end	2,623	2,313
Contributed surplus at beginning	67	52
Stock option expense (Note 18)	3	5
Stock options exercised	(2)	(2)
Other	–	(3)
Contributed surplus at end	68	52
Retained earnings at beginning	6,705	5,850
Net income attributable to the Bank's shareholders	239	397
Dividends (Note 14)		
Preferred shares	(8)	(12)
Common shares	(182)	(165)
Premium paid on preferred shares redeemed for cancellation	(3)	–
Share issuance expenses	(6)	–
Remeasurements of pension plans and other post-employment benefit plans	(152)	(113)
Retained earnings at end	6,593	5,957
Accumulated other comprehensive income at beginning	145	289
Net foreign currency translation adjustments	12	16
Net change in unrealized gains (losses) on available-for-sale securities	(70)	60
Net change in gains (losses) on cash flow hedges	–	(6)
Share in the other comprehensive income of associates and joint ventures	4	3
Accumulated other comprehensive income at end	91	362
Equity attributable to the Bank's shareholders	10,625	9,707
Non-controlling interests at beginning	801	795
Net income attributable to non-controlling interests	22	18
Other comprehensive income attributable to non-controlling interests	1	3
Distributions to non-controlling interests	(35)	(30)
Non-controlling interests at end	789	786
Equity	11,414	10,493

ACCUMULATED OTHER COMPREHENSIVE INCOME

	As at January 31, 2016	As at January 31, 2015
Accumulated other comprehensive income		
Net foreign currency translation adjustments	16	13
Net unrealized gains (losses) on available-for-sale securities	(58)	228
Net gains (losses) on instruments designated as cash flow hedges	124	117
Share in the other comprehensive income of associates and joint ventures	9	4
	91	362

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2016	2015
Cash flows from operating activities		
Net income	**261**	415
Adjustments for		
Provisions for credit losses	**63**	54
Amortization of premises and equipment and intangible assets	**109**	44
Write-off of an equity interest in an associate (Note 23)	**164**	–
Deferred taxes	**4**	25
Translation adjustment on foreign currency denominated subordinated debt	**1**	1
Losses (gains) on sales of available-for-sale securities, net	**(14)**	(13)
Impairment losses on available-for-sale securities	**3**	6
Share in the net income of associates and joint ventures	**4**	(8)
Stock option expense	**3**	5
Change in operating assets and liabilities		
Securities at fair value through profit or loss	**717**	(2,860)
Securities purchased under reverse repurchase agreements and securities borrowed	**2,074**	3,228
Loans, net of securitization	**(4,308)**	118
Deposits	**2,234**	(644)
Obligations related to securities sold short	**(1,760)**	2,901
Obligations related to securities sold under repurchase agreements and securities loaned	**1,592**	(948)
Derivative financial instruments, net	**(456)**	(335)
Due from and to clients, dealers and brokers, net	**712**	(79)
Purchased receivables	**(101)**	(192)
Interest and dividends receivable and interest payable	**12**	(32)
Current tax assets and liabilities	**25**	(54)
Other items	**(136)**	(65)
	1,203	1,567
Cash flows from financing activities		
Issuance of preferred shares	**400**	–
Redemption of preferred shares for cancellation	**(176)**	(200)
Issuance of common shares	**7**	18
Redemption of subordinated debt	**(500)**	(350)
Share issuance expenses	**(6)**	–
Dividends paid	**(193)**	(177)
Distributions to non-controlling interests	**(35)**	(30)
	(503)	(739)
Cash flows from investing activities		
Purchases of available-for-sale securities	**(2,264)**	(2,252)
Maturities of available-for-sale securities	**319**	115
Sales of available-for-sale securities	**1,128**	1,051
Net change in tangible assets leased under operating leases	**47**	–
Net change in premises and equipment	**(51)**	(23)
Net change in intangible assets	**(59)**	(48)
	(880)	(1,157)
Impact of currency rate movements on cash and cash equivalents	**(798)**	(1,029)
Increase (decrease) in cash and cash equivalents	**(978)**	(1,358)
Cash and cash equivalents at beginning	**7,567**	8,086
Cash and cash equivalents at end(1)	**6,589**	6,728
Supplementary information about cash flows from operating activities		
Interest paid	**517**	582
Interest and dividends received	**1,234**	1,206
Income taxes paid	**20**	86

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

(1) This item is the equivalent of Consolidated Balance Sheet item *Cash and deposits with financial institutions*. It includes an amount of $1.1 billion as at January 31, 2016 ($1.3 billion as at October 31, 2015) for which there are restrictions. In addition, $3 million was held in escrow as at January 31, 2016 ($3 million as at October 31, 2015).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of Canadian dollars)

NOTE 1 – BASIS OF PRESENTATION

On February 22, 2016, the Board of Directors authorized the publication of the Bank's unaudited interim condensed consolidated financial statements (the consolidated financial statements) for the quarter ended January 31, 2016.

The Bank's consolidated financial statements are 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.

These consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* using the accounting policies described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2015. Future accounting policy changes are presented in Note 2. Since these interim consolidated financial statements do not include all of the annual financial statement disclosures required under IFRS, they should be read in conjunction with the audited annual consolidated financial statements and accompanying notes for the year ended October 31, 2015.

Following an assessment of current market conditions, the Bank revisited the definition of the terms "significant" and "prolonged" in order to provide a better estimate of impairment losses, if any, on the equity securities classified in available-for-sale securities. As defined in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2015, 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. Considering current facts and circumstances, the definitions were changed to the following: a decline in fair value of more than 40% over a consecutive period of at least six months for the term "significant" and a decline in fair value of more than 5% over a consecutive period of at least 18 months for the term "prolonged." This change in definitions, effective November 1, 2015, is considered a change in estimate and is therefore applied prospectively. This change had the effect of decreasing the impairment losses on the equity securities classified in available-for-sale securities from $9 million to $3 million for the quarter ended January 31, 2016.

For the quarter ended January 31, 2016, the Bank has reclassified certain amounts in the Consolidated Statement of Income to better reflect the nature of reported revenues. As a result, for the quarter ended January 31, 2015, an amount of $9 million presented in the *Non-interest income – Credit fees* item has been reclassified to *Net interest income*. This reclassification had no impact on net income.

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

NOTE 2 – FUTURE ACCOUNTING POLICY CHANGES

The Bank is currently assessing the impact that the adoption of the following standards will have on its 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. In December 2015, the Basel Committee on Banking Supervision issued *Guidance on Credit Risk and Accounting for Expected Credit Losses*.

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. As interpretations of the new standard are still evolving, the Bank continues to monitor the interpretations and revisit its preliminary conclusions.

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.

Effective Date – November 1, 2019

IFRS 16 – *Leases*

In January 2016, the IASB issued a new standard, IFRS 16 – *Leases*. The new standard requires lessees to recognize most leases on the balance sheet under a single model, thereby eliminating the distinction between operating and finance leases. Lessor accounting, however, remains similar to current accounting practice, and the distinction between operating and finance leases is retained. Early application is permitted if IFRS 15 – *Revenue from Contracts with Customers* has also been applied.

(unaudited) (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 January 31, 2016
	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	–	–	–	6,589	6,589	6,589	6,589
Securities	39,030	2,250	15,156	–	–	56,436	56,436
Securities purchased under reverse repurchase agreements and securities borrowed	–	593	–	15,035	15,035	15,628	15,628
Loans and acceptances	4,613	135	–	113,762	114,503	118,510	119,251
Other							
Derivative financial instruments	13,531	–	–	–	–	13,531	13,531
Due from clients, dealers and brokers	–	–	–	419	419	419	419
Purchased receivables	–	–	–	1,539	1,539	1,539	1,539
Other assets	–	–	–	401	401	401	401
Financial liabilities							
Deposits	–	3,105		127,959 (1)	128,488	131,064	131,593
Other							
Acceptances	–	–		8,942	8,942	8,942	8,942
Obligations related to securities sold short	15,573	–		–	–	15,573	15,573
Obligations related to securities sold under repurchase agreements and securities loaned	–	–		15,371	15,371	15,371	15,371
Derivative financial instruments	9,989	–		–	–	9,989	9,989
Due to clients, dealers and brokers	–	–		2,587	2,587	2,587	2,587
Liabilities related to transferred receivables	–	5,822		13,433	13,026	19,255	18,848
Other liabilities	52	–		2,179	2,183	2,231	2,235
Subordinated debt	–	–		1,021	1,006	1,021	1,006

(1) Including embedded derivative financial instruments.

(unaudited) (millions of Canadian dollars)

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

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.

Establishing Fair Value

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

Unadjusted quoted prices in active markets provide the best evidence of fair value. When there is no quoted price in an active market, the Bank applies other valuation techniques that maximize the use of relevant observable inputs and that minimize the use of unobservable inputs. Such valuation techniques include the following: using information available from recent market transactions, referring to the current fair value of a comparable financial instrument, applying discounted cash flow analysis, applying option pricing models, or relying on any other valuation technique that is commonly used by market participants and has proven to yield reliable estimates. Judgment is required when applying many of the valuation techniques.

Fair value is established in accordance with a rigorous control framework. The Bank has policies and procedures that govern the process for determining fair value. The Bank's valuation governance structure has remained largely unchanged from that described in Note 3 to the audited annual consolidated financial statements for the year ended October 31, 2015. The valuation techniques used to determine the fair value of financial assets and liabilities are also described in this note, and no significant changes have been made to the valuation techniques.

(unaudited) (millions of Canadian dollars)

Financial Instruments Recorded at Fair Value on the Consolidated Balance Sheet

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. For additional information, see Note 3 to the audited annual consolidated financial statements for the year ended October 31, 2015.

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

During the quarter ended January 31, 2016, $18 million in securities classified as at fair value through profit and loss was transferred from Level 2 to Level 1 resulting from changing market conditions ($70 million for the quarter ended January 31, 2015). In addition, during the quarters ended January 31, 2016 and 2015, 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.

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

				As at January 31, 2016
	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	2,359	5,578	–	7,937
Provinces	–	10,243	–	10,243
Municipalities and school boards	–	642	–	642
U.S. Treasury, other U.S. agencies and other foreign governments	903	677	–	1,580
Other debt securities	–	3,655	–	3,655
Equity securities	16,668	537	18	17,223
	19,930	21,332	18	41,280
Available-for-sale				
Securities issued or guaranteed by				
Canada	239	6,859	–	7,098
Provinces	–	4,939	–	4,939
Municipalities and school boards	–	430	–	430
U.S. Treasury, other U.S. agencies and other foreign governments	1,116	28	–	1,144
Other debt securities	–	922	30	952
Equity securities	207	113	273	593
	1,562	13,291	303	15,156
Securities purchased under reverse repurchase agreements and securities borrowed	–	593	–	593
Loans and acceptances	–	4,748	–	4,748
Other				
Derivative financial instruments	131	13,379	21	13,531
	21,623	53,343	342	75,308
Financial liabilities				
Deposits	–	3,206	30	3,236
Other				
Obligations related to securities sold short	9,855	5,718	–	15,573
Derivative financial instruments	72	9,871	46	9,989
Liabilities related to transferred receivables	–	5,822	–	5,822
Other liabilities	–	52	–	52
	9,927	24,669	76	34,672

(unaudited) (millions of Canadian dollars)

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

				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

Financial Instruments Classified in Level 3

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

Valuation Techniques Applied to Financial Instruments Classified in Level 3

Other Restructured Notes of the Master Asset Vehicle (MAV) I and MAV II Conduits

The fair value of these financial instruments is determined based on the net asset value, which represents the estimated value of a security based on valuations received from the administrator of the conduits.

Equity Securities and Other Debt Securities

The fair value of these financial instruments is determined primarily based on the net asset value, which represents the estimated value of a security based on valuations received from investment or fund managers or the general partners of the limited partnerships. Fair value can also be determined using internal valuation techniques adjusted for risk factors related to the financial instruments and for economic conditions.

(unaudited) (millions of Canadian dollars)

Derivative Financial Instruments

To determine the fair value of over-the-counter (OTC) derivative financial instruments, the Bank uses 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. The Bank also includes the Credit Valuation Adjustment (CVA), the Debit Valuation Adjustment (DVA) and the Funding Valuation Adjustment (FVA).

Structured Deposit Notes

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, and also incorporates the DVA. When fair value is determined using option pricing models, the valuation techniques are similar to those described for derivative financial instruments.

The following tables show the significant unobservable inputs used for the fair value measurements of financial instruments classified in Level 3 of the hierarchy.

					As at January 31, 2016
				Range of input values	
	Fair value	Primary valuation techniques	Significant unobservable inputs	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	314	Net asset value	Net asset value		100 %
		Market comparable	EV/EBITDA(1) multiple	11 x	14 x
		Price-based model	Price equivalent	84 %	140 %
Other					
Derivative financial instruments					
Interest rate contracts	3	Discounted cash flows	Discount rate		2.20 %
Equity contracts	18	Option pricing model	Long-term volatility	10 %	50 %
			Market correlation	(49) %	76 %
	342				
Financial liabilities					
Deposits					
Structured deposit notes	30	Option pricing model	Long-term volatility	11 %	80 %
			Market correlation	(54) %	85 %
Other					
Derivative financial instruments					
Equity contracts	46	Option pricing model	Long-term volatility	10 %	50 %
			Market correlation	(49) %	85 %
	76				

(1) EV/EBITDA means Enterprise Value/Earnings Before Interest, Taxes, Depreciation and Amortization.

(unaudited) (millions of Canadian dollars)

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

				As at October 31, 2015	
				Range of input values	
	Fair value	Primary valuation techniques	Significant unobservable inputs	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.

Significant Unobservable Inputs Used for Fair Value Measurements of Financial Instruments Classified in Level 3

Net Asset Value

Net asset value is the estimated value of a security based on valuations received from the investment or fund managers, the administrators of the conduits or the general partners of the limited partnerships. The net asset value of a fund is the total fair value of assets less liabilities.

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.

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.

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.

Sensitivity Analysis of Financial Instruments Classified in Level 3

The Bank performs sensitivity analyses for the fair value measurements of financial instruments classified in Level 3, substituting unobservable inputs with one or more reasonably possible alternative assumptions.

For 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 January 31, 2016 and 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.

For equity securities and other debt securities, the Bank varies significant unobservable inputs such as net asset values, credit spreads, or EV/EBITDA multiples and price equivalents, and establishes a reasonable fair value range that could result in a $41 million increase or decrease in the fair value recorded as at January 31, 2016 (a $36 million increase or decrease as at October 31, 2015).

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 January 31, 2016, for derivative financial instruments, the net fair value could result in a $14 million increase or decrease ($11 million increase or decrease as at October 31, 2015), whereas for structured deposit notes, fair value could result in a $5 million increase or decrease ($4 million increase or decrease as at October 31, 2015).

(unaudited) (millions of Canadian dollars)

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

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

The Bank may hedge the fair value of financial instruments classified in the various levels through offsetting hedge positions. Gains and losses for financial instruments classified in Level 3 presented in the following tables do not reflect the inverse gains and losses on financial instruments used for economic hedging purposes that may have been classified in 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.

				Quarter ended January 31, 2016
	Securities at fair value through profit or loss	Available-for-sale securities	Derivative financial instruments(1)	Deposits
Fair value as at October 31, 2015	21	261	(38)	(20)
Total realized and unrealized gains (losses) included in *Net income* (2)	–	4	2	8
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	5	–	–
Purchases	–	38	–	–
Sales	(3)	(1)	–	–
Issuances	–	–	–	(4)
Settlements and other	–	(4)	10	3
Financial instruments transferred into Level 3	–	–	7	(21)
Financial instruments transferred out of Level 3	–	–	(6)	4
Fair value as at January 31, 2016	18	303	(25)	(30)
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at January 31, 2016(3)	–	–	2	8

				Quarter ended January 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* (4)	30	–	(10)	(1)
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	(5)	–	–
Purchases	3	75	–	–
Sales	(28)	(1)	–	–
Issuances	–	–	–	1
Settlements and other	(65)	5	–	–
Financial instruments transferred into Level 3	–	–	(1)	25
Financial instruments transferred out of Level 3	–	–	(5)	(18)
Fair value as at January 31, 2015	1,163	311	(55)	(74)
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at January 31, 2015(5)	28	–	(10)	(1)

(1) The derivative financial instruments include assets and liabilities presented on a net basis.
(2) Total net gains included in *Non-interest income* was $14 million.
(3) Total unrealized gains included in *Non-interest income* was $10 million.
(4) Total net gains included in *Non-interest income* was $19 million.
(5) Total unrealized gains included in *Non-interest income* was $17 million.

(unaudited) (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 criteria presented in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2015. 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 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 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 January 31, 2016	**Change in the total fair value (including the change in the fair value attributable to credit risk) for the quarter ended January 31, 2016**	**Change in fair value since the initial recognition of the instrument**
Financial assets designated at fair value through profit or loss			
Securities	**2,250**	**8**	**353**
Securities purchased under reverse repurchase agreements	**593**	**–**	**–**
Loans	**135**	**1**	**(24)**
	2,978	**9**	**329**
Financial liabilities designated at fair value through profit or loss			
Deposits(1)(2)	**3,105**	**150**	**187**
Liabilities related to transferred receivables	**5,822**	**(22)**	**(270)**
	8,927	**128**	**(83)**

	Carrying value as at January 31, 2015	Change in the total fair value (including the change in the fair value attributable to credit risk) for the quarter ended January 31, 2015	Change in fair value since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss			
Securities	2,669	88	457
Securities purchased under reverse repurchase agreements	380	–	–
Loans	93	(12)	(26)
	3,142	76	431
Financial liabilities designated at fair value through profit or loss			
Deposits(1)(2)	2,662	(58)	(164)
Liabilities related to transferred receivables	6,224	(132)	(314)
	8,886	(190)	(478)

(1) For the quarter ended January 31, 2016, the change in the fair value of deposits designated at fair value through profit or loss attributable to credit risk was a $15 million gain ($2 million gain for the quarter ended January 31, 2015).
(2) The amount at maturity that the Bank will be contractually required to pay to the holders of these deposits varies and will differ from the reporting date fair value.

(unaudited) (millions of Canadian dollars)

NOTE 5 – SECURITIES

Gross Gains (Losses) on Available-for-Sale Securities

				As at January 31, 2016
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Carrying value**
Securities issued or guaranteed by				
Canada	**7,009**	**96**	**(7)**	**7,098**
Provinces	**4,702**	**264**	**(27)**	**4,939**
Municipalities and school boards	**412**	**18**	**–**	**430**
U.S. Treasury, other U.S. agencies and other foreign governments	**1,132**	**12**	**–**	**1,144**
Other debt securities	**953**	**17**	**(18)**	**952**
Equity securities	**596**	**75**	**(78)**	**593**
	14,804	**482**	**(130)**	**15,156**

				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

Impairment Losses Recognized

At the end of each financial reporting period, the Bank determines whether there is objective evidence of impairment for each available-for-sale security. During the quarter ended January 31, 2016, an amount of $3 million ($6 million for the quarter ended January 31, 2015) in impairment charges was recognized in *Gains (losses) on available-for-sale securities, net* in the Consolidated Statement of Income. In addition, during the quarters ended January 31, 2016 and 2015, no amount was 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 January 31, 2016 and as at October 31, 2015, 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 was no objective evidence of impairment requiring an impairment charge to be recognized in the Consolidated Statement of Income.

(unaudited) (millions of Canadian dollars)

NOTE 6 – LOANS

Credit Quality of Loans

				As at January 31, 2016
	Residential mortgage	**Personal and credit card**	**Business and government**[1][2]	**Total**
Neither past due[3] nor impaired	**44,111**	**31,940**	**41,965**	**118,016**
Past due[3] but not impaired	**225**	**293**	**108**	**626**
Impaired	**73**	**81**	**280**	**434**
Gross loans	**44,409**	**32,314**	**42,353**	**119,076**
Less: Allowances on impaired loans				
Individual allowances	**9**	**17**	**150**	**176**
Collective allowances	**–**	**22**	**2**	**24**
Allowances on impaired loans	**9**	**39**	**152**	**200**
	44,400	**32,275**	**42,201**	**118,876**
Less: Collective allowance on non-impaired loans[4]				**366**
Loans and acceptances, net of allowances				**118,510**

				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 and acceptances, net of allowances				115,238

(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.

(unaudited) (millions of Canadian dollars)

NOTE 6 – LOANS (cont.)

Loans Past Due But Not Impaired[1]

	As at January 31, 2016			As at October 31, 2015		
	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	86	103	40	120	109	36
61 to 90 days	46	35	43	54	38	26
Over 90 days	93	155	25	92	148	34
	225	293	108	266	295	96

(1) Loans less than 31 days past due are not presented as they are not considered past due from an administrative standpoint.
(2) As at January 31, 2016, the fair value of financial collateral held against loans past due but not impaired was $18 million ($16 million as at October 31, 2015).

Impaired Loans

	As at January 31, 2016			
	Gross	Individual allowances	Collective allowances	Net
Loans				
Residential mortgage	73	9	–	64
Personal and credit card	81	17	22	42
Business and government	280	150	2	128
	434	176	24	234

	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

(1) Including customers' liability under acceptances.

(unaudited) (millions of Canadian dollars)

Allowances for Credit Losses

	Quarter ended January 31, 2016								
	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	10	–	18	22	151	2	179	24	203
Provisions for credit losses	3	–	31	8	20	1	54	9	63
Write-offs	(4)	–	(11)	(10)	(19)	(1)	(34)	(11)	(45)
Write-offs on credit cards	–	–	(21)	–	–	–	(21)	–	(21)
Recoveries and other(1)	–	–	–	2	(2)	–	(2)	2	–
Balance at end	9	–	17	22	150	2	176	24	200
Collective allowance on non-impaired loans(2)									366
Total allowances									566

	Quarter ended January 31, 2015								
	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	9	–	15	21	191	2	215	23	238
Provisions for credit losses	3	–	27	10	14	–	44	10	54
Write-offs	(2)	–	(10)	(10)	(62)	–	(74)	(10)	(84)
Write-offs on credit cards	–	–	(17)	–	–	–	(17)	–	(17)
Recoveries and other(1)	(1)	–	1	1	3	–	3	1	4
Balance at end	9	–	16	22	146	2	171	24	195
Collective allowance on non-impaired loans(2)									366
Total allowances									561

(1) Includes foreign exchange and other movements.
(2) The collective allowance on non-impaired loans for credit risk was established taking into account the Bank's overall credit portfolio.

(unaudited) (millions of Canadian dollars)

NOTE 7 – 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 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 January 31, 2016	As at October 31, 2015
Carrying value of financial assets transferred but not derecognized		
Securities(1)	**32,765**	32,902
Residential mortgages	**17,329**	17,732
	50,094	50,634
Carrying value of associated liabilities(2)	**29,459**	26,820
Fair value of financial assets transferred but not derecognized		
Securities(1)	**32,765**	32,902
Residential mortgages	**17,642**	18,032
	50,407	50,934
Fair value of associated liabilities(2)	**29,052**	26,879

(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 $4,909 million as at January 31, 2016 ($1,411 million as at October 31, 2015) 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 $10,076 million as at January 31, 2016 ($8,140 million as at October 31, 2015).

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

	As at January 31, 2016	As at October 31, 2015
Carrying value of financial assets transferred but not derecognized		
Securities backed by insured residential mortgage loans and other securities sold to Canada Housing Trust	**18,473**	18,958
Securities sold under repurchase agreements	**10,319**	7,148
Securities loaned	**21,301**	24,526
Residential mortgages transferred to a mutual fund	**1**	2
	50,094	50,634

(unaudited) (millions of Canadian dollars)

NOTE 8 – OTHER ASSETS

	As at January 31, 2016	As at October 31, 2015
Receivables, prepaid expenses and other items	776	690
Interest and dividends receivable	401	459
Defined benefit asset	67	268
Deferred tax assets	276	230
Current tax assets	163	192
Reinsurance assets	29	25
	1,712	1,864

NOTE 9 – DEPOSITS

	As at January 31, 2016			As at October 31, 2015
	On demand or after notice[1]	Fixed term[2]	Total	Total
Personal	27,464	20,477	47,941	45,981
Business and government	30,121	46,338	76,459	74,441
Deposit-taking institutions	1,889	4,775	6,664	8,408
	59,474	71,590	131,064	128,830

(1) Deposits payable on demand are deposits for which the Bank does not have the right to require notice of withdrawal and consist essentially of deposits in chequing accounts. Deposits payable after notice 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 covered bonds, the balances of which were $225 million and $8,408 million, respectively, as at January 31, 2016 ($225 million and $7,910 million, respectively, as at October 31, 2015).

During the quarter ended January 31, 2016, the Bank did not issue any covered bonds (1.0 billion euros issued during the quarter ended January 31, 2015). See Note 21 for additional information on covered bonds.

NOTE 10 – OTHER LIABILITIES

	As at January 31, 2016	As at October 31, 2015
Accounts payable and accrued expenses	959	1,334
Subsidiaries' debts to third parties	1,400	1,400
Interest and dividends payable	565	615
Defined benefit liability	192	183
Deferred tax liabilities	117	123
Current tax liabilities	78	82
Insurance liabilities	72	67
Other items[1][2]	702	670
	4,085	4,474

(1) As at January 31, 2016, other items included a $55 million restructuring provision ($67 million as at October 31, 2015). See Note 11 for additional information.
(2) As at January 31, 2016, other items included a $12 million litigation provision ($15 million as at October 31, 2015).

(unaudited) (millions of Canadian dollars)

NOTE 11 – RESTRUCTURING

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 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 was allocated across all the Bank's business segments.

The following table presents changes in restructuring provision on the Consolidated Balance Sheet.

	Severance pay	Other	Total
As at November 1, 2014	–	–	–
Restructuring charge	53	33	86
Payments during the year	(2)	(17)	(19)
As at October 31, 2015	51	16	67
Payments during the period	**(9)**	**(3)**	**(12)**
As at January 31, 2016	**42**	**13**	**55**

NOTE 12 – 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.

(unaudited) (millions of Canadian dollars)

NOTE 13 – HEDGING ACTIVITIES

Derivative and Non-Derivative Financial Instruments Designated as Hedging Instruments

	As at January 31, 2016			As at October 31, 2015		
	Fair value hedge	Cash flow hedge	Net investment hedge	Fair value hedge	Cash flow hedge	Net investment hedge
Assets						
Derivative financial instruments	961	554	10	731	405	4
Liabilities						
Derivative financial instruments	645	366	–	466	365	2
Carrying value of non-derivative financial instruments	–	–	1,762	–	–	1,690
Notional amounts of designated derivative financial instruments	29,299	30,522	521	25,433	28,521	632

Results of the Fair Value Hedges

	Quarter ended January 31	
	2016	2015
Gains (losses) on hedging instruments	28	178
Gains (losses) on hedged items attributable to the hedged risk	(27)	(180)
Ineffectiveness of fair value hedging relationships	–	–

Results of the Cash Flow Hedges

	Quarter ended January 31	
	2016	2015
Unrealized gains (losses) included in *Other comprehensive income* as the effective portion of the hedging instrument	6	(1)
Losses (gains) reclassified to *Net interest income* in the Consolidated Statement of Income	(4)	(4)
Ineffectiveness of cash flow hedging relationships	–	–

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 January 31, 2016			
	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	42	39	121	33
Expected cash flows from hedged liabilities	95	89	178	78
Net exposure	(53)	(50)	(57)	(45)

Results of the Hedges of Net Investments in Foreign Operations

For the quarters ended January 31, 2016 and 2015, a negligible amount representing the ineffective portion was recognized in *Non-interest income* in the Consolidated Statement of Income.

(unaudited) (millions of Canadian dollars)

NOTE 14 – SHARE CAPITAL

Issuance of Preferred Shares

On January 22, 2016, the Bank issued 16,000,000 Non-Cumulative 5-Year Rate-Reset Series 34 First Preferred Shares at a per-share price of $25.00 for gross proceeds of $400 million. These shares are redeemable in cash at the Bank's option, subject to the provisions of the *Bank Act* (Canada) and to OSFI approval, as of May 15, 2021 and on May 15 every five years thereafter, in whole or in part, at a price equal to $25.00 per share, plus all dividends declared and unpaid thereon on the date fixed for redemption; the shares are convertible at the option of the holder into an equal number of floating-rate (equal to the three-month Government of Canada Treasury Bills yield plus 4.90%) non-cumulative Series 35 First Preferred Shares, subject to certain conditions, on May 15, 2021 and on May 15 every five years thereafter. The Series 34 preferred shares carry a non-cumulative quarterly dividend of $0.3500 for the initial period ending May 15, 2021. Thereafter, these shares carry a non-cumulative quarterly fixed dividend in an amount per share determined by multiplying the interest rate, equal to the sum of the 5-year Government of Canada bond-yield on the calculation date of the applicable fixed rate plus 4.90%, by $25.00. Given that the Series 34 preferred shares satisfy the non-viability contingent capital requirements, they qualify for the purposes of calculating regulatory capital under Basel III.

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 reduced *Preferred share capital* by $173 million and *Retained earnings* by $3 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 quarter ended January 31, 2016 and the year ended October 31, 2015, the Bank did not repurchase any shares.

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 January 31, 2016, the number of common shares held in escrow was 936,785 (936,785 as at October 31, 2015). 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.

Shares Outstanding

	As at January 31, 2016		As at October 31, 2015	
	Number of shares	Shares $	Number of shares	Shares $
First Preferred Shares				
Series 20	–	–	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
Series 34	16,000,000	400	–	–
	50,000,000	1,250	40,900,000	1,023
Common shares at beginning of the fiscal year	337,236,322	2,614	329,297,375	2,293
Issued under a public offering	–	–	7,160,000	300
Issued pursuant to the Stock Option Plan	338,628	13	1,059,650	39
Impact of shares purchased or sold for trading(1)	(39,810)	(4)	(280,703)	(18)
Common shares at end of the period	337,535,140	2,623	337,236,322	2,614

(1) As at January 31, 2016, 304,077 shares were sold short for trading, representing a total amount of $11 million (343,887 shares representing $14 million as at October 31, 2015).

(unaudited) (millions of Canadian dollars)

Dividends Declared

	Quarter ended January 31			
	2016		2015	
	Dividends $	**Dividends per share**	Dividends $	Dividends per share
First Preferred Shares				
Series 20	**–**	**–**	3	0.3750
Series 28	**2**	**0.2375**	2	0.2375
Series 30	**3**	**0.2563**	3	0.2563
Series 32	**3**	**0.2438**	4	0.3446
	8		12	
Common shares	**182**	**0.5400**	165	0.5000
	190		177	

NOTE 15 – NON-CONTROLLING INTERESTS

	As at January 31, 2016	As at October 31, 2015
Trust units issued by NBC Asset Trust (NBC CapS II)		
Series 1[(1)]	**403**	410
Series 2[(2)]	**352**	359
Other	**34**	32
	789	801

(1) Includes $3 million in accrued interest ($10 million as at October 31, 2015).
(2) Includes $2 million in accrued interest ($9 million as at October 31, 2015).

(unaudited) (millions of Canadian dollars)

NOTE 16 – CAPITAL DISCLOSURE

OSFI is requiring Canadian banks to meet the 2019 minimum "all-in" requirements, regardless of the transition period set out by the Basel Committee on Banking Supervision (BCBS). OSFI designated Canada's six largest banks, a group that includes National Bank, as Domestic Systemically Important Banks. Consequently, the Bank and all other major Canadian banks have to maintain a Common Equity Tier 1 (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 quarter ended January 31, 2016, the Bank was in compliance with all of OSFI's regulatory capital requirements.

Regulatory Capital and Ratios Under Basel III[1]

	As at January 31, 2016	As at October 31, 2015
Capital		
CET1	**6,743**	6,801
Tier 1[2]	**8,954**	8,626
Total[2][3]	**9,997**	9,678
Risk-weighted assets		
CET1 capital	**69,741**	68,835
Tier 1 capital	**70,006**	69,094
Total capital	**70,233**	69,316
Total exposure	**236,906**	234,957
Capital ratios		
CET1	**9.7 %**	9.9 %
Tier 1[2]	**12.8 %**	12.5 %
Total[2][3]	**14.2 %**	14.0 %
Leverage ratio	**3.8 %**	3.7 %

(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.
(3) Figures as at October 31, 2015 include the $500 million redemption of notes on November 2, 2015.

(unaudited) (millions of Canadian dollars)

NOTE 17 – 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.

	Quarter ended January 31	
	2016	2015
Net interest income	**125**	115
Non-interest income	**47**	103
	172	218

NOTE 18 – SHARE-BASED PAYMENTS

Stock Option Plan

During the quarter ended January 31, 2016, the Bank awarded 2,140,420 stock options (3,170,260 stock options during the quarter ended January 31, 2015) with an average fair value of $3.70 per option ($7.44 in 2015).

As at January 31, 2016, there were 18,321,307 stock options outstanding (16,652,313 stock options as at October 31, 2015).

The average fair value of the options awarded was estimated on the award date using the Black-Scholes model. The following assumptions were used for accounting purposes.

	Quarter ended January 31	
	2016	2015
Risk-free interest rate	**1.43%**	2.01%
Expected life of options	**7 years**	7 years
Expected volatility	**21.12%**	24.82%
Expected dividend yield	**5.33%**	4.00%

Compensation expense is presented in the following table.

	Quarter ended January 31	
	2016	2015
Compensation expense recorded for stock options	**3**	5

NOTE 19 – EMPLOYEE BENEFITS – PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

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

Cost for Pension Plans and Other Post-Employment Benefit Plans

				Quarter ended January 31
	Pension plans		Other post-employment benefit plans	
	2016	2015	**2016**	2015
Current service cost	**19**	22	**1**	1
Interest expense (income), net	**(2)**	(1)	**2**	2
Administrative expenses	**1**	1		
Expense recognized in *Net income*	**18**	22	**3**	3
Remeasurements(1)				
Actuarial (gains) losses on defined benefit obligation	**132**	384	**6**	18
Return on plan assets(2)	**70**	(248)		
Remeasurements recognized in *Other comprehensive income*	**202**	136	**6**	18
	220	158	**9**	21

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

NOTE 20 – EARNINGS PER SHARE

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

		Quarter ended January 31
	2016	2015
Basic earnings per share		
Net income attributable to the Bank's shareholders	**239**	397
Dividends on preferred shares	**8**	12
Premium paid on preferred shares redeemed for cancellation	**3**	–
Net income attributable to common shareholders	**228**	385
Weighted average basic number of common shares outstanding *(thousands)*	**337,074**	328,880
Basic earnings per share *(dollars)*	**0.68**	1.17
Diluted earnings per share		
Net income attributable to common shareholders	**228**	385
Weighted average basic number of common shares outstanding *(thousands)*	**337,074**	328,880
Adjustment to average number of common shares *(thousands)*		
Stock options(1)	**2,191**	4,045
Weighted average diluted number of common shares outstanding *(thousands)*	**339,265**	332,925
Diluted earnings per share *(dollars)*	**0.67**	1.16

(1) For the quarter ended January 31, 2016, the diluted earnings per share calculation does not include an average number of 7,083,545 options outstanding with a weighted average exercise price of $45.36, as the exercise price of these options was higher than the average price of the Bank's common shares. For the quarter ended January 31, 2015, 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.

(unaudited) (millions of Canadian dollars)

NOTE 21 – 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 to the audited annual consolidated financial statements for the year ended October 31, 2015. For a detailed description of the Bank's structured entities, see Note 28 to the audited annual consolidated financial statements for the year ended October 31, 2015. 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.

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.

						As at January 31, 2016
	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	12	643	42	–	–	–
Available-for-sale securities	–	13	25	97	82	–
Derivative financial instruments	15	–	–	–	–	–
Other assets	–	–	–	–	10	–
	27	656	67	97	92	–
As at October 31, 2015	33	655	180	95	114	–
Liabilities on the Consolidated Balance Sheet						
Deposits – Business and government	–	–	–	–	–	225
Other liabilities	–	–	–	–	–	1
	–	–	–	–	–	226
As at October 31, 2015	–	–	–	–	–	229
Maximum exposure to loss						
Securities and derivative financial instruments	27	656	67	97	92	–
Liquidity and credit enhancement facilities	2,091	–	–	–	–	–
Margin funding facility	–	821	–	–	–	–
	2,118	1,477	67	97	92	–
As at October 31, 2015	2,266	1,476	180	95	114	–
Total assets of the structured entities	2,139	–	263	3,702	125	229
As at October 31, 2015	2,283	–	1,243	3,648	144	234

(1) The main underlying assets, located in Canada, are residential mortgages, automobile loans, automobile inventory financings, and other receivables. As at January 31, 2016, the notional committed amount of the global-style liquidity facilities totalled $2.1 billion ($2.3 billion as at October 31, 2015), 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, 2015). The maximum exposure to loss cannot exceed the amount of commercial paper outstanding. As at January 31, 2016, the Bank held $12 million in commercial paper ($22 million as at October 31, 2015) and, consequently, the maximum potential amount of future payments as at January 31, 2016 is limited to $2.1 billion ($2.2 billion as at October 31, 2015), which represents the undrawn liquidity and credit enhancement facilities.

(2) The total amount outstanding of restructured notes of the MAV conduits was $9.3 billion as at January 31, 2016 ($9.3 billion as at October 31, 2015). The undrawn margin funding facility amounted to $821 million as at January 31, 2016 ($821 million as at October 31, 2015).

(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 9.

(unaudited) (millions of Canadian dollars)

NOTE 21 – STRUCTURED ENTITIES (cont.)

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 January 31, 2016		As at October 31, 2015	
	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)	**296**	**1,610**	339	1,649
National Bank hedge fund managed accounts (Innocap platform)(3)(4)	**–**	**–**	23	23
Investment funds(5)	**327**	**379**	410	460
Covered bonds(6)	**12,403**	**12,752**	12,722	13,099
Building(7)	**71**	**64**	70	63
NBC Asset Trust(8)	**1,125**	**1,883**	1,125	1,900
Third-party structured entities(9)	**1,395**	**1,395**	1,395	1,395
	15,617	**18,083**	16,084	18,589

(1) There are restrictions that stem mainly from regulatory requirements, corporate or securities laws and contractual arrangements that limit the ability of some of the Bank's 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 January 31, 2016, the total amount of transferred mortgage loans was $12.4 billion ($12.7 billion as at October 31, 2015), and the total amount of covered bonds of $8.4 billion was recognized in *Deposits – Business and government* on the Consolidated Balance Sheet ($7.9 billion as at October 31, 2015). See Note 9.
(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 January 31, 2016, insured loans amounted to $162 million ($188 million as at October 31, 2015). The average maturity of the underlying assets is two years. See Note 15.
(9) The underlying assets consist of equipment leased under operating leases.

(unaudited) (millions of Canadian dollars)

NOTE 22 – SEGMENT DISCLOSURES

Quarter ended January 31

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Net interest income[1]	**475**	450	**89**	83	**236**	238	**(94)**	(106)	**706**	665
Non-interest income[2]	**249**	242	**267**	260	**51**	180	**16**	63	**583**	745
Total revenues	**724**	692	**356**	343	**287**	418	**(78)**	(43)	**1,289**	1,410
Non-interest expenses	**410**	404	**250**	242	**190**	176	**53**	41	**903**	863
Contribution	**314**	288	**106**	101	**97**	242	**(131)**	(84)	**386**	547
Provisions for credit losses	**62**	54	**1**	–	**–**	–	**–**	–	**63**	54
Income before income taxes (recovery)	**252**	234	**105**	101	**97**	242	**(131)**	(84)	**323**	493
Income taxes (recovery)[1]	**68**	63	**28**	27	**56**	65	**(90)**	(77)	**62**	78
Net income	**184**	171	**77**	74	**41**	177	**(41)**	(7)	**261**	415
Non-controlling interests	**–**	–	**–**	–	**8**	3	**14**	15	**22**	18
Net income attributable to the Bank's shareholders	**184**	171	**77**	74	**33**	174	**(55)**	(22)	**239**	397
Average assets	**90,514**	84,915	**10,944**	10,186	**89,683**	89,647	**41,072**	33,782	**232,213**	218,530

(1) Net interest income and income taxes (recovery) of the business segments are presented on a taxable equivalent basis. Taxable equivalent basis is a calculation method that consists of grossing up certain tax-exempt income by the amount of income tax that would have been otherwise payable. For the business segments as a whole, *Net interest income* was grossed up by $55 million ($63 million in 2015), and an equivalent amount was recognized in *Income taxes (recovery)*. The effect of these adjustments is reversed under the *Other* heading.

(2) For the quarter ended January 31, 2016, non-interest income includes the $164 million write-off of the equity interest in associate Maple Financial Group Inc.

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.

NOTE 23 – EVENT AFTER THE CONSOLIDATED BALANCE SHEET DATE

Maple Financial Group Inc.

The Bank has 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. Maple Bank GmbH, an indirectly wholly owned subsidiary of the company, is being investigated by German prosecutors regarding alleged tax irregularities.

On February 6, 2016, the German Federal Financial Supervisory Authority, BaFin, placed a moratorium on the business activities of Maple Bank GmbH, preventing it from carrying out its normal business activities. This situation is the result of ongoing investigations launched by German authorities in September 2015 focusing on selected trading activities made by Maple Bank GmbH and some of its current and former employees during taxation years 2006 to 2010. The German authorities have alleged that these trading activities violated German tax laws. Neither the Bank nor its employees were involved in these trading activities and to our knowledge are not the subject of these investigations.

In light of the situation, the Bank wrote off the carrying value of its equity interest in Maple Financial Group Inc. in an amount of $164 million ($145 million net of income taxes). The $164 million write-off of the equity interest in this associate was recognized in the *Non-interest income – Other* item of the Consolidated Statement of Income for the quarter ended January 31, 2016 and is presented in the Financial Markets segment. This write-off reduced the CET1 capital ratio under Basel III by 13 basis points.

The Bank has advised the German authorities that if it is determined that portions of dividends received from Maple Financial Group Inc. could be reasonably attributable to tax fraud by Maple Bank GmbH, arrangements will be made to repay those amounts to the relevant authority. If any repayments are required, they are not expected to be material to the Bank's financial position.

INFORMATION FOR SHAREHOLDERS AND INVESTORS

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

600 De La Gauchetière Street West, 7th Floor
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Quarterly Report Publication Dates for Fiscal 2016
(subject to approval by the Board of Directors of the Bank)

First quarter	February 23
Second quarter	June 1
Third quarter	August 31
Fourth quarter	December 2

Disclosure of First Quarter 2016 Results

Conference Call
- A conference call for analysts and institutional investors will be held on Tuesday, February 23, 2016 at 11:30 a.m. EST.
- Access by telephone in listen-only mode: 1-866-862-3930 or 416-695-7806. The access code is 8789158#.
- A recording of the conference call can be heard until March 23, 2016 by dialing 1-800-408-3053 or 905-694-9451. The access code is 4441499#.

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

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

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

Computershare Trust Company of Canada
Share Ownership Management
1500 Robert-Bourassa Boulevard, 7th Floor
Montreal, Quebec H3A 3S8
Telephone: 1-888-838-1407
Fax: 1-888-453-0330
Email: *service@computershare.com*
Website: computershare.com

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

Dividend Reinvestment and Share Purchase Plan
The Bank has a Dividend Reinvestment and Share Purchase Plan for Canadian holders of its common and preferred shares under which they can acquire common shares of the Bank without paying commissions or administration fees. 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 more information, shareholders may contact National Bank's registrar and transfer agent, Computershare Trust Company of Canada, at 1-888-838-1407. To participate in the plan, National Bank's beneficial or non-registered common shareholders must contact their financial institution or broker.

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

NATIONAL BANK