LAURENTIAN BANK OF CANADA CONSOLIDATED FINANCIAL STATEMENTS

AS AT OCTOBER 31, 2016 AND 2015

TABLE OF CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING 60
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LAURENTIAN BANK OF CANADA 61
CONSOLIDATED BALANCE SHEET 62
CONSOLIDATED STATEMENT OF INCOME 63
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 64
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 65
CONSOLIDATED STATEMENT OF CASH FLOWS 66

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information 67
2. Basis of Presentation 67
3. Summary of Significant Accounting Policies 69
4. Current and Future Accounting Changes 78
5. Securities 80
6. Loans 82
7. Transfer of Financial Assets 84
8. Premises and Equipment 86
9. Software and Other Intangible Assets 87
10. Goodwill 87
11. Other Assets 88
12. Deposits 88
13. Other Liabilities 89
14. Debt Related to Securitization Activities 89
15. Subordinated Debt 90
16. Share Capital 90
17. Share-Based Compensation 95
18. Post-Employment Benefits 97
19. Income taxes 101
20. Earnings per Share 103
21. Related Party Transactions 104
22. Financial Instruments – Fair Value 105
23. Financial Instruments – Offsetting 108
24. Financial Instruments – Risk Management 108
25. Derivatives and Hedges 110
26. Income Related to Financial Instruments Held-For-Trading 113
27. Insurance Income 113
28. Rental Income 113
29. Commitments, Guarantees and Contingent Liabilities 113
30. Impairment and Restructuring Charges 115
31. Business Combinations 116

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Laurentian Bank of Canada and the other financial information contained in the Annual Report have been prepared by management, which is responsible for the integrity and fairness of the financial information presented. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) pursuant to the requirements of the Bank Act and reflect amounts that must, of necessity, be based on the best estimates and judgment of management. The financial information presented in the Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for the implementation of the financial information accounting systems, which support, among others, the preparation of the consolidated financial statements in accordance with IFRS. In discharging its responsibilities, management maintains the necessary internal control systems designed to provide assurance that transactions are properly authorized, assets are safeguarded and proper accounting records are held. The controls include, among other things, quality standards in hiring and training of employees, written policies, compliance with authorized limits for managers, procedure manuals, a corporate code of conduct, budgetary controls and appropriate management information systems.

The internal control systems are further supported by a regulatory compliance function, which ensures that the Bank and its employees comply with all regulatory requirements, as well as by a function of risk management and an operational risk management function that ensures proper risk control, related documentation and the measurement of the financial impact of risks. In addition, the internal auditors periodically assess various aspects of the Bank's operations and make recommendations to management for improvements to the internal control systems.

Every year, the Office of the Superintendent of Financial Institutions Canada (OSFI) makes such examinations and inquiries as deemed necessary to satisfy itself that the Bank is in a sound financial position and that it complies with the provisions of the Bank Act, particularly those regarding the safety of the depositors and shareholders of the Bank.

Ernst & Young LLP, independent auditors appointed by the shareholders, audit the Bank's consolidated financial statements and their report follows.

The internal auditors and the independent auditors meet periodically with the Audit Committee, in the presence or absence of management, to discuss all aspects of their duties and matters arising therefrom. In addition, OSFI meets with the Board of Directors annually to present its comments on the Bank's operations.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and management's discussion and analysis of results of operations and financial condition included in the Annual Report. It oversees the manner in which management discharges its responsibilities for the preparation and presentation of the consolidated financial statements, the maintenance of appropriate internal controls and risk management, as well as the assessment of significant transactions through its Audit Committee and its Risk Management Committee. Both Board committees are composed solely of directors who are not officers or employees of the Bank.

François Desjardins
President and
Chief Executive Officer

François Laurin, FCPA, FCA
Executive Vice President and
Chief Financial Officer

Montréal, Canada
December 6, 2016

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LAURENTIAN BANK OF CANADA

We have audited the accompanying consolidated financial statements of Laurentian Bank of Canada ("the Bank") which comprise the consolidated balance sheet as at October 31, 2016 and 2015, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended October 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

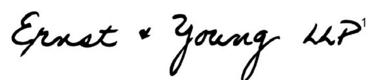
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



[1]

Montréal, Canada
December 6, 2016

[1] CPA auditor, CA public accountancy permit no. A112431

CONSOLIDATED BALANCE SHEET

As at October 31 (in thousands of Canadian dollars)	Notes	2016	2015
ASSETS			
Cash and non-interest bearing deposits with other banks		$ 123,716	$ 109,055
Interest-bearing deposits with other banks		63,383	91,809
Securities	5, 7 and 29		
Available-for-sale		2,723,693	2,368,757
Held-to-maturity		502,232	393,222
Held-for-trading		2,434,507	1,725,378
		5,660,432	4,487,357
Securities purchased under reverse repurchase agreements	29	2,879,986	3,911,439
Loans	6, 7 and 29		
Personal		6,613,392	7,063,229
Residential mortgage [1]		16,749,387	14,998,867
Commercial mortgage [1]		4,658,734	4,248,761
Commercial and other		4,727,385	3,308,144
Customers' liabilities under acceptances		629,825	473,544
		33,378,723	30,092,545
Allowances for loan losses		(105,009)	(111,153)
		33,273,714	29,981,392
Other			
Derivatives	25	232,791	276,601
Premises and equipment	8	32,989	45,562
Software and other intangible assets	9	150,490	147,135
Goodwill	10	55,812	34,853
Deferred tax assets	19	36,495	17,450
Other assets	11	496,532	556,851
		1,005,109	1,078,452
		$ 43,006,340	$ 39,659,504
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	12		
Personal		$ 21,001,578	$ 19,377,716
Business, banks and other		6,571,767	7,226,588
		27,573,345	26,604,304
Other			
Obligations related to securities sold short		1,707,293	1,839,837
Obligations related to securities sold under repurchase agreements		2,525,441	2,296,890
Acceptances		629,825	473,544
Derivatives	25	150,499	125,683
Deferred tax liabilities	19	32,755	8,294
Other liabilities	13	968,077	780,682
		6,013,890	5,524,930
Debt related to securitization activities	7 and 14	7,244,454	5,493,602
Subordinated debt	15	199,824	449,641
Shareholders' equity			
Preferred shares	16	341,600	219,633
Common shares	16	696,493	466,336
Retained earnings		924,861	886,656
Accumulated other comprehensive income		11,873	14,366
Share-based payment reserve	17	—	36
		1,974,827	1,587,027
		$ 43,006,340	$ 39,659,504

[1] Comparative figures reflect the reclassification of multi-unit residential mortgage loans. Refer to Note 4 for further information.

The accompanying notes are an integral part of the consolidated financial statements.

Isabelle Courville
Chair of the Board

François Desjardins
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the years ended October 31 (in thousands of Canadian dollars, except per share amounts)	Notes	2016	2015
Interest income			
Loans		$ 1,066,245	$ 1,034,117
Securities		35,265	40,144
Deposits with other banks		1,740	793
Other, including derivatives		63,630	66,104
		1,166,880	1,141,158
Interest expense			
Deposits		454,862	435,533
Debt related to securitization activities		114,346	113,102
Subordinated debt		6,433	16,094
Other		1,595	1,346
		577,236	566,075
Net interest income		589,644	575,083
Other income			
Fees and commissions on loans and deposits		145,690	141,589
Income from brokerage operations		71,435	63,294
Income from sales of mutual funds		40,299	38,811
Income from investment accounts		30,271	30,202
Insurance income, net	27	17,527	16,903
Income from treasury and financial market operations		12,782	23,365
Other	28	7,803	7,879
		325,807	322,043
Total revenue		915,451	897,126
Amortization of net premium on purchased financial instruments	31	5,190	5,999
Provision for credit losses	6	33,350	34,900
Non-interest expenses			
Salaries and employee benefits		334,903	342,269
Premises and technology		187,696	197,778
Other		114,197	104,368
Impairment and restructuring charges	30	38,344	78,409
Costs related to business combinations	31	4,409	—
		679,549	722,824
Income before income taxes		197,362	133,403
Income taxes	19	45,452	30,933
Net income		$ 151,910	$ 102,470
Preferred share dividends, including applicable taxes		13,313	9,602
Net income available to common shareholders		$ 138,597	$ 92,868
Average number of common shares outstanding (in thousands)			
Basic		30,488	28,949
Diluted		30,488	28,955
Earnings per share	20		
Basic		$ 4.55	$ 3.21
Diluted		$ 4.55	$ 3.21
Dividends declared per share			
Common share		$ 2.36	$ 2.20
Preferred share - Series 11		$ 1.00	$ 1.00
Preferred share - Series 13		$ 1.08	$ 1.08
Preferred share - Series 15		$ 0.73	n.a.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended October 31 (in thousands of Canadian dollars)	2016	2015
Net income	**$ 151,910**	$ 102,470
Other comprehensive income		
Items that may subsequently be reclassified to the Statement of Income		
Unrealized net gains (losses) on available-for-sale securities	**9,412**	(21,028)
Reclassification of net (gains) losses on available-for-sale securities to net income	**2,182**	(3,700)
Net change in value of derivatives designated as cash flow hedges	**(14,087)**	28,967
	(2,493)	4,239
Items that may not subsequently be reclassified to the Statement of Income		
Remeasurement of gains (losses) on employee benefit plans	**(26,770)**	8,574
Comprehensive income	**$ 122,647**	$ 115,283

INCOME TAXES — OTHER COMPREHENSIVE INCOME

The following table presents the income taxes for each component of other comprehensive income.

For the years ended October 31 (in thousands of Canadian dollars)	2016	2015
Income tax expense (recovery) on:		
Unrealized net gains (losses) on available-for-sale securities	**3,439**	(7,719)
Reclassification of net (gains) losses on available-for-sale securities to net income	**831**	(1,433)
Net change in value of derivatives designated as cash flow hedges	**(5,158)**	10,570
Remeasurement of gains (losses) on employee benefit plans	**(9,734)**	3,145
	$ (10,622)	$ 4,563

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31, 2016

(in thousands of Canadian dollars)	Preferred shares (Note 16)	Common shares (Note 16)	Retained earnings	Accumulated Other Comprehensive Income			Share-based payment reserve (Note 17)	Total shareholders' equity
				Available-for-sale securities	Cash flow hedges	Total		
Balance as at October 31, 2015	$ 219,633	$ 466,336	$ 886,656	$ (11,391)	$ 25,757	$ 14,366	$ 36	$ 1,587,027
Net income			**151,910**					**151,910**
Other comprehensive income (net of income taxes)								
Unrealized net gains on available-for-sale securities				**9,412**		**9,412**		**9,412**
Reclassification of net losses on available-for-sale securities to net income				**2,182**		**2,182**		**2,182**
Net change in value of derivatives designated as cash flow hedges					**(14,087)**	**(14,087)**		**(14,087)**
Remeasurement of gains (losses) on employee benefit plans			**(26,770)**					**(26,770)**
Comprehensive income			**125,140**	**11,594**	**(14,087)**	**(2,493)**		**122,647**
Issuance of share capital	**121,967**	**230,157**					**(36)**	**352,088**
Dividends								
Preferred shares, including applicable taxes			**(13,313)**					**(13,313)**
Common shares			**(73,622)**					**(73,622)**
Balance as at October 31, 2016	**$ 341,600**	**$ 696,493**	**$ 924,861**	**$ 203**	**$ 11,670**	**$ 11,873**	**$ —**	**$ 1,974,827**

For the year ended October 31, 2015

(in thousands of Canadian dollars)	Preferred shares (Note 16)	Common shares (Note 16)	Retained earnings	Accumulated Other Comprehensive Income			Share-based payment reserve (Note 17)	Total shareholders' equity
				Available-for-sale securities	Cash flow hedges	Total		
Balance as at October 31, 2014	$ 219,633	$ 465,854	$ 848,905	$ 13,337	$ (3,210)	$ 10,127	$ 91	$ 1,544,610
Net income			102,470					102,470
Other comprehensive income (net of income taxes)								
Unrealized net losses on available-for-sale securities				(21,028)		(21,028)		(21,028)
Reclassification of net gains on available-for-sale securities to net income				(3,700)		(3,700)		(3,700)
Net change in value of derivatives designated as cash flow hedges					28,967	28,967		28,967
Remeasurement of gains (losses) on employee benefit plans			8,574					8,574
Comprehensive income			111,044	(24,728)	28,967	4,239		115,283
Issuance of share capital		482					(55)	427
Dividends								
Preferred shares, including applicable taxes			(9,602)					(9,602)
Common shares			(63,691)					(63,691)
Balance as at October 31, 2015	$ 219,633	$ 466,336	$ 886,656	$ (11,391)	$ 25,757	$ 14,366	$ 36	$ 1,587,027

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended October 31 (in thousands of Canadian dollars)	Notes	2016	2015
Cash flows relating to operating activities			
Net income		**$ 151,910**	$ 102,470
Adjustments to determine net cash flows relating to operating activities:			
Provision for credit losses		**33,350**	34,900
Net gains (losses) on disposal of available-for-sale securities		**2,391**	(8,253)
Deferred income taxes		**(6,441)**	(9,077)
Impairment of goodwill, software and intangible assets, and premises and equipment	**30**	**22,113**	72,226
Depreciation of premises and equipment		**9,798**	14,125
Amortization of software and other intangible assets		**28,771**	38,657
Change in operating assets and liabilities :			
Loans		**(2,399,614)**	(2,090,419)
Change in acceptances		**156,281**	108,087
Securities at fair value through profit and loss		**(709,129)**	255,058
Securities purchased under reverse repurchase agreements		**1,031,453**	(714,658)
Accrued interest receivable		**(5,504)**	5,276
Derivative assets		**49,546**	(143,792)
Deposits		**969,041**	2,081,278
Obligations related to securities sold short		**(132,544)**	277,360
Obligations related to securities sold under repurchase agreements		**228,551**	80,925
Accrued interest payable		**15,747**	(54,394)
Derivative liabilities		**24,816**	34,843
Change in debt related to securitization activities		**1,750,852**	629,754
Other, net		**224,835**	(173,416)
		1,446,223	540,950
Cash flows relating to financing activities			
Repurchase of subordinated debt	**15**	**(250,000)**	—
Net proceeds from issuance of preferred shares	**16**	**121,967**	—
Net proceeds from issuance of common shares	**16**	**215,633**	387
Dividends		**(55,209)**	(73,025)
		32,391	(72,638)
Cash flows relating to investing activities			
Change in available-for-sale securities			
Acquisitions		**(2,229,090)**	(1,970,989)
Proceeds on sale and at maturity		**1,885,770**	2,152,640
Change in held-to-maturity securities			
Acquisitions		**(307,354)**	(272,403)
Proceeds at maturity		**198,344**	202,188
Acquisition of a portfolio of investment loans	**6**	**—**	(613,120)
Additions to premises and equipment and intangible assets		**(43,549)**	(14,619)
Cash paid for business combinations	**31**	**(996,500)**	—
Change in interest-bearing deposits with other banks		**28,426**	30,799
		(1,463,953)	(485,504)
Net change in cash and non-interest-bearing deposits with other banks		**14,661**	(17,192)
Cash and non-interest-bearing deposits with other banks at beginning of year		**109,055**	126,247
Cash and non-interest-bearing deposits with other banks at end of year		**$ 123,716**	$ 109,055
Supplemental disclosure about cash flows relating to operating activities:			
Interest paid during the year		**$ 561,770**	$ 619,108
Interest received during the year		**$ 1,161,519**	$ 1,129,223
Dividends received during the year		**$ 11,436**	$ 15,111
Income taxes paid during the year		**$ 35,561**	$ 45,041

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2016 and 2015
[All tabular amounts are in thousands of Canadian dollars, unless otherwise indicated]

1. GENERAL INFORMATION

Laurentian Bank of Canada and its subsidiaries (the Bank) provide banking services to individuals and small and medium-sized enterprises, as well as to independent advisors across Canada, and operate as a full-service brokerage firm. The Bank is the ultimate parent of the group. The Bank is a chartered bank under Schedule 1 of the Bank Act (Canada) and has its head office in Montréal, Canada. The Bank's common shares (stock symbol: LB) are listed on the Toronto Stock Exchange.

The consolidated financial statements for the year ended October 31, 2016 were approved for issuance by the Board of Directors on December 6, 2016.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with the Bank Act, which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), financial statements are to be prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities classified at fair value through profit or loss and all derivatives, which have been measured at fair value. Certain financial assets and liabilities may also reflect the effect of hedge accounting adjustments as detailed below.

The Bank presents its consolidated balance sheet broadly in order of liquidity and each balance sheet item includes both current and non-current balances, as applicable.

Certain comparative figures have been reclassified to conform to current year presentation.

2.1 BASIS OF CONSOLIDATION

These consolidated financial statements include the assets, liabilities and operating results of the Bank and all of the entities which it controls, after elimination of intercompany balances and transactions. The Bank controls an entity when it has the power to direct the activities of the entity which have the most significant impact on the entity's risks and/or returns, it is exposed to significant risks and/or returns arising from the entity, and it is able to use its power to affect the risks and/or returns to which it is exposed.

Subsidiaries

Subsidiaries are consolidated from the date the Bank obtains control and continue to be consolidated until the date when control ceases to exist. The financial statements of the Bank's subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

The principal subsidiaries of the Bank are listed in the table below. All the foregoing subsidiaries are incorporated or continued in Canada under the provisions of a federal act, except V.R. Holding Insurance Company Ltd, which is incorporated under the provisions of an act of Barbados.

B2B Bank	**LBC Capital Inc.**
B2B Bank Financial Services Inc.	LBEF Inc.
B2B Bank Securities Services Inc.	LBEL Inc.
B2B Bank Intermediary Services Inc.	LBC Capital GP Inc.
B2B Trustco	LBC Leasing Limited Partnership [1]
Laurentian Bank Insurance Inc.	**LBC Financial Services Inc.**
Laurentian Bank Securities Inc.	**LBC Investment Management Inc.**
Laurentian Capital (USA) Inc.	V.R. Holding Insurance Company Ltd
Laurentian Trust of Canada Inc.	VRH Canada Inc.
	LBC Trust

(1) LBEL Inc. and LBC Capital GP Inc. are respectively the limited partner and the general partner of LBC Leasing Limited Partnership.

Structured entities

Structured entities are consolidated when the substance of the relationship between the Bank and the structured entity indicates that the structured entity is controlled by the Bank. Accordingly, the Bank consolidates Venture Reinsurance Ltd, an entity incorporated under the provisions of an act of Barbados, which is partially owned by V.R. Holding Insurance Company Ltd.

2. BASIS OF PRESENTATION [CONT'D]

Associates

Entities over which the Bank has significant influence are associates and are accounted for using the equity method of accounting. Significant influence is the power to participate in the financial and operating policy decisions of an investee, but is not control or joint control over this entity. Investments in associates are accounted for initially at cost and increased or decreased to recognize the Bank's share of the profit or loss of the associate, capital transactions, including the receipt of any dividends, and write-downs to reflect impairment in the value of such entities. These increases or decreases, together with any gains and losses realized on disposition, are reported on the Consolidated Statement of Income. The Bank's 50% participation in Verico Financial Group Inc., a mortgage broker company operating in Canada, is accounted for under this method.

2.2 USE OF ESTIMATES AND JUDGMENT

The preparation of these consolidated financial statements in accordance with IFRS requires management to make complex judgments that affect the reported amounts of assets, liabilities, net income and other related disclosures. Management has established controls and procedures to ensure these estimates are controlled, reviewed and consistently applied over time. Management believes that the estimates of the value of the Bank's assets and liabilities are appropriate.

Notes 3 and 22 detail the significant judgment used in measuring the fair value of financial instruments. Other significant areas that require management's judgment and estimates are described below.

Impairment of financial assets

Allowances for credit losses
The allowances for credit losses reflect management's estimate of losses incurred in the loan portfolios, including off-balance sheet exposures. These allowances are dependent upon management's estimates of the amounts and dates of future cash flows, the fair value of guarantees and realization costs, and the interpretation of the impact of market and economic conditions. Assessing the amounts and the dates of future cash flows requires significant management judgment regarding key assumptions, including economic and business conditions, the Bank's historical experience, probability of default, loss given default and exposure at default and, where applicable, the realizable value of any guarantee or collateral. Considering the materiality of the amounts and their inherent uncertainty, changes in current estimates and assumptions used in determining the allowances for credit losses could produce significantly different levels of allowances.

Other financial assets
Financial assets classified in the available-for-sale and held-to-maturity categories are monitored to determine whether there is any objective evidence that they are impaired. In evaluating the decline in value, management exercises judgment and takes into account many facts specific to each investment and all the factors that could indicate that there is objective evidence of impairment. Assessing whether there is objective evidence of impairment requires significant management judgment regarding various factors, which include a significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or financial re-organization, a significant or prolonged decline in fair value below its cost, and a loss event. Management also uses judgment to determine when to recognize an impairment loss. The decision to record an impairment loss, its amounts, and the period in which it is accounted for could change if management's assessment of these factors were different.

Goodwill and other intangible assets

For the purpose of impairment testing, goodwill is allocated to the Bank's cash-generating units (CGUs) which represent the lowest level within the Bank at which goodwill is monitored for internal management purposes. An impairment test is performed annually and whenever there is an indication that the CGU may be impaired, unless certain specific criteria are met. The test compares the recoverable amount of the CGU to the carrying amount of its net assets. If the recoverable amount is less than carrying value, an impairment loss is charged to income. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU proportionally based on the carrying amount of each asset.

For intangible assets with finite lives, an impairment test is performed whenever there is an indication that the asset may be impaired. The test compares the recoverable amount of the intangible asset to its carrying amount. If the recoverable amount is less than carrying value, an impairment loss is charged to income. Similar tests are performed at least annually for IT projects and other programs under development.

Management uses a number of significant estimates, including projected net income growth rates, future cash flows, the number of years used in the cash flow model and the discount rate of future cash flows to determine the recoverable amount of the CGU or intangible asset. Management considers these estimates are reasonable and consistent with the Bank's financial objectives. They reflect management's best estimates but include inherent uncertainties that are not under its control. Changes made to one or any of these estimates may significantly impact the calculation of the recoverable amount and the resulting impairment charge. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Notes 10 and 30.

2. BASIS OF PRESENTATION [CONT'D]

Post-employment benefits

Valuation of employee benefits for defined benefit pension plans and other post-employment benefits are calculated by the Bank's independent actuaries based on a number of assumptions determined by management such as discount rates, future salary levels, retirement age, mortality rates and health-care cost escalation. The discount rate is determined using a high-quality corporate bond yield curve, whose construction requires significant judgment. Other key assumptions also require significant management judgment. Considering the importance of defined benefit obligations and due to the long term nature of these plans, changes in assumptions could have a significant impact on the defined benefit plan assets (liabilities), as well as on pension plan and other post-employment benefit expenses.

Business combinations

The acquired assets and liabilities are included in the consolidated balance sheet at fair value on the date of acquisition. Valuation of the identifiable assets and liabilities of the acquiree upon initial recognition are based on a number of assumptions determined by management such as estimates of future cash flows and discount rates as well as contractual provisions. Assessing the discount rate requires significant management judgment regarding key assumptions, including the cost to raise funds in the market and the risk premium associated with the loans. Changes in assumptions could have had a significant impact on the recognized amount of goodwill or gain arising on acquisition. Refer to Note 31 for additional information on the assets acquired and liabilities assumed as a result of business combinations.

Provisions and contingent liabilities

Management exercises judgment in determining whether a past event or transaction may result in the recognition of a provision or the disclosure of a contingent liability, for instance in the case of legal actions or restructuring plans. Provisions are established when management determines that it becomes probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated, considering all relevant risks and uncertainties. Management and internal and external experts are involved in assessing the probability and in estimating any amounts involved. Furthermore, the actual costs of resolving these obligations may be substantially higher or lower than the amounts accrued.

Income taxes

Deferred income tax assets and liabilities reflect management's estimate of temporary differences. Asset values are determined using assumptions regarding the results of operations of future fiscal years, timing of reversal of temporary differences and tax rates on the date of reversals, which may well change depending on governments' fiscal policies. Management must also assess whether it is more likely than not that deferred income tax assets will be realized and determine whether a valuation allowance is required on all or a portion of deferred income tax assets.

In addition, the Bank takes part in the normal course of its business in certain transactions for which the tax impacts are uncertain. Management therefore interprets tax legislation in various jurisdictions and accounts for provisions for uncertain tax positions. The provisions are estimated at the end of each reporting period and reflect management's best estimate of the amounts that may have to be paid. In the case where an audit by tax authorities results in an adjustment to the provision, the difference will impact the income taxes of the period in which the assessment was made.

The use of different assumptions or interpretations could translate into significantly different income tax assets and liabilities, as well as the income tax expense or recovery.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 FINANCIAL INSTRUMENTS

The classification of financial instruments at initial recognition depends on the purpose and the Bank's intention for which the financial instruments were acquired and their characteristics.

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss are comprised of financial instruments classified as held-for-trading and financial instruments designated by the Bank as at fair value through profit or loss upon initial recognition.

Financial instruments at fair value through profit or loss are initially recorded at fair value on the settlement date in the consolidated balance sheet. Subsequently, these financial instruments are remeasured at fair value and the realized and unrealized gains and losses are immediately recognized in the Consolidated Statement of Income under income from treasury and financial market operations or income from brokerage operations. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income using the accrual basis of accounting. Transaction costs and other fees associated with financial instruments at fair value through profit or loss are expensed as incurred.

Held-for-trading financial instruments
Financial instruments purchased for resale over a short period of time, obligations related to securities sold short, and derivatives not designated in hedge relationships are classified as held-for-trading.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Financial instruments designated as at fair value through profit or loss
Financial instruments, other than those held for trading, may be designated on a voluntary and irrevocable basis as at fair value through profit or loss provided that such designation:

- Eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the related gains and losses on different bases; or
- Pertains to an asset or liability that is managed and whose performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about such items is provided internally on that basis to the Bank's key management personnel; or
- Pertains to a contract containing one or more embedded derivatives that significantly modify the cash flows that otherwise would be required by the contract; and
- Allows for reliable measurement of the fair value of the financial instruments designated at fair value through profit or loss.

As at October 31, 2016 and 2015, the Bank had not designated any financial instrument as at fair value through profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity, held-for-trading or designated as at fair value through profit or loss. Available-for-sale financial assets include securities which are acquired for an indefinite period and may be sold to meet liquidity requirements or in response to changes in interest rates, credit spreads, exchange rates or equity prices.

Available-for-sale financial assets are initially recorded at fair value on the settlement date including direct and incremental transaction costs and are subsequently remeasured at fair value in the consolidated balance sheet. Equity instruments that do not have a quoted market price in an active market and for which a reliable valuation cannot be obtained are recorded at cost. Unrealized gains and losses are recognized net of applicable income taxes in an available-for-sale reserve included in the accumulated other comprehensive income in equity until the financial assets are either sold or become impaired. On disposal of an available-for-sale financial asset, the accumulated unrealized gain or loss included in the available-for-sale reserve is transferred to the Consolidated Statement of Income for the period and reported under income from treasury and financial market operations.

Interest income is recognized on available-for-sale debt securities using the effective interest rate, calculated over the security's expected life. Premiums and/or discounts arising on the purchase of debt securities are included in the calculation of their effective interest rates. Dividends are recognized in interest income on the ex-dividend date.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables, which the Bank has the clear intention and ability to hold to maturity. Held-to-maturity financial assets include securities pledged to participate in securitization programs. These financial assets are initially recognized at fair value on the settlement date, including direct and incremental transaction costs. Subsequently, they are measured at amortized cost using the effective interest method, net of impairment losses. Interest income is recognized on held-to-maturity securities using the effective interest rate, calculated over the security's expected term.

Securities purchased under reverse repurchase agreements and obligations related to securities sold under repurchase agreements

The Bank enters into short-term purchases of securities under agreements to resell (reverse repurchase agreements) as well as short-term sales of securities under agreements to repurchase (repurchase agreements) at predetermined prices and dates. Given the low risk transfer associated with these purchases and sales, these agreements are treated as collateralized lending and borrowing.

Securities purchased under agreements to resell are not recognized as securities on the consolidated balance sheet. An asset corresponding to the consideration paid for the securities is recognized in securities purchased under reverse purchase agreements. Subsequently, the agreements are classified as loans and receivables and are measured at amortized cost using the effective interest method. Interest income is allocated over the expected term of the agreement by applying the effective interest rate to the carrying amount of the asset.

Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated balance sheet. The consideration received is recognized in the consolidated balance sheet and a corresponding liability is recognized in obligations related to securities sold under repurchase agreements. Subsequently, the agreements are classified as other financial liabilities and are measured at amortized cost using the effective interest method. Interest expense is allocated over the expected term of the agreement by applying the effective interest rate to the carrying amount of the liability.

Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the consolidated balance sheet if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Securities sold short

If securities borrowed or purchased under agreements to resell are subsequently sold to third parties, the obligation to deliver the securities is recorded as a short sale within obligations related to securities sold short. These short sales are classified as held-for-trading liabilities and measured at fair value with any gains or losses included, depending on the nature of the transaction, in other income under income from treasury and financial market operations or income from brokerage operations.

Loans

Loans are non-derivative financial assets with fixed or determinable payments.

Loans are initially recorded at fair value on the settlement date in the consolidated balance sheet. Subsequently, they are generally classified as loans and receivables and measured at amortized cost using the effective interest method, net of allowances for loan losses. Interest income is recognized on loans using the effective interest rate, calculated over the loan's expected term. Commissions received, origination fees and costs, as well as other transaction costs are considered to be adjustments to the loan yield and are recorded in interest income over the term of the loans. Fees received for loan prepayments are included in interest income for residential mortgage loans and other income for commercial mortgage loans upon prepayment.

Loans quoted in an active market do not meet the necessary conditions to be classified as loans and receivables and would be classified as held-for-trading, available-for-sale or held-to-maturity. Moreover, loans that the Bank would intend to sell immediately or in the near term, as well as loans where the Bank may not recover substantially all of its initial investment other than because of credit deterioration, would be classified as held-for-trading.

Renegotiated loans
Subject to assessment on a case by case basis, the Bank may restructure a loan where a borrower experiences financial difficulties. Restructuring may involve extending the payment arrangements and agreeing to new loan conditions. Once the terms have been renegotiated any impairment loss is measured using the effective interest rate as calculated before the modification of terms and the loan is no longer considered as past due. The loans continue to be subject to impairment assessment, calculated using the loan's original effective interest rate.

Foreclosed assets
Assets acquired by way of settlement of a loan are generally held for sale and are initially measured at fair value less estimated costs to sell, under other assets. The difference between the carrying amount of the loan prior to foreclosure and the amount at which the foreclosed assets are initially measured is recognized in the provision for credit losses.

Any future change in the fair value of foreclosed assets is recognized as other income in the Consolidated Statement of Income, but not in excess of the cumulative losses recognized subsequent to the foreclosure date. The revenues generated by foreclosed assets and related operating expenses are included in other income and non-interest expenses.

If the foreclosed assets are to be held and used, they are initially measured at fair value and then accounted for in the same manner as similar assets acquired in the normal course of business.

Derecognition of financial assets

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the contractual rights to the cash flows from the financial asset and substantially all risks and rewards of ownership of the asset are transferred to a third party. When a financial asset is derecognized, a gain or a loss is recognized in the Consolidated Statement of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Securitization
The Bank regularly transfers pools of residential mortgages and finance lease receivables under securitization programs. As the Bank retains substantially all the risks and rewards related to these assets, these transactions do not result in derecognition of the assets from the Bank's consolidated balance sheet. As such, securitized residential mortgages and finance lease receivables continue to be recognized in the consolidated balance sheet. In addition, these transactions result in the recognition of a debt related to securitization activities when cash is received as a result of the securitization transactions. Refer to Note 7 and 14 for further detail.

Impairment of financial assets

Impairment of available-for-sale financial assets
Financial assets classified in the available-for-sale category are monitored to determine whether there is any objective evidence that they are impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

For available-for-sale debt securities, objective evidence of impairment includes a significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments or probability that the borrower will enter bankruptcy or financial re-organization. The impairment loss represents the cumulative loss measured as the difference between amortized cost and current fair value, less any impairment loss previously recognized. Future interest income is calculated on the reduced carrying amount using the same interest rate as the one used to discount future cash flows in order to measure the impairment loss. A subsequent decline in the fair value of the instrument is also recognized in the Statement of Income. If the fair value of a debt security increases in a subsequent period, the increase is recognized in the available-for-sale reserve. However, if the increase can be objectively related to an event that occurred after the impairment loss was recognized, the impairment loss is reversed through the Consolidated Statement of Income. An increase in fair value in excess of impairment loss recognized previously in the Consolidated Statement of Income is recognized in the available-for-sale reserve.

For available-for-sale equity securities, a significant or prolonged decline in fair value below its cost is also considered to be objective evidence of impairment. If available-for-sale equity securities are impaired, the cumulative loss, measured as the difference between the acquisition cost (net of any principal repayments and amortization) and the current fair value, less any previous recognized impairment loss, is removed from the available-for-sale reserve and recognized in the Consolidated Statement of Income in income from treasury and financial market operations. Impairment losses on equity securities are not reversed through the Consolidated Statement of Income. Subsequent increases in fair value of the available-for-sale equity securities are recorded in the available-for-sale reserve whereas subsequent decreases in fair value are recognized in the Consolidated Statement of Income.

Impairment of held-to-maturity financial assets
Held-to-maturity financial assets are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset which have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The impairment loss is measured as the difference between the carrying amount of the asset, including accrued interest, and the present value of estimated expected future cash flows discounted at the asset's original effective interest rate.

Impairment of loans
A loan or a group of loans are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and that has an impact on the estimated future cash flows of the loan or a group of loans that can be reliably estimated.

At each balance sheet date, the Bank assesses whether objective evidence of impairment exists individually for each significant loan, or collectively for loans that are not individually significant. There is an objective evidence of impairment if, for instance, there is reason to believe that a portion of the principal or interest cannot be collected as a result of significant financial difficulty of the borrower, issuer or counterparty. The Bank takes into consideration interest and prepayment in arrears and type of guarantees to determine evidence of impairment. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan, it includes the loan in a portfolio of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan, including accrued interest, and the present value of estimated expected future cash flows. The carrying amount of the loan is reduced by the use of an allowance account and the amount of the loss is recognized in the Consolidated Statement of Income as a component of the provision for credit losses.

The present value of the estimated future cash flows is discounted at the loan's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized loan takes into account the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Once determined, the present value is accreted over the period from the initial recognition of the provision to the estimated eventual recovery of the loan's future value, resulting in the recording of interest in the Statement of Income, within interest income. If an impairment is later recovered, the recovery is credited to the provision for credit losses.

Collective allowances
A collective allowance is calculated for all individually insignificant loans for which no individual impairment tests are performed. In addition, a collective allowance is calculated for loans that have been assessed for impairment individually and found not to be impaired. These loans are assessed collectively, in groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred but not identified loss events.

To establish the collective allowance, the Bank uses a model based on the internal risk rating of credit facilities and on the related probability of default factors, as well as the loss given default associated with each type of facility. The probability of default and loss given default factors reflect the Bank's historical experience. The collective allowance is adjusted to reflect changes in the portfolios and credit policies and is maintained for each pool of loans with shared risk characteristics. This estimate includes consideration of economic and business conditions, management's judgment and modelling risks. The allowance related to off-balance sheet exposures, such as letters of guarantee and certain undrawn amounts under approved credit facilities, is recognized in other liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Acceptances and customers' liabilities under acceptances

Acceptances represent an obligation for the Bank with respect to short-term negotiable instruments issued by the Bank's customers to third parties and guaranteed by the Bank. Acceptances are classified as other liabilities and measured at amortized cost using the effective interest method. The recourse against the customer in the event that these obligations give rise to a cash outlay is reported as a corresponding asset and classified as a loan and receivable. Commissions earned are recorded in other income in the Consolidated Statement of Income.

Derivatives and hedges

Derivatives are primarily used to manage the Bank's exposure to interest rate and currency risks and, occasionally, in trading activities or to serve the needs of customers.

All derivatives are measured at fair value in other assets or liabilities, including derivatives embedded in financial instruments or other contracts that are not closely related to the financial instrument or to the host contract. Changes in fair value of derivatives are immediately recognized in the Consolidated Statement of Income under income from treasury and financial market operations, except for derivatives designated as cash flow hedges as described below. Interest income and expense related to derivatives is recognized in net interest income in the Consolidated Statement of Income.

Hedge accounting
When using derivatives to manage its own risks, the Bank determines for each derivative whether hedge accounting is appropriate. If deemed appropriate, the Bank formally documents the hedging relationship, detailing among other things the type of hedge (fair value or cash flow hedge), the item being hedged, the risk management objective, the hedging strategy and the method used to measure its effectiveness. Hedge accounting is deemed appropriate where the derivative is highly effective in offsetting changes in the hedged item's fair value attributed to the hedged risk, both at the hedge's inception and on an ongoing basis. Effectiveness is reviewed every month using statistical regression models.

Fair value hedges
Fair value hedge transactions predominantly use interest rate swaps and foreign exchange contracts to hedge changes in fair value of assets, liabilities or firm commitments.

For these hedging relationships, the changes in the hedged item's fair value attributable to the hedged risk are recognized in the Consolidated Statement of Income under income from treasury and financial market operations. A corresponding adjustment to the carrying amount of the hedged item in the consolidated balance sheet is also recorded, except for hedges of available-for-sale equity securities, where the adjustment is recognized in accumulated other comprehensive income. Changes in fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in fair value of the hedging derivative. When the hedging relationship ceases to be effective or the hedging instrument is sold or terminated early, hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of the hedged item linked to a hedging relationship that ceases to be effective or for which the hedging derivative is terminated or sold is recognized in net interest income over the remaining life of the hedged item. Hedge accounting is also discontinued on the sale or early termination of the hedged item, whereupon the cumulative adjustment to the hedged item's carrying amount is immediately recognized in other income.

Cash flow hedges
Cash flow hedge transactions predominantly use interest rate swaps and total return swaps to hedge the variability in cash flows related to a variable rate asset or liability.

For these hedging relationships, the changes in fair value related to the effective portion of the hedge are recognized in other comprehensive income. Changes in fair value related to the ineffective portion of the hedge are immediately recognized in the Consolidated Statement of Income. Changes in fair value recognized in other comprehensive income are reclassified in the Consolidated Statement of Income under net interest income in the periods during which the cash flows comprising the hedged item affect income.

When the hedging relationship ceases to be effective or the hedging instrument is sold or terminated early, hedge accounting is discontinued prospectively. Changes in fair value recognized in other comprehensive income in respect of a cash flow hedging relationship that ceases to be effective or for which the hedging instrument is sold or terminated early are reclassified in the Consolidated Statement of Income under net interest income in the periods during which the cash flows comprising the hedged item affect income. Hedge accounting is also discontinued on the sale or early termination of the hedged item, whereupon the changes in fair value recognized in accumulated other comprehensive income are immediately recognized in other income.

Deposits

Deposits are initially measured at fair value, net of directly attributable transaction costs incurred. Subsequently, they are classified as other financial liabilities and measured at amortized cost using the effective interest method. Interest expense is allocated over the expected term of the deposit by applying the effective interest rate to the carrying amount of the liability. Commissions paid and other fees are recorded in interest expense over the term of the deposits. Deposits are presented net of unamortized commissions and other fees on the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Indexed deposit contracts
Certain personal deposit obligations, such as equity-linked guaranteed investment certificates where the deposit obligation varies according to the performance of certain stock market indexes, may be subject to a guaranteed minimum redemption amount, such as the obligation to return the investor's initial investment at maturity. These obligations include an embedded derivative instrument that is accounted for separately and is presented in the consolidated balance sheet under derivatives.

Debt related to securitization activities

Debt related to securitization activities is initially measured at fair value net of directly attributable transaction costs incurred. Subsequently, the debt is classified as other financial liabilities and is measured at amortized cost using the effective interest method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability.

Subordinated debt

Subordinated debt is initially measured at fair value net of directly attributable transaction costs incurred. Subsequently, the debt is classified as other financial liabilities and is measured at amortized cost using the effective interest method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability.

Measuring the fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

The fair value of a financial instrument on initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. In certain circumstances, the initial fair value may be based on other observable market transactions for the same instrument or on a valuation technique.

Subsequent to initial recognition, the fair value of financial instruments is best evidenced by quoted prices in active markets when available. This fair value is based on the quoted price within the bid-offer prices that is most representative of fair value in the circumstances. Otherwise, fair value is measured using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Determining which valuation technique and inputs to apply requires judgment. Valuation techniques include cash flow discounting, comparison with current market prices for financial instruments with similar characteristics and risk profiles and option pricing models. The inputs, among other things, include contractual prices of the underlying instruments, yield curves and volatility factors. The valuations may also be adjusted to reflect the uncertainty in these parameters. In particular, valuation adjustments may be made with respect to the liquidity or counterparty credit risk of financial instruments that have no available quoted prices in active markets. Fair value reflects market conditions on a given date and for this reason cannot be representative of future fair values.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated balance sheet when the Bank currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously. In all other situations, financial assets and liabilities are presented on a gross basis.

3.2 LEASES

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

The Bank as a lessor

The Bank provides leasing solutions to business customers.

Finance leases
Leases in which the Bank transfers substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Assets held under a finance lease are presented as a receivable on the line item Commercial loans and others in the consolidated balance sheet.

Finance lease receivables are initially recorded at an amount equal to the net investment in the lease at the inception of the lease. This corresponds to the aggregate minimum lease payments receivable plus any unguaranteed residual value accruing to the Bank, discounted at the interest rate implicit in the lease. Finance lease receivables are subsequently recorded at an amount equal to the net investment in the lease at the reporting date, net of allowances for loan losses. Interest income is recognized based on a pattern reflecting a constant periodic rate of return on the Bank's net investment outstanding in respect of the finance lease. Commissions received, origination fees and costs, as well as other transaction costs in respect of finance leases are considered to be adjustments to the yield and are recorded in interest income over the term of the lease. For derecognition and impairment of finance lease receivables, the Bank applies accounting policies applicable to financial instruments described in Section 3.1.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Operating leases
Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Rental income arising from operating leases is accounted for on a straight-line basis over the lease term and is included in other income in the Consolidated Statement of Income.

Assets subject to operating leases are classified in the balance sheet in other assets. Operating lease payments are recognized in other non-interest expenses in the Consolidated Statement of Income on a straight-line basis over the lease term and are carried at cost less accumulated depreciation, which takes into account their estimated residual value.

The Bank as a lessee

The Bank enters into lease agreements as a lessee for its premises and other contracts. These agreements are accounted for as operating leases as they do not transfer substantially all the risks and rewards incidental to ownership of the leased items to the Bank. Operating lease payments are recognized in other non-interest expenses in the Consolidated Statement of Income on a straight-line basis over the lease term.

3.3 BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. At the date of acquisition, the purchase price is measured as the aggregate of the fair value of the consideration transferred. Acquisition-related costs are recognized directly in net income, under Costs related to business combinations in the period they are incurred. When the Bank acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual term, economic circumstances and market conditions at the acquisition date.

At the acquisition date, the identifiable assets acquired and liabilities assumed of the acquiree, as well as any contingent consideration to be assumed or received by the Bank, are recognized at their estimated fair value. The excess of the purchase price over the fair value of the net identifiable assets acquired is recorded as goodwill in the balance sheet, while any excess of the fair value of the net identifiable assets over the purchase price is recorded in net income as a gain on acquisition. Subsequent changes in the fair value of a contingent consideration are recorded in net income.

The fair value estimate of purchased financial assets and assumed liabilities reflects the interest rate premium or discount resulting from the difference between the contractual rates and prevailing market interest rates for financial instruments with similar terms and conditions, as well as the expected credit losses as of the acquisition date. As purchased loans and finance lease receivables are recorded at fair value, no allowance for credit losses is recorded on the date of acquisition. As well, these loans and finance lease receivables are not considered impaired as at the date of acquisition. Subsequently, purchased loans and finance lease receivables are recorded at amortized cost using the effective interest method.

Purchased loans and finance lease receivables are subject to impairment assessment, consistent with the Bank's methodology for collective allowances. Increases in initially estimated incurred loan losses are recorded in the provision for credit losses and increase the allowance for loan losses. Decreases in initially estimated incurred credit losses result in a reduction of the provision for credit losses and reduce any previously recorded allowance for loan losses, until the newly recorded allowance is exhausted. Any additional decrease in estimated incurred credit losses is recorded in the Consolidated Statement of Income under net interest income and increases the carrying amount of the purchased loans and finance lease receivables.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's CGUs or group of CGUs, which are expected to benefit from the synergies of the combination. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes. The Bank allocated the goodwill from business combinations to the B2B Bank unit and the Business Services unit, and to the Retail unit until October 2015.

Goodwill is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired, by comparing the recoverable amount of the CGU with its carrying amount. The recoverable amount of the CGU is the greater of the value in use and its fair value less cost of disposal. Impairment losses on goodwill are charged to income in the period they are incurred and are not reversed.

3.4 PREMISES AND EQUIPMENT

Premises and equipment are recorded at cost including expenditure that is directly attributable to the acquisition of the items, less accumulated depreciation and impairment losses. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Depreciation

Depreciation is calculated using the straight-line method to write down the cost of premises and equipment to their residual values over their estimated useful lives. Depreciation of premises and equipment is recorded in the Consolidated Statement of Income under the Premises and technology line item. Land is not depreciated. The estimated useful lives are as follows:

	Period
Premises	25-40 years
Leasehold improvements	The lesser of term of the lease, plus one initial renewal option, or useful life
Equipment and furniture	2-10 years
Computer hardware	2-10 years

The residual values underlying the calculation of depreciation of items of property are kept under review to take account of any change in circumstances. Useful lives and method of depreciation are also reviewed regularly, at a minimum at the end of each fiscal year, and adjusted if appropriate. These changes are treated as changes in accounting estimates.

Impairment

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered to be impaired and it is written down to its recoverable amount. Assets are reviewed to determine whether there is any indication of impairment. Assessing whether such indications exist is subject to management's judgment.

3.5 SOFTWARE AND OTHER INTANGIBLE ASSETS

Software and other intangible assets are recorded at cost including expenditure that is directly attributable to the acquisition of the items, less accumulated depreciation and impairment losses. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the assets.

Amortization

Software is amortized on a straight line basis over its estimated useful life, which ranges from two to ten years. Amortization of software is recorded in the Consolidated Statement of Income under the premises and technology line item. Other intangible assets with finite lives, mainly consisting of contractual relationships with independent brokers and advisors and vendor-dealers, core deposit intangibles, as well as the core banking system and certain components of the ongoing program to implement the Basel Advanced Internal Ratings Based approach to credit risk currently in use, are amortized on a straight-line basis over their estimated useful life, which ranges from three to fourteen years. Amortization of other intangible assets is included in other non-interest expenses.

Impairment

Software and intangible assets with finite lives are tested for impairment whenever circumstances indicate that the carrying value may not be fully recoverable and at least annually for projects under development. When the carrying amount exceeds its estimated recoverable amount, the assets with finite lives are considered impaired and are written down to their recoverable amount. Software and other intangible assets that do not generate cash inflows that are largely independent of those from other assets or group of assets are tested for impairment at the CGU level. Any impairment arising from a decline in value of intangible assets is charged to income in the period in which the losses are incurred.

3.6 EMPLOYEE BENEFITS

The Bank provides short-term benefits such as salary, health and life insurance, annual leave as well as other incentive plans. The Bank also provides post-employment benefits, including pension plans, as well as, for certain retired employees, health and life insurance.

Short-term benefits

The Bank recognizes a compensation expense as services are rendered by employees.

Post-employment benefits

The Bank has a number of benefit plans, including defined benefit and defined contribution pension plans, as well as other post-employment benefits.

Defined benefit pension plans

Typically, defined benefit plans provide benefits based on years of service, age, contribution and average earnings. The defined benefit asset or liability, recognized on the consolidated balance sheet, corresponds to the present value of the plan obligation less the fair value of the plan assets at the balance sheet date. The present value of the defined benefit obligation is measured using the estimated future cash outflows discounted at the rate of high-quality corporate bonds with a maturity approximating the terms of the related defined benefit

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

obligations. The cost of providing benefits under the plans is determined for each plan using the projected unit credit actuarial valuation method, which incorporates various parameters such as discount rates, future salary levels, retirement age, mortality rates and the general inflation rate. Pension plan assets are measured at fair value.

Actuarial gains and losses arise from changes in actuarial assumptions used to determine the plan obligation. Actuarial gains and losses are recognized as they occur in items of other comprehensive income that may not be reclassified subsequently to the Consolidated Statement of Income and are immediately transferred to retained earnings.

The value of any pension plan asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. Any restriction would be recorded as a valuation allowance.

Funding is generally provided by the Bank.

Defined benefit costs recognized in the Consolidated Statement of Income under Salaries and employee benefits consist of: [a] current year's service cost, [b] interest expense on the defined benefit obligation, [c] return on plan assets based on the rate used to discount the plan obligation, [d] past service cost and [e] change in the valuation allowance.

Defined contribution pension plans
As part of the pension plans, the Bank also operates defined contribution pension arrangements. The contribution payable to these defined contribution arrangements is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under Salaries and employee benefits. Unpaid contributions are recorded as a liability.

Funding is generally provided by both the Bank and the participating employees of the plans.

Other post-employment benefits
The Bank offers other post-employment benefits to its employees such as a salary continuance plan during maternity leave and the payment of group insurance plan premiums during a disability period or maternity leave. In addition, certain retired employees have other retirement benefits, including health and life insurance. The costs related to these benefits are recognized during the employees' service life according to accounting policies similar to those applied to defined benefit pension plans.

Funding is generally provided by the Bank and the participating employees of the plans.

3.7 PROVISIONS AND CONTINGENT LIABILITIES

Provisions are liabilities of uncertain timing or amount. They are recognized when the Bank has a present legal or constructive obligation as a result of a past event, and it is both probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. Contingent liabilities are not recognized but are disclosed in the consolidated financial statements when the Bank cannot determine whether an obligation is probable or cannot reliably estimate the amount of loss. The Bank regularly assesses the adequacy of its provisions and makes the necessary adjustments to incorporate new information as it becomes available.

3.8 INCOME TAXES

The Bank uses the liability method of tax allocation and accounts for the deferred income tax assets and liabilities related to loss carry forwards and other temporary differences between the carrying amounts and the tax bases of assets and liabilities, in accordance with tax laws and rates enacted or substantively enacted on the date the differences are expected to reverse. A valuation allowance is established, as needed, to reduce the deferred income tax asset to the amount that is more likely than not to be realized. All amounts resulting from changes in tax rates are recorded in net income, except to the extent that it relates to items previously recognized in equity, in which case they are recorded in equity.

3.9 EARNINGS PER SHARE

The Bank calculates its basic earnings per share by dividing net income for the period, after deduction of preferred share dividends, including applicable income taxes, as well as premiums on redemption of preferred shares, by the weighted average number of common shares outstanding for the period. Diluted earnings per share are calculated by dividing the basic earnings, adjusted for the effects of potentially dilutive common shares, by the weighted average number of common shares outstanding adjusted for the period, inclusive of the effect of potentially dilutive common shares.

3.10 INSURANCE

The Bank is engaged in credit life and disability insurance activities. Insurance premiums are recognized as revenue, net of reinsurance, over the terms of the underlying policies. Insurance claims and changes in policy holder benefit estimates are recorded as incurred. These activities are presented in other income under insurance income, net.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

3.11 SHARE-BASED COMPENSATION

The Bank provides share-based compensation to certain employees and directors.

Compensation expense of share purchase options is accrued based on the best estimate of the number of instruments expected to vest, with revisions made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. Share purchase options are expensed over the applicable vesting period with a corresponding increase in share-based payment reserve in equity. Upon exercise of the instruments, corresponding amounts in the share-based payment reserve are transferred to the common share account within shareholders' equity.

Stock appreciation rights, restricted share units, performance share units (PSUs) and deferred share units are accounted for as cash-settled share-based payment awards. These rights and units are recognized as a compensation expense over the applicable vesting period with a corresponding liability accrued based on the fair value of the Bank's common shares and, for PSUs, specific performance conditions. The change in the value of rights and units resulting from changes in the fair value of the Bank's common shares or changes in the specific performance conditions and credited dividends is recognized in income during the vesting period, partly offset by the effect of total return swaps used to manage the variability in the value and expenses of the related rights and units.

The Bank's contributions related to the employee share purchase program are recognized as compensation expense.

3.12 ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

The Bank administers and manages assets held by customers that are not recognized in the consolidated balance sheet. Revenues derived from the administration and management of these assets are recorded in other income, as services are provided.

3.13 TRANSLATION OF FOREIGN CURRENCIES

The consolidated financial statements are presented in Canadian dollars which is the functional and reporting currency of all the entities of the group. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the consolidated balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Income and expenses are translated at the average monthly exchange rates. Realized or unrealized gains and losses resulting from the translation of foreign currencies are included in other income except for available-for-sale equity securities not designated in fair value hedges, where unrealized translation gains and losses are recorded in other comprehensive income until the asset is sold or becomes impaired.

3.14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and non-interest-bearing deposits with other banks, and are classified in the loans and receivables category. Cash comprises bank notes and coins.

3.15 SHARE CAPITAL

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are recorded in equity as a deduction from the proceeds, net of applicable income taxes.

Dividend on common shares

Dividends on common shares are recorded in equity in the period in which they are approved by the Bank's Board of Directors.

4. CURRENT AND FUTURE ACCOUNTING CHANGES

4.1 CURRENT ACCOUNTING CHANGES

Segmented information

As of November 1, 2015, the Bank reports as one business entity and not as four distinct segments as was previously done. This change in disclosure was applied prospectively to better present the nature and financial effects of the Bank's business activities.

Provision for off-balance sheet exposures

As of November 1, 2015, the provision for off-balance sheet exposures, such as letters of guarantee and certain undrawn amounts under approved credit facilities, which was previously reported as part of other non-interest expenses was reclassified to the provision for credit losses to better reflect the nature of this expense. This change in presentation was applied prospectively and did not have any significant impact on the Bank's financial position or results.

Multi-unit residential mortgage loans

Multi-unit residential mortgage loans which were previously reported in residential mortgage loans in the consolidated balance sheet were reclassified to commercial mortgage loans to better reflect the nature of these loans and associated risks. This reclassification amounted to $1.2 billion as at October 31, 2015 and $1.1 billion as at November 1, 2014. Corresponding reclassifications of provisions for credit losses as well as impaired loans and allowances for credit losses were made.

4. CURRENT AND FUTURE ACCOUNTING CHANGES [CONT'D]

4.2 FUTURE ACCOUNTING CHANGES

The following section summarizes accounting standards which have been issued but are not yet effective.

IFRS 9: *Financial instruments*

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, which will be replacing IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 provides requirements for how an entity should classify and measure financial assets and liabilities, as well as a new expected credit loss impairment model. It also introduces certain modifications to the general hedge accounting model. The final version supersedes all previous versions of IFRS 9 and is effective for annual periods beginning on or after January 1, 2018, which will be November 1, 2018 for the Bank. Earlier application of IFRS 9 is permitted.

In January 2015, OSFI issued the final version of the *Advisory on the Early Adoption of IFRS 9, Financial Instruments for Domestic Systemically Important Banks (D-SIBs)*. The Advisory outlines OSFI's expectation that D-SIBs will adopt IFRS 9 for their annual period beginning on November 1, 2017. All other Federally Regulated Entities (FRE) using an October 31 year-end are permitted to adopt IFRS 9 on November 1, 2017, but are not required to do so. As the Bank has not been designated as a D-SIB, the Bank decided not to early adopt IFRS 9.

In December 2015, the Basel Committee on Banking Supervision (BCBS) issued its final version of the *Guidance on credit risk and accounting for expected credit losses*. The guidance sets out supervisory expectations on sound credit risk practices associated with the implementation of expected credit loss accounting models as required under IFRS 9.

In June 2016, the OSFI issued the final version of the *IFRS 9 Financial Instruments and Disclosures Guideline*, which reflects the aforementioned BCBS guidance and instructs FRE on the application of IFRS 9. The guideline will take effect when IFRS 9 is applicable to each FRE.

Impairment

IFRS 9 introduces a new expected-loss impairment model that must be applied to all financial assets classified at amortized cost or fair value through other comprehensive income, with the most significant impact expected to be on loans and finance lease receivables. The model will also apply to loan commitments and financial guarantees that are not measured at fair value through profit or loss.

Specifically, IFRS 9 requires entities to recognize 12-month expected credit losses (ECL) from the date a financial asset is first recognized ("stage 1 loans") and to recognize lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition ("stage 2 loans"). In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of default occurring on the financial instrument as at the date of initial recognition. Currently, under the incurred loss methodology in IAS 39, allowances are provided for non-impaired loans for losses that are incurred but not yet identified.

The ECL model under IFRS 9 also requires that lifetime expected credit losses be recognized for financial assets that are assessed as credit-impaired ("stage 3 loans").

Classification and Measurement

IFRS 9 requires all financial assets to be classified in three categories (amortized cost, fair value through profit or loss or fair value through other comprehensive income) based on the cash flow characteristics and the business model under which the assets are held. The classification and measurement of financial liabilities remain essentially unchanged from the current IAS 39 requirements, except for the measurement of financial liabilities elected to be measured at fair value: IFRS 9 requires changes in the fair value of an entity's own credit risk to be recognized in other comprehensive income rather than in profit or loss.

Hedge accounting

IFRS 9 introduces certain modifications for hedge accounting that aims to provide a better link between an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Accounting for macro hedging has been decoupled from IFRS 9 and may be issued as a separate standard. The current hedge accounting requirements under IAS 39 may continue to be applied until the IASB finalizes its macro hedge accounting project.

Transition

The impairment and classification and measurement requirements of IFRS 9 will be applied retrospectively by adjusting the opening balance sheet at November 1, 2018. There is no requirement to restate comparative periods. Hedge accounting, if adopted, will be applied prospectively, with limited exceptions. At this stage, it is no possible to quantify the potential financial effect of adoption of IFRS 9 to the Bank.

To coordinate and execute the adoption of IFRS 9, the Bank has established a project team. The Bank's conversion plan includes the following phases: (a) Preliminary Assessment; (b) Detailed Analysis; (c) Implementation, with work streams focused on each of the three required sections of IFRS 9 noted above. The Bank is on track with its project timelines. The Preliminary Assessment phase is completed and the Detailed Analysis phase is in progress.

4. CURRENT AND FUTURE ACCOUNTING CHANGES [CONT'D]

IFRS 15: *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which establishes a comprehensive framework for the recognition, measurement and disclosure of revenues. IFRS 15 applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments) and replaces, amongst others, the previous revenue standard IAS 18, *Revenue* and the related interpretation on revenue recognition IFRIC 13, *Customer Loyalty Programmes*. The new standard also includes requirements for accounting for some costs that are related to a contract with a customer. In July 2015, the IASB decided to defer the effective date of IFRS 15 by one year. Accordingly, entities will apply IFRS 15 for annual periods beginning on or after January 1, 2018, which will be November 1, 2018 for the Bank. The Bank is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

IFRS 16: *Leases*

In January 2016, the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases standard, IAS 17 *Leases*, and related interpretations.

For lessees, the most significant effect of the new requirements will be an increase in lease assets and financial liabilities as IFRS 16 eliminates the classification of leases as either operating leases or finance leases. All leases are 'capitalized' by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligation to make future lease payments.

For lessors, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019, which will be November 1, 2019 for the Bank. Early application is permitted for entities that also apply IFRS 15, *Revenue from Contracts with Customers*. The Bank is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

5. SECURITIES

MATURITY SCHEDULE OF SECURITIES

	Within 1 year	1 to 5 years	Over 5 years	No specific maturity	2016 Total	2015 Total
Portfolio of available-for-sale securities						
Securities issued or guaranteed						
by Canada [1]	$ 818,625	$ 104,697	$ —	$ —	$ 923,322	$ 785,585
by provinces	624,345	764,991	2,834	—	1,392,170	1,174,426
by municipalities	—	59,279	—	—	59,279	—
Other debt securities	24,517	108,685	34,268	—	167,470	150,246
Asset-backed securities	4,586	—	3,656	—	8,242	33,694
Preferred shares	450	—	17	102,069	102,536	104,978
Common shares and other securities	—	—	—	70,674	70,674	119,828
	$ 1,472,523	$ 1,037,652	$ 40,775	$ 172,743	$ 2,723,693	$ 2,368,757
Portfolio of held-to-maturity securities						
Securities issued or guaranteed by Canada [1]	$ 491,311	$ 10,921	$ —	$ —	$ 502,232	$ 393,222

(1) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the *National Housing Act*.

Refer to Note 7 for additional information on held-to-maturity securities.

5. SECURITIES [CONT'D]

GAINS AND LOSSES RECOGNIZED IN COMPREHENSIVE INCOME

Gains and losses recognized in income from treasury and financial market operations on the portfolio of available-for-sale securities for the years ended October 31

		2016		2015
Realized net gains (losses)	$	(2,391)	$	8,253
Write-downs for impairment		(622)		(3,120)
	$	(3,013)	$	5,133

Accumulated unrealized gains and losses recognized in other comprehensive income on the portfolio of available-for-sale securities as at October 31

								2016
		Amortized cost		Unrealized gains		Unrealized losses		Fair value
Securities issued or guaranteed								
by Canada [1]	$	922,152	$	1,232	$	62	$	923,322
by provinces		1,389,637		2,630		97		1,392,170
by municipalities		59,220		96		37		59,279
Other debt securities		163,023		4,683		236		167,470
Asset-backed securities		8,165		77		—		8,242
Preferred shares		109,509		2,534		9,507		102,536
Common shares and other securities		67,824		3,122		272		70,674
	$	2,719,530	$	14,374	$	10,211	$	2,723,693

								2015
		Amortized cost		Unrealized gains		Unrealized losses		Fair value
Securities issued or guaranteed								
by Canada [1]	$	785,445	$	154	$	14	$	785,585
by provinces		1,173,156		2,185		915		1,174,426
Other debt securities		146,449		4,129		332		150,246
Asset-backed securities		32,945		749		—		33,694
Preferred shares		120,511		164		15,697		104,978
Common shares and other securities		120,718		3,851		4,741		119,828
	$	2,379,224	$	11,232	$	21,699	$	2,368,757

(1) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the *National Housing Act*.

Refer to Note 22 for additional information on the determination of fair value of securities.

6. LOANS

ALLOWANCES FOR CREDIT LOSSES

												2016
		Balance at beginning of year		Provision for credit losses [3]		Write-offs		Recoveries		Interest accrued on impaired loans		Balance at end of year
Personal	$	41,466	$	23,903	$	(35,971)	$	7,739	$	(685)	$	36,452
Residential mortgage		11,995		3,723		(2,350)		(877)		(1,473)		11,018
Commercial mortgage		25,077		(1,040)		(119)		(73)		(814)		23,031
Commercial and other [1]		37,732		6,764		(3,828)		27		(632)		40,063
Total allowances for credit losses	$	116,270	$	33,350	$	(42,268)	$	6,816	$	(3,604)	$	110,564
Individual allowances	$	23,690	$	309	$	(3,928)	$	(47)	$	(816)	$	19,208
Collective allowances against impaired loans		18,676		31,566		(38,340)		6,863		(2,788)		15,977
Collective allowances against other loans		68,787		1,037		—		—		—		69,824
Total allowances for loan losses	$	111,153	$	32,912	$	(42,268)	$	6,816	$	(3,604)	$	105,009
Allowances for off-balance sheet exposures [2]		5,117		438		—		—		—		5,555
Total allowances for credit losses	$	116,270	$	33,350	$	(42,268)	$	6,816	$	(3,604)	$	110,564

												2015
		Balance at beginning of year		Provision for credit losses [3]		Write-offs		Recoveries		Interest accrued on impaired loans		Balance at end of year
Personal	$	38,411	$	29,677	$	(36,067)	$	7,145	$	(435)	$	38,731
Residential mortgage		10,169		5,324		(2,466)		(326)		(709)		11,992
Commercial mortgage		27,944		(90)		(2,976)		(82)		(919)		23,877
Commercial and other [1]		42,847		(11)		(6,322)		521		(482)		36,553
Total allowances for loan losses	$	119,371	$	34,900	$	(47,831)	$	7,258	$	(2,545)	$	111,153
Individual allowances	$	21,951	$	10,686	$	(9,225)	$	521	$	(243)	$	23,690
Collective allowances against impaired loans		17,238		35,609		(38,606)		6,737		(2,302)		18,676
Collective allowances against other loans		80,182		(11,395)		—		—		—		68,787
Total allowances for loan losses	$	119,371	$	34,900	$	(47,831)	$	7,258	$	(2,545)	$	111,153

(1) Including customers' liabilities under acceptances and finance lease receivables.

(2) The allowances for off-balance sheet exposures, such as letters of guarantee and certain undrawn amounts under approved credit facilities, are recognized in other liabilities. The reduction in the allowances for off-balance sheet exposures in 2015 amounted to $2.3 million.

(3) The provision for off-balance sheet exposures, which was previously reported as part of other non-interest expenses, was reclassified to the provision for credit losses as of November 1, 2015. Refer to Note 4 for further information.

IMPAIRED LOANS

								2016
		Gross amount		Individual allowances		Collective allowances against impaired loans		Net amount
Personal	$	18,018	$	—	$	10,156	$	7,862
Residential mortgage		31,549		—		3,355		28,194
Commercial mortgage		18,584		4,855		507		13,222
Commercial and other [1]		64,104		14,353		1,959		47,792
	$	132,255	$	19,208	$	15,977	$	97,070

(1) Including customers' liabilities under acceptances and finance lease receivables.

6. LOANS [CONT'D]

				2015
	Gross amount	Individual allowances	Collective allowances against impaired loans	Net amount
Personal	$ 18,703	—	$ 11,156	$ 7,547
Residential mortgage	32,760	—	4,721	28,039
Commercial mortgage	49,431	9,536	265	39,630
Commercial and other [1]	37,747	14,154	2,534	21,059
	$ 138,641	$ 23,690	$ 18,676	$ 96,275

(1) Including customers' liabilities under acceptances and finance lease receivables.

Foreclosed assets

Held-for-sale assets acquired in 2016 with respect to impaired loans which are managed for sale in an orderly manner amounted to $6.4 million ($8.9 million in 2015). There were no individual allowances with regards to these loans prior to foreclosure.

LOANS PAST DUE BUT NOT IMPAIRED

Personal and residential mortgage loans past due shown in the table below are not classified as impaired because they are less than 90 days past due or they are secured such as to reasonably expect full recovery. Commercial loans past due but not impaired are not significant.

				2016
	1 day– 31 days	**32 days– 90 days**	**Over 90 days**	**Total**
Personal loans	**$ 88,434**	**$ 28,260**	**$ 6,815**	**$ 123,509**
Residential mortgages	**246,394**	**34,950**	**24,328**	**305,672**
	$ 334,828	**$ 63,210**	**$ 31,143**	**$ 429,181**

				2015
	1 day– 31 days	32 days– 90 days	Over 90 days	Total
Personal loans	$ 104,407	$ 28,609	$ 9,944	$ 142,960
Residential mortgages	268,341	35,146	25,241	328,728
	$ 372,748	$ 63,755	$ 35,185	$ 471,688

FINANCE LEASE RECEIVABLES

The following table presents information about assets held under finance leases, which are included in the Commercial and other line item.

	2016	2015
Minimum lease payments	**$ 793,151**	$ 108,352
Unguaranteed residual values	**20,017**	—
Gross investment in leases	**813,168**	108,352
Unearned interest income	**(84,794)**	(10,149)
Net investment in leases	**728,374**	98,203
Unamortized deferred costs, security deposits, and other	**9,661**	—
	$ 738,035	$ 98,203

6. LOANS [CONT'D]

Contractual maturities of finance lease receivables

The following table presents information about contractual maturity dates for finance lease receivables.

						2016
		Gross investment in leases		**Unearned interest income**		**Net investment in leases**
Receivable within one year	**$**	**286,579**	**$**	**32,961**	**$**	**253,618**
Receivable within 1 to 5 years		**515,706**		**50,463**		**465,243**
Receivable after 5 years		**10,883**		**1,370**		**9,513**
	$	**813,168**	**$**	**84,794**	**$**	**728,374**

						2015
		Gross investment in leases		Unearned interest income		Net investment in leases
Receivable within one year	$	29,674	$	4,004	$	25,670
Receivable within 1 to 5 years		76,255		6,067		70,188
Receivable after 5 years		2,423		78		2,345
	$	108,352	$	10,149	$	98,203

7. TRANSFER OF FINANCIAL ASSETS

7.1 LOAN SECURITIZATION

The Bank securitizes residential mortgage loans by participating in the Canada Mortgage Bond (CMB) program and the National Housing Act (NHA) mortgage-backed securities (MBS) program, as well as through multi-seller conduits set up by large Canadian banks. As the Bank ultimately retains certain prepayment risk, interest rate risk and credit risk related to the transferred mortgage loans, these are not derecognized and the securitization proceeds are recorded as securitization liabilities.

National Housing Act mortgage-backed securities and Canada Mortgage Bond programs

Under the NHA MBS program, the Bank issues securities backed by insured residential mortgage loans (the NHA MBS). These NHA MBS may be sold directly to investors or through the CMB program set-up by the Canada Mortgage and Housing Corporation (CMHC).

NHA MBS are amortizing assets that pay back principal and interest cash flows on a monthly basis, while CMBs provide investors with a fixed interest coupon bond with semi-annual interest payments and repayment of principal on specified maturity dates. To address this difference in cash flows for the CMB program, the CMHC conduit enters into master swap agreements with approved financial institutions (Swap Counterparties). Under the swap agreements, Swap Counterparties receive the monthly interest flows from the original NHA MBS and the Replacement Assets (see below), and in return provide the CMHC conduit with the regular interest payments required to pay out to investors under the terms of the CMB. Simultaneously, these Swap Counterparties conclude similar swap agreements with the Bank. At the swap coupon settlement date, the Bank therefore pays/receives the difference between the amount collected from the original NHA MBS, as well as from the Replacement Assets, and the amount payable to investors under the terms of the CMB.

Since the underlying cash flows associated with these swap agreements are captured through the on-balance sheet recognition of the underlying assets and the associated securitization liabilities, these swap agreements are not recognized at fair value on the consolidated balance sheet and fair value changes are not recognized in the Consolidated Statement of Income. The underlying cash flows of the swap agreements are recognized on an accrual basis as described below. As at October 31, 2016, the notional amount of these swaps was $4.7 billion ($4.8 billion as at October 31, 2015).

Assets related to securitization activities

As these securitization transactions do not meet derecognition criteria, the securitized mortgage loans remain on balance sheet as residential mortgage loans. The Replacement Assets are also recorded on balance sheet. These assets are considered pledged assets. Interest income is accrued on these assets as for the Bank's other similar assets. The CMB and NHA MBS holders and CMHC have no recourse to other assets of the Bank in the event of failure of debtors to pay when due.

Debt related to securitization activities

As these securitization transactions do not meet derecognition criteria, the proceeds received are recorded as debt related to securitization activities on the consolidated balance sheet of the Bank. Interest accrued on the debt is based on the CMB or NHA MBS coupon related to the series and is classified in other liabilities as accrued interest payable.

7. TRANSFER OF FINANCIAL ASSETS [CONT'D]

Multi-seller conduits

As part of transactions with multi-seller conduits, the Bank sells residential mortgage loans and finance lease receivables to special purpose entities (SPEs) established for the limited purpose of securitization activities and incurs interest-bearing liabilities. The SPEs fund such purchases through the issuance of asset-backed commercial paper.

Assets related to securitization activities
As the Bank provides credit enhancements for these transactions, they do not meet derecognition criteria and the securitized loans and finance lease receivables remain on balance sheet. However, as the Bank's rights, title and interest in the transferred loans are legally transferred to the SPEs, these are considered pledged assets. Interest income is accrued on these loans and finance lease receivables as for the Bank's other similar instruments. The SPEs has no recourse to other assets of the Bank in the event of failure of debtors to pay when due, except as noted below.

Debt related to securitization activities
As these securitization transactions do not meet derecognition criteria, the proceeds received are recorded as a debt related to a multi-seller conduit on the consolidated balance sheet. Interest accrued on debt related to multi-seller conduit transactions are based on the commercial paper issued by the SPEs to fund the purchases and are classified in other liabilities as accrued interest payable.

Guarantees related to securitization activities
As part of the transactions with a multi-seller conduit, the Bank has guaranteed the payment and performance of certain obligations and liabilities to the securitization SPE. The maximum potential amount of future payments under this guarantee totalled $892.5 million as at October 31, 2016 ($309.1 million as at October 31, 2015).

Financial assets not qualifying for derecognition and associated financial liabilities

The following table summarizes the carrying amounts, maturity schedule and fair value of financial assets that do not qualify for derecognition and their associated financial liabilities included in the consolidated balance sheet.

					2016
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total carrying amount**	**Fair value**
Residential mortgage loans	**$ 2,371,686**	**$ 3,850,160**	**$ 528**	**$ 6,222,374**	**$ 6,252,621**
Commercial loans and other [1]	**170,712**	**247,388**	**1,643**	**419,743**	**433,815**
Replacement Assets					
Cash and deposits with other banks	**10,691**	**—**	**—**	**10,691**	**10,691**
Securities purchased under reverse repurchase agreements	**6,507**	**—**	**—**	**6,507**	**6,507**
Other securities	**491,310**	**10,921**	**—**	**502,231**	**502,311**
Debt related to securitization activities	**$ (1,433,926)**	**$ (5,474,857)**	**$ (335,671)**	**$ (7,244,454)**	**$ (7,278,997)**

(1) Consisting of finance lease receivables.

		2015
	Total carrying amount	Fair value
Residential mortgage loans	$ 4,558,477	$ 4,589,435
Replacement Assets		
Cash and deposits with other banks	13,463	13,463
Securities purchased under reverse repurchase agreements	397,169	397,169
Other securities	393,222	393,322
Debt related to securitization activities	$ (5,493,602)	$ (5,520,176)

The following table summarizes the securitization activities carried out by the Bank.

	2016	2015
Carrying amounts of mortgages transferred during the year related to new financing	**$ 2,939,694**	$ 1,298,644
Carrying amounts of finance lease receivables transferred during the year related to new financing	**$ 434,175**	$ —
Carrying amounts of mortgages transferred during the year as Replacement Assets	**$ 532,780**	$ 460,825

7. TRANSFER OF FINANCIAL ASSETS [CONT'D]

7.2 LOANS UNDER MANAGEMENT

The Bank provides management and administrative services of loans to third parties. The total principal amount of outstanding loans under management amounted to $404.0 million at the end of fiscal 2016 ($328.7 million in 2015). The Bank is not exposed to any credit risk under the servicing agreements in respect of these loans.

8. PREMISES AND EQUIPMENT

	Premises and leasehold improvements	Equipment and furniture	Computer hardware	Total
Cost				
As at October 31, 2014	$ 78,262	$ 31,795	$ 51,024	$ 161,081
Additions	698	618	149	1,465
Fully depreciated assets and impairment	(26,490)	(370)	(13,350)	(40,210)
As at October 31, 2015	52,470	32,043	37,823	122,336
Additions	**760**	**439**	**1,209**	**2,408**
Additions through business combinations (Note 31)	**343**	**—**	**8**	**351**
Impairment and disposals	**(7,936)**	**(6,806)**	**(14,948)**	**(29,690)**
As at October 31, 2016	**$ 45,637**	**$ 25,676**	**$ 24,092**	**$ 95,405**
Accumulated depreciation				
As at October 31, 2014	$ 35,672	$ 22,690	$ 33,969	$ 92,331
Depreciation	5,064	2,992	6,069	14,125
Fully depreciated assets and impairment	(18,603)	(320)	(10,759)	(29,682)
As at October 31, 2015	22,133	25,362	29,279	76,774
Depreciation	**3,072**	**2,474**	**4,252**	**9,798**
Impairment and disposals	**(4,824)**	**(6,326)**	**(13,006)**	**(24,156)**
As at October 31, 2016	**$ 20,381**	**$ 21,510**	**$ 20,525**	**$ 62,416**
Carrying amount				
As at October 31, 2015	$ 30,337	$ 6,681	$ 8,544	$ 45,562
As at October 31, 2016	**$ 25,256**	**$ 4,166**	**$ 3,567**	**$ 32,989**

Premises and equipment include $0.8 million ($0.1 million in 2015) pertaining to premises under construction yet to be amortized.

IMPAIRMENT

Impairment charges amounting to $5.4 million ($9.9 million in 2015) were recorded on premises and equipment related to the Retail CGU on the Impairment and restructuring charges line item; refer to Note 30 for further details. Other impairment charges amounting to $0.1 million were recorded in 2016 ($0.3 million in 2015).

9. SOFTWARE AND OTHER INTANGIBLE ASSETS

	Software	Other intangible assets	Total
Cost			
As at October 31, 2014	$ 340,495	$ 49,017	$ 389,512
Additions	11,862	1,292	13,154
Fully amortized assets and impairment	(83,778)	(3,065)	(86,843)
As at October 31, 2015	268,579	47,244	315,823
Additions	**17,714**	**23,427**	**41,141**
Additions through business combinations (Note 31)	**—**	**9,765**	**9,765**
Impairment	**(37,725)**	**(6,304)**	**(44,029)**
As at October 31, 2016	**$ 248,568**	**$ 74,132**	**$ 322,700**
Accumulated amortization			
As at October 31, 2014	$ 172,029	$ 10,295	$ 182,324
Amortization	35,386	3,271	38,657
Fully amortized assets and impairment	(52,293)	—	(52,293)
As at October 31, 2015	155,122	13,566	168,688
Amortization	**25,449**	**3,322**	**28,771**
Impairment	**(20,849)**	**(4,400)**	**(25,249)**
As at October 31, 2016	**$ 159,722**	**$ 12,488**	**$ 172,210**
Carrying amount			
As at October 31, 2015	$ 113,457	$ 33,678	$ 147,135
As at October 31, 2016	**$ 88,846**	**$ 61,644**	**$ 150,490**

Software and other intangible assets include $53.6 million ($20.0 million in 2015) pertaining to projects under development yet to be amortized.

Other intangible assets mainly consist of contractual relationships with independent brokers and advisors and vendor-dealers, core deposit intangibles, as well as the core banking system and the program to implement the Basel Advanced Internal Ratings Based approach to credit risk.

IMPAIRMENT

Impairment charges amounting to $16.7 million were recorded on software ($30.0 million on software and $3.1 million on other intangible assets in 2015) related to the Retail CGU on the Impairment and restructuring charges line item; refer to Note 30 for further details.

In addition, as a result of the decision of a client of the Bank to end its carrying agreement, an impairment charge of $1.9 million was recorded on related intangible assets in 2016. This charge was presented in other income net of the revenues resulting from the exit agreement. Other impairment charges amounting to $0.2 million were also recorded in 2016 ($1.5 million in 2015).

10. GOODWILL

	B2B Bank unit	Business Services unit	Retail unit	Total
As at October 31, 2014	$ 34,853	$ —	$ 29,224	$ 64,077
Impairment	—	—	(29,224)	(29,224)
As at October 31, 2015	$ 34,853	$ —	$ —	$ 34,853
Additions through business combinations (Note 31)	**—**	**20,959**	**—**	**20,959**
As at October 31, 2016	**$ 34,853**	**$ 20,959**	**$ —**	**$ 55,812**

10. GOODWILL [CONT'D]

IMPAIRMENT

The Bank tests goodwill for impairment on an annual basis and whenever there are events or changes in circumstances which indicate that the carrying amount of the CGU may not be recoverable.

Goodwill as at October 31, 2016 has been allocated to two CGUs:

- the B2B Bank unit, which supplies banking and financial products to independent financial advisors and non-bank financial institutions across Canada;
- the Business Services unit, which encompasses services provided to small and medium-sized enterprises across Canada.

Before 2016, goodwill was also allocated to the Retail unit, which encompasses all branch activities and other retail banking activities in Québec. Impairment charges amounting to nil ($29.2 million in 2015) were recorded on goodwill related to the Retail CGU on the Impairment and restructuring charges line item; refer to Note 30 for further details.

B2B Bank unit

The recoverable amount of the B2B Bank unit was determined based on the value in use approach using a discounted cash flow method. The significant key assumptions included the forecasts of cash flows based on financial plans approved by management covering a three-year period, a terminal growth rate of 2.1% based on projected economic growth, and an after-tax discount rate of 10.0% based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the B2B Bank unit. The estimated recoverable amount was above its carrying amount. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

Business Services unit

The recoverable amount of the Business Services unit was determined based on the value in use approach using a discounted cash flow method. The significant key assumptions included the forecasts of cash flows based on financial plans approved by management covering a three-year period, a terminal growth rate of 2.1% based on projected economic growth, and an after-tax discount rate of 10.0% based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the Business Services unit. The estimated recoverable amount was above its carrying amount. If alternative reasonably possible changes in key assumptions were applied, the result of the impairment test would not differ.

11. OTHER ASSETS

		2016		2015
Cheques and other items in transit	**$**	**158,265**	$	368,593
Accrued interest receivable		**68,479**		62,975
Assets under operating leases (Note 28)		**43,090**		—
Defined benefit plan assets (Note 18)		**3,320**		8,557
Accounts receivable, prepaid expenses and other items		**223,378**		116,726
	$	**496,532**	$	556,851

12. DEPOSITS

Demand deposits consist of deposits in respect of which the Bank is not authorized to require notice prior to withdrawal by customers. These deposits primarily consist of chequing accounts.

Notice deposits consist of deposits in respect of which the Bank may legally require a withdrawal notice. These deposits generally consist of savings accounts.

Term deposits include deposits maturing at a specific date, particularly term deposits and guaranteed investment certificates, as well as senior unsecured notes.

The following table details the carrying amount of deposits.

12. DEPOSITS [CONT'D]

				2016
	Demand	Notice	Term	Total
Personal	$ 124,638	$ 5,153,607	$ 15,723,333	$ 21,001,578
Business, banks and other	1,489,975	912,341	4,169,451	6,571,767
	$ 1,614,613	$ 6,065,948	$ 19,892,784	$ 27,573,345

				2015
	Demand	Notice	Term	Total
Personal	$ 123,159	$ 5,811,700	$ 13,442,857	$ 19,377,716
Business, banks and other	1,304,139	1,195,225	4,727,224	7,226,588
	$ 1,427,298	$ 7,006,925	$ 18,170,081	$ 26,604,304

13. OTHER LIABILITIES

	2016	2015
Accrued interest payable	$ 388,377	$ 372,630
Cheques and other items in transit	83,131	90,997
Defined benefit plan liabilities (Note 18)	76,489	48,198
Accounts payable, accrued expenses and other items	420,080	268,857
	$ 968,077	$ 780,682

14. DEBT RELATED TO SECURITIZATION ACTIVITIES

The following table details the carrying amount of debt related to securitization activities.

				2016	2015
	Within 1 year	1 to 5 years	More than 5 years	Total carrying amount	Total carrying amount
Debt related to CMB and NHA MBS transactions	$ 909,376	$ 3,812,739	$ 333,916	$ 5,056,031	$ 4,857,759
Contractual yield	1.99%	1.73%	1.62%	1.77%	2.08%
Debt related to multi-seller conduits [(1)]	524,550	1,662,118	1,755	2,188,423	635,843
Contractual yield [(2)]				1.62%	1.37%
	$ 1,433,926	$ 5,474,857	$ 335,671	$ 7,244,454	$ 5,493,602

(1) Maturity of debt related to multi-seller conduits is based on anticipated maturity of underlying loans.

(2) The interest rate on the debt related to multi-seller conduits is based on the funding cost of the conduits and corresponds to the rate of the asset-backed commercial paper issued by the conduits, plus related program fees.

15. SUBORDINATED DEBT

The subordinated debt is a direct unsecured obligation of the Bank and is subordinated in right of payment to the claims of depositors and certain other creditors of the Bank. Any repurchase or cancellation of subordinated debt must be approved by OSFI.

ISSUED AND OUTSTANDING

Maturity	Series	Interest rate	Special terms	2016 Carrying amount	2015 Carrying amount
October 2022	2012-1	3.13%	Redeemable at par as of October 19, 2017 [1]; rate to be revised on October 19, 2017 and set at the 90-day bankers' acceptance rate plus 1.46%	**$ 200,000**	$ 200,000
November 2020	2010-1	3.70%	Redeemable at par as of November 2, 2015 [1]; rate to be revised on November 2, 2015 and set at the 90-day bankers' acceptance rate plus 1.76%	**—**	250,000
				200,000	450,000
Unamortized issuance costs				**(176)**	(351)
Net fair value adjustment[2]				**—**	(8)
				$ 199,824	$ 449,641

(1) Subject to the provisions of the *Bank Act* and to the prior consent of OSFI.
(2) Carrying value of subordinated debt reflects the impact of interest rate hedges in effective hedge relationships.

Redemption of subordinated debt

On November 2, 2015 the Bank redeemed all of its Series 2010-1 subordinated Medium Term Notes maturing in 2020, with an aggregate notional amount of $250.0 million. The Series 2010-1 subordinated Medium Term Notes were redeemed at par plus accrued and unpaid interest to the date of redemption.

16. SHARE CAPITAL

AUTHORIZED SHARE CAPITAL

Preferred shares – Unlimited number of Class A Preferred Shares, without par value, issuable in series.
Common shares – Unlimited number of common shares, without par value.

PREFERRED SHARES

Terms of preferred shares

The Non-Cumulative Class A Preferred Shares, Series 11, are redeemable at the Bank's option, on December 15, 2017 and on December 15 every five years thereafter at a price of $25.00 each, subject to the provisions of the Bank Act and to the prior consent of OSFI. On December 15, 2017 and on December 15 every five years thereafter, the holders of Preferred Shares Series 11 may also convert, subject to the automatic conversion provisions and the right of the Bank to redeem those shares, any or all of these preferred shares into an equal number of Preferred Shares Series 12. The holders of the Preferred Shares Series 11 will be entitled to receive fixed non-cumulative preferential cash dividends payable quarterly, as declared by the Board of Directors, at a rate equal to $0.25 per share until December 15, 2017, at such time and every five years thereafter, the dividend rate will reset to the then current five-year Government of Canada bond yield plus 2.60%.

The Non-Cumulative Class A Preferred Shares, Series 12, are redeemable at the Bank's option, by the payment of an amount in cash for each such share so redeemed of (i) $25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on December 15, 2022 and on December 15 every five years thereafter, or (ii) $25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after December 15, 2017, subject to the provisions of the Bank Act and to the prior consent of OSFI. On December 15, 2022 and on December 15 every five years thereafter, the holders of Preferred Shares Series 12 may also convert, subject to the automatic conversion provisions and the right of the Bank to redeem those shares, any or all of these preferred shares into an equal number of Preferred Shares Series 11. The holders of the Preferred Shares Series 12 will be entitled to receive floating non-cumulative preferential cash dividends payable quarterly, as declared by the Board of Directors, at a rate equal to the three-month Government of Canada Treasury Bills rate plus 2.60% per share.

16. SHARE CAPITAL [CONT'D]

The Non-Cumulative Class A Preferred Shares, Series 13 (the Preferred Shares Series 13), are redeemable at the Bank's option, on June 15, 2019 and on June 15 every five years thereafter at a price of $25.00 each together with all declared and unpaid dividends to the date fixed for redemption, subject to the provisions of the Bank Act and to the prior consent of OSFI. On June 15, 2019 and on June 15 every five years thereafter, the holders may elect to convert, subject to the automatic conversion provision, any or all of their Preferred Shares Series 13 into an equal number of Non-Cumulative Class A Preferred Shares, Series 14 (the Preferred Shares Series 14). For the initial five-year period ending on, but excluding, June 15, 2019, the holders of the Preferred Shares, Series 13 will be entitled to receive non-cumulative preferential quarterly dividends yielding 4.3% annually, as and when declared by the Board of Directors of the Bank. Thereafter, the dividend rate will reset every five years to be equal to the then current 5-Year Government of Canada bond yield plus 2.55%.The Bank may be required to convert any or all of the Preferred Shares Series 13 into a variable number of common shares upon the occurrence of a non-viability trigger event.

The Non-Cumulative Class A Preferred Shares, Series 14 (the Preferred Shares Series 14), are redeemable at the Bank's option, by the payment of an amount in cash for each such share so redeemed of (i) $25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on June 15, 2024 and on June 15 every five years thereafter, or (ii) $25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after June 15, 2019, subject to the provisions of the Bank Act and to the prior consent of OSFI. On June 15, 2024 and on June 15 every five years thereafter, the holders may elect to convert, subject to the automatic conversion provision, any or all of their Preferred Shares Series 14 into an equal number of Preferred Shares Series 13. The holders of the Preferred Shares Series 14 will be entitled to receive non-cumulative preferential quarterly dividends at a floating quarterly dividend rate equal to the 90-day Canadian Treasury Bill rate plus 2.55%, as and when declared by the Board of Directors of the Bank. The Bank may be required to convert any or all of the Preferred Shares Series 14 into a variable number of common shares upon the occurrence of a non-viability trigger event.

The Non-Cumulative Class A Preferred Shares, Series 15 (the Preferred Shares Series 15), are redeemable at the Bank's option, on June 15, 2021 and on June 15 every five years thereafter at a price of $25.00 each together with all declared and unpaid dividends to the date fixed for redemption, subject to the provisions of the Bank Act and to the prior consent of OSFI. On June 15, 2021 and on June 15 every five years thereafter, the holders may elect to convert, subject to the automatic conversion provision, any or all of their Preferred Shares Series 15 into an equal number of Non-Cumulative Class A Preferred Shares, Series 16 (the Preferred Shares Series 16). For the initial five-year period ending on, but excluding, June 15, 2021, the holders of the Preferred Shares, Series 15 will be entitled to receive non-cumulative preferential quarterly dividends yielding 5.85% annually, as and when declared by the Board of Directors of the Bank. Thereafter, the dividend rate will reset every five years to be equal to the then current 5-Year Government of Canada bond yield plus 5.13%. The Bank may be required to convert any or all of the Preferred Shares Series 15 into a variable number of common shares upon the occurrence of a non-viability trigger event.

The Non-Cumulative Class A Preferred Shares, Series 16 (the Preferred Shares Series 16), are redeemable at the Bank's option, by the payment of an amount in cash for each such share so redeemed of (i) $25.00 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on June 15, 2026 and on June 15 every five years thereafter, or (ii) $25.50 together with all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date after June 15, 2021, subject to the provisions of the Bank Act and to the prior consent of OSFI. On June 15, 2026 and on June 15 every five years thereafter, the holders may elect to convert, subject to the automatic conversion provision, any or all of their Preferred Shares Series 16 into an equal number of Preferred Shares Series 15. The holders of the Preferred Shares Series 16 will be entitled to receive non-cumulative preferential quarterly dividends at a floating quarterly dividend rate equal to the 90-day Canadian Treasury Bill rate plus 5.13%, as and when declared by the Board of Directors of the Bank. The Bank may be required to convert any or all of the Preferred Shares Series 16 into a variable number of common shares upon the occurrence of a non-viability trigger event.

16. SHARE CAPITAL [CONT'D]

Issued and outstanding

The variation and outstanding number and amounts of preferred shares were as follows.

			2016			2015
	Number of shares		Amount	Number of shares		Amount
Non-Cumulative Class A Preferred shares						
Series 11						
Outstanding at beginning and end of year	**4,000,000**	**$**	**97,562**	4,000,000	$	97,562
Series 13						
Outstanding at beginning and end of year	**5,000,000**	**$**	**122,071**	5,000,000	$	122,071
Series 15						
Outstanding at beginning of year	**—**		**—**	n.a.		n.a.
Issuance of shares	**5,000,000**		**125,000**	n.a.		n.a.
Net issuance cost	**n.a.**		**(3,033)**	n.a.		n.a.
Outstanding at end of year	**5,000,000**		**121,967**	n.a.		n.a.
	14,000,000	**$**	**341,600**	9,000,000	$	219,633

There were no outstanding Non-Cumulative Class A Preferred Shares, Series 12, Series 14, or Series 16 as at October 31, 2016 (no outstanding preferred shares, Series 12 and Series 14 as at October 31, 2015).

Issuance of preferred shares

On March 17, 2016, the Bank issued 5,000,000 Non-Cumulative Class A Preferred Shares, Series 15 (the "Preferred Shares Series 15"), at a price of $25.00 per share for gross proceeds of $125 million.

COMMON SHARES

Issued and outstanding

The variation and outstanding number and amounts of common shares were as follows.

			2016			2015
	Number of shares		Amount	Number of shares		Amount
Common shares						
Outstanding at beginning of year	**28,956,619**	**$**	**466,336**	28,942,999	$	465,854
Issuance under public offerings	**4,544,800**		**222,852**	—		—
Issuance under the employee share purchase option plan (see Note 17)	**8,000**		**273**	12,000		408
Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan	**332,751**		**15,911**	1,620		80
Net issuance cost	**n.a.**		**(8,879)**	n.a.		(6)
Total common shares	**33,842,170**	**$**	**696,493**	28,956,619	$	466,336

16. SHARE CAPITAL [CONT'D]

Issuance under a public offering

On December 17, 2015, the Bank completed the issuance of 1,297,200 common shares for gross proceeds of $67.5 million.

On July 20, 2016, the Bank issued 3,247,600 subscription receipts at a price of $47.85 per receipt. Proceeds were placed in escrow until closing of the CIT Canada acquisition (see Note 31). Upon completion of the acquisition on October 1, 2016, the subscription receipts were exchanged for 3,247,600 common shares of the Bank for gross proceeds of $155.4 million.

Shareholder dividend reinvestment and share purchase plan

The Bank offers a Shareholder Dividend Reinvestment and Share Purchase Plan (the Plan) to eligible Canadian shareholders. Participation in the Plan is optional. Under the terms of the Plan, dividends on common and preferred shares are reinvested to purchase additional common shares of the Bank. Shareholders also have the opportunity to make optional cash payments to acquire additional common shares. At the option of the Bank, the common shares may be issued from the Bank's treasury at an average market price with a discount up to 5%, or from the open market at market price. Accordingly, 332,751 common shares were legally issued from treasury in 2016 at a 2% discount. Other reinvestments related to the dividends declared in 2016 were made in common shares purchased in the open market with no discount applied to the purchase price. In 2015, reinvestments were made in common shares issued from treasury at a 2% discount.

DECLARED DIVIDENDS

		2016		2015
	Dividend per share	**Dividends declared**	Dividend per share	Dividends declared
Class A Preferred shares				
Series 11	**$ 1.000**	**$ 4,000**	$ 1.000	$ 4,000
Series 13	**$ 1.075**	**5,375**	$ 1.075	5,375
Series 15	**$ 0.726**	**3,631**	n.a.	n.a.
Total preferred shares		**$ 13,006**		$ 9,375
Common shares	**$ 2.36**	**$ 73,622**	$ 2.20	$ 63,691

On November 1, 2016, the Board of Directors declared regular dividends on the various series of preferred shares to shareholders of record on December 7, 2016.

On December 6, 2016, the Board of Directors announced a dividend of $0.61 per common share, payable on February 1, 2017, to shareholders of record on January 3, 2017.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

The Bank is prohibited by the Bank Act from declaring or paying any dividends on its preferred shares or common shares if there are reasonable grounds for believing that, in so doing, the Bank would not comply with capital adequacy and liquidity regulations or related guidance provided by OSFI.

The Bank's ability to pay common share dividends is also restricted by the terms of the outstanding preferred shares. These terms provide that the Bank may not pay dividends on its common shares at any time without the approval of holders of the outstanding preferred shares, unless all dividends that are then payable have been declared and paid or set apart for payment.

CAPITAL MANAGEMENT

Management's objective is to maintain an adequate level of capital that: considers the Bank's targeted capital ratios and internal assessment of required capital that is aligned with the Bank's strategic plan and shareholders' expectations; is consistent with the Bank's targeted credit ratings; underscores the Bank's capacity to cover risks related to its business operations; provides depositor confidence; and produces an acceptable return for shareholders. Management oversees capital adequacy on an ongoing basis.

The Board of Directors, on the recommendation of the Risk Management Committee, approves annually several capital-related documents, including the Capital Management and Adequacy Policy, the Internal Capital Adequacy Assessment Process, the Stress Testing Program, as well as the Capital Plan. It further reviews capital adequacy on a quarterly basis.

16. SHARE CAPITAL [CONT'D]

Regulatory capital

OSFI requires banks to meet minimum risk-based capital ratios drawn on the Basel Committee on Banking Supervision (BCBS) capital framework, commonly referred to as Basel III. Under OSFI's Capital Adequacy Requirements guideline, the Bank must maintain minimum levels of capital depending on various criteria. Tier 1 capital, the most permanent and subordinated forms of capital, must be more predominantly composed of common equity. Tier 1 capital consists of two components: Common Equity Tier 1 and Additional Tier 1, to ensure that risk exposures are backed by a high quality capital base. Tier 2 capital consists of supplementary capital instruments and contributes to the overall strength of a financial institution as a going concern.

Under OSFI's guideline, minimum Common Equity Tier 1, Tier 1 and Total capital ratios were set at 5.125%, 6.625% and 8.625% respectively for 2016. These ratios include phase-in of certain regulatory adjustments through 2019 and phase-out of non-qualifying capital instruments through 2022, (the "transitional" basis). The guideline also provides for annual increases in minimum capital ratio requirements, which will reach 7.0%, 8.5% and 10.5% respectively in 2019, including the 2.5% capital conservation buffers.

Furthermore, OSFI expects deposit-taking institutions to maintain target capital ratios without transition arrangements equal to or greater than the 2019 minimum capital ratios plus a conservation buffer (the "all-in" basis), including a minimum 7.0% Common Equity Tier 1 ratio target. The "all-in" basis includes all of the regulatory adjustments that will be required by 2019 but retains the phase-out rules for non-qualifying capital instruments.

OSFI's guideline provides additional guidance regarding the treatment of non-qualifying capital instruments and specifies that certain capital instruments no longer fully qualify as capital as of January 1, 2013. The Bank's Series 11 preferred shares, as well as Series 2012-1 subordinated Medium Term Notes are considered non-qualifying capital instruments under Basel III and are subject to a 10% phase-out per year since 2013. The Bank's Series 2010-1 subordinated Medium Term Notes were considered non-qualifying capital instruments under Basel III and were subject to a 10% phase-out per year prior to the announcement on September 24, 2015 of their redemption on November 2, 2015. The Preferred Shares Series 13 and Series 15 fully qualify as Additional Tier 1 capital under Basel III.

Under OSFI's Leverage Requirements Guideline, Federally regulated deposit-taking institutions are expected to maintain a Basel III leverage ratio that meets or exceeds 3% at all times. The leverage ratio is defined as the Tier 1 capital divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions, as defined within the requirements.

The Bank has complied with regulatory capital requirements throughout the year ended October 31, 2016. Regulatory capital on an "all-in" basis is detailed below.

	2016	2015
Common shares	**$ 696,493**	$ 466,336
Share-based payment reserve	**—**	36
Retained earnings	**924,861**	886,656
Accumulated other comprehensive income, excluding cash flow hedge reserve	**203**	(11,391)
Deductions from Common Equity Tier 1 capital [1]	**(182,181)**	(166,399)
Common Equity Tier 1 capital	**1,439,376**	1,175,238
Non-qualifying preferred shares [2]	**97,562**	97,562
Qualifying preferred shares	**244,038**	122,071
Additional Tier 1 capital	**341,600**	219,633
Tier 1 capital	**1,780,976**	1,394,871
Subordinated debt [3]	**199,824**	199,641
Collective allowances	**75,380**	73,904
Tier 2 capital	**275,204**	273,545
Total capital	**$ 2,056,180**	$ 1,668,416

(1) Mainly comprised of deductions for software and other intangible assets, goodwill and pension plan assets.

(2) There is currently no deduction related to the non-qualifying capital instruments under Basel III as the phase-out is calculated on the outstanding balance as at January 1, 2013, which included the Preferred Shares Series 9 and Series 10 subsequently repurchased by the Bank.

(3) Net of an amount of $250.0 million as at October 31, 2015 due to the announcement on September 24, 2015 of the redemption of the Series 2010-1 subordinated Medium Term Notes on November 2, 2015.

17. SHARE-BASED COMPENSATION

SHARE PURCHASE OPTION PLAN

The Bank offers a share purchase option plan to members of its senior management. Under this plan, the exercise price of options for the purchase of common shares must not be less than the market prices of such shares immediately prior to the grant date. The right to exercise the options vests gradually over a maximum five-year period and the options may be exercised at any time up to ten years after they have been granted.

The Bank had initially reserved 1,600,000 common shares for the potential exercise of share purchase options, of which 124,962 were still available as at October 31, 2016 (124,962 as at October 31, 2015).

No new share options were granted in 2016 and 2015. The following table summarizes the Bank's share purchase option activities for the years ended October 31 2016 and 2015.

	2016			2015		
	Number of options		**Exercise price per option**	Number of options		Exercise price per option
Outstanding at beginning of year	**8,000**	**$**	**29.47**	20,000	$	29.47
Exercised	**(8,000)**	**$**	**29.47**	(12,000)	$	29.47
Outstanding at end of year	**—**	**$**	**—**	8,000	$	29.47
Exercisable at end of year	**—**	**$**	**—**	8,000	$	29.47

SHARE APPRECIATION RIGHTS PLAN

The Bank offers a share appreciation rights (SARs) plan to members of its senior management. These SARs may be cash settled for an amount equal to the difference between the SAR exercise price and the closing price of the common shares at the measurement date. SARs vest over a maximum period of five years and can be exercised over a maximum period of ten years. The fair value of SARs is measured using the Black-Scholes-Merton option pricing model, taking into account the terms and condition upon which the instruments were granted, including the dividend yield.

No SARs were granted during 2016 and 2015. The following table summarizes the Bank's SARs outstanding balances as at October 31, 2016 and 2015.

Share appreciation rights

		Weighted average exercise price	Number of SARs outstanding	Weighted average remaining contractual life (years)	Number of SARs exercisable
2016	**$**	**38.45**	**57,560**	**1.19**	**57,560**
2015	$	36.79	90,335	1.97	90,335

PERFORMANCE-BASED SHARE UNIT PLAN

The Bank offers a performance-based share unit (PSU) plan to certain members of its senior management. Rights to 60% of the PSUs generally vest over three years. The rights to the remaining 40% PSUs generally vest over three years and based on the Bank's total shareholder return relative to the average of a peer group of Canadian financial institutions. During the vesting period, dividend equivalents accrue to the participants in the form of additional share units. All PSUs are cash settled at fair value at the maturity date. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

The following table summarizes the Bank's PSU plan activities for the years ended October 31, 2016 and 2015.

Performance share units

	Number of units granted		Value of units granted	Vesting date
2016	**139,442**	**$**	**54.85**	**December 2018**
2015	147,243	$	50.85	December 2017

The number of units outstanding as at October 31, 2016 was 529,351 of which 74,646 units were fully vested under the deferred version of the plan (620,316 units as at October 31, 2015 of which 98,266 units were fully vested).

17. SHARE-BASED COMPENSATION [CONT'D]

RESTRICTED SHARE UNIT PLANS

The Bank offers a restricted share unit (RSU) plan to certain members of its senior management. Under the plan, 50% of the annual bonus otherwise payable to an eligible employee, under the Bank's short-term incentive compensation program, can be withheld and converted into fully vested restricted share units at the employees' option. The Bank undertakes to grant additional RSUs equal to 60% of the withheld bonus. These additional units vest at the end of the three-year period following their award. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

The Bank also offers a RSU plan to certain employees of the capital markets sector. Under that plan, 30% of the annual bonus over a certain amount that would otherwise be payable to an eligible employee has to be withheld and converted into fully vested restricted share units. This plan does not provide for any employer contribution and a third of the restricted share units are redeemed at each of the first three anniversary dates of the grant.

During the vesting period, under both plans, dividend equivalents accrue to the participants in the form of additional share units.

The following table summarizes the Bank's RSU plans activities for the years ended October 31, 2016 and 2015.

Restricted share units

	Plan	Number of units converted [1]	Number of units granted		Value of units granted	Vesting date
2016	**Senior management**	**44,649**	**29,400**	**$**	**54.70**	**December 2018**
	Capital markets	**28,545**	**—**	**$**	**54.90**	**n.a.**
2015	Senior management	50,730	31,063	$	50.83	December 2017
	Capital markets	27,412	—	$	50.85	n.a.

(1) Corresponds to the portion of annual bonuses converted in RSU. These units are fully vested at grant date.

The number of units outstanding for Senior Management as at October 31, 2016 was 283,239 of which 194,943 units were fully vested under the deferred version of the plan (338,038 units as at October 31, 2015 of which 244,326 units were fully vested). The number of units outstanding for Capital markets as at October 31, 2016 was 60,717 all of which were vested (60,454 units as at October 31, 2015, all of which were vested).

DEFERRED SHARE UNIT PLAN

The Bank offers a deferred share unit plan to non-employee directors of the Bank. Under this plan, each director may choose to receive all or a percentage of his or her remuneration in the form of deferred share units which can be settled in cash or common shares. The deferred share units are converted when the holder steps down from the Board of Directors. In 2016, 3,280 deferred share units were redeemed and settled in cash (2,149 units in 2015). In 2016, the Bank granted 8,666 deferred share units as compensation (9,472 in 2015). As at October 31, 2016, there were 36,896 units (31,510 units in 2015) outstanding with a total value of $1.8 million ($1.7 million in 2015).

EMPLOYEE SHARE PURCHASE PLAN

The Bank offers an employee share purchase plan. Under this plan, employees who meet the eligibility criteria can contribute up to 5% of their annual gross salary by way of payroll deductions. The Bank matches 30% of the employee contribution amount, up to a maximum of $1,500 per year. The Bank's contributions vest to the employee two years after each employee contribution. The Bank's contributions, totalling $0.6 million during fiscal 2016 ($0.6 million in 2015), are recognized in salaries and employee benefits. The average value of the granted shares under this plan was $49.10 in fiscal 2016 ($48.50 in 2015).

SHARE-BASED COMPENSATION PLANS EXPENSE AND RELATED LIABILITY

The following table presents the expense related to all share based compensation plans, net of the effect of related hedging transactions.

		2016		2015
Expense arising from cash-settled share-based compensation transactions	**$**	**2,126**	$	18,134
Effect of hedges		**1,889**		(5,470)
	$	**4,015**	$	12,664

With a view to reducing volatility in the share-based compensation plans expense, the Bank enters into total return swap contracts with third parties, the value of which is linked to the Bank's share price. Changes in fair value of these derivative instruments partially offset the share-based payment expense related to the share price variations over the period in which the swaps are in effect.

The carrying amount of the liability relating to the cash-settled plans was $39.5 million as at October 31, 2016 ($54.7 million as at October 31, 2015). The intrinsic value of the total liability related to fully vested rights and units was $18.9 million as at October 31, 2016 ($24.5 million as at October 31, 2015).

18. POST-EMPLOYMENT BENEFITS

DESCRIPTION OF BENEFIT PLANS

Pension plans

The Bank has a number of defined benefit pension plans, which in certain cases include a defined contribution portion. The benefit plans provide pension benefits to most of the Bank's employees. The defined benefit pension plans are based on years of service and final average salary at retirement time.

Pension plans are registered with OSFI and are subject to the federal Pension Benefits Standards Act, 1985. They are also registered with the Retraite Québec (RQ) and are subject to the Québec Supplemental Pension Plans Act. The Bank's Human Resources and Corporate Governance Committee of the Board has the responsibility to ensure that management implements appropriate internal oversight systems with a view to adequately manage pension plans in accordance with the laws and regulations in effect.

Other group plans

The Bank offers other post-employment benefits to its employees such as a salary continuance plan during maternity leave and the payment of group insurance plan premiums during a disability period or maternity leave. In addition, certain retired employees have other retirement benefits, including health and life insurance.

RISKS ASSOCIATED WITH PENSION PLANS

Pension plans expose the Bank to a broad range of risks. These risks are managed with the objective of meeting pension benefit obligations, while maintaining a reasonable risk profile for the Bank. The pension obligation is mainly subject to demographic risks such as salary inflation and longevity improvements. In addition, the obligation is impacted by the discount rate. Pension plan assets are subject to market risks and more precisely to equity value, long-term interest rates and credit spreads. To manage risks associated with the pension obligation, the Bank monitors its plan benefits and makes adjustments with the objective of optimizing the overall employee benefits. Defined benefit pension plan assets are invested in order to meet pension obligations. To manage the predominant interest rate risk, the Bank has adopted a liability-driven investment policy. This approach provides more control over the plan's financial position by investing in assets that are correlated with liabilities and that allow a reduction in volatility. Factors taken into consideration in developing the asset allocation include but are not limited to the following:

(i) the nature of the underlying benefit obligations, including the duration and term profile of the liabilities;
(ii) the member demographics, including normal retirement age, terminations, and mortality;
(iii) the financial position of the pension plans; and
(iv) the diversification benefits obtained by the inclusion of multiple asset classes.

In addition, a portion of the plans' assets can be invested in other asset classes, such as common shares, emerging market equities, high-yield fixed income securities, private equity or debt investments, as well as other alternative investments to improve potential returns.

FUNDING REQUIREMENTS

The Bank's pension plans are funded by both employee and employer contributions, and are determined based on the financial position and the funding policy of the plan. The employer contributions must be sufficient to cover the value of the obligations that currently accrue in the plan, including fees paid by the plan, as well as special contributions required to amortize any deficit. The Bank assumes all the risks and costs related to the pension plans, including any deficit.

DEFINED BENEFIT PLAN MEASUREMENT DATES

The Bank measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at October 31 of each year. The most recent actuarial valuations were performed as at December 31, 2015 for all plans. The next required actuarial valuation for funding purposes will be as at December 31, 2016 for all funded plans.

18. POST-EMPLOYMENT BENEFITS [CONT'D]

DEFINED BENEFIT PLAN OBLIGATIONS

Changes in the present value of the defined benefit obligation are as follows.

		2016		2015
	Pension plans	**Other plans**	Pension plans	Other plans
Change in defined benefit obligation				
Defined benefit obligation at beginning of year	**$ 560,402**	**$ 27,399**	$ 554,401	$ 36,166
Current service cost	**12,474**	**46**	14,681	43
Past service cost [1]	**—**	**—**	2,284	—
Interest expense	**24,093**	**945**	23,630	1,295
Benefits paid	**(34,700)**	**(1,066)**	(29,280)	(1,550)
Employee contributions	**3,072**	**—**	3,088	—
Actuarial losses (gains) arising from changes in assumptions				
Demographic	**—**	**—**	1,421	114
Economic	**68,088**	**2,020**	(3,633)	(2,205)
Actuarial gains arising from plan experience	**(34)**	**—**	(6,190)	(6,464)
Defined benefit obligation at end of year	**$ 633,395**	**$ 29,344**	$ 560,402	$ 27,399

(1) Including a $2.1 million charge in 2015 related to certain enhancements to the pension plan of a former member of senior management.

DEFINED BENEFIT PENSION PLAN ASSETS

Changes in fair value of pension plan assets are as follows.

	2016	2015
Change in fair value of pension plan assets		
Fair value of plan assets at beginning of year	**$ 548,942**	$ 536,833
Interest income (at prescribed rate)	**23,412**	22,605
Actuarial gains (losses) arising from the difference between the actual return on plan assets and interest income	**32,449**	(4,479)
Administration costs (other than costs of managing plan assets)	**(1,990)**	(1,494)
Bank contributions	**18,385**	21,669
Employee contributions	**3,072**	3,088
Benefits paid	**(34,700)**	(29,280)
Fair value of plan assets at end of year	**$ 589,570**	$ 548,942

RECONCILIATION OF THE FUNDED STATUS OF THE BENEFIT PLANS TO THE AMOUNTS RECORDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

		2016		2015
	Pension plans	**Other plans**	Pension plans	Other plans
Fair value of plan assets	**$ 589,570**	**$ —**	$ 548,942	$ —
Defined benefit obligation	**633,395**	**29,344**	560,402	27,399
Funded status – plan deficit	**(43,825)**	**(29,344)**	(11,460)	(27,399)
Asset limit and minimum funding adjustment	**—**	**—**	(782)	—
Net amount recognized	**(43,825)**	**(29,344)**	(12,242)	(27,399)
Defined benefit plan assets included in other assets	**3,320**	**—**	8,557	—
Defined benefit plan liabilities included in other liabilities	**$ 47,145**	**$ 29,344**	$ 20,799	$ 27,399

18. POST-EMPLOYMENT BENEFITS [CONT'D]

DEFINED BENEFIT PLAN COSTS RECOGNIZED DURING THE YEAR

		2016		2015
	Pension plans	**Other plans**	Pension plans	Other plans
Amounts recognized in income				
Current service cost	**$ 12,474**	**$ 46**	$ 14,681	$ 43
Past service cost [1]	**—**	**—**	2,284	—
Administration costs (other than costs of managing plan assets)	**1,990**	**—**	1,494	—
Interest expense	**24,127**	**945**	23,630	1,295
Interest income (at prescribed rate)	**(23,412)**	**—**	(22,605)	—
Loss on short-term employee benefits	**—**	**305**	—	22
	15,179	**1,296**	19,484	1,360
Amounts recognized in other comprehensive income				
Actuarial losses (gains) on defined benefit obligation	**68,054**	**1,715**	(8,402)	(8,577)
Actuarial losses (gains) on plan assets	**(32,449)**	**—**	4,479	—
Change in the effect of the asset limit	**(816)**	**—**	782	—
	34,789	**1,715**	(3,141)	(8,577)
Total defined benefit cost	**$ 49,968**	**$ 3,011**	$ 16,343	$ (7,217)

(1) Including a $2.1 million charge in 2015 related to certain enhancements to the pension plan of a former member of senior management.

The Bank expects to contribute $18.5 million to its defined benefit pension plans for the year ending October 31, 2017.

ASSET ALLOCATION OF DEFINED BENEFIT PENSION PLANS

	2016	2015
Asset category		
Cash and cash equivalents [1]	**$ 27,260**	$ 30,277
Equity funds		
Canada	**20,690**	17,258
United States	**32,738**	26,012
Other	**40,260**	48,013
Debt securities		
Canadian governments and other public administrations	**96,288**	58,945
Corporate and other	**337,914**	332,662
Other	**34,420**	35,775
	$ 589,570	$ 548,942

(1) Cash and cash equivalents consist of mainly Canada and U.S. Treasury Bills.

Equity funds do not include securities of the Bank as at October 31, 2016 or 2015. Plan assets include equity funds of $35.5 million quoted in active markets as at October 31, 2016 ($38.2 million as at October 31, 2015). All other assets are not quoted in active markets.

SIGNIFICANT ASSUMPTIONS FOR PENSION PLANS AND OTHER PLANS

	2016	2015
Weighted average of assumptions to determine benefit obligation		
Discount rate at end of year	**3.45%**	4.30%
Rate of compensation increase	**2.75%**	2.75%
Weighted average of assumptions to determine benefit expense		
Discount rate - Current service	**4.60%**	4.25%
Discount rate - Interest expenses (income), net	**4.30%**	4.25%
Rate of compensation increase	**2.75%**	2.75%

For 2016, the weighted average financial duration of the pension plans was approximately 14.6 years (13.9 years in 2015).

18. POST-EMPLOYMENT BENEFITS [CONT'D]

As of November 1, 2015, to better reflect current service cost, a separate discount rate was determined to account for the timing of future benefit payments associated with the additional year of service to be earned by the plan's active participants. Since these benefits are, on average, being paid at a later date than the benefits already earned by participants as a whole, this method results in the use of a higher discount rate for calculating current service cost than that used to measure obligations where the yield curve is positively sloped.

ASSUMED HEALTH CARE COST TREND RATES

	2016	2015
Assumed annual rate of increase in the cost of health care benefits	**6.75%**	7.00%
Level to which it should decline and at which it is assumed to subsequently stabilize	**4.5%**	4.5%
Year that the rate is assumed to stabilize	**2025**	2025

SENSITIVITY ANALYSIS

Due to the long-term nature of post-employment benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used.

Discount rates could have a significant impact on the defined benefit plan assets (liabilities) as well as, depending on the funding status of the plan, on pension plan and other post-employment benefit expenses. The following table summarizes the impact of a 0.25 percentage point change in this key assumption on the defined benefit plan obligation and cost for the year ended October 31, 2016.

	Impact of a potential change of 0.25% to the discount rate on [1]	
	Obligation	**Cost**
Pension Plans	**$ 23,007**	**$ 1,426**
Other Plans	**$ 797**	**$ 72**

(1) The sensitivities presented in this table should be used with caution, as the impact is hypothetical and changes in assumptions may not be linear.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The following table summarizes the impact of a one percentage point change in this key assumption on the defined benefit plan obligation and cost for the year ended October 31, 2016, with all other assumptions remaining constant.

	1% increase	**1% decrease**
Increase (decrease) in total of service and interest expense	**$ 304**	**$ (268)**
Increase (decrease) in defined benefit obligation	**$ 1,772**	**$ (1,518)**

EXPENSE FOR POST-EMPLOYMENT BENEFITS

The total expense recognized for post-employment benefit plans was as follows.

	2016	2015
Defined benefit pension plans	**$ 15,179**	$ 19,484
Defined contribution pension plans	**6,739**	6,571
Other plans	**1,296**	1,360
	$ 23,214	$ 27,415

19. INCOME TAXES

DEFERRED INCOME TAXES

Significant components of the Bank's deferred income tax assets and liabilities are as follows.

	2016	2015
Deferred income tax assets		
Allowances for loan losses	$ 26,234	$ 26,294
Defined benefit plan liabilities	19,525	10,580
Provisions	12,463	9,252
Amount related to share-based payments	10,567	14,649
Premises and equipment	7,947	7,579
Deferred revenues	5,273	4,498
Tax loss carryforwards	844	6,048
Other temporary differences	4,419	2,277
	87,272	81,177
Deferred income tax liabilities		
Deferred charges	29,955	27,830
Leases	18,768	196
Software	18,695	25,888
Other intangible assets	4,386	2,278
Loans	4,284	3,561
Derivatives	4,042	9,405
Securitization and securities	1,419	2,863
Other temporary differences	1,983	—
	83,532	72,021
Deferred income taxes, net	$ 3,740	$ 9,156

Net deferred income taxes are reported in the consolidated balance sheet as follows.

	2016	2015
Deferred income tax assets	$ 36,495	$ 17,450
Deferred income tax liabilities	(32,755)	(8,294)
Deferred income taxes, net	$ 3,740	$ 9,156

The components of deferred income tax recovery recorded in the Consolidated Statement of Income are as follows.

	2016	2015
Deferred income tax (recovery) expense		
Amount related to share-based payments	$ 4,082	$ (4,075)
Deferred charges	2,125	3,418
Defined benefit plan liabilities	789	689
Allowances for loan losses	60	4,210
Software	(7,193)	(5,326)
Provisions	(3,211)	843
Loans	(1,511)	(1,952)
Securitization and securities	(1,494)	(1,725)
Other intangible assets	(511)	(3,860)
Premises and equipment	(368)	(1,684)
Other temporary differences	791	385
	$ (6,441)	$ (9,077)

19. INCOME TAXES [CONT'D]

INCOME TAX EXPENSE

Significant components of the income tax expense recorded in the Consolidated Statement of Income for the years ended October 31

		2016		2015
Current income taxes				
Income tax expense for the year	$	51,003	$	39,118
Previous years income tax expense adjustment		890		892
		51,893		40,010
Deferred income taxes				
Origination and reversal of temporary differences		(5,351)		(8,451)
Previous years income tax recovery adjustment		(1,090)		(626)
		(6,441)		(9,077)
	$	45,452	$	30,933

Significant components of the income tax expense recorded in the Consolidated Statement of Comprehensive Income for items related to other comprehensive income, for the years ended October 31

		2016		2015
Items that may subsequently be reclassified to the Statement of Income				
Income tax expense (recovery) related to change in unrealized (losses) gains on available-for-sale securities	$	3,439	$	(7,719)
Income tax expense (recovery) related to reclassification of net gains on available-for-sale securities to net income		831		(1,433)
Income tax (recovery) expense related to net change in value of derivatives designated as cash flow hedges		(5,158)		10,570
	$	(888)	$	1,418
Items that may not subsequently be reclassified to the Statement of Income				
Income tax (recovery) expense related to actuarial gains on employee benefit plans		(9,734)		3,145
	$	(10,622)	$	4,563
Composition of income taxes				
Current income tax recovery	$	(1,559)	$	(3,286)
Deferred income tax (recovery) expense		(9,063)		7,849
	$	(10,622)	$	4,563

Significant components of the income tax expense recorded in the Consolidated Statement of Changes in Shareholders' Equity for the years ended October 31

		2016	2015
Income taxes on preferred share dividends			
Current income tax expense	$	307	227
Income taxes on issuance of common and preferred shares			
Current income tax recovery		(781)	—
Deferred income tax recovery		(3,108)	(2)
		(3,889)	(2)
	$	(3,582)	225

19. INCOME TAXES [CONT'D]

RECONCILIATION WITH THE STATUTORY RATE

The reconciliation of income tax expense reported in the Consolidated Statement of Income to the dollar amount of income taxes using the statutory rates is as follows.

		2016		2015
	Amount		Amount	
Income taxes at statutory rates	**$ 52,733**	**26.7%**	$ 35,625	26.7%
Change resulting from:				
Income related to foreign insurance operations	**(5,283)**	**(2.7)**	(5,910)	(4.4)
Non-taxable dividends	**(2,548)**	**(1.3)**	(3,926)	(3.0)
Impairment of goodwill	**—**	**—**	4,347	3.3
Other, net	**550**	**0.3**	797	0.6
Income taxes as reported in the Consolidated Statement of Income	**$ 45,452**	**23.0%**	$ 30,933	23.2%

Income earned on foreign insurance operations would generally be taxed only upon repatriation to Canada. Since the Bank's management does not expect to repatriate income accumulated after July 27, 2006 and based on current tax interpretation, no deferred income tax expense and related provision have been recognized on such income. Income taxes that would be payable if all unremitted earnings were repatriated were estimated at $46.0 million as at October 31, 2016 ($40.7 million as at October 31, 2015).

20. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended October 31 is detailed as follows.

	2016	2015
Earnings per share – basic		
Net income	**$ 151,910**	$ 102,470
Preferred share dividends, including applicable taxes	**13,313**	9,602
Net income attributable to common shareholders	**$ 138,597**	$ 92,868
Average number of outstanding common shares (in thousands)	**30,488**	28,949
Earnings per share – basic	**$ 4.55**	$ 3.21
Earnings per share – diluted		
Net income attributable to common shareholders	**$ 138,597**	$ 92,868
Average number of outstanding common shares (in thousands)	**30,488**	28,949
Dilutive share purchase options (in thousands)	**—**	6
Diluted weighted average number of outstanding common shares (in thousands)	**30,488**	28,955
Earnings per share – diluted	**$ 4.55**	$ 3.21

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these consolidated financial statements which would require the restatement of earnings per share.

21. RELATED PARTY TRANSACTIONS

Related parties of the Bank include:

- key management personnel and their close family members;
- entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by key management personnel or their close family members;
- post-employment benefit plans for Bank employees.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, being members of the Executive Committee or Board of Directors.

The following table presents transactions with related parties.

		2016		2015
Loans [(1)]				
Key management personnel	$	1,625	$	2,438
Entities controlled by key management personnel		18,049		35,506
	$	19,674	$	37,944
Deposits				
Key management personnel	$	1,235	$	1,861
Entities controlled by key management personnel		200		—
	$	1,435	$	1,861

(1) No allowance for loan losses was recorded against these loans.

The Bank provides loans to key management personnel and their related entities. Loans to directors are granted under market conditions for similar risks and are initially measured at fair value. Loans to officers consist mostly of term residential mortgage loans, as well as personal loans, at market rates less a discount based on the type and amount of the loan. Loans to entities controlled by key management personnel are granted under terms similar to those offered to arm's length parties. The interest earned on these loans amounted to $0.8 million for the year ended October 31, 2016 ($1.1 million for the year ended October 31, 2015) and was recorded under interest income in the Consolidated Statement of Income.

In the normal course of business, the Bank also provides usual banking services to key management personnel, including bank accounts (deposits) under terms similar to those offered to arm's length parties. The interest paid on deposits amounted to $26,000 for the year ended October 31, 2016 ($33,000 for the year ended October 31, 2015) and was recorded under interest expense in the Consolidated Statement of Income.

In addition, for the year ended October 31, 2016, the Bank paid a rental expense of $2.2 million to a related party ($2.2 million for the year ended October 31, 2015).

The following table presents the total compensation of key management personnel.

		2016		2015
Short-term employee benefits, including salaries	$	4,608	$	11,378
Post-employment benefits		616		2,984
Share-based payments		4,419		4,811
	$	9,643	$	19,173

22. FINANCIAL INSTRUMENTS – FAIR VALUE

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. Note 3 details the accounting treatment for each measurement category of financial instruments, as well as the estimates and judgment used in measuring the fair value of financial instruments.

CLASSIFICATION OF FAIR VALUE MEASUREMENTS IN THE FAIR VALUE HIERARCHY

Fair value measurements are categorized into levels within a fair value hierarchy based on the valuation inputs used. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1— Quoted prices in active markets for identical financial instruments.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

DETERMINING FAIR VALUE

Certain assets and liabilities, primarily financial instruments, are carried on the consolidated balance sheet at their fair value. All other financial instruments are carried at amortized cost and the fair value is disclosed below. The following section discusses how the Bank measures fair value.

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. When available, the Bank generally uses quoted market prices to determine fair value and classifies such items in Level 1.

If quoted market prices are not available, fair value is based on internally developed valuation techniques that use, where possible, current market-based or independently sourced market inputs, such as interest rates, exchange rates and option volatilities. Instruments valued using internal valuation techniques are classified according to the lowest level input or value driver that is significant to the fair value measurement. Thus, an instrument may be classified in Level 3 even though some significant inputs may be observable.

Where available, the Bank may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to that being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified in Level 2. If prices are not available, other valuation techniques are used and items are classified in Level 3. For these assets and liabilities, the inputs used in determining fair value may require significant management judgment. Due to the inherent uncertainty in these estimates, the values may differ significantly from those that would have been used if an active market had existed for the financial instruments. Moreover, the estimates of fair value for the same or similar financial instruments may differ among financial institutions. The calculation of fair value is based on market conditions as at each balance sheet date.

VALUATION METHODOLOGIES

The following section describes the valuation methodologies used by the Bank to measure and disclose certain significant financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

Securities purchased under reverse repurchase agreements and obligations related to securities sold under repurchase agreements

Given that quoted prices are not available for such financial instruments, fair value is determined using a discounted cash flow technique. Cash flows are estimated based on the terms of the contract and discounted using appropriate market rates.

Securities

When available, the Bank uses quoted market prices to determine the fair value of securities; such instruments are classified in Level 1 of the fair value hierarchy; for example exchange-traded equity securities. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2. However, less liquid securities may be classified in Level 3 given that the Bank must then determine the parameters related to certain significant value drivers, including liquidity premiums and credit spreads.

Loans

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of loans is estimated by discounting cash flows adjusted to reflect prepayments, if any, at the prevailing market interest rates for new loans with substantially similar terms. For certain variable rate loans subject to frequent rate revisions and loans with indeterminate maturities, the fair value is deemed to represent the carrying amount.

22. FINANCIAL INSTRUMENTS – FAIR VALUE [CONT'D]

Other assets

Other assets consist primarily of cheques and other items in transit and accrued interest receivable. Quoted market prices in an active market are not available for these financial instruments. The fair value of cheques and other items in transit and accrued interest receivable is determined using the discounted cash flow method.

Derivatives

The fair value of over-the-counter derivatives is calculated using prevailing market prices for instruments with similar characteristics and maturities, based on a discounted net value analysis or an appropriate pricing model that factors in the current and contractual prices of the underlying instruments, the time value of money, the yield curve, counterparty credit risk and volatility factors. These derivatives are classified in Level 2 or Level 3 depending on whether the significant inputs to those pricing models include observable or unobservable inputs. Also, certain exchange-traded derivatives, whose fair value is based on quoted market prices, are classified in Level 1 of the fair value hierarchy.

Deposits

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of fixed rate deposits is estimated using discounted cash flows based on prevailing market interest rates for deposits with substantially similar terms. The fair value of deposits without stated maturities or variable rate deposits is deemed to represent their carrying amount.

Obligations related to securities sold short

When available, the Bank uses quoted market prices to determine the fair value of obligations related to securities sold short; such instruments are classified in Level 1. For bonds traded over the counter, the Bank generally determines fair value using internal valuation techniques or prices obtained from independent vendors. Where available, the Bank may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Securities priced using such methods are generally classified in Level 2.

Debt related to securitization activities

Quoted market prices in an active market are not available for debt related to securitization activities. As a result, the fair value of these financial instruments is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity.

Subordinated debt

Quoted market prices in an active market are not available for these financial instruments. As a result, the fair value of subordinated debt is estimated using discounted cash flows based on prevailing market interest rates for similar issues or rates currently offered for debt securities with the same term to maturity.

FAIR VALUE HIERARCHY

Financial assets and liabilities measured at fair value in the consolidated balance sheet

The following table presents the fair value hierarchy of financial instruments measured at fair value on a recurring basis using the valuation methods and assumptions as set out above.

(in millions of Canadian dollars)				2016
	Level 1	Level 2	Level 3	Total
Assets				
Securities				
Available-for-sale	$ 172	$ 2,552	$ —	$ 2,724
Held-for-trading	$ 103	$ 2,332	$ —	$ 2,435
Derivatives	$ 1	$ 231	$ 1	$ 233
Liabilities				
Obligations related to securities sold short	$ 21	$ 1,686	$ —	$ 1,707
Derivatives	$ 17	$ 107	$ 26	$ 150

22. FINANCIAL INSTRUMENTS – FAIR VALUE [CONT'D]

(in millions of Canadian dollars)				2015
	Level 1	Level 2	Level 3	Total
Assets				
Securities				
Available-for-sale	$ 219	$ 2,150	$ —	$ 2,369
Held-for-trading	$ 72	$ 1,653	$ —	$ 1,725
Derivatives	$ 3	$ 273	$ 1	$ 277
Liabilities				
Obligations related to securities sold short	$ 13	$ 1,827	$ —	$ 1,840
Derivatives	$ 4	$ 105	$ 17	$ 126

Level transfers and reclassification

There were no significant transfers between Level 1 and Level 2 of the hierarchy, or changes in fair value measurement methods during the year.

Change in level 3 fair value category and sensitivity analysis

The Bank classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically rely on a number of inputs that are observable either directly or indirectly. Transfers in and out of Level 3 can occur as a result of additional or new information regarding valuation inputs and changes in their observability. Changes in Level 3 financial instruments were not significant for the years ended October 31, 2016 and 2015.

As at October 31, 2016, the Bank considered other reasonably possible alternative assumptions for the valuation models to recalculate the fair value of the instruments and concluded that the resulting potential increase or decrease in total fair value classified in Level 3 was not significant.

Financial assets and liabilities not measured at fair value on the consolidated balance sheet

The following table presents financial instruments which are not recorded at fair value on the consolidated balance sheet and their classification in the fair value hierarchy. For these instruments, fair values are calculated for disclosure purposes only, and the valuation techniques are disclosed above.

(in millions of Canadian dollars)					**2016**		2015
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**	Carrying amount	Fair value
Assets							
Held-to-maturity securities	**$ 502**	**$ 502**	**$ —**	**$ 502**	**$ —**	$ 393	$ 394
Loans	**$ 33,274**	**$ 33,425**	**$ —**	**$ —**	**$ 33,425**	$ 29,981	$ 30,128
Liabilities							
Deposits	**$ 27,573**	**$ 27,689**	**$ —**	**$ 27,689**	**$ —**	$ 26,604	$ 26,718
Debt related to securitization activities	**$ 7,244**	**$ 7,279**	**$ —**	**$ 7,279**	**$ —**	$ 5,494	$ 5,520
Subordinated debt	**$ 200**	**$ 202**	**$ —**	**$ 202**	**$ —**	$ 450	$ 454

The Bank also determined that the carrying value approximates the fair value for the following assets and liabilities as they are usually liquid floating rate financial instruments and are generally short term in nature: cash and non-interest-bearing deposits with other banks, interest-bearing deposits with banks, securities purchased under reverse repurchase agreements, other assets, obligations related to securities sold under repurchase agreements and acceptances.

23. FINANCIAL INSTRUMENTS – OFFSETTING

The following table presents information about financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement and the effect or potential effect of set-off rights.

2016

	Gross recognized amounts	Gross amounts offset in the consolidated balance sheet	Amounts presented in the consolidated balance sheet	Amounts not offset in the consolidated balance sheet: Impact of master netting agreements [1]	Amounts not offset in the consolidated balance sheet: Financial collateral received or pledged	Net amounts
Financial assets						
Securities purchased under reverse repurchase agreements	$ 2,879,986	$ —	$ 2,879,986	$ 1,601,243	$ 1,278,534	$ 209
Derivatives	232,791	—	232,791	95,955	60,400	76,436
	$ 3,112,777	$ —	$ 3,112,777	$ 1,697,198	$ 1,338,934	$ 76,645
Financial liabilities						
Obligations related to securities sold under repurchase agreements	$ 2,525,441	$ —	$ 2,525,441	$ 1,601,243	$ 921,611	$ 2,587
Derivatives	150,499	—	150,499	95,955	11,996	42,548
	$ 2,675,940	$ —	$ 2,675,940	$ 1,697,198	$ 933,607	$ 45,135

2015

	Gross recognized amounts	Gross amounts offset in the consolidated balance sheet	Amounts presented in the consolidated balance sheet	Amounts not offset in the consolidated balance sheet: Impact of master netting agreements [1]	Amounts not offset in the consolidated balance sheet: Financial collateral received or pledged	Net amounts
Financial assets						
Securities purchased under reverse repurchase agreements	$ 3,911,439	$ —	$ 3,911,439	$ 1,650,989	$ 2,260,448	$ 2
Derivatives	276,601	—	276,601	91,222	99,684	85,695
	$ 4,188,040	$ —	$ 4,188,040	$ 1,742,211	$ 2,360,132	$ 85,697
Financial liabilities						
Obligations related to securities sold under repurchase agreements	$ 2,296,890	$ —	$ 2,296,890	$ 1,650,989	$ 645,844	$ 57
Derivatives	125,683	—	125,683	91,222	14,932	19,529
	$ 2,422,573	$ —	$ 2,422,573	$ 1,742,211	$ 660,776	$ 19,586

(1) Carrying amount of financial assets and financial liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria, as these agreements give a right of set-off that is enforceable only following a specified event of default or in other circumstances not expected to arise in the normal course of business.

24. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Bank is exposed to various types of risks owing to the nature of the business activities it pursues. To ensure that significant risks to which the Bank could be exposed are taken into consideration, a Risk Management Framework has been developed to provide for oversight of risk assessment and control. Risk management is conducted according to tolerance levels established by management committees and approved by the Board of Directors through its committees.

In order to manage the risks associated with financial instruments, including loan and deposit portfolios, securities and derivatives, the Bank has implemented policies prescribing how various risks are to be managed. In practice, management closely monitors various risk limits, as well as a number of other indicators. Oversight of operations is performed by groups independent of the business lines.

The risk management policies and procedures of the Bank are disclosed in the Risk Appetite and Management Framework section of Management's Discussion and Analysis (MD&A). The relevant MD&A sections are identified in the shaded text and tables and are an integral part of these audited consolidated financial statements.

24. FINANCIAL INSTRUMENTS – RISK MANAGEMENT [CONT'D]

The following table details the maturity dates and average effective rates of the Bank's on- and off-balance sheet financial instruments.

(in millions of Canadian dollars)							2016
	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash, deposits and securities	$ 2,690	$ 2,407	$ 209	$ 432	$ 40	$ 69	$ 5,847
Actual return		0.7%	1.0%	1.4%	2.6%		
Securities purchased under reverse repurchase agreements	2,880	—	—	—	—	—	2,880
Loans	13,317	2,970	4,378	11,244	211	1,154	33,274
Actual return		3.4%	3.5%	3.2%	4.2%		
Other assets	—	—	—	—	—	1,005	1,005
Total	$ 18,887	$ 5,377	$ 4,587	$ 11,676	$ 251	$ 2,228	$ 43,006
Actual return		2.2%	3.4%	3.1%	3.9%		
Liabilities and equity							
Deposits	$ 3,449	$ 3,081	$ 6,170	$ 14,177	$ 120	$ 576	$ 27,573
Actual return		1.2%	1.5%	1.8%	3.1%		
Treasury items	4,233	—	—	—	—	—	4,233
Other liabilities	—	15	43	116	1	1,606	1,781
Actual return		2.0%	1.9%	2.0%	3.1%		
Debt related to securitization activities	—	3,139	481	3,290	334	—	7,244
Actual return		1.6%	2.1%	1.9%	1.6%		
Subordinated debt and equity	—	—	200	342	—	1,633	2,175
Actual return		—%	3.1%	—%	—%		
Total	$ 7,682	$ 6,235	$ 6,894	$ 17,925	$ 455	$ 3,815	$ 43,006
Actual return		1.4%	1.6%	1.8%	2.0%		
Swaps, net	—	(11,293)	3,884	7,131	278	—	—
Sensitivity gap	$ 11,205	$ (12,151)	$ 1,577	$ 882	$ 74	$ (1,587)	$ —
Cumulative gap	$ 11,205	$ (946)	$ 631	$ 1,513	$ 1,587	$ —	$ —

(in millions of Canadian dollars)							2015
	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets	$ 18,720	$ 4,372	$ 4,604	$ 9,634	$ 185	$ 2,145	$ 39,660
Actual return		2.1%	3.4%	3.4%	3.8%		
Liabilities and equity	$ 7,918	$ 5,289	$ 6,496	$ 16,436	$ 334	$ 3,187	$ 39,660
Actual return		1.1%	1.7%	1.8%	2.3%		
Swaps, net	—	(9,509)	1,845	7,584	80	—	—
Sensivity gap	$ 10,802	$ (10,426)	$ (47)	$ 782	$ (69)	$ (1,042)	$ —
Cumulative gap	$ 10,802	$ 376	$ 329	$ 1,111	$ 1,042	$ —	$ —

Maturity assumptions

Assets, liabilities and equity are shown at the earlier of the date of maturity or contractual revaluation while taking into consideration estimated redemptions or prepayments, except for the following:

- Deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to changes in market rates are classified based on the historical trends in balances;
- Subordinated debt for which interest rates can be revised at a future date are classified at the re-pricing date;
- Preferred shares are classified using the date on which they become redeemable.

25. DERIVATIVES AND HEDGES

In the normal course of business, the Bank enters into various contracts and commitments in order to protect itself against the risk of fluctuations in interest rates, foreign exchange rates, stock prices and indexes used to determine the return of index-linked deposits, as well as to meet its customers' demands and to earn trading income, as described below.

The various derivatives listed in the tables below are as follows:

[i] Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specified period of time. Foreign exchange swaps involve the exchange of the principal and fixed or floating interest payments in different currencies.

[ii] Options are agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to buy or to sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the agreement is entered into. The writer receives a premium for selling this instrument.

[iii] Futures are commitments to purchase or deliver a financial instrument on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.

[iv] Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a pre-determined rate.

[v] Total return swaps involve floating payments based on changes in the value of a reference asset or group of assets, including any associated return such as dividends, in exchange for amounts based on prevailing market funding rates.

AGGREGATE NOTIONAL AMOUNTS

The following tables present the notional amounts associated with the derivatives. The amounts are not indicative of the potential gain or loss related to the credit or market risk of these instruments.

(in millions of Canadian dollars) **2016**

Notional amount	Period to maturity: Within 1 year	Period to maturity: 1 to 5 years	Period to maturity: Over 5 years	Total	Designated as hedge contracts	Other contracts [1], [2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 4,910	$ 10,363	$ 1,288	$ 16,561	$ 14,503	$ 2,058
Forwards	276	—	—	276	—	276
Exchange-traded contracts						
Futures	65	—	—	65	—	65
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	2,342	53	—	2,395	56	2,339
Forwards	1,805	59	—	1,864	—	1,864
Options purchased	1,498	6	—	1,504	—	1,504
Options written	1,457	6	—	1,463	—	1,463
Equity- and index-linked contracts						
Options purchased	50	53	—	103	—	103
Options written	77	260	—	337	—	337
Futures	6	400	—	406	—	406
Total return swaps	20	24	—	44	3	41
	$ 12,506	$ 11,224	$ 1,288	$ 25,018	$ 14,562	$ 10,456

(1) Include notional amounts of $0.4 billion related to basis swaps at October 31, 2016.
(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

25. DERIVATIVES AND HEDGES [CONT'D]

(in millions of Canadian dollars)						2015
	Period to maturity					
Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Designated as hedge contracts [1]	Other contracts [2]
Interest rate contracts						
Over-the-counter contracts						
Swaps	$ 2,804	$ 8,904	$ 1,197	$ 12,905	$ 11,064	$ 1,841
Forwards	310	—	—	310	—	310
Exchange-traded contracts						
Futures	148	—	—	148	—	148
Foreign exchange contracts						
Over-the-counter contracts						
Foreign exchange swaps	1,621	169	—	1,790	84	1,706
Forwards	1,164	57	—	1,221	—	1,221
Options purchased	1,605	3	—	1,608	—	1,608
Options written	1,593	3	—	1,596	—	1,596
Equity- and index-linked contracts						
Options purchased	63	30	—	93	—	93
Options written	95	213	1	309	—	309
Total return swaps	25	24	—	49	2	47
	$ 9,428	$ 9,403	$ 1,198	$ 20,029	$ 11,150	$ 8,879

(1) Include notional amounts of $0.4 billion related to basis swaps at October 31, 2015.
(2) Include derivatives used in trading operations to meet customer demands and to earn trading income, as well as derivatives used to manage the Bank's risk exposures that are not designated in hedge relationships.

FAIR VALUE OF DERIVATIVES

(in thousands of Canadian dollars)		**2016**		2015
	Assets	**Liabilities**	Assets	Liabilities
DESIGNATED AS HEDGE CONTRACTS				
Fair value hedges				
Interest rate contracts				
Swaps	**$ 89,482**	**$ (5,932)**	$ 113,022	$ (5,278)
Cash flow hedges				
Interest rate contracts				
Swaps	**34,273**	**(11,460)**	63,428	(16,902)
Equity- and index-linked contracts				
Total return swaps	**2**	**—**	169	—
OTHER CONTRACTS [1]				
Interest rate contracts				
Swaps	**50,079**	**(48,014)**	48,662	(44,709)
Foreign exchange contracts				
Foreign exchange swaps	**21,789**	**(34,778)**	20,232	(32,063)
Forwards	**12,292**	**(7,300)**	19,225	(5,886)
Options purchased	**17,295**	**—**	4,011	—
Options written	**—**	**(16,812)**	—	(3,754)
Equity- and index-linked contracts				
Options purchased	**6,319**	**—**	4,063	—
Options written	**—**	**(26,197)**	—	(17,085)
Total return swaps	**1,260**	**(6)**	3,789	(6)
Total	**$ 232,791**	**$ (150,499)**	$ 276,601	$ (125,683)

(1) Include derivatives used in trading operations to meet customer demands and to earn trading income as well as derivatives used to manage the Bank's risk exposures that do not qualify for hedge accounting.

25. DERIVATIVES AND HEDGES [CONT'D]

INFORMATION REGARDING HEDGING RELATIONSHIPS

The swap contracts designated as hedging instruments are used by the Bank primarily for purposes of balance sheet matching and minimizing volatility in net interest income. The value of such swap contracts can vary significantly.

Fair value hedges

The Bank uses interest rate swaps and foreign exchange contracts to hedge changes in fair value of assets, liabilities or firm commitments. The notional amount of derivatives designated as hedging instruments in fair value hedges was $5.1 billion as at October 31, 2016 ($4.4 billion as at October 31, 2015).

The following table presents ineffectiveness related to fair value hedges.

(in thousands of Canadian dollars)	**2016**	2015
Net gains (losses) recognized on hedging instrument	**$ 6,493**	$ (65,149)
Net gains (losses) recognized on hedged item	**(6,439)**	65,616
Ineffectiveness gains recognized in net income	**$ 54**	$ 467

Cash flow hedges

The Bank uses interest rate swaps to hedge the variability in cash flows related to variable rate assets and liabilities. The Bank also uses total return swaps to hedge the variability in cash flows related to the share-based compensation plans. The notional amount of swap contracts designated as hedging instruments in cash flow hedges was $9.4 billion as at October 31, 2016 ($6.2 billion as at October 31, 2015).

Ineffectiveness gains related to cash flow hedges of $0.1 million was recognized in net income for the year ended October 31, 2016 ($1.1 million in 2015).

The remaining balance of accumulated other comprehensive income related to cash flow hedges as at October 31, 2016 is expected to be reclassified to the Consolidated Statement of Income over the next 15 years.

CREDIT EXPOSURE

(in millions of Canadian dollars)		**2016**			2015	
	Replacement cost [1]	**Credit equivalent amount [2]**	**Risk-weighted amount [3]**	Replacement cost [1]	Credit equivalent amount [2]	Risk-weighted amount [3]
Interest rate contracts	**$ 176**	**$ 268**	**$ 64**	$ 227	$ 304	$ 65
Foreign exchange contracts	**51**	**113**	**62**	43	82	38
Equity-and index-linked contracts	**7**	**20**	**5**	8	25	7
	234	**401**	**131**	278	411	110
Impact of master netting agreements	**(130)**	**(183)**	**(54)**	(114)	(139)	(19)
	$ 104	**$ 218**	**$ 77**	$ 164	$ 272	$ 91

(1) Represents what it would cost to replace transactions at prevailing market conditions in the event of a default. This is the favourable fair market value of all outstanding contracts, excluding options written since they do not constitute a credit risk, including securitization swaps not recognized on the balance sheet.
(2) Represents the sum of (i) the total replacement cost of all outstanding contracts and (ii) an amount representing the assessed potential future credit risk, using guidelines issued by OSFI.
(3) Represents the credit risk equivalent amount weighted based on the creditworthiness of the counterparty, as prescribed by OSFI.

26. INCOME RELATED TO FINANCIAL INSTRUMENTS HELD-FOR-TRADING

Financial instruments held-for-trading, including held-for-trading securities, derivatives not designated in hedge relationships, and obligations related to securities sold short are measured at fair value, with gains and losses recognized in the Consolidated Statement of Income.

The following table presents the income related to these instruments. Income comprises net interest income, as well as other income included in income from treasury and financial market operations or in income from brokerage operations. Income excludes underwriting fees and commissions on securities transactions.

		2016		2015
Net interest income	**$**	**9,646**	$	17,451
Other income included in:				
Income from brokerage operations		**25,719**		18,735
Income from treasury and financial market operations		**11,766**		8,855
	$	**37,485**	$	27,590

27. INSURANCE INCOME

Insurance income reported in other income in the Consolidated Statement of Income is detailed as follows.

		2016		2015
Insurance revenues	**$**	**29,189**	$	29,946
Claims and expenses		**(11,662)**		(13,043)
Insurance income, net	**$**	**17,527**	$	16,903

28. RENTAL INCOME

The Bank has entered as a lessor into operating leases with clients on an equipment portfolio (note 11). These leases have terms of between 1 and 7 years. Rental income for these leases of $1.6 million (nil in 2015) is reported in other income in the Consolidated Statement of Income. The following table presents minimum lease payments receivable from lessees under these non-cancellable operating leases.

		2016
Receivable within one year	**$**	**12,095**
Receivable within 1 to 5 years		**14,667**
Receivable after 5 years		**542**
	$	**27,304**

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

CREDIT-RELATED COMMITMENTS

The Bank uses certain off-balance sheet credit instruments as a means of meeting the financial needs of its customers. Undrawn amounts under approved credit facilities represent a commitment to make credit available in the form of loans or other credit instruments for specific amounts and maturities, subject to specific conditions.

Documentary letters of credit are documents issued by the Bank on behalf of customers, authorizing a third party to draw drafts to a stipulated amount under specific conditions. These letters are guaranteed by the underlying shipments of goods.

The amounts of credit-related commitments represent the maximum amount of additional credit that the Bank could be obliged to extend. These amounts are not necessarily indicative of credit risk as many of these commitments are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

GUARANTEES

Standby letters of credit and performance guarantees

In the normal course of its operations, the Bank offers its customers the possibility of obtaining standby letters of credit and performance guarantees. These represent irrevocable assurances that the Bank will make payments in the event that clients cannot meet their obligations to third parties. The term of these guarantees varies according to the contracts and normally does not exceed one year. The Bank's policy for requiring collateral security with respect to these instruments is similar to its policy for loans. The maximum potential amount of future payments under these guarantees totalled $143.9 million as at October 31, 2016 ($152.8 million as at October 31, 2015).

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES [CONT'D]

Derivatives

To meet certain customers' hedging needs against foreign exchange rate fluctuations, the Bank sells put options (foreign exchange contracts), which are contractual agreements under which the Bank grants customers the right, but not the obligation to sell, by or on a set date, a specified amount of foreign currencies at a predetermined price. The term of these options does not exceed 12 months. These options are recorded at fair value, which reflects the estimated amount of future payments under these derivatives as at the date of the valuation. The maximum potential amount of future payments under these derivatives, corresponding to the notional value of outstanding contracts, totalled $400.7 million as at October 31, 2016 ($572.4 million as at October 31, 2015).

Other indemnification agreements

In the normal course of its operations, the Bank provides indemnification agreements to counterparties in certain transactions such as purchase contracts, service agreements and sales of assets. These indemnification agreements require the Bank to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The Bank also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors or officers at the request of the Bank. The terms of these indemnification agreements vary based on the contract. The nature of the indemnification agreements prevents the Bank from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Bank has not made any significant payments under such indemnification agreements. No amount has been accrued with respect to these indemnification agreements.

LEASES, SERVICE CONTRACTS FOR OUTSOURCED INFORMATION TECHNOLOGY SERVICES AND OTHER CONTRACTS

Minimum future payments under leases, service contracts for outsourced information technology services and other contracts are as follows.

			2016
	Leases	Information technology service contracts	Other
Due within one year	$ 65,316	$ 56,337	$ 8,890
Due within 1 to 5 years	145,743	108,471	16,970
Due after 5 years	35,026	—	—
	246,085	164,808	25,860
Less: Future minimum sublease payments to be received	(13,819)	—	—
Total	$ 232,266	$ 164,808	$ 25,860

Payments under these commitments recognized as an expense amounted to $54.4 million for the year ended October 31, 2016 ($54.3 million for the year ended October 31, 2015).

FINANCIAL ASSETS PLEDGED AS COLLATERAL

In the normal course of its operations, the Bank pledges financial assets presented in the consolidated balance sheet. This collateral security is pledged under the usual terms that provide, among other things, that the Bank bear the risks and rewards related to the collateral security and the pledged assets be returned to the Bank when the terms and conditions requiring them to be pledged as security cease to apply.

Financial assets pledged as collateral under securitization operations are detailed in Note 7. The following table details the financial assets pledged as collateral under other arrangements.

	2016	2015
Pledged assets:		
To participate in clearing and payment systems	$ 605,778	$ 365,349
For obligations related to securities sold under repurchase agreements and for securities borrowed	3,226,778	2,728,339
For obligations related to derivatives in a liability position	53,337	80,712
	$ 3,885,893	$ 3,174,400
Pledged assets are detailed as follows:		
Securities	$ 3,383,985	$ 2,950,705
Residential mortgage loans (NHA MBS)	501,908	223,695
	$ 3,885,893	$ 3,174,400

29. COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES [CONT'D]

CONTINGENT LIABILITIES

In the ordinary course of business, the Bank and its subsidiaries are involved in various legal and regulatory actions and claims, relating to, among other matters, class actions, loan portfolios, portfolio administration by trustee and cross-claims further to recovery actions Management considers that adequate provisions have been set aside to cover any potential losses and any amounts that might not be recoverable from insurance companies, as the case may be, in connection with these claims.

30. IMPAIRMENT AND RESTRUCTURING CHARGES

The following table details the Impairment and restructuring charges line item.

		2016		2015
Impairment of goodwill, software and intangible assets, and premises and equipment (Notes 8, 9 and 10)	$	22,113	$	72,226
Provisions related to lease contracts		11,858		—
Severance charges		4,373		4,607
Other impairment charges related to IT projects		—		1,576
Total	$	38,344	$	78,409

IMPAIRMENT

2016

The announcement that the Bank will optimize its retail activities by merging fifty branches over the next eighteen months was identified as an indicator of impairment of the software, other intangible assets and premises and equipment related to the Retail CGU. As such, the carrying amount of these assets was reviewed for impairment at the Retail CGU level as they do not generate cash inflows that are largely independent from other assets or group of assets.

Based on forecasts, management determined that the carrying amount of the Retail CGU exceeded the estimate of its recoverable amount. As a result, impairment charges of $22.1 million were recorded for the year ended October 31, 2016 on the line item Impairment and restructuring charges. These charges were related to software for $16.7 million and to premises and equipment for $5.4 million.

The recoverable amount of the Retail CGU was determined based on the value-in-use approach using a discounted cash flow method. The significant key assumptions included the forecasts of cash flows based on financial plans approved by management covering a three-year period, a terminal growth rate of 2.1% based on projected economic growth, and a after-tax discount rate of 11.0% based on the bank-wide cost of capital and further adjusted to reflect the risks specific to the Retail unit.

These impairment charges were the result of a combination of factors, including the continued pressure on net interest margins stemming from the persistent low interest rates and competitive landscape, the change in customers' behaviour driven by significant changes in technology and lifestyle, the emergence of new competitors, as well as the additional administrative burden associated with regulatory measures.

2015

Following the comprehensive strategic review of its retail activities completed during the fourth quarter of 2015, the Bank reviewed the recoverability of the carrying value of certain of its assets for impairment purposes. As a result of the impairment test, a charge of $72.2 million, affecting the Retail unit, was recorded for the year ended October 31, 2015 on the line item Impairment and restructuring charges. This charge was related to the impairment of goodwill for $29.2 million, to software and intangible assets for $33.1 million and to premises and equipment for $9.9 million.

RESTRUCTURING CHARGES

2016

In September 2016, the Bank announced that it will merge fifty of its branches over the next eighteen months. This decision resulted from the strategic analysis initiated in 2015, as well as to more recent changes to the economic landscape. As part of the planned restructuring, provisions related to lease contracts amounting to $11.9 million and severance charges of $4.4 million were recorded for the year ended October 31, 2016 on the line item Impairment and restructuring charges.

2015

In October 2015, the Bank announced a new organizational structure and executive team. Certain activities were restructured as a first step of the transformation plan towards a simpler and more efficient operating model. Consequently, severance charges amounting to $4.6 million and other impairment charges related to IT projects amounting to $1.6 million were recorded for the year ended October 31, 2015 on the line item Impairment and restructuring charges.

31. BUSINESS COMBINATIONS

ACQUISITION OF CIT CANADA

On June 29, 2016, the Bank and CIT Group Inc. ("CIT"), a U.S. company, entered into a definitive agreement under which the Bank agreed to acquire the Canadian equipment financing and corporate financing activities of CIT ("CIT Canada"). The transaction closed on October 1, 2016. The preliminary purchase price, based on the net book value of CIT Canada as at the closing date, is presently estimated at $985.4 million and remains subject to post-closing adjustments. The Bank acquired CIT Canada to increase the proportion of business loans in the Bank's loan portfolio, strengthen its position in the equipment financing market and expand the pan-Canadian footprint.

The preliminary estimated fair value of the assets acquired and liabilities assumed on October 1, 2016 were as follows.

		CIT Canada
ASSETS		
Loans [1]	$	922,454
Derivatives		5,736
Premises and equipment		351
Software and other intangible assets		9,765
Goodwill		20,959
Deferred tax assets and other		59,016
	$	1,018,281
LIABILITIES		
Deferred tax liabilities and other	$	32,914
Total identifiable net assets acquired	$	985,367
Cash paid	$	996,500
Estimated balance receivable - based on preliminary assessment		11,133
Total estimated purchase consideration	$	985,367

(1) Gross amount of acquired loans and finance lease receivables was $906.2 million.

The allocation of the purchase price for CIT Canada is subject to refinement as the Bank completes the valuation of the assets acquired and liabilities assumed.

Goodwill recognized is attributed to the expected synergies and other benefits from combining the assets and activities of CIT Canada with those of the Bank. Goodwill associated with this transaction was allocated to the Business Services unit. None of the recognized goodwill is deductible for income tax purposes.

The following table presents the impact of the acquisition of CIT Canada on the consolidated statement of income.

		2016
Contribution from date of acquisition [1]		
Total revenue	$	3,288
Net income	$	671
Estimated contribution if the acquisition had occurred on November 1, 2015 [2]		
Total revenue	$	37,002
Net income	$	2,648

(1) Approximate results of CIT Canada for the 31-day period from the date of acquisition.

(2) In determining the estimate, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on November 1, 2015.

In 2016, the Bank incurred acquisition-related costs as well as salaries, professional fees and other expenses for the integration of CIT Canada operations. These costs were recognized directly in net income, under Costs related to business combinations.

ACQUISITION OF AGF TRUST COMPANY

Gain on acquisition and amortization of net premium on purchased financial instruments

On August 1, 2012, the Bank acquired 100% of the outstanding shares of AGF Trust Company (AGF Trust) from AGF Management Limited. The allocation of the purchase price of AGF Trust resulted in a gain of $24.3 million ($16.4 million net of income taxes) arising on acquisition as the estimated fair values of the net assets acquired exceeded the purchase price. The gain mainly represented the favourable effect of the discount or premium to reflect the then current market rates on purchased financial instruments, partly offset by the initial estimated fair value of the contingent consideration. The unamortized portion of the gain resulting from the revaluation of the purchased financial instruments of $8.1 million is being amortized in net income over the estimated remaining term of the purchased financial instruments and amounted to $5.2 million for the year ended October 31, 2016 ($6.0 million for the year ended October 31, 2015).