NATIONAL BANK

REPORT TO SHAREHOLDERS — SECOND QUARTER 2016

National Bank reports its results for the Second Quarter of 2016 and raises its quarterly dividend by 2% to 55 cents per share

The financial information reported herein is based on the unaudited interim condensed consolidated financial statements for the quarter and six-month period ended April 30, 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, June 1, 2016 – National Bank is reporting net income of $210 million for the second quarter of 2016, down from $404 million in the same quarter of 2015, essentially as a result of a sectoral provision for credit losses recorded for producers and service companies in the oil and gas sector. Diluted earnings per share stood at $0.52 in the second quarter of 2016 compared to $1.13 in the second quarter of 2015.

Excluding the sectoral provision of $183 million, net of income taxes, and excluding the specified items described on page 4, the 2016 second-quarter net income totalled $420 million, up 2% from $411 million in the second quarter of 2015, and the 2016 second-quarter diluted earnings per share stood at $1.14, relatively stable compared to $1.15 in the second quarter of 2015.

For the first six months of fiscal 2016, the Bank's net income totalled $471 million versus $819 million in the same period of 2015, and its first-half diluted earnings per share stood at $1.19 versus $2.29 in the same period of 2015. Excluding the sectoral provision and specified items, the Bank's first-half net income totalled $847 million, up 3% from $821 million in the same period of 2015, and its first-half diluted earnings per share stood at $2.31, essentially unchanged from $2.30 in the same period of 2015.

"In the second quarter of 2016, the Bank continued to benefit from good growth in personal and commercial loan and deposit volumes and maintained tight cost control," said Louis Vachon, President and Chief Executive Officer of National Bank. "In addition, the Bank took action, by way of a sectoral provision, to address credit uncertainties in its oil and gas producer and service company loan portfolio. The credit quality of the overall loan portfolio, excluding the oil and gas producer and service company loan portfolio, remains within expectations," added Mr. Vachon.

Highlights

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2016	2015	% Change	**2016**	2015	% Change
Net income	**210**	404	(48)	**471**	819	(42)
Diluted earnings per share *(dollars)*	**$ 0.52**	$ 1.13	(54)	**$ 1.19**	$ 2.29	(48)
Return on common shareholders' equity	**7.7 %**	17.6 %		**8.6 %**	17.7 %	
Dividend payout ratio	**61 %**	44 %		**61 %**	44 %	
Excluding specified items[1]						
Net income	**237**	411	(42)	**664**	821	(19)
Diluted earnings per share *(dollars)*	**$ 0.60**	$ 1.15	(48)	**$ 1.77**	$ 2.30	(23)
Net income excluding sectoral provision[2]	**420**	411	2	**847**	821	3
Diluted earnings per share excluding sectoral provision[2] *(dollars)*	**$ 1.14**	$ 1.15	(1)	**$ 2.31**	$ 2.30	–
Return on common shareholders' equity	**8.9 %**	17.9 %		**12.8 %**	17.7 %	
Dividend payout ratio	**50 %**	42 %		**50 %**	42 %	

	As at April 30, 2016	As at October 31, 2015
CET1 capital ratio under Basel III	**9.8 %**	9.9 %
Leverage ratio under Basel III	**3.7 %**	3.7 %

(1) See the Financial Reporting Method section on page 4.
(2) During the second quarter of 2016, a $250 million ($183 million net of income taxes) sectoral provision for credit losses was recorded for producers and service companies in the oil and gas sector.

Personal and Commercial

- The segment posted a net loss of $9 million in the second quarter of 2016 compared to net income of $164 million in the second quarter of 2015 as a result of the sectoral provision for credit losses recorded for producers and service companies in the oil and gas sector.
- Excluding the sectoral provision of $183 million, net of income taxes, the segment's 2016 second-quarter net income totalled $174 million, up $10 million or 6% from the second quarter of 2015.
- At $698 million, the segment's 2016 second-quarter total revenues rose $15 million or 2% year over year.
- Rising 6% from a year ago, personal lending experienced sustained growth, with the most significant increases coming from mortgage lending, and commercial lending grew 6% from a year ago.
- The net interest margin was 2.20% in the second quarter of 2016 versus 2.24% in the second quarter of 2015 and 2.22% in the first quarter of 2016.
- Before provisions for credit losses and income taxes, the segment's second-quarter contribution rose $23 million or 8% year over year.
- At 56.6%, the efficiency ratio improved from 59.0% in the same quarter of 2015.

Wealth Management

- Net income totalled $80 million in the second quarter of 2016, down 22% from $103 million in the same quarter of 2015, as a gain on the disposal of Fiera Capital Corporation shares had been recorded in the second quarter of 2015.
- Excluding specified items(1), the 2016 second-quarter net income totalled $86 million, up $2 million or 2% year over year.
- Excluding specified items(1), the 2016 second-quarter total revenues amounted to $355 million, down $4 million or 1% from $359 million in the second quarter of 2015, mainly due to decreases in transaction-based and other revenues, partly offset by growth in net interest income.
- Excluding specified items(1), the 2016 second-quarter non-interest expenses stood at $238 million, down from $245 million in the second quarter of 2015.
- Excluding specified items(1), the efficiency ratio was 67.0%, an improvement from 68.2% in the second quarter of 2015.

Financial Markets

- Net income totalled $169 million in the second quarter of 2016, a 7% increase from $158 million in the same quarter of 2015.
- Excluding specified items(1), net income was $169 million, down $5 million or 3% year over year.
- Excluding specified items(1), total revenues amounted to $429 million, a $1 million year-over-year increase owing to revenues from banking services and the operations of the Credigy Ltd. subsidiary, tempered by decreases in trading activity revenues, financial market fees, and gains on investments.
- At $195 million, the 2016 second-quarter non-interest expenses increased $6 million year over year.
- Excluding specified items(1), the efficiency ratio was 45.5%, increasing by 1.3 percentage points when compared to the second quarter of 2015.

Other

- The *Other* heading posted a net loss of $30 million in the second quarter of 2016 versus a $21 million net loss in the same quarter of 2015. The higher net loss stems mainly from a tax provision recorded to reflect the impact of changes to tax measures.

Capital Management

- As at April 30, 2016, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 9.8%, relatively stable compared to 9.9% as at October 31, 2015.
- As at April 30, 2016, the Basel III leverage ratio was 3.7%, unchanged from October 31, 2015.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 31, 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 and six-month period ended April 30, 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 and six-month period ended April 30, 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*), the 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 April 30			Six months ended April 30		
	2016	2015	% Change	**2016**	2015	% Change
Net income excluding specified items						
Personal and Commercial	**(9)**	164		**175**	335	(48)
Wealth Management	**86**	84	2	**170**	165	3
Financial Markets	**169**	174	(3)	**355**	351	1
Other	**(9)**	(11)		**(36)**	(30)	
Net income excluding specified items	**237**	411	(42)	**664**	821	(19)
Items related to holding restructured notes[1]	**(3)**	23		**(4)**	36	
Acquisition-related items[2]	**(6)**	(6)		**(26)**	(14)	
Write-off of an equity interest in an associate[3]	**–**	–		**(145)**	–	
Impact of changes to tax measures[4]	**(18)**	–		**(18)**	–	
Gain on disposal of Fiera Capital shares[5]	**–**	25		**–**	25	
Share of current tax asset write-down of an associate[6]	**–**	(16)		**–**	(16)	
Impairment losses on intangible assets[7]	**–**	(33)		**–**	(33)	
Net income	**210**	404	(48)	**471**	819	(42)
Diluted earnings per share excluding specified items	**$ 0.60**	$ 1.15	(48)	**$ 1.77**	$ 2.30	(23)
Items related to holding restructured notes[1]	**(0.01)**	0.07		**(0.01)**	0.11	
Acquisition-related items[2]	**(0.02)**	(0.02)		**(0.08)**	(0.05)	
Write-off of an equity interest in an associate[3]	**–**	–		**(0.43)**	–	
Impact of changes to tax measures[4]	**(0.05)**			**(0.05)**		
Premium paid on preferred shares redeemed for cancellation[8]	**–**	–		**(0.01)**	–	
Gain on disposal of Fiera Capital shares[5]	**–**	0.08		**–**	0.08	
Share of current tax asset write-down of an associate[6]	**–**	(0.05)		**–**	(0.05)	
Impairment losses on intangible assets[7]	**–**	(0.10)		**–**	(0.10)	
Diluted earnings per share	**$ 0.52**	$ 1.13	(54)	**$ 1.19**	$ 2.29	(48)
Return on common shareholders' equity						
Including specified items	**7.7 %**	17.6 %		**8.6 %**	17.7 %	
Excluding specified items	**8.9 %**	17.9 %		**12.8 %**	17.7 %	

(1) During the quarter ended April 30, 2016, the Bank recorded $3 million in financing costs ($3 million net of income taxes) related to holding restructured notes (2015: $4 million, $4 million net of income taxes). In addition, for the quarter ended April 30, 2015, the Bank had recorded a gain of $37 million ($27 million net of income taxes) upon the disposal of the restructured notes of the MAV III conduits. During the six-month period ended April 30, 2016, the Bank recorded $5 million in financing costs ($4 million net of income taxes) related to holding restructured notes (2015: $9 million, $8 million net of income taxes). In the same six-month period of 2015, the Bank had recorded $23 million in revenues ($17 million net of income taxes) to reflect a rise in the fair value of these notes as well as a gain of $37 million ($27 million net of income taxes) upon the disposal of the restructured notes of the MAV III conduits.

(2) During the quarter ended April 30, 2016, the Bank recorded $7 million ($6 million net of income taxes) in acquisition-related charges (2015: $8 million, $6 million net of income taxes). For the six months ended April 30, 2016, these charges amounted to $34 million ($26 million net of income taxes) compared to $18 million ($14 million net of income taxes) for the same six-month period of 2015. These charges consisted mostly of retention bonuses and also included the Bank's share in the integration costs incurred by Fiera Capital Corporation (Fiera Capital) as well as the Bank's share in the charges related to its equity interest in TMX Group Limited (TMX), particularly goodwill and intangible asset impairment losses of $18 million ($13 million net of income taxes) recorded in the first quarter of 2016.

(3) During the six-month period ended April 30, 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 Consolidated Balance Sheet section on page 14.

(4) During the quarter ended April 30, 2016, an $18 million tax provision was recorded to reflect the impact of substantively enacted changes to tax measures.

(5) During the quarter ended April 30, 2015, the Bank had recorded a $29 million gain ($25 million net of income taxes), net of underwriting fees, on the disposal of Fiera Capital shares through one of its subsidiaries.

(6) During the quarter ended April 30, 2015, a loss of $18 million ($16 million net of income taxes) had been recorded following a write-down of an associate's current tax assets.

(7) During the quarter ended April 30, 2015, the Bank had recorded $46 million ($33 million net of income taxes) in intangible asset impairment losses on technological developments.

(8) During the six-month period ended April 30, 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 April 30			Six months ended April 30		
	2016	2015	% Change	2016	2015	% Change
Operating results						
Total revenues	1,425	1,421	–	2,714	2,831	(4)
Net income	210	404	(48)	471	819	(42)
Net income attributable to the Bank's shareholders	193	388	(50)	432	785	(45)
Return on common shareholders' equity	7.7 %	17.6 %		8.6 %	17.7 %	
Earnings per share						
Basic	$ 0.52	$ 1.14	(54)	$ 1.20	$ 2.32	(48)
Diluted	0.52	1.13	(54)	1.19	2.29	(48)
Excluding specified items[1]						
Operating results						
(taxable equivalent basis)[2]						
Total revenues	1,507	1,497	1	3,037	2,956	3
Net income	237	411	(42)	664	821	(19)
Net income attributable to the Bank's shareholders	220	395	(44)	625	787	(21)
Return on common shareholders' equity	8.9 %	17.9 %		12.8 %	17.7 %	
Efficiency ratio	57.8 %	58.7 %		58.2 %	58.7 %	
Earnings per share						
Basic	$ 0.61	$ 1.16	(47)	$ 1.78	$ 2.32	(23)
Diluted	0.60	1.15	(48)	1.77	2.30	(23)
Common share information						
Dividends declared	$ 0.54	$ 0.50		$ 1.08	$ 1.00	
Book value				27.75	27.01	
Share price						
High	45.56	49.15		45.56	55.06	
Low	35.95	45.02		35.83	44.21	
Close	44.84	48.75		44.84	48.75	
Number of common shares *(thousands)*	337,418	330,141		337,418	330,141	
Market capitalization	15,130	16,094		15,130	16,094	

(millions of Canadian dollars)	As at April 30, 2016	As at October 31, 2015	% Change
Balance sheet and off-balance-sheet			
Total assets	220,734	216,090	2
Loans and acceptances	121,116	115,238	5
Impaired loans, net of total allowances	(316)	(112)	
As a % of average loans and acceptances	(0.3) %	(0.1) %	
Deposits	130,271	128,830	1
Equity attributable to common shareholders	9,364	9,531	(2)
Assets under administration and under management	368,168	358,139	3
Earnings coverage	8.75	10.49	
Asset coverage	9.59	6.78	
Regulatory ratios under Basel III			
Capital ratios[3]			
Common Equity Tier 1 (CET1)	9.8 %	9.9 %	
Tier 1[4]	12.9 %	12.5 %	
Total[4][5]	14.8 %	14.0 %	
Leverage ratio[3]	3.7 %	3.7 %	
Liquidity coverage ratio (LCR)	135 %	131 %	
Other information			
Number of employees	19,717	19,764	–
Number of branches in Canada	453	452	–
Number of banking machines	935	930	1

(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

As at November 1, 2015, the Bank reclassified certain amounts in the Consolidated Statement of Income to better reflect the nature of reported revenues in the Personal and Commercial segment. Accordingly, for the quarter ended April 30, 2015, an amount of $10 million presented in the *Non-interest income – Credit fees* item was reclassified to *Net interest income* ($19 million for the six-month period ended April 30, 2015). This reclassification had no impact on *Net income*.

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2016	2015	% Change	**2016**	2015	% Change
Operating results						
Net interest income	**709**	650	9	**1,415**	1,315	8
Non-interest income	**716**	771	(7)	**1,299**	1,516	(14)
Total revenues	**1,425**	1,421	–	**2,714**	2,831	(4)
Non-interest expenses	**876**	936	(6)	**1,779**	1,799	(1)
Contribution	**549**	485	13	**935**	1,032	(9)
Provisions for credit losses	**317**	57		**380**	111	
Income before income taxes	**232**	428	(46)	**555**	921	(40)
Income taxes	**22**	24	(8)	**84**	102	(18)
Net income	**210**	404	(48)	**471**	819	(42)
Diluted earnings per share *(dollars)*	**0.52**	1.13	(54)	**1.19**	2.29	(48)
Taxable equivalent(1)						
Net interest income	**75**	123		**130**	186	
Non-interest income	**2**	–		**2**	–	
Income taxes	**77**	123		**132**	186	
Net income	**–**	–		**–**	–	
Specified items(2)						
Items related to holding restructured notes	**(3)**	33		**(5)**	51	
Acquisition-related items	**(7)**	(8)		**(34)**	(18)	
Write-off of an equity interest in an associate	**–**	–		**(164)**	–	
Gain on disposal of Fiera Capital shares	**–**	29		**–**	29	
Share of current tax asset write-down of an associate	**–**	(18)		**–**	(18)	
Impairment losses on intangible assets	**–**	(46)		**–**	(46)	
Specified items before income taxes	**(10)**	(10)		**(203)**	(2)	
Income taxes on specified items(3)	**17**	(3)		**(10)**	–	
Specified items after income taxes(4)	**(27)**	(7)		**(193)**	(2)	
Operating results on a taxable equivalent basis excluding specified items(1)(2)						
Net interest income	**787**	777	1	**1,550**	1,510	3
Non-interest income	**720**	720	–	**1,487**	1,446	3
Total revenues	**1,507**	1,497	1	**3,037**	2,956	3
Non-interest expenses	**871**	879	(1)	**1,767**	1,736	2
Contribution	**636**	618	3	**1,270**	1,220	4
Provisions for credit losses	**317**	57		**380**	111	
Income before income taxes	**319**	561	(43)	**890**	1,109	(20)
Income taxes	**82**	150	(45)	**226**	288	(22)
Net income	**237**	411	(42)	**664**	821	(19)
Diluted earnings per share *(dollars)*(4)	**0.60**	1.15	(48)	**1.77**	2.30	(23)
Net income excluding sectoral provision(5)	**420**	411	2	**847**	821	3
Diluted earnings per share excluding sectoral provision(5) *(dollars)*	**1.14**	1.15	(1)	**2.31**	2.30	–
Average assets	**230,593**	222,931	3	**231,412**	220,694	5
Average loans and acceptances	**119,422**	106,581	12	**118,362**	105,686	12
Impaired loans, net of total allowances	**(316)**	(117)		**(316)**	(117)	
Average deposits	**137,203**	126,341	9	**138,808**	124,911	11
Efficiency ratio excluding specified items(2)	**57.8 %**	58.7 %		**58.2 %**	58.7 %	

(1) The Bank uses the taxable equivalent basis to calculate net interest income, non-interest income and income taxes. This calculation method consists of grossing up certain tax-exempt income (particularly dividends) by the income tax that would have been otherwise payable. An equivalent amount is added to income taxes. This adjustment is necessary in order to perform a uniform comparison of the return on different assets regardless of their tax treatment.
(2) See the Financial Reporting Method section on page 4.
(3) For the quarter and six-month period ended April 30, 2016, the income taxes on specified items included an $18 million tax provision recorded to reflect the impact of substantively enacted changes to tax measures.
(4) For the six months ended April 30, 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.
(5) During the second quarter of 2016, a sectoral provision for credit losses of $250 million ($183 million net of income taxes) was recorded for producers and service companies in the oil and gas sector.

Financial Results

The Bank is reporting net income of $210 million for the second quarter of fiscal 2016, down from $404 million in the second quarter of 2015, essentially because a sectoral provision for credit losses was recorded for producers and service companies in the oil and gas sector. Second-quarter diluted earnings per share stood at $0.52 compared to $1.13 in the second quarter of 2015.

Excluding the sectoral provision of $183 million, net of income taxes, and excluding the specified items, the Bank's 2016 second-quarter net income totalled $420 million, up 2% from $411 million in the second quarter of 2015, and second-quarter diluted earnings per share stood at $1.14, relatively stable compared to $1.15 in the second quarter of 2015. For the second quarter of 2016, the specified items, net of income taxes, consisted of the following items: $3 million in financing costs (2015: $4 million) related to holding restructured notes, $6 million in acquisition-related items (2015: $6 million), and an $18 million tax provision recorded to reflect the impact of changes to tax measures. For the second quarter of 2015, the specified items, net of income taxes, had also consisted of the following: a $27 million gain on the disposal of restructured notes of the MAV III conduits, a $25 million gain, net of underwriting fees, on the disposal of Fiera Capital shares, a $16 million loss on a current tax asset write-down of an associate in the Financial Markets segment, and $33 million in intangible asset impairment losses.

For the first six months of fiscal 2016, the Bank's net income totalled $471 million versus $819 million in the same period of 2015, and its first-half diluted earnings per share stood at $1.19 versus $2.29 in the same period of 2015. Excluding the sectoral provision and the specified items, the Bank's first-half net income totalled $847 million, up 3% from $821 million in the same period of 2015, and its first-half diluted earnings per share stood at $2.31 compared to $2.30 in the same period of 2015. For the six months ended April 30, 2016, the specified items, net of income taxes, consisted of the following items: $4 million in financing costs (2015: $8 million) related to holding restructured notes; $26 million in charges (2015: $14 million) related to the Wealth Management acquisitions, 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 same six-month period in 2015, the specified items had also consisted of the following: a $27 million gain on the disposal of restructured notes of the MAV III conduits, $17 million in revenues to reflect a rise in the fair value of restructured notes, a $25 million gain, net of underwriting fees, on the disposal of Fiera Capital shares, a $16 million loss on a current tax asset write-down of an associate, and $33 million in intangible asset impairment losses.

Excluding specified items, return on common shareholders' equity was 12.8% for the six months ended April 30, 2016 compared to 17.7% in the same period of 2015; this change was essentially due to the write-off of the Bank's equity interest in associate Maple and to the sectoral provision.

Total Revenues

For the second quarter of 2016, the Bank's total revenues amounted to $1,425 million, up $4 million year over year. Excluding the specified items related to holding restructured notes, to the Wealth Management acquisitions, to the gain on the disposal of Fiera Capital shares, and to the loss resulting from the share in the current tax asset write-down of an associate recorded in the second quarter of 2015, total revenues on a taxable equivalent basis amounted to $1,507 million, up 1% from $1,497 million in the second 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 net interest income growth in the Wealth Management segment that was partly driven by the CashPerformer account. Second-quarter non-interest income was stable year over year. There were second-quarter year-over-year decreases in underwriting and advisory fee revenues, securities brokerage commission revenues (particularly because of customer migration towards fee-based services), and trading revenues. Conversely, there were second-quarter year-over-year increases in mutual fund revenues, gains on available-for-sale securities, insurance revenues, and other revenues, mainly owing to revenue growth at the Credigy Ltd. subsidiary.

For the six months ended April 30, 2016, total revenues amounted to $2,714 million, down 4% from $2,831 million in the same period of 2015. Excluding the specified items related to holding restructured notes, to the Wealth Management acquisitions in the first six-month periods of 2016 and 2015, to the Bank's share in the goodwill and intangible asset impairment losses resulting from its interest in TMX, to the write-off of its equity interest in Maple during the first quarter of 2016, to the gain on the disposal of Fiera Capital shares, and to the loss resulting from the share in the current tax asset write-down of an associate recorded in the first six months of 2015, total revenues on a taxable equivalent basis amounted to $3,037 million for the six months ended April 30, 2016, up 3% from $2,956 million in the same period of 2015. The increase was driven, in part, by 3% growth in net interest income attributable to the same reasons provided for the quarter. Non-interest income rose $41 million, mainly due to an increase in other revenues (essentially from revenue growth at the Credigy Ltd. subsidiary), and to increases in revenues from credit fees, gains on available-for-sale securities, insurance revenues, and revenues from the Bank's proportionate shares of international investments. These increases were tempered by decreases in trading revenues, Wealth Management segment revenues, and card revenues.

Provisions for Credit Losses

For the second quarter of 2016, the Bank recorded $317 million in provisions for credit losses, $260 million more than in the same quarter of 2015. This increase was largely attributable to the $250 million sectoral provision for credit losses recorded for producers and service companies in the oil and gas sector. Also contributing to the increase were higher provisions for credit losses on Commercial Banking loans.

For the six months ended April 30, 2016, the Bank recorded $380 million in provisions for credit losses, $269 million more than in the same period of 2015. This increase was attributable to the same reasons provided above for the second quarter.

As at April 30, 2016, gross impaired loans stood at $521 million, rising $64 million since October 31, 2015. This increase came primarily from Commercial Banking loan portfolios, particularly loans to oil and gas sector companies. Impaired loans represented 6.7% of the tangible capital adjusted for allowances as at April 30, 2016, up 0.8 percentage points from 5.9% as at October 31, 2015. As at April 30, 2016, allowances for credit losses exceeded gross impaired loans by $316 million compared to $112 million as at October 31, 2015.

Non-Interest Expenses

For the second quarter of 2016, non-interest expenses stood at $876 million, a $60 million or 6% year-over-year decrease due to a lower compensation and employee benefits expense and to intangible asset impairment losses that had been recorded in the second quarter of 2015. These decreases were partly offset by increases in technology investments and professional fees, specifically the management fees associated with business growth at the Credigy Ltd. subsidiary. Excluding specified items, the 2016 second-quarter non-interest expenses stood at $871 million compared to $879 million in the same quarter of 2015.

For the six months ended April 30, 2016, non-interest expenses were down $20 million or 1% year over year; this decrease was attributable to the same reasons provided for the second quarter. Other expenses were up, particularly due to sales tax recoveries recorded in the first quarter of 2015. Excluding the specified items recorded in the six-month periods ended April 30, 2016 and 2015, non-interest expenses were up $31 million or 2%.

Income Taxes

For the second quarter of 2016, income taxes stood at $22 million compared to $24 million in the same quarter of 2015. The 2016 second-quarter effective tax rate was 9% compared to 6% in the same quarter of 2015. These effective tax rates were attributable to the tax exempt dividend income in both second quarters. The change in the effective tax rate came mainly from a tax provision recorded to reflect the impact of substantively enacted changes to tax measures during the quarter ended April 30, 2016, from a year-over-year decrease in tax-exempt dividend income, and from the gain on the disposal of Fiera Capital shares in the second quarter of 2015.

For the six months ended April 30, 2016, the effective tax rate stood at 15% compared to 11% in the same six-month period of 2015. This increase was attributable to the same reasons provided above for the second quarter.

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 April 30			Six months ended April 30		
	2016	2015	% Change	**2016**	2015	% Change
Operating results						
Net interest income	**465**	440	6	**940**	890	6
Non-interest income	**233**	243	(4)	**482**	485	(1)
Total revenues	**698**	683	2	**1,422**	1,375	3
Non-interest expenses	**395**	403	(2)	**805**	807	–
Contribution	**303**	280	8	**617**	568	9
Provisions for credit losses(1)	**315**	56		**377**	110	
Income before income taxes	**(12)**	224		**240**	458	
Income taxes	**(3)**	60		**65**	123	
Net income	**(9)**	164		**175**	335	(48)
Net income excluding sectoral provision(1)	**174**	164	6	**358**	335	7
Net interest margin(2)	**2.20 %**	2.24 %		**2.21 %**	2.24 %	
Average interest-bearing assets	**85,859**	80,531	7	**85,498**	80,033	7
Average assets	**91,021**	86,147	6	**90,765**	85,521	6
Average loans and acceptances	**90,677**	85,762	6	**90,405**	85,137	6
Net impaired loans	**293**	246	19	**293**	246	19
Net impaired loans as a % of average loans and acceptances	**0.3 %**	0.3 %		**0.3 %**	0.3 %	
Average deposits	**47,424**	43,714	8	**46,916**	43,771	7
Efficiency ratio	**56.6 %**	59.0 %		**56.6 %**	58.7 %	

(1) For the second quarter and six-month period ended April 30, 2016, the provisions for credit losses included a $250 million ($183 million net of income taxes) sectoral provision on non-impaired loans recorded for the oil and gas producer and service company loan portfolio.
(2) Net interest margin is calculated by dividing net interest income by average interest-bearing assets.

In the Personal and Commercial segment, there was a net loss of $9 million in the second quarter of 2016 compared to net income of $164 million in the second quarter of 2015. This change was mainly due to the sectoral provision on non-impaired loans recorded for the oil and gas producer and service company loan portfolio during the second quarter of 2016. Excluding this sectoral provision, the 2016 second-quarter net income totalled $174 million, up $10 million or 6% year over year. The segment's second-quarter total revenues increased by $15 million year over year owing to higher net interest income, which rose $25 million, partly offset by a $10 million decrease in non-interest income in the second quarter of 2016. 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 2.20% in the second quarter of 2016 versus 2.24% in the second quarter of 2015, a decrease stemming mainly from deposit margins.

Personal Banking's total revenues rose by $22 million, essentially due to loan growth, particularly mortgage loans, as well as to growth in credit card transactions. Non-interest income also posted growth, mainly due to deposit and payment service charges. Commercial Banking's total revenues were down $7 million, mainly due to a decline in loan and deposit margins, credit fees on lending transactions, and foreign exchange and derivatives revenues. This decrease was partly offset by growth in loan and deposit volumes.

The segment's 2016 second-quarter non-interest expenses decreased by $8 million, or 2%, from the same quarter in 2015, mainly due to compensation and employee benefits. The 2016 second-quarter contribution therefore increased 8% year over year. At 56.6%, the efficiency ratio for the second quarter of 2016 improved by 2.4 percentage points when compared to the same quarter of 2015.

The segment's second-quarter provisions for credit losses were $315 million, $259 million more than in the same quarter of 2015. Most of this increase stems from the sectoral provision on non-impaired loans recorded for the oil and gas producer and service company loan portfolio. Also contributing to this increase were higher provisions for credit losses on Commercial Banking loans.

For the six months ended April 30, 2016, the Personal and Commercial segment posted net income of $175 million, down from $335 million in the same period of 2015. Excluding the sectoral provision, net income totalled $358 million for the six months ended April 30, 2016, up 7% year over year. The segment's total revenues grew 3%. Personal Banking's first-half total revenues grew year over year for the same reasons provided above for the quarter. Commercial Banking's first-half revenues also increased, partly due to growth in loan and deposit volumes, tempered by smaller loan and deposit margins and by lower credit fees. The segment's first-half contribution rose by $49 million or 9%, and its first-half provisions for credit losses were $267 million higher than in the same period of 2015. Most of this increase came from the $250 million sectoral provision recorded during the second quarter of 2016 and from higher provisions for credit losses on Commercial Banking loans. At 56.6% for the six months ended April 30, 2016, the efficiency ratio improved by 2.1 percentage points when compared with the same six-month period of 2015.

Wealth Management

(millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2016	2015	% Change	2016	2015	% Change
Operating results excluding specified items(1)						
Net interest income	91	81	12	180	164	10
Fee-based revenues	192	191	1	388	370	5
Transaction-based and other revenues	72	87	(17)	145	171	(15)
Total revenues	355	359	(1)	713	705	1
Non-interest expenses	238	245	(3)	481	481	–
Contribution	117	114	3	232	224	4
Provisions for credit losses	2	1		3	1	
Income before income taxes	115	113	2	229	223	3
Income taxes	29	29	–	59	58	2
Net income excluding specified items	86	84	2	170	165	3
Specified items after income taxes(1)	(6)	19		(13)	12	
Net income	80	103	(22)	157	177	(11)
Average assets	11,022	10,124	9	10,983	10,156	8
Average loans and acceptances	9,391	8,568	10	9,328	8,584	9
Net impaired loans	7	3		7	3	
Average deposits	27,354	24,353	12	26,778	24,440	10
Efficiency ratio excluding specified items(1)	67.0 %	68.2 %		67.5 %	68.2 %	

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

In the Wealth Management segment, net income totalled $80 million for the second quarter of 2016 compared to $103 million in the same quarter of 2015. Excluding specified items, which include the acquisition-related items of recent years, and the gain on the disposal of Fiera Capital shares recorded in 2015, the segment's 2016 second-quarter net income totalled $86 million, up 2% from $84 million in the same quarter of 2015. Excluding specified items, the segment's second-quarter total revenues amounted to $355 million, down 1% from $359 million in the second quarter of 2015. This revenue decrease was mainly attributable to a decline in transaction-based and other revenues, given a decline in brokerage transactions, but was partly offset by an increase in net interest income driven partly by the CashPerformer account. As for second-quarter fee-based revenues, they remained relatively stable year over year despite a decline in stock markets since last year.

Excluding the specified items related to the acquisitions of recent years and excluding the underwriting fees on the Fiera Capital transaction in 2015, second-quarter non-interest expenses stood at $238 million, a 3% year-over-year decrease that was mainly due to a decline in variable compensation given the lower revenues. At 67.0%, the efficiency ratio for the second quarter of 2016 therefore improved by 1.2 percentage points when compared to the same quarter of 2015.

For the six months ended April 30, 2016, the Wealth Management segment's net income totalled $157 million, down 11% from $177 million in the same period of 2015. Excluding specified items, net income totalled $170 million for the six months ended April 30, 2016, up $5 million or 3% from the same period of 2015. The segment's total revenues amounted to $713 million compared to $705 million during the six months ended April 30, 2015. This increase came from growth in net interest income and from higher fee-based revenues associated with the migration of assets from transactional accounts to fee-based accounts. These increases more than offset the decrease in transaction-based and other revenues. For the six months ended April 30, 2016, non-interest expenses stood at $481 million, unchanged from the same six-month period of 2015. At 67.5% for the first six months of fiscal 2016, the efficiency ratio improved from 68.2% in the same six-month period of 2015.

Financial Markets

(taxable equivalent basis)[1] (millions of Canadian dollars)	Quarter ended April 30			Six months ended April 30		
	2016	2015	% Change	**2016**	2015	% Change
Operating results excluding specified items[2]						
Trading activity revenues						
Equities	**128**	117	9	**235**	226	4
Fixed-income	**43**	55	(22)	**108**	121	(11)
Commodities and foreign exchange	**27**	29	(7)	**71**	86	(17)
	198	201	(1)	**414**	433	(4)
Financial market fees	**71**	81	(12)	**121**	139	(13)
Gains (losses) on available-for-sale securities, net	**5**	3		**4**	(4)	
Banking services	**75**	63	19	**147**	132	11
Other	**80**	80	–	**194**	146	33
Total revenues	**429**	428	–	**880**	846	4
Non-interest expenses	**195**	189	3	**385**	365	5
Contribution	**234**	239	(2)	**495**	481	3
Provisions for credit losses	**–**	–		**–**	–	
Income before income taxes	**234**	239	(2)	**495**	481	3
Income taxes	**65**	65		**140**	130	8
Net income excluding specified items	**169**	174	(3)	**355**	351	1
Specified items after income taxes[2]	**–**	(16)		**(145)**	(16)	
Net income	**169**	158	7	**210**	335	(37)
Non-controlling interests	**4**	2		**12**	5	
Net income attributable to the Bank's shareholders	**165**	156	6	**198**	330	(40)
Average assets	**86,526**	89,329	(3)	**88,122**	89,491	(2)
Average loans and acceptances (Corporate Banking only)	**11,863**	9,655	23	**11,797**	9,421	25
Average deposits	**12,353**	12,504	(1)	**13,321**	12,328	8
Efficiency ratio excluding specified items[2]	**45.5 %**	44.2 %		**43.8 %**	43.1 %	

(1) See Note 23 to the consolidated financial statements.
(2) See the Financial Reporting Method section on page 4.

In the Financial Markets segment, net income totalled $169 million for the second quarter of 2016 compared to $158 million in the same quarter of 2015. Excluding the 2015 specified item ($18 million ($16 million net of income taxes) for the share in the current tax asset write-down of an associate), the segment's 2016 second-quarter net income totalled $169 million, down 3% from $174 million in the same quarter of 2015. On a taxable equivalent basis and excluding the 2015 specified item, the segment's second-quarter total revenues amounted to $429 million compared to $428 million in the second quarter of 2015. Second-quarter banking service revenues grew 19% year over year, particularly due to more robust credit activity, partly offset by a 12% year-over-year decrease in financial market fees. There was a slight decrease in trading activity revenues that came from fixed-income securities and commodities and foreign exchange contracts, while revenues from equity securities increased year over year. The segment's second-quarter other revenues were unchanged, as revenue growth at the Credigy Ltd. subsidiary was offset by lower year-over-year gains on investments.

At $195 million, the segment's 2016 second-quarter non-interest expenses increased $6 million year over year, particularly due to higher management fees at the Credigy Ltd. subsidiary. Excluding specified items, the efficiency ratio for the second quarter was 45.5%, up 1.3 percentage points from the same quarter of 2015. Provisions for credit losses were nil for both the second quarters of 2016 and 2015.

For the six months ended April 30, 2016, the segment's net income totalled $210 million, down $125 million from the same six-month period in 2015. Excluding the write-off of its equity interest in associate Maple and the 2015 specified item described above, the segment's first-half net income totalled $355 million, up 1% from the same period in 2015. On a taxable equivalent basis and excluding specified items, the segment's first-half total revenues amounted to $880 million, rising $34 million or 4% from $846 million in the first half 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 at the Credigy Ltd. subsidiary. In addition, banking service revenues grew by 11%. Given market conditions, trading activity revenues and financial market fees decreased year over year. The first-half decrease in trading activity revenues came from fixed-income securities and commodities and foreign exchange contracts, the revenues from which decreased by 11% and 17%, respectively, year over year.

For the six months ended April 30, 2016, the segment's non-interest expenses increased year over year, particularly due to higher expenses at the Credigy Ltd. subsidiary as a result of its revenue growth. The segment did not record any provisions for credit losses for the six months ended April 30, 2016 and 2015.

Other

(taxable equivalent basis)[1] (millions of Canadian dollars)	Quarter ended April 30		Six months ended April 30	
	2016	2015	**2016**	2015
Operating results excluding specified items[2]				
Net interest income	**(31)**	(29)	**(68)**	(67)
Non-interest income	**56**	56	**90**	97
Total revenues	**25**	27	**22**	30
Non-interest expenses	**43**	42	**96**	83
Income before income taxes	**(18)**	(15)	**(74)**	(53)
Income taxes (recovery)	**(9)**	(4)	**(38)**	(23)
Net income excluding specified items	**(9)**	(11)	**(36)**	(30)
Specified items after income taxes[2]	**(21)**	(10)	**(35)**	2
Net income	**(30)**	(21)	**(71)**	(28)
Non-controlling interests	**13**	14	**27**	29
Net income attributable to the Bank's shareholders	**(43)**	(35)	**(98)**	(57)
Average assets	**42,024**	37,331	**41,542**	35,526

(1) See Note 23 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 $30 million in the second quarter of 2016 compared to a net loss of $21 million in the same quarter of 2015. The higher net loss stems essentially from specified items, net of income taxes, particularly of an $18 million tax provision recorded in the second quarter of 2016 to reflect the impact of changes to tax measures compared to a $27 million gain realized upon the disposal of restructured notes that was more than offset by $33 million in intangible asset impairment losses recorded in the second quarter of 2015.

For the six months ended April 30, 2016, there was a net loss of $71 million compared to a net loss of $28 million in the same six-month period of 2015; this change was attributable to the same reasons provided above for the quarter as well as to 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), to the higher compensatory tax on salaries, and to business development expenses. In addition, revenues of $17 million, net of income taxes, related to the rise in the fair value of restructured notes had been recorded in the first quarter of 2015.

Consolidated Balance Sheet

Consolidated Balance Sheet Summary

(millions of Canadian dollars)	**As at April 30, 2016**	As at October 31, 2015	% Change
Assets			
Cash and deposits with financial institutions	**7,452**	7,567	(2)
Securities	**58,088**	56,040	4
Securities purchased under reverse repurchase agreements and securities borrowed	**13,760**	17,702	(22)
Loans and acceptances (net of allowances for credit losses)	**121,116**	115,238	5
Other	**20,318**	19,543	4
	220,734	216,090	2
Liabilities and equity			
Deposits	**130,271**	128,830	1
Other	**78,038**	74,383	5
Subordinated debt	**1,015**	1,522	(33)
Equity attributable to the Bank's shareholders	**10,614**	10,554	1
Non-controlling interests	**796**	801	(1)
	220,734	216,090	2

Assets

As at April 30, 2016, the Bank had total assets of $220.7 billion compared to $216.1 billion as at October 31, 2015, a $4.6 billion or 2% increase. Cash and deposits with financial institutions decreased slightly by $0.1 billion. Securities increased by $2.1 billion since October 31, 2015, particularly due to the purchase of $1.7 billion in held-to-maturity securities in the second quarter of 2016, whereas securities purchased under reverse repurchase agreements and securities borrowed decreased by $3.9 billion.

As at April 30, 2016, loans and acceptances, net of allowances for credit losses, increased by $5.9 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 April 30, 2016	As at October 31, 2015	As at April 30, 2015
Loans and acceptances			
Consumer	30,855	29,864	28,890
Residential mortgage	45,096	43,520	40,507
Credit card receivable	2,080	2,069	1,994
Business and government	43,922	40,354	37,994
	121,953	115,807	109,385

Consumer loans increased by 3%, primarily due to home equity lines of credit and personal loans, and residential mortgages also grew, rising 4% since October 31, 2015. Loans and acceptances to businesses increased by $3.6 billion or 9% since October 31, 2015, mainly because of corporate loan financing and the activities of the Credigy Ltd. subsidiary. When compared to a year ago, loans and acceptances increased by $12.6 billion or 12%. 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 16% from a year ago and due to the same reasons provided for the change since October 31, 2015.

As at April 30, 2016, derivative financial instruments amounted to $12.2 billion, an increase of $1.4 billion since October 31, 2015. This increase should be analyzed along with the derivative financial instruments presented in liabilities, which, at $9.4 billion, were up $1.6 billion, resulting in a net decrease of $0.2 billion since October 31, 2015.

Liabilities

As at April 30, 2016, the Bank had total liabilities of $209.3 billion compared to $204.7 billion as at October 31, 2015.

As at April 30, 2016, the Bank's total deposit liability was $130.3 billion versus $128.8 billion as at October 31, 2015, an increase of $1.5 billion or 1%. The following table provides a breakdown of total personal savings.

(millions of Canadian dollars)	As at April 30, 2016	As at October 31, 2015	As at April 30, 2015
Balance sheet			
Deposits	47,972	45,981	45,133
Off-balance-sheet			
Full-service brokerage	107,900	105,395	109,878
Mutual funds	26,707	25,783	20,625
Other	707	636	4,136
	135,314	131,814	134,639
Total personal savings	183,286	177,795	179,772

At $48.0 billion as at April 30, 2016, personal deposits increased by 4% since October 31, 2015 and were up $2.9 billion from a year ago. Since the beginning of the fiscal year, personal savings included in assets under administration and under management increased 3% and were up slightly by $0.7 billion or 1% from a year ago given a stock market recovery last quarter.

At $76.0 billion, business and government deposits rose $1.6 billion since October 31, 2015 as a result of Bank initiatives to grow this type of deposit. At $6.3 billion, deposits from deposit-taking institutions decreased $2.1 billion since October 31, 2015, mainly attributable to deposits from U.S. government financial institutions and other international financial institutions. Other funding activities increased $3.6 billion since October 31, 2015, essentially due to obligations related to securities sold under repurchase agreements and securities loaned.

Equity

As at April 30, 2016, the Bank's equity totalled $11.4 billion, stable when compared to October 31, 2015. A decrease in retained earnings, essentially due 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 May 27, 2016, there were 337,435,081 common shares and 17,935,159 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 15 to the consolidated financial statements of this quarter.

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) during the first quarter of 2016. 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 six-month period ended April 30, 2016 and is presented in the Financial Markets segment.

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.

Events After the Consolidated Balance Sheet Date

Acquisition of Advanced Bank of Asia Limited

On May 16, 2016, the Bank completed the acquisition of Advanced Bank of Asia Limited (ABA), a major Cambodian financial institution that offers financial products and services to individuals and businesses. This acquisition is part of the Bank's international growth strategy and, upon completion, brings the Bank's common share equity interest in ABA to 90%. The sum of the $119 million cash purchase price, of the fair value of the previously held interest, and of the estimated value of the non-controlling interest established at the acquisition date exceeds the fair value of the net assets acquired by $125 million. This excess amount will be recorded on the Consolidated Balance Sheet as goodwill and mainly represents ABA's expected business growth in Cambodia. The goodwill from this acquisition is not deductible for tax purposes. The acquired receivables, consisting mainly of personal and commercial loans, had an estimated acquisition-date fair value of $754 million. This amount also represents the gross contractual amounts receivable that the Bank expects to fully recover.

The amount of the acquisition-related cost was negligible and included in *Non-interest expenses* in the Consolidated Statement of Income for the six-month period ended April 30, 2016. Had the Bank completed the acquisition on November 1, 2015, total revenues would have been approximately $2,744 million and net income approximately $480 million for the six-month period ended April 30, 2016.

Redemption of NBC Capital Trust Units

On May 16, 2016, NBC Capital Trust, an open-end trust established by the Bank, announced its intention to redeem the 225,000 Trust Capital Securities – Series 1, or NBC CapS – Series 1, issued and outstanding on June 30, 2016 at a redemption price of $1,000 per trust capital security plus the unpaid distributions as at the redemption date of June 30, 2016. After the redemption, holders of NBC CapS – Series 1 will no longer be entitled to receive distributions or exercise any other rights. Given this redemption, the authorized but not issued Series 17 and 18 First Preferred Shares will be withdrawn from the Bank's authorized capital, and the Bank will redeem the $225 million deposit note from NBC Capital Trust. For additional information, see Notes 13 and 28 to the audited annual consolidated financial statements for the year ended October 31, 2015.

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 22, 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, except the accounting policies described below. Future accounting policy changes are described on the following page.

As at November 1, 2015, the Bank reclassified certain amounts in the Consolidated Statement of Income to better reflect the nature of reported revenues in the Personal and Commercial segment. Accordingly, for the quarter ended April 30, 2015, an amount of $10 million presented in the *Non-interest income – Credit fees* item was reclassified to *Net interest income* ($19 million for the six-month period ended April 30, 2015). 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 on the following page.

Accounting Policy Changes

During the quarter ended April 30, 2016, the Bank adopted the IFRS 9 provisions on own credit risk and updated one of its significant accounting policies, as described below.

IFRS 9 – *Financial Instruments (own credit risk)*

On February 1, 2016, the Bank early adopted, on a prospective basis, the own credit risk provisions set out in IFRS 9 – *Financial Instruments*. According to these provisions, changes in the fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in an entity's own credit risk must be recognized in *Other comprehensive income* unless these changes offset the amounts recognized in *Net income*. Fair value changes not attributable to an entity's own risk continue to be recognized in *Non-interest income* in the Consolidated Statement of Income. The amounts recognized in *Other comprehensive income* will not be subsequently reclassified to *Net income.* For the interim and annual periods prior to February 1, 2016, changes in the fair value of financial liabilities designated at fair value through profit or loss had been recognized in *Non-interest income* in the Consolidated Statement of Income.

Held-to-Maturity Securities

During the quarter ended April 30, 2016, the Bank classified securities in the held-to-maturity category. Held-to-maturity securities are financial assets with fixed or determinable payments and a fixed maturity that the Bank intends and is able to hold until maturity. The Bank accounts for held-to-maturity securities transactions on the trade date, and the related transaction costs are capitalized. These securities are initially recognized at fair value. In subsequent periods, they are recognized at amortized cost using the effective interest rate method, less any impairment loss measured using the same impairment model used for loans. Interest income and the amortization of premiums and discounts on these securities are recognized in *Net interest income* in the Consolidated Statement of Income.

Changes in Accounting Estimates

Impairment of Available-for-Sale Securities
During the quarter ended January 31, 2016, following an assessment of market conditions, the Bank revisited the definition of the terms "significant" and "prolonged" in order to provide a better estimate of impairment losses, when applicable, 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 the 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 accounting 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.

Sectoral Provision on Non-Impaired Loans
During the quarter ended April 30, 2016, following a significant increase in the credit risk of a group of loans of a specific industry, the Bank recorded a sectoral provision on non-impaired loans. When the credit risk of a loan portfolio with similar credit risk characteristics or of a group of loans of a specific industry increases significantly but the loans have yet to be individually identified as impaired, a sectoral provision is established collectively for the entire loan portfolio or loan group. This sectoral provision reflects the impairment losses that the Bank has incurred as a result of events that have occurred but where the individual loss has not been identified.

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.

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. 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 using 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 second 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 $536 million as at April 30, 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 April 30, 2016, total commitments for this type of loan stood at $2,463 million ($1,859 million as at October 31, 2015). Details about other exposures are provided in the table on structured entities in Note 22 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 Second Quarter Ended April 30, 2016,* and *Supplementary Financial Information for the Second Quarter Ended April 30, 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	18	
	Management's Discussion and Analysis	46 to 89, 100 and 104	19 to 38	
	Consolidated Financial Statements	Notes 1, 7, 16, 23 and 30	Notes 6 and 17	
	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	19 to 21, 30 and 68	
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	19 to 21	
10	Reconciliation of the accounting balance sheet to the regulatory balance sheet			4 to 7
11	Movements in regulatory capital	51	22	
12	Capital planning	46 to 54		
13	RWA by business segment and by risk type	52 and 54	23	8
14	Capital requirements by risk and RWA calculation method	52 and 62 to 67	23	8
15	Banking book credit risk	52	23	8 and 11 to 16
16	Movements in RWA by risk type	53	24	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	30 to 34	
Funding				
19	Summary of encumbered and unencumbered assets	80 and 81	32	
20	Residual contractual maturities of balance sheet items and off-balance-sheet commitments	191 to 194	35 to 38	
21	Funding strategy and funding sources	83 to 85	34	
Market risk				
22	Linkage of market risk measures to balance sheet	71 and 72	27 and 28	
23	Market risk factors	70, 73 to 76, 177 to 179	28 to 30	
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	26 and 59 to 61	10 to 24 and 17 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	59 to 61	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 second quarter ended April 30, 2016.
(2) These pages are included in the document entitled *Supplementary Financial Information for the Second Quarter Ended April 30, 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*. On March 11, 2016, the BCBS issued a consultative paper entitled *Pillar 3 Disclosure Requirements – Phase 2.*

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.

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.

On March 4, 2016, the BCBS issued *Standardised Measurement Approach for Operational Risk,* a consultative document that proposes a new standardized method for calculating operational risk.

In the federal budget tabled on March 22, 2016, the Government of Canada confirmed its intention to move forward with the rules proposed 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.* On April 20, 2016, Canada's Finance Minister introduced draft legislation that creates a bail-in regime for D-SIBs. The shares and eligible liabilities that will be subject to the conversion powers mentioned in the draft legislation, as well as the terms and conditions of such conversion, will be prescribed by regulations. The draft legislation also provides that OSFI will require D-SIBs to maintain a minimum capacity to absorb losses. Higher loss absorbency requirements will be established to ensure that affected banks maintain sufficient capital to absorb the proposed conversions. The implementation date of the proposed regime has not yet been determined. The Bank continues to monitor bail-in regime developments, as additional details on implementation, scope and timing are expected to follow through regulations.

On March 24, 2016, the BCBS issued *Reducing Variation in Credit Risk-Weighted Assets - Constraints on the Use of Internal Model Approaches,* a consultative document that aims to limit the use of advanced credit risk calculation models. On April 6, 2016, the BCBS also issued *Revisions to the Basel III Leverage Ratio Framework,* a consultative document that proposes, in particular, revisions to the treatment of derivative exposures.

On April 21, 2016, the BCBS issued *Interest Rate Risk in the Banking Book*, a document that addresses risk management, capital treatment and the supervision of interest rate risk in the banking book. These rules, which have to be implemented by 2018, are intended to ensure that banks have adequate capital to cover potential banking book losses arising from interest rate movements and to limit capital arbitrage between the trading book and the banking book.

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 April 30, 2016	As at October 31, 2015	BCBS 2016 (1)	OSFI 2016 (1)(2)
Capital ratios				
CET1	**9.8 %**	9.9 %	5.125 %	8.0 %
Tier 1(3)	**12.9 %**	12.5 %	6.625 %	9.5 %
Total(3)(4)	**14.8 %**	14.0 %	8.625 %	11.5 %
Leverage ratio	**3.7 %**	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 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 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)	Six months ended April 30, 2016
Common Equity Tier 1 (CET1) capital	
Balance at beginning	6,801
Issuance of common shares (including Stock Option Plan)	6
Repurchase of common shares	–
Contributed surplus	2
Dividends on preferred and common shares	(388)
Net income attributable to the Bank's shareholders	432
Removal of own credit spread net of income taxes	6
Other	(256)
Movements in accumulated other comprehensive income	
Translation adjustments	(20)
Available-for-sale securities	(18)
Other	38
Change in goodwill and intangible assets (net of related tax liability)	(55)
Other, including regulatory adjustments and transitional arrangements	
Change in defined benefit pension plan asset (net of related tax liability)	124
Change in amount exceeding 15% threshold	
Deferred tax assets	–
Significant investment in common shares of financial institutions	–
Change in other regulatory adjustments[2]	(3)
Balance at end	6,669
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	(13)
Other, including regulatory adjustments and transitional arrangements	(1)
Balance at end	2,211
Total Tier 1 capital	**8,880**
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	1
Change in eligible collective allowances	231
Other, including regulatory adjustments and transitional arrangements	–
Balance at end	1,284
Total regulatory capital	**10,164**

(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) decreased by $0.4 billion to total $68.4 billion as at April 30, 2016 compared to $68.8 billion as at October 31, 2015. This decrease came mainly from the impact of a rising Canadian dollar on currency exposures. The Bank's CET1 RWA are presented in the following table.

Capital Adequacy Under Basel III[1]

(millions of Canadian dollars)	As at April 30, 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	44,436	216	4,811	–	5,027	402	4,975
Qualifying revolving retail	5,442	–	1,152	–	1,152	92	1,036
Other retail	14,975	1,776	4,929	–	6,705	536	6,651
Non-retail							
Corporate	56,925	1,822	25,047	–	26,869	2,149	26,662
Sovereign	22,969	–	580	–	580	46	629
Financial institutions	4,770	153	1,162	–	1,315	105	974
Banking book equities[3]	595	–	595	–	595	48	593
Securitization	3,078	–	781	–	781	62	798
Other assets	27,726	–	–	3,495	3,495	280	4,252
Counterparty credit risk							
Corporate	4,595	38	53	–	91	7	96
Sovereign	12,495	–	17	–	17	1	22
Financial institutions	51,621	–	1,204	–	1,204	96	1,402
Trading portfolio	10,607	105	2,554	–	2,659	213	2,774
Credit valuation adjustment charge[4]		2,090	–	–	2,090	167	2,367
Regulatory scaling factor		–	2,570	–	2,570	206	2,512
Total – Credit risk	260,234	6,200	45,455	3,495	55,150	4,410	55,743
Market risk							
VaR		–	1,319	–	1,319	106	1,262
Stressed VaR		–	1,972	–	1,972	158	1,875
Interest rate specific risk		680	–	–	680	54	828
Total – Market risk		680	3,291	–	3,971	318	3,965
Operational risk		9,254	–	–	9,254	740	9,127
Total	260,234	16,134	48,746	3,495	68,375	5,468	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
			April 30, 2016	January 31, 2016
	Non-counterparty credit risk	Counterparty credit risk[2]	Total	Total
Credit risk – Risk-weighted assets at beginning	49,841	6,843	56,684	55,743
Book size	197	(565)	(368)	631
Book quality	(78)	37	(41)	(411)
Model updates	12	(4)	8	–
Methodology and policy	–	–	–	–
Acquisitions and disposals	–	–	–	–
Foreign exchange movements	(883)	(250)	(1,133)	721
Credit risk – Risk-weighted assets at end	49,089	6,061	55,150	56,684
Market risk – Risk-weighted assets at beginning			3,779	3,965
Movement in risk levels[3]			192	(186)
Model updates			–	–
Methodology and policy			–	–
Acquisitions and disposals			–	–
Market risk – Risk-weighted assets at end			3,971	3,779
Operational risk – Risk-weighted assets at beginning			9,278	9,127
Movement in risk levels			(24)	151
Acquisitions and disposals			–	–
Operational risk – Risk-weighted assets at end			9,254	9,278
Risk-weighted assets at end			68,375	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 9.8% as at April 30, 2016, relatively stable versus 9.9% as at October 31, 2015. The Tier 1 and the Total capital ratios were, respectively, 12.9% and 14.8% as at April 30, 2016 versus 12.5% and 14.0% as at October 31, 2015. The change in these two capital ratios stems essentially from the issuance of Series 34 preferred shares for $400 million.

The leverage ratio was 3.7% as at April 30, 2016, unchanged from October 31, 2015.

Regulatory Capital and Ratios Under Basel III[(1)]

(millions of Canadian dollars)	As at April 30, 2016	As at October 31, 2015
Capital		
CET1	6,669	6,801
Tier 1[(2)]	8,880	8,626
Total[(2)(3)]	10,164	9,678
Risk-weighted assets		
CET1 capital	68,375	68,835
Tier 1 capital	68,604	69,094
Total capital	68,800	69,316
Total exposure	239,401	234,957
Capital ratios		
CET1	9.8 %	9.9 %
Tier 1[(2)]	12.9 %	12.5 %
Total[(2)(3)]	14.8 %	14.0 %
Leverage ratio	3.7 %	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 May 31, 2016, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 55 cents per common share, up 1 cent or 2%, payable on August 1, 2016 to shareholders of record on June 20, 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 help 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 April 30, 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	38,577	5,859	–	–	–	44,436	44,431
Qualifying revolving retail	2,688	2,754	–	–	–	5,442	5,198
Other retail	13,709	1,253	–	–	13	14,975	15,052
	54,974	9,866	–	–	13	64,853	64,681
Non-retail							
Corporate	40,855	13,360	4,588	7	2,710	61,520	58,429
Sovereign	19,032	3,829	12,175	321	107	35,464	35,584
Financial institutions	3,793	344	50,981	640	633	56,391	63,033
	63,680	17,533	67,744	968	3,450	153,375	157,046
Trading portfolio	–	–	–	10,607	–	10,607	10,318
Securitization	634	–	–	–	2,444	3,078	2,982
Total – Gross Credit Risk	119,288	27,399	67,744	11,575	5,907	231,913	235,027
Standardized Approach	9,295	407	1,796	518	410	12,426	10,865
AIRB Approach	109,993	26,992	65,948	11,057	5,497	219,487	224,162
Total – Gross Credit Risk	119,288	27,399	67,744	11,575	5,907	231,913	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 fails to 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 Second Quarter Ended April 30, 2016* and in *Supplementary Regulatory Capital Disclosure for the Second Quarter Ended April 30, 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 April 30, 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	7,452	87	6,943	422	Interest rate[3]
Securities					
At fair value through profit or loss	42,271	40,097	2,174	–	Interest rate[3] and other[4]
Available-for-sale	14,110	–	14,110	–	Interest rate[3] and equity[5]
Held-to-maturity	1,707	–	1,707	–	Interest rate[3]
Securities purchased under reverse repurchase agreements and securities borrowed	13,760	–	13,760	–	Interest rate[3][6]
Loans, net of allowances	112,150	5,091	107,059	–	Interest rate[3]
Customers' liability under acceptances	8,966	–	8,966	–	Interest rate[3]
Derivative financial instruments	12,181	10,712	1,469	–	Interest rate
Purchased receivables	1,334	–	1,334	–	Interest rate
Defined benefit asset	87	–	87	–	Other
Other	6,716	–	–	6,716	
	220,734	55,987	157,609	7,138	
Liabilities					
Deposits	130,271	3,463	126,808	–	Interest rate[3]
Acceptances	8,966	–	8,966	–	Interest rate[3]
Obligations related to securities sold short	14,839	14,839	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	18,295	–	18,295	–	Interest rate[3][6]
Derivative financial instruments	9,359	8,151	1,208	–	Interest rate
Liabilities related to transferred receivables	19,773	4,148	15,625	–	Interest rate[3]
Defined benefit liability	193	–	193	–	Other
Other	6,613	44	1,349	5,220	Interest rate[3]
Subordinated debt	1,015	–	1,015	–	Interest rate[3]
	209,324	30,645	173,459	5,220	

(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

	Balance sheet	Market risk measures: Trading[1]	Market risk measures: Non-Trading[2]	Not subject to market risk	Non-traded risk primary risk sensitivity
Assets					
Cash and deposits with financial institutions	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								Six months ended	
	April 30, 2016				January 31, 2016		April 30, 2015		April 30, 2016	April 30, 2015
	Low	High	Average	Period end	Average	Period end	Average	Period end	Average	Average
Interest rate	(3.3)	(6.0)	(4.3)	(3.6)	(5.1)	(5.3)	(4.4)	(4.4)	(4.7)	(4.9)
Exchange rate	(2.6)	(5.3)	(3.8)	(2.8)	(2.8)	(3.0)	(2.0)	(2.1)	(3.3)	(1.8)
Equity	(3.6)	(5.6)	(4.5)	(3.6)	(4.1)	(4.2)	(3.5)	(2.3)	(4.3)	(3.6)
Commodity	(0.6)	(1.2)	(0.8)	(0.9)	(1.7)	(0.7)	(1.0)	(0.8)	(1.2)	(1.1)
Correlation effect[2]	n.m.	n.m.	6.7	6.3	7.3	5.4	4.7	2.9	6.9	5.4
Total trading VaR	(4.6)	(8.1)	(6.7)	(4.6)	(6.4)	(7.8)	(6.2)	(6.7)	(6.6)	(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		Six months ended	
				April 30, 2016	January 31, 2016		April 30, 2015		April 30, 2016	April 30, 2015
	Low	High	Average	Period end	Average	Period end	Average	Period end	Average	Average
Interest rate	(6.2)	(9.0)	(7.9)	(6.2)	(9.4)	(9.0)	(7.7)	(7.6)	(8.6)	(8.9)
Exchange rate	(2.9)	(9.6)	(4.9)	(3.1)	(3.8)	(8.0)	(3.0)	(2.7)	(4.4)	(3.1)
Equity	(4.3)	(7.2)	(5.8)	(4.3)	(5.3)	(6.1)	(5.0)	(3.9)	(5.6)	(5.2)
Commodity	(0.6)	(1.4)	(1.1)	(1.2)	(2.4)	(0.9)	(1.9)	(1.7)	(1.7)	(2.0)
Correlation effect[2]	n.m.	n.m.	9.7	6.5	12.3	13.9	9.6	9.9	11.0	10.6
Total trading SVaR	(8.0)	(11.8)	(10.0)	(8.3)	(8.6)	(10.1)	(8.0)	(6.0)	(9.3)	(8.6)

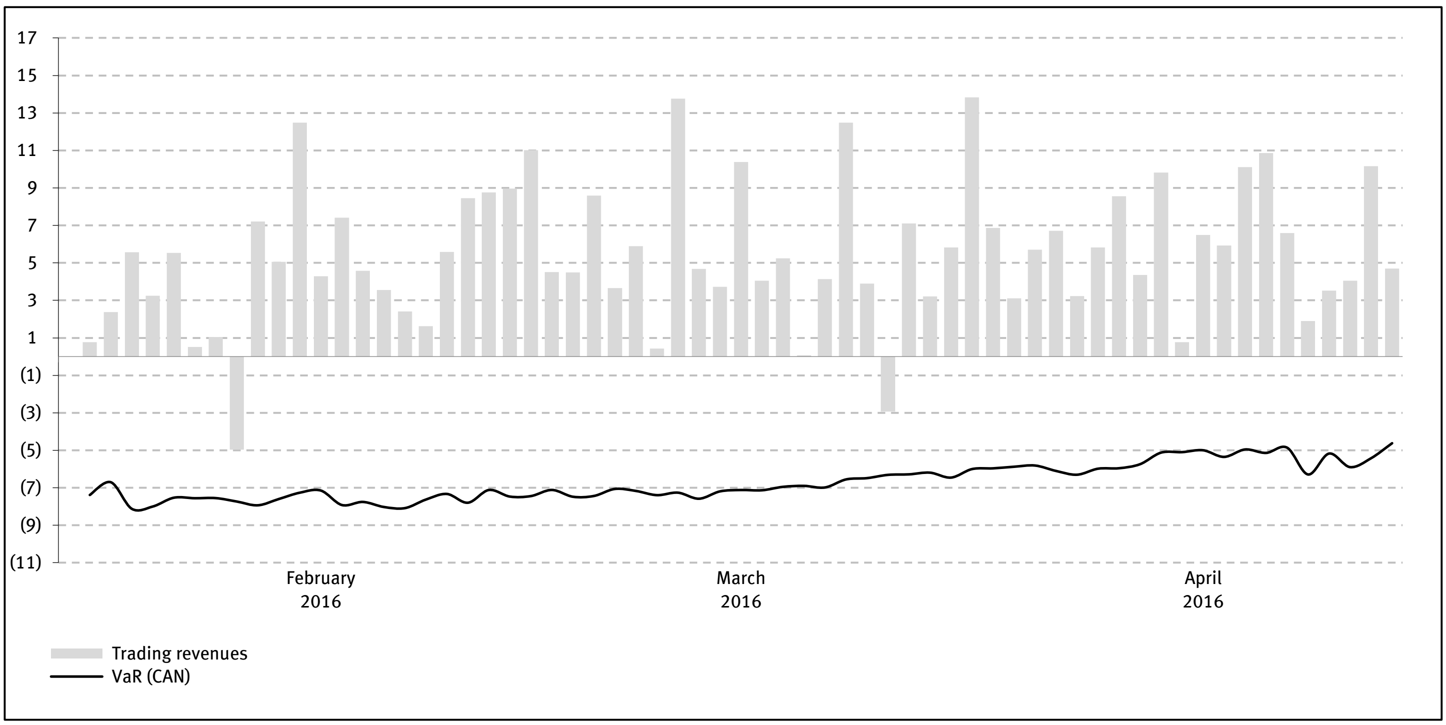
n.m. Computation of a correlation effect for the high and low is not meaningful, as highs and lows may occur on different days and be attributable to different types of risk.
(1) Amounts are presented on a pre-tax basis and represent one-day SVaR using a 99% confidence level.
(2) The total trading SVaR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

The average total trading VaR was $6.7 million for the quarter ended April 30, 2016 compared to $6.4 million for the quarter ended January 31, 2016. The average total trading SVaR was $10.0 million for the second quarter of 2016, up $1.4 million from the preceding quarter. The increases in average total trading VaR and SVaR were mainly caused by higher foreign exchange and equity risks, partly offset by lower interest rate risk. Total trading VaR and SVaR remained relatively stable during the first half of the quarter and decreased gradually during the second half of the quarter.

Daily Trading Revenues

The following table shows daily trading and underwriting revenues and VaR. Daily trading and underwriting revenues were positive almost 97% of the days for the quarter ended April 30, 2016. Net daily trading losses in excess of $1 million were recorded on two days. None of these losses exceeded the VaR limit.

Quarter ended April 30, 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 April 30, 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	(198)	38	(160)	(10)	17	7
100-basis-point decrease in the interest rate	154	(43)	111	13	(18)	(5)

(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 April 30, 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	7,452	–	7,452	1,008	6,444	6,251
Securities						
Issued or guaranteed by Canada, U.S. Treasury, other U.S. agencies and other foreign governments	19,589	15,621	35,210	23,553	11,657	12,061
Issued or guaranteed by provinces	14,631	10,871	25,502	19,045	6,457	6,154
Issued or guaranteed by municipalities and school boards	801	234	1,035	450	585	1,020
Other debt securities	3,379	1,140	4,519	1,743	2,776	3,154
Equity securities	19,051	34,118	53,169	41,970	11,199	14,507
Loans						
Securities backed by insured residential mortgages	6,398	–	6,398	2,959	3,439	2,761
As at April 30, 2016	71,301	61,984	133,285	90,728	42,557	
As at October 31, 2015	66,908	68,915	135,823	89,915		45,908

(millions of Canadian dollars)	As at April 30, 2016	As at October 31, 2015
Unencumbered liquid assets by entity		
National Bank (parent)	20,796	28,739
Domestic subsidiaries	13,025	7,147
Foreign subsidiaries and branches	8,736	10,022
	42,557	45,908

(millions of Canadian dollars)	As at April 30, 2016	As at October 31, 2015
Unencumbered liquid assets by currency		
Canadian dollar	26,050	24,238
U.S. dollar	11,475	20,752
Other currencies	5,032	918
	42,557	45,908

Liquid Asset Portfolio – Average(4)

(millions of Canadian dollars)					Quarter ended April 30, 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	7,469	–	7,469	1,347	6,122
Securities					
Issued or guaranteed by Canada, U.S. Treasury, other U.S. agencies and other foreign governments	19,687	15,381	35,068	23,438	11,630
Issued or guaranteed by provinces	14,668	10,764	25,432	18,871	6,561
Issued or guaranteed by municipalities and school boards	964	173	1,137	410	727
Other debt securities	3,436	1,131	4,567	1,763	2,804
Equity securities	18,252	37,177	55,429	44,461	10,968
Loans					
Securities backed by insured residential mortgages	5,549	–	5,549	2,639	2,910
	70,025	64,626	134,651	92,929	41,722

(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 April 30, 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	66	942	6,444	–	7,452	0.5
Securities	24,777	–	32,674	637	58,088	11.2
Securities purchased under reverse repurchase agreements and securities borrowed	–	13,760	–	–	13,760	6.2
Loans, net of allowances	31,418	–	3,439	77,293	112,150	14.2
Customers' liability under acceptances	–	–	–	8,966	8,966	–
Derivative financial instruments	–	–	–	12,181	12,181	–
Due from clients, dealers and brokers	–	–	–	482	482	–
Purchased receivables	–	–	–	1,334	1,334	–
Investments in associates and joint ventures	–	–	–	707	707	–
Premises and equipment	–	–	–	1,540	1,540	–
Goodwill	–	–	–	1,276	1,276	–
Intangible assets	–	–	–	1,113	1,113	–
Other assets	–	–	–	1,685	1,685	–
	56,261	14,702	42,557	107,214	220,734	32.1

(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 April 30, 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
		April 30, 2016	January 31, 2016
	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.**	**31,546**	32,718
Cash outflows			
2 Retail deposits and deposits from small business customers, of which:	**34,251**	**2,234**	2,229
3 Stable deposits	**17,013**	**510**	503
4 Less stable deposits	**17,238**	**1,724**	1,726
5 Unsecured wholesale funding, of which:	**39,669**	**21,548**	21,712
6 Operational deposits (all counterparties)	**10,134**	**2,430**	2,312
7 Non-operational deposits (all counterparties)	**22,220**	**11,803**	10,815
8 Unsecured debt	**7,315**	**7,315**	8,585
9 Secured wholesale funding	**n.a.**	**4,796**	3,589
10 Additional requirements, of which:	**36,335**	**9,493**	9,285
11 Outflows related to derivative exposures and other collateral requirements	**9,559**	**5,297**	5,256
12 Outflows related to loss of funding on secured debt securities	**758**	**758**	810
13 Backstop liquidity and credit enhancement facilities and commitments to extend credit	**26,018**	**3,438**	3,219
14 Other contractual commitments to extend credit	**665**	**170**	139
15 Other contingent commitments to extend credit	**73,049**	**795**	796
16 Total cash outflows	**n.a.**	**39,036**	37,750
Cash inflows			
17 Secured lending (e.g., reverse repos)	**46,575**	**8,266**	6,881
18 Inflows from fully performing exposures	**7,454**	**4,236**	3,908
19 Other cash inflows	**3,197**	**3,197**	2,718
20 Total cash inflows	**57,226**	**15,699**	13,507
		Total adjusted value[4]	Total adjusted value[4]
21 Total HQLA	**n.a.**	**31,546**	32,718
22 Total net cash outflows	**n.a.**	**23,337**	24,243
23 Liquidity coverage ratio (%)[5]	**n.a.**	**135 %**	135 %

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 represents the average 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 April 30, 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 April 30, 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]	1,898	20	74	4	1,996	–	59	2,055
Certificates of deposit and commercial paper[3]	668	3,546	1,480	476	6,170	376	94	6,640
Asset-backed commercial paper	–	–	–	–	–	–	–	–
Senior unsecured medium-term notes[4]	–	1,651	422	3,192	5,265	4,419	5,747	15,431
Senior unsecured structured notes	29	34	56	104	223	–	1,799	2,022
Covered bonds and asset-backed securities								
Mortgage securitization	–	1,149	80	1,374	2,603	3,243	13,927	19,773
Covered bonds	–	–	2,519	–	2,519	942	4,298	7,759
Securitization of credit card receivables	–	–	–	424	424	–	872	1,296
Subordinated liabilities[5]	–	–	–	1,006	1,006	–	9	1,015
Other[6]	2,686	234	1	6	2,927	–	–	2,927
	5,281	6,634	4,632	6,586	23,133	8,980	26,805	58,918
Secured funding	–	1,149	2,599	1,798	5,546	4,185	19,097	28,828
Unsecured funding	5,281	5,485	2,033	4,788	17,587	4,795	7,708	30,090
	5,281	6,634	4,632	6,586	23,133	8,980	26,805	58,918
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 April 30, 2016
	One-notch downgrade	Two-notch downgrade	Three-notch downgrade
Derivatives[1]	19	40	91
Other[2]	–	199	199

(1) Contractual requirements related to agreements known as Credit Support Annexes.
(2) Contractual requirements related to the margin funding facility of 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 April 30, 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 April 30, 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	5,207	–	–	–	–	–	–	–	2,245	7,452
Securities										
At fair value through profit or loss	1,291	1,479	1,414	1,020	380	3,433	8,483	6,349	18,422	42,271
Available-for-sale	19	192	37	103	125	513	6,587	5,997	537	14,110
Held-to-maturity	–	–	–	–	–	25	1,607	75	–	1,707
	1,310	1,671	1,451	1,123	505	3,971	16,677	12,421	18,959	58,088
Securities purchased under reverse repurchase agreements and securities borrowed	4,807	3,069	2,055	346	500	1,349	–	–	1,634	13,760
Loans and acceptances(1)										
Residential mortgage	1,071	2,115	2,292	1,835	1,613	6,791	28,743	626	10	45,096
Personal and credit card	843	631	762	651	630	1,828	8,327	1,748	17,515	32,935
Business and government	6,641	2,798	2,713	2,804	2,659	4,365	8,623	2,330	2,023	34,956
Customers' liability under acceptances	6,147	2,749	70	–	–	–	–	–	–	8,966
Allowances for credit losses									(837)	(837)
	14,702	8,293	5,837	5,290	4,902	12,984	45,693	4,704	18,711	121,116
Other										
Derivative financial instruments	1,076	1,062	539	571	368	967	2,676	4,922	–	12,181
Due from clients, dealers and brokers(1)									482	482
Purchased receivables									1,334	1,334
Investments in associates and joint ventures									707	707
Premises and equipment									1,540	1,540
Goodwill									1,276	1,276
Intangible assets									1,113	1,113
Other assets	242	143	130	74	133	128	102	83	650	1,685
	1,318	1,205	669	645	501	1,095	2,778	5,005	7,102	20,318
	27,344	14,238	10,012	7,404	6,408	19,399	65,148	22,130	48,651	220,734

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

(millions of Canadian dollars)									As at April 30, 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	797	1,097	1,440	2,154	2,739	4,102	7,652	981	27,010	47,972
Business and government	1,908	420	1,982	586	814	643	2,357	715	31,830	41,255
Deposit-taking institutions	2,392	68	–	44	–	–	–	–	1,706	4,210
Unsecured senior debt	5,281	5,485	2,033	1,099	2,683	4,795	4,946	2,753	–	29,075
Covered bonds	–	–	2,519	–	–	942	2,866	1,432	–	7,759
	10,378	7,070	7,974	3,883	6,236	10,482	17,821	5,881	60,546	130,271
Other										
Acceptances	6,147	2,749	70	–	–	–	–	–	–	8,966
Obligations related to securities sold short(3)	5	183	19	37	12	1,085	4,400	6,456	2,642	14,839
Obligations related to securities sold under repurchase agreements and securities loaned	8,443	1,526	3,952	2,337	811	–	–	–	1,226	18,295
Derivative financial instruments	1,070	888	666	775	314	986	2,049	2,611	–	9,359
Due to clients, dealers and brokers(1)									2,607	2,607
Liabilities related to transferred receivables(4)	–	1,149	80	1,083	291	3,243	8,758	5,169	–	19,773
Securitization – Credit card(5)	–	–	–	424	–	–	872	–	–	1,296
Other liabilities – Other items(1)(5)	129	23	3	128	108	46	29	227	2,210	2,903
	15,794	6,518	4,790	4,784	1,536	5,360	16,108	14,463	8,685	78,038
Subordinated debt	–	–	–	–	1,006	–	–	9	–	1,015
Equity									11,410	11,410
	26,172	13,588	12,764	8,667	8,778	15,842	33,929	20,353	80,641	220,734
Off-balance-sheet commitments										
Letters of guarantee and documentary letters of credit	6	196	179	688	511	574	751	216	–	3,121
Credit card receivables(6)									6,955	6,955
Backstop liquidity and credit enhancement facilities(7)	15	–	–	1,998	3,479	–	–	–	–	5,492
Commitments to extend credit(8)	766	1,070	1,894	1,525	1,489	8,785	9,681	384	20,976	46,570
Lease commitments and other contracts	76	148	217	213	209	738	1,173	832	–	3,606
Other guarantee	–	–	–	–	–	–	–	–	27	27

(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 a payment must be made on one of the backstop liquidity facilities, the Bank will receive government bonds as collateral, up to $2.2 billion.
(8) These amounts include $21.3 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 a payment must be made on one of the backstop liquidity facilities, the Bank will receive government bonds as collateral, 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
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Total	Total
Total revenues	**1,425**	1,289	1,405	1,510	1,421	1,410	1,364	1,460	5,746	5,464
Net income	**210**	261	347	453	404	415	330	441	1,619	1,538
Earnings per share ($)										
Basic	**0.52**	0.68	0.96	1.29	1.14	1.17	0.92	1.26	4.56	4.36
Diluted	**0.52**	0.67	0.95	1.28	1.13	1.16	0.91	1.24	4.51	4.32
Dividends per common share ($)	**0.54**	0.54	0.52	0.52	0.50	0.50	0.48	0.48	2.04	1.88
Return on common shareholders' equity (%)	**7.7**	9.5	13.6	18.8	17.6	17.8	14.3	20.1	16.9	17.9
Total assets	**220,734**	219,301	216,090	215,560	207,123	214,474	205,429	198,822		
Impaired loans, net	**300**	234	254	254	249	194	248	184		
Per common share ($)										
Book value	**27.75**	27.77	28.26	27.60	27.01	26.33	25.76	25.18		
Share price										
High	**45.56**	44.11	46.33	50.01	49.15	55.06	53.88	49.15		
Low	**35.95**	35.83	40.75	43.78	45.02	44.21	48.16	45.19		

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

CONSOLIDATED BALANCE SHEETS

(unaudited) (millions of Canadian dollars)

	As at April 30, 2016	As at October 31, 2015
Assets		
Cash and deposits with financial institutions	7,452	7,567
Securities (Notes 4 and 5)		
At fair value through profit or loss	42,271	41,997
Available-for-sale	14,110	14,043
Held-to-maturity	1,707	–
	58,088	56,040
Securities purchased under reverse repurchase agreements and securities borrowed	13,760	17,702
Loans (Note 6)		
Residential mortgage	45,096	43,520
Personal and credit card	32,935	31,933
Business and government	34,956	30,954
	112,987	106,407
Customers' liability under acceptances	8,966	9,400
Allowances for credit losses	(837)	(569)
	121,116	115,238
Other		
Derivative financial instruments	12,181	10,842
Due from clients, dealers and brokers	482	415
Purchased receivables	1,334	1,438
Investments in associates and joint ventures (Note 8)	707	831
Premises and equipment	1,540	1,817
Goodwill	1,276	1,277
Intangible assets	1,113	1,059
Other assets (Note 9)	1,685	1,864
	20,318	19,543
	220,734	216,090
Liabilities and equity		
Deposits (Notes 4 and 10)		
Personal	47,972	45,981
Business and government	76,029	74,441
Deposit-taking institutions	6,270	8,408
	130,271	128,830
Other		
Acceptances	8,966	9,400
Obligations related to securities sold short	14,839	17,333
Obligations related to securities sold under repurchase agreements and securities loaned	18,295	13,779
Derivative financial instruments	9,359	7,756
Due to clients, dealers and brokers	2,607	1,871
Liabilities related to transferred receivables (Notes 4 and 7)	19,773	19,770
Other liabilities (Note 11)	4,199	4,474
	78,038	74,383
Subordinated debt (Note 13)	1,015	1,522
Equity		
Equity attributable to the Bank's shareholders (Notes 15 and 19)		
Preferred shares	1,250	1,023
Common shares	2,620	2,614
Contributed surplus	69	67
Retained earnings	6,530	6,705
Accumulated other comprehensive income	145	145
	10,614	10,554
Non-controlling interests (Note 16)	796	801
	11,410	11,355
	220,734	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 April 30		Six months ended April 30	
	2016	2015	**2016**	2015
Interest income				
Loans	**916**	866	**1,829**	1,781
Securities at fair value through profit or loss	**154**	172	**319**	347
Available-for-sale securities	**84**	75	**167**	144
Held-to-maturity securities	**3**	–	**3**	–
Deposits with financial institutions	**18**	6	**32**	13
	1,175	1,119	**2,350**	2,285
Interest expense				
Deposits	**345**	328	**682**	673
Liabilities related to transferred receivables	**102**	102	**204**	208
Subordinated debt	**8**	13	**16**	30
Other	**11**	26	**33**	59
	466	469	**935**	970
Net interest income	**709**	650	**1,415**	1,315
Non-interest income				
Underwriting and advisory fees	**94**	111	**169**	191
Securities brokerage commissions	**61**	75	**120**	148
Mutual fund revenues	**87**	81	**172**	154
Trust service revenues	**109**	111	**223**	218
Credit fees	**91**	93	**185**	176
Card revenues	**28**	28	**57**	64
Deposit and payment service charges	**61**	56	**123**	113
Trading revenues (losses) (Note 18)	**8**	14	**55**	117
Gains (losses) on available-for-sale securities, net	**29**	56	**40**	63
Insurance revenues, net	**28**	25	**54**	47
Foreign exchange revenues, other than trading	**19**	21	**43**	43
Share in the net income of associates and joint ventures	**11**	(8)	**7**	–
Other (Note 8)	**90**	108	**51**	182
	716	771	**1,299**	1,516
Total revenues	**1,425**	1,421	**2,714**	2,831
Provisions for credit losses (Note 6)	**317**	57	**380**	111
	1,108	1,364	**2,334**	2,720
Non-interest expenses				
Compensation and employee benefits	**506**	538	**1,049**	1,086
Occupancy	**58**	59	**114**	113
Technology	**133**	168	**268**	288
Communications	**18**	19	**35**	36
Professional fees	**66**	53	**127**	107
Other	**95**	99	**186**	169
	876	936	**1,779**	1,799
Income before income taxes	**232**	428	**555**	921
Income taxes	**22**	24	**84**	102
Net income	**210**	404	**471**	819
Net income attributable to				
Preferred shareholders	**16**	11	**27**	23
Common shareholders	**177**	377	**405**	762
Bank shareholders	**193**	388	**432**	785
Non-controlling interests	**17**	16	**39**	34
	210	404	**471**	819
Earnings per share *(dollars)* (Note 21)				
Basic	**0.52**	1.14	**1.20**	2.32
Diluted	**0.52**	1.13	**1.19**	2.29
Dividends per common share *(dollars)*	**0.54**	0.50	**1.08**	1.00

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 April 30		Six months ended April 30	
	2016	2015	**2016**	2015
Net income	**210**	404	**471**	819
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	**(140)**	(102)	**(30)**	18
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)	**108**	74	**17**	(30)
Impact of hedging net foreign currency translation (gains) losses reclassified to net income	**–**	–	**5**	–
	(32)	(28)	**(20)**	(12)
Net change in available-for-sale securities				
Net unrealized gains (losses) on available-for-sale securities	**82**	(9)	**16**	60
Net (gains) losses on available-for-sale securities reclassified to net income	**(30)**	(53)	**(34)**	(62)
	52	(62)	**(18)**	(2)
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**40**	26	**44**	26
Net (gains) losses on designated derivative financial instruments reclassified to net income	**(4)**	(3)	**(7)**	(6)
	36	23	**37**	20
Share in the other comprehensive income of associates and joint ventures	**(3)**	–	**1**	3
Items that will not be subsequently reclassified to net income				
Remeasurements of pension plans and other post-employment benefit plans	**15**	91	**(137)**	(22)
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	**(40)**	–	**(40)**	–
	(25)	91	**(177)**	(22)
Total other comprehensive income, net of income taxes	**28**	24	**(177)**	(13)
Comprehensive income	**238**	428	**294**	806
Comprehensive income attributable to				
Bank shareholders	**222**	421	**255**	778
Non-controlling interests	**16**	7	**39**	28
	238	428	**294**	806

INCOME TAXES – OTHER COMPREHENSIVE INCOME

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

	Quarter ended April 30		Six months ended April 30	
	2016	2015	**2016**	2015
Net foreign currency translation adjustments				
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	**(4)**	(5)	**1**	2
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)	**22**	22	**(1)**	–
Impact of hedging net foreign currency translation (gains) losses reclassified to net income	**–**	–	**2**	–
	18	17	**–**	2
Net change in available-for-sale securities				
Net unrealized gains (losses) on available-for-sale securities	**30**	(3)	**6**	23
Net (gains) losses on available-for-sale securities reclassified to net income	**(11)**	(20)	**(12)**	(23)
	19	(23)	**(6)**	–
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**14**	10	**16**	9
Net (gains) losses on designated derivative financial instruments reclassified to net income	**(2)**	(1)	**(3)**	(2)
	12	9	**13**	7
Remeasurements of pension plans and other post-employment benefit plans	**6**	33	**(50)**	(8)
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	**(14)**	–	**(14)**	–
	41	36	**(57)**	1

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) (millions of Canadian dollars)

	Six months ended April 30	
	2016	2015
Preferred shares at beginning (Note 15)	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	21	26
Impact of shares purchased or sold for trading	(15)	4
Common shares at end	2,620	2,323
Contributed surplus at beginning	67	52
Stock option expense (Note 19)	6	10
Stock options exercised	(3)	(3)
Other	(1)	–
Contributed surplus at end	69	59
Retained earnings at beginning	6,705	5,850
Net income attributable to the Bank's shareholders	432	785
Dividends (Note 15)		
Preferred shares	(24)	(23)
Common shares	(364)	(329)
Premium paid on preferred shares redeemed for cancellation	(3)	–
Share issuance expenses	(6)	–
Remeasurements of pension plans and other post-employment benefit plans	(137)	(22)
Net fair value change attributable to the credit risk on financial liabilities designated at fair value through profit or loss	(40)	–
Impact of a financial liability resulting from a put option written to a non-controlling interest	(33)	(30)
Retained earnings at end	6,530	6,231
Accumulated other comprehensive income at beginning	145	289
Net foreign currency translation adjustments	(20)	(12)
Net change in unrealized gains (losses) on available-for-sale securities	(18)	(2)
Net change in gains (losses) on cash flow hedges	37	26
Share in the other comprehensive income of associates and joint ventures	1	3
Accumulated other comprehensive income at end	145	304
Equity attributable to the Bank's shareholders	10,614	9,940
Non-controlling interests at beginning	801	795
Net income attributable to non-controlling interests	39	34
Other comprehensive income attributable to non-controlling interests	–	(6)
Distributions to non-controlling interests	(44)	(38)
Non-controlling interests at end	796	785
Equity	11,410	10,725

ACCUMULATED OTHER COMPREHENSIVE INCOME

	As at April 30, 2016	As at April 30, 2015
Accumulated other comprehensive income		
Net foreign currency translation adjustments	(16)	(15)
Net unrealized gains (losses) on available-for-sale securities	(6)	166
Net gains (losses) on instruments designated as cash flow hedges	161	149
Share in the other comprehensive income of associates and joint ventures	6	4
	145	304

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (millions of Canadian dollars)

	Six months ended April 30	
	2016	2015
Cash flows from operating activities		
Net income	471	819
Adjustments for		
Provisions for credit losses	380	111
Amortization of premises and equipment and intangible assets	212	105
Write-off of an equity interest in an associate (Note 8)	164	–
Gain on the disposal of shares of Fiera Capital Corporation	–	(34)
Impairment losses on intangible assets	–	46
Deferred taxes	(55)	(8)
Translation adjustment on foreign currency denominated subordinated debt	–	1
Losses (gains) on sales of available-for-sale securities, net	(44)	(72)
Impairment losses on available-for-sale securities	4	9
Share in the net income of associates and joint ventures	(7)	–
Stock option expense	6	10
Change in operating assets and liabilities		
Securities at fair value through profit or loss	(274)	(618)
Securities purchased under reverse repurchase agreements and securities borrowed	3,942	6,340
Loans, net of securitization	(6,689)	(776)
Deposits	1,441	2,163
Obligations related to securities sold short	(2,494)	(536)
Obligations related to securities sold under repurchase agreements and securities loaned	4,516	(3,837)
Derivative financial instruments, net	264	(1,107)
Due from and to clients, dealers and brokers, net	669	166
Purchased receivables	104	(444)
Interest and dividends receivable and interest payable	(47)	(88)
Current tax assets and liabilities	75	(83)
Other items	(283)	391
	2,355	2,558
Cash flows from financing activities		
Issuance of preferred shares	400	–
Redemption of preferred shares for cancellation	(176)	(200)
Issuance of common shares	3	28
Redemption of subordinated debt	(500)	(350)
Share issuance expenses	(6)	–
Dividends paid	(384)	(188)
Distributions to non-controlling interests	(44)	(38)
	(707)	(748)
Cash flows from investing activities		
Disposal of shares of Fiera Capital Corporation	–	114
Purchases of available-for-sale securities	(3,259)	(4,209)
Maturities of available-for-sale securities	412	263
Sales of available-for-sale securities	2,773	2,255
Purchases of held-to-maturity securities	(1,709)	–
Net change in tangible assets leased under operating leases	163	(630)
Net change in premises and equipment	(70)	(36)
Net change in intangible assets	(124)	(122)
	(1,814)	(2,365)
Impact of currency rate movements on cash and cash equivalents	51	(1,061)
Increase (decrease) in cash and cash equivalents	(115)	(1,616)
Cash and cash equivalents at beginning	7,567	8,086
Cash and cash equivalents at end(1)	7,452	6,470
Supplementary information about cash flows from operating activities		
Interest paid	977	1,084
Interest and dividends received	2,357	2,291
Income taxes paid	135	180

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 $0.9 billion as at April 30, 2016 ($1.3 billion as at October 31, 2015) for which there are restrictions. In addition, $3 million was held in escrow as at April 30, 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 May 31, 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 April 30, 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, except the accounting policies described in Note 2. Future accounting policy changes are also 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.

As at November 1, 2015, the Bank reclassified certain amounts in the Consolidated Statement of Income to better reflect the nature of reported revenues in the Personal and Commercial segment. Accordingly, for the quarter ended April 30, 2015, an amount of $10 million presented in the *Non-interest income – Credit fees* item was reclassified to *Net interest income* ($19 million for the six-month period ended April 30, 2015). 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 – ACCOUNTING POLICY CHANGES

Accounting Policy Changes

During the quarter ended April 30, 2016, the Bank adopted the IFRS 9 provisions on own credit risk and updated one of its significant accounting policies, as described below.

IFRS 9 – *Financial Instruments (own credit risk)*
On February 1, 2016, the Bank early adopted, on a prospective basis, the own credit risk provisions set out in IFRS 9 – *Financial Instruments*. According to these provisions, changes in the fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in an entity's own credit risk must be recognized in *Other comprehensive income* unless these changes offset the amounts recognized in *Net income*. Fair value changes not attributable to an entity's own risk continue to be recognized in *Non-interest income* in the Consolidated Statement of Income. The amounts recognized in *Other comprehensive income* will not be subsequently reclassified to *Net income.* For the interim and annual periods prior to February 1, 2016, changes in the fair value of financial liabilities designated at fair value through profit or loss had been recognized in *Non-interest income* in the Consolidated Statement of Income.

Held-to-Maturity Securities
During the quarter ended April 30, 2016, the Bank classified securities in the held-to-maturity category. Held-to-maturity securities are financial assets with fixed or determinable payments and a fixed maturity that the Bank intends and is able to hold until maturity. The Bank accounts for held-to-maturity securities transactions on the trade date, and the related transaction costs are capitalized. These securities are initially recognized at fair value. In subsequent periods, they are recognized at amortized cost using the effective interest rate method, less any impairment loss measured using the same impairment model used for loans. Interest income and the amortization of premiums and discounts on these securities are recognized in *Net interest income* in the Consolidated Statement of Income.

Changes in Accounting Estimates

Impairment of Available-for-Sale Securities
During the quarter ended January 31, 2016, following an assessment of market conditions, the Bank revisited the definition of the terms "significant" and "prolonged" in order to provide a better estimate of impairment losses, when applicable, 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 the 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 accounting 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.

Sectoral Provision on Non-Impaired Loans
During the quarter ended April 30, 2016, following a significant increase in the credit risk of a group of loans of a specific industry, the Bank recorded a sectoral provision on non-impaired loans. When the credit risk of a loan portfolio with similar credit risk characteristics or of a group of loans of a specific industry increases significantly but the loans have yet to be individually identified as impaired, a sectoral provision is established collectively for the entire loan portfolio or loan group. This sectoral provision reflects the impairment losses that the Bank has incurred as a result of events that have occurred but where the individual loss has not been identified.

NOTE 2 – ACCOUNTING POLICY CHANGES (cont.)

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.

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. 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 using 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.

							As at April 30, 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	Financial instruments at amortized cost	Financial instruments at amortized cost	Total carrying value	Total fair value
Financial assets							
Cash and deposits with financial institutions	–	–	–	7,452	7,452	7,452	7,452
Securities	40,052	2,219	14,110	1,707	1,701	58,088	58,082
Securities purchased under reverse repurchase agreements and securities borrowed	–	751	–	13,009	13,009	13,760	13,760
Loans and acceptances	4,987	104	–	116,025	116,769	121,116	121,860
Other							
Derivative financial instruments	12,181	–	–	–	–	12,181	12,181
Due from clients, dealers and brokers	–	–	–	482	482	482	482
Purchased receivables	–	–	–	1,334	1,334	1,334	1,334
Other assets	–	–	–	452	452	452	452
Financial liabilities							
Deposits	–	3,317		126,954 (1)	127,516	130,271	130,833
Other							
Acceptances	–	–		8,966	8,966	8,966	8,966
Obligations related to securities sold short	14,839	–		–	–	14,839	14,839
Obligations related to securities sold under repurchase agreements and securities loaned	–	–		18,295	18,295	18,295	18,295
Derivative financial instruments	9,359	–		–	–	9,359	9,359
Due to clients, dealers and brokers	–	–		2,607	2,607	2,607	2,607
Liabilities related to transferred receivables	–	5,989		13,784	13,807	19,773	19,796
Other liabilities	44	–		2,226	2,237	2,270	2,281
Subordinated debt	–	–		1,015	1,017	1,015	1,017

(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	Financial instruments at amortized cost	Financial instruments 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 April 30, 2016, $48 million in securities classified as at fair value through profit or loss and $66 million in obligations related to securities sold short were transferred from Level 2 to Level 1 resulting from changing market conditions (no significant transfer for the quarter ended April 30, 2015). During the six months ended April 30, 2016, $66 million in securities classified as at fair value through profit or loss and $70 million in obligations related to securities sold short were transferred from Level 2 to Level 1 resulting from changing market conditions ($70 million in securities classified as at fair value through profit or loss and no significant transfer of obligations related to securities sold short for the six months ended April 30, 2015). In addition, during the six-month periods ended April 30, 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 April 30, 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	2,895	5,769	–	8,664
Provinces	–	9,741	–	9,741
Municipalities and school boards	–	420	–	420
U.S. Treasury, other U.S. agencies and other foreign governments	1,456	514	–	1,970
Other debt securities	–	3,036	–	3,036
Equity securities	17,537	891	12	18,440
	21,888	20,371	12	42,271
Available-for-sale				
Securities issued or guaranteed by				
Canada	239	6,581	–	6,820
Provinces	–	4,623	–	4,623
Municipalities and school boards	–	371	–	371
U.S. Treasury, other U.S. agencies and other foreign governments	821	28	–	849
Other debt securities	–	803	33	836
Equity securities	216	122	273	611
	1,276	12,528	306	14,110
Securities purchased under reverse repurchase agreements and securities borrowed	–	751	–	751
Loans and acceptances	–	5,091	–	5,091
Other				
Derivative financial instruments	114	11,956	111	12,181
	23,278	50,697	429	74,404
Financial liabilities				
Deposits	–	3,434	29	3,463
Other				
Obligations related to securities sold short	9,593	5,246	–	14,839
Derivative financial instruments	109	9,143	107	9,359
Liabilities related to transferred receivables	–	5,989	–	5,989
Other liabilities	–	44	–	44
	9,702	23,856	136	33,694

(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 maximizes 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 April 30, 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	6	Net asset value	Net asset value		100 %
Equity securities and other debt securities	312	Net asset value	Net asset value		100 %
		Market comparable	EV/EBITDA(1) multiple	11 x	14 x
		Price-based model	Price equivalent	71 %	146 %
Other					
Derivative financial instruments					
Interest rate contracts	1	Discounted cash flows	Discount rate		2.20 %
Equity contracts	110	Option pricing model	Long-term volatility	10 %	43 %
			Market correlation	(58) %	80 %
	429				
Financial liabilities					
Deposits					
Structured deposit notes	29	Option pricing model	Long-term volatility	12 %	62 %
			Market correlation	(58) %	86 %
Other					
Derivative financial instruments					
Equity contracts	107	Option pricing model	Long-term volatility	9 %	61 %
			Market correlation	(58) %	86 %
	136				

(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

	Fair value	Primary valuation techniques	Significant unobservable inputs	Range of input values Low	Range of input values 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 April 30, 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 $40 million increase or decrease in the fair value recorded as at April 30, 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 April 30, 2016, for derivative financial instruments, the net fair value could result in a $3 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 $1 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.

	Six months ended April 30, 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]	**(1)**	**8**	**(30)**	**8**
Total realized and unrealized gains (losses) included in *Other comprehensive income*	**–**	**10**	**–**	**–**
Purchases	**–**	**40**	**–**	**–**
Sales	**(8)**	**(6)**	**–**	**–**
Issuances	**–**	**–**	**–**	**(7)**
Settlements and other	**–**	**(8)**	**9**	**3**
Financial instruments transferred into Level 3	**–**	**1**	**68**	**(31)**
Financial instruments transferred out of Level 3	**–**	**–**	**(5)**	**18**
Fair value as at April 30, 2016	**12**	**306**	**4**	**(29)**
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at April 30, 2016[3]	**(1)**	**–**	**(30)**	**8**

	Six months ended April 30, 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]	31	53	3	(7)
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	(39)	–	–
Purchases	3	76	–	–
Sales	(31)	(78)	–	–
Issuances	–	–	–	(11)
Settlements and other	(69)	(4)	–	–
Financial instruments transferred into Level 3	–	–	(1)	7
Financial instruments transferred out of Level 3	–	–	–	86
Fair value as at April 30, 2015	1,157	245	(37)	(6)
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at April 30, 2015[5]	30	–	3	(7)

(1) The derivative financial instruments include assets and liabilities presented on a net basis.
(2) Total net losses included in *Non-interest income* was $15 million.
(3) Total unrealized losses included in *Non-interest income* was $23 million.
(4) Total net gains included in *Non-interest income* was $80 million.
(5) Total unrealized gains included in *Non-interest income* was $26 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 April 30, 2016	**Change in total fair value (including the change in the fair value attributable to credit risk) for the quarter ended April 30, 2016**	**Change in total fair value (including the change in the fair value attributable to credit risk) for the six months ended April 30, 2016**	**Change in fair value since the initial recognition of the instrument**
Financial assets designated at fair value through profit or loss				
Securities	**2,219**	**(7)**	**1**	**345**
Securities purchased under reverse repurchase agreements	**751**	**–**	**–**	**–**
Loans	**104**	**(22)**	**(23)**	**(42)**
	3,074	**(29)**	**(22)**	**303**
Financial liabilities designated at fair value through profit or loss				
Deposits(1)(2)	**3,317**	**(182)**	**(46)**	**(15)**
Liabilities related to transferred receivables	**5,989**	**53**	**31**	**(217)**
	9,306	**(129)**	**(15)**	**(232)**

	Carrying value as at April 30, 2015	Change in total fair value (including the change in the fair value attributable to credit risk) for the quarter ended April 30, 2015	Change in total fair value (including the change in the fair value attributable to credit risk) for the six months ended April 30, 2015	Change in fair value since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss				
Securities	2,695	(30)	51	420
Securities purchased under reverse repurchase agreements	1,071	1	–	–
Loans	114	(10)	(22)	(28)
	3,880	(39)	29	392
Financial liabilities designated at fair value through profit or loss				
Deposits(1)(2)	2,843	(81)	(114)	(218)
Liabilities related to transferred receivables	5,949	72	(61)	(240)
	8,792	(9)	(175)	(458)

(1) For the quarter ended April 30, 2016, the change in the fair value of deposits designated at fair value through profit or loss attributable to credit risk, and recorded in *Other comprehensive income,* resulted in a loss of $54 million (loss of $2 million recorded in *Non-interest income* in the Consolidated Statement of Income for the quarter ended April 30, 2015). For the six months ended April 30, 2016, this change was a loss of $39 million, which included a gain of $15 million recorded in *Net income* (negligible loss for the six months ended April 30, 2015). For additional information, see Note 2.

(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 April 30, 2016
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Carrying value**
Securities issued or guaranteed by				
Canada	**6,766**	**65**	**(11)**	**6,820**
Provinces	**4,389**	**253**	**(19)**	**4,623**
Municipalities and school boards	**360**	**11**	**–**	**371**
U.S. Treasury, other U.S. agencies and other foreign governments	**838**	**11**	**–**	**849**
Other debt securities	**819**	**24**	**(7)**	**836**
Equity securities	**570**	**91**	**(50)**	**611**
	13,742	**455**	**(87)**	**14,110**

				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 April 30, 2016, $1 million in impairment losses ($3 million for the quarter ended April 30, 2015) was recognized in *Gains (losses) on available-for-sale securities, net* in the Consolidated Statement of Income. For the six months ended April 30, 2016, impairment losses amounted to $4 million ($9 million for the six months ended April 30, 2015). In addition, during the six-month periods ended April 30, 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 April 30, 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.

Held-to-Maturity Securities

At the end of each financial reporting period, the Bank determines whether there is objective evidence of impairment for each held-to-maturity security. As at April 30, 2016, there was no objective evidence of impairment on held-to-maturity securities.

(unaudited) (millions of Canadian dollars)

NOTE 6 – LOANS

Credit Quality of Loans

				As at April 30, 2016
	Residential mortgage	Personal and credit card	Business and government(1)(2)	Total
Neither past due(3) nor impaired	44,803	32,582	43,467	120,852
Past due(3) but not impaired	212	273	95	580
Impaired	81	80	360	521
Gross loans	45,096	32,935	43,922	121,953
Less: Allowances on impaired loans				
Individual allowances	10	19	169	198
Collective allowances	–	20	3	23
Allowances on impaired loans	10	39	172	221
	45,086	32,896	43,750	121,732
Less:				
Sectoral allowance on non-impaired loans – Oil and gas(4)				250
Collective allowance on non-impaired loans(5)				366
				616
Loans and acceptances, net of allowances				121,116

				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(5)				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 sectoral allowance on non-impaired loans was established collectively for the portfolio of loans to producers and service companies in the oil and gas sector.
(5) The collective allowance on non-impaired loans for credit risk was established taking into account the Bank's overall credit portfolio, except for loans covered by the sectoral allowance.

(unaudited) (millions of Canadian dollars)

NOTE 6 – LOANS (cont.)

Loans Past Due But Not Impaired[1]

	As at April 30, 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	81	101	20	120	109	36
61 to 90 days	53	33	38	54	38	26
Over 90 days	78	139	37	92	148	34
	212	273	95	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 April 30, 2016, the fair value of financial collateral held against loans past due but not impaired was $14 million ($16 million as at October 31, 2015).

Impaired Loans

	As at April 30, 2016			
	Gross	Individual allowances	Collective allowances	Net
Loans				
Residential mortgage	81	10	–	71
Personal and credit card	80	19	20	41
Business and government	360	169	3	188
	521	198	23	300

	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

	Six months ended April 30, 2016						
	Balance at beginning	**Provisions for credit losses**	**Write-offs**	**Write-offs on credit cards**	**Recoveries and other[1]**	**Transfers[2]**	**Balance at end**
Allowances on impaired loans							
Residential mortgage							
Individual allowances	10	6	(6)	–	–	–	10
Collective allowances	–	–	–	–	–	–	–
Personal and credit card							
Individual allowances	18	62	(20)	(42)	1	–	19
Collective allowances	22	15	(21)	–	4	–	20
Business and government							
Individual allowances	151	45	(23)	–	(4)	–	169
Collective allowances	2	2	(1)	–	–	–	3
Individual allowances	179	113	(49)	(42)	(3)	–	198
Collective allowances	24	17	(22)	–	4	–	23
	203	130	(71)	(42)	1	–	221
Sectoral allowance on non-impaired loans – Oil and gas[3]	–	250	–	–	–	–	250
Collective allowance on non-impaired loans[4]	366	–	–	–	–	–	366
	366	250	–	–	–	–	616
Total allowances	569	380	(71)	(42)	1	–	837

	Six months ended April 30, 2015						
	Balance at beginning	Provisions for credit losses	Write-offs	Write-offs on credit cards	Recoveries and other[1]	Transfers[2]	Balance at end
Allowances on impaired loans							
Residential mortgage							
Individual allowances	9	5	(3)	–	–	–	11
Collective allowances	–	–	–	–	–	–	–
Personal and credit card							
Individual allowances	15	60	(20)	(39)	–	–	16
Collective allowances	21	18	(20)	–	3	–	22
Business and government							
Individual allowances	191	26	(76)	–	5	–	146
Collective allowances	2	2	(2)	–	–	–	2
Individual allowances	215	91	(99)	(39)	5	–	173
Collective allowances	23	20	(22)	–	3	–	24
	238	111	(121)	(39)	8	–	197
Collective allowance on non-impaired loans[4]	366	–	–	–	–	–	366
Total allowances	604	111	(121)	(39)	8	–	563

(1) Includes foreign exchange movements.
(2) When a loan covered by the *Sectoral allowance on non-impaired loans – Oil and gas* becomes impaired, the sectoral allowance related to that loan is transferred to the individual allowances on impaired loans.
(3) The sectoral allowance on non-impaired loans was established collectively for the portfolio of loans to producers and service companies in the oil and gas sector.
(4) The collective allowance on non-impaired loans for credit risk was established taking into account the Bank's overall credit portfolio, except for loans covered by the sectoral allowance.

(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 April 30, 2016	As at October 31, 2015
Carrying value of financial assets transferred but not derecognized		
Securities(1)	37,901	32,902
Residential mortgages	18,184	17,732
	56,085	50,634
Carrying value of associated liabilities(2)	32,805	26,820
Fair value of financial assets transferred but not derecognized		
Securities(1)	37,901	32,902
Residential mortgages	18,463	18,032
	56,364	50,934
Fair value of associated liabilities(2)	32,828	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 $4,291 million as at April 30, 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 $9,555 million as at April 30, 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 April 30, 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	19,350	18,958
Securities sold under repurchase agreements	13,006	7,148
Securities loaned	23,728	24,526
Residential mortgages transferred to a mutual fund	1	2
	56,085	50,634

(unaudited) (millions of Canadian dollars)

NOTE 8 – ASSOCIATES AND JOINT VENTURES

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) during the first quarter of 2016. 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 six-month period ended April 30, 2016 and is presented in the Financial Markets segment.

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.

NOTE 9 – OTHER ASSETS

	As at April 30, 2016	As at October 31, 2015
Receivables, prepaid expenses and other items	686	690
Interest and dividends receivable	452	459
Defined benefit asset	87	268
Deferred tax assets	309	230
Current tax assets	118	192
Reinsurance assets	33	25
	1,685	1,864

NOTE 10 – DEPOSITS

			As at April 30, 2016	As at October 31, 2015
	On demand or after notice(1)	Fixed term(2)	Total	Total
Personal	27,010	20,962	47,972	45,981
Business and government	31,830	44,199	76,029	74,441
Deposit-taking institutions	1,706	4,564	6,270	8,408
	60,546	69,725	130,271	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.

During the six months ended April 30, 2016, the Bank did not issue any covered bonds (US$750 million and 1.0 billion euros issued during the six months ended April 30, 2015). See Note 22 for additional information on covered bonds.

The *Deposits – Business and government* item includes the deposit from NBC Capital Trust and covered bonds, the balances of which were $225 million and $7,759 million, respectively, as at April 30, 2016 ($225 million and $7,910 million, respectively, as at October 31, 2015).

On May 16, 2016, NBC Capital Trust (the Trust) announced its intention to redeem the 225,000 Trust Capital Securities – Series 1, or NBC Caps – Series 1, from which $225 million in gross issuance proceeds had been used by the Trust to finance a deposit note purchase from the Bank. For additional information, see Note 24.

(unaudited) (millions of Canadian dollars)

NOTE 11 – OTHER LIABILITIES

	As at April 30, 2016	As at October 31, 2015
Accounts payable and accrued expenses	1,079	1,334
Subsidiaries' debts to third parties	1,388	1,400
Interest and dividends payable	565	615
Defined benefit liability	193	183
Deferred tax liabilities	97	123
Current tax liabilities	82	82
Insurance liabilities	74	67
Other items(1)(2)	721	670
	4,199	4,474

(1) As at April 30, 2016, other items included a $37 million restructuring provision ($67 million as at October 31, 2015). See Note 12 for additional information.
(2) As at April 30, 2016, other items included an $11 million litigation provision ($15 million as at October 31, 2015).

NOTE 12 – 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 the 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	(22)	(8)	(30)
As at April 30, 2016	29	8	37

NOTE 13 – 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 14 – HEDGING ACTIVITIES

Derivative and Non-Derivative Financial Instruments Designated as Hedging Instruments

	As at April 30, 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	**743**	**372**	**–**	731	405	4
Liabilities						
Derivative financial instruments	**565**	**366**	**8**	466	365	2
Carrying value of non-derivative financial instruments	**–**	**–**	**1,213**	–	–	1,690
Notional amounts of designated derivative financial instruments	**22,586**	**18,934**	**485**	25,433	28,521	632

Results of the Fair Value Hedges

	Quarter ended April 30		Six months ended April 30	
	2016	2015	**2016**	2015
Gains (losses) on hedging instruments	**(90)**	(109)	**(62)**	69
Gains (losses) on hedged items attributable to the hedged risk	**89**	111	**62**	(69)
Ineffectiveness of fair value hedging relationships	**–**	–	**–**	–

Results of the Cash Flow Hedges

	Quarter ended April 30		Six months ended April 30	
	2016	2015	**2016**	2015
Unrealized gains (losses) included in *Other comprehensive income* as the effective portion of the hedging instrument	**54**	36	**60**	35
Losses (gains) reclassified to *Net interest income* in the Consolidated Statement of Income	**(6)**	(4)	**(10)**	(8)
Ineffectiveness of cash flow hedging relationships	**(1)**	–	**(1)**	–

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 April 30, 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	**20**	**20**	**49**	**32**
Expected cash flows from hedged liabilities	**52**	**50**	**108**	**30**
Net exposure	**(32)**	**(30)**	**(59)**	**2**

Results of the Hedges of Net Investments in Foreign Operations

For the six-month periods ended April 30, 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 15 – 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 six months ended April 30, 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 April 30, 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 April 30, 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	540,222	21	1,059,650	39
Impact of shares purchased or sold for trading(1)	(358,520)	(15)	(280,703)	(18)
Common shares at end of the period	337,418,024	2,620	337,236,322	2,614

(1) As at April 30, 2016, the Bank held 14,633 shares for trading, representing an amount of $1 million (343,887 shares sold short for trading representing an amount of $14 million as at October 31, 2015).

(unaudited) (millions of Canadian dollars)

Dividends Declared

	Six months ended April 30			
	2016		2015	
	Dividends $	Dividends per share	Dividends $	Dividends per share
First Preferred Shares				
Series 20	–	–	5	0.7500
Series 28	4	0.4750	4	0.4750
Series 30	7	0.5125	7	0.5125
Series 32	6	0.4876	7	0.5884
Series 34	7	0.4373	–	–
	24		23	
Common shares	364	1.0800	329	1.0000
	388		352	

NOTE 16 – NON-CONTROLLING INTERESTS

	As at April 30, 2016	As at October 31, 2015
Trust units issued by NBC Asset Trust (NBC CapS II)		
Series 1(1)	410	410
Series 2(2)	359	359
Other	27	32
	796	801

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

(unaudited) (millions of Canadian dollars)

NOTE 17 – 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 and the six months ended April 30, 2016, the Bank was in compliance with all of OSFI's regulatory capital requirements.

Regulatory Capital and Ratios Under Basel III[1]

	As at April 30, 2016	As at October 31, 2015
Capital		
CET1	6,669	6,801
Tier 1[2]	8,880	8,626
Total[2][3]	10,164	9,678
Risk-weighted assets		
CET1 capital	68,375	68,835
Tier 1 capital	68,604	69,094
Total capital	68,800	69,316
Total exposure	239,401	234,957
Capital ratios		
CET1	9.8 %	9.9 %
Tier 1[2]	12.9 %	12.5 %
Total[2][3]	14.8 %	14.0 %
Leverage ratio	3.7 %	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 18 – 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 April 30		Six months ended April 30	
	2016	2015	**2016**	2015
Net interest income	**133**	96	**258**	211
Non-interest income	**8**	14	**55**	117
	141	110	**313**	328

NOTE 19 – SHARE-BASED PAYMENTS

Stock Option Plan
During the quarters ended April 30, 2016 and 2015, the Bank did not award any stock options. During the six months ended April 30, 2016, the Bank awarded 2,140,420 stock options (3,170,260 stock options during the six-month period ended April 30, 2015) with an average fair value of $3.70 per option ($7.44 in 2015).

As at April 30, 2016, there were 18,009,365 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.

	Six months ended April 30	
	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 April 30		Six months ended April 30	
	2016	2015	**2016**	2015
Compensation expense recorded for stock options	**3**	5	**6**	10

(unaudited) (millions of Canadian dollars)

NOTE 20 – EMPLOYEE BENEFITS – PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

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

Cost for Pension Plans and Other Post-Employment Benefit Plans

Quarter ended April 30

	Pension plans		Other post-employment benefit plans	
	2016	2015	**2016**	2015
Current service cost	**19**	21	**1**	1
Interest expense (income), net	**(2)**	(1)	**2**	2
Administrative expenses	**1**	1		
Expense recognized in *Net income*	**18**	21	**3**	3
Remeasurements(1)				
Actuarial (gains) losses on defined benefit obligation	**56**	(147)	**2**	(7)
Return on plan assets(2)	**(79)**	30		
Remeasurements recognized in *Other comprehensive income*	**(23)**	(117)	**2**	(7)
	(5)	(96)	**5**	(4)

Six months ended April 30

	Pension plans		Other post-employment benefit plans	
	2016	2015	**2016**	2015
Current service cost	**38**	43	**2**	2
Interest expense (income), net	**(4)**	(2)	**4**	4
Administrative expenses	**2**	2		
Expense recognized in *Net income*	**36**	43	**6**	6
Remeasurements(1)				
Actuarial (gains) losses on defined benefit obligation	**188**	237	**8**	11
Return on plan assets(2)	**(9)**	(218)		
Remeasurements recognized in *Other comprehensive income*	**179**	19	**8**	11
	215	62	**14**	17

(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 21 – 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 April 30		Six months ended April 30	
	2016	2015	**2016**	2015
Basic earnings per share				
Net income attributable to the Bank's shareholders	**193**	388	**432**	785
Dividends on preferred shares	**16**	11	**24**	23
Premium paid on preferred shares redeemed for cancellation	**–**	–	**3**	–
Net income attributable to common shareholders	**177**	377	**405**	762
Weighted average basic number of common shares outstanding *(thousands)*	**337,329**	329,275	**337,200**	329,074
Basic earnings per share *(dollars)*	**0.52**	1.14	**1.20**	2.32
Diluted earnings per share				
Net income attributable to common shareholders	**177**	377	**405**	762
Weighted average basic number of common shares outstanding *(thousands)*	**337,329**	329,275	**337,200**	329,074
Adjustment to number of common shares *(thousands)*				
Stock options(1)	**2,201**	3,574	**2,177**	3,758
Weighted average diluted number of common shares outstanding *(thousands)*	**339,530**	332,849	**339,377**	332,832
Diluted earnings per share *(dollars)*	**0.52**	1.13	**1.19**	2.29

(1) For the quarter ended April 30, 2016, the diluted earnings per share calculation does not include an average number of 7,887,413 options outstanding with a weighted average exercise price of $45.36 (3,170,260 options outstanding with a weighted average exercise price of $47.93 for the quarter ended April 30, 2015), as the exercise price of these options was higher than the average price of the Bank's common shares. For the six months ended April 30, 2016, the diluted earnings per share calculation does not include an average number of 7,481,062 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 six months ended April 30, 2015, as the exercise price of the options was lower 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 22 – 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 April 30, 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	32	631	30	–	–	–
Available-for-sale securities	–	6	29	100	61	–
Derivative financial instruments	7	–	–	–	–	–
Other assets	–	–	–	–	8	–
	39	637	59	100	69	–
As at October 31, 2015	33	655	180	95	114	–
Liabilities on the Consolidated Balance Sheet						
Deposits – Business and government	–	–	–	–	–	225
Other liabilities	–	–	–	–	–	4
	–	–	–	–	–	229
As at October 31, 2015	–	–	–	–	–	229
Maximum exposure to loss						
Securities and derivative financial instruments	39	637	59	100	69	–
Liquidity and credit enhancement facilities	2,397	–	–	–	–	–
Margin funding facility	–	821	–	–	–	–
	2,436	1,458	59	100	69	–
As at October 31, 2015	2,266	1,476	180	95	114	–
Total assets of the structured entities	2,453	–	176	3,206	70	230
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 April 30, 2016, the notional committed amount of the global-style liquidity facilities totalled $2.4 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 April 30, 2016, the Bank held $32 million in commercial paper ($22 million as at October 31, 2015) and, consequently, the maximum potential amount of future payments as at April 30, 2016 is limited to $2.4 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 April 30, 2016 ($9.3 billion as at October 31, 2015). The undrawn margin funding facility amounted to $821 million as at April 30, 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. For additional information, see Notes 10 and 24.

(unaudited) (millions of Canadian dollars)

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 April 30, 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)	**325**	**1,634**	339	1,649
National Bank hedge fund managed accounts (Innocap platform)(3)(4)	**–**	**–**	23	23
Investment funds(5)	**327**	**371**	410	460
Covered bonds(6)	**11,473**	**11,964**	12,722	13,099
Building(7)	**68**	**61**	70	63
NBC Asset Trust(8)	**1,125**	**1,897**	1,125	1,900
Third-party structured entities(9)	**1,099**	**1,099**	1,395	1,395
	14,417	**17,026**	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 April 30, 2016, the total amount of transferred mortgage loans was $11.5 billion ($12.7 billion as at October 31, 2015), and the total amount of covered bonds of $7.8 billion was recognized in *Deposits – Business and government* on the Consolidated Balance Sheet ($7.9 billion as at October 31, 2015). For additional information, see Note 10.
(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 April 30, 2016, insured loans amounted to $160 million ($188 million as at October 31, 2015). The average maturity of the underlying assets is two years. For additional information, see Note 16.
(9) The underlying assets consist of equipment leased under operating leases.

(unaudited) (millions of Canadian dollars)

NOTE 23 – SEGMENT DISCLOSURES

Quarter ended April 30

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Net interest income[1]	**465**	440	**91**	81	**262**	285	**(109)**	(156)	**709**	650
Non-interest income[1]	**233**	243	**262**	310	**167**	125	**54**	93	**716**	771
Total revenues	**698**	683	**353**	391	**429**	410	**(55)**	(63)	**1,425**	1,421
Non-interest expenses	**395**	403	**243**	256	**195**	189	**43**	88	**876**	936
Contribution	**303**	280	**110**	135	**234**	221	**(98)**	(151)	**549**	485
Provisions for credit losses[2]	**315**	56	**2**	1	**–**	–	**–**	–	**317**	57
Income before income taxes (recovery)	**(12)**	224	**108**	134	**234**	221	**(98)**	(151)	**232**	428
Income taxes (recovery)[1]	**(3)**	60	**28**	31	**65**	63	**(68)**	(130)	**22**	24
Net income	**(9)**	164	**80**	103	**169**	158	**(30)**	(21)	**210**	404
Non-controlling interests	**–**	–	**–**	–	**4**	2	**13**	14	**17**	16
Net income attributable to the Bank's shareholders	**(9)**	164	**80**	103	**165**	156	**(43)**	(35)	**193**	388
Average assets	**91,021**	86,147	**11,022**	10,124	**86,526**	89,329	**42,024**	37,331	**230,593**	222,931

Six months ended April 30

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Net interest income[3]	**940**	890	**180**	164	**498**	523	**(203)**	(262)	**1,415**	1,315
Non-interest income[3][4]	**482**	485	**529**	570	**218**	305	**70**	156	**1,299**	1,516
Total revenues	**1,422**	1,375	**709**	734	**716**	828	**(133)**	(106)	**2,714**	2,831
Non-interest expenses	**805**	807	**493**	498	**385**	365	**96**	129	**1,779**	1,799
Contribution	**617**	568	**216**	236	**331**	463	**(229)**	(235)	**935**	1,032
Provisions for credit losses[2]	**377**	110	**3**	1	**–**	–	**–**	–	**380**	111
Income before income taxes (recovery)	**240**	458	**213**	235	**331**	463	**(229)**	(235)	**555**	921
Income taxes (recovery)[3]	**65**	123	**56**	58	**121**	128	**(158)**	(207)	**84**	102
Net income	**175**	335	**157**	177	**210**	335	**(71)**	(28)	**471**	819
Non-controlling interests	**–**	–	**–**	–	**12**	5	**27**	29	**39**	34
Net income attributable to the Bank's shareholders	**175**	335	**157**	177	**198**	330	**(98)**	(57)	**432**	785
Average assets	**90,765**	85,521	**10,983**	10,156	**88,122**	89,491	**41,542**	35,526	**231,412**	220,694

(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 $75 million ($123 million in 2015), *Non-interest income* was grossed up by $2 million (nil in 2015) and an equivalent amount was recognized in *Income taxes (recovery)*. The effect of these adjustments is reversed under the *Other* heading.

(2) The provisions for credit losses for the quarter and six-month period ended April 30, 2016 include a $250 million sectoral provision on non-impaired loans recorded for the oil and gas producer and service company loan portfolio, presented in the Personal and Commercial segment.

(3) For the six months ended April 30, 2016, *Net interest income* was grossed up by $130 million ($186 million in 2015), *Non-interest income* was grossed up by $2 million (nil in 2015), and an equivalent amount was recognized in *Income taxes (recovery)*. The effect of these adjustments is reversed under the *Other* heading.

(4) For the six months ended April 30, 2016, non-interest income includes the $164 million write-off of the equity interest in associate Maple Financial Group Inc., presented in the Financial Markets segment.

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.

(unaudited) (millions of Canadian dollars)

NOTE 24 – EVENTS AFTER THE CONSOLIDATED BALANCE SHEET DATE

Acquisition of Advanced Bank of Asia Limited

On May 16, 2016, the Bank completed the acquisition of Advanced Bank of Asia Limited (ABA), a major Cambodian financial institution that offers financial products and services to individuals and businesses. This acquisition is part of the Bank's international growth strategy and, upon completion, brings the Bank's common share equity interest in ABA to 90%. The sum of the $119 million cash purchase price, of the fair value of the previously held interest, and of the estimated value of the non-controlling interest established at the acquisition date exceeds the fair value of the net assets acquired by $125 million. This excess amount will be recorded on the Consolidated Balance Sheet as goodwill and mainly represents ABA's expected business growth in Cambodia. The goodwill from this acquisition is not deductible for tax purposes. The acquired receivables, consisting mainly of personal and commercial loans, had an estimated acquisition-date fair value of $754 million. This amount also represents the gross contractual amounts receivable that the Bank expects to fully recover.

The amount of the acquisition-related cost was negligible and included in *Non-interest expenses* in the Consolidated Statement of Income for the six-month period ended April 30, 2016. Had the Bank completed the acquisition on November 1, 2015, total revenues would have been approximately $2,744 million and net income approximately $480 million for the six-month period ended April 30, 2016.

During the measurement period, the estimated fair values of all assets acquired and liabilities assumed may be retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as at the acquisition date. The following table summarizes the estimated acquisition-date fair values of all assets acquired and liabilities assumed.

Cash and deposits with financial institutions	356
Securities	54
Loans	754
Goodwill	125
Intangible assets	2
Other assets	30
	1,321
Deposits	969
Other liabilities	86
	1,055
Purchase price	119
Previously held interest	133
Non-controlling interest	14
	266

Redemption of NBC Capital Trust Units

On May 16, 2016, NBC Capital Trust, an open-end trust established by the Bank, announced its intention to redeem the 225,000 Trust Capital Securities – Series 1, or NBC CapS – Series 1, issued and outstanding on June 30, 2016 at a redemption price of $1,000 per trust capital security plus the unpaid distributions as at the redemption date of June 30, 2016. After the redemption, holders of NBC CapS – Series 1 will no longer be entitled to receive distributions or exercise any other rights. Given this redemption, the authorized but not issued Series 17 and 18 First Preferred Shares will be withdrawn from the Bank's authorized capital, and the Bank will redeem the $225 million deposit note from NBC Capital Trust. For additional information, see Notes 13 and 28 to the audited annual consolidated financial statements for the year ended October 31, 2015.

INFORMATION FOR SHAREHOLDERS AND INVESTORS

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

600 De La Gauchetière Street West, 7th Floor
Montreal, Quebec H3B 4L2
Toll-free: 1-866-517-5455
Fax: 514-394-6196
Email: *investorrelations@nbc.ca*
Website: nbc.ca/investorrelations

Public Affairs
600 De La Gauchetière Street West, 10th Floor
Montreal, Quebec H3B 4L2
Telephone: 514-394-8644
Fax: 514-394-6258

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 Second Quarter 2016 Results

Conference Call
- A conference call for analysts and institutional investors will be held on Wednesday, June 1, 2016 at 1:00 p.m. EDT.
- Access by telephone in listen-only mode: 1-866-862-3930 or 416-340-2217. The access code is 5882795#.
- A recording of the conference call can be heard until June 30, 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