NATIONAL BANK

REPORT TO SHAREHOLDERS | FIRST QUARTER 2015

National Bank reports its results for the First Quarter of 2015

The financial information reported herein is based on the unaudited interim condensed consolidated financial statements for the quarter ended January 31, 2015 and prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and set out in the CPA Canada Handbook. All amounts are presented in Canadian dollars.

MONTREAL, February 25, 2015 – For the first quarter of 2015, National Bank is reporting net income of $415 million, up 2% from $405 million in the first quarter of 2014, and diluted earnings per share of $1.16, up from $1.15 in the first quarter of 2014.

Excluding specified items, net income totalled $410 million for the first quarter of 2015, up 7% from $384 million in the first quarter of 2014, and first-quarter diluted earnings per share stood at $1.14, up 5% from $1.09 in the same quarter of 2014. The specified items are described on page 4.

"National Bank posted solid results in the first quarter of 2015, reflecting sustained growth across its three main business segments and the quality of its credit portfolio. Financial Markets turned in an especially noteworthy performance on the strength of its trading business and banking services," said Louis Vachon, President and Chief Executive Officer. "Given the drop in oil prices and interest rates in recent months, we're continuing to prudently manage our operations while staying apprised of opportunities."

Highlights

	Quarter ended January 31		
	2015	2014	% Change
Net income *(millions of dollars)*	**415**	405	2
Diluted earnings per share *(dollars)*	**1.16**	1.15	1
Return on common shareholders' equity	**17.8 %**	19.8 %	
Dividend payout ratio	**44 %**	39 %	
Excluding specified items[1]			
Net income *(millions of dollars)*	**410**	384	7
Diluted earnings per share *(dollars)*	**1.14**	1.09	5
Return on common shareholders' equity	**17.5 %**	18.8 %	
Dividend payout ratio	**42 %**	42 %	
	As at January 31, 2015	As at October 31, 2014	
CET1 capital ratio under Basel III	**9.3 %**	9.2 %	
Leverage ratio under Basel III[2]	**3.6 %**		

(1) See the Financial Reporting Method section on page 4.
(2) The ratio came into effect on January 1, 2015.

Personal and Commercial

- Net income totalled $175 million in the first quarter of 2015, a 5% increase from $166 million in the first quarter of 2014.
- At $691 million, the 2015 first-quarter total revenues rose $33 million or 5% year over year.
- Rising 7% from a year ago, personal lending experienced sustained growth, with the strongest increases coming from consumer loans and mortgage lending, and commercial lending also grew 7% from a year ago.
- The net interest margin was 2.20% in the first quarter of 2015 versus 2.21% the preceding quarter and 2.25% in the first quarter of 2014.
- Before provisions for credit losses and income taxes, the segment's contribution was up $17 million or 6%.
- At 57.5%, the efficiency ratio improved from 57.9% in the same quarter of 2014.

Wealth Management

- Net income totalled $76 million in the first quarter of 2015, a 12% increase from $68 million in the same quarter of 2014.
- Excluding specified items(1), first-quarter net income totalled $83 million, up $7 million or 9% year over year.
- The segment's 2015 first-quarter total revenues amounted to $342 million versus $323 million in the first quarter of 2014, a $19 million or 6% year-over-year increase that was mainly driven by growth in fee-based revenues and net interest income, tempered somewhat by a decrease in transaction-based revenues.
- First-quarter non-interest expenses stood at $239 million, up 4% year over year.
- Excluding specified items(1), the efficiency ratio was 67.5%, an improvement from 68.2% in the first quarter of 2014.

Financial Markets

- Net income totalled $178 million in the first quarter of 2015, a 23% increase from $145 million in the same quarter of 2014.
- The segment's 2015 first-quarter total revenues amounted to $418 million, a $53 million or 15% year-over-year increase owing to higher trading activity revenues and banking service revenues.
- At $175 million, the 2015 first-quarter non-interest expenses increased by $8 million year over year, mainly because variable compensation was higher given the revenue growth.
- At 41.9%, the efficiency ratio improved from 45.8% in the first quarter of 2014.

Other

- For the first quarter of 2015, there was a net loss of $14 million compared to net income of $26 million in the same quarter of 2014. This decrease came essentially from the revenues recorded to reflect a rise in the fair value of restructured notes, which were higher in the first quarter of 2014, and from an increase in non-interest expenses.

Capital Management

- As at January 31, 2015, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 9.3% compared to 9.2% as at October 31, 2014 due to internally generated capital, partly offset by the increase in risk-weighted assets.
- The leverage ratio under Basel III was 3.6% as at January 31, 2015.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 24, 2015

The following Management's Discussion and Analysis (MD&A) presents the financial condition and operating results of National Bank of Canada (the Bank). This analysis was prepared in accordance with the requirements set out in *National Instrument 51-102 Continuous Disclosure Obligations*, released by the Canadian Securities Administrators (CSA). It is based on the unaudited interim condensed consolidated financial statements (the consolidated financial statements) for the quarter ended January 31, 2015 prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and set out in the CPA Canada Handbook. This MD&A should be read in conjunction with the consolidated financial statements for the quarter ended January 31, 2015 and with the *2014 Annual Report*. All amounts are presented in Canadian dollars. Additional information about the Bank, including the *Annual Information Form*, can be obtained from the Bank's website at nbc.ca and SEDAR's website at sedar.com.

Caution Regarding Forward-Looking Statements

From time to time, the Bank makes written and oral forward-looking statements, such as those contained in the Major Economic Trends and the Outlook for National Bank sections of the *2014 Annual Report*, in other filings with Canadian securities regulators, and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2015 and the objectives it hopes to achieve for that period. These forward-looking statements are made in accordance with current securities legislation in Canada and the United States. They include, among others, statements with respect to the economy—particularly the Canadian and U.S. economies—market changes, observations regarding the Bank's objectives and its strategies for achieving them, Bank-projected financial returns and certain risks faced by the Bank. These forward-looking statements are typically identified by future or conditional verbs or words such as "outlook," "believe," "anticipate," "estimate," "project," "expect," "intend," "plan," and similar terms and expressions.

By their very nature, such forward-looking statements require assumptions to be made and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2015 and how that will affect the Bank's business are among the main factors considered in setting the Bank's strategic priorities and objectives and in determining its financial targets, including provisions for credit losses. In determining its expectations for economic growth, both broadly and in the financial services sector in particular, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies.

There is a strong possibility that express or implied projections contained in these forward-looking statements will not materialize or will not be accurate. The Bank recommends that readers not place undue reliance on these statements, as a number of factors, many of which are beyond the Bank's control, could cause actual future results, conditions, actions or events to differ significantly from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include strategic risk, credit risk, market risk, liquidity risk, operational risk, regulatory risk, reputation risk, and environmental risk (all of which are described in more detail in the Risk Management section beginning on page 61 of the *2014 Annual Report*), general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business, including regulatory changes affecting the Bank's business, capital and liquidity; the situation with respect to the restructured notes of the master asset vehicle (MAV) conduits, in particular the realizable value of underlying assets; changes in the accounting policies the Bank uses to report its financial condition, including uncertainties associated with assumptions and critical accounting estimates; tax laws in the countries in which the Bank operates, primarily Canada and the United States (including the *U.S. Foreign Account Tax Compliance Act* (FATCA)); changes to capital and liquidity guidelines and to the manner in which they are to be presented and interpreted; changes to the credit ratings assigned to the Bank; and potential disruptions to the Bank's information technology systems, including evolving cyber attack risk.

The foregoing list of risk factors is not exhaustive. Additional information about these factors can be found in the Risk Management and Other Risk Factors sections of the *2014 Annual Report*. Investors and others who rely on the Bank's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time, by it or on its behalf.

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

FINANCIAL REPORTING METHOD

(millions of Canadian dollars, except per share amounts)

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

Financial Information

	Quarter ended January 31		
	2015	2014	% Change
Excluding specified items			
Personal and Commercial	**175**	166	5
Wealth Management	**83**	76	9
Financial Markets	**178**	145	23
Other	**(26)**	(3)	
Net income excluding specified items	**410**	384	7
Items related to holding restructured notes(1)	**13**	30	
Acquisition-related items(2)	**(8)**	(9)	
Net income	**415**	405	2
Diluted earnings per share excluding specified items	**$ 1.14**	$ 1.09	5
Items related to holding restructured notes(1)	**0.04**	0.09	
Acquisition-related items(2)	**(0.02)**	(0.03)	
Diluted earnings per share	**$ 1.16**	$ 1.15	1
Return on common shareholders' equity			
Including specified items	**17.8 %**	19.8 %	
Excluding specified items	**17.5 %**	18.8 %	

(1) During the quarter ended January 31, 2015, the Bank recorded $5 million in financing costs ($4 million net of income taxes) related to holding restructured notes (2014: $5 million, $3 million net of income taxes). It also recorded $23 million in revenues ($17 million net of income taxes) to reflect a rise in the fair value of these notes (2014: $45 million, $33 million net of income taxes).

(2) During the quarter ended January 31, 2015, the Bank recorded $10 million in charges ($8 million net of income taxes) related to the Wealth Management acquisitions (2014: $11 million, $9 million net of income taxes) and consisting mostly of retention bonuses and TD Waterhouse integration charges; these charges also include the Bank's share in the integration costs incurred by Fiera and its share in the integration costs and intangible asset amortization related to the Bank's interest in TMX.

HIGHLIGHTS

(millions of Canadian dollars)

	Quarter ended January 31		
	2015	2014	% Change
Operating results			
Total revenues	1,410	1,364	3
Net income	415	405	2
Net income attributable to the Bank's shareholders	397	389	2
Return on common shareholders' equity	17.8 %	19.8 %	
Earnings per share *(dollars)*			
Basic	$ 1.17	$ 1.16	1
Diluted	1.16	1.15	1
Excluding specified items[1]			
Operating results			
(taxable equivalent basis)[2]			
Total revenues	1,459	1,370	7
Net income	410	384	7
Net income attributable to the Bank's shareholders	392	368	7
Return on common shareholders' equity	17.5 %	18.8 %	
Efficiency ratio	58.7 %	58.9 %	
Earnings per share *(dollars)*			
Basic	$ 1.15	$ 1.10	5
Diluted	1.14	1.09	5
Per common share *(dollars)*			
Dividends declared	$ 0.50	$ 0.46	
Book value	26.33	23.68	
Share price			
High	55.06	46.86	
Low	44.21	41.72	
Close	44.21	41.72	

	As at January 31, 2015	As at October 31, 2014	% Change
Financial position			
Total assets	214,474	205,429	4
Loans and acceptances	107,323	106,169	1
Deposits	119,239	119,883	(1)
Equity attributable to common shareholders	8,684	8,484	2
Capital ratios[3]			
Common Equity Tier 1 (CET1)	9.3 %	9.2 %	
Tier 1[4]	12.3 %	12.3 %	
Total[4]	14.6 %	15.1 %	
Leverage ratio[3][5]	3.6 %		
Impaired loans, net of total allowances	(172)	(118)	
As a % of average loans and acceptances	(0.2) %	(0.1) %	
Earnings coverage	10.39	8.98	
Asset coverage	6.13	5.24	
Other information			
Number of common shares *(thousands)*	329,860	329,297	
Number of common shareholders on record	22,370	22,394	
Market capitalization	14,583	17,347	
Assets under administration and under management	359,356	345,332	4
Total personal savings	177,582	172,414	3
Number of employees	20,118	19,955	1
Number of branches in Canada	452	452	–
Number of banking machines	931	935	–

(1) See the Financial Reporting Method section on page 4.
(2) See the Consolidated Results section on page 6.
(3) The ratios are calculated using the "all-in" methodology in accordance with Basel III.
(4) The ratios as at October 31, 2014 include the redemption of the Series 16 preferred shares on November 15, 2014.
(5) The ratio came into effect on January 1, 2015.

FINANCIAL ANALYSIS

Consolidated Results

(millions of Canadian dollars)	Quarter ended January 31		
	2015	2014	% Change
Operating results			
Net interest income	656	614	7
Non-interest income	754	750	1
Total revenues	1,410	1,364	3
Non-interest expenses	863	816	6
Contribution	547	548	–
Provisions for credit losses	54	51	6
Income before income taxes	493	497	(1)
Income taxes	78	92	(15)
Net income	415	405	2
Diluted earnings per share *(dollars)*	1.16	1.15	1
Taxable equivalent(1)			
Net interest income	63	44	
Income taxes	63	44	
Net income	–	–	
Specified items(2)			
Items related to holding restructured notes	18	40	
Acquisition-related items	(10)	(11)	
Specified items before income taxes	8	29	
Income taxes on specified items	3	8	
Specified items after income taxes	5	21	
Operating results on a taxable equivalent basis excluding specified items(1)(2)			
Net interest income	724	663	9
Non-interest income	735	707	4
Total revenues	1,459	1,370	7
Non-interest expenses	857	807	6
Contribution	602	563	7
Provisions for credit losses	54	51	6
Income before income taxes	548	512	7
Income taxes	138	128	8
Net income	410	384	7
Diluted earnings per share *(dollars)*	1.14	1.09	5
Average assets	218,531	205,699	6
Average loans and acceptances	104,820	96,992	8
Impaired loans, net of total allowances	(172)	(172)	
Average deposits	123,527	112,333	10
Efficiency ratio excluding specified items(1)	58.7 %	58.9 %	

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

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

Financial Results

For the first quarter of 2015, National Bank reported net income of $415 million, up 2% from $405 million in the first quarter of 2014, and diluted earnings per share of $1.16, up from $1.15 in the first quarter of 2014.

Excluding specified items, the Bank's net income totalled $410 million in the first quarter of 2015, up 7% from $384 million in the first quarter of 2014, and its first-quarter diluted earnings per share stood at $1.14, up 5% from $1.09 in the same quarter of 2014. For the first quarter of 2015, the specified items, net of income taxes, consisted of the following: $17 million in revenues (2014: $33 million) to reflect a rise in the fair value of restructured notes, $4 million in financing costs (2014: $3 million) related to holding these notes, and $8 million in items related to the Wealth Management acquisitions (2014: $9 million), including the Bank's $2 million share in the integration costs incurred by Fiera (2014: $1 million).

Return on common shareholders' equity was 17.8% in the first quarter of 2015 compared to 19.8% in the same quarter of 2014.

Total Revenues

For the first quarter of 2015, the Bank's total revenues amounted to $1,410 million, up $46 million year over year. Growth in net interest income was driven by higher personal and commercial loan and deposit volumes, higher net interest income generated by the Wealth Management segment, and higher net interest income generated by trading activities in the Financial Markets segment. Non-interest income was up $4 million owing to greater business activity in the Wealth Management segment, mainly driven by higher volumes of assets under administration and under management and by an increase in card revenues and trading revenues. There were year-over-year decreases in revenues from brokerage commissions, gains on available-for-sale securities, insurance revenues, foreign exchange revenues and other revenues, particularly attributable to lower revenues from the Credigy Ltd. subsidiary. Excluding the specified items related to holding restructured notes and related to the Wealth Management acquisitions, total revenues on a taxable equivalent basis were up 7% year over year.

Provisions for Credit Losses

For the first quarter of 2015, the Bank recorded $54 million in provisions for credit losses, $3 million more than in the same quarter of 2014. This increase came mainly from higher provisions for credit losses on commercial loans, partly offset by lower provisions for credit losses on credit cards and by a recovery of losses on real estate loans.

As at January 31, 2015, gross impaired loans stood at $389 million, down $97 million since October 31, 2014. This decrease came from commercial loans and real estate loans. Impaired loans represented 5.6% of the tangible capital adjusted for allowances as at January 31, 2015, down 1.5% from 7.1% as at October 31, 2014. As at January 31, 2015, allowances for credit losses exceeded gross impaired loans by $172 million compared to $118 million as at October 31, 2014.

Non-Interest Expenses

For the first quarter of 2015, non-interest expenses stood at $863 million, up $47 million or 6% from the same quarter of 2014. Excluding the specified items related to the Wealth Management acquisitions, non-interest expenses stood at $857 million, a 6% increase. The higher non-interest expenses stem from a higher compensation and employee benefits expense attributable to business growth across all segments and to the compensatory tax on salaries. Technology expense also increased as costs were incurred for technology investments.

Income Taxes

Income taxes for the first quarter of 2015 stood at $78 million compared to $92 million in the same quarter of 2014. The 2015 first-quarter effective income tax rate was 16% versus 19% in the first quarter of 2014 due to higher non-taxable dividend income.

Results by Segment

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

Personal and Commercial

(millions of Canadian dollars)	Quarter ended January 31		
	2015	2014	% Change
Operating results			
Net interest income	**441**	419	5
Non-interest income	**250**	239	5
Total revenues	**691**	658	5
Non-interest expenses	**397**	381	4
Contribution	**294**	277	6
Provisions for credit losses	**54**	50	8
Income before income taxes	**240**	227	6
Income taxes	**65**	61	7
Net income	**175**	166	5
Net interest margin	**2.20 %**	2.25 %	
Average interest-bearing assets	**79,593**	73,830	8
Average assets	**84,956**	79,499	7
Average loans and acceptances	**84,574**	79,176	7
Net impaired loans	**191**	192	(1)
Net impaired loans as a % of average loans and acceptances	**0.2 %**	0.2 %	
Average deposits	**43,833**	42,363	3
Efficiency ratio	**57.5 %**	57.9 %	

In the Personal and Commercial segment, net income totalled $175 million in the first quarter of 2015, up 5% from $166 million in the first quarter of 2014. First-quarter total revenues increased by $33 million year over year owing to growth in net interest income, which rose $22 million, and to an $11 million increase in non-interest income in the first quarter of 2015. The higher net interest income came mainly from growth in personal and commercial loan and deposit volumes, tempered by a narrowing of the net interest margin, which was 2.20% in the first quarter of 2015 versus 2.25% in the same quarter of 2014, resulting mainly from lower loan and deposit margins.

Personal Banking's total revenues rose $22 million, mainly due to higher loan volume, particularly mortgage loans and home equity lines of credit. An increase in non-interest income came essentially from credit card revenues and internal commission revenues generated by the distribution of Wealth Management products. Commercial Banking's total revenues rose $11 million owing mainly to growth in loan and deposit volumes. This increase was partly offset by a decrease in deposit margins.

The segment's first-quarter non-interest expenses increased by $16 million or 4% year over year, mainly due to employee compensation. At 57.5%, the efficiency ratio for the first quarter of 2015 improved by 0.4% when compared to the same quarter of 2014.

The segment's first-quarter provisions for credit losses were $54 million, $4 million more than in the same quarter of 2014. This increase came mainly from higher provisions for credit losses on commercial loans, partly offset by lower provisions for credit losses on credit cards and by a recovery of losses on real estate loans.

Wealth Management

(millions of Canadian dollars)	Quarter ended January 31		
	2015	2014	% Change
Operating results excluding specified items(1)			
Net interest income	82	76	8
Fee-based revenues	179	155	15
Transaction-based and other revenues	84	93	(10)
Total revenues	345	324	6
Non-interest expenses	233	221	5
Contribution	112	103	9
Provisions for credit losses	–	1	
Income before income taxes	112	102	10
Income taxes	29	26	12
Net income excluding specified items	83	76	9
Specified items after income taxes(1)	(7)	(8)	
Net income	76	68	12
Average assets	10,186	10,580	(4)
Average loans and acceptances	8,562	8,116	5
Net impaired loans	3	2	
Average deposits	24,524	24,433	–
Efficiency ratio excluding specified items(1)	67.5 %	68.2 %	

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

In the Wealth Management segment, net income totalled $76 million for the first quarter of 2015, up 12% from $68 million in the same quarter of 2014. Excluding specified items, the segment's 2015 first-quarter net income totalled $83 million, a 9% increase from $76 million in the first quarter of 2014. The segment's total revenues amounted to $345 million versus $324 million in the first quarter of 2014, a 6% increase that came mainly from the higher fee-based revenues associated with growth in assets under administration and under management, partly offset by a decrease in the brokerage commissions on new issuances.

Excluding specified items, all related to the acquisitions of recent years, first-quarter non-interest expenses stood at $233 million compared to $221 million in the same quarter of 2014, a 5% increase that came mainly from the higher variable compensation associated with the segment's business volume growth and from an increase in salaries and employee benefits. At 67.5%, the efficiency ratio for the first quarter of 2015 improved by 0.7 percentage points when compared to the same quarter of 2014.

Financial Markets

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

	Quarter ended January 31		
	2015	2014	% Change
Operating results			
Trading activity revenues			
Equities	109	88	24
Fixed-income	66	50	32
Commodities and foreign exchange	57	25	128
	232	163	42
Financial market fees	58	61	(5)
Gains (losses) on available-for-sale securities, net	(7)	11	
Banking services	69	58	19
Other	66	72	(8)
Total revenues	418	365	15
Non-interest expenses	175	167	5
Contribution	243	198	23
Provisions for credit losses	–	–	
Income before income taxes	243	198	23
Income taxes	65	53	23
Net income	178	145	23
Non-controlling interests	3	2	
Net income attributable to the Bank's shareholders	175	143	22
Average assets	89,647	85,565	5
Average loans and acceptances (Corporate Banking only)	9,195	7,649	20
Average deposits	12,157	9,674	26
Efficiency ratio	41.9 %	45.8 %	

(1) See Note 21 to the consolidated financial statements.

In the Financial Markets segment, net income totalled $178 million for the first quarter of 2015, up $33 million from $145 million in the same quarter of 2014. On a taxable equivalent basis, the segment's first-quarter total revenues amounted to $418 million compared to $365 million in the first quarter of 2014, with the increase being generated mainly by trading activity revenues and banking service revenues. The growth in trading activity revenues was driven by all the revenue categories, whereas the increase in banking service revenues was driven by a greater need for financing among clients. Financial market fees were down due to a market slowdown in equities issuances. For the first quarter of 2015, the segment recorded losses on available-for-sale securities, whereas gains had been recorded during the same quarter of 2014. As for the segment's other revenues, they were down 8% year over year, mainly due to a decrease in the revenues from the Credigy Ltd. subsidiary.

For the first quarter of 2015, non-interest expenses stood at $175 million, an $8 million year-over-year increase that was particularly due to the higher variable compensation associated with revenue growth and to technology expenses, partly offset by a decrease in the expenses of the Credigy Ltd. subsidiary. At 41.9% for the first quarter of 2015, the efficiency ratio improved by 3.9 percentage points. Provisions for credit losses were nil in the first quarters of 2015 and 2014.

Other

(taxable equivalent basis)[1] (millions of Canadian dollars)	Quarter ended January 31	
	2015	2014
Operating results excluding specified items[2]		
Net interest income	**(37)**	(5)
Non-interest income	**42**	28
Total revenues	**5**	23
Non-interest expenses	**52**	38
Income before income taxes	**(47)**	(15)
Income taxes	**(21)**	(12)
Net income excluding specified items	**(26)**	(3)
Specified items after income taxes[2]	**12**	29
Net income	**(14)**	26
Non-controlling interests	**15**	14
Net income attributable to the Bank's shareholders	**(29)**	12
Average assets	**33,742**	30,055

(1) See Note 21 to the consolidated financial statements.
(2) See the Financial Reporting Method section on page 4.

For the *Other* heading of segment results, there was a net loss of $14 million in the first quarter of 2015 compared to net income of $26 million in the same quarter of 2014. This decrease stems partly from the revenues recorded to reflect a rise in the fair value of restructured notes, which were higher in the first quarter of 2014, and from higher non-interest expenses. Excluding specified items, there was a $26 million net loss in the first quarter of 2015 versus a $3 million net loss in the first quarter of 2014. The greater net loss stems mainly from a lower net contribution from treasury activities, from an increase in compensation and employee benefits, from an increase in the compensatory tax on salaries, and from business development expenses.

Consolidated Balance Sheet

Assets

As at January 31, 2015, the Bank had total assets of $214.5 billion compared to $205.4 billion as at October 31, 2014, a $9.1 billion or 4% increase. Cash and deposits with financial institutions decreased by $1.4 billion due to a decrease in cash at the New York branch. Securities increased by $4.5 billion since October 31, 2014, essentially due to securities issued or guaranteed by Canada and the provinces, whereas securities purchased under reverse repurchase agreements and securities borrowed decreased by $3.2 billion since October 31, 2014.

As at January 31, 2015, loans and acceptances increased by $1.1 billion when compared to October 31, 2014 owing to growth in mortgage lending (including credit lines) and in the customers' liability under acceptances. The following table provides a breakdown of the main loan and acceptance portfolios.

(millions of Canadian dollars)	**As at January 31, 2015**	As at October 31, 2014	As at January 31, 2014
Loans and acceptances			
Consumer	**28,321**	28,007	26,464
Residential mortgage	**40,011**	39,300	37,127
Credit card receivable	**1,969**	1,989	1,905
Business and government	**37,583**	37,477	34,815
	107,884	106,773	100,311

Consumer loans increased by 1%, primarily due to home equity lines of credit and personal loans. Rising 2%, residential mortgages also grew since October 31, 2014, while loans and acceptances to businesses remained unchanged. When compared to a year ago, loans and acceptances increased by $7.6 billion or 8%. Consumer loans and residential mortgage loans rose, respectively, by 7% and 8% from a year ago. Loans and acceptances to businesses also contributed to the growth, rising 8% from a year ago, mainly because of corporate loan financing.

As at January 31, 2015, derivative financial instruments amounted to $14.9 billion, an increase of $7.8 billion since October 31, 2014. This increase should be analyzed along with the derivative financial instruments presented in liabilities, which, at $13.2 billion, were up $7.5 billion, resulting in a net increase of $0.3 billion since October 31, 2014.

Liabilities
As at January 31, 2015, the Bank had total liabilities of $204.0 billion compared to $194.9 billion as at October 31, 2014.

As at January 31, 2015, the Bank's total deposit liability was $119.2 billion versus $119.9 billion as at October 31, 2014, a slight decrease of $0.7 billion or 1%. The following table provides a breakdown of total personal savings.

(millions of Canadian dollars)	As at January 31, 2015	As at October 31, 2014	As at January 31, 2014
Balance sheet			
Deposits	**45,660**	44,963	45,491
Off-balance-sheet			
Full-service brokerage	**107,980**	104,525	95,594
Mutual funds	**19,849**	18,938	16,992
Other	**4,093**	3,988	3,750
	131,922	127,451	116,336
Total personal savings	**177,582**	172,414	161,827

At $45.7 billion as at January 31, 2015, personal deposits increased by $0.7 billion since October 31, 2014, owing essentially to surplus liquidity among clients. Since the beginning of the fiscal year, personal savings included in assets under administration and under management grew 3% due to acquisition-driven business growth and to stock market performance. Personal deposits were up $0.2 billion from a year ago, while personal savings included in assets under administration and under management were up $15.6 billion.

At $67.5 billion, business and government deposits were essentially unchanged since October 31, 2014 despite the 1.0 billion euro issuance of covered bonds during the quarter ended January 31, 2015. At $6.1 billion, deposits from deposit-taking institutions decreased $1.5 billion since October 31, 2014, mainly due to deposits from U.S. government financial institutions. Other funding activities have increased since October 31, 2014, essentially due to growth in obligations related to securities sold short.

Equity
As at January 31, 2015, the Bank's equity was $10.5 billion, unchanged from October 31, 2014. The increase in retained earnings and accumulated other comprehensive income was offset by the $200 million redemption of preferred shares.

As at February 20, 2015, there were 329,115,027 common shares and 17,354,857 stock options outstanding. The Bank intends to seek authorization from OSFI and the Toronto Stock Exchange to carry out a normal course issuer bid to repurchase common shares. For additional information on share capital, see Note 18 to the audited annual consolidated financial statements for the year ended October 31, 2014 and Note 13 to the consolidated financial statements.

Event After the Consolidated Balance Sheet Date

On February 25, 2015, the Bank and Fiera Capital Corporation (Fiera Capital) will announce that they have entered into an agreement with a syndicate of underwriters for a secondary offering, on a private placement bought deal basis, of approximately 9 million class A subordinate voting shares of Fiera Capital held by the Bank, through one of its wholly-owned subsidiaries. Upon completion of the offering, the Bank's ownership in the issued and outstanding shares of Fiera Capital will be approximately 22%, a reduction from its current share ownership of approximately 35%. The offering, which is subject to the necessary regulatory approvals, is expected to close in March 2015.

Related Party Transactions

The Bank's policies and procedures regarding related party transactions have not significantly changed since October 31, 2014. For additional information, see Note 29 to the audited annual consolidated financial statements for the year ended October 31, 2014.

Securitization and Off-Balance-Sheet Arrangements

In the normal course of business, the Bank is party to various financial arrangements that, under IFRS, are not required to be recorded on the Consolidated Balance Sheet or are recorded at amounts other than their notional or contractual values. These arrangements include, among others, transactions with structured entities, derivative financial instruments, issuances of guarantees, the margin funding facility of the MAV conduits, credit instruments, and financial assets received as collateral. A complete analysis of these types of arrangements, including their nature, business purpose and importance, is provided on pages 45 and 46 of the *2014 Annual Report*. For additional information on guarantees and a description of obligations under certain indemnification agreements, see Note 26 to the audited annual consolidated financial statements for the year ended October 31, 2014.

For additional information about financial assets transferred but not derecognized and structured entities, see Notes 7 and 20, respectively, to the consolidated financial statements.

ACCOUNTING POLICIES AND FINANCIAL DISCLOSURE

Accounting Policies and Critical Accounting Estimates

The Bank's consolidated financial statements have been prepared in accordance with section 308(4) of the *Bank Act* (Canada), which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions (Canada) (OSFI), the financial statements are to be prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and set out in the CPA Canada Handbook. None of the OSFI accounting requirements are exceptions to IFRS.

The consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* using the accounting policies described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2014, except for the accounting policy changes described below. Also described below are future accounting policy changes.

In preparing consolidated financial statements in accordance with IFRS, management must exercise judgment and make estimates and assumptions that affect the reporting date carrying amounts of assets and liabilities, net income and related information. Certain accounting policies are considered critical given their importance to the presentation of the Bank's financial position and operating results and require difficult, subjective and complex judgments and estimates because they relate to matters that are inherently uncertain. Any change in these judgments and estimates could have a significant impact on the Bank's consolidated financial statements. The critical accounting estimates remain substantially unchanged from those described on pages 48 to 51 of the *2014 Annual Report.*

Accounting Policy Changes

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

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

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

Future Accounting Policy Changes

The Bank is currently assessing the impact that adoption of the following standards will have on its consolidated financial statements.

Effective Date – November 1, 2017

IFRS 15 – *Revenue from Contracts with Customers*

In May 2014, the IASB issued a new standard, IFRS 15, which replaces the current revenue recognition standards and interpretations. IFRS 15 provides a single comprehensive model to use when accounting for revenue arising from contracts with customers. The new model applies to all contracts with customers except those that are within the scope of other IFRS standards such as leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively.

Effective Date – Early Adoption on November 1, 2017

IFRS 9 – *Financial Instruments*

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

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

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

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

Financial Disclosure

During the first quarter of 2015, no changes were made to the policies, procedures and other processes that comprise the Bank's internal control over financial reporting that had or could reasonably have a significant impact on the Bank's internal control over financial reporting.

ADDITIONAL FINANCIAL DISCLOSURE

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

The Bank does not market any specific mortgage financing program to subprime or Alt-A clients. Subprime loans are generally defined as loans granted to borrowers with a higher credit risk profile than prime borrowers, and the Bank does not grant this type of loan. Alt-A loans are granted to borrowers who cannot provide standard proof of income. The Bank's Alt-A loan volume was $614 million as at January 31, 2015 ($626 million as at October 31, 2014).

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

Leveraged financing structures are defined by the Bank as loans granted to large corporate and financial sponsor-backed companies that are typically non-investment grade with much higher levels of debt relative to other companies in the same industry. Leveraged finance is commonly employed to achieve a specific objective, for example, to make an acquisition, complete a buy-out or repurchase shares. Leveraged finance risk exposure takes the form of both funded and unfunded commitments. As at January 31, 2015, total commitments for this type of loan stood at $1,497 million ($1,207 million as at October 31, 2014). Details about other exposures are provided in the table on structured entities in Note 20 to the consolidated financial statements.

The FSB created the Enhanced Disclosure Task Force (EDTF), a working group that, on October 29, 2012, published a report entitled *Enhancing the Risk Disclosures of Banks*, which contains 32 recommendations. The Bank makes every effort to ensure full compliance with those recommendations and is continuing to enhance its risk disclosures to meet the best practices on an ongoing basis. The risk disclosures required by the EDTF are provided in the *2014 Annual Report*, in this *Report to Shareholders*, and in the documents entitled *Supplementary Regulatory Capital Disclosure for the First Quarter Ended January 31, 2015,* and *Supplementary Financial Information for the First Quarter Ended January 31, 2015,* which are available on the Bank's website at nbc.ca. In addition, on the following page is a table of contents that users can use to locate information relative to the 32 recommendations.

Risk Disclosures

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

		Pages		
		2014 Annual Report	Report to Shareholders(1)	Supplementary Regulatory Capital Disclosure(1)
General				
1	Location of risk disclosures	10	16	
	Management's Discussion and Analysis	18, 54 to 93, 98 and 102	17 to 35	
	Consolidated Financial Statements	Notes 1, 7, 16, 23 and 30	Note 6	
	Supplementary Regulatory Capital Disclosure			4 to 28
2	Risk terminology and risk measures	61 to 93		
3	Top and emerging risks	61 and 62		
4	New key regulatory ratios	55, 56, 82 and 87	17, 18 and 28	
Risk governance and risk management				
5	Risk management organization, processes and key functions	63 to 66		
6	Risk management culture	63 and 64		
7	Key risks by business segment, risk management and risk appetite	18, 63 and 64		
8	Stress testing	54, 64, 72 and 80 to 84		
Capital adequacy and risk-weighted assets (RWA)				
9	Minimum Pillar 1 capital requirements	55 and 56	17 and 18	
10	Reconciliation of the accounting balance sheet to the regulatory balance sheet			4 to 7
11	Movements in regulatory capital	58	19	
12	Capital planning	54 to 60		
13	RWA by business segment and by risk type	18 and 59	20	8
14	Capital requirements by risk and RWA calculation method	59 and 67 to 72	20	8
15	Banking book credit risk	59	20	8 and 11 to 16
16	Movements in RWA by risk type	60	21	9
17	Assessment of credit risk model performance	66, 70 and 78		11 to 17
Liquidity				
18	Liquidity management and components of the liquidity buffer	82 to 86	29	
Funding				
19	Summary of encumbered and unencumbered assets	85 and 86	30	
20	Residual contractual maturities of balance sheet items and off-balance-sheet commitments	192 to 195	32 to 35	
21	Funding strategy and funding sources	87 to 89	31	
Market risk				
22	Linkage of market risk measures to balance sheet	76 and 77	25 and 26	
23	Market risk factors	75, 78 to 81, 178 and 179	26 to 28	
24	VaR: assumptions, limitations and validation procedures	78 to 80		
25	Stress tests, stressed VaR and backtesting	78 to 81		
Credit risk				
26	Credit risk exposures	68, 71 and 146 to 149	23 and 55 to 57	10 to 24 and 18 to 23(2)
27	Policies for identifying impaired loans	73, 118 and 119		
28	Movements in impaired loans and allowances for credit losses	98, 102 and 146 to 148	55 to 57	20
29	Counterparty credit risk relating to derivatives transactions	73, 74 and 159 to 161	24	25
30	Credit risk mitigation	72 to 74		22 and 24
Other risks				
31	Other risks: governance, measurement and management	66 and 90 to 92		
32	Publicly known risk events	90	No risk event	

(1) For the first quarter ended January 31, 2015.
(2) These pages are included in the document entitled *Supplementary Financial Information for the First Quarter Ended January 31, 2015*.

CAPITAL MANAGEMENT

The Bank's capital management policy sets out the principles and practices that the Bank incorporates into its capital management strategy and the basic criteria it adopts to ensure that it has sufficient capital at all times and that it is prudently managing such capital in view of its future capital requirements. The Bank has maintained adequate capital ratios through internal capital generation, balance sheet management and issuances and repurchases of shares and subordinated debt securities. For additional information on the capital management framework, see the Capital Management section on pages 54 to 60 of the Bank's *2014 Annual Report*.

Regulatory Environment

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

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

In addition to those measures, OSFI is now requiring that regulatory capital instruments other than common equity have a non-viability contingent capital (NVCC) clause to ensure that investors bear losses before taxpayers should the government determine that it is in the public interest to rescue a non-viable financial institution. Instruments issued before January 1, 2013 that would be Basel III compliant if it were not for the absence of the NVCC clause are grandfathered and will be phased out over a period of 10 years.

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

Since January 1, 2015, OSFI has been requiring Canadian banks to meet the new Basel III leverage ratio. The Basel III leverage ratio is a measure independent of risk that is calculated by dividing the amount of Tier 1 capital by total exposure. Total exposure is defined as the sum of on-balance-sheet assets (including derivative exposures and securities financing transaction exposures) and off-balance-sheet items. The assets deducted from Tier 1 capital are also deducted from total exposure. Banks must meet a minimum requirement of 3.0%. Until the first quarter of 2018, however, this ratio will remain subject to an observation period so that the BCBS or OSFI can increase the minimum requirement if deemed necessary.

The Bank ensures that its capital levels are always above the minimum regulatory capital requirements for OSFI's "all-in" ratios. By maintaining a strong capital structure, the Bank can cover the risks inherent to its business activities, support its business segments and protect its clients. Recognizing the importance of having a strong capital position, the Bank's objective is to achieve a 9.5% CET1 ratio and maintain that level going forward.

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

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

	Regulatory ratios		Minimum regulatory ratios to be maintained		
	As at January 31, 2015	As at October 31, 2014	BCBS 2015	OSFI 2015 [1]	OSFI January 1, 2016 [1][2]
Capital ratios					
Common Equity Tier 1 (CET1)	**9.3 %**	9.2 %	4.5 %	7.0 %	8.0 %
Tier 1	**12.3 %**	12.3 %	6.0 %	8.5 %	9.5 %
Total	**14.6 %**	15.1 %	8.0 %	10.5 %	11.5 %
Leverage ratio[3]	**3.6 %**		n.a.	3.0 %	3.0 %

(1) For the capital ratios, includes the 2.5% conservation buffer.
(2) For the capital ratios, includes a 1% surcharge applicable to D-SIBs.
(3) The ratio came into effect on January 1, 2015.

Management Activities

On November 15, 2014, the Bank redeemed all of the 8,000,000 issued and outstanding Non-Cumulative Series 16 First Preferred Shares at a per-share price of $25.00 plus the periodic declared and unpaid dividend. These instruments had already been excluded from the capital ratio calculations as at October 31, 2014; the redemption therefore had no impact on the ratios for the first quarter of 2015.

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

The Bank intends to seek authorization from OSFI and the Toronto Stock Exchange to carry out a normal course issuer bid to repurchase common shares.

Movement in Regulatory Capital(1)

(millions of Canadian dollars)	Quarter ended January 31, 2015
Common Equity Tier 1 (CET1) capital	
Balance at beginning	5,985
Issuance of common shares (including Stock Option Plan)	20
Repurchase of common shares	–
Contributed surplus	–
Dividends on preferred and common shares	(177)
Net income attributable to the Bank's shareholders	397
Removal of own credit spread net of income taxes	(11)
Other	(106)
Movements in accumulated other comprehensive income	
Translation adjustments	16
Available-for-sale securities	60
Other	(3)
Change in goodwill and intangible assets (net of related tax liability)	(112)
Other, including regulatory adjustments and transitional arrangements	
Change in defined benefit pension plan asset (net of related tax liability)	90
Change in amount exceeding 15% threshold	
Deferred tax assets	–
Significant investment in common shares of financial institutions	–
Change in other regulatory adjustments	–
Balance at end	6,159
Additional Tier 1 capital	
Balance at beginning	1,998
New Tier 1 eligible capital issuances	–
Redeemed capital	–
Change in non-qualifying Additional Tier 1 subject to phase-out	–
Other, including regulatory adjustments and transitional arrangements	–
Balance at end	1,998
Total Tier 1 capital	8,157
Tier 2 capital	
Balance at beginning	1,885
New Tier 2 eligible capital issuances	–
Redeemed capital	(350)
Change in non-qualifying Tier 2 subject to phase-out	12
Change in eligible collective allowances	17
Other, including regulatory adjustments and transitional arrangements	–
Balance at end	1,564
Total regulatory capital	9,721

(1) Figures are calculated using the "all-in" basis in accordance with Basel III.

Risk-Weighted Assets by Key Risk Drivers

CET1 risk-weighted assets (RWA) increased by $1.5 billion, totalling $66.3 billion as at January 31, 2015 compared to $64.8 billion as at October 31, 2014. This increase was mainly due to organic growth and to foreign exchange movements. The CET1 RWA is presented in the following table.

Capital Adequacy Under Basel III[1]

(millions of Canadian dollars)	As at January 31, 2015						As at October 31, 2014
	Exposure at default	Risk-weighted assets				Capital requirement[2]	Risk-weighted assets
		Standardized Approach	Advanced IRB Approach	Other	Total		Total
Credit risk							
Retail							
Residential mortgages	41,543	73	4,619	–	4,692	375	4,619
Qualifying revolving retail	4,984	–	1,003	–	1,003	80	1,022
Other retail	12,323	536	4,513	–	5,049	404	5,042
Non-retail							
Corporate	51,006	1,996	22,159	–	24,155	1,932	23,434
Sovereign	23,003	–	550	–	550	44	529
Financial institutions	3,164	95	750	–	845	68	1,030
Banking book equities[3]	589	–	589	–	589	47	478
Securitization	4,167	–	2,291	–	2,291	183	2,173
Other assets	29,411	–	–	5,202	5,202	416	5,047
Counterparty credit risk							
Corporate	5,420	54	26	–	80	6	112
Sovereign	11,842	–	6	–	6	1	9
Financial institutions	56,595	–	1,423	–	1,423	114	1,827
Trading portfolio	11,476	382	3,361	–	3,743	299	3,275
Credit valuation adjustment charge		2,475	–	–	2,475	198	1,828
Regulatory scaling factor		–	2,430	–	2,430	194	2,357
Total – Credit risk	255,523	5,611	43,720	5,202	54,533	4,361	52,782
Market risk							
VaR		–	693	–	693	55	860
Stressed VaR		–	1,086	–	1,086	87	1,218
Interest-rate-specific risk		1,099	–	–	1,099	88	1,239
Total – Market risk		1,099	1,779	–	2,878	230	3,317
Operational risk		8,853	–	–	8,853	708	8,719
Total	255,523	15,563	45,499	5,202	66,264	5,299	64,818

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

Risk-Weighted Assets Movement by Key Drivers[1]

(millions of Canadian dollars)

	Quarter ended January 31, 2015		
	Non-counterparty credit risk	Counterparty credit risk[2]	Total
Credit risk – Risk-weighted assets at beginning	45,731	7,051	52,782
Book size	252	505	757
Book quality	388	112	500
Model updates	–	(229)	(229)
Methodology and policy	–	–	–
Acquisitions and disposals	–	–	–
Foreign exchange movements	435	288	723
Credit risk – Risk-weighted assets at end	46,806	7,727	54,533
Market risk – Risk-weighted assets at beginning			3,317
Movement in risk levels[3]			(439)
Model updates			–
Methodology and policy			–
Acquisitions and disposals			–
Market risk – Risk-weighted assets at end			2,878
Operational risk – Risk-weighted assets at beginning			8,719
Movement in risk levels			134
Acquisitions and disposals			–
Operational risk – Risk-weighted assets at end			8,853
Risk-weighted assets at end			66,264

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

The change in the "Model Updates" line reflects revisions to the parameters of the model for exposures related to derivative financial instruments.

Regulatory Capital Ratios

The CET1 capital ratio, determined using the "all-in" methodology, was 9.3% as at January 31, 2015 versus 9.2% as at October 31, 2014. The increase in the CET1 capital ratio was essentially due to net income, net of dividends, partly offset by the increase in risk-weighted assets. The Tier 1 and the Total capital ratios, determined using the "all-in" methodology were, respectively, 12.3% and 14.6% as at January 31, 2015 versus 12.3% and 15.1% as at October 31, 2014. The change in the Total capital ratio stems essentially from the above-mentioned factors and from the redemption of the subordinated debt for $350 million.

The Basel III leverage ratio, determined using the "all-in" methodology, was 3.6% as at January 31, 2015.

Regulatory Capital and Ratios Under Basel III

(millions of Canadian dollars)	As at January 31, 2015	As at October 31, 2014
Capital(1)		
Common Equity Tier 1 (CET1)	**6,159**	5,985
Tier 1(2)	**8,157**	7,983
Total(2)	**9,721**	9,868
Risk-weighted assets(1)		
Common Equity Tier 1 (CET1) capital	**66,264**	64,818
Tier 1 capital	**66,534**	65,074
Total capital	**66,766**	65,459
Capital ratios(1)		
Common Equity Tier 1 (CET1)	**9.3 %**	9.2 %
Tier 1(2)	**12.3 %**	12.3 %
Total(2)	**14.6 %**	15.1 %
Leverage ratio(1)(3)	**3.6 %**	

(1) Figures are presented on an "all-in" basis.
(2) Figures as at October 31, 2014 include the redemption of the Series 16 preferred shares on November 15, 2014.
(3) The ratio came into effect on January 1, 2015.

Dividends

On February 24, 2015, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 50 cents per common share payable on May 1, 2015 to shareholders of record on March 30, 2015.

RISK MANAGEMENT

The Bank aims to maintain its financial performance by continuing to ensure prudent management and a sound balance between return and the risks assumed. The Bank views risk as an integral part of its development and the diversification of its activities and advocates a risk management approach consistent with its business expansion strategy. The Bank's governance structure for risk management has remained largely unchanged from that described in the *2014 Annual Report*.

Managing risk requires a solid understanding of every type of risk found across the Bank. In addition to providing assurance that risk levels do not exceed acceptable thresholds, effective risk management can be used to control the volatility of the Bank's results. Despite the exercise of stringent risk management and the mitigation measures in place, risk cannot be suppressed entirely, and the residual risks may occasionally cause significant losses.

Certain risks are discussed below. For additional information, see the Risk Management and Other Risk Factors sections on pages 61 to 93 of the *2014 Annual Report*. Risk management information is also provided in Note 6 to the consolidated financial statements, which covers loans.

Credit Risk

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

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

Maximum Credit Risk Exposure Under the Basel Asset Categories

(millions of Canadian dollars)						As at January 31, 2015	As at October 31, 2014
	Drawn	Undrawn commitments	Repo-style transactions[1]	OTC derivatives	Other off-balance-sheet items[2]	Total	Total
Retail							
Residential mortgages	36,044	5,499	–	–	–	41,543	40,850
Qualifying revolving retail	2,639	2,345	–	–	–	4,984	5,027
Other retail	11,085	1,225	–	–	13	12,323	12,280
	49,768	9,069	–	–	13	58,850	58,157
Non-retail							
Corporate	34,919	13,361	5,410	10	2,726	56,426	54,954
Sovereign	19,673	3,229	11,655	187	101	34,845	35,978
Financial institutions	2,186	241	56,181	414	737	59,759	56,973
	56,778	16,831	73,246	611	3,564	151,030	147,905
Trading portfolio	–	–	–	11,476	–	11,476	9,981
Securitization	1,156	–	–	–	3,011	4,167	4,145
Total – Gross Credit Risk	107,702	25,900	73,246	12,087	6,588	225,523	220,188
Standardized Approach	5,947	275	3,728	1,106	569	11,625	10,088
AIRB Approach	101,755	25,625	69,518	10,981	6,019	213,898	210,100
Total – Gross Credit Risk	107,702	25,900	73,246	12,087	6,588	225,523	220,188

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

In order to meet OSFI's mortgage loan disclosure requirements, additional information has been provided in *Supplementary Financial Information for the First Quarter Ended January 31, 2015* and in *Supplementary Regulatory Capital Disclosure for the First Quarter Ended January 31, 2015,* which are available on the Bank's website at nbc.ca.

To reduce counterparty risk, certain derivative financial instruments traded over the counter are settled directly or indirectly by central counterparties. The table below shows the distribution of notional amounts with respect to these financial instruments.

(millions of Canadian dollars)			As at January 31, 2015			As at October 31, 2014
			OTC-traded			OTC-traded
	Exchange-traded contracts	Settled by central counterparties	Not settled by central counterparties	Exchange-traded contracts	Settled by central counterparties	Not settled by central counterparties
Interest rate contracts	190,172	274,212	181,367	67,463	254,279	186,379
Foreign exchange contracts	80	–	185,257	166	–	145,623
Equity, commodity and credit derivative contracts	13,174	744	27,453	14,215	672	30,164

Market Risk

Market risk is the risk of financial loss resulting from adverse movements in underlying market factors. Managing this risk is a core competency for the Bank in its market making, trading, investing and asset/liability management activities.

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

Reconciliation of Market Risk with Consolidated Balance Sheet Items

(millions of Canadian dollars)					As at January 31, 2015
		Market risk measures			
	Balance sheet	Trading[1]	Non-Trading[2]	Not subject to market risk	Non-traded risk primary risk sensitivity
Assets					
Cash and deposits with financial institutions	6,728	96	6,165	467	Interest rate[3]
Securities					
At fair value through profit or loss	46,060	43,406	2,654	–	Interest rate[3] and other[4]
Available-for-sale	11,487	–	11,487	–	Interest rate[3] and equity[5]
Securities purchased under reverse repurchase agreements and securities borrowed	21,297	–	21,297	–	Interest rate[3][6]
Loans, net of allowances	98,217	3,226	94,991	–	Interest rate[3]
Customers' liability under acceptances	9,106	–	9,106	–	Interest rate[3]
Derivative financial instruments	14,901	12,959	1,942	–	Interest rate
Purchased receivables	982	–	982	–	Interest rate
Defined benefit asset	55	–	55	–	Other
Other	5,641	–	–	5,641	
	214,474	59,687	148,679	6,108	
Liabilities					
Deposits	119,239	2,876	116,363	–	Interest rate[3]
Acceptances	9,106	–	9,106	–	Interest rate[3]
Obligations related to securities sold short	21,068	21,068	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	15,832	–	15,832	–	Interest rate[3][6]
Derivative financial instruments	13,195	12,164	1,031	–	Interest rate
Liabilities related to transferred receivables	18,225	3,165	15,060	–	Interest rate[3]
Defined benefit liability	208	–	208	–	Other
Other	5,569	54	–	5,515	
Subordinated debt	1,539	–	1,539	–	Interest rate[3]
	203,981	39,327	159,139	5,515	

(1) Trading positions whose risk measures are VaR and SVaR. See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category as well as the correlation effect, which are presented on the following pages and in the Market Risk Management section of the *2014 Annual Report*.
(2) Non-trading positions that use other risk measures.
(3) See the tables that show the VaR and SVaR distributions of the trading portfolios by risk category and the correlation effect as well as the interest rate sensitivity tables, which are presented on the following pages and in the Market Risk Management section of the *2014 Annual Report*.
(4) See the Master Asset Vehicles section in Note 6 to the audited annual consolidated financial statements as at October 31, 2014.
(5) The fair value of equity securities classified as available-for-sale is disclosed in Notes 3 and 5 to the consolidated financial statements.
(6) These instruments are recorded at amortized cost and are subject to credit risk for capital management purposes. For trading-related transactions with maturities of more than one day, interest rate risk is included in the VaR and SVaR measures.

(millions of Canadian dollars)					As at October 31, 2014
		Market risk measures			
	Balance sheet	Trading(1)	Non-Trading(2)	Not subject to market risk	Non-traded risk primary risk sensitivity
Assets					
Cash and deposits with financial institutions	8,086	89	7,464	533	Interest rate(3)
Securities					
At fair value through profit or loss	43,200	40,574	2,626	–	Interest rate(3) and other(4)
Available-for-sale	9,753	–	9,753	–	Interest rate(3) and equity(5)
Securities purchased under reverse repurchase agreements and securities borrowed	24,525	–	24,525	–	Interest rate(3)(6)
Loans, net of allowances	97,243	2,883	94,360	–	Interest rate(3)
Customers' liability under acceptances	8,926	–	8,926	–	Interest rate(3)
Derivative financial instruments	7,092	6,270	822	–	Interest rate(7)
Purchased receivables	790	–	790	–	Interest rate
Defined benefit asset	185	–	185	–	Other(8)
Other(9)	5,629	–	–	5,629	
	205,429	49,816	149,451	6,162	
Liabilities					
Deposits	119,883	2,726	117,157	–	Interest rate(3)
Acceptances	8,926	–	8,926	–	Interest rate(3)
Obligations related to securities sold short	18,167	18,167	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	16,780	–	16,780	–	Interest rate(3)(6)
Derivative financial instruments	5,721	5,400	321	–	Interest rate(7)
Liabilities related to transferred receivables	17,079	2,802	14,277	–	Interest rate(3)
Defined benefit liability	177	–	177	–	Other(8)
Other	6,313	133	–	6,180	
Subordinated debt	1,881	–	1,881	–	Interest rate(3)
	194,927	29,228	159,519	6,180	

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

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

VaR of Trading Portfolios by Risk Category(1)

(millions of Canadian dollars)								Quarter ended
				January 31, 2015	October 31, 2014		January 31, 2014	
	Low	High	Average	Period end	Average	Period end	Average	Period end
Interest rate	(4.5)	(6.5)	(5.4)	(5.4)	(5.2)	(4.7)	(5.7)	(4.4)
Exchange rate	(0.9)	(2.2)	(1.5)	(1.9)	(2.0)	(2.2)	(0.9)	(1.5)
Equity	(2.5)	(5.0)	(3.6)	(4.3)	(4.0)	(3.2)	(5.2)	(5.1)
Commodity	(0.5)	(2.1)	(1.2)	(0.9)	(0.8)	(0.9)	(1.0)	(1.1)
Correlation effect(2)	n.m.	n.m.	5.9	6.5	4.8	3.8	5.2	4.2
Total trading VaR	(5.0)	(7.1)	(5.8)	(6.0)	(7.2)	(7.2)	(7.6)	(7.9)

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

SVaR of Trading Portfolios by Risk Category[1]

(millions of Canadian dollars)								Quarter ended
	January 31, 2015				October 31, 2014		January 31, 2014	
	Low	High	Average	Period end	Average	Period end	Average	Period end
Interest rate	(8.7)	(11.9)	(10.1)	(9.5)	(9.3)	(9.9)	(11.5)	(10.7)
Exchange rate	(1.6)	(6.0)	(3.3)	(2.7)	(5.3)	(7.4)	(2.0)	(4.4)
Equity	(3.9)	(10.8)	(5.5)	(5.4)	(8.1)	(6.4)	(13.4)	(14.5)
Commodity	(0.5)	(5.9)	(2.2)	(2.5)	(0.7)	(1.3)	(1.1)	(1.8)
Correlation effect[2]	n.m.	n.m.	11.9	11.2	13.1	14.0	12.6	15.2
Total trading SVaR	(7.4)	(10.8)	(9.2)	(8.9)	(10.3)	(11.0)	(15.4)	(16.2)

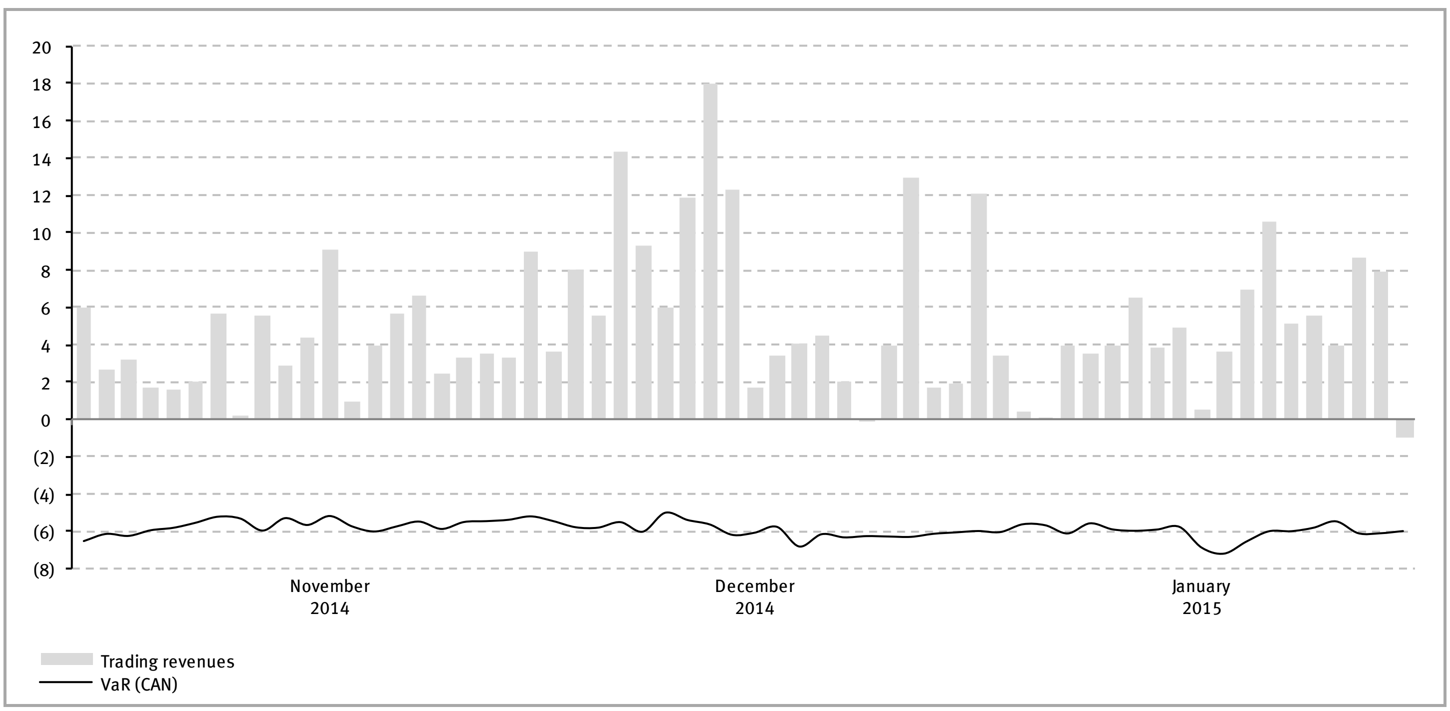
n.m. Computation of a correlation effect for the high and low is not meaningful, as highs and lows may occur on different days and be attributable to different types of risk.
(1) Amounts are presented on a pre-tax basis and represent one-day SVaR using a 99% confidence level.
(2) The total trading SVaR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

Average trading VaR was $5.8 million for the quarter ended January 31, 2015, down $1.4 million from the quarter ended October 31, 2014, and average trading SVaR was $9.2 million for the quarter ended January 31, 2015 compared to $10.3 million the preceding quarter. These changes were mainly caused by lower equity and exchange rate risks. Trading VaR was relatively low during the first two months of the quarter and then increased in January 2015, whereas trading SVaR peaked in December 2014 and subsequently decreased towards the end of the quarter.

Daily Trading Revenues

The following table shows daily trading revenues and VaR. Daily trading revenues were positive more than 96% of the days for the quarter ended January 31, 2015. Net daily trading losses were recorded on two days, and these losses were less than $1 million. None of these losses exceeded the VaR limit.

Quarter ended January 31, 2015
(millions of Canadian dollars)



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

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

(millions of Canadian dollars)						As at January 31, 2015
			Impact on equity			Impact on net interest income
	Canadian dollar	U.S. dollar	Total	Canadian dollar	U.S. dollar	Total
100-basis-point increase in the interest rate	(90)	5	(85)	10	5	15
100-basis-point decrease in the interest rate	78	(8)	70	(6)	(7)	(13)

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

Liquidity Risk

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

Regulatory Environment

The regulatory environment with respect to liquidity has evolved significantly since the financial crisis. The Bank is working closely with international and national regulators to implement regulatory liquidity standards. The guiding principles, standards and guidelines issued in recent years by the BCBS and OSFI are described on page 87 of the *2014 Annual Report*.

With regard to the document on intraday liquidity issued by the BCBS entitled *Monitoring tools for intraday liquidity management*, the proposed implementation schedule ranges from January 2015 to January 2017, at the latest. As for the *Liquidity Adequacy Requirements* (LAR) guideline issued by OSFI, the Bank has been in compliance with the liquidity coverage ratio (LCR) and net cumulative cash flow (NCCF) metric since their coming into force on January 1, 2015. The LAR guideline will be reviewed annually to reflect both international and national regulatory developments. Concerning OSFI's guideline entitled *Public Disclosure Requirements for Domestic Systemically Important Banks on Liquidity Coverage Ratio*, Canadian D-SIBs are required to implement the LCR Disclosure Standards by the second quarter of 2015. The Bank is currently assessing the impact of adopting the bail-in regime applicable to D-SIBs, as proposed by the Department of Finance Canada in August 2014 in the *Taxpayer Protection and Bank Recapitalization Regime* consultation paper.

In December 2014, the BCBS issued a consultative document on Net Stable Funding Ratio (NSFR) disclosure standards. This document sets out a common framework for the public disclosure of the NSFR. Comments from the banking industry are expected by March 2015. Public disclosure of the NSFR would not be required before its formal implementation date, i.e., on January 1, 2018.

Liquid Assets

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

Liquid Asset Portfolio

(millions of Canadian dollars)					As at January 31, 2015	As at October 31, 2014
	Bank-owned liquid assets(1)	Liquid assets received(2)	Total liquid assets	Encumbered liquid assets(3)	Unencumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	6,728	–	6,728	1,869	4,859	7,032
Securities						
Issued or guaranteed by Canada, U.S. Treasury, other U.S. agencies and other foreign governments	17,117	20,825	37,942	28,687	9,255	10,020
Issued or guaranteed by provinces	15,054	13,005	28,059	21,602	6,457	4,220
Issued or guaranteed by municipalities and school boards	1,020	166	1,186	77	1,109	1,156
Other debt securities	3,472	1,329	4,801	1,397	3,404	4,177
Equity securities	19,682	36,072	55,754	39,797	15,957	19,353
Loans						
Securities backed by insured residential mortgages	2,630	–	2,630	790	1,840	1,602
As at January 31, 2015	65,703	71,397	137,100	94,219	42,881	
As at October 31, 2014	62,019	68,510	130,529	82,969		47,560

(millions of Canadian dollars)	As at January 31, 2015	As at October 31, 2014
Unencumbered liquid assets by entity		
National Bank (parent)	31,071	32,104
Domestic subsidiaries	4,138	7,882
Foreign subsidiaries and branches	7,672	7,574
	42,881	47,560

(millions of Canadian dollars)	As at January 31, 2015	As at October 31, 2014
Unencumbered liquid assets by currency		
Canadian dollar	25,212	29,091
U.S. dollar	16,169	17,719
Other currencies	1,500	750
	42,881	47,560

Liquid Asset Portfolio – Average(4)

(millions of Canadian dollars)					Quarter ended January 31, 2015
	Bank-owned liquid assets(1)	Liquid assets received(2)	Total liquid assets	Encumbered liquid assets(3)	Unencumbered liquid assets
Cash and deposits with financial institutions	9,932	–	9,932	1,544	8,388
Securities					
Issued or guaranteed by Canada, U.S. Treasury, other U.S. agencies and other foreign governments	16,652	22,101	38,753	29,808	8,945
Issued or guaranteed by provinces	14,458	12,632	27,090	21,755	5,335
Issued or guaranteed by municipalities and school boards	1,093	155	1,248	62	1,186
Other debt securities	3,650	1,322	4,972	1,352	3,620
Equity securities	20,841	36,747	57,588	38,455	19,133
Loans					
Securities backed by insured residential mortgages	2,528	–	2,528	691	1,837
	69,154	72,957	142,111	93,667	48,444

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

Summary of Encumbered and Unencumbered Assets

(millions of Canadian dollars)						As at January 31, 2015
	Encumbered assets[1]		Unencumbered assets		Total	Encumbered assets as % of total assets
	Pledged as collateral	Other[2]	Available as collateral	Other[3]		
Cash and deposits with financial institutions	45	1,824	4,859	–	6,728	0.9
Securities	19,992	400	35,953	1,202	57,547	9.5
Securities purchased under reverse repurchase agreements and securities borrowed	–	21,068	229	–	21,297	9.8
Loans, net of allowances	28,706	–	1,840	67,671	98,217	13.4
Customers' liability under acceptances	–	–	–	9,106	9,106	–
Derivative financial instruments	–	–	–	14,901	14,901	–
Due from clients, dealers and brokers	–	–	–	646	646	–
Purchased receivables	–	–	–	982	982	–
Investments in associates and joint ventures	–	–	–	738	738	–
Premises and equipment	–	–	–	384	384	–
Goodwill	–	–	–	1,276	1,276	–
Intangible assets	–	–	–	1,021	1,021	–
Other assets	–	–	–	1,631	1,631	–
	48,743	23,292	42,881	99,558	214,474	33.6

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

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

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

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

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

Funding Risk

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

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

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

(millions of Canadian dollars)								As at January 31, 2015[1]
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Subtotal 1 year or less	Over 1 year to 2 years	Over 2 years	Total
Deposits from banks[2]	5,190	612	20	8	5,830	36	67	5,933
Certificates of deposit and commercial paper[3]	3	696	3,991	3,321	8,011	1,684	1,461	11,156
Asset-backed commercial paper	–	–	–	–	–	–	–	–
Senior unsecured medium-term notes[4]	500	29	2,103	2,012	4,644	2,275	5,783	12,702
Senior unsecured structured notes	22	45	85	–	152	–	532	684
Covered bonds and asset-backed securities								
Mortgage securitization	17	416	400	1,078	1,911	2,397	13,917	18,225
Covered bonds	–	–	–	–	–	2,548	4,282	6,830
Securitization of credit card receivables	–	330	550	400	1,280	–	–	1,280
Subordinated liabilities[5]	–	–	–	511	511	–	1,028	1,539
Other	–	–	–	–	–	–	–	–
	5,732	2,128	7,149	7,330	22,339	8,940	27,070	58,349
Secured funding	17	746	950	1,478	3,191	4,945	18,199	26,335
Unsecured funding	5,715	1,382	6,199	5,852	19,148	3,995	8,871	32,014
	5,732	2,128	7,149	7,330	22,339	8,940	27,070	58,349
As at October 31, 2014	8,664	3,954	1,988	10,682	25,288	8,586	24,442	58,316

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

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

(millions of Canadian dollars)			As at January 31, 2015
	One-notch downgrade	Two-notch downgrade	Three-notch downgrade
Derivatives[1]	33	65	177
Other[2]	–	199	199

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

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

The following tables present balance sheet items and off-balance-sheet commitments by residual contractual maturity as at January 31, 2015 with comparative figures as at October 31, 2014. The information gathered from this maturity analysis is a component of liquidity and funding management. However, this maturity profile does not represent how the Bank manages its interest rate risk nor its liquidity risk and funding needs. The Bank considers factors other than contractual maturity in the assessment of liquid assets or in determining expected future cash flows.

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

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

(millions of Canadian dollars)										As at January 31, 2015
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Assets										
Cash and deposits with financial institutions	4,048	24	–	–	1	–	–	39	2,616	6,728
Securities										
At fair value through profit or loss	661	690	1,219	1,334	1,287	3,364	8,618	9,829	19,058	46,060
Available-for-sale	151	–	388	88	146	244	4,585	5,326	559	11,487
	812	690	1,607	1,422	1,433	3,608	13,203	15,155	19,617	57,547
Securities purchased under reverse repurchase agreements and securities borrowed	9,947	1,888	5,035	–	–	1,568	1,156	–	1,703	21,297
Loans and acceptances(1)										
Residential mortgage	840	1,218	2,809	2,115	2,185	8,831	21,109	654	250	40,011
Personal and credit card	249	384	766	653	662	2,445	6,062	1,643	17,426	30,290
Business and government	3,803	1,589	1,861	1,309	1,160	2,178	6,216	1,270	9,091	28,477
Customers' liability under acceptances	7,784	1,027	295	–	–	–	–	–	–	9,106
Allowances for credit losses									(561)	(561)
	12,676	4,218	5,731	4,077	4,007	13,454	33,387	3,567	26,206	107,323
Other										
Derivative financial instruments	1,044	1,376	865	472	636	1,626	2,782	6,100	–	14,901
Due from clients, dealers and brokers(1)									646	646
Purchased receivables									982	982
Investments in associates and joint ventures									738	738
Premises and equipment									384	384
Goodwill									1,276	1,276
Intangible assets									1,021	1,021
Other assets	224	88	182	52	255	111	1	62	656	1,631
	1,268	1,464	1,047	524	891	1,737	2,783	6,162	5,703	21,579
	28,751	8,284	13,420	6,023	6,332	20,367	50,529	24,923	55,845	214,474

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

(millions of Canadian dollars)									As at January 31, 2015	
	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Liabilities and equity										
Deposits(1)(2)										
Personal	968	1,078	1,090	1,267	1,581	4,402	8,653	878	25,743	45,660
Business and government	597	269	105	150	136	537	510	574	30,866	33,744
Deposit-taking institutions	478	3	–	–	11	17	–	–	2,021	2,530
Unsecured senior debt	5,715	1,382	6,199	4,231	1,110	3,995	7,113	730	–	30,475
Covered bonds	–	–	–	–	–	2,548	1,431	2,851	–	6,830
	7,758	2,732	7,394	5,648	2,838	11,499	17,707	5,033	58,630	119,239
Other										
Acceptances	7,784	1,027	295	–	–	–	–	–	–	9,106
Obligations related to securities sold short(3)	1,259	1,004	246	17	51	2,626	4,157	8,168	3,540	21,068
Obligations related to securities sold under repurchase agreements and securities loaned	7,483	915	4,960	1,105	–	–	–	–	1,369	15,832
Derivative financial instruments	1,346	1,788	825	483	1,097	1,428	2,434	3,794	–	13,195
Due to clients, dealers and brokers(1)									1,702	1,702
Liabilities related to transferred receivables(4)	17	416	400	42	1,036	2,397	8,788	5,129	–	18,225
Securitization – Credit card(5)	–	330	550	400	–	–	–	–	–	1,280
Other liabilities – Other items(1)(5)	228	89	108	39	519	3	4	114	1,691	2,795
	18,117	5,569	7,384	2,086	2,703	6,454	15,383	17,205	8,302	83,203
Subordinated debt	–	–	–	–	511	–	1,019	9	–	1,539
Equity									10,493	10,493
	25,875	8,301	14,778	7,734	6,052	17,953	34,109	22,247	77,425	214,474
Off-Balance-Sheet Commitments										
Letters of guarantee and documentary letters of credit	106	19	252	118	1,042	1,166	932	183	–	3,818
Credit card receivables(6)									6,484	6,484
Backstop liquidity and credit enhancement facilities(7)	–	2,044	15	–	2,879	–	–	–	–	4,938
Commitments to extend credit(8)	1,060	632	1,447	1,117	1,989	8,118	7,700	408	19,949	42,420
Lease commitments and other contracts	64	125	182	177	175	483	808	482	–	2,496
Other guarantee	–	–	–	–	–	–	–	–	29	29

(1) Amounts payable upon demand or notice are considered to have no specified maturity.
(2) The *Deposits* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(3) Amounts have been disclosed according to the remaining contractual maturity of the underlying security.
(4) These amounts mainly include liabilities related to the securitization of mortgage loans.
(5) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(6) These amounts are unconditionally revocable at the Bank's discretion at any time.
(7) In the event of payment on one of the backstop liquidity facilities, the Bank will receive as collateral government bonds in an amount up to $1.8 billion.
(8) These amounts include $17.7 billion that is unconditionally revocable at the Bank's discretion at any time.

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

	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Assets										
Cash and deposits with financial institutions	5,695	4	–	–	–	–	–	–	2,387	8,086
Securities										
At fair value through profit or loss	398	582	584	1,070	1,665	3,114	7,255	8,628	19,904	43,200
Available-for-sale	171	177	–	264	89	222	3,758	4,617	455	9,753
	569	759	584	1,334	1,754	3,336	11,013	13,245	20,359	52,953
Securities purchased under reverse repurchase agreements and securities borrowed	9,894	3,876	5,480	283	–	1,125	1,044	–	2,823	24,525
Loans and acceptances(1)										
Residential mortgage	915	1,144	1,693	2,848	2,168	9,183	20,523	564	262	39,300
Personal and credit card	254	333	573	782	661	2,465	5,850	1,585	17,493	29,996
Business and government	3,922	1,849	1,337	1,637	1,100	2,027	5,714	1,142	9,823	28,551
Customers' liability under acceptances	7,878	870	178	–	–	–	–	–	–	8,926
Allowances for credit losses									(604)	(604)
	12,969	4,196	3,781	5,267	3,929	13,675	32,087	3,291	26,974	106,169
Other										
Derivative financial instruments	305	491	310	225	142	842	1,449	3,328	–	7,092
Due from clients, dealers and brokers(1)									861	861
Purchased receivables									790	790
Investments in associates and joint ventures									697	697
Premises and equipment									380	380
Goodwill									1,272	1,272
Intangible assets									998	998
Other assets(2)	158	55	212	89	253	54	9	44	732	1,606
	463	546	522	314	395	896	1,458	3,372	5,730	13,696
	29,590	9,381	10,367	7,198	6,078	19,032	45,602	19,908	58,273	205,429

(1) Amounts collectible on demand are considered to have no specified maturity.
(2) An amount of $790 million classified in *Other assets* as at October 31, 2014 is now presented separately in *Purchased receivables* on the Consolidated Balance Sheet.

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

	1 month or less	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 12 months	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	No specified maturity	Total
Liabilities and equity										
Deposits(1)(2)										
Personal	532	1,029	1,807	1,049	1,373	4,586	8,858	876	24,853	44,963
Business and government	620	140	143	26	87	499	316	501	32,828	35,160
Deposit-taking institutions	436	–	–	–	–	–	–	–	1,248	1,684
Unsecured senior debt	8,657	3,267	1,253	5,482	3,867	3,588	6,253	640	–	33,007
Covered bonds	–	–	–	–	–	2,260	1,407	1,402	–	5,069
	10,245	4,436	3,203	6,557	5,327	10,933	16,834	3,419	58,929	119,883
Other										
Acceptances	7,878	870	178	–	–	–	–	–	–	8,926
Obligations related to securities sold short(3)	288	1,175	75	39	95	2,321	3,667	7,414	3,093	18,167
Obligations related to securities sold under repurchase agreements and securities loaned	8,146	1,469	3,438	2,415	–	–	–	–	1,312	16,780
Derivative financial instruments	296	664	389	325	160	880	1,432	1,575	–	5,721
Due to clients, dealers and brokers(1)									1,996	1,996
Liabilities related to transferred receivables(4)	7	335	405	367	16	2,223	8,703	5,023	–	17,079
Securitization – Credit card(5)	–	–	330	550	400	–	–	–	–	1,280
Other liabilities – Other items(1)(5)	228	53	142	21	753	2	2	69	1,944	3,214
	16,843	4,566	4,957	3,717	1,424	5,426	13,804	14,081	8,345	73,163
Subordinated debt	–	352	–	–	–	515	1,006	8	–	1,881
Equity									10,502	10,502
	27,088	9,354	8,160	10,274	6,751	16,874	31,644	17,508	77,776	205,429
Off-Balance-Sheet Commitments										
Letters of guarantee and documentary letters of credit	102	715	62	287	182	363	574	404	–	2,689
Credit card receivables(6)									6,442	6,442
Backstop liquidity and credit enhancement facilities(7)	–	–	2,044	15	–	2,130	846	–	–	5,035
Commitments to extend credit(8)	725	868	1,155	1,895	1,474	8,104	7,216	439	19,263	41,139
Lease commitments and other contracts	64	125	181	179	175	486	811	495	–	2,516
Other guarantee	–	–	–	–	–	–	–	–	29	29

(1) Amounts payable upon demand or notice are considered to have no specified maturity.
(2) The *Deposits* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(3) Amounts have been disclosed according to the remaining contractual maturity of the underlying security.
(4) These amounts mainly include liabilities related to the securitization of mortgage loans.
(5) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(6) These amounts are unconditionally revocable at the Bank's discretion at any time.
(7) In the event of payment on one of the backstop liquidity facilities, the Bank will receive as collateral government bonds in an amount up to $1.8 billion.
(8) These amounts include $17.2 billion that is unconditionally revocable at the Bank's discretion at any time.

QUARTERLY FINANCIAL INFORMATION

(millions of Canadian dollars, except per share amounts)	2015				2014			2013	2014	2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Total	Total
Total revenues	**1,410**	1,364	1,460	1,276	1,364	1,251	1,285	1,383	5,464	5,151
Net income	**415**	330	441	362	405	320	402	417	1,538	1,512
Earnings per share ($)										
Basic	**1.17**	0.92	1.26	1.02	1.16	0.91	1.16	1.21	4.36	4.34
Diluted	**1.16**	0.91	1.24	1.01	1.15	0.90	1.16	1.20	4.32	4.31
Dividends per common share ($)	**0.50**	0.48	0.48	0.46	0.46	0.44	0.44	0.41	1.88	1.70
Return on common shareholders' equity (%)	**17.8**	14.3	20.1	17.4	19.8	15.8	21.0	23.4	17.9	20.1
Total assets	**214,474**	205,429	198,822	194,289	195,300	188,219	187,195	184,775		
Impaired loans, net	**194**	248	184	191	194	183	172	146		
Per common share ($)										
Book value	**26.33**	25.76	25.18	24.41	23.68	22.97	22.60	21.57		
Share price										
High	**55.06**	53.88	49.15	45.73	46.86	45.24	39.68	39.76		
Low	**44.21**	48.16	45.19	41.60	41.72	38.86	36.33	36.18		

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

CONSOLIDATED BALANCE SHEETS

(unaudited) (millions of Canadian dollars)

	As at January 31, 2015	As at October 31, 2014
Assets		
Cash and deposits with financial institutions	6,728	8,086
Securities (Notes 4 and 5)		
At fair value through profit or loss	46,060	43,200
Available-for-sale	11,487	9,753
	57,547	52,953
Securities purchased under reverse repurchase agreements and securities borrowed	21,297	24,525
Loans (Note 6)		
Residential mortgage	40,011	39,300
Personal and credit card	30,290	29,996
Business and government	28,477	28,551
	98,778	97,847
Customers' liability under acceptances	9,106	8,926
Allowances for credit losses	(561)	(604)
	107,323	106,169
Other		
Derivative financial instruments	14,901	7,092
Due from clients, dealers and brokers	646	861
Purchased receivables	982	790
Investments in associates and joint ventures	738	697
Premises and equipment	384	380
Goodwill	1,276	1,272
Intangible assets	1,021	998
Other assets (Note 8)	1,631	1,606
	21,579	13,696
	214,474	205,429
Liabilities and equity		
Deposits (Notes 4 and 9)		
Personal	45,660	44,963
Business and government	67,501	67,364
Deposit-taking institutions	6,078	7,556
	119,239	119,883
Other		
Acceptances	9,106	8,926
Obligations related to securities sold short	21,068	18,167
Obligations related to securities sold under repurchase agreements and securities loaned	15,832	16,780
Derivative financial instruments	13,195	5,721
Due to clients, dealers and brokers	1,702	1,996
Liabilities related to transferred receivables (Notes 4 and 7)	18,225	17,079
Other liabilities (Note 10)	4,075	4,494
	83,203	73,163
Subordinated debt (Note 11)	1,539	1,881
Equity		
Equity attributable to the Bank's shareholders (Notes 13 and 17)		
Preferred shares	1,023	1,223
Common shares	2,313	2,293
Contributed surplus	52	52
Retained earnings	5,957	5,850
Accumulated other comprehensive income	362	289
	9,707	9,707
Non-controlling interests (Note 14)	786	795
	10,493	10,502
	214,474	205,429

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

CONSOLIDATED STATEMENTS OF INCOME

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2015	2014
Interest income		
Loans	**906**	839
Securities at fair value through profit or loss	**175**	221
Available-for-sale securities	**69**	48
Deposits with financial institutions	**7**	6
	1,157	1,114
Interest expense		
Deposits	**345**	283
Liabilities related to transferred receivables	**106**	98
Subordinated debt	**17**	20
Other	**33**	99
	501	500
Net interest income	**656**	614
Non-interest income		
Underwriting and advisory fees	**80**	83
Securities brokerage commissions	**73**	85
Mutual fund revenues	**73**	59
Trust service revenues	**107**	89
Credit fees	**92**	94
Card revenues	**36**	30
Deposit and payment service charges	**57**	59
Trading revenues (losses) (Note 16)	**103**	78
Gains (losses) on available-for-sale securities, net	**7**	20
Insurance revenues, net	**22**	28
Foreign exchange revenues, other than trading	**22**	25
Share in the net income of associates and joint ventures	**8**	7
Other	**74**	93
	754	750
Total revenues	**1,410**	1,364
Provisions for credit losses (Note 6)	**54**	51
	1,356	1,313
Non-interest expenses		
Compensation and employee benefits	**548**	508
Occupancy	**54**	54
Technology	**120**	105
Communications	**17**	16
Professional fees	**54**	56
Other	**70**	77
	863	816
Income before income taxes	**493**	497
Income taxes	**78**	92
Net income	**415**	405
Net income attributable to		
Preferred shareholders	**12**	9
Common shareholders	**385**	380
Bank shareholders	**397**	389
Non-controlling interests	**18**	16
	415	405
Earnings per share *(dollars)* (Note 19)		
Basic	**1.17**	1.16
Diluted	**1.16**	1.15
Dividends per common share *(dollars)*	**0.50**	0.46

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2015	2014
Net income	415	405
Other comprehensive income, net of income taxes		
Items that may be subsequently reclassified to net income		
Net foreign currency translation adjustments		
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	120	75
Impact of hedging net foreign currency translation gains (losses)	(104)	(63)
	16	12
Net change in available-for-sale securities		
Net unrealized gains (losses) on available-for-sale securities	69	18
Net (gains) losses on available-for-sale securities reclassified to net income	(9)	(16)
	60	2
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	–	(7)
Net (gains) losses on designated derivative financial instruments reclassified to net income	(3)	(3)
	(3)	(10)
Share in the other comprehensive income of associates and joint ventures	3	1
Item that will not be subsequently reclassified to net income		
Remeasurements of pension plans and other post-employment benefit plans	(113)	(8)
Total other comprehensive income, net of income taxes	(37)	(3)
Comprehensive income	378	402
Comprehensive income attributable to		
Bank shareholders	357	385
Non-controlling interests	21	17
	378	402

INCOME TAXES – OTHER COMPREHENSIVE INCOME

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

	Quarter ended January 31	
	2015	2014
Net foreign currency translation adjustments		
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	7	4
Impact of hedging net foreign currency translation gains (losses)	(22)	(15)
	(15)	(11)
Net change in available-for-sale securities		
Net unrealized gains (losses) on available-for-sale securities	26	6
Net (gains) losses on available-for-sale securities reclassified to net income	(3)	(6)
	23	–
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	(1)	(3)
Net (gains) losses on designated derivative financial instruments reclassified to net income	(1)	(1)
	(2)	(4)
Remeasurements of pension plans and other post-employment benefit plans	(41)	(3)
	(35)	(18)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2015	2014
Preferred shares at beginning	1,223	677
Redemption of Series 16 preferred shares for cancellation	(200)	–
Preferred shares at end	1,023	677
Common shares at beginning	2,293	2,160
Issuances of common shares		
Stock Option Plan	16	49
Impact of shares purchased or sold for trading	4	(3)
Common shares at end	2,313	2,206
Contributed surplus at beginning	52	58
Stock option expense (Note 17)	5	4
Stock options exercised	(2)	(6)
Other	(3)	(16)
Contributed surplus at end	52	40
Retained earnings at beginning	5,850	5,055
Net income attributable to the Bank's shareholders	397	389
Dividends (Note 13)		
Preferred shares	(12)	(9)
Common shares	(165)	(150)
Remeasurements of pension plans and other post-employment benefit plans	(113)	(8)
Retained earnings at end	5,957	5,277
Accumulated other comprehensive income at beginning	289	214
Net foreign currency translation adjustments	16	12
Net change in unrealized gains (losses) on available-for-sale securities	60	2
Net change in gains (losses) on cash flow hedges	(6)	(11)
Share in the other comprehensive income of associates and joint ventures	3	1
Accumulated other comprehensive income at end	362	218
Equity attributable to the Bank's shareholders	9,707	8,418
Non-controlling interests at beginning	795	789
Net income attributable to non-controlling interests	18	16
Other comprehensive income attributable to non-controlling interests	3	1
Distributions to non-controlling interests	(30)	(28)
Non-controlling interests at end	786	778
Equity	10,493	9,196

ACCUMULATED OTHER COMPREHENSIVE INCOME

	As at January 31, 2015	As at January 31, 2014
Accumulated other comprehensive income		
Net foreign currency translation adjustments	13	6
Net unrealized gains (losses) on available-for-sale securities	228	174
Net gains (losses) on instruments designated as cash flow hedges	117	36
Share in the other comprehensive income of associates and joint ventures	4	2
	362	218

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (millions of Canadian dollars)

	Quarter ended January 31	
	2015	2014
Cash flows from operating activities		
Net income	415	405
Adjustments for		
Provisions for credit losses	54	51
Amortization of premises and equipment and intangible assets	44	39
Deferred taxes	25	39
Translation adjustment on foreign currency denominated subordinated debt	1	1
Losses (gains) on sales of available-for-sale securities, net	(13)	(20)
Impairment losses on available-for-sale securities	6	–
Stock option expense	5	4
Change in operating assets and liabilities		
Securities at fair value through profit or loss	(2,860)	(2,546)
Securities purchased under reverse repurchase agreements and securities borrowed	3,228	2,283
Loans, net of securitization	118	(1,734)
Investments in associates and joint ventures	(41)	3
Deposits	(644)	7,757
Obligations related to securities sold short	2,901	649
Obligations related to securities sold under repurchase agreements and securities loaned	(948)	(3,405)
Derivative financial instruments, net	(791)	(668)
Due from and to clients, dealers and brokers, net	(79)	(357)
Purchased receivables	(192)	(319)
Interest and dividends receivable and interest payable	(32)	(67)
Current tax assets and liabilities	(54)	(15)
Other items	(1,243)	(489)
	(100)	1,611
Cash flows from financing activities		
Redemption of preferred shares for cancellation	(200)	–
Issuance of common shares	18	40
Redemption of subordinated debt	(350)	(526)
Dividends paid on shares	(177)	(299)
Change in other items	(25)	(39)
	(734)	(824)
Cash flows from investing activities		
Acquisition of TD Waterhouse Institutional Services	–	722
Purchases of available-for-sale securities	(2,252)	(1,064)
Maturities of available-for-sale securities	115	–
Sales of available-for-sale securities	1,051	1,165
Net change in premises and equipment	(23)	(27)
Net change in intangible assets	(48)	(35)
	(1,157)	761
Impact of currency rate movements on cash and cash equivalents	633	173
Increase (decrease) in cash and cash equivalents	(1,358)	1,721
Cash and cash equivalents at beginning	8,086	3,596
Cash and cash equivalents at end(1)	6,728	5,317
Supplementary information about cash flows from operating activities		
Interest paid	582	595
Interest and dividends received	1,206	1,086
Income taxes paid	125	57

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

(1) This item is the equivalent of Consolidated Balance Sheet item *Cash and deposits with financial institutions*. It includes an amount of $1.8 billion as at January 31, 2015 ($1.0 billion as at October 31, 2014) for which there are restrictions. In addition, $2 million was held in escrow as at January 31, 2015 ($2 million as at October 31, 2014).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of Canadian dollars)

NOTE 1 – BASIS OF PRESENTATION

On February 24, 2015, the Board of Directors authorized the publication of the Bank's unaudited interim condensed consolidated financial statements (the consolidated financial statements) for the quarter ended January 31, 2015.

The Bank's consolidated financial statements have been prepared in accordance with section 308(4) of the *Bank Act* (Canada), which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions (Canada) (OSFI), the financial statements are to be prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and set out in the CPA Canada Handbook. None of the OSFI accounting requirements are exceptions to IFRS.

These consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* using the accounting policies described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2014, except for the accounting policy changes described below in Note 2. Future accounting policy changes are also presented in Note 2. Since these consolidated financial statements do not include all of the annual financial statement disclosures required under IFRS, they should be read in conjunction with the audited annual consolidated financial statements and accompanying notes for the year ended October 31, 2014.

The consolidated financial statements are presented in Canadian dollars, which is the Bank's functional and presentation currency.

NOTE 2 – ACCOUNTING POLICY CHANGES

Accounting Policy Changes

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

IAS 32 – *Financial Instruments: Presentation*

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

IFRIC Interpretation 21 – *Levies*

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

NOTE 2 – ACCOUNTING POLICY CHANGES (cont.)

Future Accounting Policy Changes

The Bank is currently assessing the impact that adoption of the following standards will have on its consolidated financial statements.

Effective Date – November 1, 2017
IFRS 15 – *Revenue from Contracts with Customers*
In May 2014, the IASB issued a new standard, IFRS 15, which replaces the current revenue recognition standards and interpretations. IFRS 15 provides a single comprehensive model to use when accounting for revenue arising from contracts with customers. The new model applies to all contracts with customers except those that are within the scope of other IFRS standards such as leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively.

Effective Date – Early Adoption on November 1, 2017
IFRS 9 – *Financial Instruments*
In July 2014, the IASB issued a complete and final version of IFRS 9, which replaces the current standard on financial instruments. IFRS 9 sets out requirements for the classification and measurement of financial assets and financial liabilities, for the impairment of financial assets, and for general hedge accounting. Macro hedge accounting has been decoupled from IFRS 9 and will be considered and issued as a separate standard. IFRS 9 provides a single model for financial asset classification and measurement that is based on contractual cash flow characteristics and on the business model for holding financial assets. With respect to measuring financial liabilities designated at fair value through profit or loss, the standard prescribes that fair value changes attributable to an entity's own credit risk be accounted for in *Other comprehensive income* unless they offset amounts recognized in *Net income*.

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

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

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

(unaudited) (millions of Canadian dollars)

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value and Carrying Value of Financial Instruments by Category

Financial assets and financial liabilities are recognized on the Consolidated Balance Sheet at fair value or at amortized cost in accordance with the categories set out in the accounting framework for financial instruments. The Bank did not classify any financial assets as held to maturity.

							As at January 31, 2015
	Carrying value and fair value			Carrying value	Fair value		
	Financial instruments classified as at fair value through profit or loss	Financial instruments designated at fair value through profit or loss	Available-for-sale	Loans and receivables and financial liabilities at amortized cost	Loans and receivables and financial liabilities at amortized cost	Total carrying value	Total fair value
Financial assets							
Cash and deposits with financial institutions	–	–	–	6,728	6,728	6,728	6,728
Securities	43,391	2,669	11,487	–	–	57,547	57,547
Securities purchased under reverse repurchase agreements and securities borrowed	–	380	–	20,917	20,917	21,297	21,297
Loans and acceptances	3,133	93	–	104,097	105,004	107,323	108,230
Other							
Derivative financial instruments	14,901	–	–	–	–	14,901	14,901
Due from clients, dealers and brokers	–	–	–	646	646	646	646
Purchased receivables	–	–	–	982	982	982	982
Other assets	–	–	–	405	405	405	405
Financial liabilities							
Deposits	–	2,662		116,577 (1)	117,045	119,239	119,707
Other							
Acceptances	–	–		9,106	9,106	9,106	9,106
Obligations related to securities sold short	21,068	–		–	–	21,068	21,068
Obligations related to securities sold under repurchase agreements and securities loaned	–	–		15,832	15,832	15,832	15,832
Derivative financial instruments	13,195	–		–	–	13,195	13,195
Due to clients, dealers and brokers	–	–		1,702	1,702	1,702	1,702
Liabilities related to transferred receivables	–	6,224		12,001	12,170	18,225	18,394
Other liabilities	54	–		2,244	2,262	2,298	2,316
Subordinated debt	–	–		1,539	1,554	1,539	1,554

(1) Including embedded derivative financial instruments.

(unaudited) (millions of Canadian dollars)

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

As at October 31, 2014

	Carrying value and fair value			Carrying value	Fair value		
	Financial instruments classified as at fair value through profit or loss	Financial instruments designated at fair value through profit or loss	Available-for-sale	Loans and receivables and financial liabilities at amortized cost	Loans and receivables and financial liabilities at amortized cost	Total carrying value	Total fair value
Financial assets							
Cash and deposits with financial institutions	–	–	–	8,086	8,086	8,086	8,086
Securities	40,560	2,640	9,753	–	–	52,953	52,953
Securities purchased under reverse repurchase agreements and securities borrowed	–	415	–	24,110	24,110	24,525	24,525
Loans and acceptances	2,762	121	–	103,286	103,956	106,169	106,839
Other							
Derivative financial instruments	7,092	–	–	–	–	7,092	7,092
Due from clients, dealers and brokers	–	–	–	861	861	861	861
Purchased receivables	–	–	–	790	790	790	790
Other assets(1)	–	–	–	454	454	454	454
Financial liabilities							
Deposits	–	2,524		117,359 (2)	117,707	119,883	120,231
Other							
Acceptances	–	–		8,926	8,926	8,926	8,926
Obligations related to securities sold short	18,167	–		–	–	18,167	18,167
Obligations related to securities sold under repurchase agreements and securities loaned	–	–		16,780	16,780	16,780	16,780
Derivative financial instruments	5,721	–		–	–	5,721	5,721
Due to clients, dealers and brokers	–	–		1,996	1,996	1,996	1,996
Liabilities related to transferred receivables	–	6,127		10,952	11,067	17,079	17,194
Other liabilities	133	–		2,224	2,243	2,357	2,376
Subordinated debt	–	–		1,881	1,904	1,881	1,904

(1) An amount of $790 million classified in *Other assets* as at October 31, 2014 is now presented separately in *Purchased receivables* on the Consolidated Balance Sheet.
(2) Including embedded derivative financial instruments.

Establishing Fair Value

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

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

Fair value is established in accordance with a rigorous control framework. The Bank has policies and procedures that govern the process for determining fair value. The Bank's valuation governance structure has remained largely unchanged from that described in Notes 3 and 6 to the audited annual consolidated financial statements for the year ended October 31, 2014. The valuation techniques used to determine the fair value of financial assets and liabilities are also described in those notes, and no significant changes have been made to the valuation techniques.

(unaudited) (millions of Canadian dollars)

Financial Instruments Recorded at Fair Value on the Consolidated Balance Sheet

Hierarchy of Fair Value Measurements

IFRS establishes a fair value hierarchy that classifies the inputs used in financial instrument fair value measurement techniques according to three levels. This fair value hierarchy requires observable market inputs to be used whenever such inputs exist. According to the hierarchy, the highest level of inputs are unadjusted quoted prices in active markets for identical instruments and the lowest level of inputs are unobservable inputs. If inputs from different levels of the hierarchy are used, the financial instrument is classified in the same level as the lowest level input that is significant to the fair value measurement. For additional information, see Note 3 to the audited annual consolidated statements for the year ended October 31, 2014.

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

During the quarter ended January 31, 2015, $70 million in securities classified at fair value through profit and loss were transferred from Level 2 to Level 1 resulting from changing market conditions (no significant transfers for the quarter ended January 31, 2014). In addition, during the quarters ended January 31, 2015 and 2014, financial instruments were transferred to (or from) Level 3 due to changes in the availability of observable market inputs resulting from changing market conditions.

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

				As at January 31, 2015
	Level 1	Level 2	Level 3	Total financial assets/liabilities at fair value
Financial assets				
Securities				
At fair value through profit or loss				
Securities issued or guaranteed by				
Canada	3,227	5,663	–	8,890
Provinces	–	10,457	–	10,457
Municipalities and school boards	–	644	–	644
U.S. Treasury, other U.S. agencies and other foreign governments	1,948	1,058	–	3,006
Other debt securities	–	2,851	1,132	3,983
Equity securities	18,721	328	31	19,080
	23,896	21,001	1,163	46,060
Available-for-sale				
Securities issued or guaranteed by				
Canada	272	4,736	–	5,008
Provinces	–	4,597	–	4,597
Municipalities and school boards	–	376	–	376
U.S. Treasury, other U.S. agencies and other foreign governments	212	1	–	213
Other debt securities	–	596	90	686
Equity securities	252	134	221	607
	736	10,440	311	11,487
Securities purchased under reverse repurchase agreements and securities borrowed	–	380	–	380
Loans and acceptances	–	3,226	–	3,226
Other				
Derivative financial instruments	172	14,685	44	14,901
	24,804	49,732	1,518	76,054
Financial liabilities				
Deposits	–	2,802	74	2,876
Other				
Obligations related to securities sold short	14,574	6,494	–	21,068
Derivative financial instruments	78	13,018	99	13,195
Liabilities related to transferred receivables	–	6,224	–	6,224
Other liabilities	–	54	–	54
	14,652	28,592	173	43,417

(unaudited) (millions of Canadian dollars)

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

As at October 31, 2014

	Level 1	Level 2	Level 3	Total financial assets/liabilities at fair value
Financial assets				
Securities				
At fair value through profit or loss				
Securities issued or guaranteed by				
Canada	2,376	5,151	–	7,527
Provinces	–	8,395	–	8,395
Municipalities and school boards	–	740	–	740
U.S. Treasury, other U.S. agencies and other foreign governments	1,294	448	–	1,742
Other debt securities	–	3,667	1,174	4,841
Equity securities	18,637	1,269	49	19,955
	22,307	19,670	1,223	43,200
Available-for-sale				
Securities issued or guaranteed by				
Canada	135	4,128	–	4,263
Provinces	–	3,880	–	3,880
Municipalities and school boards	–	348	–	348
U.S. Treasury, other U.S. agencies and other foreign governments	274	–	–	274
Other debt securities	–	408	89	497
Equity securities	223	120	148	491
	632	8,884	237	9,753
Securities purchased under reverse repurchase agreements and securities borrowed	–	415	–	415
Loans and acceptances	–	2,883	–	2,883
Other				
Derivative financial instruments	74	6,974	44	7,092
	23,013	38,826	1,504	63,343
Financial liabilities				
Deposits	–	2,645	81	2,726
Other				
Obligations related to securities sold short	12,795	5,372	–	18,167
Derivative financial instruments	45	5,593	83	5,721
Liabilities related to transferred receivables	–	6,127	–	6,127
Other liabilities	–	133	–	133
	12,840	19,870	164	32,874

Financial Instruments Classified in Level 3

The Bank classifies financial instruments in Level 3 when the valuation technique is based on at least one significant input that is not observable in the markets or when there is a lack of liquidity in certain markets. The valuation technique may also be partly based on observable market inputs.

Valuation Techniques Applied to Financial Instruments Classified in Level 3

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

In establishing the fair value of the restructured notes of the MAV conduits and excluding ineligible assets, the Bank considered the quality of the underlying assets. The Bank determined fair value using a valuation technique that incorporates discounted cash flows. The discount rate is based 80% on the CDX.IG index tranches and 20% on a basket of securities backed by assets such as credit card receivables, Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS) and automobile loans. The fair value valuation method also includes the effects of broker quotes and market conditions on the MAV II Class A-1, A-2, B and C notes. For the restructured notes of the MAV I and MAV II Class A-1, A-2 and B conduits, the adjustment related to broker quotes represented 30% as at January 31, 2015 and as at October 31, 2014 of the weighting used to determine fair value. For the restructured notes of the MAV I and MAV II Class C conduits, the adjustment related to broker quotes represented 100% as at January 31, 2015 and as at October 31, 2014 of the weighting used to determine fair value. The credit ratings and coupons were based on the terms set out in the restructured notes of the MAV conduits. Maturities are based on the anticipated cash flows of the underlying assets.

For ineligible assets, the fair value of the restructured notes of the MAV III conduits is based on an analysis of the underlying assets of the notes and the market value of comparable instruments. For RMBS, fair values were based on the ABX index; for CMBS, CMBS indices, including the CMBX index, were chosen. As for derivative financial instruments, the Bank applied valuation models commonly used by market participants with inputs based on observable market factors such as the CDX.IG indices, base correlation and interest rates.

In establishing the fair value of the restructured notes, the Bank adjusts, as required, its liquidity assumption to reflect market conditions.

The Bank determines the fair value of the restructured notes of the MAV conduits it is holding by comparing the value obtained using the above-described methodology against a range of values. The values situated in this range were obtained by adjusting various inputs used to determine the discount rate and broker quotes, incorporating third-party assessments and applying various liquidity scenarios. As several assumptions may be used to determine fair value, this range reflects the level of uncertainty associated with these models.

Equity Securities and Other Debt Securities

The fair value of these financial instruments is established primarily on the basis of internal estimates and data that consider the valuation policies in effect at the Bank, economic conditions, the specific characteristics of the financial asset or liability and other relevant factors.

Derivative Financial Instruments

The fair value of derivative financial instruments classified in Level 3 of the hierarchy is established primarily on the basis of internal estimates and data that consider the valuation policies in effect at the Bank, economic conditions, the specific characteristics of the financial asset or financial liability and other relevant factors. In establishing the fair value of derivative financial instruments, the Bank incorporates credit risk by considering the credit quality of the Bank and of the counterparties to the contracts, the measurement of current or future market value of the transactions, and credit risk mitigation measures such as master netting arrangements and collateral agreements. The Bank also incorporates the market implied funding costs and benefits in determining the fair value of uncollateralized (or not fully collateralized) OTC derivative financial instruments.

Structured Deposit Notes

The fair value of structured deposit notes classified in Level 3 of the hierarchy is established using valuation models that maximize the use of observable inputs when available, such as benchmark indices.

(unaudited) (millions of Canadian dollars)

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

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

				As at January 31, 2015
	Fair value	Primary valuation techniques	Significant unobservable inputs	Range of input values
Financial assets				
Securities			Liquidity discount	1.50%
Restructured notes of the MAV I conduits	1,023	Internal model[1]	Credit spread	44 Bps to 240 Bps[2]
Restructured notes of the MAV II, MAV III			Liquidity discount	1% to 6.31%
conduits and other restructured notes	174	Internal model[1]	Credit spread	54 Bps to 385 Bps[2]
Equity securities and other debt securities	277	Various[3]	Various[3]	Various[3]
Other			Long-term volatility	15% to 33%
Derivative financial instruments	44	Option pricing model	Long-term correlation	(30)% to 80%
	1,518			
Financial liabilities				
Deposits			Long-term volatility	15% to 49%
Structured deposit notes	74	Option pricing model	Long-term correlation	(30)% to 83%
Other			Long-term volatility	15% to 33%
Derivative financial instruments	99	Option pricing model	Long-term correlation	(39)% to 83%
	173			

				As at October 31, 2014
	Fair value	Primary valuation techniques	Significant unobservable inputs	Range of input values
Financial assets				
Securities			Liquidity discount	3%
Restructured notes of the MAV I conduits	1,063	Internal model[1]	Credit spread	33 Bps to 560 Bps[2]
Restructured notes of the MAV II, MAV III			Liquidity discount	1.50% to 6.31%
conduits and other restructured notes	173	Internal model[1]	Credit spread	42 Bps to 560 Bps[2]
Equity securities and other debt securities	224	Various[3]	Various[3]	Various[3]
Other			Long-term volatility	12% to 36%
Derivative financial instruments	44	Option pricing model	Long-term correlation	(31)% to 81%
	1,504			
Financial liabilities				
Deposits			Long-term volatility	14% to 35%
Structured deposit notes	81	Option pricing model	Long-term correlation	(7)% to 78%
Other			Long-term volatility	12% to 36%
Derivative financial instruments	83	Option pricing model	Long-term correlation	(31)% to 99%
	164			

(1) See page 49 for a description of the valuation techniques.
(2) Bps or basis point is a unit of measure equal to 0.01%.
(3) In the absence of an active market, the fair value of these securities is estimated based on an analysis of the investee's financial position and results, risk profile, economic outlook and other factors. Given the nature of the analysis in respect of each investment, it is not practical to quote a range of values for significant unobservable inputs.

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

Liquidity Discount

The liquidity discount is the difference in liquidity between the measured financial asset and comparable assets. There is no predictable correlation between the liquidity discount and the credit spread. An increase (decrease) in this unobservable input generally results in a decrease (increase) in fair value.

Credit Spread

Credit spread is the difference between a benchmark interest rate and the interest rate required by market participants to accept the lower credit quality of the measured financial asset. The interest rate on certain government bonds with a high credit rating and a maturity similar to the measured asset can often be considered a benchmark interest rate. An increase (decrease) in this unobservable input generally results in a decrease (increase) in fair value.

Long-Term Volatility

Volatility is a measure of the expected future variability of market prices. Volatility is generally observable in the market through options prices. However, the long-term volatility of options with a longer maturity might not be observable. An increase (decrease) in long-term volatility is generally associated with an increase (decrease) in long-term correlation. Higher long-term volatility may increase or decrease an instrument's fair value depending on its terms.

Long-Term Correlation

Correlation is a measure of the inter-relationship between two different variables. A positive correlation means that the variables tend to move in the same direction; a negative correlation means that the variables tend to move in opposite directions. Correlation is used to measure financial instruments whose future returns depend on several variables. Changes in correlation will either increase or decrease a financial instrument's fair value depending on the terms of its contractual payout.

Sensitivity Analysis of Financial Instruments Classified in Level 3

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

For the restructured notes of the MAV conduits, the most significant unobservable inputs used to determine fair value are the liquidity discount, the credit spread (a component of the discount rate), and the weighting attributed to the discount rate and the broker quotes for the MAV II Class A-1, A-2 and B notes. A 100-basis-point change in the liquidity discount would result in a $12 million decrease or increase in fair value (an $11 million decrease or increase as at October 31, 2014). A 10-basis-point change in the discount rate would result in a $5 million decrease or increase in fair value (a $6 million decrease or increase as at October 31, 2014). A 10% change in the weighting attributed to the discount rate and the broker quotes on MAV II Class A-1, A-2 and B notes would result in a $7 million decrease or increase in fair value (a $7 million decrease or increase as at October 31, 2014). The fair values resulting from such assumptions could be situated within the ranges or outside the ranges established by the Bank.

For private equity securities classified in *Available-for-sale securities*, the Bank varies significant unobservable market inputs such as net asset value or projected future cash flows and establishes a reasonable fair value range that could result in a $23 million increase or decrease in the fair value recorded as at January 31, 2015 (a $16 million increase or decrease as at October 31, 2014).

For derivative financial instruments and embedded derivatives in structured deposit notes, the Bank varies long-term volatility and correlation inputs and establishes a reasonable fair value range. As at January 31, 2015, for derivative financial instruments, the net fair value could result in a $12 million increase or decrease ($10 million increase or decrease as at October 31, 2014) whereas for structured deposit notes, the fair value could result in a $9 million increase or decrease ($12 million increase or decrease as at October 31, 2014).

(unaudited) (millions of Canadian dollars)

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

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

The Bank may hedge the fair value of financial instruments classified in the various levels through offsetting hedge positions. Gains and losses for financial instruments classified in Level 3 presented in the following tables do not reflect the inverse gains and losses on financial instruments used for economic hedging purposes that may have been classified in Level 1 or 2 by the Bank. In addition, the Bank may hedge the fair value of financial instruments classified in Level 3 using other financial instruments classified in Level 3. The effect of these hedges is not included in the net amount presented in the following tables. The gains and losses presented hereafter may therefore comprise changes in fair value based on observable and unobservable inputs.

	Quarter ended January 31, 2015			
	Securities at fair value through profit or loss	Available-for-sale securities	Derivative financial instruments(1)	Deposits
Fair value as at October 31, 2014	1,223	237	(39)	(81)
Total realized and unrealized gains (losses) included in *Net income* (2)	30	–	(10)	(1)
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	(5)	–	–
Purchases	3	75	–	–
Sales	(28)	(1)	–	–
Issuances	–	–	–	1
Settlements and other	(65)	5	–	–
Financial instruments transferred into Level 3	–	–	(1)	25
Financial instruments transferred out of Level 3	–	–	(5)	(18)
Fair value as at January 31, 2015	1,163	311	(55)	(74)
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at January 31, 2015(3)	28	–	(10)	(1)

	Quarter ended January 31, 2014			
	Securities at fair value through profit or loss	Available-for-sale securities	Derivative financial instruments(1)	Deposits
Fair value as at October 31, 2013	1,351	248	(18)	(73)
Total realized and unrealized gains (losses) included in *Net income* (4)	48	5	(14)	–
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	2	–	–
Purchases	8	10	–	–
Sales	(14)	(7)	–	–
Issuances	–	–	–	4
Settlements and other	(15)	1	–	–
Financial instruments transferred into Level 3	–	–	(8)	(8)
Financial instruments transferred out of Level 3	–	–	–	6
Fair value as at January 31, 2014	1,378	259	(40)	(71)
Change in unrealized gains and losses included in *Net income* with respect to financial assets and financial liabilities held as at January 31, 2014(5)	48	–	(14)	–

(1) The derivative financial instruments include assets and liabilities presented on a net basis.
(2) Total net gains included in *Non-interest income* was $19 million.
(3) Total unrealized gains included in *Non-interest income* was $17 million.
(4) Total net gains included in *Non-interest income* was $39 million.
(5) Total unrealized gains included in *Non-interest income* was $34 million.

(unaudited) (millions of Canadian dollars)

NOTE 4 – FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The Bank chose to designate certain financial instruments at fair value through profit or loss according to criteria presented in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2014. In accordance with its risk management strategy, which allows the Bank to eliminate or significantly reduce the measurement or recognition mismatch resulting from measuring financial assets and liabilities on different bases, the Bank designated certain securities, certain securities purchased under reverse repurchase agreements, and certain liabilities related to transferred receivables as at fair value through profit or loss. The fair value of liabilities related to transferred receivables does not include credit risk, as the holders of these liabilities are not exposed to the Bank's credit risk.

The Bank also designated certain hybrid financial instruments with one or more embedded derivatives, such as restructured notes of the MAV conduits, certain deposits, and certain loans at fair value through profit or loss. There is no exposure to credit risk on the loans to the extent that they are fully collateralized.

To determine a change in fair value arising from a change in the credit risk of deposits designated at fair value through profit or loss, the Bank calculates, at the beginning of the period, the present value of the instrument's contractual cash flows using the following rates: first, using an observed discount rate that reflects the Bank's credit spread and, then, using a rate that excludes the Bank's credit spread. The difference between the two values is then compared to the difference obtained using the same rates at the end of the period.

Information about the financial assets and financial liabilities designated at fair value through profit or loss is provided in the following tables.

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

	Carrying value as at January 31, 2014	Change in the total fair value (including the change in the fair value attributable to credit risk) for the quarter ended January 31, 2014	Change in fair value since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss			
Securities	3,138	71	394
Securities purchased under reverse repurchase agreements	209	–	–
Loans	49	(2)	–
	3,396	69	394
Financial liabilities designated at fair value through profit or loss			
Deposits(1)(2)	1,851	17	(114)
Liabilities related to transferred receivables	6,537	(7)	(210)
	8,388	10	(324)

(1) For the quarter ended January 31, 2015, the change in the fair value of deposits designated at fair value through profit or loss attributable to credit risk was a $2 million gain ($2 million gain for the quarter ended January 31, 2014).
(2) The amount at maturity that the Bank will be contractually required to pay to the holders of these deposits varies and will differ from the reporting date fair value.

(unaudited) (millions of Canadian dollars)

NOTE 5 – SECURITIES

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

				As at January 31, 2015
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities issued or guaranteed by				
Canada	4,851	157	–	5,008
Provinces	4,179	434	(16)	4,597
Municipalities and school boards	346	30	–	376
U.S. Treasury, other U.S. agencies and other foreign governments	213	–	–	213
Other debt securities	628	63	(5)	686
Equity securities	564	74	(31)	607
	10,781	758	(52)	11,487

				As at October 31, 2014
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities issued or guaranteed by				
Canada	4,226	38	(1)	4,263
Provinces	3,704	186	(10)	3,880
Municipalities and school boards	332	16	–	348
U.S. Treasury, other U.S. agencies and other foreign governments	274	–	–	274
Other debt securities	447	50	–	497
Equity securities	437	69	(15)	491
	9,420	359	(26)	9,753

Impairment Losses Recognized

At the end of each financial reporting period, the Bank determines whether there is objective evidence of impairment for each available-for-sale security. During the quarter ended January 31, 2015, $6 million in impairment losses (negligible amount for the quarter ended January 31, 2014) was recognized in *Gains (losses) on available-for-sale securities, net* in the Consolidated Statement of Income. In addition, during the quarters ended January 31, 2015 and 2014, no amount was reversed in the Consolidated Statement of Income to recognize subsequent increases in the fair value of previously impaired debt securities.

Gross Unrealized Losses

As at January 31, 2015 and as at October 31, 2014, the Bank concluded that the unrealized losses on available-for-sale securities were mainly due to market price fluctuations and to changes in foreign exchange rates and that there is no objective evidence of impairment requiring an impairment loss to be recognized in the Consolidated Statement of Income.

Master Asset Vehicles

The carrying value of the restructured notes of the MAV conduits and of the other restructured notes held by the Bank in an investment portfolio as at January 31, 2015, designated as *Securities at fair value through profit or loss,* was $1,126 million, and $76 million was classified in *Available-for-sale securities* ($1,166 million designated as *Securities at fair value through profit or loss* and $75 million classified in *Available-for-sale securities* as at October 31, 2014). The notes held in an investment portfolio with one or more embedded derivatives were designated as *Securities at fair value through profit and loss* under the fair value option, and the other notes were classified in *Available-for-sale securities*.

(unaudited) (millions of Canadian dollars)

NOTE 6 – LOANS

Credit Quality of Loans

				As at January 31, 2015
	Residential mortgage	Personal and credit card	Business and government[1]	Total
Neither past due[2] nor impaired	39,660	29,946	28,084	97,690
Past due[2] but not impaired	293	261	145	699
Impaired	58	83	248	389
Gross loans	40,011	30,290	28,477	98,778
Less: Allowances on impaired loans				
Individual allowances	9	16	146	171
Collective allowances	–	22	2	24
Allowances on impaired loans	9	38	148	195
	40,002	30,252	28,329	98,583
Less: Collective allowance on non-impaired loans[3]				366
Loans, net of allowances				98,217

				As at October 31, 2014
	Residential mortgage	Personal and credit card	Business and government[1]	Total
Neither past due[2] nor impaired	38,969	29,663	28,061	96,693
Past due[2] but not impaired	270	252	146	668
Impaired	61	81	344	486
Gross loans	39,300	29,996	28,551	97,847
Less: Allowances on impaired loans				
Individual allowances	9	15	191	215
Collective allowances	–	21	2	23
Allowances on impaired loans	9	36	193	238
	39,291	29,960	28,358	97,609
Less: Collective allowance on non-impaired loans[3]				366
Loans, net of allowances				97,243

(1) Business credit portfolios are closely monitored and a monthly watchlist of problem commitments is produced. The watchlist is analyzed by the loan portfolio managers concerned, who must then submit a report to Credit Risk Management.
(2) A loan is past due when the counterparty has not made a payment by the contractual due date.
(3) The collective allowance on non-impaired loans for credit risk was established taking into account the Bank's overall credit portfolio.

(unaudited) (millions of Canadian dollars)

NOTE 6 – LOANS (cont.)

Loans Past Due But Not Impaired

	As at January 31, 2015			As at October 31, 2014		
	Residential mortgage	Personal and credit card	Business and government[1]	Residential mortgage	Personal and credit card	Business and government[1]
Past due but not impaired						
1 month late	137	86	41	123	90	56
2 months late	50	33	26	45	30	23
3 months late and more	106	142	78	102	132	67
	293	261	145	270	252	146

(1) As at January 31, 2015, the fair value of financial collateral held against loans past due but not impaired was $15 million ($20 million as at October 31, 2014).

Impaired Loans

	As at January 31, 2015			
	Gross	Individual allowances	Collective allowances	Net
Loans				
Residential mortgage	58	9	–	49
Personal and credit card	83	16	22	45
Business and government	248	146	2	100
	389	171	24	194

	As at October 31, 2014			
	Gross	Individual allowances	Collective allowances	Net
Loans				
Residential mortgage	61	9	–	52
Personal and credit card	81	15	21	45
Business and government	344	191	2	151
	486	215	23	248

(unaudited) (millions of Canadian dollars)

Allowances for Credit Losses

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

	Quarter ended January 31, 2014								
	Residential mortgage		Personal and credit card		Business and government		Total		Total
	Individual allowances	Collective allowances	Individual allowances	Collective allowances	Individual allowances	Collective allowances	Individual allowances	Collective allowances	
Allowances on impaired loans									
Balance at beginning	7	–	13	20	170	2	190	22	212
Provisions for credit losses	3	–	29	9	9	1	41	10	51
Write-offs	(2)	–	(9)	(10)	(2)	(1)	(13)	(11)	(24)
Write-offs on credit cards	–	–	(19)	–	–	–	(19)	–	(19)
Recoveries	–	–	–	1	2	–	2	1	3
Balance at end	8	–	14	20	179	2	201	22	223
Collective allowance on non-impaired loans(1)									366
Total allowances									589

(1) The collective allowance on non-impaired loans for credit risk was established taking into account the Bank's overall credit portfolio.

(unaudited) (millions of Canadian dollars)

NOTE 7 – FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

In the normal course of its business, the Bank enters into transactions in which it transfers financial assets such as securities or loans directly to third parties, in particular structured entities. According to the terms of some of those transactions, the Bank retains substantially all of the risks and rewards related to those financial assets. The risks include credit risk, interest rate risk, foreign exchange risk, prepayment risk and other price risks, whereas the rewards include income streams associated with the financial assets. As such, those financial assets are not derecognized and the transactions are treated as collateralized or secured borrowings.

The following table provides additional information about the nature of the transferred financial assets that do not qualify for derecognition and the associated liabilities.

	As at January 31, 2015	As at October 31, 2014
Carrying value of financial assets transferred but not derecognized		
Securities(1)	34,494	31,359
Residential mortgages	16,452	15,790
	50,946	47,149
Carrying value of associated liabilities(2)	29,575	28,933
Fair value of financial assets transferred but not derecognized		
Securities(1)	34,494	31,359
Residential mortgages	16,842	16,068
	51,336	47,427
Fair value of associated liabilities(2)	29,744	29,049

(1) The amount related to the securities loaned represents the maximum amount of the Bank's securities that can be lent. For obligations related to securities sold under repurchase agreements, the amount includes the Bank's own financial assets as well as those of third parties.
(2) Associated liabilities include obligations related to securities sold under repurchase agreements before the offsetting impact of $3,667 million as at January 31, 2015 ($2,737 million as at October 31, 2014) and liabilities related to transferred receivables. Liabilities related to securities loaned are not included, as the Bank can lend its own financial assets and those of third parties. The carrying value and fair value of liabilities related to securities loaned were $8,149 million as at January 31, 2015 ($7,662 million as at October 31, 2014).

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

	As at January 31, 2015	As at October 31, 2014
Carrying value of financial assets transferred but not derecognized		
Securities backed by insured residential mortgage loans and other securities sold to Canada Housing Trust	17,248	16,604
Securities sold under repurchase agreements	11,606	11,921
Securities loaned	22,089	18,619
Residential mortgages transferred to a mutual fund	3	5
	50,946	47,149

(unaudited) (millions of Canadian dollars)

NOTE 8 – OTHER ASSETS

	As at January 31, 2015	As at October 31, 2014[1]
Receivables, prepaid expenses and other items	784	634
Interest and dividends receivable	405	454
Defined benefit asset	55	185
Deferred tax assets	296	264
Current tax assets	67	44
Reinsurance assets	24	25
	1,631	1,606

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

NOTE 9 – DEPOSITS

	As at January 31, 2015			As at October 31, 2014
	Demand or notice[1]	Fixed term[2]	Total	Total
Personal	25,743	19,917	45,660	44,963
Business and government	30,866	36,635	67,501	67,364
Deposit-taking institutions	2,021	4,057	6,078	7,556
	58,630	60,609	119,239	119,883

(1) Demand deposits are deposits for which the Bank does not have the right to require notice of withdrawal and consist essentially of deposits in chequing accounts. Notice deposits are deposits for which the Bank may legally require notice of withdrawal and consist mainly of deposits in savings accounts.
(2) Fixed-term deposits are deposits that can be withdrawn by the holder on a specified date and include term deposits, guaranteed investment certificates, savings accounts and plans, covered bonds and similar instruments.

The *Deposits – Business and government* item includes the deposit from NBC Capital Trust and covered bonds, the balances of which were $225 million and $6,830 million, respectively, as at January 31, 2015 ($225 million and $5,069 million, respectively, as at October 31, 2014).

During the quarter ended January 31, 2015, the Bank issued covered bonds amounting to 1.0 billion euros under the covered bond legislative program (1.0 billion euros issued during the quarter ended January 31, 2014). During the quarter ended January 31, 2014, an amount of US$1.0 billion of covered bonds issued under the structured covered bond program came to maturity. See Note 20 for additional information on covered bonds.

NOTE 10 – OTHER LIABILITIES

	As at January 31, 2015	As at October 31, 2014
Accounts payable and accrued expenses	1,040	1,317
Subsidiaries' debts to third parties	1,393	1,472
Interest and dividends payable	571	650
Defined benefit liability	208	177
Deferred tax liabilities	125	108
Current tax liabilities	82	113
Insurance liabilities	75	72
Other items[1]	581	585
	4,075	4,494

(1) As at January 31, 2015, *Other items* included a $42 million litigation provision ($50 million as at October 31, 2014).

NOTE 11 – SUBORDINATED DEBT

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

(unaudited) (millions of Canadian dollars)

NOTE 12 – HEDGING ACTIVITIES

Derivative and Non-Derivative Financial Instruments Designated as Hedging Instruments

	As at January 31, 2015			As at October 31, 2014		
	Fair value hedge	**Cash flow hedge**	**Net investment hedge**	Fair value hedge	Cash flow hedge	Net investment hedge
Assets						
Derivative financial instruments	**973**	**684**	**38**	420	243	14
Liabilities						
Derivative financial instruments	**537**	**509**	**3**	178	86	–
Carrying value of non-derivative financial instruments	**–**	**–**	**1,562**	–	–	1,373
Notional amounts of designated derivative financial instruments	**23,448**	**21,889**	**687**	19,156	19,918	637

Results of the Fair Value Hedges

	Quarter ended January 31	
	2015	2014
Gains (losses) on hedging instruments	**178**	63
Gains (losses) on hedged items attributable to the hedged risk	**(180)**	(64)
Ineffectiveness of fair value hedging relationships	**–**	1

Results of the Cash Flow Hedges

	Quarter ended January 31	
	2015	2014
Unrealized gains (losses) included in *Other comprehensive income* as the effective portion of the hedging instrument	**(1)**	(10)
Losses (gains) reclassified to *Net interest income* in the Consolidated Statement of Income	**(4)**	(4)
Ineffectiveness of cash flow hedging relationships	**–**	–

The following table shows the periods during which the Bank expects the hedged cash flows to occur and have an impact on net income.

				As at January 31, 2015
	1 year or less	**Over 1 year to 2 years**	**Over 2 years to 5 years**	**Over 5 years**
Expected cash flows from hedged assets	**37**	**36**	**130**	**51**
Expected cash flows from hedged liabilities	**70**	**58**	**137**	**63**
Net exposure	**(33)**	**(22)**	**(7)**	**(12)**

Results of the Hedges of Net Investments in Foreign Operations

For the quarters ended January 31, 2015 and 2014, a negligible amount representing the ineffective portion was recognized in *Non-interest income* in the Consolidated Statement of Income.

(unaudited) (millions of Canadian dollars)

NOTE 13 – SHARE CAPITAL

Redemption of Preferred Shares

On November 17, 2014, which was the first business day after the November 15, 2014 redemption date, the Bank completed the redemption of all the issued and outstanding non-cumulative Series 16 First Preferred Shares. Pursuant to the share conditions, the redemption price was $25.00 per share plus the periodic dividend declared and unpaid. The Bank redeemed 8,000,000 Series 16 preferred shares for a total amount of $200 million, which reduced *Preferred share capital* by $200 million.

Common Shares Held in Escrow

As part of the acquisition of Wellington West Holdings Inc. in 2011, the Bank had issued common shares held in escrow. As at January 31, 2015, the number of common shares held in escrow was 977,110 (977,110 as at October 31, 2014). The Bank expects that the conditions will be met and that the remaining shares held in escrow will be released by the end of fiscal 2016.

	As at January 31, 2015		As at October 31, 2014	
	Number of shares	**Shares $**	Number of shares	Shares $
First Preferred Shares				
Series 16	–	–	8,000,000	200
Series 20	6,900,000	173	6,900,000	173
Series 28	8,000,000	200	8,000,000	200
Series 30	14,000,000	350	14,000,000	350
Series 32	12,000,000	300	12,000,000	300
	40,900,000	1,023	48,900,000	1,223
Common shares at beginning of the fiscal year	329,297,375	2,293	325,982,736	2,160
Issued pursuant to the Stock Option Plan	437,742	16	2,944,507	102
Impact of shares purchased or sold for trading(1)	125,182	4	405,424	31
Other	–	–	(35,292)	–
Common shares at end of the period	329,860,299	2,313	329,297,375	2,293

	Quarter ended January 31			
	2015		2014	
	Dividends $	**Dividends per share**	Dividends $	Dividends per share
First Preferred Shares				
Series 16	–	–	2	0.3031
Series 20	3	0.3750	3	0.3750
Series 24	–	–	1	0.4125
Series 26	–	–	1	0.4125
Series 28	2	0.2375	2	0.2375
Series 30	3	0.2563	–	–
Series 32	4	0.3446	–	–
	12		9	
Common shares	165	0.5000	150	0.4600
	177		159	

(1) 749,772 shares were sold short for trading as at January 31, 2015 (624,590 as at October 31, 2014) representing a total amount of $36 million ($32 million as at October 31, 2014).

(unaudited) (millions of Canadian dollars)

NOTE 14 – NON-CONTROLLING INTERESTS

	As at January 31, 2015	As at October 31, 2014
Trust units issued by NBC Asset Trust (NBC CapS II)		
Series 1[(1)]	403	409
Series 2[(2)]	352	359
Other	31	27
	786	795

(1) Includes $3 million in accrued interest ($9 million as at October 31, 2014).
(2) Includes $2 million in accrued interest ($9 million as at October 31, 2014).

NOTE 15 – CAPITAL DISCLOSURE

OSFI is requiring Canadian banks to meet the 2019 minimum "all-in" requirements, regardless of the transition period set out by the Basel Committee on Banking Supervision (BCBS). The Bank must therefore maintain a Common Equity Tier 1 (CET1) capital ratio of at least 7.0%, a Tier 1 capital ratio of at least 8.5%, and a Total capital ratio of at least 10.5%, including the 2.5% capital conservation buffer for all ratios. In March 2013, OSFI designated Canada's six largest banks, a group that includes National Bank, as Domestic Systemically Important Banks. For these banks, a 1.0% surcharge will apply to their capital ratios as of January 1, 2016. Consequently, as of that date, the Bank and all other major Canadian banks will have to maintain a CET1 capital ratio of at least 8.0%, a Tier 1 capital ratio of at least 9.5%, and a Total capital ratio of at least 11.5%, all determined using the "all-in" methodology.

Since January 1, 2015, OSFI has been requiring Canadian banks to meet the new Basel III leverage ratio. The Basel III leverage ratio is a measure independent of risk that is calculated by dividing the amount of Tier 1 capital by total exposure. Total exposure is defined as the sum of on-balance-sheet assets (including derivative exposures and securities financing transaction exposures) and off-balance-sheet items. The assets deducted from Tier 1 capital are also deducted from total exposure. Banks must meet a minimum requirement of 3.0%. Until the first quarter of 2018, however, this ratio will remain subject to an observation period so that the BCBS or OSFI can increase the minimum requirement if deemed necessary.

As at January 31, 2015, the Bank was in compliance with all of OSFI's regulatory capital requirements.

Regulatory Capital and Ratios Under Basel III

	As at January 31, 2015	As at October 31, 2014
Capital[(1)]		
Common Equity Tier 1 (CET1)	6,159	5,985
Tier 1[(2)]	8,157	7,983
Total[(2)]	9,721	9,868
Risk-weighted assets[(1)]		
Common Equity Tier 1 (CET1) capital	66,264	64,818
Tier 1 capital	66,534	65,074
Total capital	66,766	65,459
Capital ratios[(1)]		
Common Equity Tier 1 (CET1)	9.3 %	9.2 %
Tier 1[(2)]	12.3 %	12.3 %
Total[(2)]	14.6 %	15.1 %
Leverage ratio[(1)(3)]	3.6 %	

(1) Figures are presented on an "all-in" basis.
(2) Figures as at October 31, 2014 include the redemption of the Series 16 preferred shares on November 15, 2014.
(3) The ratio came into effect on January 1, 2015.

(unaudited) (millions of Canadian dollars)

NOTE 16 – TRADING ACTIVITY REVENUES

Trading activity revenues consist of the net interest income from trading activities and trading revenues recognized in *Non-interest income* in the Consolidated Statement of Income.

Net interest income comprises dividends related to financial assets and liabilities associated with trading activities, net of interest expenses and interest income related to the financing of these financial assets and liabilities.

Non-interest income consists of realized and unrealized gains and losses as well as interest income on securities measured at fair value through profit or loss, income from held-for-trading derivative financial instruments, and the change in fair value of financial instruments designated at fair value through profit or loss.

	Quarter ended January 31	
	2015	2014
Net interest income	**115**	91
Non-interest income	**103**	78
	218	169

NOTE 17 – SHARE-BASED PAYMENTS

Stock Option Plan
During the quarter ended January 31, 2015, the Bank awarded 3,170,260 stock options (2,863,376 stock options during the quarter ended January 31, 2014) with an average fair value of $7.44 per option ($5.39 in 2014). As at January 31, 2015, there were 17,362,731 stock options outstanding (14,676,191 stock options as at October 31, 2014).

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

	Quarter ended January 31	
	2015	2014
Risk-free interest rate	**2.01%**	2.47%
Expected life of options	**7 years**	7 years
Expected volatility	**24.82%**	20.46%
Expected dividend yield	**4.0%**	4.4%

Compensation expense is presented in the following table.

	Quarter ended January 31	
	2015	2014
Compensation expense recorded for stock options	**5**	4

NOTE 18 – EMPLOYEE BENEFITS – PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

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

Cost for Pension Plans and Other Post-Employment Benefit Plans

		Quarter ended January 31		
		Pension plans	Other post-employment benefit plans	
	2015	2014	**2015**	2014
Current service cost	**22**	18	**1**	2
Interest expense (income), net	**(1)**	(1)	**2**	2
Administrative expenses	**1**	1		
Expense recognized in *Net income*	**22**	18	**3**	4
Remeasurements				
Actuarial (gains) losses on defined benefit obligation	**384**	64	**18**	4
Return on plan assets (excluding interest income)	**(248)**	(57)		
Remeasurements recognized in *Other comprehensive income*	**136**	7	**18**	4
	158	25	**21**	8

NOTE 19 – EARNINGS PER SHARE

Diluted earnings per share is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding after taking into account the dilution effect of stock options using the treasury stock method.

	Quarter ended January 31	
	2015	2014
Basic earnings per share		
Net income attributable to the Bank's shareholders	**397**	389
Dividends on preferred shares	**12**	9
Net income attributable to common shareholders	**385**	380
Weighted average basic number of common shares outstanding *(thousands)*	**328,880**	326,510
Basic earnings per share *(dollars)*	**1.17**	1.16
Diluted earnings per share		
Net income attributable to common shareholders	**385**	380
Weighted average basic number of common shares outstanding *(thousands)*	**328,880**	326,510
Adjustment to average number of common shares *(thousands)*		
Stock options(1)	**4,045**	3,675
Weighted average diluted number of common shares outstanding *(thousands)*	**332,925**	330,185
Diluted earnings per share *(dollars)*	**1.16**	1.15

(1) For the quarter ended January 31, 2015, as the exercise price of the options was less than the average price of the Bank's common shares, no option was excluded from the diluted earnings per share calculation. For the quarter ended January 31, 2014, the diluted earnings per share calculation does not include an average number of 2,863,376 options outstanding with a weighted average exercise price of $44.96, as the exercise price of these options was higher than the average price of the Bank's common shares.

(unaudited) (millions of Canadian dollars)

NOTE 20 – STRUCTURED ENTITIES

A structured entity is an entity created to accomplish a narrow and well-defined objective and is designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate solely to administrative tasks and the relevant activities are directed by means of contractual arrangements. Structured entities are assessed for consolidation in accordance with the accounting treatment described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2014. For a detailed description of the Bank's structured entities, see Note 28 to the audited annual consolidated financial statements for the year ended October 31, 2014. The Bank's maximum exposure to loss resulting from its interests in these structured entities consists primarily of the investments in these entities, the fair value of the derivative contracts entered into with them, and the backstop liquidity and credit enhancement facilities granted to certain structured entities.

The following table presents the carrying amounts of the assets and liabilities relating to the Bank's interests in non-consolidated structured entities, the Bank's maximum exposure to loss from these interests, as well as the total assets of these structured entities.

					As at January 31, 2015
	Multi-seller conduits(1)	Master asset vehicles(2)	Investment funds(3)	Private investments(4)	NBC Capital Trust(5)
Assets on the Consolidated Balance Sheet					
Securities at fair value through profit or loss	3	1,126	274	–	–
Available-for-sale securities	–	76	46	95	–
Derivative financial instruments	13	–	–	–	–
	16	1,202	320	95	–
As at October 31, 2014	34	1,241	992	87	–
Liabilities on the Consolidated Balance Sheet					
Deposits – Business and government	–	–	–	–	225
Other liabilities	–	–	–	–	1
	–	–	–	–	226
As at October 31, 2014	–	–	–	–	229
Maximum exposure to loss					
Securities and derivative financial instruments	16	1,202	320	95	–
Liquidity and credit enhancement facilities	2,039	–	–	–	–
Margin funding facility	–	825	–	–	–
	2,055	2,027	320	95	–
As at October 31, 2014	2,164	2,072	992	87	–
Total assets of the structured entities	2,066	–	2,621	3,592	238
As at October 31, 2014	2,174	–	6,029	3,218	241

(1) The main underlying assets, located in Canada, are residential mortgages, automobile loans, automobile inventory financings, and other receivables. As at January 31, 2015, the notional committed amount of the global-style liquidity facilities totalled $2.0 billion ($2.2 billion as at October 31, 2014), representing the total amount of commercial paper outstanding. The Bank also provides series-wide credit enhancement facilities for a notional committed amount of $30 million ($30 million as at October 31, 2014). The maximum exposure to loss cannot exceed the amount of commercial paper outstanding. As at January 31, 2015, the Bank held $3 million in commercial paper ($30 million as at October 31, 2014) and, consequently, the maximum potential amount of future payments as at January 31, 2015 is limited to $2.0 billion ($2.1 billion as at October 31, 2014), which represents the undrawn liquidity and credit enhancement facilities.

(2) The total amount outstanding of restructured notes of the MAV conduits was $17 billion as at January 31, 2015 ($18 billion as at October 31, 2014).

(3) The underlying assets are various financial instruments and are presented on a net asset basis. Certain investment funds are in a trading portfolio.

(4) The underlying assets are private investments. The amount of total assets of the structured entities corresponds to the amount for the most recent available period.

(5) The underlying asset is a deposit note from the Bank. See Note 9.

(unaudited) (millions of Canadian dollars)

NOTE 20 – STRUCTURED ENTITES (cont.)

The following table presents the Bank's investments and other assets in the consolidated structured entities as well as the total assets of these entities.

	As at January 31, 2015		As at October 31, 2014	
	Investments and other assets	Total assets(1)	Investments and other assets	Total assets(1)
Consolidated structured entities				
Securitization entity for the Bank's credit card receivables(2)(3)	327	1,619	342	1,636
National Bank hedge fund managed accounts (Innocap platform)(3)(4)	103	103	467	549
Investment funds(5)	456	509	281	332
Covered bonds(6)	10,457	10,736	10,315	10,696
Building(7)	75	68	73	66
NBC Asset Trust(8)	938	1,696	938	1,709
	12,356	14,731	12,416	14,988

(1) There are restrictions that stem mainly from regulatory requirements, corporate or securities laws and contractual arrangements, which limit the ability of certain consolidated structured entities to transfer funds to the Bank.
(2) The underlying assets are credit card receivables.
(3) The Bank's investment is presented net of third-party holdings.
(4) The underlying assets are various financial instruments (trading portfolio). The total assets of the Innocap platform are presented on a net asset basis.
(5) The underlying assets are various financial instruments and are presented on a net asset basis. Certain investment funds are in a trading portfolio.
(6) For the covered bonds issued under the covered bond legislative program, the underlying assets are uninsured residential mortgage loans of the Bank. The average maturity of these underlying assets is two years. For covered bonds issued under the structured covered bond program, the underlying assets are insured residential mortgage loans of the Bank. The average maturity of these underlying assets is two years. As at January 31, 2015, the total amount of transferred mortgage loans was $10.5 billion ($10.3 billion as at October 31, 2014) and the total amount of covered bonds of $6.8 billion was recognized in *Deposits – Business and government* on the Consolidated Balance Sheet ($5.1 billion as at October 31, 2014). See Note 9.
(7) The underlying asset is a building located in Canada.
(8) The underlying assets are insured and uninsured residential mortgage loans of the Bank. As at January 31, 2015, insured loans amounted to $253 million ($253 million as at October 31, 2014). The average maturity of the underlying assets is two years.

(unaudited) (millions of Canadian dollars)

NOTE 21 – SEGMENT DISCLOSURES

Quarter ended January 31

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Net interest income[1]	**441**	419	**82**	76	**238**	173	**(105)**	(54)	**656**	614
Non-interest income	**250**	239	**260**	247	**180**	192	**64**	72	**754**	750
Total revenues	**691**	658	**342**	323	**418**	365	**(41)**	18	**1,410**	1,364
Non-interest expenses	**397**	381	**239**	230	**175**	167	**52**	38	**863**	816
Contribution	**294**	277	**103**	93	**243**	198	**(93)**	(20)	**547**	548
Provisions for credit losses	**54**	50	**–**	1	**–**	–	**–**	–	**54**	51
Income before income taxes (recovery)	**240**	227	**103**	92	**243**	198	**(93)**	(20)	**493**	497
Income taxes (recovery)[1]	**65**	61	**27**	24	**65**	53	**(79)**	(46)	**78**	92
Net income	**175**	166	**76**	68	**178**	145	**(14)**	26	**415**	405
Non-controlling interests	**–**	–	**–**	–	**3**	2	**15**	14	**18**	16
Net income attributable to the Bank's shareholders	**175**	166	**76**	68	**175**	143	**(29)**	12	**397**	389
Average assets	**84,956**	79,499	**10,186**	10,580	**89,647**	85,565	**33,742**	30,055	**218,531**	205,699

(1) Net interest income and income taxes (recovery) of the business segments are presented on a taxable equivalent basis. Taxable equivalent basis is a calculation method that consists in grossing up certain tax-exempt income by the amount of income tax that would have been otherwise payable. For the business segments as a whole, *Net interest income* was grossed up by $63 million ($44 million in 2014). An equivalent amount was added to *Income taxes (recovery)*. The impact of these adjustments is reversed under the *Other* heading.

Personal and Commercial

The Personal and Commercial segment encompasses the banking, financing, and investing services offered to individuals and businesses as well as insurance operations.

Wealth Management

The Wealth Management segment comprises investment solutions, trust services, banking services, lending services and other wealth management solutions offered through internal and third-party distribution networks.

Financial Markets

The Financial Markets segment encompasses banking services, investment banking services and financial solutions for institutional clients. The segment is also active in proprietary trading and investment activities for the Bank.

Other

This heading encompasses Treasury activities, including the Bank's asset and liability management, liquidity management and funding operations, certain non-recurring items and the unallocated portion of corporate services.

NOTE 22 – EVENT AFTER THE CONSOLIDATED BALANCE SHEET DATE

On February 25, 2015, the Bank and Fiera Capital Corporation (Fiera Capital) will announce that they have entered into an agreement with a syndicate of underwriters for a secondary offering, on a private placement bought deal basis, of approximately 9 million class A subordinate voting shares of Fiera Capital held by the Bank, through one of its wholly-owned subsidiaries. Upon completion of the offering, the Bank's ownership in the issued and outstanding shares of Fiera Capital will be approximately 22%, a reduction from its current share ownership of approximately 35%. The offering, which is subject to the necessary regulatory approvals, is expected to close in March 2015.

INFORMATION FOR SHAREHOLDERS AND INVESTORS

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

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

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

Quarterly Report Publication Dates for Fiscal 2015
(subject to approval by the Board of Directors of the Bank)

First quarter	February 25
Second quarter	May 27
Third quarter	August 26
Fourth quarter	December 2

Disclosure of First Quarter 2015 Results

Conference Call
- A conference call for analysts and institutional investors will be held on Wednesday, February 25, 2015 at 1:00 p.m. EST.
- Access by telephone in listen-only mode: 1-866-862-3930 or 416-340-2217. The access code is 1937377#.
- A recording of the conference call can be heard until March 25, 2015 by dialing 1-800-408-3053 or 905-694-9451. The access code is 4796186#.

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

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

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

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

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

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

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

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

NATIONAL BANK