NATIONAL BANK

REPORT TO SHAREHOLDERS FIRST QUARTER 2014

National Bank posts record results for the First Quarter of 2014

The financial information reported herein is based on the unaudited interim condensed consolidated financial statements for the first quarter ended January 31, 2014 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. The figures for the year ended October 31, 2013 have been adjusted to reflect changes in accounting standards and the impact of the stock dividend of one common share on each issued and outstanding common share declared on December 3, 2013. The effect of this dividend was the same as a two-for-one split of common shares. A financial information supplement issued on January 31, 2014, entitled *"Supplementary Financial Information – Adjusted to Reflect Changes in Accounting Standards and the Common Stock Split"* is available at nbc.ca. This Report to Shareholders is available on the SEDAR website at sedar.com and on the Bank's website at nbc.ca.

MONTREAL, February 24, 2014 – National Bank is reporting $405 million in net income for the first quarter of 2014 versus $373 million in the first quarter of 2013. Diluted earnings per share for the quarter ended January 31, 2014 stood at $1.15, up 10% from $1.05 in the same quarter of 2013.

Excluding the specified items described on page 4, this quarter's net income was a record amount of $384 million, up 12% from $344 million in the first quarter of 2013, and the quarter's diluted earnings per share was a record $1.09, up 12% from $0.97 in the same quarter of 2013.

"First quarter results are showing strong momentum for National Bank," said Louis Vachon, President and Chief Executive Officer. "In Personal and Commercial Banking, loan and deposit growth remained strong and net interest margins improved on a sequential basis. Also, credit quality remained excellent. Wealth Management benefited from good organic growth and the contribution from newly acquired TD Waterhouse Institutional Services. Financial Markets also did well with solid client-driven activities and good cost control."

Highlights:

- $405 million in net income for the first quarter of 2014, up 9% from $373 million in the same quarter of 2013;
- Diluted earnings per share of $1.15 for the first quarter of 2014, up 10% from $1.05 in the same quarter of 2013;
- Return on equity of 19.8%;
- As at January 31, 2014, the Common Equity Tier 1 (CET1) capital ratio under Basel III was 8.3% versus 8.7% as at October 31, 2013.

Highlights Excluding Specified Items[1]:

- $384 million in net income for the first quarter of 2014, up 12% from $344 million in the same quarter of 2013;
- Diluted earnings per share of $1.09 for the first quarter of 2014, up 12% from $0.97 in the same quarter of 2013;
- Return on equity of 18.8%.

Financial Indicators

	Results Q1 2014	Results excluding specified items[1]
Growth in diluted earnings per share	10 %	12 %
Return on common shareholders' equity	19.8 %	18.8 %
Dividend payout ratio	39 %	42 %
CET1 capital ratio under Basel III	8.3 %	

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

Personal and Commercial

- Net income totalled $168 million in the first quarter of 2014, up 3% from $163 million in the first quarter of 2013. The segment's contribution rose $13 million or 5%.
- At $658 million, first-quarter total revenues rose $19 million or 3% 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 grew 5% from a year ago.
- The net interest margin was 2.25% in the first quarter of 2014 versus 2.24% the preceding quarter and 2.32% in the first quarter of 2013.
- At 57.5%, the efficiency ratio improved from 58.2% in the first quarter of 2013.

Wealth Management

- The acquisition of TD Waterhouse Institutional Services (TD Waterhouse) was completed on November 12, 2013.
- First-quarter net income totalled $68 million, a 42% increase from $48 million in the same quarter of 2013.
- First-quarter total revenues amounted to $324 million versus $277 million in the same quarter of 2013, a $47 million or 17% increase that was driven particularly by growth across all revenue streams and by the TD Waterhouse acquisition.
- First-quarter non-interest expenses stood at $231 million, up 9% year over year.
- Excluding specified items(1), the efficiency ratio was 68.3%, an improvement from 73.7% in the first quarter of 2013.

Financial Markets

- Net income totalled $144 million in the first quarter of 2014, up 27% from $113 million in the same quarter of 2013.
- At $365 million, revenues increased $62 million or 20% owing mainly to growth in trading activity revenues, gains on available-for-sale securities and other revenues.
- At $168 million, non-interest expenses increased slightly in the first quarter of 2014, rising $7 million year over year, particularly due to higher variable compensation associated with revenue growth.
- At 46.0%, the efficiency ratio improved from 53.1% in the first quarter of 2013.

Other

- Net income totalled $25 million for the first quarter of 2014 versus $49 million in the same quarter of 2013, a decrease that stems particularly from a lower contribution from Corporate Treasury. During the first quarter of 2014, a $33 million rise in the value of restructured notes was recorded, whereas a $26 million decrease in past services costs had been recorded in the first quarter of 2013 to reflect changes to the provisions in pension plans and other post-retirement plans subsequent to changes in accounting standards.

Capital Management

- The Common Equity Tier 1 (CET1) capital ratio under Basel III was 8.3% as at January 31, 2014 versus 8.7% as at October 31, 2013.
- The decrease came essentially from the Wealth Management acquisition and from the coming into force of the credit valuation adjustment.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 24, 2014

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 for the first quarter ended January 31, 2014 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. The figures for the year ended October 31, 2013 have been adjusted to reflect changes in accounting standards and the impact of the stock dividend of one common share on each issued and outstanding common share declared on December 3, 2013. The effect of this dividend was the same as a two-for-one split of common shares. A financial information supplement issued on January 31, 2014, entitled *"Supplementary Financial Information – Adjusted to Reflect Changes in Accounting Standards and the Common Stock Split"* is available at **nbc.ca**. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the first quarter ended January 31, 2014 and with the 2013 Annual Report. 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 2013 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 2014 and the objectives it has set for itself for that period. These forward-looking statements are made in accordance with current securities legislation. 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 2014 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, which are described in more detail in the "Risk Management" section beginning on page 60 of the 2013 Annual Report, and in particular the general economic environment and financial market conditions in Canada, the United States and certain other countries in which the Bank conducts business, including the 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 new reporting regime set out in sections 1471 to 1474 of the *U.S. Internal Revenue Code of 1986* (FATCA)); and changes to capital adequacy and liquidity guidelines and to the manner in which they are to be presented and interpreted.

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 2013 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. The Bank also cautions readers not to place undue reliance on these forward-looking statements.

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)

When assessing its results, the Bank uses certain measures that do not comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and set out in the CPA Canada Handbook. 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	2014	2013 [(1)]	% Change
Excluding specified items			
Personal and Commercial	**168**	163	3
Wealth Management	**76**	53	43
Financial Markets	**144**	113	27
Other	**(4)**	15	
Net income excluding specified items	**384**	344	12
Items related to holding restructured notes[(2)]	**30**	9	
Acquisition-related items[(3)]	**(9)**	(6)	
Item related to employee benefits[(4)]	**–**	26	
Net income	**405**	373	9
Diluted earnings per share excluding specified items[(5)]	**$ 1.09**	$ 0.97	12
Items related to holding restructured notes[(2)]	**0.09**	0.03	
Acquisition-related items[(3)]	**(0.03)**	(0.03)	
Item related to employee benefits[(4)]	**–**	0.08	
Diluted earnings per share[(5)]	**$ 1.15**	$ 1.05	10
Return on common shareholders' equity			
Including specified items	**19.8 %**	20.7 %	
Excluding specified items	**18.8 %**	19.0 %	

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2 to the unaudited interim condensed consolidated financial statements.

(2) During the quarter ended January 31, 2014, the Bank recorded $5 million in financing costs ($3 million net of income taxes) related to holding restructured notes. It also recorded $45 million in revenues ($33 million net of income taxes) to reflect the rise in the fair value of these notes (2013: $12 million in revenues ($9 million net of income taxes) to reflect the rise in the fair value of the commercial paper not included in the Pan-Canadian restructuring plan).

(3) During the quarter ended January 31, 2014, the Bank recorded $11 million in charges ($9 million net of income taxes) related mainly to the Wealth Management acquisitions and consisting mostly of retention bonuses (2013: $8 million, $6 million net of income taxes) in addition to 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.

(4) During the quarter ended January 31, 2013, the Bank recorded a $35 million decrease ($26 million net of income taxes) in past service costs to reflect changes to the provisions of its pension plans and other post-retirement plans subsequent to changes in accounting standards.

(5) Reflecting the impact of the common stock split. See Note 13 to the unaudited interim condensed consolidated financial statements.

HIGHLIGHTS

(millions of Canadian dollars)

Quarter ended January 31	2014	2013 [1]	% Change
Operating results			
Total revenues	$ 1,364	$ 1,232	11
Net income	405	373	9
Net income attributable to the Bank's shareholders	389	356	9
Return on common shareholders' equity	19.8 %	20.7 %	
Earnings per share[2] *(dollars)*			
Basic	$ 1.16	$ 1.06	9
Diluted	1.15	1.05	10
EXCLUDING SPECIFIED ITEMS[3]			
Operating results			
Total revenues	$ 1,326	$ 1,222	9
Net income	384	344	12
Net income attributable to the Bank's shareholders	368	327	13
Return on common shareholders' equity	18.8 %	19.0 %	
Earnings per share[2] *(dollars)*			
Basic	$ 1.10	$ 0.98	12
Diluted	1.09	0.97	12
Per common share[2] *(dollars)*			
Dividends declared	$ 0.46	$ 0.41	
Book value	23.68	20.76	
Stock trading range			
High	46.86	40.02	
Low	41.72	37.53	
Close	41.72	39.66	

	As at January 31, 2014	As at October 31, 2013 [1]	% Change
Financial position			
Total assets	$ 195,300	$ 188,219	4
Loans and acceptances	99,722	97,338	2
Deposits	111,248	102,111	9
Subordinated debt and equity	11,098	11,379	(2)
Capital ratios under Basel III[4]			
Common Equity Tier 1 (CET1)	8.3 %	8.7 %	
Tier 1	10.7 %	11.4 %	
Total	13.6 %	15.0 %	
Impaired loans, net of total allowances	(172)	(183)	
As a % of average loans and acceptances	(0.2) %	(0.2) %	
Assets under administration and under management	309,653	258,010	20
Total personal savings	161,827	157,515	3
Interest coverage	13.58	11.18	
Asset coverage	3.45	3.76	
Other information			
Number of employees	19,784	19,691	–
Number of branches in Canada	451	453	–
Number of banking machines	938	937	–

(1) Certain amounts have been ajusted to reflect changes in accounting standards. See Note 2 to the unaudited interim condensed consolidated financial statements.
(2) Reflecting the impact of the common stock split. See Note 13 to the unaudited interim condensed consolidated financial statements.
(3) See the Financial Reporting Method section on page 4.
(4) The ratios have been calculated using the "all-in" methodology, and the October 31, 2013 ratios have not been adjusted to reflect changes in accounting standards.

FINANCIAL ANALYSIS

Consolidated Results

Financial Results

National Bank reported $405 million in net income for the first quarter of 2014, a 9% increase from $373 million in the first quarter of 2013. Diluted earnings per share for the quarter ended January 31, 2014 stood at $1.15, up 10% from $1.05 in the same quarter of 2013.

Excluding specified items, this quarter's net income was a record amount of $384 million, up 12% from $344 million in the first quarter of 2013, and the quarter's diluted earnings per share was a record $1.09, up 12% from $0.97 in the same quarter of 2013. For the first quarter of 2014, the specified items included, net of income taxes, $3 million in financing costs related to holding restructured notes and $33 million in revenues to reflect a rise in the fair value of these notes, $7 million in items related to the Wealth Management acquisitions, the Bank's $1 million share in the integration costs incurred by Fiera, and $1 million in costs related to the Bank's interest in TMX. In the first quarter of 2013, net income had included the following specified items, net of income taxes: $9 million in revenues to reflect a rise in the fair value of commercial paper not included in the Pan-Canadian restructuring plan, $4 million in charges related to the Wealth Management acquisitions, the Bank's $1 million share in the integration costs incurred by Fiera, $1 million in costs related to the Bank's interest in TMX, and a $26 million decrease in the past service costs recorded by the Bank to reflect changes to provisions in its pension plans and other post-retirement plans subsequent to changes in accounting standards.

Total Revenues

For the first quarter of 2014, the Bank's total revenues amounted to $1,364 million, a $132 million or 11% year-over-year increase. Net interest income increased thanks to growth in personal and commercial loans and deposits. Excluding the $45 million specified item recorded to reflect the rise in the fair value of restructured notes in the first quarter of 2014 compared to $12 million in revenues for the commercial paper not included in the Pan-Canadian restructuring plan in the same quarter of 2013, non-interest income was up 13%. The Wealth Management segment's acquisitions in recent years, including the TD Waterhouse Institutional Services (TD Waterhouse) acquisition completed during the quarter ended January 31, 2014, contributed to the revenue increase, in particular with respect to underwriting and advisory fees, mutual fund revenues and trust service revenues. First-quarter trading revenues, gains on available-for-sale securities and other revenues also increased year over year.

Provisions for Credit Losses

For the first quarter of 2014, the Bank recorded $51 million in provisions for credit losses, $19 million more than in the same quarter of 2013, mainly because corporate loan loss recoveries had been recorded in the first quarter of 2013.

As at January 31, 2014, gross impaired loans stood at $417 million, up $22 million compared to October 31, 2013. This increase, which came mainly from personal loans, was particularly due to significant loan volume growth and, to a lesser extent, to an increase in commercial loans. Impaired loans represented 6.9% of the tangible capital adjusted for allowances as at January 31, 2014, up slightly from 6.5% as at October 31, 2013. As at January 31, 2014, allowances for credit losses exceeded gross impaired loans by $172 million compared to $183 million as at October 31, 2013.

Non-Interest Expenses

For the first quarter of 2014, non-interest expenses stood at $816 million, up $79 million or 11% from the same quarter of 2013. Excluding specified items, including the $35 million decrease in employee benefits expense recorded in the first quarter of 2013, non-interest expenses rose $41 million or 5%, mainly due to business growth that led to higher variable compensation, to the TD Waterhouse acquisition completed during the quarter, and to investments in technology and the promotion of banking services.

Income Taxes

For the first quarter of 2014, income taxes stood at $92 million compared to $90 million in the same quarter of 2013; the first-quarter effective tax rate was 19%, unchanged from the first quarter of 2013.

Results by Segment

Personal and Commercial

Quarter ended January 31 (millions of Canadian dollars)	2014	2013 (1)	% Change
Operating results			
Net interest income	419	404	4
Non-interest income	239	235	2
Total revenues	658	639	3
Non-interest expenses	378	372	2
Contribution	280	267	5
Provisions for credit losses	50	44	14
Income before income taxes	230	223	3
Income taxes	62	60	3
Net income	168	163	3
Net interest margin	2.25 %	2.32 %	(3)
Average interest-bearing assets	73,829	68,989	7
Average assets	79,499	74,708	6
Average deposits	42,363	39,312	8
Average loans and acceptances	79,176	74,321	7
Net impaired loans	192	162	19
Net impaired loans as a % of average loans and acceptances	0.2 %	0.2 %	
Efficiency ratio	57.5 %	58.2 %	

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2 to the unaudited interim condensed consolidated financial statements.

In the Personal and Commercial segment, net income totalled $168 million in the first quarter of 2014, up 3% from $163 million in the first quarter of 2013. First-quarter total revenues increased by $19 million year over year owing to higher net interest income, which rose $15 million, and to a $4 million increase in non-interest income. 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 2.25% in the first quarter of 2014 versus 2.32% in the same quarter of 2013, resulting from smaller deposit and lending margins. The net interest margin did, however, improve from 2.24% in the preceding quarter.

Personal Banking's total revenues rose $16 million, mainly due to higher loan volume, especially consumer and mortgage loans, partly offset by lower net interest margins. Commercial Banking's total revenues rose $3 million owing mainly to growth in loan volume and foreign exchange transactions.

The segment's first-quarter non-interest expenses increased by $6 million or 2% year over year, particularly due to employee compensation. At 57.5%, the efficiency ratio for the first quarter of 2014 improved by 0.7% when compared to the same quarter of 2013.

The segment's provisions for credit losses were raised $6 million when compared to the first quarter of 2013, particularly because of the growth in both personal and commercial loan volume.

Wealth Management

Quarter ended January 31 (millions of Canadian dollars)	2014	2013 (1)	% Change
Operating results excluding specified items(2)			
Net interest income	77	68	13
Fee-based revenues	155	133	17
Transaction-based and other revenues	93	77	21
Total revenues	325	278	17
Non-interest expenses	222	205	8
Contribution	103	73	41
Provisions for credit losses	1	1	–
Income before income taxes	102	72	42
Income taxes	26	19	37
Net income excluding specified items	76	53	43
Specified items after taxes(2)	(8)	(5)	
Net income	68	48	42
Average assets	10,580	9,037	17
Average deposits	24,433	20,461	19
Average loans and acceptances	8,116	7,803	4
Net impaired loans	2	3	(33)
Net impaired loans as a % of average loans and acceptances	– %	– %	
Efficiency ratio excluding specified items(2)	68.3 %	73.7 %	

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2 to the unaudited interim condensed consolidated financial statements.
(2) See the Financial Reporting Method section on page 4.

In the Wealth Management segment, net income totalled $68 million in the first quarter of 2014 versus $48 million in the same quarter of 2013, representing strong growth that was mainly driven by favourable synergies resulting from the segment's recent transactions and by growth in assets under administration and under management. Excluding specified items, the segment's total revenues rose 17% owing to growth across all revenue streams and to the TD Waterhouse acquisition completed in the first quarter of 2014.

Excluding specified items, all relating to the acquisitions of recent years, first-quarter non-interest expenses stood at $222 million compared to $205 million in the same quarter of 2013, an 8% increase that came mainly from the higher variable compensation associated with greater segment activity.

Financial Markets

Quarter ended January 31 (taxable equivalent basis)(1) (millions of Canadian dollars)	2014	2013 (2)	% Change
Operating results			
Trading activity revenues			
Equities	88	50	76
Fixed-income	50	59	(15)
Commodities and foreign exchange	25	18	39
	163	127	28
Financial market fees	61	60	2
Gains on available-for-sale securities, net	11	4	
Banking services	58	54	7
Other	72	58	24
Total revenues	365	303	20
Non-interest expenses	168	161	4
Contribution	197	142	39
Provisions for (recoveries of) credit losses	–	(13)	
Income before income taxes	197	155	27
Income taxes	53	42	26
Net income	144	113	27
Non-controlling interests	2	3	(33)
Net income attributable to the Bank's shareholders	142	110	29
Average assets	85,565	82,624	4
Average deposits	9,674	5,464	77
Average loans and acceptances (Corporate only)	7,649	6,708	14
Net impaired loans	–	–	
Net impaired loans as a % of average loans and acceptances	– %	– %	
Efficiency ratio	46.0 %	53.1 %	

(1) For additional information, see Note 22 to the unaudited interim condensed consolidated financial statements.
(2) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2 to the unaudited interim condensed consolidated financial statements.

In the Financial Markets segment, net income totalled $144 million for the first quarter of 2014, up $31 million from $113 million in the same quarter of 2013. On a taxable equivalent basis, the segment's first-quarter total revenues amounted to $365 million compared to $303 million in the first quarter of 2013, as most revenue streams contributed stronger results. First-quarter trading activity revenues rose $36 million or 28% year over year, mainly due to client business in equities, commodities and foreign exchange. A $14 million increase in other revenues came mainly from the sale of investments.

At $168 million, the segment's first-quarter non-interest expenses saw a slight, $7 million year-over-year increase that came particularly from the higher variable compensation associated with revenue growth. For the first quarter of 2014, no provisions for credit losses were taken, whereas $13 million in credit losses had been recovered in the same quarter of 2013.

Other

Quarter ended January 31 (taxable equivalent basis)[1] (millions of Canadian dollars)	2014	2013 [2]
Operating results excluding specified items[3]		
Net interest income	(50)	(41)
Non-interest income	28	43
Total revenues	(22)	2
Non-interest expenses	39	28
Income before income taxes	(61)	(26)
Income taxes	(57)	(41)
Net income excluding specified items	(4)	15
Specified items after income taxes[3]	29	34
Net income	25	49
Non-controlling interests	14	14
Net income attributable to the Bank's shareholders	11	35
Average assets	30,055	20,419

(1) For additional information, see Note 22 to the unaudited interim condensed consolidated financial statements.
(2) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2 to the unaudited interim condensed consolidated financial statements.
(3) See the Financial Reporting Method section on page 4.

For the *Other* heading of segment results, net income totalled $25 million in the first quarter of 2014 compared to $49 million in the same quarter of 2013. Excluding specified items, there was a net loss of $4 million this first quarter versus net income of $15 million in the first quarter of 2013. The decrease in net income was particularly due to a lower contribution from Corporate Treasury.

Consolidated Balance Sheet

Assets

As at January 31, 2014, the Bank had total assets of $195.3 billion compared to $188.2 billion as at October 31, 2013, a $7.1 billion or 4% increase. Cash and deposits with financial institutions increased by $1.7 billion due to growth in deposits with the U.S. Federal Reserve. Securities increased $2.5 billion since October 31, 2013 due to securities at fair value through profit or loss, whereas securities purchased under reverse repurchase agreements and securities borrowed were down $2.2 billion compared to October 31, 2013.

Master Asset Vehicles

As at January 31, 2014, the face value of the restructured notes of the master asset vehicle (MAV) conduits and of the other restructured notes held by the Bank was $1,716 million ($1,727 million as at October 31, 2013), of which $1,496 million was designated as *Securities at fair value through profit or loss* under the fair value option, and an amount of $220 million was classified in *Available-for-sale securities* ($1,506 million designated as *Securities at fair value through profit or loss* and $221 million classified in *Available-for-sale securities* as at October 31, 2013). The change in the face value of the restructured notes of the MAV conduits during the first quarter of fiscal 2014 was mainly due to capital repayments.

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, 2014, designated as *Securities at fair value through profit or loss*, was $1,333 million, and $69 million was classified in *Available-for-sale securities* ($1,293 million designated as *Securities at fair value through profit or loss* and $68 million classified in *Available-for-sale securities* as at October 31, 2013). 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 as *Available-for-sale securities*.

In establishing the fair value of the restructured notes of the MAV conduits and ineligible assets, the Bank applied the same methodologies used as at October 31, 2013 and adjusted its assumption on the liquidity of the MAV I notes to reflect market conditions. For additional information, see Note 6 to the audited annual consolidated financial statements for the year ended October 31, 2013. During the first quarter of 2014, $45 million in revenues were recorded to reflect a rise in the fair value of restructured notes ($12 million to reflect a change in the fair value of commercial paper not included in the Pan-Canadian restructuring plan during the quarter ended January 31, 2013). These amounts were recorded in *Trading revenues* in the Consolidated Statement of Income. Following this adjustment, the carrying value of the restructured notes, designated as *Securities at fair value through profit or loss*, was within estimated fair value ranges as at January 31, 2014.

The Bank has committed to contribute $873 million ($886 million as at October 31, 2013) to a margin funding facility related to the MAV conduits in order to finance potential collateral calls. As at January 31, 2014 and as at October 31, 2013, no amount had been advanced by the Bank.

Loans and Acceptances

As at January 31, 2014, loans and acceptances have increased since October 31, 2013 due to growth across all lending activities, in particular residential mortgages and business loans. The following table provides a breakdown of the main loan and acceptance portfolios.

(millions of Canadian dollars)	As at January 31, 2014	As at October 31, 2013	As at January 31, 2013
Loans and acceptances			
Consumer loans	**26,464**	26,064	24,823
Residential mortgages	**37,127**	36,573	34,392
Credit card receivables	**1,905**	1,925	1,874
Business and government	**34,815**	33,354	32,188
	100,311	97,916	93,277

As at January 31, 2014, loans and acceptances totalled $100.3 billion, up $2.4 billion or 2% from October 31, 2013. Consumer loans were up 2%, due primarily to home equity lines of credit and indirect consumer loans. Rising 2%, residential mortgages were also up as at January 31, 2014. Loans and acceptances to business and government increased by 4% since October 31, 2013, mainly due to corporate financing activities and to loans to companies in the energy sector. Compared to a year ago, loans and acceptances increased $7.0 billion or 8%, and consumer loans and residential mortgage loans rose, respectively, by 7% and 8%. Loans and acceptances to business and government also contributed to the growth, rising 8% from a year ago, mainly because of acceptance and corporate loan financing.

Liabilities

As at January 31, 2014, the Bank had total liabilities of $186.1 billion compared to $179.3 billion as at October 31, 2013.

As at January 31, 2014, the Bank's deposit liability stood at $111.2 billion, rising $9.1 billion or 9% from $102.1 billion as at October 31, 2013. The following table provides a breakdown of total personal savings.

(millions of Canadian dollars)	As at January 31, 2014	As at October 31, 2013	As at January 31, 2013
Balance sheet			
Deposits	**45,491**	42,652	40,993
Off-balance-sheet			
Full-service brokerage	**95,594**	94,550	88,962
Mutual funds	**16,992**	16,633	15,562
Other	**3,750**	3,680	3,580
	116,336	114,863	108,104
Total	**161,827**	157,515	149,097

At $45.5 billion as at January 31, 2014, personal deposits were up $2.8 billion since October 31, 2013 owing essentially to lower interest rates that favoured transactional deposit accounts and the CashPerformer account. Since the beginning of the fiscal year, personal savings included in assets under administration and under management grew 1% due to acquisition-driven business growth. Personal deposits were up $4.5 billion from a year ago, while personal savings included in assets under administration and under management were up $8.2 billion.

At $59.6 billion, business and government deposits rose $2.5 billion or 4% since October 31, 2013, as businesses increased liquidity levels. At $6.1 billion, deposits from deposit-taking institutions rose $3.7 billion since October 31, 2013, mainly due to U.S. government financial institutions. Other financing activities decreased since October 31, 2013, essentially due to a $3.4 billion decrease in obligations related to securities sold under repurchase agreements and securities loaned.

Equity

As at January 31, 2014, the Bank's equity was $9.2 billion compared to $9.0 billion as at October 31, 2013, an increase that stems primarily from higher retained earnings and from exercised stock options.

As at February 20, 2014, there were 327,188,454 common shares and 16,352,672 stock options outstanding. These amounts reflect the impact of the common stock split.

Acquisition

TD Waterhouse Institutional Services

On November 12, 2013, through a subsidiary, the Bank completed the acquisition of Toronto-Dominion Bank's institutional services known as TD Waterhouse Institutional Services. This acquisition marks another step in the Bank's expansion of its wealth management platform across Canada. At $260 million, the purchase price is subject to a price adjustment mechanism based on the assets retained over a one-year period. The net assets acquired include client list intangible assets totalling approximately $58 million. The purchase price exceeded the fair value of the net assets acquired by $206 million. This excess amount was recorded on the Consolidated Balance Sheet as goodwill and mainly represents synergies and the benefits expected from combining the acquired operations with those of the Bank. The tax deductible portion of the goodwill is $155 million. The acquired receivables, consisting mainly of loans to clients for the purchase of securities, had an acquisition-date fair value of $448 million. This amount also represents the gross contractual amounts receivable, which the Bank expects to fully recover.

An amount of $1 million in acquisition-related costs was included in *Non-interest expenses* in the Consolidated Statement of Income. These consolidated financial statements include the results of the acquired business as of November 12, 2013. During the quarter ended January 31, 2014, the acquired business contributed approximately $13 million to the Bank's total revenues and $6 million to its net income (excluding integration costs). If the Bank had completed the acquisition on November 1, 2013, it would have reported total revenues of approximately $1,366 million and net income of approximately $406 million in the Consolidated Statement of Income for the quarter ended January 31, 2014.

Events After the Balance Sheet Date

Issuance of Preferred Shares

On February 7, 2014, the Bank announced the closing of the issuance of 14,000,000 Non-Cumulative 5-Year Rate-Reset Series 30 First Preferred Shares at a per-share price of $25.00 for gross proceeds of $350 million. These preferred shares are compliant with Basel III since they have a non-viability contingent capital clause, as required by the Office of the Superintendent of Financial Institutions (Canada) (OSFI) for all issuances of capital instruments other than common shares.

Redemption of Preferred Shares

On February 15, 2014, the Bank redeemed all of the outstanding 2,425,880 Non-Cumulative Series 24 First Preferred Shares and the outstanding 1,724,835 Non-Cumulative Series 26 First Preferred Shares at a per-share price of $25.00 plus the periodic declared and unpaid dividend. The Bank paid the redemption price and the dividend on February 17, 2014, the first business day after the redemption date.

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 2013 Annual Report. For additional information on guarantees and a description of obligations under certain indemnification agreements, see Note 25 to the audited annual consolidated financial statements for the year ended October 31, 2013.

During the first quarter ended January 31, 2014, a new structured entity, NBC Covered Bond Guarantor (Legislative) Limited Partnership, was created. The Bank consolidates this entity since it has control. For additional information about structured entities and financial assets transferred but not derecognized, see Notes 21 and 7, respectively, to these unaudited interim condensed 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 OSFI, the financial statements are to be prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) 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* and the accounting policies described in Note 1 to the audited annual consolidated financial statements for the year ended October 31, 2013, 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. Some of these accounting policies are considered critical given their importance to the presentation of the Bank's financial position and operating results and require 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 2013 Annual Report, except for the changes described in the Accounting Policy Changes section. Additional information on fair value determination is provided in Notes 3, 4 and 5 to these consolidated financial statements, and additional information on the consolidation of structured entities is provided in Note 21 to these consolidated financial statements.

Accounting Policy Changes

Effective Date – November 1, 2013
As required by the IASB, on November 1, 2013, the Bank adopted the following new or amended accounting standards:

IAS 19 – *Employee Benefits*
In June 2011, the IASB issued an amended version of IAS 19, introducing significant changes to the accounting of employee benefits, primarily for defined benefit pension plans. The main changes to the revised standard are as follows:

– The expected return on plan assets is no longer used in calculating the pension plan expense. The discount rate used to measure the accrued benefit obligation must also be used to measure the return on plan assets.
– Past service costs are recognized when a plan is amended, with no deferral over the vesting period.
– Additional annual disclosure is to be provided regarding the characteristics of defined benefit plans and the risks to which entities are exposed by participating in those plans.
– The revised standard requires that all actuarial gains and losses be immediately recognized in *Other comprehensive income*. The recognition of actuarial gains and losses can no longer be deferred. This last amendment has no impact on the Bank since it already recognizes actuarial gains and losses in *Other comprehensive income*.

The requirements of the amended version of IAS 19 have been applied retrospectively. The impacts of adopting the amendments on the Consolidated Balance Sheet as at October 31, 2013 are presented below. There is no impact on the Consolidated Balance Sheet as at November 1, 2012.

	As at October 31, 2013
Consolidated Balance Sheet	
Increase in *Other assets*	15
Decrease in *Other liabilities*	6
Increase in *Retained earnings*	21

Retrospective adoption of the changes had the following impacts on the Consolidated Statement of Income and the Consolidated Statement of Comprehensive Income for the quarter ended January 31, 2013.

Quarter ended January 31	2013
Consolidated Statements of Income and Comprehensive Income	
Decrease in *Compensation and employee benefits* (1)	16
Increase in *Income taxes*	4
Increase in *Net income*	12
Increase in *Other comprehensive income – Actuarial gains and losses on employee benefit plans*	12
Increase in *Comprehensive income*	24
Increase in earnings per share *(dollars)*	
Basic	0.03
Diluted	0.03

(1) This amount includes a $35 million decrease in past service costs, less a $1 million reduction recorded under the previous IAS 19, resulting from changes that had been made to provisions in the Bank's pension plans and other post-retirement plans in the first quarter of 2013.

IFRS 10 – *Consolidated Financial Statements*

IFRS 10 replaces the consolidation guidance in IAS 27 – *Consolidated and Separate Financial Statements* and interpretation SIC-12 – *Consolidation – Special Purpose Entities*, by establishing a single consolidation model based on control for all interests held in all types of entities (investees). According to IFRS 10, control is based on the concepts of decision-making authority regarding the investee's relevant activities, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power to affect the amount of returns. An entity must consolidate the entities it controls and present consolidated financial statements.

The Bank retrospectively adopted IFRS 10, the impact of which is the deconsolidation of NBC Capital Trust (the Trust). Under IFRS 10, the Bank does not control the Trust because the Bank's interest does not expose it to variable returns. The Bank's earnings per share has not been affected. The impacts of the deconsolidation are as follows:

– A $225 million increase in *Deposits* on the Consolidated Balance Sheet as at October 31, 2013 and as at November 1, 2012, representing the Trust's deposit note.
– A $229 million decrease in *Non-controlling interests* on the Consolidated Balance Sheet as at October 31, 2013 and as at November 1, 2012, representing the trust units issued by the Trust.
– A $4 million increase in *Other liabilities* on the Consolidated Balance Sheet as at October 31, 2013 and as at November 1, 2012, representing accrued interest payable on the deposit note.
– A $3 million decrease in *Net income* and an equivalent decrease in *Non-controlling interests* on the Consolidated Statement of Income for the quarter ended January 31, 2013.

IFRS 7 – *Financial Instruments: Disclosures*

The amendments to IFRS 7 require disclosure about legally enforceable rights of set-off for financial instruments under master netting agreements or similar arrangements. The Bank retrospectively adopted these amendments, which had no impact on its results or financial position since the standard only affects disclosures. The required IFRS 7 disclosure amendments will be presented in the audited annual consolidated financial statements as at October 31, 2014.

IFRS 11 – *Joint Arrangements*

IFRS 11 – *Joint Arrangements* replaces IAS 31 – *Interests in Joint Ventures* and SIC-13 – *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. Under IFRS 11, a joint arrangement is an arrangement in which two or more parties have joint control. Joint control means the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11, a joint arrangement must be classified as either a joint operation or a joint venture, depending on an assessment of the rights and obligations of the parties to the arrangement.

A joint operation is a joint arrangement wherein joint operators have rights to the assets and obligations for the liabilities. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interests in a joint operation in accordance with the IFRS standards applicable to the particular assets, liabilities, revenues and expenses. A joint venture is a joint arrangement wherein the joint venturers have rights to the net assets of the arrangement. A joint venturer accounts for its interest in a joint venture using the equity method.

The Bank retrospectively adopted IFRS 11 and concluded that the joint arrangements in which it has rights constitute joint ventures. Since these investments were already accounted for using the equity method under IAS 31, there was no impact on the Bank's consolidated financial statements.

IFRS 12 – *Disclosure of Interests in Other Entities*
IFRS 12 applies to entities that hold interests in subsidiaries, joint arrangements, associates and non-consolidated structured entities. It requires additional disclosure that enables financial statement users to assess the nature of, and risks associated with, an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. The Bank retrospectively adopted IFRS 12, and the required disclosures will be presented in the audited annual consolidated financial statements as at October 31, 2014. However, certain disclosures related to structured entities are presented in these consolidated financial statements.

IFRS 13 – *Fair Value Measurement*
IFRS 13 defines fair value, sets out in a single standard a framework for measuring fair value and requires disclosures about fair value measurements. Prospective adoption of this standard did not have a significant impact on the Bank's consolidated financial statements. The required quarterly disclosures are presented in these consolidated financial statements; the additional annual disclosures required will be presented in the audited annual consolidated financial statements as at October 31, 2014.

Effective Date – November 1, 2014
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. The Bank is currently assessing the impact these amendments will have on the consolidated financial statements.

IFRIC Interpretation 21 – *Levies*
IFRIC Interpretation 21 (IFRIC 21) provides guidance on when to recognize 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*. IFRIC 21 is to be applied retrospectively and the Bank is currently assessing the impact of adopting this interpretation.

Effective Date – Not yet specified
IFRS 9 – *Financial Instruments*
The purpose of IFRS 9 is to replace the current standard on financial instruments and constitutes a three-phase project: (1) Classification and measurement of financial assets and financial liabilities; (2) Impairment; and (3) Hedge accounting. In July 2013, the IASB decided to temporarily defer the mandatory effective date of IFRS 9 and to not specify that date until the requirements for financial instrument classification and measurement and financial asset impairment are finalized. The Bank is monitoring the progress of the IASB's work.

Financial Disclosure

During the first quarter of 2014, 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 transparency and measurement with respect to 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 $649 million as at January 31, 2014 ($661 million as at October 31, 2013).

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 shown in the table below.

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, 2014, total commitments for this type of loan stood at $851 million ($865 million as at October 31, 2013). Details about other exposures are provided in the table on structured entities in Note 21 to these unaudited interim condensed consolidated financial statements.

Credit Derivative Positions (notional amounts)

(millions of Canadian dollars)	**As at January 31, 2014**				As at October 31, 2013			
	Credit portfolio		**Trading**		Credit portfolio		Trading	
	Protection purchased	**Protection sold**	**Protection purchased**	**Protection sold**	Protection purchased	Protection sold	Protection purchased	Protection sold
Credit default swaps								
Indices, single names and other	**45**	**–**	**742**	**201**	42	–	1,071	235
Tranches on indices	**–**	**–**	**–**	**1**	–	–	–	1
Total return swaps	**–**	**–**	**–**	**10**	–	–	–	9

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. As at October 31, 2013, the Bank has made every effort to ensure overall compliance with those recommendations and is continuing to enhance its risk disclosures to meet the best practices on an ongoing basis. The risk disclosures required by the EDTF are provided in the 2013 Annual Report, in this Report to Shareholders, and in the document entitled *Supplementary Financial Information for the First Quarter of January 31, 2014*, 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		
		2013 Annual Report	Report to Shareholders (1)	Supplementary Financial Information (1)
General				
1	Location of risk disclosures	10	17	
	Management's Discussion and Analysis	18, 53 to 85, 90 and 93	18 to 33	
	Consolidated Financial Statements	Notes 1, 5, 7, 15 and 22	Note 6	
	Supplementary Financial Information			18 to 50
2	Risk terminology and risk measures	60 to 84		
3	Top and emerging risks	60		
4	New key regulatory ratios	76 and 80		
Risk governance and risk management				
5	Risk management organization, processes and key functions	61 to 64		
6	Risk management culture	61		
7	Key risks by business segment, risk management and risk appetite	18, 61 and 62		
8	Stress testing	53, 62, 67 and 74 to 78		
Capital adequacy and risk-weighted assets (RWA)				
9	Minimum Pillar 1 capital requirements	55	18	
10	Reconciliation of the accounting balance sheet to the regulatory balance sheet			28 to 30
11	Movements in regulatory capital	56	19	
12	Capital planning	53 to 59		
13	RWA by business segment and by risk type	18 and 58	20	
14	Capital requirements by risk and RWA calculation method	58 and 65 to 67	20	
15	Banking book credit risk		20	38 to 45
16	Movements in RWA by risk type	59	21	
17	Assessment of credit risk model performance	64, 67 and 73		21 to 24; 38 to 45
Liquidity				
18	Liquidity management and components of the liquidity buffer	77 to 79	27	
Funding				
19	Summary of encumbered and unencumbered assets	79	28	
20	Residual contractual maturities of balance sheet items and off-balance-sheet commitments	140 to 143	30 to 33	
21	Funding strategy and funding sources	80 to 82	29	
Market risk				
22	Linkage of market risk measures to balance sheet	72	23 and 24	
23	Market risk factors	71, 75, 135, 137 and 179	25 and 26	
24	VaR: assumptions, limitations and validation procedures	73, 74 and 135		
25	Stress tests, stressed VaR and backtesting	73 to 75, 135 and 137		
Credit risk				
26	Credit risk exposures	132, 133 and 149 to 152	22; 53 to 55	18 to 27; 38 to 49
27	Policies for identifying impaired loans	69 and 108		
28	Movements in impaired loans and allowances for credit losses	90, 93 and 149 to 151	53 to 55	27
29	Counterparty credit risk relating to derivatives transactions	69, 70 and 161 to 163	23	50
30	Credit risk mitigation	68 to 70		46 and 47
Other risks				
31	Other risks: governance, measurement and management	64 and 82 to 85		
32	Publicly known risk events	No risk event	No risk event	

(1) For the first quarter ended January 31, 2014.

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 is prudently managing such capital to satisfy any 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 53 to 59 of the Bank's 2013 Annual Report.

In December 2012, OSFI released the final version of the *Capital Adequacy Requirements (CAR) Guideline*, which took effect in January 2013. The guideline reflects the changes to capital requirements adopted by the Basel Committee on Bank Supervision (BCBS), which are commonly referred to as Basel III. These changes, along with global liquidity standards, seek to strengthen the resiliency of the banking sector and financial system. In addition to those measures, OSFI now requires that regulatory capital instruments other than common shares have a non-viability contingent capital (NVCC) clause to ensure that investors bear losses before taxpayers should the government determine that rescuing a non-viable financial institution is in the public interest.

The new Basel III regulatory framework sets out transitional arrangements for the period of 2013 to 2019. OSFI has introduced two methodologies for determining capital. The "all-in" methodology includes all of the regulatory adjustments that will be required by 2019 while retaining the phase-out rules for non-qualifying capital instruments. The "transitional" methodology, in addition to applying the phase-out rules for non-qualifying capital instruments, also applies a more flexible and steady phasing in of the required regulatory adjustments. The Bank will disclose its capital ratios calculated according to both methodologies in each quarter until the start of 2019. Nevertheless, OSFI has been requiring Canadian banks to meet the 2019 minimum "all-in" requirements since the first quarter of 2013 for Common Equity Tier 1 (CET1) and is requiring them to do the same by the first quarter of 2014 for Tier 1 capital and total capital. Furthermore, to ensure an implementation similar to that of other countries, OSFI has decided to phase in the credit valuation adjustment (CVA) charge over a period of five years beginning in 2014. In the first year, only 57%, 65% 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. The coming into force of the CVA charge had a 21-basis-point impact on the Bank's CET1 capital ratio as at January 31, 2014.

As such, the Bank must now maintain a CET1 capital ratio, a Tier 1 capital ratio and a total capital ratio of at least 7.0%, 8.5% and 10.5%, respectively, all of which include the 2.5% capital conservation buffer. 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% 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 regulatory capital ratios, OSFI also requires Canadian banks to meet a financial leverage test. Leverage or the assets-to-capital multiple is calculated by dividing the Bank's total assets, including certain off-balance-sheet items, by its total regulatory capital in accordance with the transitional requirements for Basel III.

New disclosure requirements pursuant to Pillar 3 of the Basel II framework came into force in the third quarter of 2013. Canadian financial institutions must use a disclosure template for their "all-in" regulatory capital and must present a reconciliation of all regulatory capital elements back to the balance sheet. These two requirements are presented in the *Supplementary Financial Information* 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 now available on the Bank's website under *Investor Relations › Capital and Debt Information › Main Features of Regulatory Capital Instruments.*

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

			Minimum ratios to be maintained		
	January 31, 2014 (1)	October 31, 2013 (2)	BCBS 2014	OSFI 2014 (3)	OSFI January 1, 2016 (3)(4)
Common Equity Tier 1 (CET1)	**8.3 %**	8.7 %	4.0 %	7.0 %	8.0 %
Tier 1	**10.7 %**	11.4 %	5.5 %	8.5 %	9.5 %
Total	**13.6 %**	15.0 %	8.0 %	10.5 %	11.5 %

(1) Basel III ratios, including a portion of the CVA charge.
(2) Basel III ratios, excluding the CVA charge.
(3) Includes the 2.5% capital conservation buffer.
(4) Includes the 1% surcharge applicable to D-SIBs.

Management Activities

On November 15, 2013, the Bank redeemed at nominal value for cancellation $500 million in notes maturing in November 2018. On December 13, 2013, the Bank redeemed for cancellation debentures with a nominal value of US$25 million maturing in February 2087.

On January 29, 2014, the Bank announced the issuance of 8,000,000 Non-Cumulative 5-Year Rate-Reset Series 30 First Preferred Shares at a price equal to $25.00 per share for gross proceeds of $200 million. The Bank also granted the underwriters an option to purchase up to an additional 2,000,000 Series 30 preferred shares. These preferred shares are compliant with Basel III since they have an NVCC clause, as required by OSFI for all issuances of capital instruments other than common shares. As a result of strong investor demand for this preferred share offering, the number of shares issued was increased to 14,000,000 for final gross proceeds of $350 million. The Bank completed the issuance on February 7, 2014 following the end of the quarter. The Bank estimates that this preferred share issuance will increase its Tier 1 and total capital ratios by 54 basis points in the second quarter of 2014. Its assets-to-capital multiple will decrease by 0.7. The preferred share issuance does not have an impact on the Common Equity Tier 1 (CET1) ratio.

On December 4, 2013, the Bank announced the redemption of all the remaining 2,425,880 Non-Cumulative Series 24 First Preferred Shares and the 1,724,835 Non-Cumulative Series 26 First Preferred Shares, issued and outstanding as at February 15, 2014, for a per-share price of $25.00 plus the declared and unpaid dividend. Given the fact that these instruments were already grandfathered, subject to a phase-out under the Basel III transition rules, the impact of this redemption on the capital ratios in the second quarter will be negligible.

Movement in Regulatory Capital(1)

Quarter ended January 31 (millions of Canadian dollars)	2014
Common Equity Tier 1 (CET1) Capital	
Balance at beginning	5,350
Issuance of common shares (including Stock Option Plan)	46
Repurchase of common shares	–
Contributed surplus	(18)
Dividends on preferred and common shares	(159)
Net income attributable to the Bank's shareholders	389
Other items related to retained earnings	–
Removal of own credit spread net of income taxes	(2)
Removal of reserves arising from property revaluation	–
Other	11
Movements in accumulated other comprehensive income	
Translation adjustments	12
Available-for-sale securities	2
Other	1
Change in goodwill and intangible assets (net of related tax liability)	(282)
Other, including regulatory adjustments and transitional arrangements	
Change in defined benefit pension plan asset (net of related tax liability)	(20)
Change in amount exceeding 15% threshold	
Deferred tax assets	(3)
Significant investment in common shares of financial institutions	(4)
Change in other regulatory adjustments(2)	13
Balance at end	5,336
Additional Tier 1 Capital	
Balance at beginning	1,652
New Tier 1 eligible capital issuances	–
Redeemed capital	–
Change in non-qualifying Additional Tier 1 subject to phase-out	(103)
Other, including regulatory adjustments and transitional arrangements	–
Balance at end	1,549
Tier 1 Capital	6,885
Tier 2 Capital	
Balance at beginning	2,184
New Tier 2 eligible capital issuances	–
Redeemed capital	(526)
Change in non-qualifying Tier 2 subject to phase-out	250
Change in eligible collective allowances	(4)
Other, including regulatory adjustments and transitional arrangements	–
Balance at end	1,904
Total Regulatory Capital	8,789

(1) Figures are presented on "all-in" basis.
(2) Represents the change in investments in the Bank's own CET1 and significant investments in the capital of non-consolidated entities above the 10% threshold.

RWA by Key Risk Drivers

During the quarter, Basel III RWA increased by $3.3 billion, totalling $64.6 billion as at January 31, 2014 compared to $61.3 billion as at October 31, 2013. This increase was mainly due to the coming into force of the CVA charge (the CVA charge had not been included in the RWA calculation as at October 31, 2013) and to organic growth. The Bank's risk-weighted assets are presented in the following table.

Capital Adequacy Under Basel III[(1)]

(millions of Canadian dollars)			As at January 31, 2014	As at October 31, 2013
	Exposure at default (2)	Risk-weighted assets (3)	Capital requirement (4)	Risk-weighted assets
Credit risk				
AIRB Approach				
Sovereign	20,648	439	35	418
Financial institutions	3,110	814	65	599
Corporate	43,317	19,403	1,552	19,159
Retail				
Residential mortgages	38,466	4,483	358	4,494
Qualifying revolving retail	4,502	1,374	110	1,440
Other retail	9,465	4,660	373	4,704
Standardized Approach				
Sovereign	177	–	–	–
Financial institutions	530	272	22	144
Corporate	3,184	2,672	214	3,015
Retail				
Residential mortgages	483	71	6	71
Qualifying revolving retail	–	–	–	–
Other retail	2,560	497	40	921
	126,442	34,685	2,775	34,965
Other assets	23,792	4,672	374	4,337
Counterparty credit risk				
AIRB Approach				
Sovereign	13,682	12	1	10
Financial institutions	53,755	2,820	226	2,425
Corporate	435	2	–	16
Trading portfolio	8,847	2,541	203	2,251
Standardized Approach				
Sovereign	–	–	–	–
Financial institutions	–	–	–	–
Corporate	2,324	215	17	213
Trading portfolio	749	400	32	273
Credit valuation adjustment charge		1,625	130	–
	79,792	7,615	609	5,188
Banking book equities				
Simple weighted method				
Exchange-traded	235	235	19	226
Non-exchange-traded	210	210	17	211
	445	445	36	437
Securitization positions – AIRB Approach	4,397	2,296	184	2,269
Regulatory scaling factor		2,317	185	2,255
Total – Credit risk	234,868	52,030	4,163	49,451
Market risk				
Internal model				
VaR		903	72	775
Stressed VaR		1,831	147	1,109
Standardized Approach				
Interest-rate-specific risk		1,376	110	1,498
		4,110	329	3,382
Operational risk – Standardized Approach		8,487	679	8,418
Total	234,868	64,627	5,171	61,251

(1) Figures are presented on "all-in" basis.
(2) Exposure at default is the expected gross exposure upon the default of an obligor.
(3) Risk-weighted assets under the Standardized Approach reflect the impact of credit risk.
(4) The capital requirement is equal to 8% of risk-weighted assets.

Risk-Weighted Assets Movement by Key Drivers[1]

Quarter ended (millions of Canadian dollars)			January 31, 2014
	Non-counterparty credit risk	Counterparty credit risk	Total
Credit risk – Risk-weighted assets at beginning	44,263	5,188	49,451
Book size	652	557	1,209
Book quality	(694)	(3)	(697)
Model updates	–	–	–
Methodology and policy	–	1,625	1,625
Acquisitions and disposals	–	–	–
Foreign exchange movements	194	248	442
Credit risk – Risk-weighted assets at end	44,415	7,615	52,030
Market risk – Risk-weighted assets at beginning			3,382
Movement in risk levels[2]			728
Model updates			–
Methodology and policy			–
Acquisitions and disposals			–
Market risk – Risk-weighted assets at end			4,110
Operational risk – Risk-weighted assets at beginning			8,418
Movement in risk levels			69
Acquisitions and disposals			–
Operational risk – Risk-weighted assets at end			8,487
Risk-weighted assets at end			64,627

(1) Figures are presented on "all-in" basis.
(2) Also includes foreign exchange movements, which is not considered material.

The change in the "Methodology and policy" item is a result of applying 57% of the fully implemented CVA charge to the CET1 calculation, as required by the OSFI transition guidance as of the first quarter of 2014.

Regulatory Capital Ratios

The CET1 capital ratio under Basel III, determined using the "all-in" methodology, was 8.3% as at January 31, 2014 versus 8.7% as at October 31, 2013. The lower CET1 capital ratio is essentially due to the acquisition of TD Waterhouse Institutional Services and to the coming into force of the CVA charge. This decrease was mitigated by net income, net of dividends, and by the issuance of common shares, mainly related to exercised stock options. The Tier 1 capital ratio and the total capital ratio determined using the "all-in" methodology stood at 10.7% and 13.6% as at January 31, 2014 versus 11.4% and 15.0% as at October 31, 2013. The decrease was mainly due to the above-discussed factors and to the removal of ineligible capital instruments.

The assets-to-capital multiple was 20.0 as at January 31, 2014 versus 18.4 as at October 31, 2013. The issuance of Series 30 preferred shares will reduce the ratio by 0.7 in the next quarter.

Regulatory Capital and Capital Ratios Under Basel III[1]

(millions of Canadian dollars)	As at January 31, 2014	As at October 31, 2013
Common Equity Tier 1 Capital (CET1)	5,336	5,350
Tier 1 Capital	6,885	7,002
Total Regulatory Capital	8,789	9,186
Risk-Weighted Assets	64,627	61,251
Capital ratios		
Common Equity Tier 1 (CET1)	8.3 %	8.7 %
Tier 1	10.7 %	11.4 %
Total	13.6 %	15.0 %

(1) Figures are presented on "all-in" basis.

Dividends

On February 24, 2014, the Board of Directors declared regular dividends on the various series of first preferred shares and a dividend of 46 cents per common share payable on May 1, 2014 to shareholders of record on March 27, 2014.

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 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 2013 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 important losses.

Certain risks are discussed below. For additional information, see the Risk Management and Other Risk Factors sections on pages 60 to 85 of the 2013 Annual Report as well as Note 5 to the audited annual consolidated financial statements for the year ended October 31, 2013, which covers the management of risks associated with financial instruments, on pages 127 to 143 of the 2013 Annual Report. Risk management information is also provided in Note 6 to the unaudited interim condensed 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 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 II Asset Categories

(millions of Canadian dollars)						As at January 31, 2014	As at October 31, 2013
	Drawn	Undrawn commitments	Repo-style transactions (1)	OTC derivatives	Other off-balance-sheet items (2)	Total	Total
Retail							
Residential mortgages	34,010	4,939	–	–	–	38,949	38,414
Qualifying revolving retail	2,559	1,943	–	–	–	4,502	4,574
Other retail	10,845	1,166	–	–	14	12,025	11,976
	47,414	8,048	–	–	14	55,476	54,964
Non-retail							
Business	32,162	12,004	2,709	50	2,335	49,260	48,721
Sovereign	17,601	3,093	13,398	283	132	34,507	34,833
Financial institutions	2,617	198	53,327	428	825	57,395	52,108
	52,380	15,295	69,434	761	3,292	141,162	135,662
Trading portfolio	–	–	–	9,596	–	9,596	8,074
Securitization	1,363	–	–	–	3,034	4,397	4,307
Total credit risk	101,157	23,343	69,434	10,357	6,340	210,631	203,007
Standardized Approach	5,657	260	2,275	799	1,016	10,007	9,669
AIRB Approach	95,500	23,083	67,159	9,558	5,324	200,624	193,338
Total credit risk	101,157	23,343	69,434	10,357	6,340	210,631	203,007

(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, 2014, which is 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, 2014			As at October 31, 2013		
		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	45,573	168,376	219,966	21,725	86,304	231,335
Foreign exchange contracts	196	–	118,183	207	–	91,206
Equity, commodity and credit derivative contracts	13,608	363	27,315	12,330	280	27,548

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 trading, investing and asset/liability management activities.

The following tables provide a breakdown of the Bank's Consolidated Balance Sheet into 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 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, 2014				
		Market risk measures			
	Balance sheet	Trading (1)	Non-Trading (2)	Not subject to market risk	Main non-trading risk measures
Assets					
Cash and deposits with financial institutions	5,317	7	4,337	973	Interest rate(3)
Securities					
At fair value through profit or loss	46,546	43,421	3,125	–	Interest rate(3) and other(4)
Available-for-sale	9,639	–	9,639	–	Interest rate(3) and equity(5)
Securities purchased under reverse repurchase agreements and securities borrowed	19,166	–	19,166	–	Interest rate(3)(6)
Loans, net of allowances	90,392	2,020	88,372	–	Interest rate(3)
Customers' liability under acceptances	9,330	–	9,330	–	Interest rate(3)
Derivative financial instruments	7,703	6,865	838	–	Interest rate
Accrued benefit asset	137	–	137	–	Other
Other	7,070	–	–	7,070	
	195,300	52,313	134,944	8,043	
Liabilities					
Deposits	111,248	2,049	109,199	–	Interest rate(3)
Acceptances	9,330	–	9,330	–	Interest rate(3)
Obligations related to securities sold short	19,558	19,558	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	16,341	–	16,341	–	Interest rate(3)(6)
Derivative financial instruments	5,975	5,650	325	–	Interest rate
Liabilities related to transferred receivables	15,577	2,214	13,363	–	Interest rate(3)
Accrued benefit liability	208	–	208	–	Other
Other	5,965	125	–	5,840	
Subordinated debt	1,902	–	1,902	–	Interest rate(3)
	186,104	29,596	150,668	5,840	

(1) Trading positions whose main risk measures are VaR and SVaR. For additional information, see the tables on subsequent pages as well as the Market Risk Management section in Note 5 to the audited annual consolidated financial statements as at October 31, 2013.
(2) Non-trading positions that use other risk measures.
(3) For additional information, see the tables presented on subsequent pages as well as the Market Risk Management section of Note 5 to the audited annual consolidated financial statements as at October 31, 2013.
(4) See the Master Asset Vehicles section in Note 5 to these unaudited interim condensed consolidated financial statements.
(5) The fair value of equity securities classified as available-for-sale is disclosed in Notes 3 and 5 to these unaudited interim condensed consolidated financial statements.
(6) These instruments are recorded at amortized cost and subject to credit risk for capital management purposes. For transactions with maturities of more than one day, the interest rate risk is included in the VaR and SVaR measures when they relate to trading activities.

Reconciliation of Market Risk with Consolidated Balance Sheet Items (cont.)

(millions of Canadian dollars) As at October 31, 2013[1]

		Market risk measures			
	Balance sheet	Trading [2]	Non-Trading [3]	Not subject to market risk	Main non-trading risk measures
Assets					
Cash and deposits with financial institutions	3,596	5	2,806	785	Interest rate[4]
Securities					
At fair value through profit or loss	44,000	40,790	3,210	–	Interest rate[4] and other[5]
Available-for-sale	9,744	–	9,744	–	Interest rate[4] and equity[6]
Securities purchased under reverse repurchase agreements and securities borrowed	21,449	–	21,449	–	Interest rate[4][7]
Loans, net of allowances	88,384	1,588	86,796	–	Interest rate[4]
Customers' liability under acceptances	8,954	–	8,954	–	Interest rate[4]
Derivative financial instruments	5,904	5,252	652	–	Interest rate[8]
Accrued benefit asset	131	–	131	–	Other[9]
Other	6,057	–	–	6,057	
	188,219	47,635	133,742	6,842	
Liabilities					
Deposits	102,111	2,055	100,056	–	Interest rate[4]
Acceptances	8,954	–	8,954	–	Interest rate[4]
Obligations related to securities sold short	18,909	18,909	–	–	
Obligations related to securities sold under repurchase agreements and securities loaned	19,746	–	19,746	–	Interest rate[4][7]
Derivative financial instruments	4,858	4,559	299	–	Interest rate[8]
Liabilities related to transferred receivables	15,323	2,028	13,295	–	Interest rate[4]
Accrued benefit liability	202	–	202	–	Other[9]
Other	6,737	109	–	6,628	
Subordinated debt	2,426	–	2,426	–	Interest rate[4]
	179,266	27,660	144,978	6,628	

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2 to the unaudited interim condensed consolidated financial statements.
(2) Trading positions whose main risk measures are VaR and SVaR. For additional information, see the Market Risk Management section in Note 5 to the audited annual consolidated financial statements as at October 31, 2013.
(3) Non-trading positions that use other risk measures.
(4) For additional information, see the Market Risk Management section in Note 5 to the audited annual consolidated financial statements as at October 31, 2013.
(5) See the Master Asset Vehicles section in Note 6 to the audited annual consolidated financial statements as at October 31, 2013.
(6) The fair value of equity securities classified as available-for-sale is disclosed in Notes 3 and 5 to these unaudited interim condensed consolidated financial statements.
(7) These instruments are recorded at amortized cost and subject to credit risk for capital management purposes. For transactions with maturities of more than one day, the interest rate risk is included in the VaR and SVaR measures when they relate to trading activities.
(8) See Notes 15 and 16 to the audited annual consolidated financial statements as at October 31, 2013.
(9) See Note 22 to the audited annual consolidated financial statements as at October 31, 2013.

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 stressed VaR 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]

Quarter ended (millions of Canadian dollars)				January 31, 2014				October 31, 2013
	Low	High	Average	Period end	Low	High	Average	Period end
Interest rate	(4.4)	(7.5)	(5.7)	(4.4)	(5.0)	(7.2)	(6.2)	(5.7)
Foreign exchange	(0.4)	(1.7)	(0.9)	(1.5)	(0.4)	(5.7)	(0.8)	(0.4)
Equity	(3.4)	(6.4)	(5.2)	(5.1)	(2.4)	(4.7)	(3.1)	(3.4)
Commodity	(0.6)	(1.4)	(1.0)	(1.1)	(0.5)	(1.1)	(0.8)	(1.1)
Correlation effect[2]	n.m.	n.m.	5.2	4.2	n.m.	n.m.	4.4	4.5
	(5.3)	(10.1)	(7.6)	(7.9)	(5.5)	(7.7)	(6.5)	(6.1)

Stressed VaR of Trading Portfolios by Risk Category[1]

Quarter ended (millions of Canadian dollars)				January 31, 2014				October 31, 2013
	Low	High	Average	Period end	Low	High	Average	Period end
Interest rate	(10.3)	(12.7)	(11.5)	(10.7)	(7.1)	(13.9)	(10.9)	(11.4)
Foreign exchange	(0.6)	(4.5)	(2.0)	(4.4)	(0.6)	(3.1)	(1.5)	(0.7)
Equity	(6.5)	(20.3)	(13.4)	(14.5)	(3.3)	(10.3)	(5.2)	(5.7)
Commodity	(0.5)	(1.9)	(1.1)	(1.8)	(0.5)	(2.4)	(1.3)	(1.2)
Correlation effect[2]	n.m.	n.m.	12.6	15.2	n.m.	n.m.	9.5	8.5
	(10.3)	(21.6)	(15.4)	(16.2)	(6.7)	(12.3)	(9.4)	(10.5)

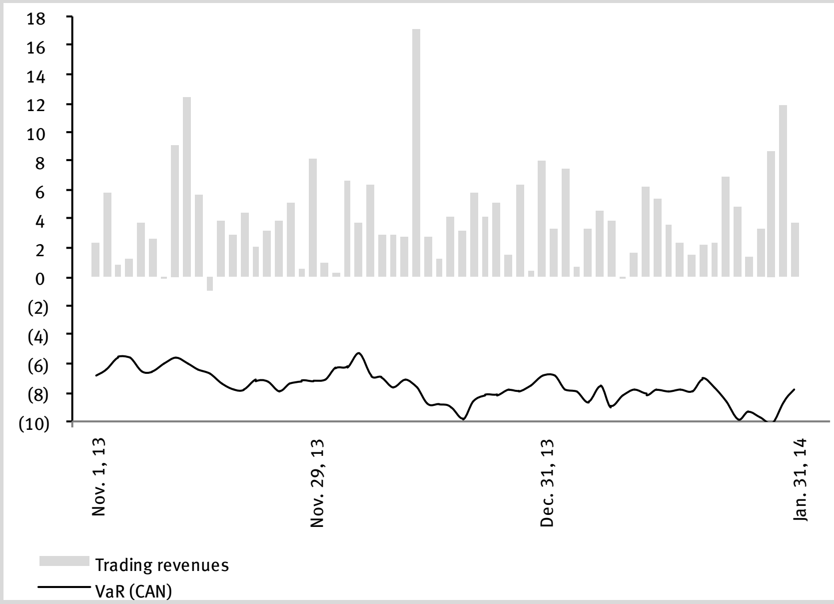
n.m. Computation of a correlation effect for the high and low is not meaningful, as highs and lows may occur on different days and be attributable to different types of risk.
(1) Amounts are presented on a pre-tax basis and represent one-day VaR or SVaR using a 99% confidence level.
(2) The correlation effect is the result of the diversification of types of risk.

As shown in the tables, the trading VaR is usually lower than the VaR of the individual portfolios, which shows the correlation effect. Average trading VaR was $7.6 million for the quarter ended January 31, 2014, rising $1.1 million from the quarter ended October 31, 2013, mainly due to higher equity VaR. Average trading SVaR was $15.4 million for the quarter ended January 31, 2014 compared to $9.4 million for the previous quarter. This increase was driven by a higher equity VaR. Trading VaR peaked in January 2014 and decreased at the end of the quarter, whereas SVaR peaked in December 2013 and subsequently decreased towards the end of the first quarter of 2014.

Daily Trading Revenues

The following table shows daily trading revenues and VaR. Daily trading revenues were positive more than 98% of the days for the quarter ended January 31, 2014. A net daily trading loss, which was less than $1 million, was recorded on only one day. None of these losses exceeded the VaR limit.

Quarter ended January 31, 2014
(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, 2014**

			Impact on equity			**Impact on interest income**
	Canadian dollar	**U.S. dollar**	**Total**	**Canadian dollar**	**U.S. dollar**	**Total**
100-basis-point increase in the interest rate	**(93)**	**(9)**	**(102)**	**8**	**7**	**15**
100-basis-point decrease in the interest rate	**72**	**7**	**79**	**(13)**	**(10)**	**(23)**

As at October 31, 2013

			Impact on equity			Impact on interest income
	Canadian dollar	U.S. dollar	Total	Canadian dollar	U.S. dollar	Total
100-basis-point increase in the interest rate	(148)	15	(133)	(13)	17	4
100-basis-point decrease in the interest rate	122	(17)	105	2	(19)	(17)

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to honour daily cash and collateral pledging commitments 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.

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 with maturities less than 30 days. The majority of unencumbered liquid assets are held in Canadian or U.S. dollars. Moreover, all assets that are readily transferrable into cash are considered liquid assets. The Bank does not consider any central bank's emergency liquidity facilities in its liquidity reserve. The following tables provide information on the Bank's encumbered and unencumbered assets.

Liquid Asset Portfolio

(millions of Canadian dollars)					As at January 31, 2014	As at October 31, 2013
	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	4,188	–	4,188	–	4,188	3,548
Securities						
Issued or guaranteed by Canada, U.S. Treasury, other U.S. agencies and other foreign governments	18,654	21,027	39,681	28,018	11,663	10,964
Issued or guaranteed by provinces	13,225	10,374	23,599	19,438	4,161	3,615
Issued or guaranteed by municipalities and school boards	691	131	822	117	705	682
Other debt securities	3,620	1,030	4,650	1,595	3,055	2,365
Equity securities	17,691	27,783	45,474	29,299	16,175	16,092
Loans						
Securities backed by insured residential mortgages	1,785	–	1,785	735	1,050	620
As at January 31, 2014	59,854	60,345	120,199	79,202	40,997	
As at October 31, 2013	57,310	58,757	116,067	78,181		37,886

(millions of Canadian dollars)	As at January 31, 2014	As at October 31, 2013
Unencumbered liquid assets by entity		
National Bank (parent)	28,853	26,355
Domestic subsidiaries	7,429	8,475
Foreign subsidiaries and branches	4,715	3,056
	40,997	37,886

(millions of Canadian dollars)	As at January 31, 2014	As at October 31, 2013
Unencumbered liquid assets by currency		
Canadian dollar	24,201	24,533
U.S. dollar	15,384	12,840
Other currencies	1,412	513
	40,997	37,886

Liquid Asset Portfolio – Average(4)

Quarter ended (millions of Canadian dollars)					January 31, 2014
	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	5,621	–	5,621	–	5,621
Securities					
Issued or guaranteed by Canada, U.S. Treasury, other U.S. agencies and other foreign governments	18,161	22,039	40,200	30,725	9,475
Issued or guaranteed by provinces	13,213	10,821	24,034	20,285	3,749
Issued or guaranteed by municipalities and school boards	798	131	929	139	790
Other debt securities	3,227	1,004	4,231	1,544	2,687
Equity securities	17,985	29,186	47,171	27,703	19,468
Loans					
Securities backed by insured residential mortgages	1,950	–	1,950	726	1,224
	60,955	63,181	124,136	81,122	43,014

(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.
(3) In the normal course of its financing 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, and collateral related to derivative financial instrument transactions and asset-backed securities.
(4) The average is based on the sum of the end-of-period balances of the three months that make up the quarter divided by three.

Summary of Encumbered and Unencumbered Assets

(millions of Canadian dollars)						As at January 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	49	1,080	4,188	–	5,317	0.6
Securities	18,123	–	35,759	2,303	56,185	9.3
Securities purchased under reverse repurchase agreements and securities borrowed	–	19,166	–	–	19,166	9.8
Loans, net of allowances	27,292	–	1,050	62,050	90,392	14.0
Customers' liability under acceptances	–	–	–	9,330	9,330	–
Derivative financial instruments	–	–	–	7,703	7,703	–
Due from clients, dealers and brokers	–	–	–	1,485	1,485	–
Investments in associates and joint ventures	–	–	–	681	681	–
Premises and equipments	–	–	–	394	394	–
Goodwill	–	–	–	1,272	1,272	–
Intangible assets	–	–	–	989	989	–
Other assets	–	–	–	2,386	2,386	–
Total	45,464	20,246	40,997	88,593	195,300	33.7

(millions of Canadian dollars)						As at October 31, 2013 [4]
	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	48	–	3,548	–	3,596	–
Securities	21,205	–	31,178	1,361	53,744	11.3
Securities purchased under reverse repurchase agreements and securities borrowed	–	18,909	2,540	–	21,449	10.0
Loans, net of allowances	20,266	–	620	67,498	88,384	10.8
Customers' liability under acceptances	–	–	–	8,954	8,954	–
Derivative financial instruments	–	–	–	5,904	5,904	–
Due from clients, dealers and brokers	–	–	–	1,101	1,101	–
Investments in associates and joint ventures	–	–	–	684	684	–
Premises and equipments	–	–	–	404	404	–
Goodwill	–	–	–	1,064	1,064	–
Intangible assets	–	–	–	898	898	–
Other assets	–	–	–	2,037	2,037	–
Total	41,519	18,909	37,886	89,905	188,219	32.1

(1) In the normal course of its financing 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) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2 to the unaudited interim condensed consolidated financial statements.

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 retail 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 is aligned with the 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. A detailed breakdown of the Bank's wholesale funding is as follows:

(millions of Canadian dollars)								As at January 31, 2014[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	3,524	1,126	280	–	4,930	7	47	4,984
Certificates of deposit and commercial paper[2]	3,723	1,486	472	548	6,229	5,372	–	11,601
Asset-backed commercial paper	–	–	–	–	–	–	–	–
Senior unsecured medium-term notes[3]	790	46	–	2,574	3,410	3,375	4,749	11,534
Senior unsecured structured notes	–	28	53	119	200	21	515	736
Covered bonds and asset-backed securities								
Mortgage securitization	5	353	395	615	1,368	1,751	12,458	15,577
Covered bonds	–	–	–	–	–	–	3,741	3,741
Securitization of credit card receivables	–	–	–	–	–	1,280	–	1,280
Subordinated liabilites[4]	44	–	–	350	394	500	1,008	1,902
Other	–	–	–	–	–	–	–	–
	8,086	3,039	1,200	4,206	16,531	12,306	22,518	51,355
Of which:								
Secured funding	5	353	395	615	1,368	3,031	16,200	20,599
Unsecured funding	8,081	2,686	805	3,591	15,163	9,275	6,318	30,756
As at January 31, 2014	8,086	3,039	1,200	4,206	16,531	12,306	22,518	51,355
As at October 31, 2013	3,906	3,368	2,257	2,808	12,339	11,629	21,539	45,507

(1) Bankers' acceptances are not included in this table.
(2) Includes bearer deposit notes.
(3) Certificates of deposit denominated in euros are included in senior unsecured medium-term notes.
(4) 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, 2014
	One-notch downgrade	Two-notch downgrade	Three-notch downgrade
Derivatives[1]	106	138	253

(1) Contractual requirements related to agreements known as Credit Support Annexes.

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, 2014 with comparative figures as at October 31, 2013. 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 (ALM) 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, 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	2,980	23	–	–	–	–	–	–	2,314	5,317
Securities										
At fair value through profit or loss	200	500	1,792	604	1,335	5,504	9,649	9,763	17,199	46,546
Available-for-sale	399	41	148	57	74	460	4,685	3,379	396	9,639
	599	541	1,940	661	1,409	5,964	14,334	13,142	17,595	56,185
Securities purchased under reverse repurchase agreements and securities borrowed	6,046	4,756	4,689	474	409	–	–	–	2,792	19,166
Loans and acceptances (1)										
Residential mortgage	733	903	2,211	1,775	1,701	8,226	20,690	621	267	37,127
Personal and credit card	220	320	611	516	535	1,862	5,622	1,472	17,211	28,369
Business and government	4,612	1,653	1,592	1,145	1,242	1,411	3,473	898	9,459	25,485
Customers' liability under acceptances	8,170	1,090	70	–	–	–	–	–	–	9,330
Allowances for credit losses									(589)	(589)
	13,735	3,966	4,484	3,436	3,478	11,499	29,785	2,991	26,348	99,722
Other										
Derivative financial instruments	483	500	293	205	508	731	2,194	2,789	–	7,703
Due from clients, dealers and brokers(1)									1,485	1,485
Investments in associates and joint ventures									681	681
Premises and equipment									394	394
Goodwill									1,272	1,272
Intangible assets									989	989
Other assets	154	44	196	110	118	78	58	150	1,478	2,386
	637	544	489	315	626	809	2,252	2,939	6,299	14,910
	23,997	9,830	11,602	4,886	5,922	18,272	46,371	19,072	55,348	195,300

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

(millions of Canadian dollars)										As at January 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	749	1,349	2,007	1,508	1,479	4,611	8,472	391	24,925	45,491
Business and government	437	180	156	105	125	665	568	322	29,438	31,996
Deposit-taking institutions	295	459	–	–	–	–	–	–	411	1,165
Unsecured senior debt	8,037	2,686	805	1,577	1,664	8,775	4,776	535	–	28,855
Covered bonds	–	–	–	–	–	–	3,741	–	–	3,741
	9,518	4,674	2,968	3,190	3,268	14,051	17,557	1,248	54,774	111,248
Other										
Acceptances	8,170	1,090	70	–	–	–	–	–	–	9,330
Obligations related to securities sold short[3]	816	885	339	125	88	1,685	4,601	8,460	2,559	19,558
Obligations related to securities sold under repurchase agreements and securities loaned	7,774	1,031	5,741	773	–	–	–	–	1,022	16,341
Derivative financial instruments	499	586	377	229	394	688	1,618	1,584	–	5,975
Due to clients, dealers and brokers[1]									2,132	2,132
Liabilities related to transferred receivables[4]	5	353	395	280	335	1,751	8,158	4,300	–	15,577
Securitization – Credit card[5]	–	–	–	–	–	1,280	–	–	–	1,280
Other liabilities – Other items[1][5]	156	2	105	1	405	95	20	93	1,884	2,761
	17,420	3,947	7,027	1,408	1,222	5,499	14,397	14,437	7,597	72,954
Subordinated debt	44	–	–	–	350	500	1,000	8	–	1,902
Equity									9,196	9,196
	26,982	8,621	9,995	4,598	4,840	20,050	32,954	15,693	71,567	195,300
OFF-BALANCE-SHEET COMMITMENTS										
Letters of guarantee and documentary letters of credit	12	24	224	205	655	1,290	871	311	–	3,592
Credit card receivables[6]									6,423	6,423
Backstop liquidity and credit enhancement facilities	–	2,050	15	–	2,172	–	–	873	–	5,110
Commitments to extend credit[7]	739	507	1,892	1,354	1,142	8,063	4,288	2,405	18,287	38,677
Lease commitments and other contracts	58	116	170	164	114	424	647	532	–	2,225
Other guarantee	–	–	–	–	–	–	–	–	28	28

(1) Amounts payable upon demand or notice are considered to have no specified maturity.
(2) The *Deposits* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(3) Amounts have been disclosed according to the remaining contractual maturity of the underlying security.
(4) These amounts mainly include liabilities related to the securitization of mortgage loans.
(5) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(6) These amounts are unconditionally revocable at the Bank's discretion at any time.
(7) These amounts include $16.2 billion that is unconditionally revocable at the Bank's discretion at any time.

(millions of Canadian dollars) As at October 31, 2013[1]

	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	1,177	203	–	–	–	–	–	–	2,216	3,596
Securities										
At fair value through profit or loss	286	1,151	770	10	2,234	4,233	7,335	10,374	17,607	44,000
Available-for-sale	365	36	64	103	60	607	4,917	3,193	399	9,744
	651	1,187	834	113	2,294	4,840	12,252	13,567	18,006	53,744
Securities purchased under reverse repurchase agreements and securities borrowed	7,142	5,039	3,814	1,330	347	–	–	–	3,777	21,449
Loans and acceptances[2]										
Residential mortgage	871	968	1,289	2,271	1,732	7,503	20,976	698	265	36,573
Personal and credit card	254	322	500	624	513	1,652	5,619	1,447	17,058	27,989
Business and government	4,050	1,492	1,063	1,421	908	1,463	3,427	901	9,675	24,400
Customers' liability under acceptances	8,104	843	7	–	–	–	–	–	–	8,954
Allowances for credit losses	–	–	–	–	–	–	–	–	(578)	(578)
	13,279	3,625	2,859	4,316	3,153	10,618	30,022	3,046	26,420	97,338
Other										
Derivative financial instruments	321	338	156	148	151	705	1,580	2,505	–	5,904
Due from clients, dealers and brokers[2]									1,101	1,101
Investments in associates and joint ventures									684	684
Premises and equipment									404	404
Goodwill									1,064	1,064
Intangible assets									898	898
Other assets	144	63	219	115	113	64	124	76	1,119	2,037
	465	401	375	263	264	769	1,704	2,581	5,270	12,092
	22,714	10,455	7,882	6,022	6,058	16,227	43,978	19,194	55,689	188,219

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2 to the unaudited interim condensed consolidated financial statements.
(2) Amounts collectible on demand are considered to have no specified maturity.

(millions of Canadian dollars) As at October 31, 2013[1]

	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[2][3]										
Personal	801	970	1,808	2,043	1,479	4,457	8,272	355	22,467	42,652
Business and government	840	189	247	143	153	308	450	305	29,274	31,909
Deposit-taking institutions	141	314	–	–	–	–	–	–	617	1,072
Unsecured senior debt	3,349	1,835	1,895	617	1,506	8,891	4,725	518	–	23,336
Covered bonds	–	1,043	–	–	–	–	2,099	–	–	3,142
	5,131	4,351	3,950	2,803	3,138	13,656	15,546	1,178	52,358	102,111
Other										
Acceptances	8,104	843	7	–	–	–	–	–	–	8,954
Obligations related to securities sold short[4]	258	210	413	–	818	1,183	4,199	8,260	3,568	18,909
Obligations related to securities sold under repurchase agreements and securities loaned	8,968	3,349	5,366	773	–	–	–	–	1,290	19,746
Derivative financial instruments	245	580	345	140	160	590	1,380	1,418	–	4,858
Due to clients, dealers and brokers[2]									2,442	2,442
Liabilities related to transferred receivables[5]	14	490	362	402	283	1,108	7,274	5,390	–	15,323
Securitization – Credit card[6]	–	–	–	–	–	1,280	–	–	–	1,280
Other liabilities – Other items[2][6]	156	63	155	1	588	97	120	173	1,864	3,217
	17,745	5,535	6,648	1,316	1,849	4,258	12,973	15,241	9,164	74,729
Subordinated debt	543	–	–	–	–	350	1,500	33	–	2,426
Equity									8,953	8,953
	23,419	9,886	10,598	4,119	4,987	18,264	30,019	16,452	70,475	188,219
OFF-BALANCE-SHEET COMMITMENTS										
Letters of guarantee and documentary letters of credit	8	404	43	254	265	1,150	1,054	65	–	3,243
Credit card receivables[7]									6,332	6,332
Backstop liquidity and credit enhancement facilities	–	15	2,050	15	–	2,098	–	886	–	5,064
Commitments to extend credit[8]	813	507	1,175	1,740	1,613	7,423	6,507	294	18,172	38,244
Lease commitments and other contracts	62	120	174	169	163	453	696	550	–	2,387
Other guarantee	–	–	–	–	–	–	–	–	29	29

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2 to the unaudited interim condensed consolidated financial statements.
(2) Amounts payable upon demand or notice are considered to have no specified maturity.
(3) The *Deposits* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(4) Amounts have been disclosed according to the remaining contractual maturity of the underlying security.
(5) These amounts mainly include liabilities related to the securitization of mortgage loans.
(6) The *Other liabilities* item is presented in greater detail than it is on the Consolidated Balance Sheet.
(7) These amounts are unconditionally revocable at the Bank's discretion at any time.
(8) These amounts include $15.9 billion that is unconditionally revocable at the Bank's discretion at any time.

ADDITIONAL FINANCIAL INFORMATION

Quarterly Information

(millions of Canadian dollars, except per share amounts)	2014				2013[1]			2012[1]	2013[1]	2012[1]
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Total	Total
Total revenues	**1,364**	1,251	1,285	1,383	1,232	1,347	1,218	1,496	5,151	5,301
Net income	**405**	320	402	417	373	342	370	543	1,512	1,597
Earnings per share[2] ($)										
Basic	**1.16**	0.91	1.16	1.21	1.06	0.98	1.06	1.61	4.34	4.63
Diluted	**1.15**	0.90	1.16	1.20	1.05	0.97	1.05	1.59	4.31	4.58
Dividends per common share[2] ($)	**0.46**	0.44	0.44	0.41	0.41	0.40	0.40	0.37	1.70	1.54
Return on common shareholders' equity (%)	**19.8**	15.8	21.0	23.4	20.7	19.5	21.3	34.7	20.1	24.1
Total assets	**195,300**	188,219	187,195	184,775	183,788	177,903	179,816	176,456		
Impaired loans, net	**194**	183	172	146	165	179	158	130		
Per common share[2] ($)										
Book value	**23.68**	22.97	22.60	21.57	20.76	20.02	19.80	19.57		
Stock trading range										
High	**46.86**	45.24	39.68	39.76	40.02	38.76	38.70	40.64		
Low	**41.72**	38.86	36.33	36.18	37.53	36.95	35.53	37.53		

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2 to these unaudited interim condensed consolidated financial statements.
(2) Reflecting the impact of the common stock split. See Note 13 to these unaudited interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

CONSOLIDATED BALANCE SHEETS

(unaudited) (millions of Canadian dollars)

	As at January 31, 2014	As at October 31, 2013(1)
ASSETS		
Cash and deposits with financial institutions	5,317	3,596
Securities (Notes 4 and 5)		
At fair value through profit or loss	46,546	44,000
Available-for-sale	9,639	9,744
	56,185	53,744
Securities purchased under reverse repurchase agreements and securities borrowed	19,166	21,449
Loans (Note 6)		
Residential mortgage	37,127	36,573
Personal and credit card	28,369	27,989
Business and government	25,485	24,400
	90,981	88,962
Customers' liability under acceptances	9,330	8,954
Allowances for credit losses	(589)	(578)
	99,722	97,338
Other		
Derivative financial instruments	7,703	5,904
Due from clients, dealers and brokers	1,485	1,101
Investments in associates and joint ventures	681	684
Premises and equipment	394	404
Goodwill	1,272	1,064
Intangible assets	989	898
Other assets (Note 8)	2,386	2,037
	14,910	12,092
	195,300	188,219
LIABILITIES AND EQUITY		
Deposits (Notes 4 and 9)		
Personal	45,491	42,652
Business and government	59,608	57,103
Deposit-taking institutions	6,149	2,356
	111,248	102,111
Other		
Acceptances	9,330	8,954
Obligations related to securities sold short	19,558	18,909
Obligations related to securities sold under repurchase agreements and securities loaned	16,341	19,746
Derivative financial instruments	5,975	4,858
Due to clients, dealers and brokers	2,132	2,442
Liabilities related to transferred receivables (Notes 4 and 7)	15,577	15,323
Other liabilities (Note 10)	4,041	4,497
	72,954	74,729
Subordinated debt (Note 11)	1,902	2,426
EQUITY (Notes 13 and 17)		
Equity attributable to the Bank's shareholders		
Preferred shares	677	677
Common shares	2,206	2,160
Contributed surplus	40	58
Retained earnings	5,277	5,055
Accumulated other comprehensive income	218	214
	8,418	8,164
Non-controlling interests (Note 14)	778	789
	9,196	8,953
	195,300	188,219

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

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2.

CONSOLIDATED STATEMENTS OF INCOME

(unaudited) (millions of Canadian dollars)

Quarter ended January 31	2014	2013[1]
Interest income		
Loans	839	802
Securities at fair value through profit or loss	221	215
Available-for-sale securities	48	50
Deposits with financial institutions	6	4
	1,114	1,071
Interest expense		
Deposits	283	241
Liabilities related to transferred receivables	98	107
Subordinated debt	20	26
Other	99	101
	500	475
Net interest income	614	596
Non-interest income		
Underwriting and advisory fees	83	68
Securities brokerage commissions	85	85
Mutual fund revenues	59	53
Trust service revenues	89	74
Credit fees	94	99
Card revenues	30	28
Deposit and payment service charges	59	58
Trading revenues (losses) (Note 16)	78	34
Gains (losses) on available-for-sale securities, net	20	15
Insurance revenues, net	28	33
Foreign exchange revenues, other than trading	25	21
Share in the net income of associates and joint ventures	7	6
Other	93	62
	750	636
Total revenues	1,364	1,232
Provisions for credit losses	51	32
	1,313	1,200
Non-interest expenses		
Compensation and employee benefits	508	443
Occupancy	54	52
Technology	105	99
Communications	16	16
Professional fees	56	49
Other	77	78
	816	737
Income before income taxes	497	463
Income taxes	92	90
Net income	405	373
Net income attributable to		
Preferred shareholders	9	12
Common shareholders	380	344
Bank shareholders	389	356
Non-controlling interests	16	17
	405	373
Earnings per share[2] (Note 19) *(dollars)*		
Basic	1.16	1.06
Diluted	1.15	1.05
Dividends per common share[2] *(dollars)*	0.46	0.41

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

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2.
(2) Reflecting the impact of the common stock split. See Note 13.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (millions of Canadian dollars)

Quarter ended January 31	2014	2013[(1)]
Net income	**405**	373
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	**75**	5
Impact of hedging net foreign currency translation gains (losses)	**(63)**	(2)
	12	3
Net change in available-for-sale securities		
Net unrealized gains (losses) on available-for-sale securities	**18**	20
Net (gains) losses on available-for-sale securities reclassified to net income	**(16)**	(10)
	2	10
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(7)**	(8)
Net (gains) losses on designated derivative financial instruments reclassified to net income	**(3)**	(10)
	(10)	(18)
Item that will not be subsequently reclassified to net income		
Actuarial gains and losses on employee benefit plans	**(8)**	22
Share in the other comprehensive income of associates and joint ventures	**1**	(1)
Total other comprehensive income, net of income taxes	**(3)**	16
Comprehensive income	**402**	389
Comprehensive income attributable to		
Bank shareholders	**385**	371
Non-controlling interests	**17**	18
	402	389

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	2014	2013[(1)]
Net foreign currency translation adjustments		
Net unrealized foreign currency translation gains (losses) on investments in foreign operations	**4**	–
Impact of hedging net foreign currency translation gains (losses)	**(15)**	(1)
	(11)	(1)
Net change in available-for-sale securities		
Net unrealized gains (losses) on available-for-sale securities	**6**	7
Net (gains) losses on available-for-sale securities reclassified to net income	**(6)**	(4)
	–	3
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(3)**	(2)
Net (gains) losses on designated derivative financial instruments reclassified to net income	**(1)**	(4)
	(4)	(6)
Actuarial gains and losses on employee benefit plans	**(3)**	8
	(18)	4

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

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) (millions of Canadian dollars)

Quarter ended January 31	2014	2013[(1)]
Preferred shares at beginning	677	762
Issuance of Series 28 preferred shares	–	200
Redemption of Series 15 preferred shares for cancellation	–	(200)
Preferred shares at end	677	762
Common shares at beginning	2,160	2,054
Issuances of common shares		
Stock Option Plan	49	63
Other	(3)	2
Common shares at end	2,206	2,119
Contributed surplus at beginning	58	58
Stock option expense (Note 17)	4	5
Stock options exercised	(6)	(8)
Other	(16)	5
Contributed surplus at end	40	60
Retained earnings at beginning	5,055	4,091
Net income attributable to the Bank's shareholders	389	356
Dividends (Note 13)		
Preferred shares	(9)	(12)
Common shares	(150)	(134)
Share issuance expense and other	–	(4)
Actuarial gains and losses on employee benefit plans	(8)	22
Retained earnings at end	5,277	4,319
Accumulated other comprehensive income at beginning	214	255
Net foreign currency translation adjustments	12	3
Net change in unrealized gains (losses) on available-for-sale securities	2	10
Net change in gains (losses) on cash flow hedges	(11)	(19)
Share in the other comprehensive income of associates and joint ventures	1	(1)
Accumulated other comprehensive income at end	218	248
Equity attributable to the Bank's shareholders	8,418	7,508
Non-controlling interests at beginning	789	791
Net income attributable to non-controlling interests	16	17
Other comprehensive income attributable to non-controlling interests	1	1
Distributions to non-controlling interests	(28)	(32)
Non-controlling interests at end	778	777
Equity	9,196	8,285

ACCUMULATED OTHER COMPREHENSIVE INCOME

As at January 31	2014	2013[(1)]
Accumulated other comprehensive income		
Net foreign currency translation adjustments	6	(9)
Net unrealized gains (losses) on available-for-sale securities	174	174
Net gains (losses) on instruments designated as cash flow hedges	36	82
Share in the other comprehensive income of associates and joint ventures	2	1
	218	248

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

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (millions of Canadian dollars)

Quarter ended January 31	2014	2013[1]
Cash flows from operating activities		
Net income	405	373
Adjustments for:		
Provisions for credit losses	51	32
Amortization of premises and equipment and intangible assets	39	36
Deferred taxes	39	11
Translation adjustment on foreign currency subordinated debt	1	–
Losses (gains) on sales of available-for-sale securities, net	(20)	(18)
Impairment of available-for-sale securities	–	3
Stock option expense	4	5
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	(2,546)	(2,586)
Securities purchased under reverse repurchase agreements and securities borrowed	2,283	(1,931)
Loans, net of securitization	(1,734)	(1,815)
Investments in associates and joint ventures	3	(2)
Deposits	7,757	650
Obligations related to securities sold short	649	1,144
Obligations related to securities sold under repurchase agreements and securities loaned	(3,405)	4,437
Derivative financial instruments, net	(668)	286
Due from and to clients, dealers and brokers, net	(357)	67
Interest and dividends receivable and interest payable	(67)	(50)
Current tax assets and liabilities	(15)	(97)
Other items	(808)	(688)
	1,611	(143)
Cash flows from financing activities		
Issuance of preferred shares	–	200
Redemption of preferred shares for cancellation	–	(200)
Issuance of common shares	40	57
Redemption of subordinated debt	(526)	–
Share issuance expenses	–	(4)
Dividends paid on shares	(299)	(141)
Change in other items	(39)	(33)
	(824)	(121)
Cash flows from investing activities		
Acquisition of TD Waterhouse Institutional Services (Note 20)	722	–
Purchases of available-for-sale securities	(1,064)	(2,127)
Sales of available-for-sale securities	1,165	1,308
Net change in premises and equipment	(27)	(28)
Net change in intangible assets	(35)	(39)
	761	(886)
Impact of currency rate movements on cash and cash equivalents	173	3
Increase in cash and cash equivalents	1,721	(1,147)
Cash and cash equivalents at beginning	3,596	3,249
Cash and cash equivalents at end[2]	5,317	2,102
Supplementary information about cash flows from operating activities		
Interest paid	595	581
Interest and dividends received	1,086	1,015
Income taxes paid	57	166

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

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2.

(2) This item is the equivalent of Consolidated Balance Sheet item *Cash and deposits with financial institutions*. The Bank is required to maintain balances with central banks and other regulatory authorities. The total balances were $366 million as at January 31, 2014 ($364 million as at January 31, 2013). In addition, $7 million was held in escrow as at January 31, 2014 ($11 million as at January 31, 2013).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited) (millions of Canadian dollars)

NOTE 1 – BASIS OF PRESENTATION

On February 24, 2014, 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, 2014. The common share information presented in these consolidated financial statements has been retrospectively adjusted to reflect the stock dividend of one common share on each issued and outstanding common share declared on December 3, 2013. The effect of this stock dividend was the same as a two-for-one split of common shares, as described in Note 13.

The Bank's consolidated financial statements have been prepared in accordance with section 308(4) of the *Bank Act* (Canada), which states that, unless 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 fiscal year ended October 31, 2013, 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, 2013.

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

NOTE 2 – ACCOUNTING POLICY CHANGES

Effective Date – November 1, 2013

As required by the IASB, on November 1, 2013, the Bank adopted the following new or amended accounting standards:

IAS 19 – *Employee Benefits*

In June 2011, the IASB issued an amended version of IAS 19, introducing significant changes to the accounting of employee benefits, primarily for defined benefit pension plans. The main changes to the revised standard are as follows:

- The expected return on plan assets is no longer used in calculating the pension plan expense. The discount rate used to measure the accrued benefit obligation must also be used to measure the return on plan assets.
- Past service costs are recognized when a plan is amended, with no deferral over the vesting period.
- Additional annual disclosure is to be provided regarding the characteristics of defined benefit plans and the risks to which entities are exposed by participating in those plans.
- The revised standard requires that all actuarial gains and losses be immediately recognized in *Other comprehensive income*. The recognition of actuarial gains and losses can no longer be deferred. This last amendment has no impact on the Bank since it already recognizes actuarial gains and losses in *Other comprehensive income*.

The requirements of the amended version of IAS 19 have been applied retrospectively. The impacts of adopting the amendments on the Consolidated Balance Sheet as at October 31, 2013 are presented below. There is no impact on the Consolidated Balance Sheet as at November 1, 2012.

	As at October 31, 2013
Consolidated Balance Sheet	
Increase in *Other assets*	15
Decrease in *Other liabilities*	6
Increase in *Retained earnings*	21

(unaudited) (millions of Canadian dollars)

NOTE 2 – ACCOUNTING POLICY CHANGES (cont.)

Retrospective adoption of the changes had the following impacts on the Consolidated Statement of Income and the Consolidated Statement of Comprehensive Income for the quarter ended January 31, 2013.

Quarter ended January 31	2013
Consolidated Statements of Income and Comprehensive Income	
Decrease in *Compensation and employee benefits*(1)	16
Increase in *Income taxes*	4
Increase in *Net income*	12
Increase in *Other comprehensive income – Actuarial gains and losses on employee benefit plans*	12
Increase in *Comprehensive income*	24
Increase in earnings per share *(dollars)*	
Basic	0.03
Diluted	0.03

(1) This amount includes a $35 million decrease in past service costs, less a $1 million reduction recorded under the previous IAS 19, resulting from changes that had been made to provisions in the Bank's pension plans and other post-retirement plans in the first quarter of 2013.

IFRS 10 – *Consolidated Financial Statements*

IFRS 10 replaces the consolidation guidance in IAS 27 – *Consolidated and Separate Financial Statements* and interpretation SIC-12 – *Consolidation – Special Purpose Entities*, by establishing a single consolidation model based on control for all interests held in all types of entities (investees). According to IFRS 10, control is based on the concepts of decision-making authority regarding the investee's relevant activities, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power to affect the amount of returns. An entity must consolidate the entities it controls and present consolidated financial statements.

The Bank retrospectively adopted IFRS 10, the impact of which is the deconsolidation of NBC Capital Trust (the Trust). Under IFRS 10, the Bank does not control the Trust because the Bank's interest does not expose it to variable returns. The Bank's earnings per share has not been affected. The impacts of the deconsolidation are as follows:

- A $225 million increase in *Deposits* on the Consolidated Balance Sheet as at October 31, 2013 and as at November 1, 2012, representing the Trust's deposit note;
- A $229 million decrease in *Non-controlling interests* on the Consolidated Balance Sheet as at October 31, 2013 and as at November 1, 2012, representing the trust units issued by the Trust;
- A $4 million increase in *Other liabilities* on the Consolidated Balance Sheet as at October 31, 2013 and as at November 1, 2012, representing accrued interest payable on the deposit note;
- A $3 million decrease in *Net income* and an equivalent decrease in *Non-controlling interests* on the Consolidated Statement of Income for the quarter ended January 31, 2013.

IFRS 7 – *Financial Instruments: Disclosures*

The amendments to IFRS 7 require disclosure about legally enforceable rights of set-off for financial instruments under master netting agreements or similar arrangements. The Bank retrospectively adopted these amendments, which had no impact on its results or financial position since the standard only affects disclosures. The required IFRS 7 disclosure amendments will be presented in the audited annual consolidated financial statements as at October 31, 2014.

IFRS 11 – *Joint Arrangements*
IFRS 11 – *Joint Arrangements* replaces IAS 31 – *Interests in Joint Ventures* and SIC-13 – *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. Under IFRS 11, a joint arrangement is an arrangement in which two or more parties have joint control. Joint control means the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11, a joint arrangement must be classified as either a joint operation or a joint venture, depending on an assessment of the rights and obligations of the parties to the arrangement.

A joint operation is a joint arrangement wherein joint operators have rights to the assets and obligations for the liabilities. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS standards applicable to the particular assets, liabilities, revenues and expenses. A joint venture is a joint arrangement wherein the joint venturers have rights to the net assets of the arrangement. A joint venturer accounts for its interest in a joint venture using the equity method.

The Bank retrospectively adopted IFRS 11 and concluded that the joint arrangements in which it has rights constitute joint ventures. Since these investments were already accounted for using the equity method under IAS 31, there was no impact on the Bank's consolidated financial statements.

IFRS 12 – *Disclosure of Interests in Other Entities*
IFRS 12 applies to entities that hold interests in subsidiaries, joint arrangements, associates and non-consolidated structured entities. It requires additional disclosure that enables financial statement users to assess the nature of, and risks associated with, an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. The Bank retrospectively adopted IFRS 12, and the required disclosures will be presented in the audited annual consolidated financial statements as at October 31, 2014. However, certain disclosures related to structured entities are presented in these consolidated financial statements.

IFRS 13 – *Fair Value Measurement*
IFRS 13 defines fair value, sets out in a single standard a framework for measuring fair value and requires disclosures about fair value measurements. Prospective adoption of this standard did not have a significant impact on the Bank's consolidated financial statements. The required quarterly disclosures are presented in these consolidated financial statements; the additional, annual disclosures required will be presented in the audited annual consolidated financial statements as at October 31, 2014.

Effective Date – November 1, 2014
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. The Bank is currently assessing the impact these amendments will have on the consolidated financial statements.

IFRIC Interpretation 21 – *Levies*
IFRIC Interpretation 21 (IFRIC 21) provides guidance on when to recognize 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*. IFRIC 21 is to be applied retrospectively and the Bank is currently assessing the impact of adopting this interpretation.

Effective Date – Not yet specified
IFRS 9 – *Financial Instruments*
The purpose of IFRS 9 is to replace the current standard on financial instruments and constitutes a three-phase project: (1) Classification and measurement of financial assets and financial liabilities; (2) Impairment; and (3) Hedge accounting. In July 2013, the IASB decided to temporarily defer the mandatory effective date of IFRS 9 and to not specify that date until the requirements for financial instrument classification and measurement and financial asset impairment are finalized. The Bank is monitoring the progress of the IASB's work.

(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, 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	–	–	–	5,317	5,317	5,317	5,317
Securities	43,408	3,138	9,639	–	–	56,185	56,185
Securities purchased under reverse repurchase agreements and securities borrowed	–	209	–	18,957	18,957	19,166	19,166
Loans and acceptances	1,971	49	–	97,702	98,454	99,722	100,474
Other							
Derivative financial instruments	7,703	–	–	–	–	7,703	7,703
Due from clients, dealers and brokers	–	–	–	1,485	1,485	1,485	1,485
Other assets	–	–	–	1,182	1,182	1,182	1,182
FINANCIAL LIABILITIES							
Deposits	–	1,851		109,397 (1)	110,026	111,248	111,877
Other							
Acceptances	–	–		9,330	9,330	9,330	9,330
Obligations related to securities sold short	19,558	–		–	–	19,558	19,558
Obligations related to securities sold under repurchase agreements and securities loaned	–	–		16,341	16,341	16,341	16,341
Derivative financial instruments	5,975	–		–	–	5,975	5,975
Due to clients, dealers and brokers	–	–		2,132	2,132	2,132	2,132
Liabilities related to transferred receivables	–	6,537		9,040	9,129	15,577	15,666
Other liabilities	125	–		2,280	2,280	2,405	2,405
Subordinated debt	–	–		1,902	1,927	1,902	1,927

(1) Including embedded derivative financial instruments.

(unaudited) (millions of Canadian dollars)

As at October 31, 2013[1]

	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	–	–	–	3,596	3,596	3,596	3,596
Securities	40,778	3,222	9,744	–	–	53,744	53,744
Securities purchased under reverse repurchase agreements and securities borrowed	–	–	–	21,449	21,449	21,449	21,449
Loans and acceptances	1,526	62	–	95,750	96,323	97,338	97,911
Other							
Derivative financial instruments	5,904	–	–	–	–	5,904	5,904
Due from clients, dealers and brokers	–	–	–	1,101	1,101	1,101	1,101
Other assets	–	–	–	891	891	891	891
FINANCIAL LIABILITIES							
Deposits	–	1,846		100,265 [2]	100,639	102,111	102,485
Other							
Acceptances	–	–		8,954	8,954	8,954	8,954
Obligations related to securities sold short	18,909	–		–	–	18,909	18,909
Obligations related to securities sold under repurchase agreements and securities loaned	–	–		19,746	19,746	19,746	19,746
Derivative financial instruments	4,858	–		–	–	4,858	4,858
Due to clients, dealers and brokers	–	–		2,442	2,442	2,442	2,442
Liabilities related to transferred receivables	–	6,819		8,504	8,593	15,323	15,412
Other liabilities	109	–		2,345	2,345	2,454	2,454
Subordinated debt	–	–		2,426	2,450	2,426	2,450

(1) Certain amounts have been adjusted to reflect accounting changes. See Note 2.
(2) Including embedded derivative financial instruments.

Establishing Fair Value

Fair value is established in accordance with a rigorous control framework. The fair value of existing and new products is determined and validated by functions independent of the risk-taking team. Fair value matters are reviewed by valuation committees made up of experts from various support functions.

For financial instruments classified in Level 3 of the fair value hierarchy, the Bank has documented the policies and controls in place to ensure that fair value is measured appropriately, reliably and consistently. Valuation methods and assumptions are reviewed on a regular basis.

(unaudited) (millions of Canadian dollars)

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

Hierarchy of Fair Value Measurements

Financial instruments recorded at fair value on the Consolidated Balance Sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. For additional information, see Note 3 to the audited annual consolidated financial statements for the year ended October 31, 2013. During the quarters ended January 31, 2014 and 2013, there were no significant transfers of financial instruments between Levels 1 and 2.

				As at January 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	5,251	6,669	–	11,920
Provinces	–	10,615	–	10,615
Municipalities and school boards	–	390	–	390
U.S. Treasury, other U.S. agencies and other foreign governments	1,466	–	–	1,466
Other debt securities	–	3,576	1,342	4,918
Equity securities	15,760	1,441	36	17,237
	22,477	22,691	1,378	46,546
Available-for-sale				
Securities issued or guaranteed by				
Canada	137	5,271	–	5,408
Provinces	–	2,610	–	2,610
Municipalities and school boards	–	301	–	301
U.S. Treasury, other U.S. agencies and other foreign governments	396	–	–	396
Other debt securities	–	382	88	470
Equity securities	210	73	171	454
	743	8,637	259	9,639
Securities purchased under reverse repurchase agreements and securities borrowed	–	209	–	209
Loans and acceptances	–	2,020	–	2,020
Other				
Derivative financial instruments	261	7,405	37	7,703
	23,481	40,962	1,674	66,117
Financial liabilities				
Deposits				
Business and government	–	1,978	71	2,049
Other				
Obligations related to securities sold short	12,067	7,491	–	19,558
Derivative financial instruments	300	5,598	77	5,975
Liabilities related to transferred receivables	–	6,537	–	6,537
Other liabilities	–	125	–	125
	12,367	21,729	148	34,244

(unaudited) (millions of Canadian dollars)

				As at October 31, 2013
	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	5,476	5,080	–	10,556
Provinces	–	10,654	–	10,654
Municipalities and school boards	–	367	–	367
U.S. Treasury, other U.S. agencies and other foreign governments	689	–	–	689
Other debt securities	–	2,784	1,305	4,089
Equity securities	15,929	1,670	46	17,645
	22,094	20,555	1,351	44,000
Available-for-sale				
Securities issued or guaranteed by				
Canada	143	5,517	–	5,660
Provinces	–	2,617	–	2,617
Municipalities and school boards	–	302	–	302
U.S. Treasury, other U.S. agencies and other foreign governments	390	–	–	390
Other debt securities	–	253	77	330
Equity securities	209	65	171	445
	742	8,754	248	9,744
Loans and acceptances	–	1,588	–	1,588
Other				
Derivative financial instruments	239	5,609	56	5,904
	23,075	36,506	1,655	61,236
Financial liabilities				
Deposits				
Business and government	–	1,978	73	2,051
Other				
Obligations related to securities sold short	11,415	7,494	–	18,909
Derivative financial instruments	330	4,454	74	4,858
Liabilities related to transferred receivables	–	6,819	–	6,819
Other liabilities	–	109	–	109
	11,745	20,854	147	32,746

(unaudited) (millions of Canadian dollars)

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

Financial Instruments Classified in Level 3

The Bank classifies financial instruments in Level 3 when the valuation technique is based on at least one significant input that is not observable in the markets or when there is a lack of liquidity in certain markets. The valuation technique may also be based, in part, on observable market inputs. The following table shows the significant unobservable inputs used for the fair value measurements of financial instruments classified in Level 3 of the hierarchy.

				As at January 31, 2014
	Fair value	Primary valuation techniques	Significant unobservable inputs	Range of input values
Financial assets				
Securities				
Restructured notes of the master asset vehicle			Liquidity premium(2)(3)	1.50% to 8.50%
(MAV) conduits and other restructured notes	1,402	Internal model(1)	Credit spread(2)(3)	35 Bps to 496 Bps(4)
Equity securities and other debt securities	235	Various(5)	Various(5)	Various(5)
Other			Long-term volatility(6)(7)	8% to 40%
Derivative financial instruments	37	Option pricing model	Long-term correlation(6)(7)	(25)% to 99%
	1,674			
Financial liabilities				
Deposits			Long-term volatility(6)(7)	14% to 27%
Structured deposit notes	71	Option pricing model	Long-term correlation(6)(7)	(17)% to 79%
Other			Long-term volatility(6)(7)	13% to 40%
Derivative financial instruments	77	Option pricing model	Long-term correlation(6)(7)	(25)% to 99%
	148			

(1) For a description of the valuation techniques, see Note 6 to the audited annual consolidated financial statements for the year ended October 31, 2013.
(2) There is no predictable correlation between the liquidity premium and the credit spread.
(3) An increase (decrease) in this unobservable input generally results in a decrease (increase) in fair value.
(4) Bps or basis point is a unit of measure equal to 0.01%.
(5) 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.
(6) An increase (decrease) in long-term volatility is generally associated with an increase (decrease) in long-term correlation.
(7) An increase (decrease) in this unobservable input generally results in an increase (decrease) in fair value.

The Bank performs sensitivity analyses for fair value measurements of financial instruments classified in Level 3, substituting the unobservable inputs with one or more reasonably plausible alternative assumptions. For the sensitivity analysis of investments in restructured notes of the MAV conduits, see Note 5. 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 $19 million increase or decrease in the fair value recorded as at January 31, 2014 (a $17 million increase or decrease as at October 31, 2013). For other financial instruments classified in Level 3, sensitivity analyses result in a negligible change in fair value.

(unaudited) (millions of Canadian dollars)

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

The Bank may hedge the fair value of financial instruments classified in the various levels through inverse 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, 2014

	Securities at fair value through profit or loss	Available-for-sale securities	Loans	Derivative financial instruments [1]	Business and government deposits
Fair value as at October 31, 2013	1,351	248	–	(18)	(73)
Total realized and unrealized gains (losses) included in *Net income* [2]	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	–	–	–
Transfers into Level 3[3]	–	–	–	(8)	(8)
Transfers out of Level 3[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 liabilities held as at January 31, 2014[4]	48	–	–	(14)	–

Quarter ended January 31, 2013

	Securities at fair value through profit or loss	Available-for-sale securities	Loans	Derivative financial instruments [1]	Business and government deposits
Fair value as at October 31, 2012	1,326	270	(3)	(36)	(73)
Total realized and unrealized gains (losses) included in *Net income* [5]	25	3	–	3	(5)
Total realized and unrealized gains (losses) included in *Other comprehensive income*	–	10	–	–	–
Purchases	30	1	–	–	–
Sales	(27)	(6)	–	–	–
Issuances	–	–	–	3	–
Settlements and other	(9)	(5)	2	–	–
Transfers into Level 3[3]	–	–	–	(1)	–
Transfers out of Level 3[3]	–	–	–	–	37
Fair value as at January 31, 2013	1,345	273	(1)	(31)	(41)
Change in unrealized gains and losses included in net income with respect to financial assets and liabilities held as at January 31, 2013[6]	25	–	–	3	(5)

(1) The derivative financial instruments include assets and liabilities presented on a net basis.
(2) Total net gains included in *Non-interest income* was $39 million.
(3) During the quarters ended January 31, 2014 and 2013, certain financial instruments were transferred into and out of Level 3 due to changes in the availability of observable market inputs resulting from changing market conditions.
(4) Total unrealized gains included in *Non-interest income* was $34 million.
(5) Total net gains included in *Non-interest income* was $26 million.
(6) Total unrealized gains included in *Non-interest income* was $23 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, 2013. In accordance with its risk management strategy, which allows the Bank to eliminate or significantly reduce measurement or recognition disparity resulting from measuring financial assets and liabilities on different bases, the Bank designated certain debt securities, certain securities purchased under reverse repurchase agreements, and certain liabilities related to transferred receivables 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.

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, 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)	1,851	17	(114)
Liabilities related to transferred receivables	6,537	(7)	(210)
	8,388	10	(324)

	Carrying value as at January 31, 2013	Change in the total fair value (including the change in the fair value attributable to credit risk) for the quarter ended January 31, 2013	Change in fair value since the initial recognition of the instrument
Financial assets designated at fair value through profit or loss			
Securities	3,966	(64)	235
Securities purchased under reverse repurchase agreements	29	–	–
Loans	42	(3)	–
	4,037	(67)	235
Financial liabilities designated at fair value through profit or loss			
Deposits(1)	1,153	(44)	(98)
Liabilities related to transferred receivables	7,801	59	(270)
	8,954	15	(368)

(1) For the quarter ended January 31, 2014, 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 ($1 million loss for the quarter ended January 31, 2013).

(unaudited) (millions of Canadian dollars)

NOTE 5 – SECURITIES

Available-for-Sale Securities

				As at January 31, 2014
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Carrying value**
Securities issued or guaranteed by				
Canada	**5,377**	**36**	**(5)**	**5,408**
Provinces	**2,473**	**153**	**(16)**	**2,610**
Municipalities and school boards	**282**	**20**	**(1)**	**301**
U.S. Treasury, other U.S. agencies and other foreign governments	**396**	**–**	**–**	**396**
Other debt securities	**429**	**43**	**(2)**	**470**
Equity securities	**397**	**65**	**(8)**	**454**
	9,354	**317**	**(32)**	**9,639**

				As at October 31, 2013
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities issued or guaranteed by				
Canada	5,646	30	(16)	5,660
Provinces	2,480	159	(22)	2,617
Municipalities and school boards	286	17	(1)	302
U.S. Treasury, other U.S. agencies and other foreign governments	387	3	–	390
Other debt securities	292	40	(2)	330
Equity securities	391	58	(4)	445
	9,482	307	(45)	9,744

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, 2014, a negligible amount of impairment losses ($3 million for the quarter ended January 31, 2013) 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, 2014 and 2013, no amounts were reversed in the Consolidated Statement of Income to recognize subsequent increases in the fair value of previously impaired debt securities.

Unrealized Gross Losses
As at January 31, 2014 and as at October 31, 2013, 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

As at January 31, 2014, the face value of the restructured notes of the MAV conduits and of the other restructured notes held by the Bank was $1,716 million ($1,727 million as at October 31, 2013), of which $1,496 million was designated as *Securities at fair value through profit or loss* under the fair value option, and an amount of $220 million was classified in *Available-for-sale securities* ($1,506 million designated as *Securities at fair value through profit or loss* and $221 million classified in *Available-for-sale securities* as at October 31, 2013). The change in the face value of the restructured notes of the MAV conduits during the first quarter of fiscal 2014 was mainly due to capital repayments.

The Bank has committed to contribute $873 million ($886 million as at October 31, 2013) to a margin funding facility related to the MAV conduits in order to finance potential collateral calls. As at January 31, 2014 and as at October 31, 2013, no amount had been advanced by the Bank.

NOTE 5 – SECURITIES (cont.)

Establishing Fair Value

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, 2014, designated as *Securities at fair value through profit or loss,* was $1,333 million, and $69 million was classified in *Available-for-sale securities* ($1,293 million designated as *Securities at fair value through profit or loss* and $68 million classified in *Available-for-sale securities* as at October 31, 2013). 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.*

In establishing the fair value of the restructured notes of the MAV conduits and ineligible assets, the Bank applied the same methodologies used as at October 31, 2013 and adjusted its assumption on the liquidity of the MAV I notes to reflect market conditions. For additional information, see Note 6 to the audited annual consolidated financial statements for the year ended October 31, 2013. During the first quarter of 2014, $45 million in revenues were recorded to reflect a rise in the fair value of restructured notes ($12 million to reflect a change in the fair value of commercial paper not included in the Pan-Canadian restructuring plan during the quarter ended January 31, 2013). These amounts were recorded in *Trading revenues* in the Consolidated Statement of Income. Following this adjustment, the carrying value of the restructured notes, designated as *Securities at fair value through profit or loss*, was within estimated fair value ranges as at January 31, 2014. The credit ratings of the restructured notes of the MAV conduits have not changed from October 31, 2013.

The Bank's valuation was based on its assessment of the conditions prevailing as at January 31, 2014, which may change in the future. The most significant assumptions used to determine the fair value of the restructured notes are observable discount rates, the credit ratings of the notes and the broker quotes on the MAV II Class A-1, A-2, B and C notes. Furthermore, there may be valuation uncertainty resulting from the choice of valuation model used. The sensitivities of these assumptions on fair value as at January 31, 2014 were as follows:

- a 10-basis-point change in the discount rate would result in a $6 million decrease or increase in the fair value;
- a decrease in the credit rating by one letter grade would result in a decrease in the fair value between a range of $9 million to $17 million;
- an increase in the credit rating by one letter grade would result in an increase in the fair value between a range of $3 million to $5 million;
- a 100-basis-point change in the liquidity premium spread would result in a $13 million decrease or increase in the fair value;
- a 10% change in the weighting used to determine the discount rate would result in a $4 million decrease or increase in the fair value;
- a 10% change in the weighting attributed to the discount rate and the broker quotes on the MAV II Class A-1, A-2, B and C notes would result in a $6 million decrease or increase in the fair value; and
- a 1% change in the broker quotes on the MAV II Class A-1, A-2, B and C notes would result in a $4 million decrease or increase in the fair value.

Determining the fair value of restructured notes of the MAV conduits is complex and involves an extensive process that includes the use of quantitative modelling and relevant assumptions. Possible changes that could have a significant impact on the future value include (1) changes in the value of the underlying assets, (2) changes regarding the liquidity of the restructured notes of the MAV conduits which are not currently traded on an active market, (3) the impacts of a marked and prolonged economic slowdown in North America and certain European countries, and (4) changes in legislation.

(unaudited) (millions of Canadian dollars)

NOTE 6 – LOANS

Credit Quality of Loans

				As at January 31, 2014
	Residential mortgage	**Personal and credit card**	**Business and government** (1)	**Total**
Neither past due(2) nor impaired	**36,771**	**28,041**	**25,112**	**89,924**
Past due(2) but not impaired	**294**	**257**	**89**	**640**
Impaired	**62**	**71**	**284**	**417**
Gross loans	**37,127**	**28,369**	**25,485**	**90,981**
Less: Allowances on impaired loans				
Individual allowances	**8**	**14**	**179**	**201**
Collective allowances	**–**	**20**	**2**	**22**
Allowances on impaired loans	**8**	**34**	**181**	**223**
	37,119	**28,335**	**25,304**	**90,758**
Less: Collective allowance on non-impaired loans(3)				**366**
Loans, net of allowances				**90,392**

				As at October 31, 2013
	Residential mortgage	Personal and credit card	Business and government (1)	Total
Neither past due(2) nor impaired	36,213	27,674	24,022	87,909
Past due(2) but not impaired	314	245	99	658
Impaired	46	70	279	395
Gross loans	36,573	27,989	24,400	88,962
Less: Allowances on impaired loans				
Individual allowances	7	13	170	190
Collective allowances	–	20	2	22
Allowances on impaired loans	7	33	172	212
	36,566	27,956	24,228	88,750
Less: Collective allowance on non-impaired loans(3)				366
Loans, net of allowances				88,384

(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 then submit a report to Credit Risk Management.
(2) A loan is past due when the counterparty has not made a payment the day of the contractual expiry date.
(3) The collective allowance on non-impaired loans for credit risk was created 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, 2014			As at October 31, 2013		
	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	144	93	33	168	89	24
2 months late	60	33	20	52	50	14
3 months late and more(2)	90	131	36	94	106	61
	294	257	89	314	245	99

(1) As January 31, 2014, the fair value of financial collateral held against loans that were past due but not impaired was $19 million ($7 million as at October 31, 2013).
(2) Comprises fully secured loans for which, in the opinion of management, there is reasonable assurance that principal and interest will ultimately be collected. Credit card receivables are included in this category because they are written off only when payment is 180 days in arrears.

Impaired Loans

	As at January 31, 2014			
	Gross	Individual allowances	Collective allowances	Net
Loans				
Residential mortgage	62	8	–	54
Personal and credit card	71	14	20	37
Business and government	284	179	2	103
	417	201	22	194

	As at October 31, 2013			
	Gross	Individual allowances	Collective allowances	Net
Loans				
Residential mortgage	46	7	–	39
Personal and credit card	70	13	20	37
Business and government	279	170	2	107
	395	190	22	183

(unaudited) (millions of Canadian dollars)

Allowances for Credit Losses

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)									
Balance at beginning									366
Write-offs									–
Balance at end									366
Total allowances									589

Quarter ended January 31, 2013

	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	–	7	18	173	3	187	21	208
Provisions for credit losses	1	–	28	7	(4)	–	25	7	32
Write-offs	(1)	–	(7)	(9)	(16)	(1)	(24)	(10)	(34)
Write-offs on credit cards	–	–	(19)	–	–	–	(19)	–	(19)
Recoveries	–	–	–	2	(1)	1	(1)	3	2
Balance at end	7	–	9	18	152	3	168	21	189
Collective allowance on non-impaired loans(1)									
Balance at beginning									369
Write-offs									(2)
Balance at end									367
Total allowances									556

(1) The collective allowance on non-impaired loans was established taking into account the Bank's overall credit portfolio, except for a $3 million amount as at October 31, 2012 and a $1 million amount as at January 31, 2013 for loans and credit facilities secured by restructured notes of the MAV conduits.

(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. In some of those transactions, the Bank retains substantially all of the risks and rewards related to those financial assets. The risks include credit risk, interest rate risk, foreign exchange risk, prepayment risk and other price risks, whereas the rewards include income streams associated with the financial assets. As such, those financial assets are not derecognized and the transactions are treated as collateralized or secured borrowings. The nature of those transactions is described below.

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, 2014	As at October 31, 2013
Carrying value of financial assets transferred but not derecognized		
Securities(1)	33,476	33,677
Residential mortgages	14,688	14,280
	48,164	47,957
Carrying value of associated liabilities(2)	26,994	28,543
Fair value of financial assets transferred but not derecognized		
Securities(1)	33,476	33,677
Residential mortgages	14,853	14,464
	48,329	48,141
Fair value of associated liabilities	27,082	28,632

(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 $2,755 million ($1,029 million as at October 31, 2013) 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 $7,679 million as at January 31, 2014 ($7,555 million as at October 31, 2013).

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

	As at January 31, 2014	As at October 31, 2013
Carrying value of financial assets transferred but not derecognized		
Securities backed by insured residential mortgage loans and other securities sold to CHT	15,317	14,903
Securities sold under repurchase agreements	11,308	13,297
Securities loaned	21,480	19,674
Residential mortgages transferred to a mutual fund	59	83
	48,164	47,957

(unaudited) (millions of Canadian dollars)

NOTE 8 – OTHER ASSETS

	As at January 31, 2014	As at October 31, 2013(1)
Receivables, prepaid expenses and other items	655	612
Interest and dividends receivable	397	425
Purchased receivables	815	466
Accrued benefit asset	137	131
Deferred tax assets	271	289
Current tax assets	85	88
Reinsurance assets	26	26
	2,386	2,037

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2.

NOTE 9 – DEPOSITS

	As at January 31, 2014			As at October 31, 2013(1)
	On demand or after notice	Fixed date	Total	Total
Personal	24,925	20,566	45,491	42,652
Business and government	29,438	30,170	59,608	57,103
Deposit-taking institutions	411	5,738	6,149	2,356
	54,774	56,474	111,248	102,111

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2.

The *Deposits – Business and government* item includes the deposit from NBC Capital Trust and the covered bonds, as described below.

Deposit from NBC Capital Trust

On June 15, 2006, NBC Capital Trust (the Trust), an open-end trust established under the laws of the Province of Ontario, issued 225,000 transferable non-voting trust units called Trust Capital Securities – Series 1 or NBC CapS – Series 1. The gross proceeds of $225 million from the offering were used by the Trust to acquire a deposit note from the Bank.

The Bank does not control the Trust and therefore does not consolidate it. See Note 21 for additional information. Consequently, the NBC CapS – Series 1 issued by the Trust are not included on the Bank's Consolidated Balance Sheet, but the deposit note is presented under *Deposits – Business and government*.

The main terms and characteristics of the $225 million deposit note are as follows:

Issuance date	Fixed annual interest rate	Interest payment dates	Semi-annual payment (1)	Maturity	Date of conversion at the option of the Trust (2)
June 15, 2006	5.329 % (3)	June 30, December 31	$26.645	June 30, 2056	Anytime

(1) Per $1,000 principal amount.
(2) Each $1,000 principal amount of the deposit note is convertible at the option of the Trust into 40 Series 17 First Preferred Shares of the Bank. The Trust will exercise this conversion right in circumstances in which holders of NBC CapS – Series 1 exercise their exchange right.
(3) The rate of 5.329% will be in effect up to and including June 30, 2016. After that date, the note will bear interest at a fixed annual rate equal to the 180-day bankers' acceptance rate in effect plus 1.50%.

(unaudited) (millions of Canadian dollars)

NOTE 9 – DEPOSITS (cont.)

Redemption at the Option of the Bank
Since June 30, 2011, and on any subsequent distribution date, the Bank may, at its option, redeem the deposit note, in whole or in part, upon the occurrence of predetermined events of regulatory or fiscal nature. Any redemption may be carried out without the consent of the Trust, subject to prior written notice and OSFI approval. If the Bank redeems the deposit note in whole or in part, the Trust will be required to redeem a corresponding amount of NBC CapS – Series 1.

Purchase for Cancellation
Since June 30, 2011, the Bank may, with OSFI approval, purchase the deposit note in whole or in part on the open market by tender or private contract at any price. Any part of the deposit note purchased by the Bank will be cancelled and will not be reissued.

Instances of Default
Failure by the Bank to make payments or to satisfy its other obligations under the deposit note will not entitle the Trust to accelerate payment of the deposit note.

Covered Bonds
NBC Covered Bond Guarantor (Legislative) Limited Partnership
During the quarter ended January 31, 2014, the Bank issued covered bonds under a new legislative covered bond program for an amount of 1.0 billion euros. The Bank created a structured entity, NBC Covered Bond Guarantor (Legislative) Limited Partnership, to guarantee the payment of principal and interest due to bondholders. See Note 21 for additional information. The covered bonds, totalling $1.5 billion as at January 31, 2014, are presented in the *Deposits – Business and government* item on the Bank's Consolidated Balance Sheet.

The Bank has limited access to the assets owned by this structured entity according to the terms of the agreements that apply to this transaction. The assets owned by this entity totalled $4.9 billion as at January 31, 2014, of which $4.9 billion is presented in the *Residential mortgage* item on the Bank's Consolidated Balance Sheet. The assets pledged as collateral for this program amounted to $4.9 billion as at January 31, 2014.

NBC Covered Bond Guarantor Limited Partnership
Covered bonds issued under the structured covered bond program, established in 2011, totalled $2.2 billion as at January 31, 2014 ($3.1 billion as at October 31, 2013) and are presented in the *Deposits – Business and government* item on the Bank's Consolidated Balance Sheet. During the quarter ended January 31, 2014, an amount of US$1.0 billion matured. See Note 21 for additional information.

The Bank has limited access to the assets owned by the structured entity created to guarantee the payments of principal and interest due to the bondholders, NBC Covered Bond Guarantor Limited Partnership. The assets owned by this entity totalled $3.3 billion as at January 31, 2014 ($3.9 billion as at October 31, 2013), of which $3.2 billion ($3.5 billion as at October 31, 2013) is presented in the *Residential mortgage* item on the Bank's Consolidated Balance Sheet. The assets pledged as collateral for this program amounted to $3.2 billion as at January 31, 2014 ($3.5 billion as at October 31, 2013).

NOTE 10 – OTHER LIABILITIES

	As at January 31, 2014	As at October 31, 2013(1)
Accounts payable and accrued expenses	1,009	1,236
Subsidiaries' debts to third parties	1,473	1,457
Interest and dividends payable	549	785
Accrued benefit liability	208	202
Deferred tax liabilities	138	119
Current tax liabilities	52	70
Insurance liabilities	74	73
Other items(2)	538	555
	4,041	4,497

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2.
(2) As at January 31, 2014, the *Other items* item included a $22 million provision ($26 million as at October 31, 2013) for severance pay related to the optimization of certain organizational structures.

NOTE 11 – SUBORDINATED DEBT

During the quarter ended January 31, 2014, the Bank redeemed at nominal value for cancellation $500 million in notes maturing in November 2018. The Bank also redeemed for cancellation debentures with a nominal value of US$25 million maturing in February 2087 and recognized an $8 million gain in *Non-interest income* in the Consolidated Statement of Income.

(unaudited) (millions of Canadian dollars)

NOTE 12 – HEDGING ACTIVITIES

Derivative and Non-Derivative Financial Instruments Designated as Hedging Instruments

	As at January 31, 2014			As at October 31, 2013		
	Fair value hedge	Cash flow hedge	Net investment hedge	Fair value hedge	Cash flow hedge	Net investment hedge
Assets						
Derivative financial instruments	431	113	11	390	82	2
Liabilities						
Derivative financial instruments	170	81	–	188	33	–
Carrying value of non-derivative financial instruments	–	–	1,336	–	–	1,192
Notional amounts of designated derivative financial instruments	20,551	8,679	669	20,830	3,956	190

Results of the Hedges of Net Investments in Foreign Operations

For the quarters ended January 31, 2014 and 2013, a negligible amount representing the ineffective portion was recognized in *Non-interest income* in the Consolidated Statement of Income.

Results of the Fair Value Hedges

Quarter ended January 31	2014	2013
Gains (losses) on hedging instruments	63	(60)
Gains (losses) on hedged items attributable to the hedged risk	(64)	62
Ineffectiveness of fair value hedging relationships	1	(1)

Results of the Cash Flow Hedges

Quarter ended January 31	2014	2013
Unrealized gains (losses) included in *Other comprehensive income* as the effective portion of the hedging instrument	(10)	(10)
Losses (gains) reclassified to *Net interest income* in the Consolidated Statement of Income	(4)	(14)
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, 2014			
	1 year or less	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years
Expected cash flows from hedged assets	81	73	212	29
Expected cash flows from hedged liabilities	107	96	153	–
Net exposure	(26)	(23)	59	29

(unaudited) (millions of Canadian dollars)

NOTE 13 – SHARE CAPITAL

Stock Dividend

On December 3, 2013, the Board declared a stock dividend of one common share on each issued and outstanding common share, payable on February 13, 2014 to common shareholders of record on February 6, 2014. The effect was the same as a two-for-one split of common shares. All common share information has been adjusted retrospectively to reflect the stock dividend.

Repurchase of Common Shares[1]

On June 20, 2013, the Bank began a normal course issuer bid to repurchase for cancellation up to 6,496,228 common shares over the 12-month period ending no later than June 19, 2014. The shares will be repurchased on the open market at market prices through the Toronto Stock Exchange. Premiums paid above the average book value of the common shares will be charged to *Retained earnings.* During the quarter ended January 31, 2014, the Bank did not repurchase any shares.

Common Shares Held in Escrow[1]

As part of the acquisition of Wellington West Holdings Inc., the Bank had issued common shares held in escrow. As at January 31, 2014, the balance of the common shares held in escrow was 2,628,976 (2,664,268 as at October 31, 2013). The Bank expects that the conditions will be met and that the remaining shares held in escrow will be released over the next two fiscal years.

	As at January 31, 2014		As at October 31, 2013	
	Number of shares	Shares $	Number of shares	Shares $
First Preferred Shares				
Series 16	8,000,000	200	8,000,000	200
Series 20	6,900,000	173	6,900,000	173
Series 24	2,425,880	61	2,425,880	61
Series 26	1,724,835	43	1,724,835	43
Series 28	8,000,000	200	8,000,000	200
	27,050,715	677	27,050,715	677
Common shares[1]	326,943,392	2,206	325,982,736	2,160

Quarter ended January 31	2014		2013	
	Dividends $	Dividends per share	Dividends $	Dividends per share
First Preferred Shares				
Series 15	–	–	2	0.2444
Series 16	2	0.3031	2	0.3031
Series 20	3	0.3750	3	0.3750
Series 21	–	–	1	0.3359
Series 24	1	0.4125	1	0.4125
Series 26	1	0.4125	1	0.4125
Series 28	2	0.2375	2	0.2603
	9		12	
Common shares[1]	150	0.4600	134	0.4150
	159		146	

(1) Reflecting the impact of the stock dividend, as described above.

(unaudited) (millions of Canadian dollars)

NOTE 14 – NON-CONTROLLING INTERESTS

	As at January 31, 2014	As at October 31, 2013[1]
Trust units issued by NBC Asset Trust (NBC CapS II)		
Series 1[2]	403	409
Series 2[3]	352	359
Other	23	21
	778	789

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2.
(2) Includes $3 million in accrued interest ($9 million as at October 31, 2013).
(3) Includes $2 million in accrued interest ($9 million as at October 31, 2013).

NOTE 15 – CAPITAL DISCLOSURE

OSFI has been requiring Canadian banks to meet the 2019 minimum "all-in" requirements since the first quarter of 2013 for Common Equity Tier 1 (CET1) and is requiring them to do the same by the first quarter of 2014 for Tier 1 capital and total capital. Furthermore, to ensure an implementation similar to that of other countries, OSFI has decided to phase in the credit valuation adjustment (CVA) charge over a period of five years beginning in 2014. In the first year, only 57%, 65% 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. The Bank has applied the prescribed percentages to the total CVA charge in the calculation of capital ratios as at January 31, 2014.

The Bank must now maintain a CET1 capital ratio, Tier 1 capital ratio and total capital ratio of at least 7.0%, 8.5% and 10.5%, respectively, all of which include the 2.5% capital conservation buffer. 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% 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 regulatory capital ratios, OSFI also requires Canadian banks to meet a financial leverage test. Leverage of the assets-to-capital multiple is calculated by dividing the Bank's total assets, including certain off-balance-sheet items, by its total regulatory capital in accordance with the transitional requirements for Basel III.

As at January 31, 2014, the Bank was in compliance with all of OSFI's regulatory capital requirements.

(unaudited) (millions of Canadian dollars)

NOTE 16 – TRADING ACTIVITY REVENUES

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

Net interest income comprises interest and 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 the realized and unrealized gains and losses on securities that are 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	**2014**	2013
Net interest income	**91**	89
Non-interest income	**78**	34
	169	123

NOTE 17 – SHARE-BASED PAYMENTS[1]

Stock Option Plan

During the quarter ended January 31, 2014, the Bank awarded 2,861,704 stock options (3,225,392 stock options during the quarter ended January 31, 2013) with an average fair value of $5.39 per option ($4.90 in 2013). As at January 31, 2014, there were 16,578,832 stock options outstanding (16,587,144 stock options as at January 31, 2013).

The average fair value of the options awarded was estimated on the award date using the Black-Scholes model and the following assumptions:

Quarter ended January 31	**2014**	2013
Risk-free interest rate	**2.47%**	1.78%
Expected life of options	**7 years**	7 years
Expected volatility	**20.46%**	22.85%
Expected dividend yield	**4.4%**	4.3%

Compensation expense is presented in the following table:

Quarter ended January 31	**2014**	2013
Compensation expense recorded for stock options	**4**	5

(1) Reflecting the impact of the common stock split. See Note 13.

NOTE 18 – EMPLOYEE BENEFITS

The Bank offers defined benefit pension plans and certain post-retirement and post-employment benefits. The expenses associated with these plans and the actuarial gains and losses recognized in *Other comprehensive income* are presented in the following tables.

Expense Components of the Pension Plans and Other Plans

Quarter ended January 31	2014	2013[1]	2014	2013[1]
		Pension plans		Other plans
Current service cost	**18**	17	**2**	1
Past service cost	**–**	(26)	**–**	(8)
Interest on the accrued benefit liability (asset) – net	**(1)**	1	**2**	2
Administrative expenses	**1**	1	**–**	–
Pension plan expense (recovery)	**18**	(7)		
Other plan expense			**4**	(5)

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2.

Actuarial Gains and Losses Recognized in *Other Comprehensive Income*[1]

Quarter ended January 31	2014	2013[2]	2014	2013
		Pension plans		Other plans
Cumulative actuarial gains (losses) at beginning – Retained earnings	**(166)**	(308)	**(24)**	(25)
Actuarial gains (losses) for the period – Other comprehensive income	**(7)**	31	**(4)**	(1)
Cumulative actuarial gains (losses) at end – Retained earnings	**(173)**	(277)	**(28)**	(26)

(1) The amounts are presented on a pre-tax basis.
(2) The amounts have been adjusted to reflect changes in accounting standards. See Note 2.

NOTE 19 – EARNINGS PER SHARE[1]

Diluted earnings per share is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding, factoring in the dilutive effect of stock options using the treasury stock method.

Quarter ended January 31	2014	2013[2]
Basic earnings per share		
Net income attributable to the Bank's shareholders	**389**	356
Dividends on preferred shares	**9**	12
Net income attributable to common shareholders	**380**	344
Weighted average basic number of common shares outstanding *(thousands)*	**326,510**	323,170
Basic earnings per share *(dollars)*	**1.16**	1.06
Diluted earnings per share		
Net income attributable to common shareholders	**380**	344
Weighted average basic number of common shares outstanding *(thousands)*	**326,510**	323,170
Adjustment to average number of common shares *(thousands)*		
Stock options[3]	**3,675**	2,920
Weighted average diluted number of common shares outstanding *(thousands)*	**330,185**	326,090
Diluted earnings per share *(dollars)*	**1.15**	1.05

(1) The weighted average basic number of common shares outstanding, the weighted average diluted number of common shares outstanding, basic earnings per share and diluted earnings per share have been adjusted retrospectively to reflect the common stock split. See Note 13.
(2) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2.
(3) 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. For the quarter ended January 31, 2013, with the exercise price of the options being less than the average price of the Bank's common shares, no option was excluded from the diluted earnings per share calculation.

(unaudited) (millions of Canadian dollars)

NOTE 20 – ACQUISITION

TD Waterhouse Institutional Services
On November 12, 2013, through a subsidiary, the Bank completed the acquisition of Toronto-Dominion Bank's institutional services known as TD Waterhouse Institutional Services. This acquisition marks another step in the Bank's expansion of its wealth management platform across Canada. At $260 million, the purchase price is subject to a price adjustment mechanism based on the assets retained over a one-year period. The net assets acquired include client list intangible assets totalling approximately $58 million. The purchase price exceeded the fair value of the net assets acquired by $206 million. This excess amount was recorded on the Consolidated Balance Sheet as goodwill and mainly represents synergies and the benefits expected from combining the acquired operations with those of the Bank. The tax deductible portion of the goodwill is $155 million. The acquired receivables, consisting mainly of loans to clients for the purchase of securities, had an acquisition-date fair value of $448 million. This amount also represents the gross contractual amounts receivable, which the Bank expects to fully recover.

An amount of $1 million in acquisition-related costs was included in *Non-interest expenses* in the Consolidated Statement of Income. These consolidated financial statements include the results of the acquired business as of November 12, 2013. During the quarter ended January 31, 2014, the acquired business contributed approximately $13 million to the Bank's total revenues and $6 million to its net income (excluding integration costs). If the Bank had completed the acquisition on November 1, 2013, it would have reported total revenues of approximately $1,366 million and net income of approximately $406 million in the Consolidated Statement of Income for the quarter ended January 31, 2014.

The following table summarizes the acquisition-date fair values of all assets acquired and liabilities assumed:

Cash and cash equivalents	982
Loans	71
Due from clients, dealers and brokers	448
Goodwill	206
Intangible assets	58
Total assets	1,765
Deposits	1,380
Due to clients, dealers and brokers	111
Other liabilities	14
Total liabilities	1,505
Purchase price	260

Cash Flows Related to the Acquisition:

Cash to be transferred by the seller	982
Purchase price	260
Net cash amount transferred by the seller	722

NOTE 21 – STRUCTURED ENTITIES

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate only to administrative tasks and the relevant activities are directed by means of contractual arrangements. Structured entities include special purpose entities, which are entities that are created to accomplish a narrow and well-defined objective. Structured entities are assessed for consolidation in accordance with the accounting treatment described in Note 2. The Bank's maximum exposure to loss resulting from economic interests 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.

Non-Consolidated Structured Entities
Multi-Seller Conduits
The Bank administers multi-seller conduits that purchase financial assets from clients and finance those purchases by issuing commercial paper backed by the assets acquired. Clients use these multi-seller conduits to diversify their funding sources and reduce borrowing costs, while continuing to manage the assets and providing some amount of first-loss protection. Notes issued by the conduits and held by third parties provide additional credit loss protection. The Bank acts as a financial agent and provides these conduits with administrative and transaction structuring services as well as backstop liquidity and credit enhancement facilities under the commercial paper program. The Bank has concluded derivative contracts with these conduits, the fair value of which is presented on the Bank's Consolidated Balance Sheet. Although the Bank has the ability to direct the relevant activities of these conduits, it cannot use its power to affect the amount of the returns it obtains, as it acts as an agent. Consequently, the Bank does not control or consolidate them.

Master Asset Vehicles (MAV)
The Bank holds economic interests in MAVs in the form of restructured notes and the margin funding facility provided. The Bank does not have the ability to direct the relevant activities of the MAVs. Consequently, it does not control these MAVs and does not consolidate them.

Private Capital Funds and Investments
As part of its investment banking operations, the Bank invests in several limited liability partnerships and other incorporated entities. These investment companies in turn invest in operating companies with a view to reselling these investments at a profit over the medium or long term. The Bank does not intervene in the operations of these entities; its only role is that of an investor. Consequently, it does not control these companies and does not consolidate them.

NBC Capital Trust
The Bank created NBC Capital Trust (the Trust) for its funding and capital management needs. The securities issued by this trust constitute innovative capital instruments and are eligible as additional Tier 1 capital, but because these instruments do not satisfy the non-viability contingent capital requirements, they are to be phased out at a rate of 10% per year between 2013 and 2022. The gross proceeds from the securities issued by this trust were used to acquire a deposit note from the Bank (see Note 9). The Bank also holds all of the trust's equity and has committed to lend it the liquidity it needs in the normal course of business. Although the Bank has the ability to direct the relevant activities of the Trust, it is not exposed to or have the rights to variable returns since the Trust's primary asset is a deposit note issued by the Bank. Consequently, the Bank does not control the Trust and does not consolidate it.

Consolidated Structured Entities
Securitization Entity for the Bank's Credit Card Receivables
The Bank established the Canadian Credit Card Trust (CCCT) to securitize its credit card receivables and has used this entity for capital management and funding purposes. The Bank acts as an administrative agent and servicer and as such is responsible for the daily administration and management of CCCT's credit card receivables. In addition, the Bank holds certificates issued by CCCT, which gives it rights to CCCT's residual cash flows. The Bank therefore has the ability to direct the relevant activities of CCCT and can use its power to affect the amount of returns it obtains. Consequently, the Bank controls CCCT and consolidates it.

National Bank Hedge Fund Managed Accounts (Innocap Platform)
Innocap Investment Management Inc. (Innocap), a company under joint control, offers hedge fund account programs for fund sponsors seeking a platform that gives them a high degree of transparency and leading-edge tools to manage liquidity and control assets and risk. The Bank can hold economic interests in certain hedge funds of the platform and consolidates those of which it has the ability to direct the relevant activities and in which it can use its power to affect the amount of returns it obtains.

Covered Bond Guarantor
NBC Covered Bond Guarantor (Legislative) Limited Partnership
Since December 2013, the Bank has been participating in the new covered bond legislative program, under which covered bonds are issued. It therefore created NBC Covered Bond Guarantor (Legislative) Limited Partnership (the Guarantor) to guarantee payment of the principal and interest owed to the bondholders. The Bank sold uninsured residential mortgages to the Guarantor and granted it loans to facilitate the acquisition of these assets. Through a subsidiary, the Bank acts as manager of the partnership and therefore influences the returns of the partnership, which are directly related to the return on the mortgage loan portfolio and the interest on the loans from the Bank. Consequently, the Bank consolidates the partnership because it has the ability to direct its relevant activities and because it can use its power to affect the amount of the returns it obtains.

NBC Covered Bond Guarantor Limited Partnership
Since January 2011, the Bank has been participating in the structured covered bond program under which covered bonds are issued. It therefore created NBC Covered Bond Guarantor Limited Partnership (the Guarantor) to guarantee payment of the principal and interest owed to the bondholders. The Bank sold insured residential mortgages to the Guarantor and granted it a demand loan to facilitate the acquisition of these assets. Through a subsidiary, the Bank acts as manager of the partnership and therefore influences the returns of the partnership, which are directly related to the return on the mortgage loan portfolio and interest on the loan from the Bank. Consequently, the Bank consolidates the partnership because it has the ability to direct its relevant activities and because it can use its power to affect the amount of the returns it obtains.

Mutual Funds
The Bank enters into derivative contracts with third parties to provide them with the desired exposure to certain mutual funds. The Bank economically hedges the risks related to these derivatives by investing in those mutual funds. The Bank consolidates those of which it has the ability to direct its relevant activities and in which it can use its power to affect the amount of returns it obtains.

(unaudited) (millions of Canadian dollars)

NOTE 21 – STRUCTURED ENTITIES (cont.)

NBC Asset Trust

The Bank created NBC Asset Trust for its funding and capital management needs. The securities issued by this trust constitute innovative capital instruments and are eligible as additional Tier 1 capital, but because these instruments do not satisfy the non-viability contingent capital requirements, they are to be phased out at a rate of 10% per year between 2013 and 2022. The issuance proceeds were used to acquire, from the Bank, residential mortgage loans. Not only does the Bank remain the administrator of these loans, it also administers the day-to-day operations of the trust. The Bank also holds the special voting securities of the trust. After the distribution has been paid to the holders of the trust capital securities, the Bank, as the sole holder of the special trust securities, is entitled to receive the balance of net residual funds. Therefore, the Bank has the ability to direct the relevant activities of NBC Asset Trust and can use its power to affect the amount of returns it obtains. Consequently, the Bank controls this trust and consolidates it.

The following table presents the Bank's exposure to consolidated and non-consolidated structured entities.

	As at January 31, 2014		As at October 31, 2013(1)	
	Investments and other assets	**Total assets**	Investments and other assets	Total assets
Non-consolidated structured entities				
Multi-seller asset-backed commercial paper conduits administered by the Bank(2)	23	2,195	6	2,110
National Bank hedge fund managed accounts (Innocap platform)(3)	11	424	32	290
Restructured notes of the MAV conduits(4)	1,402	–	1,361	–
Private capital funds and investments(5)	1,279	7,302	1,304	7,183
NBC Capital Trust(6)	–	243	–	246
	2,715	10,164	2,703	9,829
Consolidated structured entities				
Securitization entity for the Bank's credit card receivables(7)(8)	305	1,597	328	1,621
National Bank hedge fund managed accounts (Innocap platform)(3)(8)	551	677	508	617
Mutual funds(8)(9)	324	324	411	411
Covered bonds(10)	8,049	8,250	3,506	3,939
Building(11)	80	73	78	71
Private investments(12)	–	2	–	2
NBC Asset Trust(13)	938	1,698	938	1,710
	10,247	12,621	5,769	8,371
	12,962	22,785	8,472	18,200

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2.

(2) The main underlying assets, located in Canada, are residential mortgages, automobile loans, automobile inventory financings, and other receivables. As at January 31, 2014, the notional committed amount of the global-style liquidity facilities totalled $2,181 million ($2,104 million as at October 31, 2013), 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, 2013). The maximum exposure to loss cannot exceed the amount of commercial paper outstanding. As at January 31, 2014, the Bank held $23 million in commercial paper ($6 million as at October 31, 2013) and, consequently, the maximum potential amount of future payments as at January 31, 2014 was limited to $2,158 million ($2,098 million as at October 31, 2013), which represents the amount of undrawn liquidity and credit enhancement facilities.

(3) The underlying assets are various financial instruments (trading portfolio). The total assets of the Innocap platform are presented on a net asset basis.

(4) See the Master Asset Vehicles section in Note 5. The total amount outstanding of restructured notes of the MAV conduits totalled $23 billion as at January 31, 2014 ($25 billion as at October 31, 2013). The undrawn margin funding facilities amounted to $873 million as at January 31, 2014 ($886 million as at October 31, 2013).

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

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

(7) The underlying assets are credit card receivables.

(8) The Bank's exposure is presented net of third-party holdings.

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

(10) For the covered bonds issued under the new covered bond legislative program, the underlying assets are uninsured residential mortgage loans totalling $4,945 million as at January 31, 2014. 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 totalling $3,305 million as at January 31, 2014 ($3,939 million as at October 31, 2013). The average maturity of these underlying assets is two years. See Note 9.

(11) The underlying asset is a building located in Canada.

(12) The underlying assets are private investments.

(13) The underlying assets are insured and uninsured residential mortgage loans of the Bank. As at January 31, 2014, insured loans amounted to $277 million ($277 million as at October 31, 2013). The average maturity of the underlying assets is two years.

(unaudited) (millions of Canadian dollars)

NOTE 22 – SEGMENT DISCLOSURES

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
Quarter ended January 31	**2014**	2013[(1)]	**2014**	2013[(1)]	**2014**	2013[(1)]	**2014**	2013[(1)]	**2014**	2013[(1)]
Net interest income[(2)]	**419**	404	**77**	68	**173**	165	**(55)**	(41)	**614**	596
Non-interest income	**239**	235	**247**	209	**192**	138	**72**	54	**750**	636
Total revenues	**658**	639	**324**	277	**365**	303	**17**	13	**1,364**	1,232
Non-interest expenses	**378**	372	**231**	211	**168**	161	**39**	(7)	**816**	737
Contribution	**280**	267	**93**	66	**197**	142	**(22)**	20	**548**	495
Provisions for credit losses	**50**	44	**1**	1	**–**	(13)	**–**	–	**51**	32
Income before income taxes (recovery)	**230**	223	**92**	65	**197**	155	**(22)**	20	**497**	463
Income taxes (recovery)[(2)]	**62**	60	**24**	17	**53**	42	**(47)**	(29)	**92**	90
Net income	**168**	163	**68**	48	**144**	113	**25**	49	**405**	373
Non-controlling interests	**–**	–	**–**	–	**2**	3	**14**	14	**16**	17
Net income attributable to the Bank's shareholders	**168**	163	**68**	48	**142**	110	**11**	35	**389**	356
Average assets	**79,499**	74,708	**10,580**	9,037	**85,565**	82,624	**30,055**	20,419	**205,699**	186,788

(1) Certain amounts have been adjusted to reflect changes in accounting standards. See Note 2.
(2) 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 $44 million ($43 million in 2013). 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.

Other

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

NOTE 23 – EVENTS AFTER THE BALANCE SHEET DATE

Issuance of Preferred Shares

On February 7, 2014, the Bank announced the closing of the issuance of 14,000,000 Non-Cumulative 5-Year Rate-Reset Series 30 First Preferred Shares at a per-share price of $25.00 for gross proceeds of $350 million. These preferred shares are compliant with Basel III since they have a non-viability contingent capital clause, as required by OSFI for all issuances of capital instruments other than common shares.

Redemption of Preferred Shares

On February 15, 2014, the Bank redeemed all of the outstanding 2,425,880 Non-Cumulative Series 24 First Preferred Shares and the outstanding 1,724,835 Non-Cumulative Series 26 First Preferred Shares at a per-share price of $25.00 plus the periodic declared and unpaid dividend. The Bank paid the redemption price and the dividend on February 17, 2014, the first business day after the redemption date.

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*
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Public Relations
600 De La Gauchetière Street West, 10th Floor
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General inquiries: *telnat@bnc.ca*

Quarterly Report Publication Dates for Fiscal 2014
(subject to approval by the Board of Directors of the Bank)

First quarter	February 24
Second quarter	May 28
Third quarter	August 28
Fourth quarter	December 5

Disclosure of First Quarter 2014 Results

Conference Call
- A conference call for analysts and institutional investors will be held on Tuesday, February 25, 2014 at 11 a.m. EST.
- Access by telephone in listen-only mode: 1-866-862-3930 or 416-695-7806. The access code is 3390539#.
- A recording of the conference call can be heard until March 6, 2014 by dialing 1-800-408-3053 or 905-694-9451. The access code is 5955220#.

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 quarterly consolidated financial statements are available at all times on National Bank's website at nbc.ca/investorrelations.
- The Report to Shareholders, Supplementary Financial Information 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